The Economic Impacts of Corporate Tax Incentives In Ireland: *Building a case for an Investment Incentive Zone in Northwestern Ontario*

Final Report

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> "[Ireland]… has slashed its corporate tax rate from 50 percent to 12.5 percent. Combined with other tax cuts, this helped turn the "Sick Man of Europe" into the "Celtic Tiger." Unemployment has dropped from 17 percent to 5 percent, and Ireland is now the second-richest nation in the European Union."
>
> Daniel J. Mitchell, Ph.D.
> The Heritage Foundation
> April 14th, 2005

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Overview: The Celtic Tiger

Ireland's economy has undergone an unprecedented transformation over the past two decades. Once identified as "The Sick Man of Europe", Ireland has become the second wealthiest country in the European Union (EU) after Luxembourg with a per capita GDP of (US) $48, 642. In 2006 Ireland's GDP grew to 110 percent of the average European GDP compared to 60 percent in 1973[1]. Since 1995, Ireland has averaged a 7 percent growth rate and the unemployment rate has decreased from an alarming 19 percent in 1991 to 4.2 percent in 2005[2]. One of Ireland's greatest successes has been job creation. Between 1990 and 2005, employment increased from 1.1 million to 1.9 million[3] – 800,000 jobs in just 15 years!

A large part of Ireland's economic turn around can be attributed to its highly competitive and low corporate tax rates. At 12.5 percent [4], Ireland now offers the lowest corporate tax rate among all EU countries and is one of the most attractive destinations in the world for foreign direct investment (FDI), particularly in the *knowledge-based economy*. Low corporate tax rates have created a "cluster economy" in Ireland's *Shannon Free Zone* where certain manufacturing and international traded service companies have traditionally paid a corporate tax as low as 10 percent[5]. According to famed columnist and author Thomas L. Friedman, "9 out of 10 of the world's top pharmaceutical

[1] KPMG Corporate Tax Rate Survey
[2] UN Estimates: UN Common Database. See Appendix 1.
[3] Ireland Central Statistics Office
[4] The 12.5% is the most transparent corporate tax rate. This rate applies to all trading income. Other rates for different tax categories can be found on page 7 of this document.
[5] The 10% corporate tax rate was implemented in 1980 specifically for manufacturing and International Financial Services Centre (IFSC) companies. The 10% rate for IFSC activiites ended on 31 December 2005 and after this date these companies moved to the 12.5% rate provided their trade qualified as an Irish trading activity. For companies that were claiming this relief before 23 July 1998 it will still be available until 31 January 2010

companies have operations in [Ireland] , as do 16 of the top 20 medical device companies and 7 out of the top 10 software designers". Ireland's economic success is remarkable – so remarkable that even China is taking notes. In 2005, the Deputy Prime Minister of Ireland, Marey Harney, was quoted saying "I've met the premier of China five times in the last two years."[6] As such, Ireland has been termed as Europe's "Celtic Tiger" and is one of the most competitive and productive economies in the world today. So much that other country's in central Europe and Scandinavia – Iceland being one of them - are also beginning to emulate Ireland's move to lower corporate taxes to compete for investment with high-tax countries like France and Germany. As Scott A. Hodge and Chris Atkins explain,

> "Other countries are cutting corporate tax rates because they've learned the importance of having a competitive tax climate. Nations won't attract new business and job creation if their corporate income taxes are significantly higher than comparable nations."[7]

The same can be said of different regions or provinces within industrialized countries. Therefore, in the case of Northwestern Ontario, creating a low corporate *tax zone* could potentially have much of the same results experienced by Ireland and other countries that have created competitive corporate tax incentives to attract investment from Multi-National Enterprises (MNE's) and compete in the global economy for FDI.

As requested by Zieroth-Wolfe Project Management, this report will (1) examine the state of Ireland's economy during the 1980's recession before corporate tax incentives were implemented; (2) explain the details and historical trends of Ireland's corporate tax

[6] The New York Times (2005).
[7] The Tax Foundation (2006).

system overtime; (3) reflect on the positive economic impacts that corporate tax reform has had on Ireland's economy since the early 1990's; (4) provide an overview of Iceland's experience with corporate tax reform; (5) explain the implications for Northwestern Ontario; (6) explain what is needed from both orders of government (Provincial and Federal) and (7) conclude with a summary.

The 1980's: Economic Recession

For much of the 1980's Ireland was characterized by economic and political instability. Stagnation (rising inflation accompanied by declining GDP growth), record high unemployment levels and out-migration characterized much of the economic landscape in 1980's. The economic problems that Ireland experienced were direct consequences of internal government instability and a weakening global economy following the 1970's oil shock. Mismanaged fiscal policy, an overvalued currency and rapidly rising levels of national debt made Ireland the most indebted industrialized country in the world – affording them the name "the Beggars of Europe". While both global and domestic factors played a role in Ireland's hardship during the 1980's, attempts to stabilize the economy through government intervention proved to make things much worse. According to Sean Dorgan, "continued increases in public spending, taxes and deficit financing through borrowing soured the investment climate and failed to raise employment while increasing the drag on the under performing economy".[8] In the 1980's Ireland was a relatively unattractive place for foreign direct investment (FDI). From 1980 – 1990 the total inflow of (FDI) was approximately 1.1 billion compared to

[8] Sean Dorgan. The Heritage Foundation. How Ireland Became the Celtic Tiger.

FDI inflows of 82.2 billion from 1992-2004[9] . Investment inflows began to increase only when corporate tax rates started to gradually decrease in the early 1990's. In 1980, corporate tax rates peaked at 50 percent compared to 12.5 percent[10] today, and from 1980-1989 per capita income averaged only $US 8,552 and the average GDP growth was only 3.13 percent. [11] Ireland's inability to foster economic growth and create employment was evident as the vicious "feed-off" cycle of increased emigration and unemployment continued to worsen. Not only were Ireland's fiscal management policies ineffective, but it also proved to even worse at retaining, attracting and training a new skilled work force in an economy where labor market opportunities for young people were diminishing at an alarming rate. From 1980 to 1990 Ireland experienced an average unemployment rate of 15.38 percent accompanied by negative migration rates (emigration) averaging -3.16 percent over that same period.[12] As Sean Dorgan explains of Ireland's pains,

> "The feeling of failure was exacerbated by the waves of emigration of young people, just as in a generation earlier. Whole classes of university graduates would frequently leave the country. There was a disheartening drain of human capital. A net 200,000 people left from 1981 to 1990. In the worst years, more than 1 percent of the country's population fled".

