



BRITISH COLUMBIA  
REAL ESTATE  
ASSOCIATION

## **Tax Competitiveness and Labour Scarcity in British Columbia**

**British Columbia Real Estate Association  
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## Summary

British Columbia is transitioning from a period of relatively strong labour force growth to one of relative labour scarcity. A projected slowing of population growth combined with an aging population will retard expansion of the labour force and limit future economic growth. Only a comprehensive strategy to increase migration, labour force participation rates and tax competitiveness of residency can slow the pace of change.

Tax competitiveness has been a cornerstone of government policy. A reduction in corporate tax rates has put the province in a better position to compete in the global economy. In addition, personal income taxes have been trimmed and are now among the lowest in the country.

However, the efficacy of low personal income taxes to attract and retain working age population is being offset by the high cost of ownership housing, which is being exacerbated by the highest Property Transfer Tax (PTT) in the country. Government relies on the Property Transfer Tax to pay for vital social services in the province. PTT revenues are projected to exceed \$1 billion by 2011/2012, and comprise 5.6 per cent of total tax revenue.

The PTT on the average priced home in BC during the fourth quarter of 2009 was \$7,811<sup>1</sup>. The equivalent taxes in Ontario were a relatively mild \$3,516, and considerably less in the rest of the country. In other words, homebuyers in BC pay 122 per cent more in PTT on average than in Ontario. Moreover, a couple earning \$40,000 each in taxable income pays almost three times their annual BC income tax to buy an average home in the province.

The PTT payable on the average home is more than 12 per cent of the annual median family income in BC, compared to 5.2 per cent in Ontario, 4.1 per cent in Quebec and just 2.1 per cent in Manitoba. The PTT in British Columbia is not only the least competitive in Canada, it is arguably anti-competitive and a serious impediment to attracting and retaining working age households.

### Provincial Tax Competitiveness Ranking

	Rank									
	Lowest 1	2	3	4	5	6	7	8	9	Highest 10
Provincial Income Tax (1)	BC	Ont	Alta	Sask	Nfld	NB	Man	PEI	NS	Que
Net Property Tax	Nfld	Alta	Man	BC	PEI	NS	NB	Sask	Que	Ont
Property Transfer Tax (2)	Nfld*	Alta	NB	Sask	NS	Man	PEI	Que	Ont	BC
Sales Tax	Alta	Sask	Man	BC	PEI	NS	NB	Nfld	Ont	Que
Fuel Tax	Alta	Man	BC	Sask	PEI	NB	Que	Ont	NS	Nfld
Corporate Tax										
General	Alta	BC	Que	Sask	Man	NB	Ont	Nfld	NS	PEI
Manufacturing	Nfld	Alta	Sask	BC	Que	Man	Ont	NB	NS	PEI
Small Business	Man*	PEI	BC	Alta	Sask	NB	NS	Nfld	Ont	Que
Sales Tax Rate	Alta*	Sask	BC	Man	Que	Ont	NB	NS	Nfld	PEI
Tobacco Tax	Que	Ont	NB	BC	Alta	Sask	Nfld	Man	PEI	NS

