

# Intelligence MEMOS



From: Adam Found and Peter Tomlinson

To: Municipal Finance Policy Makers

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Re: **THE BEST (AND WORST) BIG CITIES FOR BUSINESS INVESTMENT IN CANADA**

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**B**efore a business decides to locate or expand in a given jurisdiction, it must consider the tax implications. Heavy tax burdens drive investment away to other jurisdictions and, with it, the associated economic benefits.

We analyzed the best and worst major cities for business investment in our new report for the C.D. Howe Institute, comparing business tax burdens in 10 Canadian cities. The report quantifies the 2017 tax burden on business investment for the largest city in each province, focusing on—from the federal all the way down to municipal level—corporate income, retail sales, land transfer and business property taxes. Taken together, these taxes determine the tax burden on every dollar of new business investment, called the marginal effective tax rate (METR).

We found the overall highest tax burdens to be in Saint John, Charlottetown, and Montreal, with Montreal having the most burdensome taxes. As for the most competitive overall business tax environments, Saskatoon and Calgary still lead the way, but Calgary increasingly lags behind Saskatoon as Alberta's business tax environment deteriorates.

There are considerable gaps in the way Canadian governments measure the overall tax burden on business investment, primarily because business property and land transfer taxes are omitted from the METR. As in previous editions in this series on inter-municipal business tax burden comparisons, we find this oversight of major significance: business property and land transfer taxes represent about two-thirds of the total investment tax burden nation-wide.

As the federal Department of Finance provides the provinces' METR estimates, our first recommendation is for the department to include business property taxes in these METRs. Once governments better understand the effect of business property taxes on the cost of investment, they are more likely to reduce the burden these taxes impose.

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