In the 1980's Ireland did not have the proper political and economic mechanisms in place to create the favorable conditions that would foster investment inflow, labor market opportunities and economic growth as it did during the 1990's recovery.

Much of Ireland's economic failures in the 1980's can be attributed to the simple fact that the country was just not an attractive location for investment. To invest in Ireland in the

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[9] See Appendix 1 Figure 4.
[10] See Appendix 1 Figure 1
[11] See Appendix 1 Figure 2 & 3. Note: GDP growth was actually **negative** in both 1983 and 1986.
[12] See Appendix 1 Figure(s) 6&7. Note: Unemployment peaked at 18.4% in 1988 according to UN estimates.

1980’s promised very little return and a mountain of risk. Finally in 1987, the national government in “social partnership” with the private sector, unions and agricultural producers recognized the need for change and decided to implement a 3 year “National Recovery Plan” to clean up government, restructure fiscal policy and reform corporate tax policy to provide a more investment friendly atmosphere. Much of Ireland’s economic success and recovery, although not all of it [13], can be attributed to corporate tax reform as this helped encourage FDI inflows and promised new labor market opportunities for young people.

Corporate Tax Incentives: How to Feed a Tiger?

In 1947, Ireland set up the first duty-free zone in the world at Shannon Airport - known as the *Shannon Free Zone*. The Shannon Free Zone offered a zero percent tax on a companies export sales. This zero rate on export sales remained until 1980 as pressure mounted from the EU/EEC that Ireland was breaking tax policy agreements. Therefore, in 1980 Ireland introduced a new 10 percent tax rate on profits from manufacturing and a defined range of international service activities in the International Financial Services Centre (IFSC). The 10 percent rate for manufacturing, IFSC and Shannon Free Zone activites ended on 31 December 2005 and after this date companies moved to a 12.5% rate provided their

[13] Tax incentives are not the only reason Ireland has achieved such strong economic success since the early 1990’s. Other factors having positive impacts on Ireland's economy are: (1) stronger emphasis on education and innovation, (2) youthful population and expanding labour supply, (3) strategic use of EU structural and cohesion funds, (4) a social partnership approach to community development, (5) Fiscal policy reform and (6) an openness to international trade. All of these factors, including the implementation of tax incentives have helped turn Ireland into the Celtic Tiger.

trade qualified as an Irish trading activity. For companies that were claiming this relief before 23 July 1998 it will still be available until 31 January 2010.

Today, Ireland is known for having the lowest corporate tax rate in Europe. Since 1993, Ireland has gradually decreased its corporate tax rate by 37.5 percentage points - from 50 percent in 1993 to 12.5 percent in 2003. [14] This has made Ireland a major destination for Foreign Direct Investment as MNE's recognize the incentives of operating in Ireland's competitive tax climate. According to KPMG's 2006 international corporate tax survey, Ireland has lower corporate tax rates compared to the average of any other global region; (ASPAC –27.1%, EU – 25.9%, G7 – 36.5%, LAT – 29.5%, OECD – 29.5%). [15] When compared to other EU countries, the results are similar; (German – 38.3%, Italy – 37.3%, Spain – 35%, Belgium – 34%, France – 33.3%, UK – 30%, Luxembourg – 29.6%, Greece – 29%).[16]Ireland is now considered to be an international *Investment Zone* and one of the most attractive places in the world for MNE's to do business.

The long-run certainty attached to the low corporate rates that Ireland offers has been a fundamental feature of Irish economic policy and its ability to attract foreign investment. As Thomas L. Friedman said in the New York Times (2005), "Ireland's advice is very simple: …make your corporate taxes low, simple and transparent...", this is how you increase FDI inflows, create jobs and foster economic growth, this is how you feed a tiger!

[14] The 12.5 percent corporate tax rate was implemented on January 1, 2003. See Appendix 1 Figure 1.
[15] See Appendix 1 Figure 8.
[16] See Appendix 1 Figure 9.

Ireland: 2007 Corporate Tax Rates

Tax Category	Tax Rate
Trading Income (Standard Corporate Rate)	**12.5%**
Passive Income	**25%**
Capital Gains	**20%**
Manufacturing, Software and certain Financial Services Operations	**10% being phased out up to 2010, then 12.5%.**
Collective Investment Funds	**0%**
Shipping	Special tonnage tax regime – **Nominal tax up to 5 million Euros per annum**
Patent Income	**0%** generally on Irish invention
Research & Development	**20%** R&D Tax Credit[17]

Source (1): KPMG. Doing Business in Ireland: Business Taxation.
Source (2): Shannon Development: Taxation in Ireland.

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For all trading income, the standard corporate tax rate in Ireland is 12.5 percent. This rate is the most transparent for companies compared to other rates and Ireland has used it as an incentive to attract MNE's since the beginning of its descent in 1993. Another attractive incentive for businesses to locate in Ireland is the 20% Research and Development (R&D) Credit which was implemented in 2004. This incentive has complemented the low 12.5% standard rate and has helped create a knowledge-based "*cluster economy*" in Ireland's manufacturing and R&D sectors.

[17] Finance Act 2004 introduced a 20% tax credit for qualifying research and development expenditure for companies engaged in in-house qualifying research and development undertaken within the European Economic Area. The scheme of relief will continue until 31 December 2008. The credit is subject to a number of conditions and EU approval.

Ireland has used low corporate tax incentives to attract exporting companies since the 1980's and even prior to that, even though the standard corporate rate was still 50 percent during these two time periods. It wasn't until the early 1990's that corporate tax cuts and other economic reform actually had positive impacts on Ireland's economy as whole.

The 1990's: Economic Growth & the Impacts of Corporate Tax Reform

Ireland's period of recovery and economic growth began in the early 1990's. Between 1990 and 2000 the economy grew at an annual average growth rate of 8.07%. The growth in the Irish economy is reflected in the annual increases in national GDP. From 1990 to 2005 Ireland's GDP increased by approximately $ 75 billion (US) – from $ 47.9 Billion (US) in 1990 to $122.7 billion (US) in 2005[18]. On a per capita basis (population of 4.2 million) Ireland's GDP increased by $35,026 (US) – from $13,616 (US) in 1990 to $ 48,642 (US) in 2005[19]. Ireland's growth has been more than remarkable compared to it best performing EU partners. According to Enterprise-Ireland (2006),

> "By any standard measure, Ireland's performance is exceptional. Ireland has consistently topped the 30 member OECD economic growth tables, often by a substantial margin. For the latest 5 year period (2001-2005), Ireland's average GDP growth rate of 5.3% was again the highest (with Slovakia second at 4.7%)."

