

# The Cost of Business Subsidies in Canada

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## Executive Summary

Federal, provincial, and local government spending on business subsidies totalled \$352.1 billion (inflation-adjusted) from 2007 to 2019. For perspective, Canada spent \$327.5 billion (inflation-adjusted) on national defence over the period, \$24.6 billion less than was spent on business subsidies. Such spending came with significant costs to Canadian taxpayers and government budgets. Given ongoing budget deficits, and the questionable efficacy of business subsidies in achieving widespread economic growth, Canadian governments should carefully re-evaluate this area of spending.

A significant body of research finds little evidence that business subsidies generate widespread economic growth and/or job creation. In fact, business subsidies might have a negative impact on economic development as governments' attempts to pick winners by interfering in the free market ultimately distort private decisions and misallocate resources. The questionable efficacy of business subsidies warrants a closer review of the cost of government spending in this area.

Specifically, this report puts a dollar amount on the level of subsidies delivered through government spending from 2007 to 2019. We find that, after adjusting for inflation, federal subsidies totalled \$76.7 billion, provincial subsidies \$223.3 billion, and local subsidies \$52.1 billion. It is important to note that this is not a comprehensive measure of government support to businesses, which would include all amounts delivered through tax expenditures, loan guarantees, direct investment, and regulatory privileges extended to particular firms or industries. The true level of government support to select businesses would be even higher.

The fiscal cost of business subsidies ultimately is borne by taxpayers. For Canadians who filed taxes from 2007 to 2019, the cost of total subsidies per tax filer by province was (in descending order): \$18,785 in Saskatchewan, \$18,334 in Quebec, \$14,811 in Prince Edward Island, \$13,285 in Alberta, \$12,627 in Ontario, \$11,573 in British Columbia, \$11,290 in Manitoba, \$8,511 in Nova Scotia, \$7,057 in Newfoundland and Labrador, and \$6,048 in New Brunswick. That is a significant amount of taxpayer money not available for programs and services for Canadians.

It is also useful to review the cost of subsidies in a budgetary context. One way to do this is to assess provincial subsidies as a share of corres-

ponding corporate income tax revenue from 2007 to 2019. This represents the amount of taxes that could be reduced or even eliminated in the absence of such subsidies.

The results are stark, particularly for certain provinces. Prince Edward Island had the highest level of provincial subsidies as a share of corporate income tax revenue, averaging 162.9 percent from 2007 to 2019. In other words, Prince Edward Island could have eliminated all corporate income taxes over the period if it had ended subsidies to businesses, and still have money left over.

Two provinces spent the equivalent of roughly all corporate income tax revenue on provincial subsidies. On average, provincial subsidies in Quebec over the 2007–19 period represented 100.9 percent of annual provincial corporate income tax revenue. In Manitoba, the comparable figure was 97.6 percent. In other words, in Quebec and Manitoba, the provincial government effectively could have eliminated all provincial corporate income taxes over the period if they had also ended provincial subsidies to businesses.

Saskatchewan and British Columbia also had relatively high spending on provincial subsidies as a share of provincial corporate income tax revenue. Provincial subsidies in Saskatchewan (on average) represented 88.6 percent of provincial corporate income tax revenues. The equivalent of nearly nine in every ten dollars of corporate income tax revenue was sent back to businesses in the form of subsidies from 2007 to 2019. On average, provincial subsidies in British Columbia represented 70.7 percent of all provincial corporate income tax revenue, equivalent to more than two in every three dollars of corporate income tax revenue being sent back to select businesses.

Business subsidies represented roughly half of all corporate income tax revenue (on average) in Ontario (46.1 percent) and Nova Scotia (47.6 percent) from 2007 to 2019. In the three remaining provinces—New Brunswick, Alberta, and Newfoundland and Labrador—business subsidies represented between 30 and 40 percent of corporate income tax revenues on average. Corporate income taxes could have been reduced meaningfully if governments had ended business subsidies in any of these provinces.

Clearly, business subsidies come with significant costs to Canadian taxpayers and government budgets. To the extent that these subsidies do not have broad economic benefits, as the literature suggests, this is a key area for spending reform.

# Introduction

Governments should always be concerned with efficient and effective government spending. Ongoing budget deficits, which existed long before the COVID-19 pandemic, should further prompt Canadian governments to re-evaluate and prioritize their spending.<sup>1</sup> This report reviews one specific area of government spending: business subsidies.

A significant body of research finds little evidence that business subsidies generate widespread economic growth and/or net job creation; in fact, they might have a negative impact on overall economic development.<sup>2</sup> In general, governments' attempts to pick winners by interfering in the free market ultimately distort private decisions and misallocate resources.<sup>3</sup> The literature finds that, at most, subsidies have a narrow and limited

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<sup>1</sup> Relatively high levels of federal and provincial government spending over the past decade and a half have contributed to routine deficits and significant debt accumulation, which come with real costs to Canadians (Canada, 2021; Finances of the Nation, 2021; Fuss and Lafleur, 2021; Fuss and Palacios, 2020). Several provinces are projecting surpluses in fiscal year 2022/23, but these surpluses are largely fuelled by a temporary jump in revenue and these provinces likely will return to deficits once higher revenue dissipates.

<sup>2</sup> For a complete literature review, see Milke (2007); Mitchell, Horpedahl, and Gonzalez (2022), Peters and Fisher (2004); Pack and Saggi (2006).

<sup>3</sup> A main reason business subsidies might not have an overall demonstrable positive economic impact is due to the substitution effect. This effect occurs when jobs and investment are shifted among jurisdictions, industries, or companies, rather than actually created on a net basis. A clear example is when Industry Canada paid \$2.2 million to help construct a new fish-processing plant in Quebec on the premise that the project would create 250 new jobs. A review by the Auditor General found that a nearby fish-processing facility closed with job losses equivalent to those created by the new facility—in other words, jobs were transferred, not created, at a significant cost to taxpayers (Canada, 1995). Similarly, provincial governments frequently use different forms of subsidies to lure companies and investments from other provinces. For example, a leading video game publisher shut down its operations in Vancouver and moved to Ontario to take advantage of \$2 million in grants from the Ontario government, more generous tax credits (a form of business subsidies), and potentially other “undisclosed” financial support (Hutchins, 2012; Mudhar, 2012). The substitution effect can be even more localized. For example, the Opportunity Calgary Investment Fund (OCIF) paid Parkland Corporation up to \$4 million to consolidate

effect on local economic behaviour. Although the questionable efficacy of business subsidies is not the focus of this report, it does invite a closer review of the cost of government spending in this area.

The purpose of this report is to put a dollar amount and provide perspective on the level of subsidies delivered through government spending in Canada from 2007 to 2019. To be clear, the report does not provide a comprehensive measure of government support to businesses, which would include all tax expenditures,<sup>4</sup> loan guarantees, direct investment, and regulatory privileges extended to particular firms or industries. We do not seek to quantify the effect of all such policy interventions, largely due to data and information constraints.<sup>5</sup> Governments should improve transparency in reporting their support to business, including by producing a comprehensive accounting detailing such support in all forms.<sup>6</sup>

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its national operations to the city and reallocate 100 jobs from the company's office in Red Deer (Varcoe, 2019). Business subsidies can result in a net loss to the economy when resources are shifted to less productive uses. For instance, an analysis of the impact of subsidies to motor-vehicle manufacturers—a prominent recipient of business subsidies in Ontario—estimates that each dollar directed to this industry corresponds to a decline of 4.6 cents in value added (that is, income) to the overall economy as resources are transferred from other sectors that could create more value (Tombe, 2015). In some cases, subsidies keep businesses alive that would not otherwise be economically viable. Once subsidies end, the business fails and taxpayers are left with the cost. For instance, the British Columbia government offered a pulp mill in Prince Rupert \$300 million in loans and guarantees to keep it open amid competition from new, more efficient, less polluting mills. The mill eventually closed anyway, with an estimated total loss to taxpayers of \$333.2 million (British Columbia, 2002: 36). See Milke (2007) for more illustrative examples.

<sup>4</sup> Tax expenditures are included only if they are related to the levels of productive activities or the quantities or values of the goods or services produced, sold, or imported by profit-making enterprises—for example, tax credits related to capital expenditures/acquisition (email correspondence with a consulting analyst at Statistics Canada, December 7, 2022).

<sup>5</sup> The tax system is the main method for delivering government support to Canadian businesses in all jurisdictions except Quebec (Lester, 2018). The federal government and select provincial governments provide tax expenditure data for some years, but tax expenditure data are not additive. In other words, interactions between tax expenditures are not accounted for, which makes it difficult to determine accurately the total cost of such support. Other data and information constraints have been thoroughly documented in previous attempts to investigate comprehensive business subsidies in Canada; see Lester (2012, 2018); Milke (2014); Robson and Laurin (2017).

