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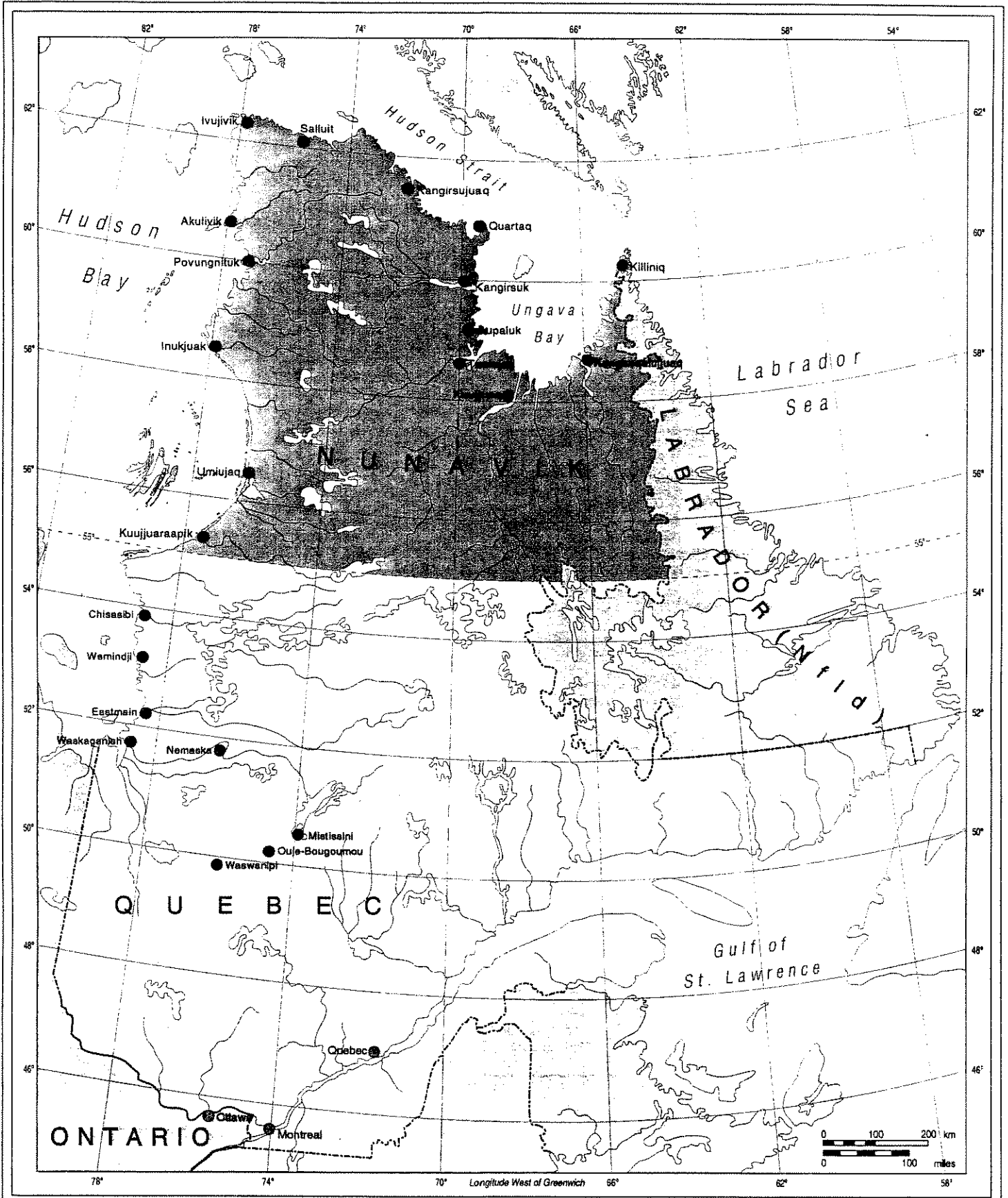
**STANDING COMMITTEE ON FINANCE**

***WITH REGARD TO PUBLIC HEARINGS ON  
ALTERNATIVES TO THE GOODS AND SERVICES TAX***

Presented by:

Kativik Regional Government  
-and-  
Makivik Corporation

April 26, 1994  
Ottawa



A. INTRODUCTION

The present Brief is being submitted to the Standing Committee on Finance regarding Goods and Services Tax Alternatives jointly by the Kativik Regional Government and Makivik Corporation on behalf of the residents of Nunavik. As appears from Annex I hereto, the territory of Nunavik encompasses a large part of the province of Quebec (approximately 563,000 sq km), extending north of the 55th parallel and bordered to the west by the Hudson Bay, to the north by the Ungava Bay and to the east by Labrador.