In addition to large GDP growth, achievements over the last 15 years include large increases in FDI inflow, a reduction in unemployment from 17.2 % to 4.2%[20] and positive migration rates (immigration) from -8.4% to 9.5%[21]. One of Ireland's greatest successes

[18] See Appendix 1 Figure 5.
[19] See Appendix 1 Figure 3.
[20] See Appendix 1 Figure 6.
[21] See Appendix 1 Figure 7.

has been job creation. Between 1990 and 2005, employment increased from 1.1 million to 1.9 million[22] – a 73% increase in just 15 years!

It is fairly clear that Ireland's ability to create new jobs and spur economic growth has been related to its ability to attract MNE's, which in turn was stimulated by the implementation of attractive corporate tax incentives. According to Enterprise-Ireland (2006), "GDP performance has been strongly influenced by the presence in Ireland of a very large foreign owned industry sector." This suggests that the implementation of corporate tax cuts have been an important factor in Ireland's economic success since the 1990's. The reasoning behind this is as follows: If GDP growth is "strongly influenced" by the presence of MNE's and the presence of MNE's is influenced by corporate tax incentives, it is reasonable to maintain that low corporate tax rates have influenced economic growth. According to KPMG's International Corporate Tax Rate Survey (2006), "Corporations value policies that give them control and certainty, so shifts toward long-term, business-friendly tax administration systems are likely to attract their attention". Ireland is a perfect example of a country that has pursued a "business-friendly tax administration" to attract foreign investment, create jobs and stimulate economic growth.

According to statistical analysis and the literature reviewed, there does exists a relationship (although without an econometric model the degree of this relationship is not known) between the positive economic impacts that took place in Ireland during 1990's and the implementation of corporate tax reform in that same period. Since 1993 when Ireland's corporate tax rate began to decline, all major economic indicators (GDP, GDP

[22] Ireland Central Statistics Office

per capita, GDP growth, unemployment, migration and FDI) experienced positive results[23]. To quote Stefan Bach of the German Institute of Economic Development,

> "Even if a nexus between tax cuts and economic growth is not clear in theory and difficult to prove empirically, the international experience shows: countries that have lowered their corporate income tax had a positive economic development."

And also as Loughlin Hickey (2006) maintains, "In the long term, low tax rates should attract more inward investment, which should expand the economy and thereby provide a greater tax base."

The international literature reveals that on average corporate tax rates have been declining in all global regions as global tax competition continues to increase and intensify overtime. In many cases this has lead to significant growth rates and job creation. Since 1993 the average corporate tax rate in the EU has decreased by 12.2 percentage points – from 38 percent in 1993 to 25.8 percent in 2006. Again as Loughlin Hickey (2006) explains,

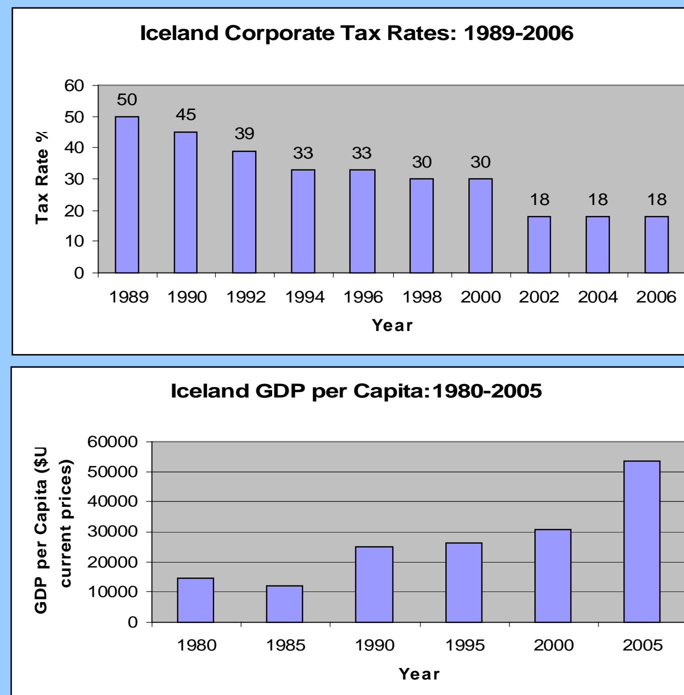
> "This competition suggests that there must be some benefit in having low corporate taxes, and indeed it appears that countries that adopt comparatively low tax rates tend to do better in terms of growth and inward investment than those that do not".

Among the countries that have implemented corporate tax reform, there is another remarkable case where tax incentives have lead to higher rates of inward investment and economic growth. This is the case of Iceland.

[23] See and compared tables in Appendix 1.

An Overview of Iceland: The Nordic Tiger?

Much like Ireland, Iceland has experienced remarkable economic growth in response to reforms in corporate tax policy. In 2002, Iceland reduced its standard corporate tax rate by 12 percentage points to 18 percent. The corporate tax rate has been steadily declining from 50 percent in the late 1980's, to 33 percent by the mid-1990's, and to just 18 percent in 2002. Iceland's corporate tax rate is now the lowest in Scandinavia and the third lowest among OECD countries. This has created incentives for inward investment and has lead to very low unemployment rates and high GDP per capita[24]. According to UN estimates, unemployment rates have decreased from 5 percent in the early 1990's to just over 1 percent in 2000. GDP growth continued through much of the 1990's reaching a high of 6 percent in 1998, and GDP per capita reached a remarkable $ 53,687 (US) in 2005. On a per capita basis, Iceland is wealthier than the "Celtic Tiger" Ireland, which has a GDP per capita of $ 48,642 (US). According to the World Banks *Economic Freedom of the World* rankings, economic (tax) reform has helped Iceland climb from 26th to 9th wealthiest country in the world on a GDP per capita basis. According to the OECD, "Iceland's economy and per capita income have grown at an impressive pace since the mid-1990s, making the country one of the most prosperous in the OECD." This has many calling Iceland a "Nordic Tiger". Although tax reform has most likely played a major role in Iceland's success, the degree to which corporate tax reductions have influenced economic growth and other economic indicators cannot be entirely known without proper econometric analysis. However, much like the case for Ireland, the statistical analysis and literature review for Iceland reveal that since corporate tax rates began to decline in the early 1990's, the major economic indicators (GDP, GDP growth, GDP per capita, unemployment) responded positively. This reaffirms the findings in the literature that countries adopting competitive corporate tax policies have experienced positive economic growth and job creation overtime.