<sup>6</sup> For specific recommendations to improve transparency, see Lester (2012, 2018); Milke (2014); Robson and Laurin (2017).



## Definitions and Methodology

This report relies on data from Statistics Canada’s Provincial Economic Accounts (PEA), based on the Canadian System of Macroeconomic Accounts. As defined in the latter’s user guide, subsidies are “current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import” (Statistics Canada, 2018). The period considered is from 2007 to 2019; there is a break in the data series in 2007, which makes comparisons with earlier years challenging, while 2019 is the latest year of available data before the onset of significant COVID-related spending that (in theory) should wind down as the pandemic subsides.

Subsidies are paid to both private businesses and government business enterprises (GBEs), and there are reasonable arguments for and against including subsidies to the latter. It can be argued that the state cannot truly subsidize itself—in other words, business subsidies to GBEs might simply be seen as the transfer of funds from one part of the public sector to another. Yet, whether a subsidy is paid to a private business or a GBE might not make any real difference from the point of view of the taxpayer and/or competitors: each costs taxpayers and disadvantages competitors. For this reason, and because Statistics Canada does not delineate between the two in the data table used, subsidies to GBEs are included in the overall figures presented in this report. (Appendix table 1 provides an overview of subsidies to GBEs.<sup>7</sup>)

This report groups capital transfers to business with the standard definition of subsidies. Capital transfers are “unrequited transfers where either the party making the transfer realizes the funds involved by disposing of an asset (other than cash or inventories), by relinquishing a financial claim (other than accounts receivable) or the party receiving the transfer is obliged to acquire an asset (other than cash or inventories) or both conditions are met.” In general, capital transfers to business consist of transfers

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<sup>7</sup> Data on GBEs from Statistics Canada table 10-10-0147-01 cannot be netted out from the data provided in table 36-10-0450-01 since the two tables use different accounting approaches. We used table 36-10-0450-01 for this report as it includes a more detailed account of business subsidies in addition to providing more historical data.

to GBEs, typically for light rail and other transit projects.<sup>8</sup> The key similarity here is that both the formal definition of “subsidies” and that for “capital transfers” involve “unrequited transfers,” meaning government does not receive anything by way of a financial benefit in return for the transfer.

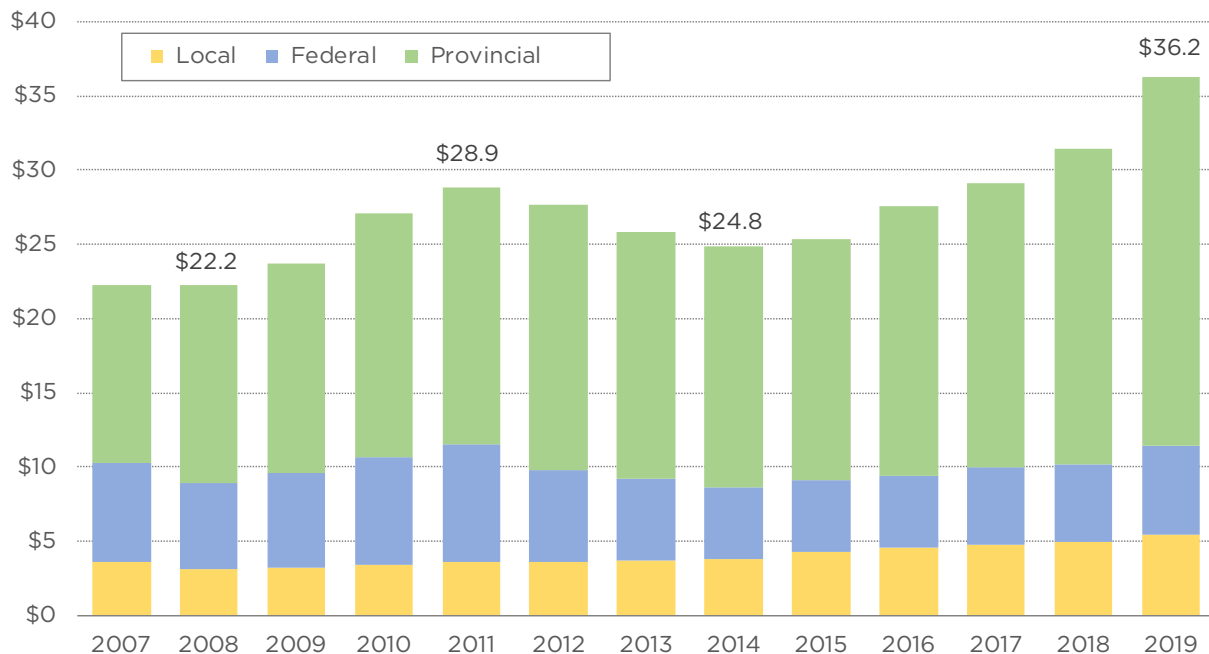
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<sup>8</sup> Email correspondence with a consulting analyst at Statistics Canada, August 29, 2022.

## Spending on Business Subsidies

Figure 1 shows total federal, provincial, and local government subsidies in real terms (2020 dollars) from 2007 to 2019. Total real subsidies were lowest in 2008 at \$22.2 billion, increased to \$28.9 billion in 2011 following the financial crisis, then declined to \$24.8 billion in 2014. Total real subsidies increased each subsequent year thereafter, reaching \$36.2 billion in 2019, the highest level over the period. Recall that these data do not include all tax expenditures: tax credits and preferential corporate income tax rates can total an additional \$15 billion a year, while preferential capital gains and withholding tax rates for corporations can add another \$20 billion (Mintz, 2022). Overall, from 2007 to 2019, real subsidies totalled \$352.1 billion. For perspective, Canada spent \$327.5 billion on national defence over the period, \$24.6 billion less than was spent on business subsidies.

**Figure 1: Inflation-Adjusted Total Subsidies, Canada, 2007-2019  
(in \$2020 billions)**



Source: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01.

**Table 1: Inflation-adjusted federal and provincial subsidies, 2007–2019  
(in \$2020 millions)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2007 - 2019 sum
Federal	6,670	5,802	6,359	7,284	7,959	6,157	5,534	4,915	4,819	4,836	5,191	5,190	6,001	76,717
NL	76	91	121	143	173	154	132	108	92	86	97	91	90	1,455
PE	76	100	121	95	75	84	67	66	71	92	125	144	171	1,288
NS	173	186	202	193	197	245	220	268	253	268	310	302	290	3,108
NB	123	106	126	112	122	117	122	117	134	102	121	113	104	1,518
QC	6,252	6,421	6,074	6,000	5,993	6,196	5,933	5,677	5,463	6,063	6,032	6,376	7,162	79,640
ON	1,528	1,802	2,057	3,428	5,428	6,079	6,217	5,889	5,881	6,594	6,806	9,959	11,762	73,429
MB	366	382	500	646	969	534	436	488	452	458	398	326	312	6,267
SK	410	398	707	1,644	1,442	1,159	564	691	652	1,018	618	538	580	10,422
AB	1,519	2,117	2,330	2,467	1,193	1,467	1,173	1,142	1,440	1,451	2,438	1,330	2,020	22,089
BC	1,392	1,668	1,768	1,544	1,663	1,817	1,609	1,620	1,703	1,928	2,054	2,006	2,169	22,942

Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01.

As federal and provincial subsidies accounted for 85 percent of total real subsidies, the remainder of this analysis focuses on these two levels of government.<sup>9</sup> Although it is not feasible to detail exactly which private sector companies and GBEs received these subsidies, general context is provided in the footnotes when available.

Table 1 provides data on real (in 2020 dollars) subsidies federally and by province. As shown, federal real subsidies ranged from a high of \$8.0 billion in 2011 to a low of \$4.8 billion in 2015, and stood at \$6.0 billion in 2019. Over the entire period, real federal subsidies totalled \$76.7 billion. Importantly, tax expenditures, which are not fully included, historically are the largest area of federal government support for businesses (Lester, 2018). The federal government spent \$8.6 billion on two tax measures alone in 2019: the preferential tax rate for small businesses (\$4.9 billion) and the Accelerated Investment Incentive (\$3.7 billion) (Canada, 2022).

<sup>9</sup> Real local subsidies cost a total of \$52.1 billion in real terms from 2007 to 2019.

