

## Provincial Capital Tax

Another form of "hidden tax" for the chartered banks is a tax which is applied to a bank's capital base. Over half the provincial governments in Canada use this method of taxation on banks in order to increase their own tax base. This capital tax is in addition to any other form of taxation which may be paid by the banks.

The method of calculation is uniform among the provinces and is designed to determine the amount of capital used by a bank in any one province. The province then applies a tax ranging from 0.8 per cent to 2.0 per cent on the capital determined by this calculation. The calculation of capital usage within a province is a function of the proportion of a bank's total loans and deposits which originate in that province and the proportion of a bank's total payroll which is spent within that province. From these figures, a formula is used to determine the amount of a bank's capital employed within the province.

The provincial capital tax rates which apply, are outlined in Table 4.4 in decreasing order. As is noted, both Manitoba and British Columbia raised their tax rates considerably for 1982, to 2.0 per cent from 0.8 per cent in 1981, and Newfoundland introduced a tax of 1.5 per cent for 1982. The Province of Quebec has indicated that its tax will be increased from 0.9 per cent to 1.2 per cent for any bank that does not support a program introduced by the government to lower certain mortgage rates to borrowers.

The capital tax on bank capital is discriminatory in that it discourages the building of capital, particularly in certain provinces, which is so necessary in the operation of a bank. In the case of the Province of Quebec, the tax is also being used to penalize banks that do not endorse certain government policies. Information supplied by the Canadian Bankers Association for the six largest banks in Canada indicate that total capital taxes will rise to approximately \$62 million in 1982 from \$48 million paid in 1981, a gain of 29 per cent.

Table 4.4

### PROVINCIAL CAPITAL TAX RATES ON CAPITAL USED IN THE PROVINCE

Province	1981	1982
British Columbia	0.8%	2.0%
Manitoba	0.8%	2.0%
Newfoundland	—	1.5%
Ontario	0.8%	0.8%
Quebec	0.6%—0.9%	0.9%—1.2%*
Saskatchewan	0.8%	0.8%

\* The Province of Quebec has indicated that if banks do not endorse the Province's mortgage subsidization program, they will be penalized and must pay the higher rate.

## 4.5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The statutory tax rate applied to bank income has changed only very slightly in recent years. Nevertheless, the banks' effective tax rate has fallen significantly. This is because the banks have substituted non-taxable income for taxable income, by offering several types of