[24] See Appendix 2 Figure(s) 2, 4, 5.

Implications for Northwestern Ontario

The Irish and Icelandic experiences reveal how creating business friendly tax incentives can influence inward investment, create jobs and help stimulate economic development. As it stands, Northwestern Ontario is currently in a similar situation as Ireland was in the 1980's. Increasing unemployment, decreasing inward investment and out-migration continue to take its toll on Northwestern Ontario's economy due to the decline in the forest industry. In the past, Northwestern Ontario has lucratively benefited from holding a comparative advantage in producing *commodity* forest products. However, this no longer holds true. The rising costs of energy, appreciation of the Canadian dollar and global competition have altered the international location of supply driven industries such as forestry, thus weakening Northwestern Ontario's comparative advantage over other countries and economic regions. Just as international competition in the forest industry has redirected *forestry jobs* away from Northwestern Ontario and into other countries, so to has international tax competition redirected *knowledge-based jobs* out of other European countries and into Ireland. So what can be learned here?

First, countries are increasingly becoming more aware of the importance of using corporate tax policy to create comparative advantages (lower input costs) over other high-tax countries to attract capital investment and stimulate economic development. Second, *the knowledge-based economy* continues to be on the rise in many industrialized countries and economic regions due to the level of technological progress that developed and *developing* nations have achieved. Third, MNE's in the global knowledge economy are becoming increasingly able to redirect capital investments to countries and economic

regions that offer higher returns and hold a comparative advantage in producing knowledge-based products and services. Fourth, the major input costs that determine whether a country or economic region holds a comparative advantage differs between industries. This is especially the case in the context of a transition economy were the base sector is changing from resource-based to knowledge-based. And finally, corporate tax policy will continue to be a significant factor influencing the flow of capital in the global economy. This is crucial for the case of Northwestern Ontario as the input costs that use to give it a comparative advantage in the resource-based economy matter much less for the emerging knowledge-based economy. According to the experience of Ireland and Iceland, what matters most for attracting knowledge-based industries is skilled labor (education) and a low cost business friendly atmosphere. Northwestern Ontario has access to education that can produce a highly skilled regional labor force, but to become more competitive with other economic regions throughout Canada and the world and for wealth to become more equally distributed between Southern and Northwestern Ontario, the mechanisms for attracting new knowledge-based investment into Northwestern Ontario must include reforms in tax policy. The establishment of a *Investment Incentive Zone* is one policy mechanism that international experience has shown to bring economies out of recession and into periods of sustained economic development and reveals potential to accomplish similar results in Northwestern Ontario. So, what does this mean for both orders of government?

Forging The Future: Calling the Provincial and Federal Governments to Lower Tax Rates in Northwestern Ontario

Background

In the year 2000 it was estimated that Northwestern Ontario's per capita GDP ($29,037) was 22 percent lower than the rest of Ontario ($37,290)[25]. This income gap between Northwestern Ontario and the rest of Ontario continues to widen as the effects of the declining forest industry takes its toll on business and industrial sectors in the region. Since 2001, over one-third Northwestern Ontario's base sector employment has been lost leading to increases in unemployment rates, decreases in employment growth, municipal tax base shrinkages and stagnant population growth. This is taking place in front of a relatively prosperous Southern Ontario backdrop.

Labor Force Indicators: Northwestern Ontario versus Ontario, 2006[26]

Labor Force Indicator	Ontario	Northern Ontario	Northwestern Ontario
Participation Rate	67.7%	61.7%	64.0%
Unemployment Rate	6.3%	7.4%	7.8%
Employment Rate	63.5%	57.1%	59.1%

According to Statistics Canada data, from 2001-2006 Northwestern Ontario's population increased only slightly by 0.1 percent compared to 6.6 percent for Ontario as a whole. The level and growth of unemployment rates between Northwestern Ontario and the rest of Ontario also differ substantially. From 2001 to 2006, the unemployment rate in

[25] An Assessment of the Economic Impact of an Aging Workforce in Northwestern Ontario Using Survey-Based Data.
[26] Mulholland, Ron. The State of Small and Medium Sized Enterprises in Northern Ontario.

Northwestern Ontario increased by 0.8 percentage points from 7 %-7.8 %, and in Ontario as a whole unemployment increased by a smaller 0.5 percentage points (5.8 % - 6.3 %). There also exists a 3.7% participation rate gap between Northwestern Ontario and the rest of the province implying a training/skills gap as well. People are not being employed due to the downturn and lack of opportunities in traditional sectors, lack of training and a relatively low distribution of high and medium-knowledge business establishments in emerging sectors.

Distributions of Establishments in Knowledge Industries, 2001[27]

Knowledge Industry Type	Ontario: % of Employer-based Establishments	Northwestern Ontario: % of Employer-based Establishments
High Knowledge	**7.8%**	**3.5%**
Medium Knowledge	50.4%	39%
Low Knowledge	**32.4%**	**46.9%**
Other	9.5%	10.7%

The knowledge sector is a key industry providing opportunities for growth in Northwestern Ontario. According to Mulholland (2007), "A region's current and future growth depends on its ability to adapt and take advantage of an increasingly knowledge-intensive economy".Compared to the rest of Ontario, the distribution of high and medium-knowledge establishments in Northwestern Ontario is very low. With only 3.5% (39%) of employer-based businesses considered high-knowledge (medium-knowledge), Northwestern Ontario has an opportunity to attract businesses in these industries so that it can diversify its economy and create new jobs. Ontario (mostly Southern Ontario) continues to see investment in high-knowledge sectors and is experiencing large

[27]Mulholland, Ron. The State of Small and Medium Sized Enterprises in Northern Ontario.

increases in employment growth (11.6%)[28] while Northwestern Ontario continues to see an outflow of investment in its traditionally low-knowledge natural resource sector and is experiencing negative employment growth (-5.5%)[29]. The solution to this is to create investment incentives to attract emerging high and medium-knowledge business to Northwestern Ontario. In order to make this happen, "the provincial government needs to take a more active role in promoting Northwestern Ontario as a viable business destination so that provincial prosperity is shared with [the region]" [30].

