

Nova Scotia Department of Finance

Overview of the Nova Scotia Tax System

April 2011

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Notice

Components of the analysis are based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by the Department of Finance and the responsibility for the use and interpretation of these data is entirely that of the author(s).

PART I: Overview of provincial taxes

Personal income tax

Nova Scotia's personal income tax system is based largely on the *Income Tax Act* (Canada), the *Income Tax Act* (Nova Scotia), and the Canada-Nova Scotia Tax Collection Agreement (TCA). Nova Scotia imposes personal income taxes under the authority of the *Income Tax Act* (Nova Scotia). Provincial policy is limited by the TCA to setting personal income tax rates, the range of income these rates apply to, and credits against provincial income tax. The TCA commits the Province to the calculation of taxable income and the set of deductions from taxable income contained in the *Income Tax Act* (Canada). The calculation of personal income tax consists of first computing taxable income; then computing Provincial taxes based on a schedule of rates and brackets; and finally, computing the deductions from tax (or credits) available to the individual. The proceeding sections deal with each in more detail.

Individuals who were resident in Nova Scotia on the last day of the calendar year are generally subject to Nova Scotia personal income tax on their taxable income. Individuals who have maintained residence in multiple provinces are subject to taxation in those provinces. All individuals with income are required to file income tax.

The Canada Revenue Agency (CRA) allocates taxes to each province with a TCA for the current tax year and any reassessments. As individuals file income tax returns the amount of withholding tax paid to the CRA that is unaccounted for declines. Some individuals paying withholding through the year will not file or will file late creating a portion of Provincial revenues that can't be allocated to a province. Unallocated withholding, called unapplied tax, is allocated based on the Province's share of net provincial taxes across all provinces with a TCA. Personal income taxes are the largest single source of tax revenue for the Province.

Table 1 – Personal income tax revenues

	Personal income tax revenues (000s)
2000-2001	\$1,228,672
2001-2002	\$1,274,481
2002-2003	\$1,353,675
2003-2004	\$1,350,071
2004-2005	\$1,462,250
2005-2006	\$1,568,449
2006-2007	\$1,678,995
2007-2008	\$1,778,395
2008-2009	\$1,818,415
2009-2010	\$1,827,643

Source: Public Accounts for the Province of Nova Scotia

Computation of taxable income

Taxable income is the base on which personal income taxes are paid – commonly referred to as the “common tax base” under the TCA. The concept of taxable income is intended to approximate the base on which all consumption can be derived: income less savings. This approximation specifically includes (section references are to the *Income Tax Act* (Canada)):

- Alimony or maintenance payments (not including child support payments) (s. 56(1)(b), s. 56(1)(e));
- Allowances for personal, living, or any other expenses paid to an employee or officer (s. 6(1)(b));
- Amounts allocated to an employee under an employees' profit sharing plan (s. 6(1)(d), s. 12(1)(n)); Amounts deducted by the vendor on a sale of accounts receivable are included in the purchaser's income (s. 22(1));
- Amounts not taxed to a deceased person which are transferred to a beneficiary (s. 70(3));
- Amounts of an income nature payable by a trust or estate to the taxpayer as beneficiary (s. 12(1)(m), s. 104(13));
- Amounts of pension income allocated to the taxpayer's spouse or common-law partner after 2006 (s. 56(1)(a.2));
- Amounts paid by a trust or estate for upkeep, etc., for property to be maintained for benefit of beneficiary (s. 105(2));
- Amounts paid on income bonds deemed dividends (s. 15(3));
- Amounts paid to another person at the direction of or with the concurrence of the taxpayer (s. 56(2));
- Amounts receivable for restrictive covenants agreed to after October 7, 2003 (s. 6(3.1));
- Amounts receivable in the future for property sold or services rendered in course of business in the year (s. 12(1)(b));
- Amounts receivable of an income nature by a deceased person (s. 70(2));
- Amounts received by non-life insurance companies, whether mutual or not, from any arrangement to insure (s. 138);
- Amounts received by non-life insurance companies, whether mutual or not, from property vested in them (s. 138);
- Amounts received for services or goods not rendered or delivered in the year, or for returnable containers (s. 12(1)(a));
- Annuity payments (s. 56(1)(d));
- Appropriations by a corporation for the benefit of shareholders (s. 15(1));
- Automotive industry employees' transitional assistance (s. 56(1)(a)(v));
- Bad debts recovered (s. 12(1)(i));
- Benefits conferred by non-arm's length transactions (s. 245(2));
- Benefits (except those constituting a distribution or payment of capital) from or under any trust (s. 12(1)(m), s. 105(1));

- Benefits or advantages (with certain exceptions) conferred by corporations on shareholders (s. 15(1)(c));
- Benefits received under a Home Buyers' Plan (s. 56(1)(h.1), s. 146.01);
- Benefits received under registered retirement savings plans (s. 56(1)(h), s. 146(8));
- Benefits under employee benefit plans or trusts (s. 6(1)(g), s. 6(1)(h));
- Benefits under the Labour Adjustment Benefits Act, the Department of Labour Act, the Plant Workers Adjustment Program, and the Northern Cod Compensation and Adjustment Program (s. 56(1)(a)(vi));
- Benefits received after 2005 under the new Quebec Parental Insurance Plan (s. 56(1)(a)(vii));
- Board, lodging, and other benefits attached to an office or employment (s. 6(1)(a));
- Capital gains — 1/2 included in income with certain exceptions (s. 3, s. 38);
- Certain amounts received by a person from another who is, was, or is about to be his or her employer (s. 6(3));
- Company automobile, value of personal use (s. 6(1)(e), s. 6(2));
- Death benefits (s. 56(1)(a)(iii));
- Deemed dividends from non-tax-paid corporate surpluses, by reason of:
 - a distribution or appropriation on the winding-up, discontinuance, or reorganization of business (s. 84(2)),
 - redemption, acquisition, or conversion of common shares (s. 84(3)), or
 - capitalization of undistributed income by stock dividend, increase in paid-up capital, or otherwise (s. 84(1));
- Deferred profit sharing plan payments (s. 56(1)(i));
- Directors' fees (s. 6(1)(c));
- Dividends, including stock dividends, are grossed up by a factor of 25% with an offsetting tax credit at the rate of 2/3 of the gross-up amount. In the case of eligible dividends, the gross-up factor is 45% from 2006 until 2010, 44% for 2010, 41% for 2011, and 38% beginning in 2012, with offsetting tax credits of the gross-up amount of 11/18 until 2010, 10/17 in 2010, 13/23 in 2011, and 6/11 in 2012, (s. 82(1), s. 121);
- Evidence of indebtedness received in lieu of payment of income debt (s. 76);
- Fair market value of assets sold or distributed to shareholders at a price below such value (s. 69(4), s. 69(5));
- Fees (s. 6(1)(c));
- Fellowships, scholarships, and research grants (s. 56(1)(n), 56(1)(o));
- Gratuities (s. 5(1));
- Income-averaging annuity receipts (s. 56(1)(e), s. 56(1)(f));
- Income from controlled trust deemed settlor's (s. 75(2));
- Income from property transferred to minor until he is 18 is deemed to be transferor's (s. 75(1));
- Income from property transferred to spouse deemed to be transferor's (s. 74(1));
- Income from eligible funeral arrangement (s. 148.1);
- Income of trusts and estates payable to beneficiaries (s. 104(13));

- Insurance payments for damage in depreciable property which are expended in the taxation year and within a reasonable time on repairing the damage (s. 12(1)(f));
- Insurance premiums (except for group life or medical services) paid by employer for the benefit of employee (s. 6(1)(a));
- Interest deemed received on certain loans to non-residents (s. 17(1));
- Interest on bond transferred with interest until the date of transfer (s. 20(14));
- Interest payments (s. 12(1)(c));
- Interest payments which are blended with capital payments (s. 16);
- Inventory sale proceeds (s. 23, s. 28);
- Loans by corporations to shareholders (s. 15(2));
- Medicare contributions by employer (s. 6(1)(a));
- Patronage dividends, except those from consumer goods and services (s. 135(7));
- Payments based on the use of or production from property (s. 12(1)(g));
- Payments by corporation to shareholders other than in a bona fide transaction (s. 15(1));
- Pension benefits (s. 56(1)(a));
- Periodic payments which are deemed to accrue daily where a person dies (s. 70(1));
- Portion of beneficiaries' share of profits under employees' profit sharing plan (s. 144(7));
- Profit from business (s. 9(1));
- Profit from property (s. 9(1));
- Recaptured depreciation (s. 13(1));
- Remuneration (s. 5(1));
- Reserves deducted in previous year (s. 12(1)(d));
- Reserves of banks which are unreasonably large in the opinion of the Minister of Finance (s. 26(1));
- Resource property sale receipts (s. 59);
- Retirement compensation arrangement payments (s. 12(1)(n.3));
- Retiring allowances (s. 56(1)(a)(ii));
- RRSP payments (s. 56(1)(h));
- Salary (s. 5(1));
- Salary deferral arrangement payments (s. 6(1)(e));
- Securities received in lieu of payment of income debt (s. 76);
- Social assistance payments (s. 56(1)(r), s. 56(1)(u));
- Stock rights granted to employees, etc. (s. 7(1));
- Superannuation benefits (s. 56(1)(a)(i));
- Supplementary unemployment benefit plan payments (s. 56(1)(g), s. 145(3));
- Top-up disability payment (s. 6(18));
- Transfer of right to income in a non-arm's length transaction (without transfer of source) results in income remaining the transferor's (s. 56(4));
- Employment insurance benefits (s. 56(1)(a));

- Wages (s. 5(1));
- Workers' compensation payments (s. 56(1)(v)).

Specific exclusions from taxable income include:

- Amounts declared to be exempt by legislation of the Parliament of Canada (s. 81(1)(a));
- Amounts received from a mining property or for shares thereof received by a prospector, a prospector's employer, or a financial backer, if not received under an option to purchase or during or after a campaign to sell such shares to the public (s. 81(1)(l));
- Amounts received under War Savings Certificates or similar certificates issued by Newfoundland before April 1, 1949 (s. 81(1)(b));
- Board and lodging of employees at special work sites (s. 5(2), s. 6(6), and s. 6(7));
- Certain payments from employees' profit sharing plans (s. 81(1)(k), s. 144);
- Certain payments under Government or like annuities issued before June 25, 1940 (s. 58);
- Employees at special work sites — value of board and lodging or transportation or allowance received by construction workers and certain other employees under certain conditions (s. 6(6));
- German compensation payments (s. 81(1)(g));
- Group Disability benefits — Insolvent insurer (s. 6(17));
- Halifax disaster pensions (s. 81(1)(f));
- Income from the office of Governor-General of Canada (s. 81(1)(n));
- Non-resident person's income from the operation of ships or aircraft where reciprocal exemption is granted by the country of the person's residence (s. 81(1)(c));
- Patronage dividends in respect of consumer goods and services (s. 135(7));
- Pensions for war services (s. 81(1)(d));
- Portion of benefits under a pension plan which was tax-exempt at any time (s. 57(3));
- Portion of elected M.L.A.'s expense allowance (s. 81(2));
- Portion of elected municipal officer's expense allowance (s. 81(3));
- Private health services plan — benefit of employer's contributions (s. 6(1)(a));
- Provincial indemnities (s. 81(1)(q));
- Public officers' expense allowances up to 1/2 of salary (s. 81(3)(b));
- R.C.M.P. pension or compensation (s. 81(1)(i));
- Refunds of registered education savings plan payments (s. 81(1)(o));
- Scholarships, fellowships, and bursaries if received in connection with enrolment at a designated education institution in a program in which the student may claim the education tax credit (plus, after 2006, scholarships and bursaries that are provided to attend elementary and secondary schools) (s. 56(3));
- Service pensions paid by foreign allies where reciprocal exemption exists (s. 81(1)(e));
- Stock rights conferred by a corporation on all holders of its common shares (s. 15(1)(c)).

