

**Speaking Notes for Glenn Cousins, Nunavut Economic Forum
Presentation to the House of Commons Standing Committee on Finance
Pre-Budget Consultations November 29, 2007**

Thank you Mr. Chairman.

Good afternoon and thank you for the opportunity to make this presentation to you today.

For the purposes of these hearings, the NEF wishes to discuss the Northern Residents Tax Deduction, referred to in our submission and this presentation as the Northern Residents Deduction or NRD.

The NRD was introduced in 1987 and is intended to provide an incentive to encourage individuals to work and live in northern and remote areas by compensating them for a higher cost of living and to make travel to southern Canada more affordable. It has two components, the residency deduction for having lived in a prescribed zone, and the travel deduction for taxable travel benefits received from employment in a prescribed zone. The residency component of the NRD is calculated based on \$15 per day for a total amount of \$5,475 or 20% of the net income, whichever is less. The travel deduction is based on lowest airfares to designated southern cities and is only available to individuals that receive a taxable travel benefit from their employers.

In the past weeks and months Northerners have heard more and more that our interests are at the forefront of national interests and that the North is a main concern for the federal government, which has developed four priorities under a Northern Strategy, recently referred to in a speech by the Minister of Indian Affairs and Northern Development to the Northern Development Ministers' Forum.

These are:

- Strengthening Arctic sovereignty
- Promoting social and economic development
- Protecting our environmental heritage
- Improving and devolving Northern governance

At the same time we have heard messages and seen action from the federal government regarding tax reduction and tax fairness.

In our submission to the Standing Committee the NEF makes five recommendations for improvements to the NRD that would fall in-line with the government's tax fairness and tax reduction objectives, while supporting the

priorities of the Northern Strategy, and in particular the promotion of social and economic development.

These are:

1. The NRD should be increased based on the cumulative effects of inflation since 1987 and indexed going forward.
2. The NRD should be increased to more effectively address the high cost of living in Canada's far north.
3. The NRD should be further enhanced for lower income earners that do not benefit from the travel deduction and to ensure eligibility for federal programs such as the GST Tax Credit, Child Tax Benefit and the Energy Cost Benefit.
4. The NRD should be increased to achieve equitable tax burden for northerners that receive enhanced wage and benefits packages necessary to off-set the high cost of living.
5. The NRD should be viewed as one of the tools available to help facilitate the development of Nunavut's labour force which will benefit the overall economy of the Territory and Canada.

In the short-term, the implementation of these recommendations would help reduce the burden of the high cost of living, provide greater access to programs geared toward lower income earners and help achieve taxation parity for Northerners as compared to southern Canadians.

In the longer-term, an enhanced NRD will contribute to the building of human resource capacity by making working and living in the North a better financial option. This will assist in the attraction and retention of experienced skilled workers who will provide the services and training required to help develop a fully capable local labour force, ensuring increased participation and benefits for Northerners.

According to a document on the NRD prepared in 2004 by the Parliamentary Information and Research Service, special tax treatment for northern and isolated areas has been a justifiable policy based on the following points:

1. To maintain remote populations to defend Canada's arctic sovereignty claims;
2. For economic development and to facilitate the recruitment of workers;
3. To offset regional differences in wages and the higher cost of living;
4. To equalize regional differences in the level of available goods and services; and
5. To offset environmental hardship and isolation.

It is interesting to note the similarities between these five points, the priorities of the Northern Strategy and the recommendations included in the NEF Submission. Each has a significant economic development component.

The NRD has been seen as a cost effective way to help attract and retain the skills required for the labour force in northern Canada and to provide some compensation for the higher cost of living and lower levels of service compared to the south. However, the landscape in which this policy is functioning has changed dramatically in the 20 years since it was implemented.

There is now intense nation-wide competition for a far too shallow pool of skilled labour in many sectors. And with the challenges and opportunities of a young and rapidly growing population, a quickly emerging resource development sector, the need for improved education, health and financial services the North requires more human resource capacity than ever before.

However, we require a competitive edge.

We deal with basic capacity challenges in both the public and private sectors that impact on all aspects of our lives. There is urgent need to support human capital development objectives, building capacity that will lead to improved governance, a thriving private sector, better education and health outcomes which will lead to a higher living standard and greater self-reliance.

The ability to attract and retain the skilled labour required to meet current demands and to facilitate skills transfer to northerners is critical to our economic development.

The tax system provides a mechanism to raise funds for public purposes and provide for a redistribution of wealth in order to reduce poverty and inequality for individual Canadians, specific segments of society and for geographic regions with particular development needs.

The NRD is one component of the tax system intended to achieve a range of objectives for Canadians living in the north, and in particular the far north, where the cost of living is significantly higher than the Canadian average. An increase and enhancement of the NRD would be consistent with the government's tax relief and tax fairness objectives.

And, in order to achieve the objectives for economic development in the North, The Government of Canada should carefully consider the objectives and effectiveness of the NRD in the context of the Northern Strategy and take appropriate steps to enhance the deduction to provide appropriate incentive and benefits for Northern residents.

The need to support the development of the north has never been greater.

Again, thank you for your time and for your consideration today.