The Kativik Regional Government (K.R.G.) operates under the authority of councillors elected at large by all residents of Nunavik. In cooperation with other northern institutions such as the Kativik School Board and the Kativik Regional Development Council among others, it seeks to further the participation of all residents of Nunavik in public government decision-making. Pursuant to the James Bay and Northern Quebec Agreement (hereinafter the "J.B.N.Q.A.") signed by the governments of Canada and Quebec amongst others, the K.R.G. enjoys jurisdiction in such areas as municipal affairs; transportation and communications; justice; health and social services; environment; education and regional development.

The membership of Makivik Corporation consists of all Inuit beneficiaries of the J.B.N.Q.A. The objectives of Makivik Corporation, amongst others, are:

- to relieve poverty and promote the welfare and advancement of the Inuit;
- to develop and improve the Inuit communities and to improve their means of action;
- to assist in the creation, financing or development of businesses, resources, properties and industries of the Inuit.

B. THE JAMES BAY AND NORTHERN QUEBEC AGREEMENT

The entering into of J.B.N.Q.A. in 1975 not only foresaw the creation of the Kativik Regional Government and Makivik Corporation, but also included a number of political, administrative and fiscal decisions made by the Inuit of Nunavik. One of these options, largely ignored by the public in general, is the fact that the residents of Nunavik, including the Inuit, are full contributing members of Canadian society and therefore are taxpayers. The Inuit of Nunavik do not benefit from tax exemptions provided for under the Indian Act.

C. DEMOGRAPHY OF NUNAVIK

The 7,700 residents of Nunavik, of which approximately 90% are Inuit, live in fourteen communities scattered along the coasts of the Hudson and Ungava Bays and Hudson Strait. There are no roads linking the fourteen communities of Nunavik either to each other or to the south. With the exception of a short period during the summer months when the communities are accessible by sea, residents of Nunavik are almost entirely dependant on air transportation as their sole link with the south; a very costly means of transporting essential goods and food items.

The population of Nunavik is young. According to the 1991 Census published by Statistics Canada, 53.5% of the residents of Nunavik are less than 20 years of age, this age group is almost twice as numerous as that of the province of Quebec. Moreover, the average number of persons per household in the region is 4.6, as compared to 2.6 for the province of Quebec.

D. COST OF LIVING IN NUNAVIK

According to a study on the cost of living in remote areas of the province of Quebec effected in 1989 by the Bureau de la statistique du Quebec (BSQ), with a base rate of 100 for the Montreal region, the average rate for those communities of Nunavik located along the Hudson Bay coast was 212 while the average rate along the Ungava Bay coast of Nunavik was 151. The community with the highest cost of living rate (247) was Ivujivik, located the furthest from Montreal (see Appendix 1).