Taxable income is reported for each individual and the net taxes are computed on an individual basis. While there are interactions with other members of an individual's household, the personal income tax is broadly based on the individual's taxable income, not the taxable income of the household.

Computation of provincial tax

The tables below illustrate the rates and brackets in Nova Scotia over the period of 2001 to 2010. Broadly speaking Nova Scotia's personal income tax bracket and rate structure is progressive, particularly in higher income ranges. This is reflected in the addition of the 4th and 5th brackets, in 2004 and 2010 respectively, and the absence of bracket indexation.

Table 2 – Nova Scotia's personal income tax rates (per cent of taxable income) by bracket

	1 st bracket rate	2 nd bracket rate	3 rd bracket rate	4 th bracket rate	5 th bracket rate
2001	9.77%	14.95%	16.67%	N/A	N/A
2002	9.77%	14.95%	16.67%	N/A	N/A
2003	8.79%	13.58%	15.17%	N/A	N/A
2004	8.79%	14.95%	16.67%	17.50%	N/A
2005	8.79%	14.95%	16.67%	17.50%	N/A
2006	8.79%	14.95%	16.67%	17.50%	N/A
2007	8.79%	14.95%	16.67%	17.50%	N/A
2008	8.79%	14.95%	16.67%	17.50%	N/A
2009	8.79%	14.95%	16.67%	17.50%	N/A
2010	8.79%	14.95%	16.67%	17.50%	21.00%
2011	8.79%	14.95%	16.67%	17.50%	21.00%

Table 3 – Nova Scotia's personal income tax brackets (taxable income)

	1 st bracket	2 nd bracket	3 rd bracket	4 th bracket	5 th bracket
2001	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181+)	N/A	N/A
2002	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 +)	N/A	N/A
2003	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 +)	N/A	N/A
2004	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A
2005	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A
2006	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A
2007	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A

2008	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A
2009	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 +)	N/A
2010	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 - \$150,000)	(\$150,001 +)
2011	(\$0 - \$29,590)	(\$29,591 - \$59,180)	(\$59,181 - \$93,000)	(\$93,001 - \$150,000)	(\$150,001 +)

Corporate income tax

Nova Scotia's corporate income tax system is based largely on the *Income Tax Act (Canada)*, the *Income Tax Act (Nova Scotia)*, and the Canada-Nova Scotia Tax Collection Agreement (TCA). Nova Scotia imposes a tax on the income of businesses under the authority of the *Income Tax Act (Nova Scotia)*. Provincial policy is limited by the TCA to setting the general corporate rate, small business and manufacturing tax rates, the range of taxable income the small business rate applies to, and credits against provincial income tax. The TCA commits the Province to the calculation of taxable income and the set of deductions from taxable income contained in the *Income Tax Act (Canada)*. Many businesses carry on their activities in multiple physical locations (permanent establishments) and not necessarily in one provincial jurisdiction. How a company allocates this activity, and the resulting income, depends largely on the corporate structure of the business. The calculation of the corporate income tax consists of first computing taxable income across all locations of the businesses; second, allocating taxable income among these locations; third, applying the relevant jurisdictional rates to the taxable income of the business and; lastly computing the deductions from tax (or credits) available to the business. The preceding sections deal with each in more detail.

Table 4 – Corporate income tax revenues

	Revenues (public accounts basis, 000s)
	\$169,232
2001-2002	\$194,439
2002-2003	\$204,950
2003-2004	\$232,710
2004-2005	\$329,075
2005-2006	\$361,508
2006-2007	\$392,585
2007-2008	\$389,473
2008-2009	\$352,476
2009-2010	\$308,832

SOURCE: Nova Scotia Department of Finance

Table 5 – Corporate income tax rates and thresholds

Taxation Year	Rate (General/Small)	Small Business Threshold
2001	16%/5%	\$200,000
2002	16%/5%	\$300,000
2003	16%/5%	\$300,000
2004	16%/5%	\$300,000
2005	16%/5%	\$350,000
2006	16%/5%	\$400,000
2007	16%/5%	\$400,000
2008	16%/5%	\$400,000
2009	16%/5%	\$400,000
2010	16%/5%	\$400,000
2011	16%/4.5%	\$400,000

SOURCE: Department of Finance

Computation of taxable income

A business is only taxable in a province if it is said to have a permanent establishment in the Province. If a business only has a permanent establishment in one province then all income of the business is taxed in that province, however if this is not the case then the business must apportion its income between provinces. A permanent establishment is generally defined as a fixed place of business and includes offices, branches, mines, oil wells, farms, timber lands, factories, workshops, and warehouses. There are also circumstances where a business may have no fixed location that gives rise to a permanent establishment in the Province (an agent of the business located in the Province, for example).

Taxable income of a corporation begins by computing profit across all the business's establishments. Profit is not defined in the *Income Tax Act* (Canada) but is guided by Generally Accepted Accounting Principles, case law, common business practices and the *Income Tax Act* (Canada). Case law has established that any reasonable method followed by the corporation that accurately reflects profit can be used for income tax purposes. Once profits have been computed, deductions for capital cost allowances, inter-company dividends, some reserves, allowances for losses carried back or forward, allowances for receivables and bad debts, inventory valuation adjustments, donations, patronage dividends, some provincial resource taxes, interest on debt, foreign exchange losses, and income from stabilization funds (primarily in agricultural industries) are permitted. While some of these deductions may be accounted for in profits, the *Income Tax Act* (Canada) requires deductions follow particular concepts or formulae which will differ from reporting or accounting standards.

Once taxable income across a business is computed, the taxable income must be allocated to the business's permanent establishments. The Canadian income allocation system relies on an activity-specific formula for attributing income to permanent establishments in a Province. The majority of businesses allocate taxable income using an equally weighted average of:

- The share of wages and salaries paid to employees of permanent establishments in a province; and
- Gross revenues attributable to the permanent establishment in a province.

Salaries and wages include only payments made within the year to employees of the business and exclude individuals who are not employees of the business that receive commissions, salaries or payments. Gross revenues attributed to the permanent establishment is a matter of interpretation and follows the location of supplier and purchaser in a transaction for goods and the location of the performance of services in a transaction for the supply of services.

Allocation rules for the following activities differ from the general rules applicable to most businesses:

- insurance corporations;
- chartered banks;
- trust and loan corporations;
- railway corporations;
- airline corporations;
- grain elevator operators;
- bus and truck transportation operators;
- pipeline operators; and
- ship operators.

There are also special provisions for divided businesses and non-resident corporations.

Computation of provincial tax

Corporate income tax under the Nova Scotia *Income Tax Act* is calculated as a weighted average of the general corporate and small businesses rates. Pursuant to subsection 40(2) of the Nova Scotia *Income Tax Act*, if the corporation is eligible for a small business deduction under subsection 125(1) of the *Income Tax Act* (Canada) the corporation can calculate its taxes as follows:

$$C_i^{NS} = \left[\left(1 - \frac{D_i}{I_i^{CA}} \right) \cdot 16 + \left(\frac{D_i}{I_i^{CA}} \right) \cdot 05 \right] I_i^{NS}$$

Where C_i^{NS} is gross corporate income tax paid in Nova Scotia pursuant to Section 40 of the *Income Tax Act* D_i is the deduction available to corporations pursuant to subsections 125(1), 125(2) and 125(3) of the Federal *Income Tax Act* and I_i^{CA} and I_i^{NS} is the corporation's taxable income and taxable income allocated to Nova Scotia respectively. Subsection 40(1) of the Nova Scotia *Income Tax Act* requires all other corporations calculate their corporate income tax as if D_i was zero.

Small business deductions under the *Income Tax Act* (Canada) are available to a Canadian Controlled Private Corporation (CCPC) against active business income. A CCPC with active business income can claim a deduction equal to the lesser of its taxable income in the calendar year and the business limit. In

the *Income Tax Act* (Canada) the business limit of a corporation is established as a threshold which is reduced by 0.225 per cent of taxable capital over \$10 million and any apportionment of the small business limit between associated corporations. Effective January 1, 2009 the federal business limit is \$500,000. The Nova Scotia business limit was increased in 2006 from \$350,000 to \$400,000.

Table 6 – Value of the small business rate to businesses in Nova Scotia

Calendar year	Foregone revenues
2001	62,548,435
2002	69,008,140
2003	72,397,192
2004	87,354,472
2005	89,925,868
2006	93,281,072
2007	113,941,008
2008	137,353,027
2009	131,992,775

Source: Nova Scotia Department of Finance

Harmonized sales tax

The Harmonized Sales Tax is a value added tax on the consumption of most goods and services in the Province. Like other value added taxes, the harmonized sales tax relies on input tax credits to tax only the final stage of production value added. Input tax credits offset the taxes paid by suppliers on inputs used to produce taxable goods and services. Suppliers collect harmonized sales tax on the final value of the goods and services they produce. The taxes remitted to the Canada Revenue Agency are reduced by the amount of tax paid on inputs, as suppliers remit tax based on only value added through their stage of production. This indirect method of taxing value added is widely used throughout the world.

The Province collects the harmonized sales tax under the Canada-Nova Scotia Comprehensive Integrated Tax Coordination Agreement, or CITCA. CITCA is ratified under the *Sales Tax Act* (Nova Scotia) however the imposition of the tax is contained in the *Excise Tax Act* (Canada). Under CITCA the province agrees to impose a value added tax on the same tax base as the Federal Goods and Services Tax (GST). Originally entered into on October 18, 1996 the Province entered into a successor CITCA on April 3, 2010. Under the April 3, 2010 CITCA the Province's policy autonomy is limited to offering rebates and setting tax rates. While formal mechanisms exist for the Province to amend the tax base, no unilateral base changes can be made by the Province.

CITCA sets out the collection and payment of taxes to the province. Unlike most tax sources harmonized sales taxes are not collected by the Province on a purchase by purchase basis. At the audit and enforcement level transactional level information is validated however the allocation of revenues is not. The net tax from all taxable purchases is remitted to the Canada Revenue Agency and net taxes are

allocated based on a statistical allocation formula called the revenue allocation formula. Net tax for allocation is computed as gross tax collected, less input tax credits and rebates. Gross tax includes tax collected by registered suppliers of goods and services, self-assessed purchases and imports, and any reassessments of tax. Rebates include government rebates, multi-employer pension plans, and foreign convention rebates. The total of these amounts is allocated to the Government of Canada and all harmonized provinces.

The allocation of revenues is unique in Canada and is internationally recognized for the efficiency of administration. Data from Statistics Canada, Canada Revenue Agency, Canada Border Services Agency and Finance Canada are used to determine jurisdictional shares of the revenue pool. This process eliminates the need to track individual purchases for both taxes collected and input tax credits claimed. Each calendar year the revenues accruing to the Province are estimated based on this information and are re-estimated in each of the following five years until the estimate for that calendar year is closed.

Taxable supplies in the Province are taxed at the rate of harmonized sales tax in the Province. This is composed of the Canadian Value Added Tax (CVAT) rate and the Provincial Value Added Tax (PVAT) rate. The Federal Government sets the CVAT rate, or Goods and Services Tax rate, and the Province sets the PVAT rate subject to the provisions of the CITCA in place.

Taxable supplies

Most supplies of goods and services are taxable under the harmonized sales tax. The structure of the *Excise Tax Act* (Canada) starts with the proposition that all transactions where goods and services are exchanged for something of value (i.e., another good or service, cash, debt forgiveness) is taxable. Exemptions and zero-rating are exceptions to this. Place of supply rules govern where the good or service is supplied. The purpose of these rules is to closely align the taxation of a good or service to the province where the good or service is consumed.

