Charting a Path for Growth

Nova Scotia Tax and Regulatory Review

Summary: Tax Recommendations

Recommendation 1.1 – Hold the line on spending

- Nova Scotia should freeze program spending at current levels, with adjustments for already-committed collective agreement obligations, bringing the provincial budget close to balance in 2015–16. Provincial surpluses in subsequent years should be allocated primarily to personal and corporate tax reductions and one-time costs of transformational change in government.

Recommendation 1.2 – Shift taxation toward consumption

- Nova Scotia should restructure its tax system to shift revenue emphasis away from high personal and corporate income taxes, toward more revenue from consumption taxes such as HST, while protecting poor and low-income Nova Scotians.

Recommendation 1.3 – Broaden consumption taxes

- Nova Scotia should eliminate rebates for the provincial portion of the HST on printed books; children's clothing, shoes, and diapers; feminine hygiene products; residential energy; and first-time home purchases. Nova Scotia must offset the impact of a broader HST base with increases to the Affordable Living Tax Credit and reforms to the Heating Assistance Rebate Program (HARP).

Recommendation 1.4 – Reduce Personal Income Tax (PIT)

- The province should reduce personal income taxes by increasing the Basic Personal Amount to $11,000 and the phasing in an increase to the Dependent Amount by the cost of living as the province's finances allow.

Recommendation 1.5 – Eliminate bracket creep

- Personal income tax should have a built-in cost-of-living adjustment to eliminate so-called bracket creep.

Recommendation 1.6 – Eliminate the top bracket

- The highest income bracket, 21 per cent on income over $150,000, should be eliminated.

Recommendation 1.7 – Eliminate and simplify personal income credits

- The Volunteer tax credits and the Healthy Living tax credit should be eliminated, as should the Seniors provincial income tax refund.

Recommendation 1.8 – Eliminate disincentives to work

- The Department of Community Services should redesign its income support systems with a goal of eliminating all disincentives to work. Income support and income taxes need to work in concert to ensure that low-income Nova Scotians are not financially disadvantaged by going to work. A significant portion of 2017–18 transformation funds should be earmarked for investment in low-income supports for the working poor – in particular for poor families with children – including an expansion of the Nova Scotia Child Benefit.

Recommendation 1.9 – Reform rates and simplify the PIT

- Nova Scotia's personal income tax rates should be reduced over time. Efforts should be made to flatten the steep taxation curve and simplify the rate structure by collapsing the two upper brackets. The targeted preferred rate for the new upper bracket would be 17 per cent. (Current rates are 16.67% and 17.5%.)

Recommendation 1.10 – Revise Corporate and Small Business taxes and remove barriers to growth

- The province should raise the small business tax threshold to $500,000 from the current $350,000 and should over the next five years incrementally raise the small business tax rate to 8 per cent from the current 3 per cent. The increased revenue should be used to gradually lower the general corporate income tax rate, which at 16 per cent is the highest in Canada, to 13.5 per cent in an incremental revenue-neutral tax reform measure.

Recommendation 1.11 – Eliminate the New Small Business Tax Holiday

- The New Small Business Tax Holiday should be eliminated.

Recommendation 1.12 – Change the approach to corporate tax expenditures

- Corporate tax expenditures should be analyzed within the same parameters as any other business support initiative. That includes cost-benefit analysis to determine if they are meeting their public policy objectives, determining their effectiveness and efficiency in creating incremental economic activity and jobs, and assessing their impact on the broader economy.
- All business tax credits should be targeted in scope and of limited duration; only those that demonstrate success through a mandatory, comprehensive evaluation should be extended.
- Sponsoring departments should have budgetary accountability for corporate tax expenditures.
- The province should ensure greater transparency in business support programs by publishing annually a list of direct business support programs and any related spending, including companies receiving direct financial support and the quantum of that support.

Recommendation 1.13 – Reform the Film and Digital tax credits

- The regulatory framework and detailed elements of both the Nova Scotia Film Tax Credit and Digital Media Tax Credit should be better aligned with similar tax measures in other Canadian jurisdictions.
- Film and Creative Industries Nova Scotia should be solely responsible for the administration of both tax credits.
- Industry and the province should use the period leading up to the sunset of the two credits in 2020 to determine the most effective tools to help grow the creative economy in Nova Scotia and transition the tax credits to departmental expenditure programs that are transparent, accountable, and focused on economic growth.

Recommendation 1.14 – Ensure that Nova Scotia businesses fully benefit from SR&ED tax credit

- The province should work with the federal government and the CRA to respond to concerns raised by industry that the current SR&ED tax credit is not administered consistently across the country.

Recommendation 1.15 – Reform the Equity Tax Credit

- The province should consider doubling the annual limit for eligible ETC investments to $100,000 from the current $50,000. Consideration should be given to targeting the ETC to strategically defined high-growth sectors, such as information technology and clean technology, to be defined by regulation. As well, eligibility requirements must be critically re-examined to ensure that Nova Scotians are receiving best value from these tax credits.

Recommendation 1.16 – Pursue a regional and/or pooled equity tax credit

- Nova Scotia should pursue interest across the region for expansion of the ETC to a regional tax credit as part of a larger regional harmonization strategy. The province should also consider allowing pooled investment funds to be eligible for the ETC.

Recommendation 1.17 – Put in place a Pollution Tax regime

- Nova Scotia should phase in the implementation of a pollution tax regime over the next 10 years. The tax should be revenue neutral to the province, with all available revenue earmarked to provide generous support to low-income families as well as overall corporate and personal income tax relief.

Recommendation 1.18 – Establish a Tax Working Group

- The province should establish a Nova Scotia Tax Working Group – including government, academic experts, and tax professionals – to review tax policy and options and make recommendations to government on an ongoing basis.

Recommendation 1.19 – Legislate a 10-year tax agenda

- The province should legislate a 10-year tax reform agenda, which commits to a series of incremental yearly tax reforms as provided for in this review, in order to provide certainty and predictability to Nova Scotian citizens and business.

Recommendation 1.20 – Secure full value for public assets

- The government should undertake a full inventory of Nova Scotia's public assets, including intangible assets (e.g., data), followed by a well-qualified assessment to determine how best to enhance their public value. Public value should be understood as protecting the public interest, revenue maximization, and improved services to citizens.

Recommendation 1.21 – Coordinate collections

- Provincial debt collection should be better coordinated across government, and collections enforcement activities centralized.

Recommendation 1.22 – Tackle the underground economy

- Working with the federal government, Nova Scotia should redouble efforts aimed at making sure that every Nova Scotian is paying his or her fair share for public services. This could include a strategy to combat the underground economy, broader and stronger penalties for non-compliance with the tax laws, and a public awareness campaign highlighting the social costs and risks of the cash economy.