Real provincial subsidies ranged from a low of \$12.0 billion in 2007 to a high of \$24.8 billion in 2019 (figure 1). Put differently, provincial subsidies more than doubled from 2007 to 2019, totalling \$223.3 billion.<sup>10</sup>

For context, it is important to break down real provincial subsidies by jurisdiction. Subsidies were highest in Quebec and Ontario over the period, perhaps not surprising given the relatively large size of their populations and economies. In Quebec, real provincial subsidies totalled \$79.6 billion from 2007 to 2019,<sup>11</sup> ranging from a low of \$5.5 billion in 2015 to a high of \$7.2 billion in 2019. Ontario provided the second-highest real subsidies, totalling \$73.4 billion over the period and ranging from a low of \$1.5 billion in 2007 to a high of \$11.8 billion in 2019, a nearly eightfold increase.<sup>12</sup>

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<sup>10</sup> The fact that provincial subsidies greatly exceeded federal subsidies partly reflects the large number of GBEs owned by the provinces—particularly Quebec, Ontario, and British Columbia—and the role these enterprises play as instruments of provincial policy. See Appendix table 1 for more information.

<sup>11</sup> According to Statistics Canada (email correspondence with a consulting analyst, December 6, 2022), Quebec historically has had a higher level of subsidies than most provinces generally as a result of higher levels of refundable corporate tax credits and daycare subsidies. Quebec is also the only province for which spending is the main delivery system for subsidies (Lester, 2018). Statistics Canada's consulting analyst also provided details for certain years. For example, between 2016 and 2018, there were notable increases from the Fonds des réseaux de transport terrestre (FORT), a special fund for public transit. As well, in 2018, there were payments to Hydro-Québec to help cover debt-servicing costs, although they were much smaller than the road work and infrastructure transfers. There was a large increase in 2019, again due to increased transfers for road work and infrastructure from the FORT.

<sup>12</sup> For Ontario, this was largely driven by a host of new programs introduced starting in 2011, including the Small Business Transition Credit for HST transition, the Ontario Clean Energy Benefit, the Next Generation Jobs Fund, a Long-Term Care Homes program, and the Northern Industrial Electricity Rate Program (email correspondence with a consulting analyst at Statistics Canada, December 6, 2022). Overall, provincial subsidies in Ontario are heavily influenced by electricity subsidies (email correspondence with a consulting analyst at Statistics Canada, August 26, 2022). For instance, in 2009, the Green Energy Act was introduced to subsidize electricity price contracts to generators of renewable energy. The Ontario government introduced a surcharge—the “Global Adjustment”—to electricity prices to fund the program, which has contributed to a drastic increase in the cost of electricity over the past decade (Aliakbari, McKittrick, and Stedman, 2018). In 2017, the Fair Hydro Plan was introduced to reduce electricity bills and, effective November 1, 2019, a new and expanded rebate was introduced (see Financial Accounting Office of Ontario, 2017, 2022, for more details on the cost of such programs). Statistics Canada's consulting analyst confirms that much of the increase in 2018 and carrying into 2019 was from Electricity Rate Mitigation.

As table 1 shows, British Columbia had the third-highest level of real provincial subsidies, followed by Alberta. In British Columbia, real provincial subsidies totalled \$22.9 billion from 2007 to 2019,<sup>13</sup> ranging from a low of \$1.4 billion in 2007 to a high of \$2.2 billion in 2019. Real provincial subsidies in Alberta totalled \$22.1 billion over the period, and ranged from a high of \$2.5 billion in 2010 to a low of \$1.1 billion in 2014.<sup>14</sup>

In Saskatchewan, real provincial subsidies totalled \$10.4 billion from 2007 to 2019, ranging from a low of \$398 million in 2008 and a high of \$1.6 billion in 2010.<sup>15</sup>

In Manitoba, real provincial subsidies totalled \$6.3 billion from 2007 to 2019, reaching a high of \$969 million in 2011 and a low of \$312 million in 2019.<sup>16</sup>

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<sup>13</sup> More than half (55.7 percent) of all provincial subsidies in British Columbia go to GBEs, the highest proportion of any province (Statistics Canada, 2022a). This is based on a different accounting standard than that used in the main tables presented in this report.

<sup>14</sup> In Alberta, provincial subsidies fluctuated significantly by year (table 1). Overall, agricultural subsidies drove much of the annual variation (email correspondence with a consulting analyst at Statistics Canada, December 6, 2022). For instance, one of the largest year-over-year increases was in 2008: according to Statistics Canada (2022d), a majority (\$395 million) of the total \$598 million increase in subsidies was due to higher agricultural subsidies. Also, in the 2000s, the Alberta government required some of the proceeds from electricity auctions to be used to reduce the power bills of industrial and residential users. Between 2006 and 2009, \$840 million in proceeds were used to reduce electricity bills in the form of subsidies (Balancing Pool, 2010: 5). According to a consulting analyst at Statistics Canada, business subsidies in Alberta were relatively high in 2009 and 2010 due to drilling tax credits, intended to stimulate drilling by improving the economics of exploring and developing natural gas (Alberta, 2010). In 2017—the highest year-over-year increase (\$987 million)—reflects a \$1.2 billion increase in capital transfers, while agricultural and non-agricultural subsidies decreased by a total of \$197 million (Statistics Canada, 2022a). This reflects payments to coal-fired electricity producers (email correspondence with a Statistics Canada consulting analyst, December 6, 2022). The increase in capital transfers also might reflect additional funding for the Climate Leadership Plan, which includes light rail transit projects among other initiatives (Alberta, 2017a, 2017b). Finally, capital transfers drove the increase in 2019, reflecting payments for the cancellation of contracts to ship crude oil by rail.

<sup>15</sup> In Saskatchewan, fluctuations in provincial subsidies were fuelled by variations in agricultural subsidies (Statistics Canada, 2022d). For example, \$813 million of the \$937 million jump in provincial subsidies in 2010 can be explained by higher agricultural subsidies. Agricultural subsidies also explain the vast majority of the decline in 2013 and increase in 2016.

<sup>16</sup> Similar to Saskatchewan, agricultural subsidies drove the major fluctuations in

The Atlantic provinces provided the lowest real provincial subsidies over the period. This is partly a reflection of their relatively small economies and populations. In Nova Scotia, real provincial subsidies totalled \$3.1 billion from 2007 to 2019, ranging from a low of \$173 million in 2007 and a high of \$310 million in 2017.

In both New Brunswick and Newfoundland and Labrador, real provincial subsidies totalled \$1.5 billion from 2007 to 2019. In New Brunswick, subsidies were highest in 2015, at \$134 million, and lowest in 2016, at \$102 million. Provincial subsidies in Newfoundland and Labrador ranged from a low of \$76 million in 2007 to a high of \$173 million in 2011.

Finally, Prince Edward Island spent \$1.3 billion on provincial subsidies from 2007 to 2019. Real provincial subsidies ranged from a low of \$66 million in 2014 to a high of \$171 million in 2019.

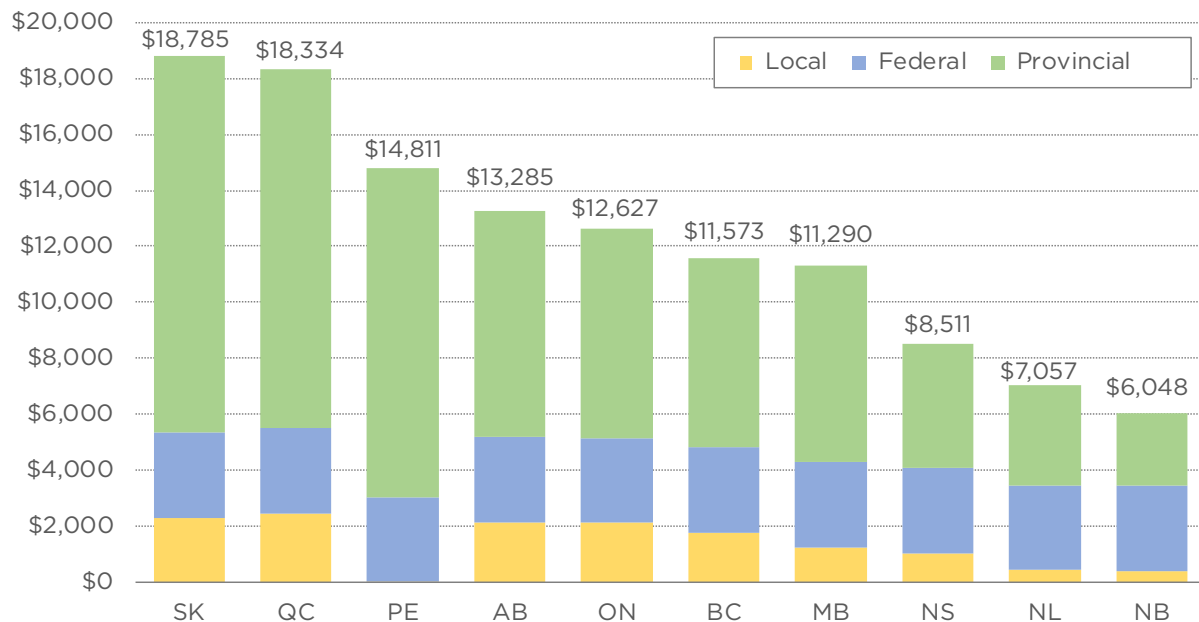
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Manitoba's provincial subsidies. For instance, provincial subsidies increased by \$603 million between 2007 and 2011, \$581 million of which can be explained by higher agricultural subsidies. Similarly, a sustained decline in agricultural subsidies was almost entirely responsible for the reduced level of subsidies in subsequent years (Statistics Canada, 2022d).