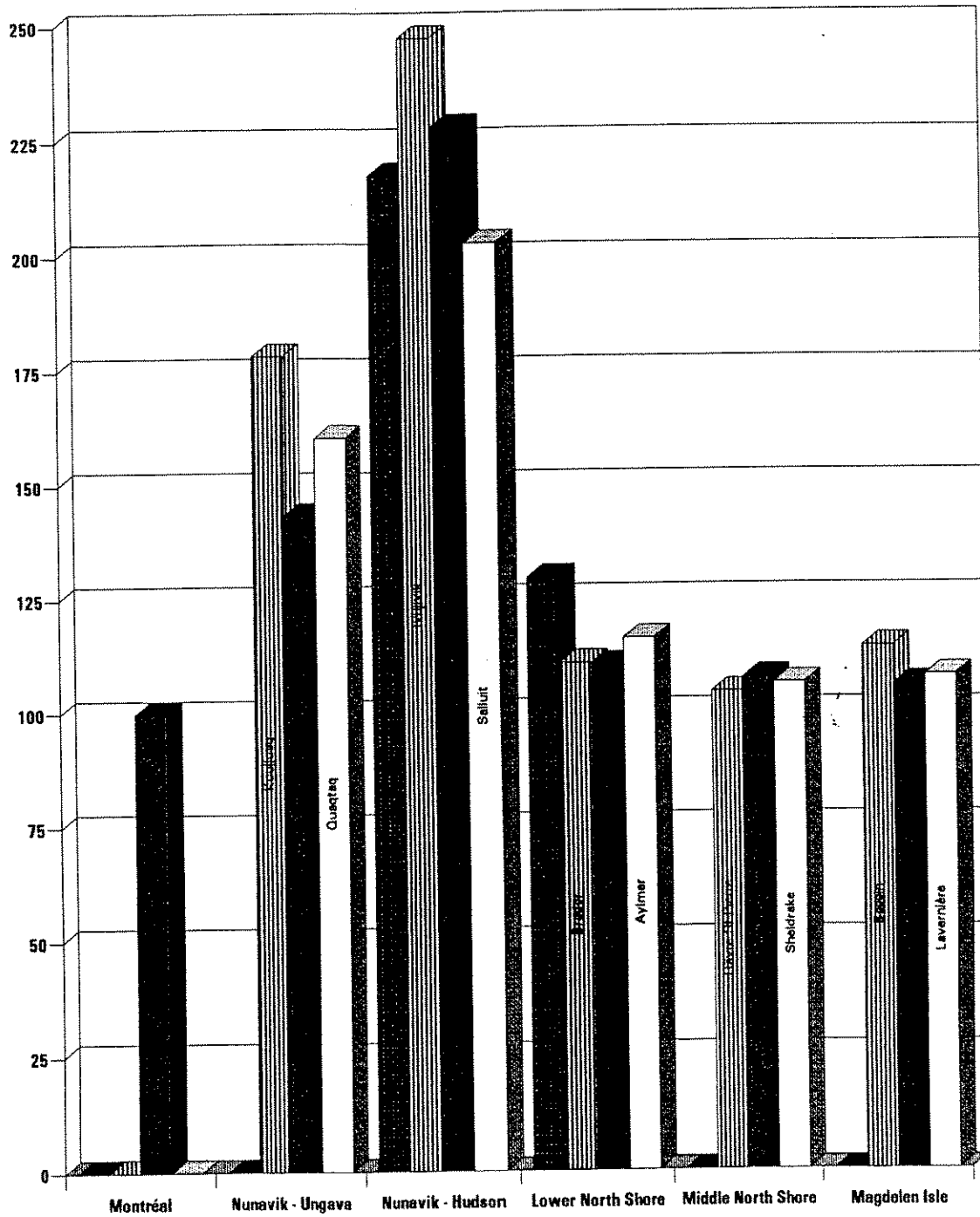
These findings were confirmed by a study prepared for the Department of Indian Affairs and Northern Development (D.I.A.N.D.) on the Air Stage Subsidy Monitoring Program, which revealed that the monthly food costs for a family of four in Nunavik was twice that of family living in Ottawa and one and three quarter times that for a family living in Val-D'Or.

The main contributing factor to the high cost of living in the region as well as between the various communities of Nunavik is the cost of transportation. According to the D.I.A.N.D. study referred to above, the food air cargo rates per kilogram to Kuujjuaq were \$1.32 and as high as \$7.75 to Salluit. The cost of transporting non-food items to Nunavik is even greater.

Climate is another important factor influencing the cost of living in Nunavik. Construction costs in Nunavik are twice that of Montreal and maintenance costs are three fold that of the south.

Both the federal and Quebec governments have recognized the cost of living disparities which exist in remote areas, through the introduction a number of years ago of the Northern Residents Deduction. However, based on the results of

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1200 income tax returns prepared by Makivik Corporation on behalf of residents of Nunavik, more than 73% of the those individuals did not benefit either in whole or in part from the Northern Residents Deduction. In fact, to take advantage of the deduction, based on the average number of dependants per family in Nunavik, the individual's revenue must be \$30,000. or greater. These results were also noted in the 1991 D.I.A.N.D. study.

E. PURCHASING POWER OF RESIDENTS OF NUNAVIK

There exists approximately 1400 employment positions in the region, of which only 60% are considered as permanent and full-time. Taking into consideration the active work force (ie. persons aged 15-64), the under-employment rate in Nunavik is in the vicinity of 68%.

Moreover, according to a survey conducted by Kativik Regional Government entitled "Schooling, Vocational Training and Economic Activity in Nunavik", in 1986 the rate of dependency in Nunavik was 78.1% compared to 43.8% in the rest of Quebec. That is to say, for every 100 individuals of working age, 78.1 were considered to be dependants.

Again, based on the results of 1200 income tax returns prepared for residents of Nunavik in 1992, the average income is very low compared to the rest of Canada. In effect, the average total income of the 1200 individuals surveyed is \$13,661.