The Issue

There exists an income gap between Northwestern Ontario and the rest of Ontario due to a lack of competitiveness, economic opportunities and poor investment attractiveness in Northwestern Ontario. New *high and medium-knowledge* firms must be encouraged to relocate in Northwestern Ontario to help create new jobs and retain young people. In order to attract new business to Northwestern Ontario, there must be an incentive significant enough for the business owner and his/her employees to seriously consider relocating or expanding.

Issue Solutions[31]

The Provincial and Federal Governments should designate Northwestern Ontario as a Special Economic Development Investment (*Incentive)* Zone.

- The rates for Provincial sales, personal income and corporate taxes for the Northwest should be set 20 percent lower than those for the Province as a whole to reflect the income differences between Northwestern Ontario and Southern Ontario and to enhance the attractiveness of the region for retention and investment. This target is based on the per capita income in

[28]Mulholland, Ron. The State of Small and Medium Sized Enterprises in Northern Ontario.
[29]Mulholland, Ron. The State of Small and Medium Sized Enterprises in Northern Ontario.
[30]Forging the Future...an economic vision for Northwestern Ontario.
[31] Copied from: Forging the Future...and economic vision for Northwestern Ontario.

Northwestern Ontario being below the Provincial average. This change will create a regional tax burden commensurate with regional resources.

- 20 percent income tax credit as an incentive to attract new business start-ups in the medium and high-knowledge sector.

- It is recommended that the Federal and Provincial governments partner to create a “Northern Resident’s Deduction” zone in Northwestern Ontario. While similar to the Federal Program north of 50^0, this deduction zone would apply to all residents of the Districts of Kenora, Rainy River and Thunder Bay.

- The Special Economic Development Investment Zone should be proscribed for a period of a minimum of 10 years with a provision for either a five year extension (or series of 5 year extensions) to be followed by a gradual return to provincial or national rates. A key determinate will be the increasing levels of investment in the region.

- A concentrated effort needs to be made by the Provincial government to encourage successful businesses to expand to Northwestern Ontario.

- The Provincial government needs to take a more active role in promoting Northwestern Ontario as a viable business destination so that provincial prosperity is shared with Northwestern Ontario

Effective January 1st, 2008, the following are the provincial and federal tax rates for corporate and personal income in Ontario. The last column in each table provides the 20 percent drop-in tax level called for by the Northwestern Ontario Common Voice Initiative through the Northwestern Ontario Municipal Association (NOMA) and the Northwestern Ontario Associated Chambers of Commerce (NOACC) to establish Northwestern Ontario as a *Special Economic Development Investment Incentive Zone*.

Ontario's Corporate Income Tax Rates, 2008[32]

Type of Income	Federal	Ontario	Combined	N.W.O. Investment Incentive Zone Rate %
General	22.12%	14.0%	36.12%	28.896%
M & P	22.12%	12.0%	34.12%	27.296%
Small Business ($0-$500,000)	13.12%	5.50%	18.67%	14.936%

Ontario's Personal Income Tax Rates, 2008[33]

Annual Taxable Income Thresholds	Tax Rate %	N.W.O. Investment[34] Incentive Zone Rate %
$0 - $36,020	6.05%	5.445%
$36,020.01 - $72,041.00	9.15%	8.235%
$72,041.01 - and over	11.16%	10.044%

Federal Personal Income Tax Rates, 2008[35]

Annual Taxable Income Thresholds	Tax Rate %	N.W.O. Investment Incentive Zone Rate %
$0 - $37,885	15%	13.5%
$37,885.01 - $75,769	22%	19.8%
$75,769.01 - $123,184	26%	23.4%
$123,184.01 - and over	29%	26.1%

[32] Economic Development Ontario: www.2ontario.com
[33] University of Toronto: Human Resources and Equity. http://www.hrandequity.utoronto.ca/payroll/taxation/rates.htm
[34] Personal provincial and federal income tax reductions are set at 10% in each threshold to reach the total 20% drop. The amount that each government drops rates could be proportioned differently depending on the agreement between both governments as to what rates will decrease and by how much to reach the overall recommended 20% reduction.
[35] University of Toronto: Human Resources and Equity. http://www.hrandequity.utoronto.ca/payroll/taxation/rates.htm

Ontario Provincial Sales Tax, 2008

Ontario Provincial Sales Tax %	**N.W.O. Investment Incentive Zone Rate %**
8 %	6.4%

Northwestern Ontario Corporate/Business Income Tax Credit

20%

Conclusion

With the establishment of an *Investment Incentive Zone,* Northwestern Ontario could become a nationally recognized business incentive region. This would help Northwestern Ontario become more attractive for investment, create jobs and build a competitive atmosphere for small and medium size businesses to flourish. As international experience reveals, implementing competitive tax policies can reverse the negative impacts that countries and economic regions face as a consequence of structural transition. By making Northwestern Ontario an *Investment Incentive Zone,* the provincial and federal governments can help the Northwest become competitive and attractive for investment in emerging knowledge industries so that prosperity can be equally shared and distributed throughout the province of Ontario; reaching all voting taxpayers regardless of geographic positioning or political riding. "The peoples of Northwestern Ontario, in order to make common cause... have come together in partnership to speak and act with one voice"(Di Matteo, 2006) . This common voice is calling for the provincial and federal governments to designate Northwestern Ontario a Special Economic Development Investment Zone to "ensure a better future for our children in this land we call home".