## The Cost of Business Subsidies per Tax Filer

The fiscal cost of business subsidies ultimately is borne by taxpayers. In this review of real (in 2020 dollars) subsidies per income tax filer by province, it is important to note that the amount some tax filers pay is overstated and the amount others pay is understated, depending on individual tax filers' income and other factors. Nonetheless, the review is useful in estimating the opportunity cost (the lost potential for another use for that same money) and in providing context to show how much each individual would contribute if costs for the subsidies were allocated equally. To be clear, this is not a comprehensive measure of the cost of such subsidies. For instance, it does not include administrative costs, any additional debt-servicing costs incurred due to borrowing to fund spending in this area, or

**Figure 2: Inflation-Adjusted Subsidies per Tax Filer, by Province, Total 2007-2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.



**Table 2: Inflation-Adjusted Subsidies per Tax Filer, Federal and Provincial, 2007–2019**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2007 - 2019 sum
Federal	282	242	262	298	321	245	218	190	185	184	194	190	221	3,033
NL	194	231	302	358	427	379	323	263	222	210	235	221	223	3,588
PE	734	957	1,146	895	702	786	625	604	650	820	1,101	1,238	1,501	11,760
NS	254	273	294	279	283	353	315	382	358	379	432	415	405	4,421
NB	217	186	220	194	212	203	211	201	229	174	204	188	175	2,614
QC	1,066	1,082	1,016	992	978	1,002	951	902	865	957	940	980	1,112	12,844
ON	171	200	224	371	581	643	650	605	596	663	671	954	1,138	7,466
MB	436	448	581	745	1,101	599	484	534	489	491	421	337	327	6,994
SK	572	541	954	2,205	1,895	1,498	718	869	813	1,266	761	648	708	13,447
AB	618	842	925	971	456	543	421	397	496	499	824	442	669	8,103
BC	448	529	554	481	510	552	480	473	488	545	568	542	587	6,757

## Notes:

- Local subsidies are not included in these data; see Appendix Table 2 for a review of local subsidies by province.
- Provincial values are for provincial subsidies only.

Sources: Statistics Canada, Table 36-10-0450-01, Table 18-10-0005-01, and Table 11-10-0047-01.

economic costs—that is, it does not factor in any misallocation of resources, rent-seeking losses, or other economic distortions such subsidies cause.

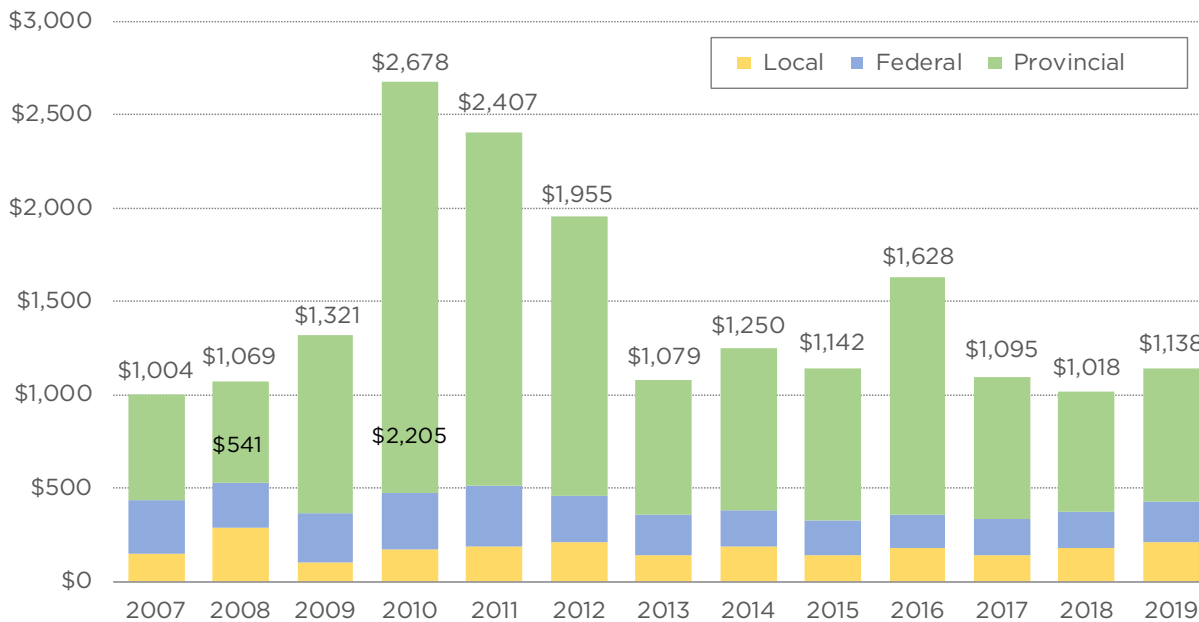
Figure 2 shows the cumulative real cost of federal, provincial, and local government subsidies per tax filer by province from 2007 to 2019. As shown, there was significant variation by province: total subsidies per tax filer were highest in Saskatchewan at \$18,785 and lowest in New Brunswick at \$6,048. Note that the annual cost of federal subsidies is applied equally per tax filer in each province.

Table 2 shows the breakdown of real federal and provincial subsidies per tax filer.<sup>17</sup> The real cost of federal subsidies ranged from a high of \$321 per tax filer in 2011 to a low of \$184 per tax filer in 2016. For those who filed income tax returns every year, the cumulative cost of federal subsidies from 2007 to 2019 amounted to \$3,033.

As the cost of federal subsidies is applied equally per tax filer and local subsidies account for a relatively small share of total subsidies, prov-

<sup>17</sup> Although not the focus of this study, local subsidies per tax filer by province are available in Appendix Table 2 and presented in figures 3 through 12.

**Figure 3: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Saskatchewan, 2007–2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

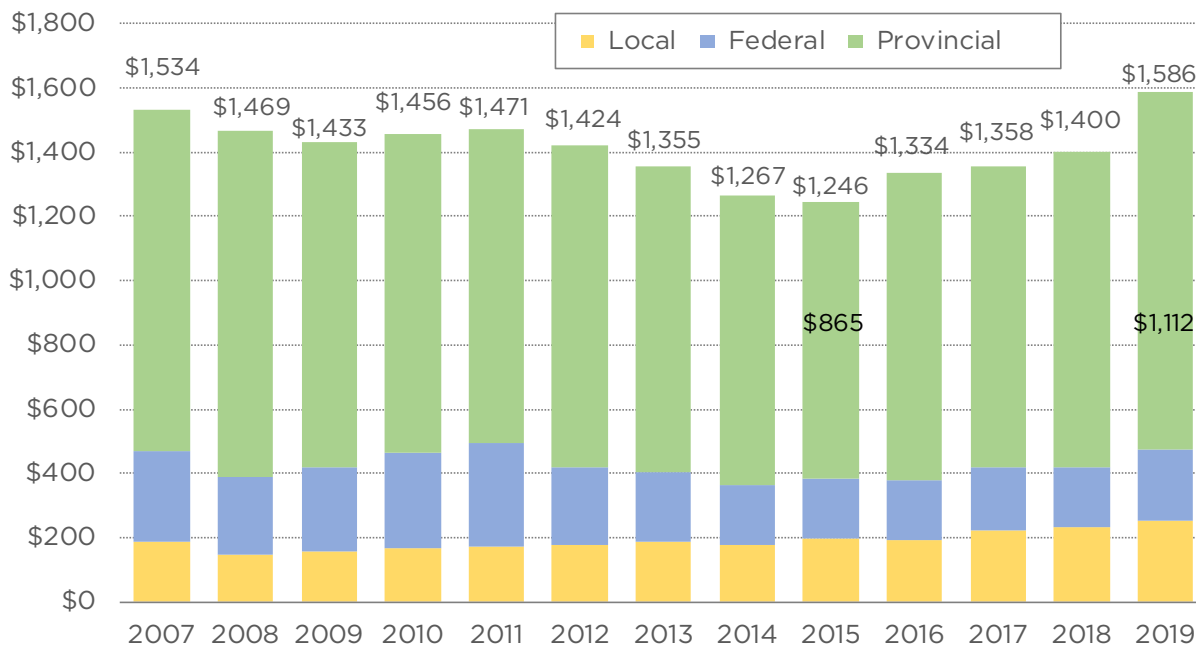
vincial subsidies are the main driver of differences in total subsidies per tax filer across the provinces. For Saskatchewan, the province with the highest cumulative total real subsidies per tax filer, real provincial subsidies ranged from a low of \$541 per tax filer in 2008 to a high of \$2,205 per tax filer in 2010 (figure 3). The cumulative cost of real provincial subsidies from 2007 to 2019 amounted to \$13,447. Federal (\$3,033) and local subsidies (\$2,305), brought the total cumulative cost of subsidies per tax filer in Saskatchewan to \$18,785 over the period.