1. Two Income Family of Four Earning \$90,000. Source: BC Budget & Fiscal Plan - 2010/11

2. BCREA Calculation of Provincial PTT Rates applied the Q4 2009 Average MLS® Residential Sales Price

\* Zero Tax

<sup>1</sup> Household not qualified under available first time buyer exemption

## Introduction

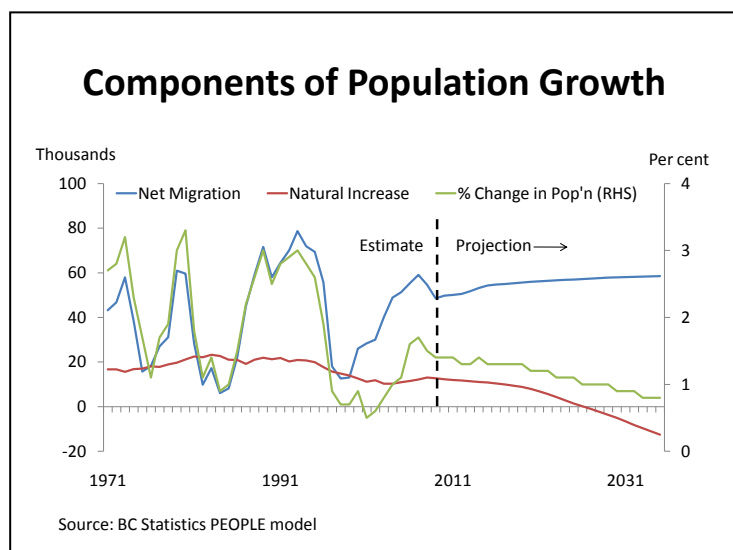
British Columbia is a small, open economy that competes in the arena of global trade. The flow of goods and services in and out of the province are the veins and capillaries of our economy that keep our standard of living robust. The province's comparative advantage in lumber production, shipping distance to China and even film production contributes to economic growth that benefits us all. Efforts to maintain and increase the relative share of both domestic and world markets has forced governments to evaluate tax policy to keep local business competitive in the global marketplace.

If trade is the lifeblood of the economy, then land, labour and capital comprise its heart. We are accustomed to having a relatively large supply of labour to fill the needs of a growing economy. Fertility rates, migration and rising labour force participation rates by women have, until recently, satiated employment demand. In the past, labour issues tended to centre on education, skill development, safety and employment insurance. Today, there is increasing concern that future economic growth will be unduly constrained by a scarcity of workers.

This paper highlights the growing challenge of labour scarcity. It identifies that regions, like British Columbia, will need to apply a comprehensive approach to slow the rate of change and that a competitive tax regime should be a part of the overall strategy to attract and retain working age population. The government has introduced measures to increase the competitiveness of business and residency. However, while low personal income taxes appear to be an inducement to migrants and a benefit of residency, the overall tax burden is not as positive when factoring in the high cost of housing and the most uncompetitive Property Transfer Tax (PTT) regime in the country. PTT in the province is a significant consumer expense and acts as a barrier to residency.

## Emerging Competition for Labour

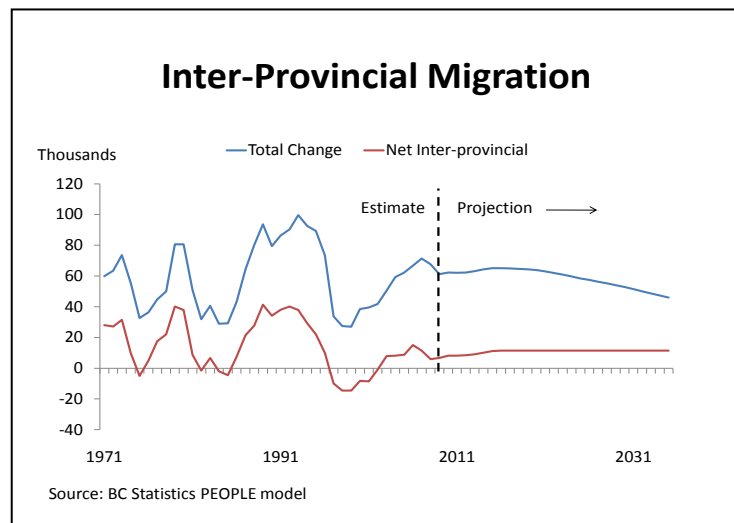
BC's labour market is undergoing a significant transformation. Population growth is slowing and a large proportion of the labour force is poised for retirement. The abundant supply of labour characteristic of the past 40 years is quickly shifting towards a future of relative labour scarcity. This has significant policy implications as the international division of labour, i.e. the global outsourcing of labour that is now so familiar, is countervailed by a new spatial competition for labour. British Columbia, Canada, as well as many other advanced economies around the world are about to enter into the most intense period of competition for labour ever experienced.