Goods are generally taxed where the good is made available to the purchaser. Sales of goods of goods purchased outside of Nova Scotia are taxed outside of Nova Scotia if the purchaser either takes possession of the good outside of Nova Scotia or if the purchaser arranges for delivery of the good outside of Nova Scotia with an agent of the purchaser. Otherwise the purchase is taxed in Nova Scotia. Depending on the circumstances, self-assessment may be required if goods are brought into Nova Scotia.

Goods purchased through long-term or short-term lease arrangements depend on where the good is 'ordinarily' situated at the beginning of the lease period and the length of the lease period.

Motor vehicles are taxed where the vehicle is required to be registered other than specific types of vehicles (such as race cars). When a motor vehicle is purchased outside of the province from a GST registrant, the purchaser will pay the rate of tax applicable in the province to the registrant. When the vehicle is registered in a province the purchaser will be required to pay (or receive a refund for) any difference in the tax on the vehicle. This also applies to the purchase of used vehicles in Nova Scotia.

Where a person purchases goods outside of the province, the person is required to self-assess the provincial rate of HST. Poor compliance to self-assessment rules may cause tax leakage since it is fundamentally based on voluntary assessment.

Services are generally taxed where the service is performed. If 90 per cent or more of a service is performed in a province, the service is generally taxed in that province. If less than 90 per cent of the service is performed in a province then it would be taxed in the province where the supplier's agent negotiating the service is located and more than 10 per cent of the service is supplied in that province. If neither of these conditions hold then the service is taxed in the province if more than 50 per cent of the service is performed in that province.

Separate rules apply to transportation services, postage, telecommunications, financial services, and computer-related services.

Intangible personal property, such as financial instruments or lease rights, is generally taxed where the property is situated or performed. If 90 per cent or more of an intangible personal property relates to one province, then it is taxed in that province. If less than 90 per cent relates to a province, then it depends on where the supplier is located.

Generally speaking input tax credits are available for HST paid in producing most taxable supplies.

Exempt supplies

Exempt supplies are generally produced by public service bodies (e.g., government, universities, schools, colleges, hospitals, charities and not for profit institutions). Schedule V of the *Excise Tax Act* (Canada) enumerates exempt supplies. Significant exemptions include:

1. Used residential property;
2. Rental of residential property;
3. Most publically insured medical services;
4. Publically provided homemaking services provided to infirm individuals;
5. Most educational programs;
6. Lodging rented while receiving educational services;
7. Professional accreditations;
8. Tutoring services;
9. English and French as a second language courses;
10. School cafeteria meals;
11. Some university and college meal plans;
12. Services of supervision for children and disabled individuals;
13. Legal aid services;
14. Most supplies made by charities and not for profit institutions;
15. Some government goods and services; and

16. Many financial services.

Producers of exempt supplies are not permitted to claim input tax credits in respect of their taxable purchases. Generally they are permitted to claim rebates. Exemptions effectively reduce the amount of tax paid by the final consumer but do not completely remove it from the price paid by the consumer. Rebates provide partial relief from taxation however the portion of the tax paid by the public sector body is usually passed on to the final consumer. The purpose of the exemption mechanism is to reduce the cost of socially desirable activities.

Zero rated supplies

Zero rated supplies are supplies that are taxable at a rate of zero per cent. These supplies are generally considered necessities however many goods and services generally considered to be necessities are not zero rated. Zero rating effectively removes any value added tax from the price paid by the consumer. This is accomplished by making input tax credits available to producers with a zero per cent tax on the price paid by the consumer. Significant zero rated goods and services include:

1. Most controlled or prescription drugs;
2. Many medical or assistive devices (excludes cosmetic goods and services);
3. Basic groceries;
4. Agricultural and fishing supplies;
5. Exports;
6. Some transportation services;
7. Some financial services (exported services, non-resident services taxed performed in Canada);
8. Some imports (personal exemptions, prizes won outside of Canada, donations to charities outside of Canada, replacement parts under warranty, mailed goods worth less than \$20, goods temporarily imported for re-export).

Input tax credits

Input tax credits are available to the extent a producer purchased an input for use in the production of taxable and zero rated goods and services. Full input tax credits are only permitted where the input is used exclusively for commercial purposes (producing taxable or zero rated goods and services). In circumstances where inputs are used for both commercial and non-commercial purposes (producing exempt goods or services) suppliers can generally claim partial input tax credits.

Motive Fuel Tax

The motive fuel tax is collected by the Province on the sale of most gasoline, diesel, and propane used in vehicles. Part I of the *Revenue Act* provides the legislative authority for the collection of this tax. Motive fuel taxes, although collected directly from consumers, appear indirectly in the retail price of the taxable purchase because of the administration of the tax. The collection of the motive fuel taxes occurs at the wholesale level and consequently is charged to retailers. Retailers then charge the tax to consumers.

The tax applies to any purchase of gasoline, diesel, propane, or anything that can be used to power combustion engines in place of gasoline or diesel. Aviation fuel and fuel for commercial vessels are also taxed under the same section of the *Revenue Act*.

The tax is a volumetric tax since it collected on each taxable unit (normally litre) purchased and used in the Province. Volumetric taxes do not change as prices of fuel increase or decrease. Government revenues generally tend to increase as prices drop and decrease as prices increase based upon consumption patterns, although diesel oil consumption is closely related to economic and commercial activity.

Motive fuel taxes are generally considered optimal taxes in two senses. Motive fuel taxes act as a proxy for user charges on road uses however motive fuel taxes generally do not exceed maintenance or construction costs and are based on average cost. That generally means users who impose higher costs by using their vehicles subsidize those who impose more cost. Motive fuel taxes are also collected on uses of fuel that do not require road use so the tax is an imperfect proxy. The second reason motive fuel taxes are generally considered optimal is because they correct for external costs of pollution from the combustion of the fuel.

Table 7 – Components of the motive fuel tax: statutory rate in the calendar year per taxable volume unit and millions of volume units for the fiscal year ended by component

	Gasoline tax rate	Gasoline volume	Diesel tax rate	Diesel volume	Propane tax rate	Propane volume	Aircraft fuel tax rate	Aircraft volume	Commercial vessel tax rate	Commercial vessel volume
2001	\$0.135	1,188.5	\$0.154	373.1	\$0.07	N/A	\$0.009	N/A	\$0.011	N/A
2002	\$0.135/ \$0.155	1,189.3	\$0.154	376.6	\$0.07	N/A	\$0.009	N/A	\$0.011	N/A
2003	\$0.155	1,207.6	\$0.154	379.6	\$0.07	N/A	\$0.009	N/A	\$0.011	74.7
2004	\$0.155	1,214.1	\$0.154	397.0	\$0.07	6.0	\$0.009	169.6	\$0.011	66.2
2005	\$0.155	1,203.3	\$0.154	403.2	\$0.07	5.1	\$0.009	172.5	\$0.011	59.7
2006	\$0.155	1,181.6	\$0.154	424.2	\$0.07	4.3	\$0.009	155.9	\$0.011	35.7
2007	\$0.155	1,174.9	\$0.154	420.5	\$0.07	4.9	\$0.009/ \$0.025	160.3	\$0.011	32.7
2008	\$0.155	1,176.7	\$0.154	426.7	\$0.07	6.4	\$0.025	170.7	\$0.011	22.2
2009	\$0.155	1,151.6	\$0.154	414.7	\$0.07	4.6	\$0.025	167.3	\$0.011	18.4
2010	\$0.155	1,186.1	\$0.154	404.8	\$0.07	5.0	\$0.025	158.3	\$0.011	25.7

Source: Department of Finance, Service Nova Scotia and Municipal Relations.

Note: N/A denote data is unavailable

Tobacco tax

The tobacco tax is collected on the sale of most cigarettes, fine cut tobacco, cigarette sticks, and cigars in the Province. Part III of the *Revenue Act* provides the legislative authority for the collection of the tax. Tobacco taxes (with the exception of cigars) are based on the taxable volume sold to consumers in Nova Scotia and are collected at the wholesaler level. For cigars, the tobacco tax is based on the manufacturers suggested selling price before value added taxes. The wholesaler recovers the taxes paid through higher costs to the retailers and higher consumer prices until the final imposition of the tax on the consumer. The tax is volumetric and is consequently invariant to changes in price for cigarettes, cigarette sticks and fine cut tobacco. For cigars, as the price increases, so to does the tax.

Tobacco taxes fulfill several policy purposes. First, they deter consumption of tobacco and any negative externalities associated with tobacco consumption (e.g., second hand or passive smoking, uninformed decisions to take-up smoking in youth, etc.). Second, tobacco taxes can be viewed as a user cost for the increased risk of tobacco related morbidity. Since health care costs are financed from general revenues collected by the Province, tobacco taxes provide additional tax revenues to assist in providing health care services to individuals accepting greater health risks and generally incurring greater health care expenditures. Tobacco tax revenues have been one of the most volatile revenue sources over the past several years because close untaxed substitutes (illegal tobacco products) are generally available. The emergence of this unobserved substitute undermines the policy intent of the tax by providing a relatively less expensive comparable substitute.

Table 8 – Overview of tobacco tax: taxable volumes sold within the fiscal year and statutory rates within the calendar year (millions of taxable units)

	Cigarette volume	Cigarette rate	Fine cut tobacco volume	Fine cut tobacco rate	Cigarette sticks volume	Cigarette sticks rate	Cigars volume	Cigars rate
2001	1,389.2	\$0.048/ \$0.068/ \$0.080	199.3	\$0.034/ \$0.047/ \$0.060	51.6	\$0.038/ \$0.053/ \$0.066		56%
2002	1,256.9	\$0.080/ \$0.105	193.3	\$0.060/ \$0.095	72.3	\$0.066/ \$0.105		56%
2003	1,074.5	\$0.105/ \$0.130	196.4	\$0.095/ \$0.117	68.6	\$0.105/ \$0.130		56%
2004	1,022.3	\$0.130/ \$0.155	198.0	\$0.117/ \$0.140	24.5	\$0.130/ \$0.155		56%
2005	959.1	\$0.155	182.3	\$0.140	12.1	\$0.155		56%

2006	942.6	\$0.155	146.1	\$0.140	5.1	\$0.155	56%
2007	853.5	\$0.155/ \$0.165	109.1	\$0.140/ \$0.15	4.0	\$0.155/ \$0.165	56%
2008	820.4	\$0.165	84.1	\$0.15	2.6	\$0.165	56%
2009	827.3	\$0.165/ \$0.215	74.1	\$0.15/ \$0.20	1.1	\$0.165/ \$0.215	56%
2010	901.1	\$0.215	84.9	\$0.20	0	\$0.215	56%

Source: Department of Finance, Service Nova Scotia and Municipal Relations.

Private levy on used tangible personal property

The private levy on used designated tangible personal property is collected on the sale of most used vehicles, boats, aircraft and trailers purchased in the Province from non-GST/HST registrants. The list of designated tangible personal property includes motor vehicles, boats, vessels, aircrafts and every device in, upon or by which any person or property is designed to be transported or drawn. Motor vehicle is defined broadly enough to include any device powered by something other than muscular power (except power wheelchairs).

The private levy on used tangible personal property is collected under the authority of *Part IIA* of the *Revenue Act* (Nova Scotia). Introduced in 1997 to coincide with the implementation of the HST, the tax on used tangible personal property is intended to maintain equal tax treatment of the sale of new and used vehicles as well as equal tax treatment for GST/HST registrants and non-registrants. The rate of the levy is the same as the HST rate applicable in the Province.

Since input tax credits and exemptions are not available in the same circumstances, the tax treatments of new and used vehicle are not equal once used vehicles are sold by consumers. If the consumer sells a used vehicle to another consumer, the purchaser must pay *Part IIA* tax on the value of the vehicle.