Quebec had the second-highest cumulative total real subsidies per tax filer over the 2007–2019 period. Real provincial subsidies cost a low of \$865 per tax filer in 2015 and a high of \$1,112 per tax filer in 2019 (figure 4), with a cumulative cost of \$12,844 per tax filer. With federal (\$3,033) and local subsidies (\$2,457), the total cumulative cost of subsidies per Quebec tax filer over the period was \$18,334.

Prince Edward Island had the third-highest cumulative real subsidies per tax filer from 2007 to 2019.<sup>18</sup> Real provincial subsidies cost a low of

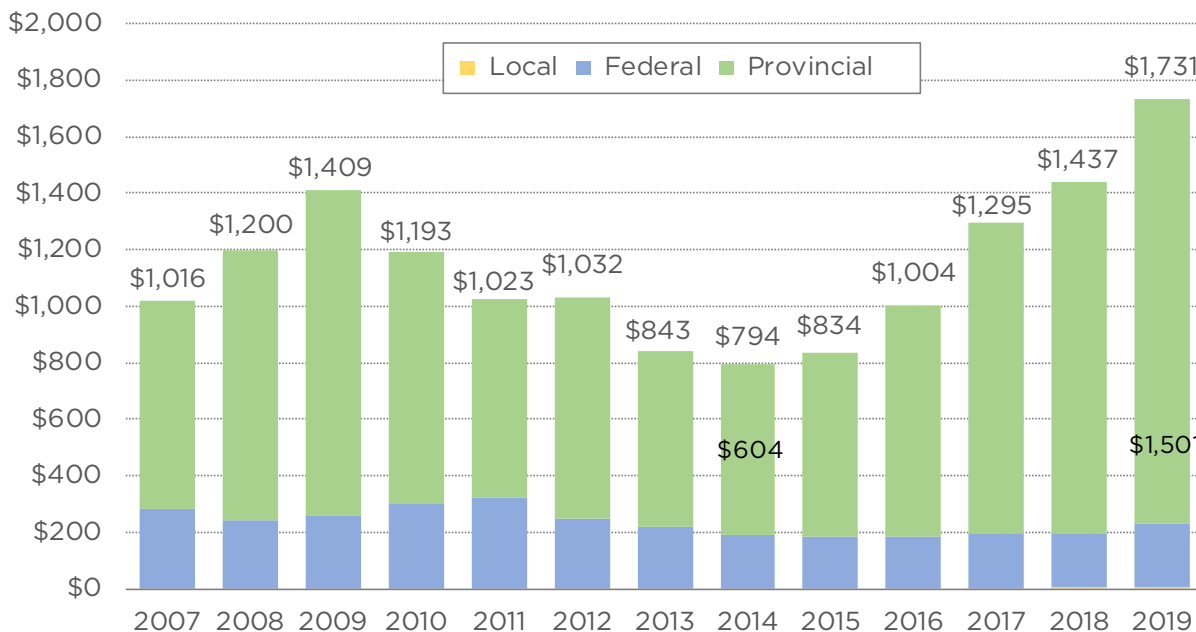
<sup>18</sup> In part, this reflects the province's relatively small population. It is also interesting to note, however, that a significant share of Prince Edward Island's provincial subsidies

**Figure 4: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Quebec, 2007-2019 (in \$2020)**



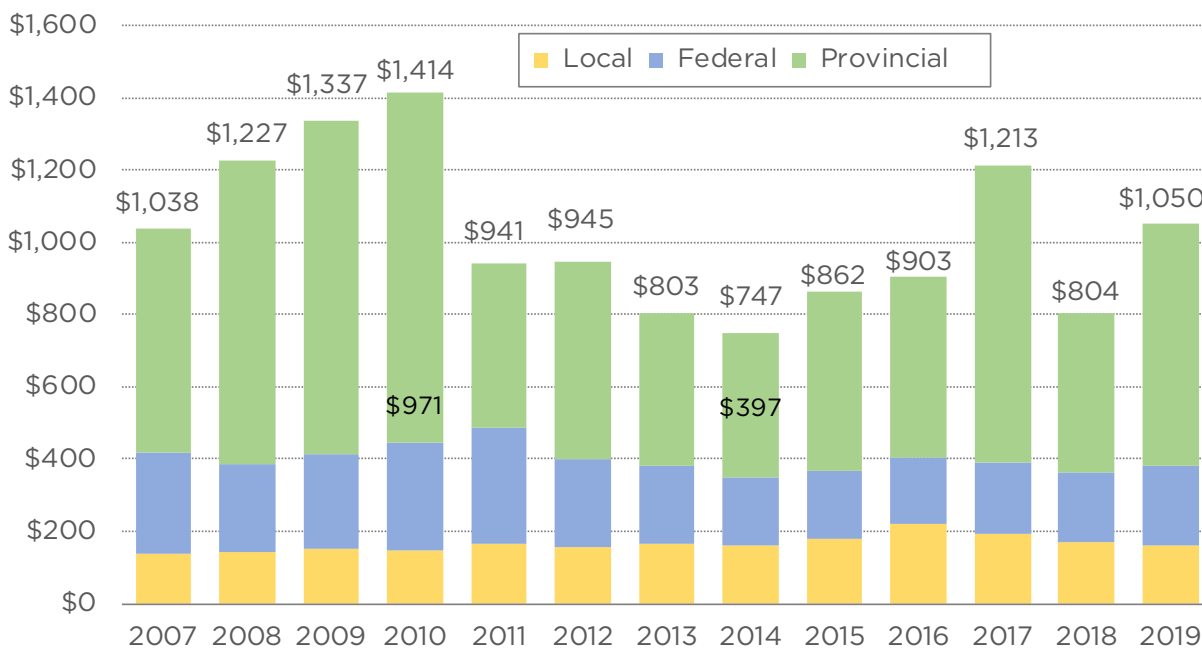
Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 5: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Prince Edward Island, 2007-2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 6: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Alberta, 2007–2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

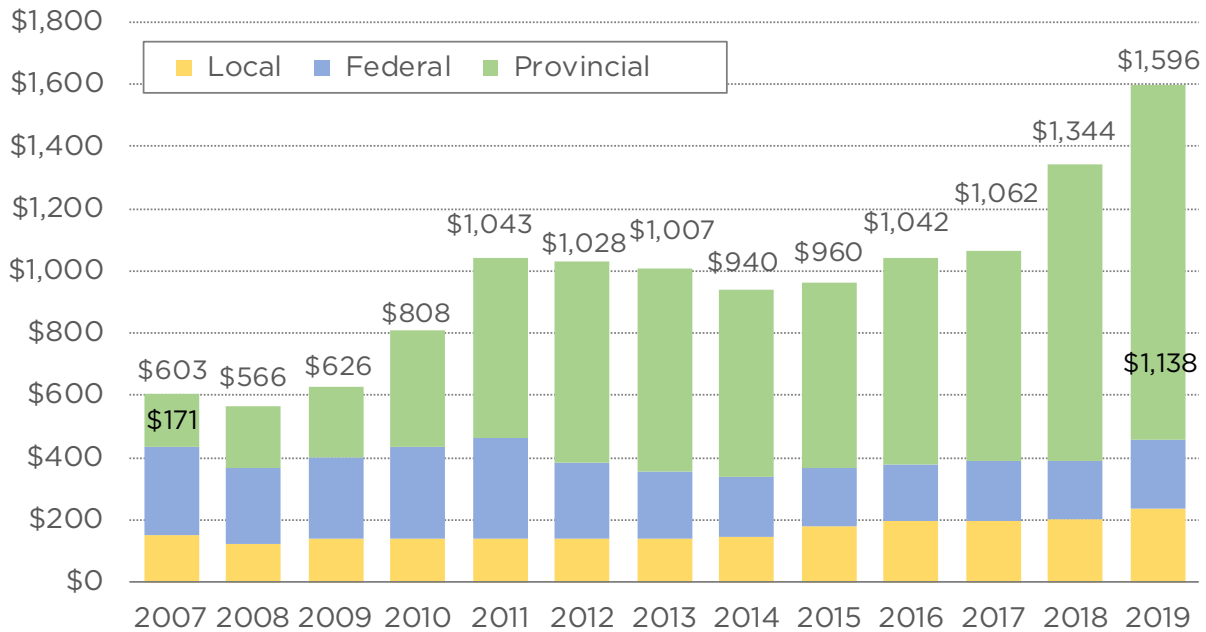
\$604 per tax filer in 2014 and a high of \$1,501 in 2019 (figure 5), with a cumulative cost per tax filer of \$11,760. Adding federal (\$3,033) and local subsidies (\$18) brought the total cumulative cost of subsidies per tax filer to \$14,811.