The natural rate of population growth (births minus deaths) is declining. The natural rate of increase contributed to 30 per cent of BC population growth in 1988, 17 per cent in 2008 and, by 2028, the number of deaths will overtake the number of births in the province, turning the natural rate component of population into a net decline. Even immediate aggressive policy aimed at increasing the number of births in the province will make little difference in the labour force for at least 20 years.

Net migration is not only the largest component of population growth; it is perhaps the best way to increase the labour force to meet the future needs of communities, business and government. Net international migration comprised 87 per cent of total net migration to the province in 2009, a total of 51,072 individuals<sup>2</sup>. While the number of immigrants Canada receives depends upon federal government policy, where they end up residing over the long-term is largely a function of family/ethnic connections, economic opportunities and living costs.

Another important component of population growth is net inter-provincial migration. However, inter-provincial migration has historically ebbed and flowed in tandem with the relative strength of the BC economy within Canada. For example, a total of 39,578 net inter-provincial migrants settled in the province in 1992. Six years later, 17,798 individuals left BC for another province on a net basis. When the economy was firing on all cylinders in 2007, net inter-provincial migration returned to positive territory, with 16,776 Canadians becoming new BC residents. Over the past two decades, the trend in inter-provincial migration sloped downward, meaning BC now receives fewer migrants from other provinces during a booming economy than in the past. This suggests that residency in BC is not as popular as in the past.



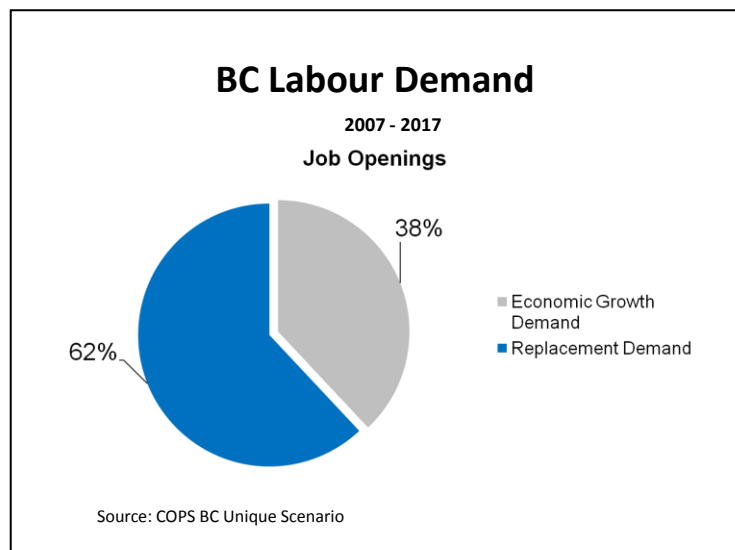
Tight labour markets have historically been associated with an upswing in the business cycle. However, the long-term trend is toward lower unemployment. During 2005-2008, BC unemployment bottomed out at four per cent, the lowest in over 40 years. While the financial crisis and global recession has recently swelled the ranks of the unemployed, unemployment has nevertheless continued on a long-term downward trend that began in the mid-1980s. Tight labour markets combined with a long-term decline in labour force growth have significant implications for the economy. Since productivity increases have historically been a slow and arduous affair in the province, labour force and employment levels are significant drivers of economic prosperity.

<sup>2</sup> Excluding 16,547 Non-permanent residents, this number declines to 42,024.

Applying the age specific participation rates established during 2006-2008 to BC Statistics population projections, the Business Council of BC concluded that labour force growth will slip below one per cent as soon as 2013 and fall as low as 0.6 per cent by 2020<sup>3</sup>. While the labour force expanded at a rate of 42,000 individuals per year over the past two decades, it will slip to 23,000 by 2013 and just 17,000 by 2020<sup>4</sup>. Under this scenario, labour force growth will fall to 50 per cent of its historical level in only a few years. Even the most optimistic scenario featuring an instant 20 per cent increase in net international migration (+10,000), an addition of 5,000 individuals each year until doubling from its current level in 2016, combined with participation rates that continue to climb above the 2008 high, labour force growth still drops to one per cent by 2020.