Gypsum income tax

The gypsum mining income tax is collected under the authority of the *Gypsum Mining Income Tax Act* on the profits derived from gypsum mining operations. Income derived from gypsum mining is taxed at a rate of $33\frac{1}{3}$ per cent. Income is defined differently than taxable income for corporate income tax purposes. Income subject to the tax is defined as gross revenues from mining gypsum less:

- Salaries and wages of employees immediately connected to gypsum mining;
- Cost of power and lighting;

- Cost of food and provisions supplied by the employer;
- Cost of explosives;
- Costs incurred in providing mine safety and security;
- Costs of insuring mine physical assets;
- Depreciation of mine assets (ie: machinery and equipment, buildings); and
- Exploration of development costs.

The *Act* expressly disallows deductions for investment in physical assets. Income is computed annually for the operations at each mine and losses can not be carried forward or backwards. The *Act* also permits the mining operation to assume a legislated profit per ton of gypsum mined. The rate of $33\frac{1}{3}$ is then applied to the product of the tons mined, the profit per ton and the tax rate.

The tax can be viewed as a royalty on the extraction of non-renewable public resources since the Province effectively controls the resource and faces similar opportunity costs for extraction compared to licensed persons or businesses.

General Capital Tax

The large corporations tax is a tax on the capital of corporations, excluding certain financial institutions. The provincial capital tax base follows the *Income Tax Act* (Canada) definition and includes items such as: paid-up capital stock, retained earnings and contributed surpluses, loans and advances to corporation and debt with maturity longer than one year. The *Income Tax Act* (Nova Scotia) provides the authority for the large corporations tax and is administered by the Canada Revenue Agency under the terms of the Tax Collection Agreement (TCA).

The large corporations tax is comprised of two rates based on the level of a corporations' capital. Corporations with taxable capital below \$10 million of capital are subject to a higher rate, currently 0.2 per cent, for capital above \$5 million. Corporations with capital over \$10 million are subject to a lower rate, currently 0.1 per cent, on all taxable capital allocated to Nova Scotia. The amount of taxes paid under the large corporations tax is deductible from the corporations' income for the purposes of federal and provincial corporate income taxes.

Budget 2005 announced a 0.025 per cent decrease in the LCT in 2005 and in each of the following three years. Budget 2006 accelerated the reduction to a 0.05 per cent decrease annually, with the tax to be completely eliminated on July 1, 2012.

Table 9 – Overview of the Large Corporations Tax (2001-2010)

Rate for Capital \$10M+ (Under \$10 million)	Revenue (000s)

2001	0.25% (0.5%)	N/A
2002	0.25% (0.5%)	N/A
2003	0.25% (0.5%)	N/A
2004	0.25%/0.3% (0.5%/0.6%)	\$59,191
2005	0.3%/0.275% (0.65%/0.55%)	\$58,961
2006	0.275%/0.25% (0.55%/0.5%)	\$67,945
2007	0.25%/0.225% (0.5%/0.45%)	\$58,373
2008	0.225%/0.2% (0.45%/0.4%)	\$54,199
2009	0.2%/0.15% (0.4%/0.3%)	N/A
2010	0.15%/0.1% (0.3%/0.2%)	N/A

Source: Department of Finance calculations.

Capital tax on financial institutions

The Corporation Capital Tax (CCT) is a provincial tax levied on the amount of capital employed in Nova Scotia by banks, trust and loan companies. Taxable capital for these institutions includes shareholders' equity, surplus and reserve items.

The provincial CCT rate of 4 percent applies to taxable capital above \$500,000 for banks and above \$30 million for loan or trust companies that are headquartered in Nova Scotia. Life insurance companies and credit unions are not subject to the CCT. Thirty companies pay the CCT and approximately 80 percent of the tax revenue is paid by six companies.

The *Corporation Capital Tax Act* provides the legislative authority to collect the Corporation Capital Tax. The tax is administered by the Department of Service Nova Scotia and Municipal Relations (SNSMR).

Table xx – Overview of the Corporation Capital Tax (2001-2010)

	Rate	Revenue (SAP, 000s)	Estimated Taxable Capital (000s)
2000-01	3%	\$17,433	\$581,100
2001-02	3%	\$16,981	\$566,021
2002-03	3%	\$13,940	\$464,665

2003-04	3%	\$15,069	\$502,310
2004-05	4%	\$23,519	\$587,981
2005-06	4%	\$22,453	\$561,325
2006-07	4%	\$13,558	\$338,945
2007-08	4%	\$15,572	\$389,293
2008-09	4%	\$20,962	\$524,046
2009-10	4%	\$31,540	\$788,505

Source: Department of Finance calculations.

Casino Win Tax

The Casino Win Tax is a payment required to be made under the *Gaming Control Act* based on 20 per cent of the net consumer loss on a daily basis across all the Nova Scotia Gaming Corporation's operations. The win tax was introduced in 1995 with the introduction of the Gaming Corporation after the Nova Scotia Lottery Commission was dissolved following a report from the Standing Committee on Community Services which recommended the creation of the Gaming Corporation. The purpose of the win tax was effectively to replace the revenues from various games of chance falling under the Lottery Commission. As a Government Business Enterprise, the Gaming Corporation makes a payment equal to its net income to the Province's consolidated fund.

Table 10 – Overview of Nova Scotia's casino win tax, fiscal year ended

	Casino win tax revenue	Win tax rate	Gaming corporation net income	Proportion of net income
2001	\$18,492	20%	\$174,035	10.62%
2002	\$18,663	20%	\$178,035	10.48%
2003	\$18,077	20%	\$191,059	9.46%
2004	\$17,257	20%	\$175,070	9.86%
2005	\$16,999	20%	\$170,303	9.98%
2006	\$17,078	20%	\$157,051	10.87%
2007	\$17,881	20%	\$144,442	12.38%
2008	\$16,989	20%	\$153,566	11.06%

2009	\$15,693	20%	\$136,536	11.49%
2010	\$16,128	20%	\$130,193	12.40%

Source: Department of Finance, Public Accounts (Volume 2)

Tax on insurance premiums

Nova Scotia collects three taxes on gross insurance premiums, under the authority of the *Insurance Premiums Tax Act*:

1. Tax on accident and sickness insurance premiums;
2. Tax on fire insurance premiums; and
3. Tax on other individual premiums.

The tax on insurance premiums, while paid by insurance companies with Nova Scotia residents, is based on the premiums paid by residents. Insurance companies are required to submit a percentage of the sum of gross premiums paid by Nova Scotia residents less dividends distributed to the same.

The tax functions as a tax on earnings retained and not distributed to Nova Scotia residents since dividends to Nova Scotia policy holders are fully deductible. This provides a lower effective tax on earnings for insurance companies with low overhead and/or generous dividend policies. Any insurance company with policy holders in the Province is required to pay the insurance premiums tax.

Table 11 – Overview of Nova Scotia’s tax on insurance premiums, fiscal year ended (000s)

	Tax on fire insurance premiums	Tax on accident and sickness insurance premiums	Tax on other insurance premiums	Tax rates (fire/accident and sickness/other)
2001	2,069.24	7,855.74	22,641.56	1.25%/3%/4%
2002	923.79	8,342.98	26,043.05	1.25%/3%/4%
2003	3,908.61	9,274.29	32,685.12	1.25%/3%/4%
2004	3,203.90	10,303.90	36,000.67	1.25%/3%/4%
2005	2,767.61	10,586.94	36,610.48	1.25%/3%/4%
2006	3,749.99	11,395.31	35,517.41	1.25%/3%/4%
2007	3,832.60	11,453.49	36,869.80	1.25%/3%/4%

2008	3,796.91	12,663.89	36,738.23	1.25%/3%/4%
2009	3,467.76	13,496.97	35,340.36	1.25%/3%/4%
2010	3,989.74	13,928.17	37,702.23	1.25%/3%/4%

Source: Department of Finance (SAP system GL: 303100, 303400, and 303500)

PART II: Tax expenditures

Tax expenditures can broadly be thought of as reductions in tax enacted for a specific class of persons. While many of the Province’s tax expenditures are made through tax credits against provincial personal and corporate income taxes, several other forms of expenditures within the tax system occur - namely, rebates, deductions, and exemptions. The Province does not have autonomy to change many elements of the tax system giving rise to tax expenditures (e.g., exemptions from harmonized sales tax, zero-rating a good or service under harmonized sales tax, creating a deduction against taxable income, etc.) because of limitations imposed by agreements with the federal government – specifically the Tax Collection Agreement (TCA) and the Comprehensive Integrated Tax Collection Agreement (CITCA). These expenditures are not discussed here because they can not be changed by the Province unilaterally.

The methodology followed in quantifying tax expenditures follows the principle of forgone revenue. The cost of tax expenditures are equivalent to the amount of revenue government foregoes in permitting the expenditure. This principle is applied by most Organization for Economic Cooperation and Development (OECD) countries in estimating tax expenditures.

Not all credits, rebates, and exemptions identified here are considered to be tax expenditures in the academic sense of the term. Tax expenditures only include tax reductions from an idealized benchmark tax system. For example, the Government of Canada’s stated benchmark would include anything that reduces the tax on an individual or corporation given the rate structure, indexing provisions, the timing of taxation and any provisions for eliminating double taxation. Given this definition, the Province’s estimate of tax expenditures for some personal income tax credits where government has corrected for inflation would be overstated. **For the purpose of this document, tax expenditures can be viewed as any revenue foregone given only the rate structure and tax base on which the rates are applied.**

Tax expenditures are estimated without assumptions about behaviour. This is intended to provide the most objective valuation of the historical cost of tax expenditures. Personal income tax credits are an exception to this for reasons discussed below. Forward looking estimates however do contain behavioural assumptions and are only provided in the summary table at the end of this part.

Personal income tax expenditures

Nova Scotia's personal income tax credits can be broadly classified into refundable and non-refundable. Refundable tax credits provide an amount to filers irrespective of the tax liability of the filer. On the other hand, the value of a non-refundable credit to the filer depends on the gross tax of the filer.

The value of non-refundable credits can not be precisely known without making assumptions about how filers choose to file their taxes. For example, while it may seem reasonable to assume an individual would use the basic personal amount in the presence of taxable income below the basic personal amount, the presence of other non-refundable credits will diminish the value of non-refundable credits to that filer if their gross tax liability is exceeded by non-refundable credits. How the filer chooses to allocate the use of credits is somewhat arbitrary but does determine the implied cost of each credit. The methodology followed in estimating the cost of each credit assumes that unused non-refundable credits (the excess amount of credits over gross Provincial taxes) proportionally lowers the amount of each non-refundable credit used. Estimates also assume individuals allocate all taxable income to Nova Scotia and use non-refundable credits as described even if they file returns in multiple Provinces.

Basic personal amount

The basic personal amount is a non-refundable credit that can be claimed by all filers. The purpose of the basic personal amount is to provide full relief from Provincial taxes to all tax filers below the basic personal credit. It also provides partial relief to filers with taxable income above the basic personal amount. It has existed in the personal income tax system as a deduction or non-refundable credit since the introduction of personal income taxes in Canada in 1917. The basic personal amount is integrated with the spousal amount so in cases where one spouse earns taxable income and the other does not, the spouse earning taxable income can claim the other spouse's unused basic personal amount through the spouse or equivalent to spouse amount. The table below illustrates the basic personal amount, the actual fiscal cost, and the number of filers benefiting from the basic personal amount from 2001 to 2010.

Notable changes since 2001 include the four year plan to increase the basic personal amount by \$250 per year between 2007 and 2010. Several other non-refundable credits were increased as part of the 2006 Budget. The basic personal amount is not indexed but commencing with the 2011 taxation year the Minister of Finance may set a prescribed rate through Regulations to the *Income Tax Act*.

