



# Budget Bulletin

for the fiscal year 2010–2011

## *Tax Changes in Nova Scotia*

In 2009, the government commissioned two studies on the fiscal state of the provincial government.

One study, *Addressing Nova Scotia's Fiscal Challenge* prepared by the Nova Scotia Economic Advisory Panel, identified the potential for Nova Scotia's deficit to grow as high as \$1.4 billion. This projection was based on actual economic, revenue, and debt service cost forecasts, combined with program expenditure growth at historical trends.

The report also made several recommendations about how the government could get back to balance using three key measures: substantial tax changes, expenditure reductions, and actions to foster long-run economic growth. At the same time, the report noted that improving affordability for Nova Scotia families can be affected by small changes to public programs and transfers.

The 2010–2011 provincial budget outlines tax changes to get Nova Scotia back to balance, including a restoration of the harmonized sales tax (HST) to 15 per cent, new sales tax rebates, and a new income-based tax credit to help offset extra tax obligations for many families. The 2010–2011 provincial budget also changes how high-income Nova Scotians are taxed, eliminating the current surtax and creating a higher income tax bracket for taxable income in excess of \$150,000. To foster economic growth, the corporate income tax rate for small businesses will be reduced to 4.5 per cent effective January 1, 2011.

These decisions reflect a balance between the obligation of government to live within its means and the promise to make life more affordable for Nova Scotia families in every region.

# Key Measures

## Harmonized Sales Tax Rate

Effective July 1, 2010, the harmonized sales tax (HST) rate in Nova Scotia will be restored to 15 per cent.

Under a new Comprehensive Integrated Tax Coordination Agreement with the federal government, the provincial portion of the HST will change from 8 per cent to 10 per cent. The provincial government has released transitional rules to prepare both consumers and suppliers for this rate change and other HST adjustments.

This change will generate a total of \$215 million in additional revenues for 2010–2011 (before new HST tax credits and rebates). The revenue generated by this tax change will rise to over \$300 million in subsequent years.

## Nova Scotia Affordable Living Tax Credit

Beginning on July 1, 2010, Nova Scotia households with low and modest incomes will receive a refundable tax credit payment every quarter. The Nova Scotia Affordable Living Tax Credit will offset the restoration of the HST and provide additional net income for these households.

The annual amount of the credit will be \$240 per household, plus \$57 for each child under 19 living in the household. The credit will be reduced by \$0.05 for every dollar of adjusted family income above \$30,000. Credits will be paid in quarterly amounts, in conjunction with the federal Goods and Services Tax Credit.

Nova Scotia Affordable Living Tax Credit payments in July and October of 2010 will be based on 2009 tax returns. Payments in January and April of 2011 will be based on 2010 tax returns. Anyone who is eligible for the Nova Scotia Affordable Living Tax Credit in July will automatically receive it without making an application (provided a 2009 tax return has been filed).

In 2010–2011, the Nova Scotia Affordable Living Tax Credit will deliver a total of \$53 million to over half of the households in the province, and \$70 million in 2011–2012.

## Tax Reduction for Low-Income Seniors

Approximately 18,000 seniors who receive the Guaranteed Income Supplement will no longer pay provincial income tax. In addition, the Affordable Living Tax Credit will not be counted as part of adjusted family income when assessing the Low Income Tax Reduction (LITR).

## Poverty Reduction Credit

In addition to the Nova Scotia Affordable Living Tax Credit, Budget 2010–2011 provides for a Poverty Reduction Credit to make life better for those Nova Scotians living in poverty. Effective July 1, 2010, the Poverty Reduction Credit will provide tax-free payments to help about 15,000 low income Nova Scotians, many of whom have a disability.

Individuals or couples will receive \$200 per year (\$50 quarterly). To qualify, applicants must be 19 years of age with no dependents, receiving Social Assistance through the Income Assistance program as their main source of income, with a total annual income of \$12,000 or less for the previous tax year.

Payments will be made quarterly, beginning in July 2010. Social Assistance clients will not have to apply for this allowance, as the Department of Community Services will determine eligibility through the Income Assistance Program. The program will provide benefits of \$2.3 million in 2010–2011 and \$3 million annually thereafter.

## HST Rebates on Family Essentials

The federal GST applies to a very broad range of goods and services, with few exemptions.

Effective July 1, 2010, the province will provide point-of-sale rebates to reduce the tax impact on selected essential items. Point-of-sale rebates will effectively remove the provincial portion of sales tax from diapers, children's clothing, children's footwear, and feminine hygiene products. These rebates will be delivered immediately on purchase with no need for application.