Alberta ranked fourth in cumulative real subsidies per tax filer from 2007 to 2019. Real provincial subsidies ranged from a high of \$971 per tax filer in 2010 to a low of \$397 in 2014 (figure 6), for a cumulative total of \$8,103 per Alberta tax filer. Federal (\$3,033) and local subsidies (\$2,149) brought the total cumulative cost of subsidies per tax filer to \$13,285.

Ontario had the fifth-highest cumulative real cost of subsidies per tax filer over the 2007–2019 period. Real provincial subsidies cost a low of \$171 per tax filer in 2007 and a high of \$1,138 in 2019 (figure 7), for a cumulative total of \$7,466 per tax filer. Adding federal (\$3,033) and local

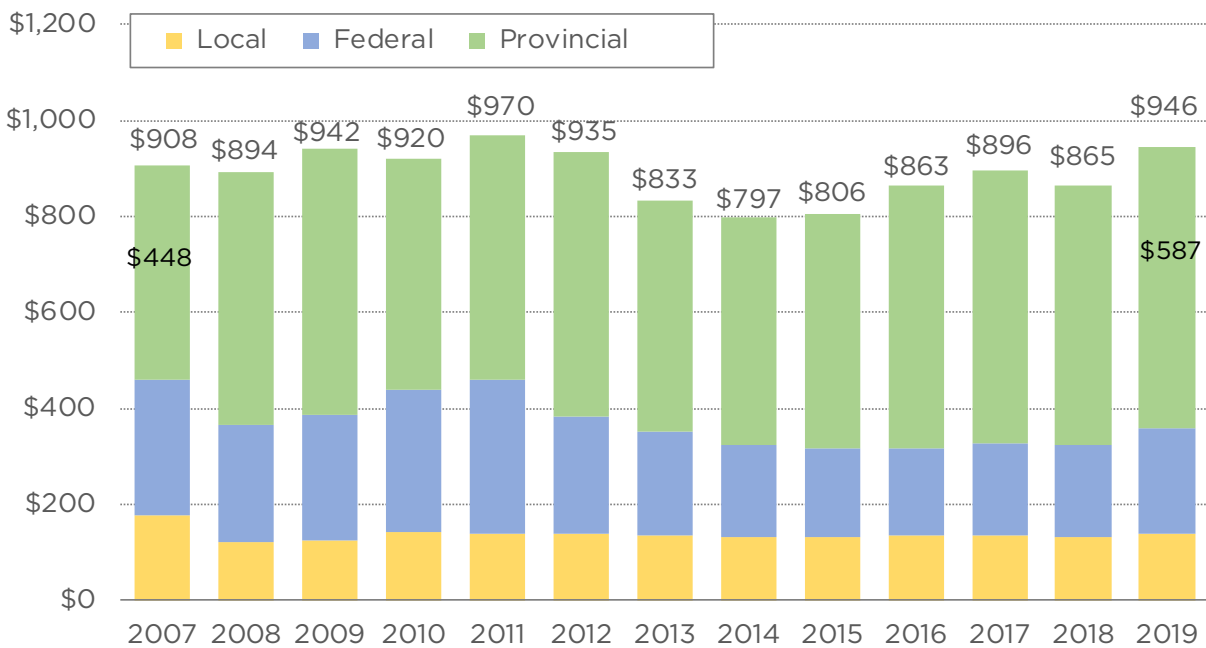
is directed toward agriculture (41 percent), a far greater share than in the rest of Atlantic Canada. In real (2020 dollar) terms, Prince Edward Island spent more than Newfoundland and Labrador and New Brunswick on agricultural subsidies from 2007 to 2019 and just \$2 million less than much more populous Nova Scotia (Statistics Canada, 2022d).

**Figure 7: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Ontario, 2007-2019 (in \$2020)**



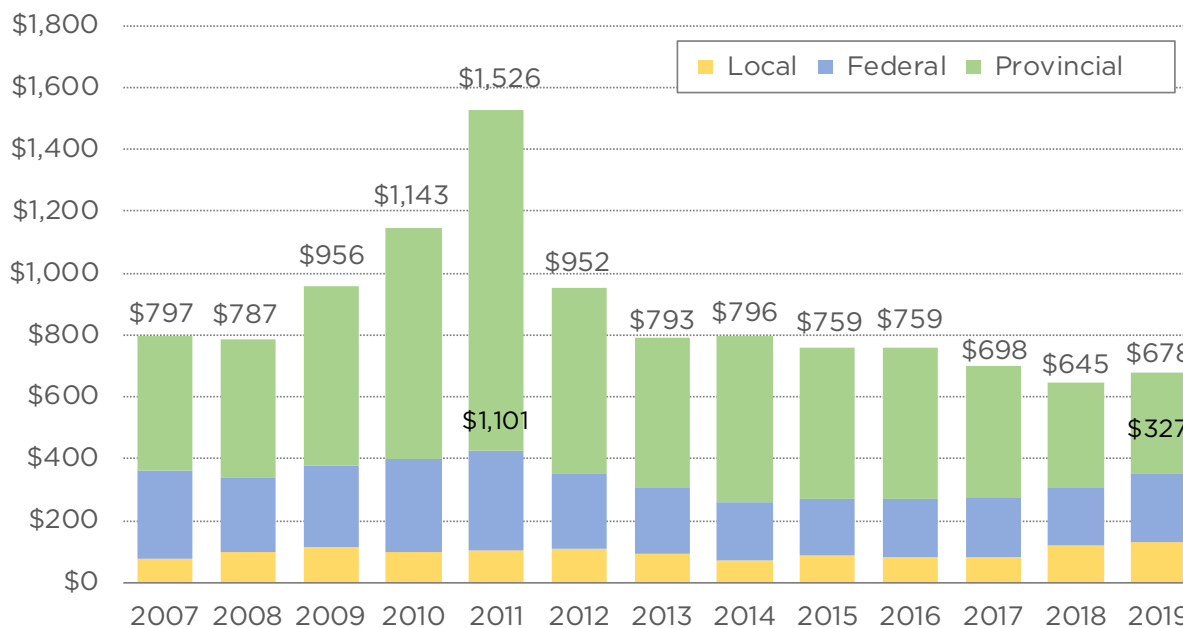
Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 8: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, British Columbia, 2007-2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 9: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Manitoba, 2007–2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