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The Irish Taxation Institute: Corporation Tax: http://www.taxireland.ie

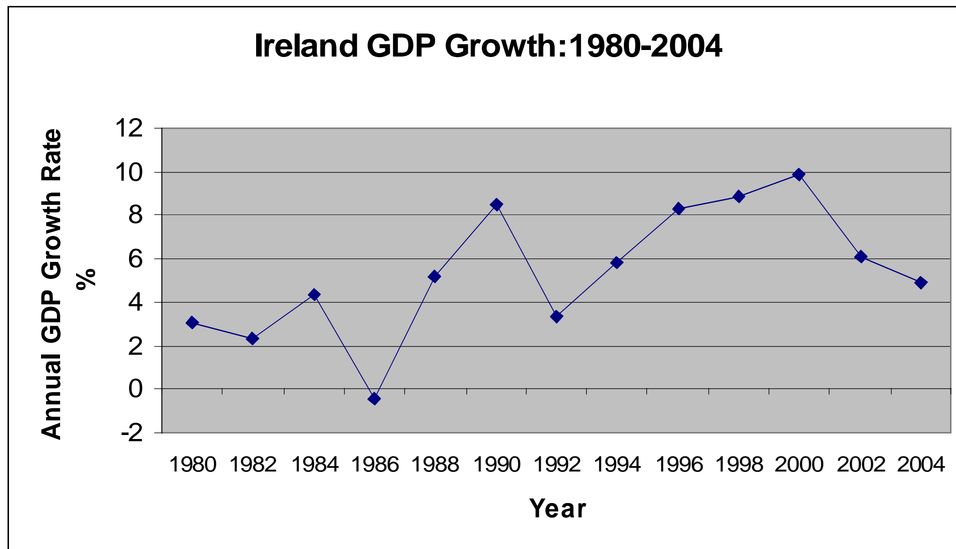
Appendices

Appendix 1

Figure 1

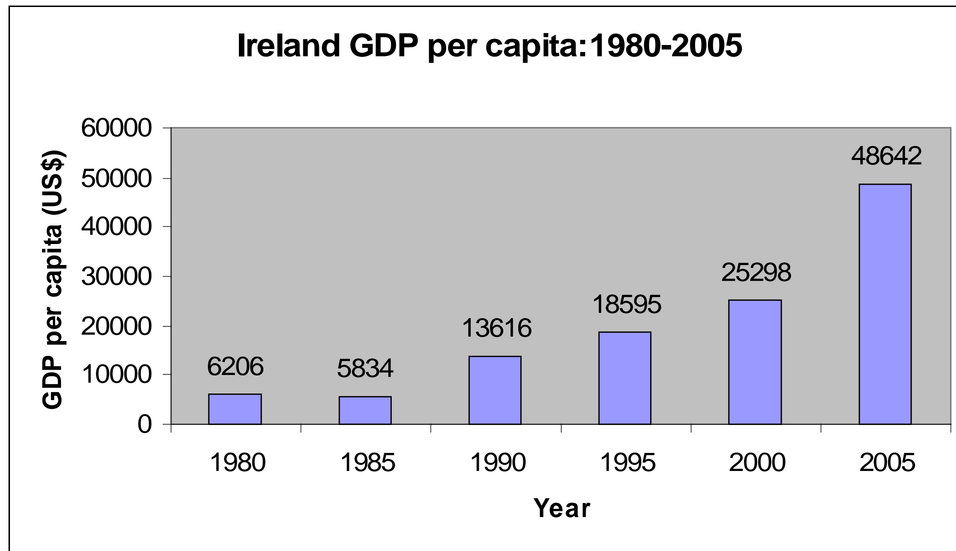
Source (1): KPMG Corporate Tax Rate Survey
Source (2): Irish Tax Institute

Figure 2



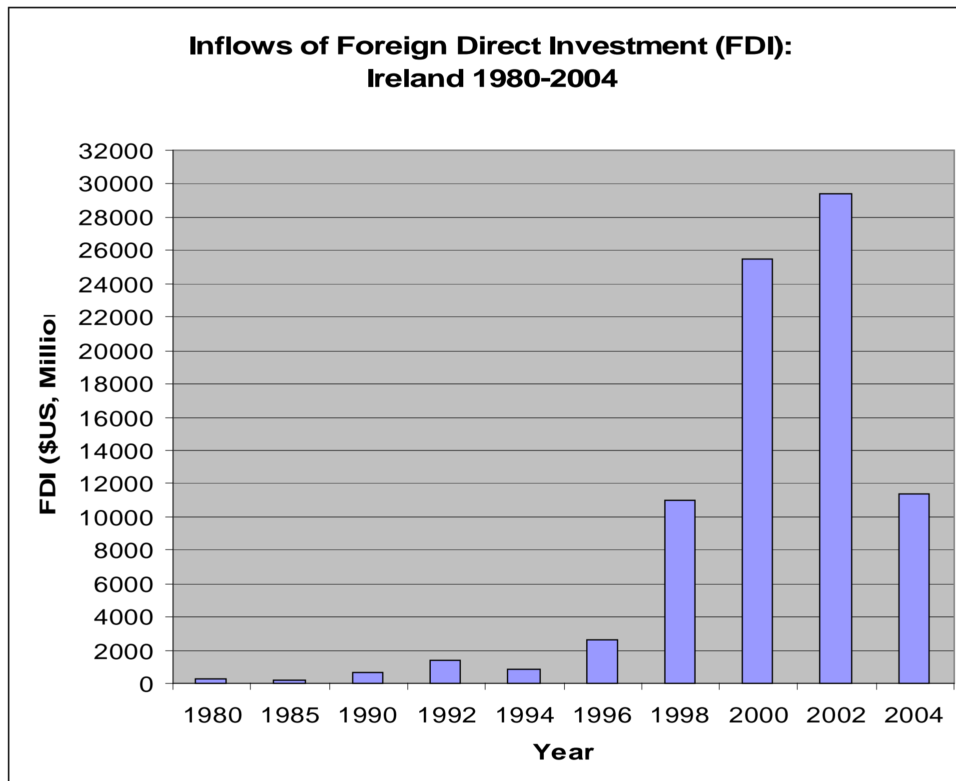
Source: United Nations Common Database (World Bank Estimates)

Figure 3



Source: United Nations Common Database (UN estimates)