Even the most conservative or optimistic scenarios eventually wind up at the same place. Slower labour force growth and an aging population are inevitable. As a result, future economic growth will be a fraction of what we are accustomed to seeing. Despite prospective increases in labour force participation and immigration, the labour force will be hard pressed to satiate long-term employment demand<sup>5</sup>. As labour markets tighten and economic growth suffers, competition for labour will intensify. Countries, provinces, regions and even cities will need to be as competitive as possible in order to attract and retain workers

Governments are experienced at attracting business capital to their regions. A new factory, mill or mine can add a significant number of jobs to a local economy, not to mention the benefits of economic multipliers and increased tax revenue. However, over the next decade governments will be increasingly forced to develop new strategies and tactics to attract human capital, not only to fill the large replacement demand for workers, but more importantly to grow the economy at a sufficient rate to pay for social services, not least of which is health care. This new reality is already upon us. The government's own research has identified that between 2007 and 2017 more than 60 per cent of job openings in the province will be simple replacement demand. This is the proverbial tip of the iceberg.



Meeting the challenge of declining labour force growth and the associated decline in economic growth cannot be achieved through a single policy instrument. A co-ordinated effort to bolster current trends in labour force participation rates, immigration, inter-provincial migration, labour productivity and tax competitiveness is worth considering. Even such a comprehensive approach will not return the province

<sup>3</sup> Peacock and Finlayson, *Where Will the Workers Come From?*, Business Council Of BC, 2009

<sup>4</sup> Ibid p.13

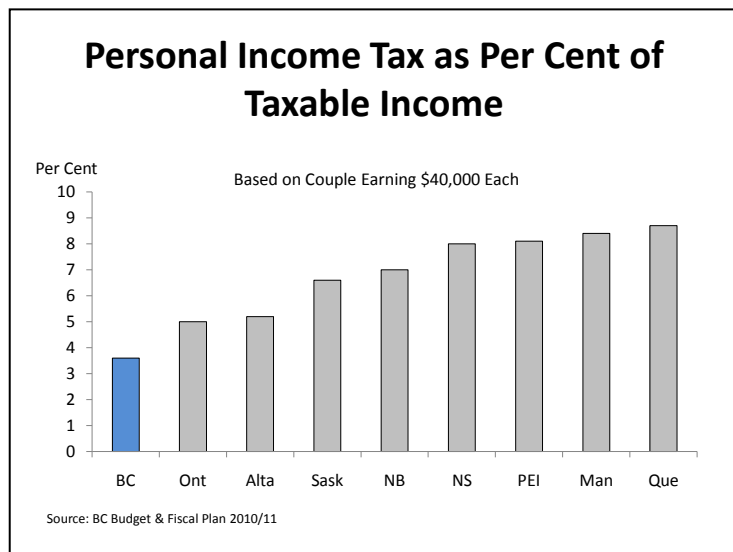
<sup>5</sup> Ramlo and Berlin, *A Perfect Storm: Sustaining Canada's Economy During Our Next Demographic Transformation*, 2006.

to a business as usual environment far into the future. However, by taking a proactive stance, it may be possible to delay and mitigate the impact to business, households and government’s ability to supply social services.