In 2010–2011, these point-of-sale rebates will save Nova Scotians a total of \$8 million in HST. In subsequent years, these rebates will save Nova Scotians over \$11 million.

Nova Scotia's existing point-of-sale rebates on home energy and books will continue as currently legislated, with adjustments to reflect the restoration of the HST. Existing rebates for organizations such as municipalities, hospitals, and other public services bodies will continue as before. The current application-based rebate for first time home buyers will continue to deliver the same tax relief for new housing purchases, but there will be changes to eligibility for builders to claim on behalf of homebuyers and in the administration of the rebate.

For further details about the changes in Nova Scotia's HST, please consult the transition rules published by the Nova Scotia Department of Finance.

### **High-Income Tax Rate/ Elimination of Surtax**

The provincial government is changing income taxes on Nova Scotians with higher incomes.

Effective January 1, 2010, and until the budget is balanced, the province will have a fifth personal income tax bracket. Taxable income in excess of \$150,000 will be taxed at a marginal rate of 21 per cent. Currently, the top rate of provincial income tax is 17.5 per cent on taxable income in excess of \$93,000. This bracket will now extend from \$93,001 to \$150,000.

The fifth tax bracket is projected to increase personal income tax revenues by \$59 million in 2010–2011.

As a result of the additional tax bracket, Nova Scotia will suspend its high-income surtax until the budget is balanced. Without other deductions or credits, the surtax had applied to individuals with taxable income starting at about \$83,000 per year. In 2010–2011, elimination of the high-income surtax will save 30,000 Nova Scotians a total of \$27 million in personal income taxes.

Employer payroll remittances for personal income taxes will be adjusted to reflect this change on July 1, 2010.

### **Small Business Tax Rate**

The 2010–2011 budget will reduce the provincial tax impact on small businesses. On January 1, 2011, the government will reduce the rate of corporate income tax for small businesses from 5 per cent to 4.5 per cent. Eligible small businesses can apply this rate on the first \$400,000 of taxable income.

It will cost \$0.5 million in 2010–2011, increasing to \$6 million per year thereafter.

### **Nova Scotia Sales Tax**

Effective July 1, 2010, the tax on used motor vehicles and other designated personal property such as aircraft, boats, and boat trailers will be restored to 15 per cent (same as the rate on new motor vehicles). It is expected to provide \$2 million in revenues for 2010–2011.

## **Impact on Affordability**

The fiscal challenge faced by the province is undeniable. Measures introduced through the 2010–11 budget will begin the process of addressing those challenges while also making life more affordable for Nova Scotia families.

- The Affordable Living Tax Credit will benefit 53% of all Nova Scotia households.
- On average, even after the impact of the change in the HST, households with an income less than \$30,000K will save \$113/annually after the Affordable Living Tax Credit.
- In 2010–2011, the Nova Scotia Affordable Living Tax Credit will deliver a total of \$53 million to over half of the households in the province, and \$70 million in 2011–2012.

## **Other Tax Measures**

Previously legislated tax changes that take effect during the 2010–2011 fiscal year:

### **Large Corporations Tax**

The province's Large Corporations Tax on capital of non-financial institutions declined from 0.2 per cent to 0.15 per cent on July 1, 2009, and will decline to 0.10 per cent on July 1, 2010. That tax rate will decline to 0.05 per cent on July 1, 2011, and it will be eliminated on July 1, 2012.

The tax reduction from 0.2 per cent to 0.15 per cent on July 1, 2009, saved large Nova Scotia companies an estimated \$9.1 million in taxes. The reduction to 0.10 per cent on July 1, 2010, will save an estimated \$13.3 million in taxes.

### **Basic Personal Amount and Other Non-refundable Credits**

As announced in the 2006–2007 budget, the province is increasing the basic personal amount exempted from personal income taxes by \$250 per year over a four-year period. This represents an increase of \$1,000 or 13.83 per cent. The province's other non-refundable credits will also grow by 13.83 per cent over this period. The basic personal amount increased from \$7,731 to \$7,981 effective January 1, 2009, and to \$8,231 in January 2010. Other non-refundable tax credit amounts grew by 3.23 per cent in 2009 and 3.13 per cent in 2010.

### **Consumer Prices for Bracket Indexation and Fees**

On an annual basis in 2009, Nova Scotia's Consumer Price Index was 115.7. This represents a decrease of 0.2 percent over 2008. As a result, there are no service-cost based increases in fees. Personal income tax brackets will also remain at 2010 levels.