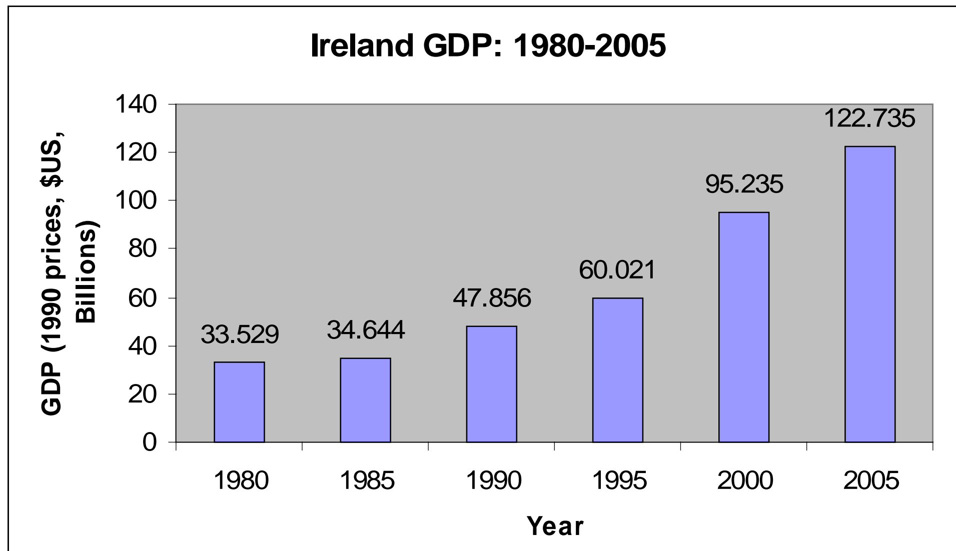
Figure 4



Source (1): United Nations Common Database

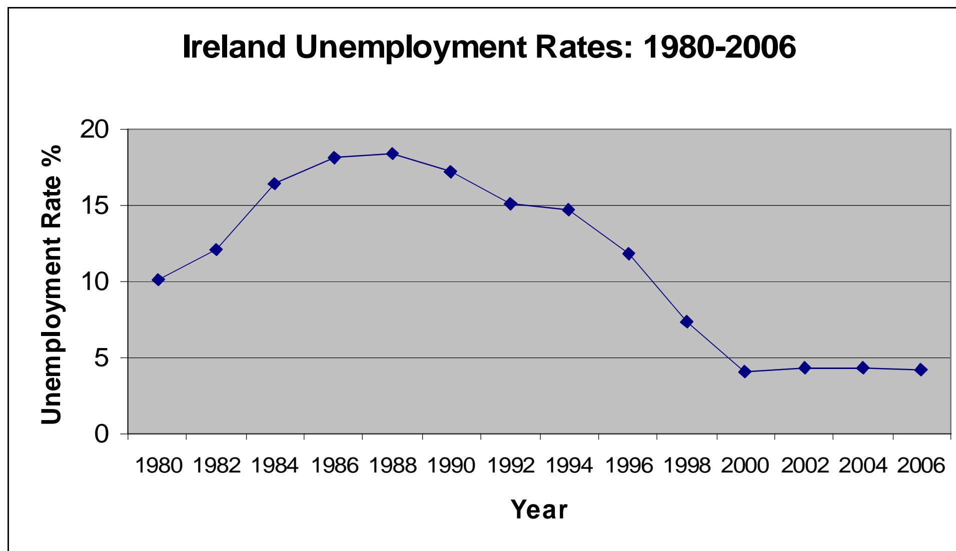
Source (2): Organization for Economic Co-operation & Development (OECD) Stat Extracts.

Figure 5



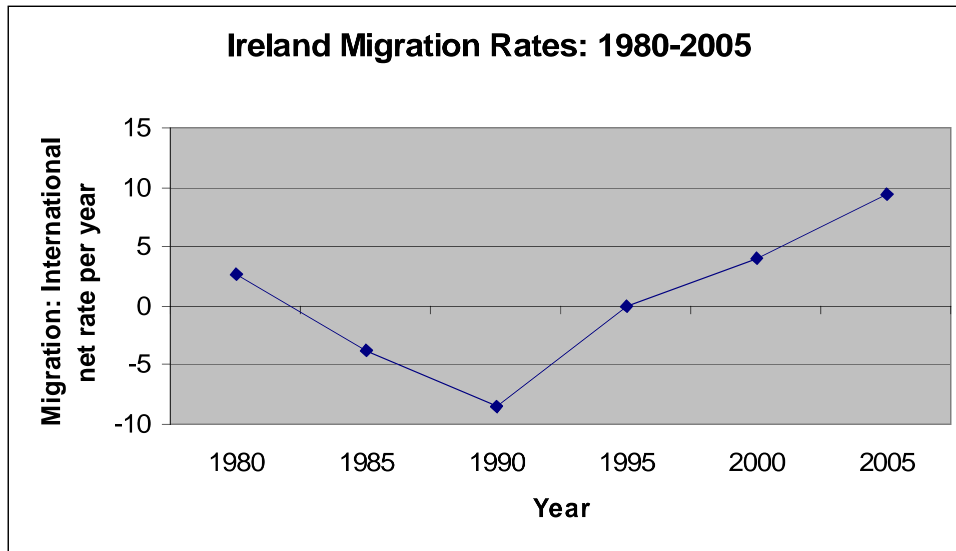
Source: United Nations Common Database (UN estimates)

Figure 6



Source: United Nations Common Database (UN estimates)

Figure 7

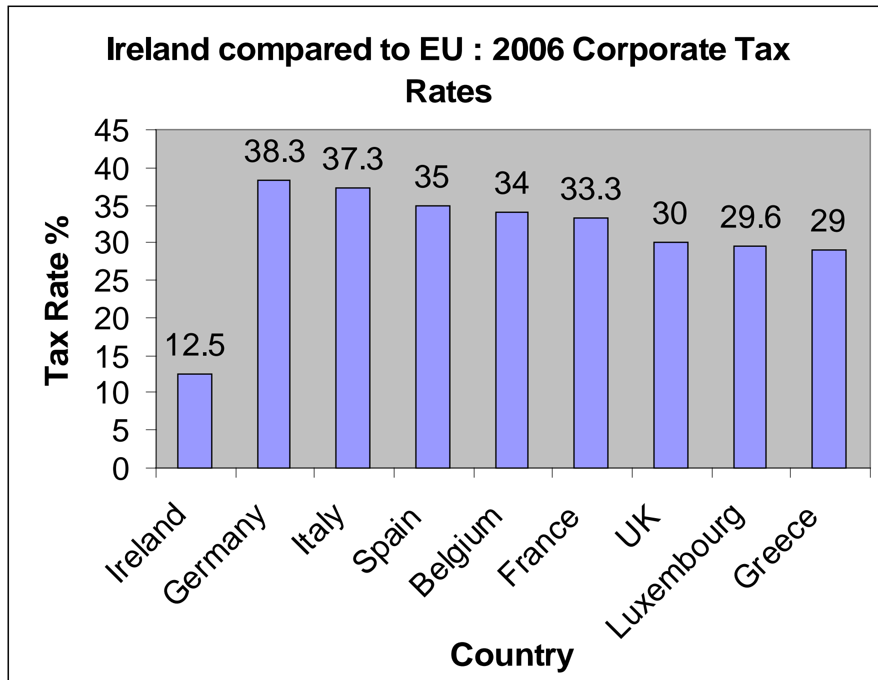


Source: United Nations Common Database (UN estimates)