Table 12 – Overview of Nova Scotia's basic personal amount (2001-2010)

	Basic personal amount	Cost of credit (000's)	Number of filers benefiting
2001	\$7,231	\$369,144.4	643,521
2002	\$7,231	\$379,198.6	657,258
2003	\$7,231	\$384,098.8	663,195

2004	\$7,231	\$372,189.0	647,542
2005	\$7,231	\$374,678.8	648,052
2006	\$7,231	\$379,809.7	658,093
2007	\$7,481	\$402,459.6	669,055
2008	\$7,731	\$417,003.9	671,039
2009	\$7,981	\$428,795.2	669,741
2010	\$8,231	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5804 of NS428.

Age amount

The age amount is a non-refundable credit provided to individuals over the age of 65 in the tax year. Lower direct taxation of senior's income is part of government income support for older individuals in most countries internationally. In Canada, the age amount provides older individuals with reduced income taxes and increased after-tax income. This is one of many mechanisms in the tax system to increase retiree's income available to finance retirement consumption. The age amount available to a filer is reduced for income above an income threshold at a rate of \$0.15 per \$1 over the income threshold.

Budget 2006 implemented increases in the age amount and income threshold between 2007 and 2010. This increases both the value of the credit to individuals already receiving the credit and made the credit available to more filers.

Table 13 – Overview of Nova Scotia's age amount (2001-2010)

	Age amount maximum	Threshold	Income at which credit is fully phased-out	Cost of credit (000's)	Number of filers benefiting
2001	\$3,531	\$26,284	\$49,824.00	\$28,991.1	114,805
2002	\$3,531	\$26,284	\$49,824.00	\$29,642.9	117,135
2003	\$3,531	\$26,284	\$49,824.00	\$30,138.7	118,713

2004	\$3,531	\$26,284	\$49,824.00	\$29,267.2	118,908
2005	\$3,531	\$26,284	\$49,824.00	\$29,448.3	119,785
2006	\$3,531	\$26,284	\$49,824.00	\$29,872.0	120,814
2007	\$3,653	\$27,193	\$51,546.33	\$33,181.1	127,474
2008	\$3,775	\$28,101	\$53,267.67	\$35,520.7	131,415
2009	\$3,897	\$29,010	\$54,990.00	\$37,796.9	135,361
2010	\$4,019	\$29,919	\$56,712.33	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5808 of NS428.

Spouse or equivalent to spouse amount

As discussed in the section on the basic personal amount, a filer cohabitating with their spouse or common law partner can claim an amount equal to the basic personal amount. This amount is reduced by the income of the spouse or common law partner on a dollar for dollar basis. Claiming this amount precludes the filer from claiming the dependant amount. The purpose of this non-refundable credit is to improve work incentives for families while providing tax relief to families with secondary incomes at or below the basic personal amount.

Introduced as part of the 1917 Federal income tax, the Province adopted the credit in 1962 with the first Tax Collection Agreement. The credit was changed from a deduction in 1988 and retained as part of the move to tax on income in 2001. Budget 2006 implemented increases in the spouse and equivalent amount between 2007 and 2010, maintaining the relative differences between amounts for the basic personal amount and the spouse and equivalent amount.

Table 14 – Overview of Nova Scotia’s spouse and equivalent amount (2001-2010)

	Spouse and equivalent	Cost of credit (000’s)	Number of filers benefiting
2001	\$6,754	\$35,863.9	91,623
2002	\$6,754	\$36,053.3	90,966
2003	\$6,754	\$35,333.2	88,178
2004	\$6,754	\$32,978.4	82,987

2005	\$6,754	\$31,941.1	79,965
2006	\$6,754	\$30,409.0	76,559
2007	\$6,987	\$27,889.2	67,861
2008	\$7,221	\$28,018.3	66,286
2009	\$7,456	\$28,530.4	65,638
2010	\$7,688	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5812 of NS428.

Dependant amount

The dependant amount is a non-refundable credit for individuals caring for children who have not reached the age of 18 in the tax year or physically or mentally impaired relatives in the absence of a spouse or common law partner. The amount can only be claimed if the dependant resides in a home maintained by the filer through any part of the year. Claiming the dependant amount precludes the individual from claiming spouse and equivalent amount and only one person can claim the individual as a dependant. The purpose of this credit is to reduce taxes for individuals facing persistent expenses associated with raising children or caring for those with disabilities. In particular, this credit is designed to assist individuals without a secondary source of income to support the household.

The dependant amount was introduced as part of the 1917 Federal income tax as a deduction. The Province adopted the credit through the Tax Collection Agreement in 1962 through the tax on tax system at that time. The deduction was changed to a credit in 1988 and the Province retained the credit upon moving to the tax on income system in 2001. The value of the dependant amount is based on a maximum value and is reduced for each dollar of the dependant's net income. Budget 2006 implemented increases in the dependant amount for the 2007 to 2010 tax years.

Table 15 – Overview of Nova Scotia's dependant amount (2001-2010)

	Dependant amount maximum	Cost of credit (000's)	Number of filers benefiting
2001	\$6,754	\$145.4	754
2002	\$6,754	\$142.4	752
2003	\$6,754	\$127.7	690

2004	\$6,754	\$130.4	702
2005	\$6,754	\$122.5	663
2006	\$6,754	\$120.9	684
2007	\$6,987	\$122.6	652
2008	\$7,221	\$130.6	657
2009	\$7,456	\$128.6	625
2010	\$8,231	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5820 and 5816 of NS428.

Young children

The young children amount is a non-refundable credit offsetting the provincial tax on the Federal Universal Child Care Benefit (UCCB). Since UCCB is included in a filer's taxable income the provincial government would, if not for the young children amount, collect tax on UCCB, reducing the net benefit to the filer and increasing Provincial revenues by an equal amount. Since the intent of the UCCB is to provide income to filers and not the Province, provincial governments (including Nova Scotia) agreed to provide a provincial tax credit that in effect offsets the portion of the benefit transferred to the Province from the filer.

The UCCB was introduced in July 2006, the first year for the Provincial young children amount. The young children amount can only be claimed by one tax filer for each child under the age of six. The credit is based upon \$100 per month for each month in the taxation year that the child is under the age of six. This equates to the amount paid under the UCCB.

Table 16 – Overview of Nova Scotia's young children amount (2001-2010)

	Young children amount (per month)	Cost of credit (000's)	Number of filers benefiting
2001	N/A		
2002	N/A		
2003	N/A		

2004	N/A		
2005	N/A		
2006	\$100	\$1,419.2	27,186
2007	\$100	\$3,243.8	32,551
2008	\$100	\$3,344.5	33,421
2009	\$100	\$3,318.1	33,180
2010	\$100	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5823 of the NS428.

Canada pension plan contributions

This non-refundable tax credit is offered by every province that has entered into a Tax Collection Agreement with the Government of Canada. The Canada Pension Plan (CPP) contribution credit is intended to reduce taxes on the amount of CPP contributions for several policy reasons. Since CPP contributions are a form of public retirement savings, the personal income tax base theoretically exempts savings until it is realized as income. Prior to 1988 this was accomplished by means of a deduction however that favored higher income filers (higher marginal rates increased the value of the deduction to the filer). The presence of the credit roughly equates the taxation of public retirement saving to the taxation of private retirement saving, a key principle of equity. Since deductions are available for registered retirement savings plans and contributions to registered retirement plans, private retirement savings enjoys a tax advantage compared to public retirement saving if the individual faces marginal rates greater than the first bracket rate.

The value of the credit is based on the contributions made by the filer and the yearly maximum corresponds to the maximum CPP contributions a filer could make. The credit was introduced in 1966 with the Canada Pension Plan as a deduction through the tax on tax system at that time. It was converted to a non-refundable tax credit in 1988. The Province is required to maintain the credit under the Tax Collection Agreement.

Table 17 – Overview of Nova Scotia’s CPP contribution amount (2001-2010)

	CPP contribution amount	Cost of credit (000’s)	Number of filers benefiting
2001	\$1,496.40	\$30,297.5	397,935

2002	\$1,673.20	\$35,093.6	408,283
2003	\$1,801.80	\$38,342.4	412,347
2004	\$1,831.50	\$38,032.3	401,065
2005	\$1,861.20	\$39,157.7	400,994
2006	\$1,910.70	\$40,758.9	402,056
2007	\$1,989.90	\$42,912.6	406,411
2008	\$2,049.30	\$44,645.3	405,029
2009	\$2,118.60	\$44,841.7	398,684
2010	\$2,163.15	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on lines 5824 and 5828 of NS428.

Employment insurance contributions

Like the Canada Pension Plan (CPP) contribution credit, the Employment Insurance (EI) contribution credit is a required Provincial non-refundable credit under the Tax Collection Agreement. The EI contribution credit is intended to partially relieve the double taxation of public insurance premiums and contributions since the premiums received from EI are taxed. Double taxation of EI was remedied by a deduction before changing to a non-refundable credit in 1988 because of concerns that EI deductions are more valuable to high income filers. The EI contribution credit maximum is set annually to match the maximum EI contribution for that tax year. The value of the credit is based on the individual filer's contributions through the year. For the 2010 tax year and beyond self-employed individuals will be eligible for the employment insurance credit following the expansion of EI benefits to the self-employed.

Table 18 – Overview of Nova Scotia's EI contribution amount (2001-2010)

	EI contribution amount	Cost of credit (000's)	Number of filers benefiting
2001	\$877.50	\$17,314.3	388,786
2002	\$858.00	\$17,756.2	400,633
2003	\$819.00	\$17,398.0	405,598
2004	\$772.20	\$16,188.1	396,050

2005	\$760.50	\$16,312.2	397,658
2006	\$729.30	\$16,096.1	400,946
2007	\$720.00	\$16,200.7	406,963
2008	\$711.03	\$16,230.0	408,170
2009	\$731.79	\$16,344.9	403,245
2010	\$747.36	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5832 of NS428.

Pension income amount

The pension income amount is a non-refundable credit for individuals who receive specific types of pension income such as income from registered pension plans, registered retirement saving plans and income eligible to be split between individuals. The pension income amount is intended to provide a personal income tax reduction to retirees from tax on pension income. The amount is one of several mechanisms to provide income support to retirees.

Prior to 1988 the pension income amount was a deduction limited to \$1,000 however it was changed from a deduction to a non-refundable credit. Budget 2006 implemented increases in the Provincial pension income amount between 2007 and 2010 increasing the relative generosity of the Provincial credit compared to the Federal credit.

Table 19 – Overview of Nova Scotia’s pension income amount (2001-2010)

	Pension income amount	Cost of credit (000’s)	Number of filers benefiting
2001	\$1,000	\$8,442.0	99,608
2002	\$1,000	\$8,684.3	102,336
2003	\$1,000	\$8,876.3	104,458
2004	\$1,000	\$8,966.9	105,957
2005	\$1,000	\$9,191.7	108,598
2006	\$1,000	\$9,519.1	112,128

2007	\$1,035	\$11,896.6	135,279
2008	\$1,069	\$12,826.8	141,279
2009	\$1,104	\$13,586.7	145,025
2010	\$1,138	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5836 of NS428.

Caregiver amount

The caregiver amount is a non-refundable credit for individuals with mentally or physically impaired dependants, parents (over the age of 65) or grandparents (over the age of 65) in the tax year. The caregiver amount is available to individuals if the dependant's, parent's, or grandparent's income is less than the income threshold for that year. The credit is reduced dollar for dollar for income above the threshold and dollar for dollar for the filer's dependant amount. The purpose of the caregiver amount is to provide tax relief for individuals bearing additional costs associated with caring for an impaired person or a senior who are dependant on another person. The caregiver amount does not require an individual to itemize costs. The credit was introduced in the 1998 Federal budget and was adopted by the Province by virtue of the tax on tax system in place at the time. The Province continued the credit after moving to the tax on income system in 2001. Budget 2003 increased the value of the credit and Budget 2006 implemented increases to the caregiver amount and threshold in each tax year from 2007 to 2010.