F. THE EFFECT OF THE GOODS AND SERVICES TAX ON RESIDENTS OF NUNAVIK

As evidenced above, the disparities between the cost of living in the north and the south are quite flagrant. The

introduction of the Goods and Services Tax has had a magnifying effect on these inequalities. Given that the same product costs on average 82% more in Nunavik than in Montreal, when one applies the combined federal and provincial consumption tax of 15.56%, northern consumers will, in real purchasing power terms, pay a consumption tax of 28.32% (see Appendix 2). It is not surprising that the Organization for Economic Cooperation and Development in its report "The Taxation of Consumption", depicted such levies as "somewhat regressive".

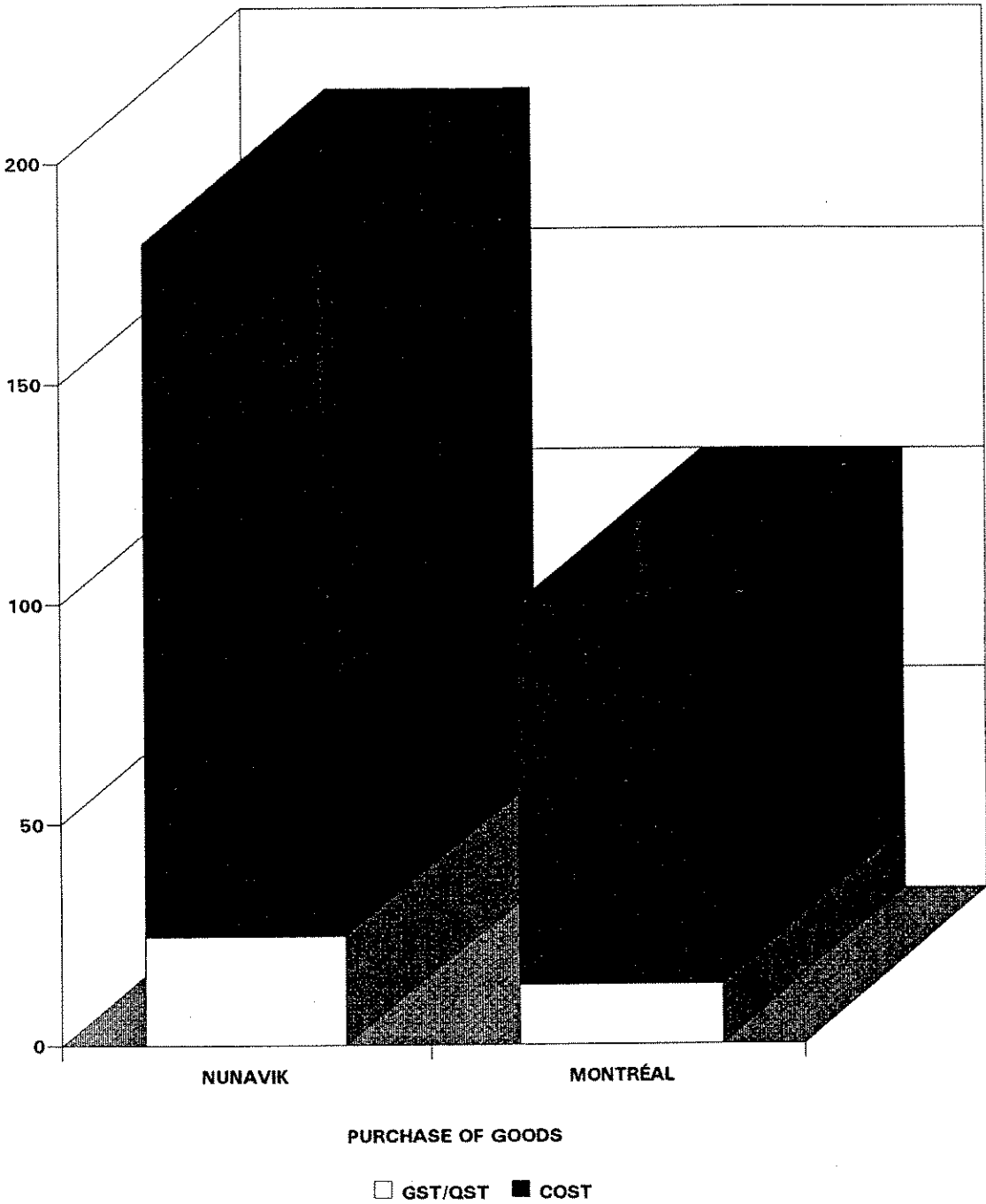
The Goods and Services Tax Credit as it presently exists does not take the added tax burden of northerners into consideration. Moreover, to receive the goods and services tax credit individuals must complete an income tax return. While this requirement may, for most individuals, not appear to be of significance, it has been for residents of the north. Up until 1993, residents of Nunavik had little support available to help in the completion of income tax returns. Prompted by numerous requests and enquiries from its membership for support as well as in light of changes to the Family Allowance Act, Makivik initiated a project which foresaw the preparation of income tax returns on behalf of residents of Nunavik.