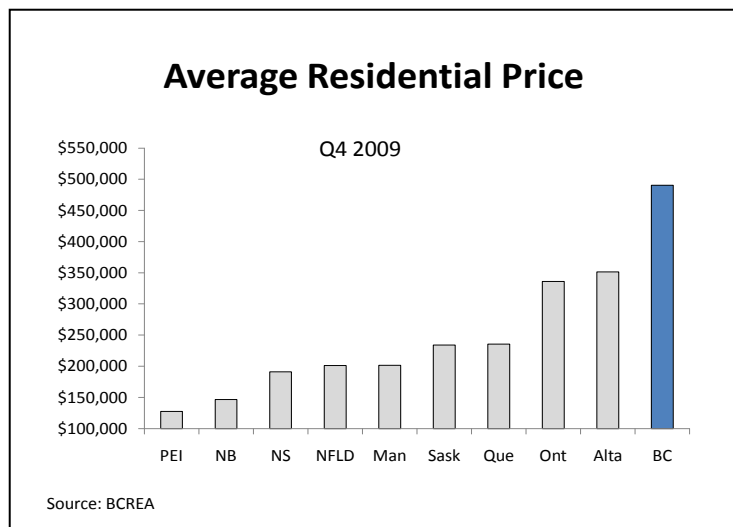
A cornerstone to any comprehensive strategy to attract and retain human capital is a competitive tax regime. The government has already made some long strides in this direction, but more attention needs to be given to the total tax burden to households. In particular, housing attainability in the province is problematic enough, given market prices, even without the burden of the most regressive Property Transfer Tax regime in Canada.

### Attracting and Retaining Human Capital

The government has taken important steps to improve provincial tax competitiveness. Personal income taxes are the most competitive in the country. A couple earning \$40,000 each now pays just 3.6 per cent of their taxable income into the provincial coffers. That’s less than half the amount payable in Manitoba or Quebec, and nearly 30 per cent less than competitive Alberta and Ontario. The government has recently stated that “strengthening families is at the centre of the government’s economic and social agenda.”<sup>6</sup> Low personal income taxes appear to be a pillar in this policy direction.



BC also ranks as one of the top four most competitive provinces in sales tax, fuel tax and net property tax<sup>7</sup>. This would suggest that the province is in a good position to attract skilled workers from other provinces. However, families are cognizant of more than a few tax policies when determining the overall financial benefit or burden of relocating to another province or country, and the big expenses are what come to mind first.

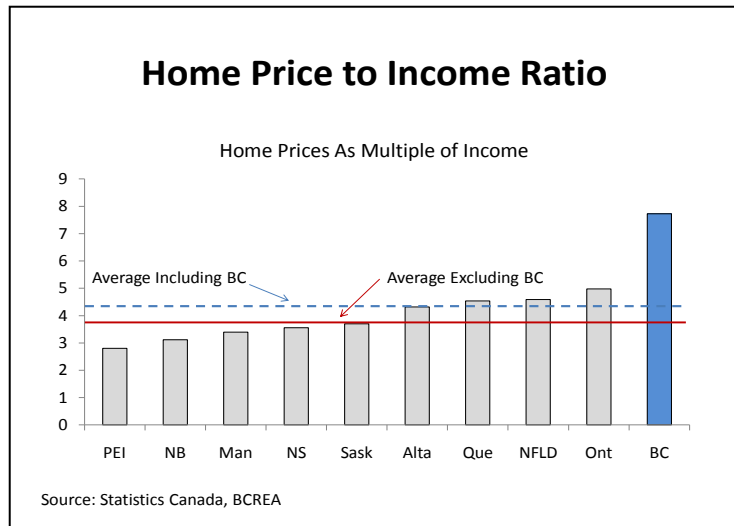


<sup>6</sup> BC Budget and Fiscal Plan 2010/11, p.103.

<sup>7</sup> Two income family of four earning \$90,000.