Table 20 – Overview of Nova Scotia's caregiver amount (2001-2010)

	Caregiver amount	Income threshold	Caregiver's income where fully-phased out	Cost of credit (000's)	Number of filers benefiting
2001	\$2,386	\$11,661	\$16,048	\$601.0	3,190
2002	\$2,386	\$11,661	\$16,049	\$618.6	3,361
2003	\$4,176	\$11,661	\$17,840	\$1,134.7	3,904
2004	\$4,176	\$11,661	\$17,841	\$1,097.3	3,785
2005	\$4,176	\$11,661	\$17,842	\$1,096.7	3,814
2006	\$4,176	\$11,661	\$17,843	\$1,085.5	3,741

2007	\$4,320	\$12,064	\$18,391	\$1,126.8	3,771
2008	\$4,465	\$12,467	\$18,940	\$1,195.9	3,928
2009	\$4,610	\$12,870	\$19,489	\$1,329.3	4,117
2010	\$4,753	\$13,274	\$20,037	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5840 of NS428.

Disability amount

The disability amount is a non-refundable credit that can be claimed by a disabled individual or claimed by another person the disabled individual is dependant on (other than a spouse or common law partner). The amount claimed by the disabled person is intended to recognize generally higher costs associated with a disability, particularly of long duration. The credit does not depend on specific expenditures because many causes of higher expenses are difficult to itemize equitably across disabled individuals. Disability is generally defined in the *Income Tax Act* (Canada) and the Provincial credit follows the Federal definition:

- The disability can not be temporary and must be reasonably expected to last continuously for 12 months;
- A person is unable to easily perform routine tasks all or substantially all the time even in the presence of any form of assistive device or treatment; and
- Routine tasks are considered to be perceiving, thinking, remembering, feeding oneself, dressing oneself, carrying on conversations in near ideal or ideal conditions, walking, or controlling bladder or bowel function. Work or housework are not considered routine tasks.

Individuals must have certification from a doctor, optometrist, psychologist, occupational therapist, etc. depending on the nature of the disability. Disabled persons earning taxable income can claim the disability amount themselves. In instances where the individual does not earn taxable income (or even in instances where the individual earns taxable income) the credit can be transferred to another individual. The amount transferred is equal to the value of the non-refundable credit in the hands of the disabled individual. The credit is the sum of a base amount plus a supplement. The supplement is reduced dollar for dollar against child and attendant care expenditures claimed (as a medical expense or child care expense) above the yearly expense threshold. The maximum reduction in the credit is the amount of the supplement. The minimum amount a disabled individual can claim is the base amount.

Prior to 1988 the disability amount was deductible against taxable income. The province maintained the non-refundable credit when the tax on income system was introduced in 2001. Budget 2006 implemented increases in the Provincial disability amounts between 2007 and 2010.

Table 21 – Overview of Nova Scotia’s disability amount (2001-2010)

	Disability amount (base/supplement)	Expense threshold	Cost of credit (000’s)	Number of filers benefiting
2001	\$4,293/\$2,941	\$2,000	\$6,096.8	16,826
2002	\$4,293/\$2,941	\$2,000	\$6,683.2	18,367
2003	\$4,293/\$2,941	\$2,000	\$7,216.1	19,751
2004	\$4,293/\$2,941	\$2,000	\$6,854.6	19,170
2005	\$4,293/\$2,941	\$2,000	\$7,400.3	20,537
2006	\$4,293/\$2,941	\$2,000	\$8,050.4	22,044
2007	\$4,441/\$3,043	\$2,069	\$9,231.2	24,291
2008	\$4,596/\$3,144	\$2,138	\$10,349.0	26,261
2009	\$4,738/\$3,246	\$2,207	\$11,239.3	27,784
2010	\$4,887/\$3,348	\$2,277	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on lines 5848 and 5844 of NS428.

Student loan interest

Interest paid, by students or others, on government issued student loans can reduce Provincial taxes under this non-refundable tax credit. The amount of interest paid can be carried forward up to five years following the expense. Government issued student loans have been offered since 1964 in Canada. The student loan interest credit was introduced in the Federal budget of 1998 to provide tax relief to individuals who debt-finance education; lower the frequency of financial hardship for student loan recipients; and encourage participation in higher education. Nova Scotia also provided this credit beginning in 1998 because of the tax on tax system in place at that time. The full amount of student loan interest can be claimed so there is not explicit maximum value to the credit.

Table 22 – Overview of Nova Scotia’s student loan interest amount (2001-2010)

	Cost of credit (000’s)	Number of filers benefiting
2001	\$1,365.6	23,003
2002	\$1,298.5	25,202
2003	\$1,509.4	26,271
2004	\$1,436.2	25,750
2005	\$1,558.8	25,905
2006	\$1,887.9	25,903
2007	\$1,995.5	25,373
2008	\$1,842.8	25,444
2009	\$1,266.2	24,404
2010	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5852 of NS428.

Tuition and education amounts

Tuition and education expenses incurred in post-secondary institutions or other degree granting institutions can be claimed against Provincial income taxes through this non-refundable credit. The primary intent of this credit is to increase the after-tax return of investing in the attainment of a degree. The credit is partially transferable between parents, grandparents, or a spouse or common law partner (or a parent or grandparent of the spouse or common law partner). The transfer mechanism lowers the after-tax cost of financing human capital investments when the investment is financed within a family. Tuition and education amounts are transferable up to a yearly limit. Since many individuals earning degrees can not simultaneously earn sufficient taxable income to fully use the credit, the unused portion of the credit can be carried forward until it is fully used. Amounts carried forward can not be transferred.

The current non-refundable credit was changed from a deduction to a credit in 1988. The Nova Scotia amounts have not been adjusted since 1997 based on the Federal tax calculation. In 1997, part-time enrollment became eligible for the deduction, the full-time amount was increased, and the transfer mechanism changed to disallow unused amounts to be transferred.

Table 23 – Overview of Nova Scotia’s education and tuition amount (2001-2010)

	Education amount (per month full- time/per month part-time)	Transfer maximum	Cost of credit (000’s)	Number of filers benefiting
2001	\$200/\$60	\$5,000	\$22,064.8	79,276
2002	\$200/\$60	\$5,000	\$23,669.0	82,665
2003	\$200/\$60	\$5,000	\$24,678.2	83,690
2004	\$200/\$60	\$5,000	\$24,780.1	82,095
2005	\$200/\$60	\$5,000	\$25,745.8	81,093
2006	\$200/\$60	\$5,000	\$26,330.4	81,356
2007	\$200/\$60	\$5,000	\$25,881.1	78,251
2008	\$200/\$60	\$5,000	\$26,343.8	76,833
2009	\$200/\$60	\$5,000	\$26,254.1	75,287
2010	\$200/\$60	\$5,000	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on lines 5856, 5860, 5864. Totals include amounts transferred and relate to the total number of individuals claiming an education and tuition amount.

Medical expenses

The medical expense credit is a Provincial non-refundable tax credit intended to provide tax relief on itemized medical expenses associated with illness or disability of any duration. Some types of expenses eligible for the credit include medical insurance premiums, dental care, some transplant costs, renovations to a private residence to accommodate illness, and attendant care. The credit can be claimed for expenses over the minimum of three per cent of net income or a fixed yearly amount. The value of the credit is the product of medical expenses claimed over the threshold or three per cent of net income and the lowest bracket rate for the year. Medical expenses can be claimed by an individual on behalf of their spouse, common law partner or child. Prior to 1988 the medical expense credit was a deduction against Federal and Provincial income however the Budget in 1988 converted the deduction to a credit. The Province adopted the credit through the tax on tax system and maintained it after moving to the tax on income system in 2001.

Table 24 – Overview of Nova Scotia’s medical expense credit (2001-2010)

	Per cent of income threshold	Minimum expense threshold	Income threshold	Cost of credit (000’s)	Number of filers benefiting
2001	3%	\$1,637	\$54,567	\$12,216.4	82,977
2002	3%	\$1,637	\$54,567	\$14,217.4	94,363
2003	3%	\$1,637	\$54,567	\$15,707.5	102,531
2004	3%	\$1,637	\$54,567	\$16,637.1	109,524
2005	3%	\$1,637	\$54,567	\$17,062.6	112,708
2006	3%	\$1,637	\$54,567	\$18,761.3	120,502
2007	3%	\$1,637	\$54,567	\$20,610.0	127,939
2008	3%	\$1,637	\$54,567	\$22,651.5	136,495
2009	3%	\$1,637	\$54,567	\$24,186.0	144,406
2010	3%	\$1,637	\$54,567	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5876 of NS428.

Donations and gifts

Nova Scotia provides a non-refundable credit against Provincial taxes otherwise payable for donations and gifts to the Government of Canada, Provincial Governments or other eligible persons. The intent of the credit is two-fold: lower the after-tax cost of giving; and indirectly subsidize recipients of gifts or donations through a marginal benefit to those giving or donating. Donors can receive a credit for donations and gifts up to 75 per cent of their net income unless the person has died during the taxation year. The value of the credit to the individual is based on the size of their donation. Donations below a yearly threshold (\$200) are eligible for a credit based on the lowest bracket rate for that tax year. Donations above the yearly threshold are eligible for a credit based on the highest bracket rate for that tax year.

In Canada, the donations and gifts credit dates back to 1917 with the introduction of the personal income tax. At that time the credit was a deduction against income. Upon moving to the first Tax Collection Agreement in 1962, the province adopted the credit through the tax on tax system. In 1988

the credit was converted to a non-refundable tax credit and was maintained by the Province on moving to the tax on income system in 2001.

Table 25 – Overview of Nova Scotia’s donations and gifts credit (2001-2010)

	Yearly donation threshold	Minimum/maximum rate	Cost of credit (000’s)	Number of filers benefiting
2001	\$200	9.77%/16.67%	\$1,787.1	152,179
2002	\$200	9.77%/16.67%	\$1,974.8	153,803
2003	\$200	8.79%/15.17%	\$2,066.8	154,853
2004	\$200	8.79%/17.5%	\$2,295.3	155,791
2005	\$200	8.79%/17.5%	\$2,745.3	156,173
2006	\$200	8.79%/17.5%	\$3,047.1	155,878
2007	\$200	8.79%/17.5%	\$2,977.7	153,265
2008	\$200	8.79%/17.5%	\$2,749.9	155,456
2009	\$200	8.79%/17.5%	\$2,740.0	150,802
2010	\$200	8.79%/21.0%	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 5896 of NS428.

Dividend tax credit

The dividend tax credit is a non-refundable income tax credit on dividend income intended to integrate the personal and corporate income tax systems. Dividends received from Canadian incorporated businesses can be claimed against individual income tax with the credit. The rate of the credit depends upon the rate of corporate income tax paid on the income being distributed. In general the dividend tax credit is proportionally higher than the rate of corporate income tax being paid by the businesses distributing dividends so that individuals receiving dividends from corporations paying income tax at the general rate receive more than if the same individual received a dividend from a corporation paying income tax at the small business rate. The mechanics of the credit are based on the type of dividend under the *Income Tax Act* (Canada). When the individual claims the dividend tax credit the taxation of the dividend in the hands of the corporation is equated to the taxation of the income in the hands of the individual. This ensures that taxes leave individuals indifferent between earning marginal capital income

through dividends or marginal earned income through other sources (such as a trust, or unincorporated business income).

The dividend tax credit was introduced in 1972. The province maintained the credit as part of the move to the tax on income system in 2001. In 2006 the Federal Government introduced a dual rate of the tax credit to eliminate tax incentives for corporations restructuring as trusts. The higher rate of dividend tax credit increased the amount of income included in taxable income and the amount of the credit claimed by individuals subject to tax.