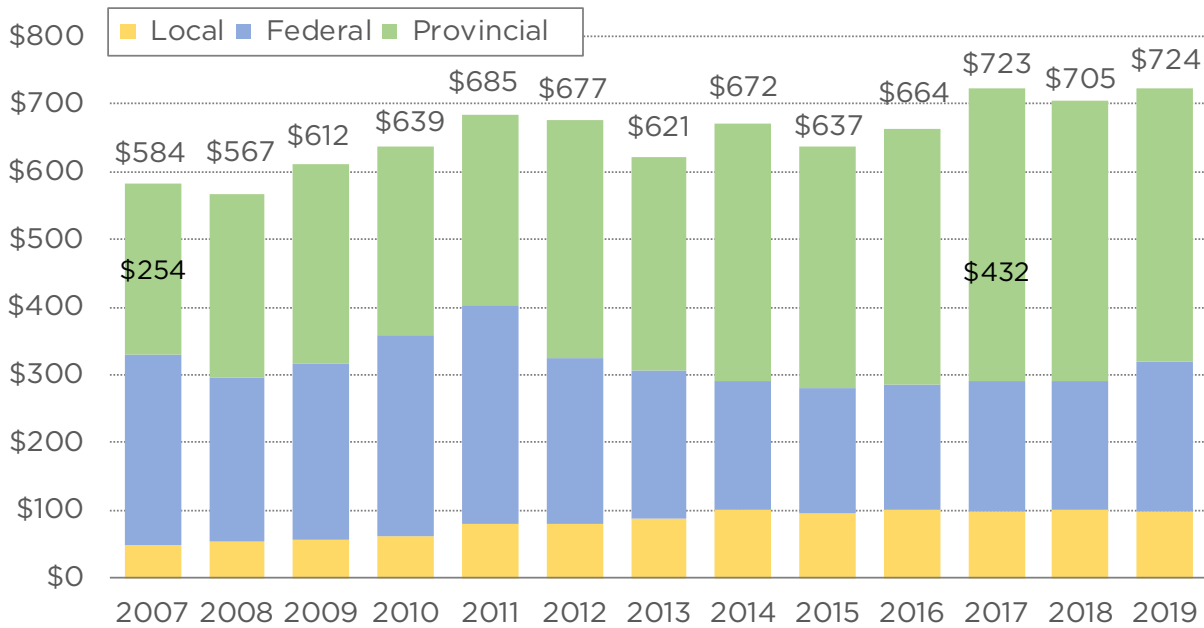
subsidies (\$2,128) brought the total cumulative cost of subsidies per tax filer to \$12,627.

British Columbia had the sixth-highest cumulative real cost of subsidies per tax filer. Real provincial subsidies ranged from \$448 per tax filer in 2007 to \$587 in 2019 (figure 8), amounting to \$6,757 per tax filer over the period. Federal (\$3,033) and local subsidies (\$1,783) brought the total cumulative cost of subsidies per tax filer to \$11,573.

Manitoba had the seventh-highest cumulative real subsidies per tax filer from 2007 to 2019. Real provincial subsidies reached a high of \$1,101 per tax filer in 2011 and a low of \$327 in 2019 (figure 9), for a cumulative total of \$6,994 per tax filer. Federal (\$3,033) and local subsidies (\$1,263) brought the total cumulative cost of subsidies per tax filer to \$11,290.

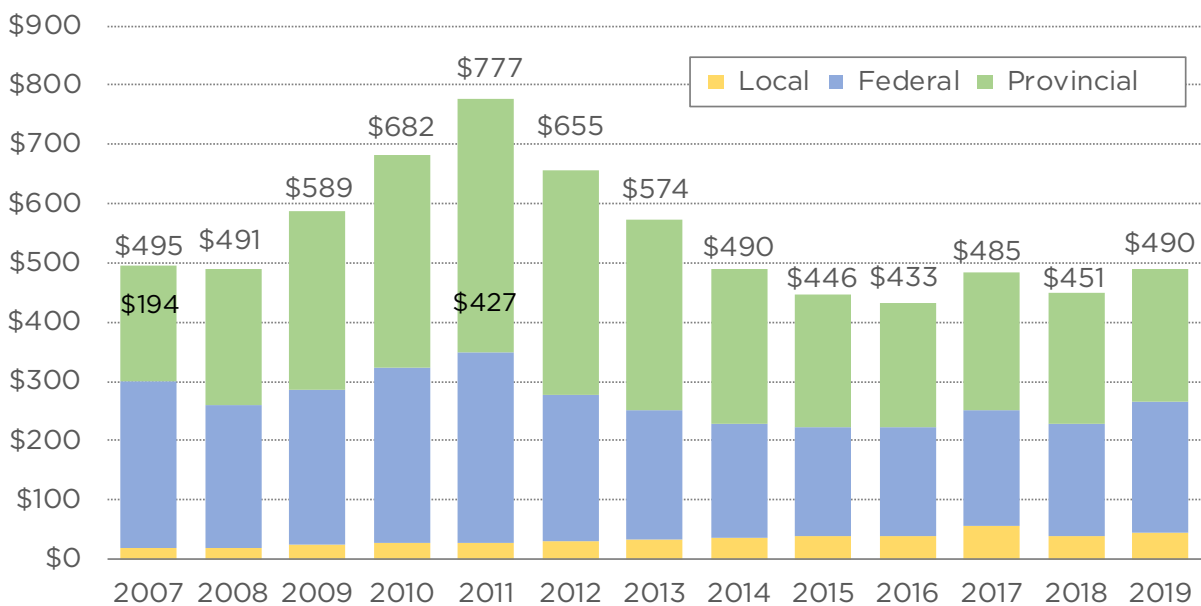
Nova Scotia, Newfoundland and Labrador, and New Brunswick had the lowest cumulative real subsidies per tax filer over the 2007–2019 period. In Nova Scotia, real provincial subsidies per tax filer were lowest in 2007 at \$254 and highest at \$432 in 2017 (figure 10), for a cumulative cost of \$4,421 per tax filer. Federal (\$3,033) and local subsidies (\$1,056) brought

**Figure 10: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Nova Scotia, 2007-2019 (in \$2020)**



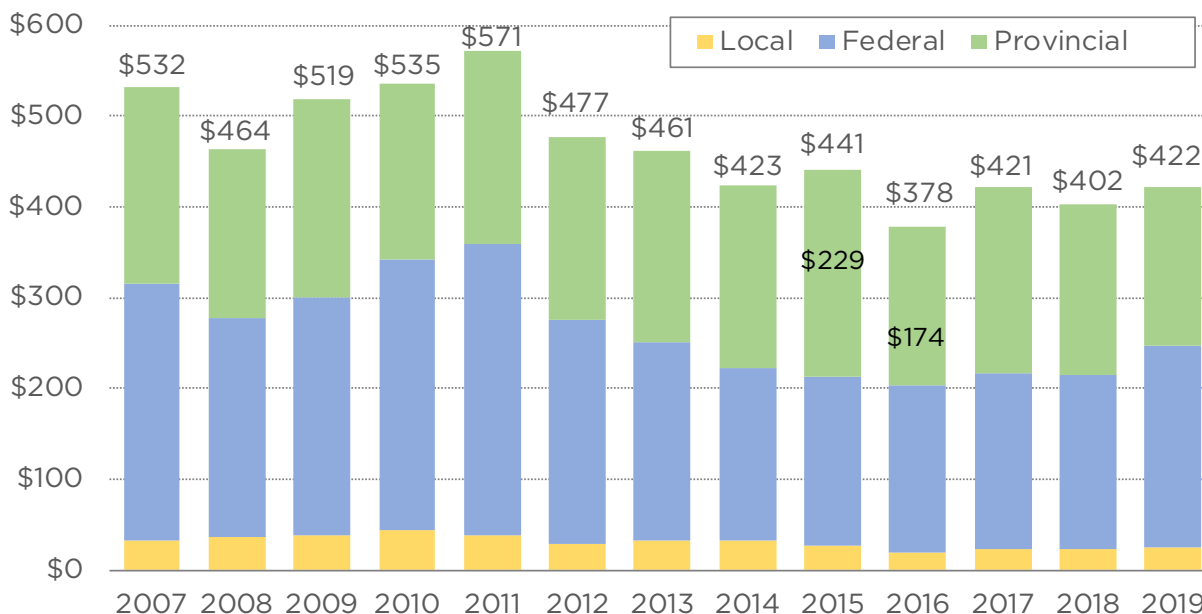
Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 11: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, Newfoundland & Labrador, 2007-2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

**Figure 12: Cost of Total Inflation-Adjusted Subsidies per Tax Filer, New Brunswick, 2007–2019 (in \$2020)**



Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

the total cumulative cost of subsidies per tax filer that province to \$8,511 over the period.<sup>19</sup>

In Newfoundland and Labrador, real provincial subsidies ranged from a low of \$194 per tax filer in 2007 to a high of \$427 in 2011 (figure 11), for a cumulative cost of \$3,588 per tax filer over the 2007–2019 period. Federal (\$3,033) and local subsidies (\$435) brought the total cumulative cost of subsidies per tax filer to \$7,057.

Finally, in New Brunswick from 2007 to 2019, real provincial subsidies per tax filer were highest in 2015 at \$229 and lowest in 2016 at \$174 (figure 12), for a cumulative cost of \$2,614 per tax filer. Adding federal (\$3,033) and local subsidies (\$401) brought the total cumulative cost of subsidies per tax filer to \$6,048 over the period.