Figure 8

Source: KPMG International Corporate Tax Survey (2006)

Figure 9



Source: KPMG International Corporate Tax Survey (2006)

Appendix 2

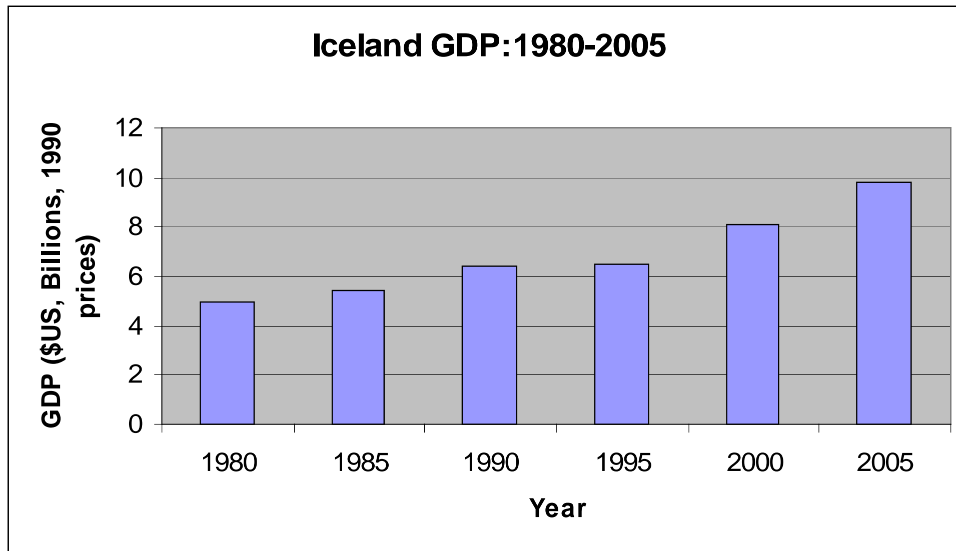
Figure 1

Source: Iceland Ministry of Finance

Figure 2

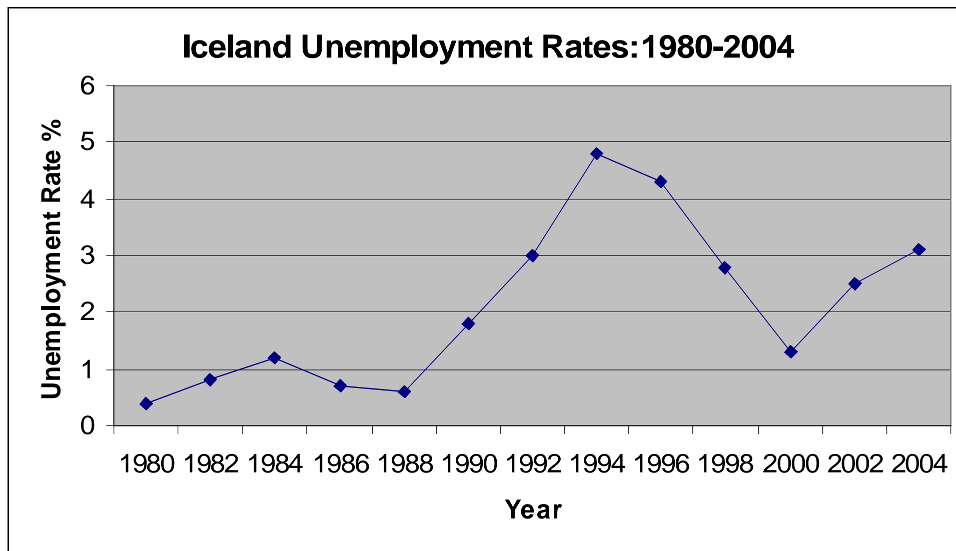
Source: United Nations Common Database (UN estimates)

Figure 3



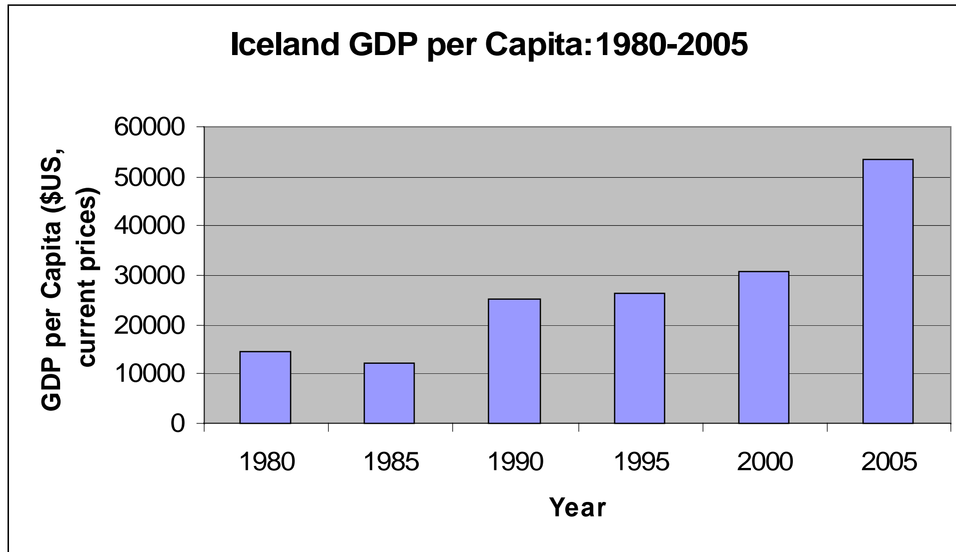
Source: United Nations Common Database (UN estimates)

Figure 4



Source: United Nations Common Database

Figure 5



Source: United Nations Common Database