Table 26 – Overview of Nova Scotia’s dividend tax credit (2001-2010)

	Gross-up factor from general rate income (General/Low)	Provincial credit amount (General rate /Low rate)	Cost of credit (000's)	Number of filers benefiting
2001	25%	7.7%	\$36,063.1	75,283
2002	25%	7.7%	\$41,693.3	77,603
2003	25%	7.7%	\$44,960.1	74,243
2004	25%	7.7%	\$49,133.1	76,440
2005	25%	7.7%	\$54,469.4	78,367
2006	45%/25%	8.85%/7.7%	\$69,885.2	84,747
2007	45%/25%	8.85%/7.7%	\$79,170.2	89,081
2008	45%/25%	8.85%/7.7%	\$87,602.5	89,325
2009	45%/25%	8.85%/7.7%	\$94,996.8	87,849
2010	44%/25%	8.85%/7.7%	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 6152 of NS428.

Foreign employment

The foreign employment credit is a non-refundable credit on the income earned abroad that Nova Scotia residents must claim as Nova Scotia taxable income. The purpose of the credit is to eliminate double taxation and lower labour costs for employing Canadians abroad. In general, if Canada has signed a tax treaty with another country, income earned in that country is eligible for full or partial deduction against income depending on the terms of the treaty. Where income is earned in a country without a Canadian tax treaty or the income is to be included in other Canadian and foreign taxable income the

foreign employment tax credit partially relieves double taxation. Double taxation can occur when a Nova Scotia resident works abroad and is subject to both Nova Scotia personal income tax and personal income tax in another country on the same income. Mandatory contributions to social security plans for which there is no reasonable expectation of benefit are also eligible for the credit. The individual must be engaged in employment for at least six consecutive months outside of Canada to be eligible for the credit. There are restrictions on what types of employment qualify for the credit (construction, installation, engineering, agricultural, resource, or other prescribed activities). The credit provides for a reduction in Nova Scotia taxes up to 80 per cent of employment income up to \$100,000 based on the Federal taxes paid by the individual on income earned abroad. Unlike most other non-refundable credits, the value of this credit is not based on the lowest Provincial marginal rate.

The foreign employment credit was introduced in 1984 in Canada and Nova Scotia adopted the credit simultaneously due to the tax on tax structure at that time. The Province retained the credit with the move to tax on income system in 2001.

Table 27 – Overview of Nova Scotia’s foreign employment credit (2001-2010)

	Per cent of Federal Overseas Employment Credit	Cost of credit (000’s)	Number of filers benefiting
2001	57.5%	\$720.5	213
2002	57.5%	\$643.2	204
2003	57.5%	\$1,018.2	229
2004	57.5%	\$947.5	219
2005	57.5%	\$1,313.3	275
2006	57.5%	\$1,763.2	308
2007	57.5%	\$2,248.4	425
2008	57.5%	\$3,202.3	525
2009	57.5%	\$2,762.7	472
2010	57.5%	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable, based on line 6153 of NS428.

Low income tax reduction

The low income tax reduction (LITR) is a non-refundable tax credit designed to reduce the tax on households with low incomes below a yearly family income threshold (\$15,000), based on the composition of the household. For individual or household incomes above the threshold, the value of the LITR is reduced by \$0.05 for each dollar above the. The basic credit is \$300 for the individual filing for the LITR, \$300 for their spouse or common law partner and any dependants, and \$165 for each child under the age of 18. The sum of these amounts less any reduction is the value of the credit. The value of the credit as a tax deduction depends on the tax liability of the individual and other deductions from tax available to the individual. Only one person per family can claim the LITR.

Table 28 – Overview of Nova Scotia’s low income tax reduction credit (2001-2010)

	Phase-out for a two parent family with two children	Cost of credit	Number of filers benefiting
2001	\$33,600	\$18,396.8	102,794
2002	\$33,600	\$17,923.8	101,709
2003	\$33,600	\$19,532.6	107,327
2004	\$33,600	\$18,435.0	106,522
2005	\$33,600	\$20,824.6	132,074
2006	\$33,600	\$17,276.2	100,901
2007	\$33,600	\$15,753.5	93,650
2008	\$33,600	\$14,139.4	86,512
2009	\$33,600	\$13,262.7	84,077
2010	\$33,600	N/A	N/A

Source: T1 microdata and payment estimates under the Tax Collection Agreement, Department of Finance calculations.

Note: N/A denote data is unavailable.

Political contributions

Political contributions to registered political parties or their agents are eligible for a non-refundable Provincial tax credit up to a yearly maximum of \$500. The Federal political contributions credit was introduced in 1974 to provide a modest amount of relief for individuals who contribute to political

parties. Nova Scotia adopted the political contributions credit through the tax on tax system at that time. Following the move to the tax on income system in 2001 the Province retained the credit.

Table 29 – Overview of Nova Scotia’s political contribution credit (2001-2010)

	Maximum value	Per cent of contribution eligible	Cost of credit (000’s)	Number of filers benefiting
2001	\$500	100%	\$360.3	3,862
2002	\$500	100%	\$441.9	4,578
2003	\$500	100%	\$819.7	7,110
2004	\$500	100%	\$422.6	4,498
2005	\$500	100%	\$471.2	4,410
2006	\$500	100%	\$784.7	6,220
2007	\$750	75%	\$596.9	3,600
2008	\$750	75%	\$506.8	3,610
2009	\$750	75%	\$1,214.8	6,744
2010	\$750	75%	N/A	N/A

Source: Current Status Report, T1 microdata, and payment estimates under the Tax Collection Agreement, Department of Finance calculations.

Note: N/A denote data is unavailable.

Post secondary tax credit

The Post secondary tax credit, or graduate tax credit, is a non-refundable tax credit introduced in 2006 to provide an incentive for recent graduates to either move to or stay in Nova Scotia for employment. The credit provided a non-refundable amount to recent graduates of universities. Since many students do not have sufficient taxable income to pay Provincial taxes immediately after graduating, students were permitted to carry forward any unused amounts up to three years. Individuals graduating after December 31, 2005 and before January 1, 2009 are eligible for the post-secondary credit. To be eligible for the credit the individual must have completed a degree spanning at least 12 weeks on a full time basis. The individual need not take the degree on a full time basis but the program must be offered on a full time basis. The credit was eliminated in Budget 2009 and replaced with the graduate retention rebate.

Table 30 – Overview of Nova Scotia’s post secondary credit (2001-2010)

	Maximum value	Carry forward period	Cost of credit (000’s)	Number of filers benefiting
2001				
2002				
2003				
2004				
2005				
2006	\$1,000	2 years	\$1,401.8	1,530
2007	\$1,000	2 years	\$3,192.0	3,820
2008	\$2,000	2 years	\$5,635.4	5,640
2009			\$4,185.9	3,807
2010			N/A	N/A

Source: Current Status Report, T1 microdata, and payment estimates under the Tax Collection Agreement, Department of Finance calculations.

Note: N/A denote data is unavailable.

Graduate retention rebate

The Graduate Retention Rebate (GRR) is a non-refundable tax credit introduced in 2009 to expand the post secondary credit. The scope of graduates eligible for GRR includes individuals graduating from community colleges and vocation schools in addition to universities. University graduates can claim a maximum credit of \$2,500 per year for a six-year period – year of graduation plus following five tax years. Graduates from a diploma program are eligible to claim up to \$1,250 per year for the six-year period. The individual must graduate from a university or college from a program that is offered on a full time basis lasting at least 12 weeks. The unused portions of the credit may not be carried forward.

Table 31 – Overview of Nova Scotia’s graduate retention rebate (2001-2010)

	Maximum lifetime value (University/College)	Yearly maximum (University/College)	Cost of credit	Number of filers benefiting
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2001				
2002				
2003				
2004				
2005				
2006				
2007				
2008				
2009	\$15,000/\$7,500	\$2,500/\$1,250	\$3,851.0	2,928
2010	\$15,000/\$7,500	\$2,500/\$1,250	N/A	N/A

Source: Department of Finance calculations.

Note: N/A denote data is unavailable.

Equity tax credit and Community Economic Development Investment Funds

The Equity Tax Credit (ETC) is a non-refundable tax credit for investments in eligible businesses. The ETC was introduced in 1994 to encourage equity financing over debt and government financing. The ETC provides a credit to individuals who purchase new common shares of active businesses with assets less than \$25 million and where at least 25 per cent of salaries and wages are paid in Nova Scotia. Investments have to be held for a period of four or five years depending on when the investment occurred. The ETC can also be carried back 3 years and forward 7 years to ensure individuals receive tax relief not exceeding their cumulative tax liability. Investments in Community Economic Development Investment Funds (CEDIF) also qualify for the ETC.

Table 32 – Overview of Nova Scotia’s equity tax credit (2001-2010)

	Maximum investment	Credit rate	Cost of credit (000’s)	Number of filers benefiting
2001	\$30,000	30%	\$3,322.3	1,165
2002	\$30,000	30%	\$3,054.3	1,351
2003	\$30,000	30%	\$3,305.7	1,406

2004	\$50,000	30%	\$4,064.5	1,242
2005	\$50,000	30%	\$4,456.5	1,380
2006	\$50,000	30%	\$5,643.9	1,860
2007	\$50,000	30%	\$4,826.6	1,650
2008	\$50,000	30%	\$3,970.1	1,940
2009	\$50,000	30%	\$4,614.4	1,684
2010	\$50,000	35%	N/A	N/A

Source: Current Status Report, T1 microdata, and payment estimates under the Tax Collection Agreement, Department of Finance calculations.

Note: N/A denote data is unavailable, includes individuals claiming in the year and carried back amounts.

Labour sponsored venture capital credit

Investments in Labour Sponsored Venture Capital Corporations (LSVCCs) are eligible for a non-refundable personal income tax credit. The credit was introduced in 1993 to provide capital to small and medium sized Nova Scotia companies; encourage investment in Nova Scotia companies by Nova Scotia residents over other investments; and encourage Nova Scotia companies to seek equity financing over debt or government financing.

A eligible LSVCC generally is an investment fund that invests in small or medium sized companies that employ Nova Scotia residents. Investments must be made in companies with either 75 per cent of salaries and wages paid to Nova Scotia residents or 90 per cent of salaries and wages paid in Atlantic Canada, have their headquarters in Atlantic Canada, have more than 3 employees and equity over \$25,000.

Table 33 – Overview of Nova Scotia’s labour sponsored venture capital corporation credit (2001-2010)

	Maximum investment	Credit rate	Cost of credit (000’s)	Number of filers benefiting
2001	\$3,500	15%	\$919.5	2,091
2002	\$3,500	15%	\$592.0	1,319
2003	\$3,500	15%	\$406.4	986

2004	\$3,500	15%	\$635.4	930
2005	\$5,000	20%	\$539.9	650
2006	\$5,000	20%	\$406.8	480
2007	\$10,000	20%	\$377.0	410
2008	\$10,000	20%	\$219.8	240
2009	\$10,000	20%	\$173.6	171
2010	\$10,000	20%	N/A	N/A

Source: Current Status Report, T1 microdata, and payment estimates under the Tax Collection Agreement, Department of Finance calculations.

Note: N/A denote data is unavailable.

Volunteer fire fighter and ground search and rescue credits

Volunteer credits are refundable personal income tax credits provided to individuals who participate in volunteer firefighting or ground search and rescue. For firefighting, individuals must be active in a recognized fire department. For ground search and rescue, individuals must have provided at least six months of service. Individuals must be identified on a report filed with the Department of Finance to be eligible. The credit was introduced in 2007 for volunteer fire fighters and Budget 2008 extended the credit to ground search and rescue volunteers.