<sup>19</sup> Federal subsidies as presented in our tables are the same for all Canadian tax filers so they do not show the actual amount of federal subsidies allocated to each province. This is an important distinction as the public sector plays a larger overall role in the economy in the Atlantic provinces than in other provinces.



## Subsidies as a Share of Corporate Income Tax Revenue

Finally, it is useful to review the cost of subsidies in a budgetary context. Table 3 provides data on federal and provincial subsidies as a share of corresponding corporate income tax revenue—a category which includes taxes on incomes from corporations and GBEs.<sup>20</sup> This represents the opportunity cost in terms of taxes that could have been reduced or even eliminated in the absence of such subsidies. As there are significant fluctuations in corporate income tax revenues annually, table 3 includes the average from 2007 to 2019 for each province and federally.

On average, federal subsidies represented 13.3 percent of federal corporate income tax revenue over the 2007–2019 period—equivalent to spending more than one of every ten dollars of corporate income tax revenue on various business subsidies, on average, from 2007 to 2019. Again, this is an underestimate of the true cost of business support since this report does not include all “tax expenditures,” loan guarantees, direct investments, and other types of government support to business in Canada.

At the provincial level, subsidies were an even larger a share of provincial corporate income tax revenue. Prince Edward Island had the highest level of provincial subsidies as a share of corporate income tax revenue<sup>21</sup> at 162.9 percent, on average, from 2007 to 2019. In other words, the provincial government spent more on business subsidies than it collected in corporate income tax revenues over the period. Prince Edward Island could have eliminated all corporate income taxes over the period if it had also ended subsidies to businesses—and still have had \$390 million remaining.

Two provinces spent the equivalent of roughly all corporate income tax revenue on provincial subsidies. As shown in table 3, on average, provincial subsidies in Quebec represented 100.9 percent of annual provincial corporate income tax revenue. In other words, the Quebec government

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<sup>20</sup> To be clear, not all GBEs pay corporate income taxes. For instance, many Crown corporations, such as BC Hydro, are exempt from paying provincial or federal income tax.

<sup>21</sup> In part, this is a function of Prince Edward Island’s relatively low corporate income tax revenues.

**Table 3: Subsidies as a Percent of Corporate Income Tax, Federal and Provincial, 2007–2019**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2007 - 2019 avg.
Federal	14.6	13.7	16.2	18.5	19.8	15.4	13.0	10.8	10.7	9.8	9.7	8.9	11.2	13.3
NL	23.6	23.4	36.1	45.0	32.8	42.8	32.2	32.8	28.3	25.4	23.7	28.1	24.7	30.7
PE	155.0	307.4	206.1	162.0	227.6	178.6	115.4	105.3	110.0	97.7	124.0	147.4	180.9	162.9
NS	45.5	50.5	45.6	46.3	42.0	48.0	43.0	51.5	48.2	41.4	51.3	50.6	55.1	47.6
NB	63.3	41.7	47.7	37.3	54.3	46.0	43.3	39.1	44.1	23.8	26.4	25.1	26.0	39.8
QC	146.3	130.2	104.1	99.5	94.8	104.8	106.7	104.0	97.3	84.8	79.0	72.6	86.9	100.9
ON	15.6	19.5	21.4	34.0	55.5	62.1	60.1	53.3	50.9	43.7	43.4	60.7	78.6	46.1
MB	91.7	95.8	121.2	156.0	210.4	98.1	75.5	90.8	83.4	80.2	65.7	45.5	54.8	97.6
SK	76.3	42.6	73.3	175.6	147.3	123.8	56.0	69.9	67.1	118.5	70.1	56.5	74.3	88.6
AB	34.9	45.9	49.2	49.0	26.1	26.9	18.9	17.6	21.6	38.0	52.7	29.8	40.9	34.7
BC	71.7	80.5	93.4	82.8	89.8	88.3	65.0	64.3	68.1	56.2	55.2	47.8	56.1	70.7

Note: Provincial values are for provincial subsidies only.

Sources: Statistics Canada, Table 36-10-0450-01.

could have effectively eliminated all provincial corporate income taxes over the period if it had also ended provincial subsidies to businesses. Similarly, the equivalent of nearly all Manitoba's provincial corporate income tax revenue (97.6 percent) was spent on subsidies to business (on average) from 2007 to 2019.

Saskatchewan and British Columbia also had relatively high spending on provincial subsidies as a share of provincial corporate income tax revenues. Provincial subsidies in Saskatchewan (on average) represented 88.6 percent of provincial corporate income tax revenues over the period. In other words, on average, the equivalent of nearly nine of every ten dollars of corporate income tax revenue was returned to select Saskatchewan businesses in the form of subsidies from 2007 to 2019. On average, provincial subsidies in British Columbia represented 70.7 percent of all corporate income tax revenue collected by the provincial government—equivalent to more than two of every three dollars of corporate income tax revenue collected being sent back to select businesses in the form of subsidies.

For two provinces, business subsidies represented roughly half of all corporate income tax revenue (on average) from 2007 to 2019. Provincial subsidies in Ontario amounted to 46.1 percent of provincial corporate income tax revenue over the period, while in Nova Scotia, the comparable figure was 47.6 percent.

In the three remaining provinces—New Brunswick, Alberta, and Newfoundland and Labrador—business subsidies represented between 30 and 40 percent of corporate income tax revenues. On average, provincial subsidies in New Brunswick were 39.8 percent of provincial corporate income tax revenue annually—the equivalent of almost one of every four dollars collected. Similarly, provincial subsidies in Alberta (on average) represented 34.7 percent of provincial corporate income tax revenue. Finally, provincial subsidies in Newfoundland and Labrador were the equivalent of 30.7 percent of provincial corporate income tax revenue on average over the period.

## Conclusion

Governments should always be concerned with efficient spending, and budget deficits should particularly motivate governments to take a closer look at areas of spending; business subsidies are one important area for review. The data presented in this report show that business subsidies delivered through government spending over the 2007–2019 study period came with significant costs to government budgets and to Canadian taxpayers generally. To the extent that subsidies do not foster widespread economic growth—as the literature suggests is the case—business subsidies stand out as a key area for spending reform.

### Appendix Table 1: Subsidies to Government Business Enterprises, Federal and Provincial, 2008–2019 (in \$2020 millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2008 - 2019 sum
Federal	1,333	1,743	1,844	1,660	723	762	753	643	550	541	559	620	11,730
NL	12	17	20	23	16	13	15	16	16	19	21	22	210
PE	2	1	1	2	3	0	1	1	0	0	0	0	13
NS	36	38	42	56	55	61	70	67	71	69	85	81	733
NB	10	10	13	13	14	21	21	16	12	17	14	14	173
QC	1,334	1,698	1,991	1,791	1,781	1,784	1,631	1,491	1,522	1,574	2,497	2,648	21,743
ON	1,251	1,529	1,550	2,057	1,932	1,959	2,022	2,201	2,401	2,640	2,984	3,146	25,672
MB	83	97	85	69	78	83	66	79	78	76	86	98	976
SK	82	87	93	91	79	106	120	115	106	103	97	103	1,181
AB	362	379	369	427	426	459	463	525	640	616	601	547	5,812
BC	1,134	1,202	1,304	1,247	1,308	1,289	1,262	1,328	1,347	1,323	1,399	1,455	15,598

Note: This table uses a different accounting approach than that used for the rest of the tables in this report. These values cannot be subtracted from the totals shown elsewhere to arrive at values for private businesses.

Sources: Statistics Canada, Table 10-10-0147-01; Table 18-10-0005-01.

### Appendix Table 2: Inflation-adjusted local subsidies per tax filer, 2007–2019

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2007 - 2019 sum
NL	19	18	24	26	28	30	33	37	39	39	56	40	45	435
PE	0	0	0	0	0	0	0	0	0	0	0	9	9	18
NS	49	53	56	61	81	79	88	100	95	101	97	100	97	1,056
NB	33	36	38	43	38	29	33	32	28	20	23	24	26	401
QC	186	145	155	165	171	176	186	175	197	193	223	231	253	2,457
ON	150	125	140	139	141	140	139	145	179	195	198	200	237	2,128
MB	79	97	113	100	104	107	92	72	85	84	82	118	130	1,263
SK	151	286	105	175	191	211	144	191	144	178	140	180	209	2,305
AB	138	144	150	145	163	156	165	161	181	220	194	172	160	2,149
BC	178	123	125	141	138	138	135	133	133	134	134	133	138	1,783

Sources: Statistics Canada, Table 36-10-0450-01; Table 18-10-0005-01; Table 11-10-0047-01.

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The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.

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