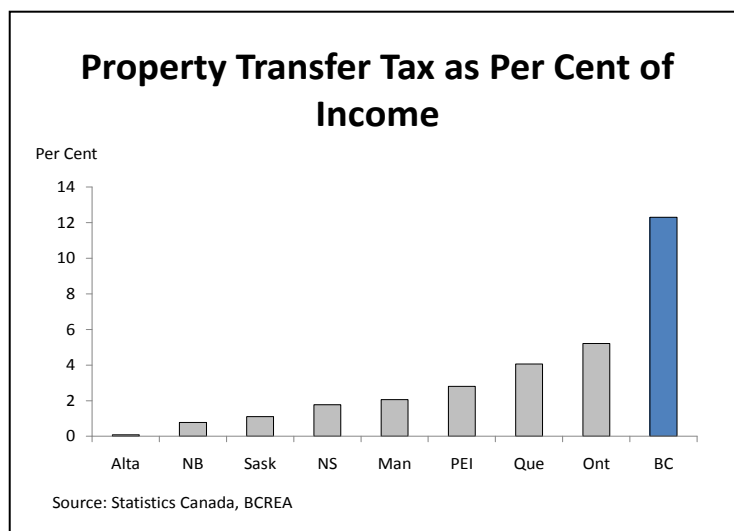
BC home prices are the highest in the country. The average MLS® residential price in BC was \$490,536 in the fourth quarter of 2009. By comparison, the average home price in Alberta during the same period was nearly \$140,000 less at \$351,437, while the average price in Ontario was \$155,000 less at \$336,038. In other words, an Alberta household would need to pay 40 per cent more to purchase a similar home in BC, not including disposition costs or property transfer taxes. In central Canada, an Ontario household would pay 46 per cent more, and households migrating from PEI, would pay a whopping 284 per cent more.

To exacerbate relative housing affordability, the median family income in the province lags behind both Ontario and Alberta. Accounting for both incomes and home prices, the average price to median family income ratio in Canada<sup>8</sup> is 4.27. In British Columbia, that ratio jumps to 7.73, by far the highest financial burden of home ownership in the country. While home prices are market driven, a large relative difference between provinces is problematic to prospective migrants weighing the benefits of relocation.



When it comes to the Property Transfer Tax, British Columbia is the least competitive province by a wide margin. The PTT on the average priced home in BC during the fourth quarter of 2009 was \$7,811<sup>9</sup>. To provide some perspective, the equivalent taxes in Ontario were a relatively mild \$3,516. In other words, homebuyers in BC pay 122 per cent more in PTT on average than in Ontario.

The province’s competitive personal income tax rates are easily overshadowed by its uncompetitive PTT. A couple earning \$40,000 each in taxable income pays almost three times their annual BC income tax for the privilege of buying a home, \$2,880 versus \$7,811. The PTT payable on the average priced home costs more than 12 per cent of the



<sup>8</sup> Average of ten provinces, unweighted.

<sup>9</sup> Household not qualified under available first time buyer exemption

annual median family income in BC, compared to 5.2 per cent in Ontario, 4.1 per cent in Quebec and just 2.1 per cent in Manitoba.

The PTT regime in British Columbia is clearly a disincentive to attracting migrants. Paying 12 per cent of a family's annual income in Property Transfer Tax is by any comparison a heavy burden on households. As competition for labour intensifies over the next decade, the relative tax competitiveness of the province will increasingly be scrutinized by mobile skilled workers and their families both inside and outside of Canada. Low personal income taxes will likely not be sufficient to gain an advantage over the other provinces if housing attainability continues to be constrained by the hefty Property Transfer Tax.

## **Conclusion**

Slowing population growth combined with the aging of BC residents will limit the ability of the labour force to expand sufficiently to meet future demand. Unless labour productivity increases drastically, economic growth will trend lower in the years to come. In order to countervail this transition, a comprehensive strategy to increase migration, labour force participation rates and tax competitiveness needs to be implemented. Government efforts to enhance the tax competitiveness of residency have achieved only partial success. The sticker shock of BC home prices is enough of a deterrent to attracting and retaining working age population without the excessive burden of paying exorbitant property transfer taxes.

The Property Transfer Tax is a significant revenue source for the province. PTT revenue will exceed \$1 billion by 2011/2012 and comprise 5.6 per cent of total government tax revenue. The challenge for government is how to create a competitive tax regime for BC residents without foregoing much-needed revenue to pay for vital social services like health care and education. Future research on the trade-off costs of the current PTT regime compared to a competitive PTT would shed light on the relative economic impacts and aid policy makers.