The project commenced on April 26, 1993 and resulted in the preparation of income tax returns on behalf of 1211 individuals at a total cost of \$171,000. As a result of this project, these individuals received net refunds from both the federal and provincial governments totalling over \$1.5 million. A second phase of this project was also put into place with regard to the preparation of previous years' income tax returns. It is estimated that more than 5,000 returns will have been completed by the time this phase of the project is completed.

Moreover, in response to requests of its membership, Makivik sponsored a project for the preparation of 1993 income tax



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returns. A four week training session was offered to nine residents of Nunavik in collaboration with the Kativik Regional Government and Kativik School Board. The trainees were then hired by Makivik for an eight week period to complete returns on behalf of residents of their community and to travel to other communities in Nunavik. The total cost of this project is expected to be in the vicinity of \$240,000. Unfortunately, in light of the significant costs of such a project, Makivik cannot guarantee that such services will be offered in the future.

#### G. ADMINISTRATION OF THE GOODS AND SERVICES TAX IN NUNAVIK

With regard to the general administration of the goods and services tax, it is again important to put into context the special situation of the region. According to the 1991 census conducted by Statistics Canada, of the 7693 residents of Nunavik, 83% of the population have indicated their mother tongue as being Inuktitut. While English or French is being taught as a second language in school, a significant number of residents are not functional in either official language, especially those individuals over the age of 35. In the aforementioned study made by the Kativik Regional Government in 1991, 48% of the population have less than 9 years of schooling as compared to 23.9% throughout the rest of the province of Quebec.

Moreover, the introduction of a cash-oriented society is very recent in the history of Nunavik. It must be kept in mind that up until the 1950s and 1960s, the Inuit of the region lead a nomadic way of life. Notably, according to a report on the north in 1970, we find that the revenue per capita of the Inuit of Nunavik varied between \$650. and \$784. according to their location. The rapid progression to a cash-based economy is evident when one considers that in 1992 the average annual income of the Inuit of

Nunavik according to the results of the Makivik income tax project is \$13,661.

Administration of the goods and services tax for most businesses in the region has and remains a difficult task and for some verging on disastrous. Small businesses and entrepreneurs in the region do not have ready access to professional help as in the south. Obtaining the required professional help entails significant transportation and accomodation costs, let alone fees. Communication with government officials is often hampered by language barriers and a general lack of instruction of the Inuit businesses and entrepreneurs.

H. PRESENTATION BEFORE THE COMMISSION DU BUDGET ET DE L'ADMINISTRATION DE L'ASSEMBLEE NATIONALE

On February 18, 1993, Kativik Regional Government and Makivik Corporation submitted a joint brief before the Commission du Budget et de l'Administration de l'Assemblée Nationale with regard to taxation in Nunavik. As a result, a Working Group consisting of representatives from the provincial departments of Finance, Revenue, Treasury Board, Secrétariat aux affaires autochtones, Kativik Regional Government and Makivik Corporation was created. The Working Group representatives have met on numerous occasions both in Nunavik as well as in the south to discuss a number of the issues raised in the present submission, including the high cost of living disparities between Nunavik and the south; the purchasing power of residents of the region, amongst others.

I. RECOMMENDATIONS

On behalf of residents of Nunavik, Kativik Regional Government and Makivik Corporation respectfully request that the

Standing Committee on Finance consider:

a) that transportation services between the south and Nunavik as well as within Nunavik be exempted from the goods and services tax;

b) that the administration of the goods and services tax by small businesses and entrepreneurs be simplified by allowing businesses to report and account for the goods and services tax annually upon filing personal income and/or corporate tax returns;

c) that the goods and services tax credit be modulated to reflect the reality of the cost of living in Nunavik and the effective rate currently borne by residents of the region; and

d) that the Standing Committee on Finance recommend the creation of a task force to engage in talks with the Provincial/Nunavik Working Group referred to herein to examine ways to alleviate the high cost of living disparities between the Nunavik and the south as well as to improve the purchasing power of residents of the region.