Table 34 – Overview of Nova Scotia’s volunteer credit (2001-2010)

	Maximum credit	Volunteers covered	Cost of credit	Number of filers benefiting
2001				
2002				
2003				
2004				
2005				
2006				

2007	\$250	\$1,384.8	5,370
2008	\$375	\$2,573.0	6,600
2009	\$500	\$3,676.6	7,105
2010	\$500	N/A	N/A

Source: T1 microdata, Department of Finance calculations.

Note: N/A denote data is unavailable.

Healthy living tax credit

The Healthy living tax credit was introduced in 2005 to make organized sport more accessible for children. The credit defrays a portion of the costs for registration of children in organized physical activities. Registration fees paid to registrant organization qualify for the credit. Eligible organizations include any organized sport, physical recreation, or physical activity program that is offered to the public by the Government of Canada or the Province of Nova Scotia. Private or not-for-profit organizations registered to do business in Nova Scotia are also eligible for registration.

Table 35 – Overview of Nova Scotia’s healthy living tax credit (2001-2010)

	Maximum credit (per child)	Cost of credit	Number of filers benefiting
2001			
2002			
2003			
2004			
2005	\$150	\$392.0	19,990
2006	\$500	\$1,256.5	28,980
2007	\$500	\$1,355.6	30,280
2008	\$500	\$1,473.8	32,265
2009	\$500	\$1,580.4	34,438
2010	\$500	N/A	N/A

Source: Current Status Report, Department of Finance calculations.

Note: N/A denote data is unavailable.

Corporate income tax expenditures

The Province currently permits several deductions from provincial taxes referred to as credits. These credits can be broadly categorized as refundable and non-refundable. Most credits against corporate income tax are non-refundable, that is that the deduction from tax can not exceed the amount of tax paid by the business, notwithstanding other deductions from tax.

Scientific research and experimental development

The Nova Scotia R&D credit encourages companies to carry out scientific research and experimental development by offsetting some of the cost and the investment risks involved in research activities. The credit is worth 15 per cent of qualified scientific, research and development expenditures incurred in Nova Scotia. Any amount of the credit not used towards reducing NS tax payable is refunded.

Corporations with an establishment in Nova Scotia are eligible for the credit. The credit mirrors the federal program, with the same definition of SR&ED activities and expenditures (salaries, wages, materials, portions of overhead, arms-length contractor and portions of capital equipment expenditure), and must be claimed along with the federal application. Generally, SR&ED are activities that modify, improve upon a process or practice, or are methods that are not publicly known. The attempt does not have to be successful for companies to receive the credit.

The R&D credit was introduced in the 1984 Budget as a 10 percent non-refundable credit to encourage research and development and improve productivity of traditional industries. The credit rate was increased to the current rate and split into refundable and non-refundable portions in the 1994 budget (expenditures already incurred would be eligible for the non-refundable portion). The change aimed to increase the effectiveness of the credit by recognizing that many research and development corporations are not profitable thus have no tax payable and could not benefit from the credit. The change in 1994 coincided with the federal elimination of the preferential 30 percent rate for SRED carried out in Atlantic Provinces.

Table 36 – Overview of Nova Scotia’s scientific research and experimental development credit (2001-2010)

	Credit rate	Refundable or non-refundable	Cost of credit (000s)	Number of filers benefiting
2001	15%	Refundable	\$12,267.7	N/A
2002	15%	Refundable	\$15,088.3	N/A

2003	15%	Refundable	\$12,797.4	
2004	15%	Refundable	\$13,415.5	
2005	15%	Refundable	\$15,773.9	
2006	15%	Refundable	\$13,408.8	
2007	15%	Refundable	\$19,909.2	
2008	15%	Refundable	\$21,043.3	
2009	15%	Refundable	\$26,156.5	N/A
2010	15%	Refundable	N/A	N/A

Source: Department of Finance calculations.

Note: N/A denote data is unavailable.

Political contributions

Political contributions to registered political parties or their agents are eligible for a non-refundable Provincial tax credit up to a yearly maximum. The Federal political contributions credit was introduced in 1974. Nova Scotia adopted the political contributions credit at that time for personal and corporate income tax.

Table 37 – Overview of Nova Scotia’s corporate political contributions credit (2001-2010)

	Maximum credit	Cost of credit (000s)	Number of filers benefiting
2001	\$500	\$36.5	N/A
2002	\$500	\$42.3	N/A
2003	\$500	\$105.5	384
2004	\$500	\$84.9	313
2005	\$500	\$46.1	182
2006	\$500	\$85.8	306
2007	\$750	\$78.6	202

2008	\$750	\$34.0	107
2009	\$750	\$82.0	N/A
2010	\$750		N/A

Source: Department of Finance calculations.

Note: N/A denote data is unavailable.

New small business tax holiday

The Nova Scotia Corporate Tax Holiday was introduced to stimulate employment in the small business sector. Eligible incorporated small businesses in the Province can make application for the Small Business Tax Holiday on their first, second and third taxation years. The effect of the program is that eligible small businesses can have their provincial corporate income tax rate reduced to zero percent during their first 3 years of operation (on active business income under \$400,000). To be eligible, a small business must:

- have at least two employees, one of whom must be full-time and unrelated to any shareholder;
- not be associated with another corporation(s);
- not be in a partnership or a joint venture with an ineligible corporation(s);
- not be a beneficiary of a trust where any beneficiary is ineligible;
- not be a previous active business with essentially the same owner(s) or related owner(s);
- not be a professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor;
- and not be a business carrying on the same, or substantially the same, business activity as was carried on as a sole proprietorship, partnership or corporation .

Table 38 – Overview of Nova Scotia’s Small Business Tax Holiday (2001-2010)

	Cost of credit (000s)	Number of filers benefiting
2001	\$621.9	129
2002	\$331.6	60
2003	\$208.4	65

2004	\$178.9	54
2005	\$168.8	46
2006	\$199.8	39
2007	\$217.6	40
2008	\$234.2	27
2009	\$74.4	N/A
2010		N/A

Source: Department of Finance calculations.

Note: N/A denote data is unavailable.

Film industry tax credit

In place since 1994, and with a current sunset of 2016, the Film Industry Tax Credit (FITC) is intended to attract film and television productions to the province and aid in the development of a permanent film industry. The FITC is a labour-based incentive program designed to encourage employment of Nova Scotia residents and is available to both foreign and local producers of qualifying productions. The credit is a refundable tax credit and is based on a percentage of Nova Scotia labour.

The maximum credit is 65 per cent of eligible labour which includes a 50 per cent base, an Eligible Geographic Area (EGA) credit of 10 per cent, and a frequent filming bonus of 5 per cent. The EGA was introduced for productions with principal photography outside of the Halifax area.

Applicant companies are typically single-purpose production companies incorporated for the sole purpose of producing a specific project. The Legislative authority for the Nova Scotia Film Tax Credit is in section 47 of the *Income Tax Act* (Nova Scotia) and the associated Regulations are the *Film Industry Tax Credit Regulations*.

Table 39 – Overview of Nova Scotia’s Film Industry Tax Credit (2001-2010)

	Total Eligible Film Production Costs	Total Eligible Film Labour Costs	Bonus (EGA labour/ EGA production/ frequency)	Annual Cost of Film Industry Tax credit	Number of filers benefiting	Refundable portion
2001	15%	30%	5%/2.5%/N/A	\$11,837.6	N/A	N/A

2002	15%	30%	5%/2.5%/N/A	\$16,387.3	N/A	N/A
2003	15%	30%	5%/2.5%/N/A	\$12,706.7	45	100%
2004	15%	30%	5%/2.5%/N/A	\$10,768.7	31	100%
2005	17.5%	35%	5%/2.5%/5%	\$9,850.9	45	100%
2006	17.5%	35%	5%/2.5%/5%	\$16,194.6	40	98%
2007	25%	50%	10%/5%/5%	\$11,547.7	35	99%
2008	25%	50%	10%/5%/5%	\$19,609.7	34	100%
2009	25%	50%	10%/5%/5%	\$17,190.6	N/A	N/A
2010	25%	50%	10%/5%/5%	\$23,357.3	N/A	N/A

Source: Department of Finance calculations.

Note: N/A denotes data is unavailable.

Digital media industry tax credit

Introduced in 2007, and with a current sunset of January 1, 2013, the Nova Scotia Digital Media Tax Credit (DMTC) is a labour-based incentive program designed to encourage employment of Nova Scotia residents in the development of new “interactive digital media products”. The term “interactive” describes the communication between people and computers. An eligible interactive digital media product must enable the user to become a participant, not simply a reader or spectator. The three characteristics used to determine whether a multimedia title is interactive are: feedback, control, and adaptation. Examples of multimedia productions that usually present one or more of these characteristics include:

- Video games;
- Educational software;
- “Edutainment” products;
- Simulators (for example, for driving a car);
- Multimedia productions containing search engines or data bases.

In order to be eligible for the DMTC, a corporation developing an interactive digital media product must be a taxable Canadian corporation and have a “permanent establishment” in Nova Scotia. The current maximum credit is 60 per cent of eligible labour, including a geographic bonus for products developed outside of Halifax.

Table 40 – Overview of Nova Scotia’s digital media industry tax credit (2001-2010)

	Total Eligible Production Costs	Total Eligible Labour Costs	Bonus (EGA labour/ EGA production)	Annual Cost of Tax credit	Number of finalized products
2001					
2002					
2003					
2004					
2005					
2006					
2007	17.5%	17.5%	5%/2.5%	\$0	
2008	25%	50%	10%/5%	\$1,659.9	
2009	25%	50%	10%/5%	\$2,234.4	N/A
2010	25%	50%	10%/5%	N/A	N/A

Source: Department of Finance calculations.

Note: N/A denotes data is unavailable.

Harmonized sales tax expenditures

There are generally two types of rebates currently offered in Nova Scotia. One requires an application and documentation to receive a refund. Most rebates fall into this category because they require an assessment of eligibility by the administrator of the rebate. The second type of rebate provides the same rebate to a particular good or services which is broadly available. These rebates typically do not require an application to be assessed and are paid to the consumer at the time of the purchase (referred to as a point-of-sale rebate). Point-of-sale (POS) rebates equate to a zero rating of a particular good or service because the consumer is not required to pay the rebated portion of the tax at the time of purchase; the supplier is still entitled to claim input tax credits for any taxable inputs purchased in the course of creating the supply; and input tax credits are restricted by the amount of the rebates.

Until 2010, the only POS rebates offered by the Province were for printed books and residential energy. The Comprehensive Integrated Tax Coordination Agreement (CITCA) entered into April 3, 2010 provides for the federal administration of POS rebates up to 5 per cent of the Province’s HST tax base. This degree of autonomy was not present in the original CITCA signed on October 18, 1996.

Universities and public colleges

Universities and public colleges are eligible for a provincial rebate of 67 per cent of the PVAT. Universities are generally defined as a recognized degree-granting institution or its affiliates, its research arm, or its college. A public college is an institution issuing post-secondary credentials that both receives government funding for education services offered to the general public and provides instructional programs in vocational, technical or general education fields. Like other public sector body rebates, universities and public colleges provide exempt services and can not claim input tax credits for some of their taxable purchases. This rebate eliminates most of the unrecoverable PVAT paid by these institutions, thereby lowering the consumer price of the goods and services supplied. To the extent that these institutions can claim input tax credits, they are required to do so before claiming a rebate in respect of the purchase. Examples of purchases not eligible for the rebate are:

- Construction of parking spaces;
- Long-term residence not restricted to youths, seniors, students, impaired individuals, or individuals in needs-based rental arrangements;
- Memberships in sports facilities;
- Tobacco and alcohol; and
- Anything giving rise to an employee benefit.

The rebate was introduced in 1997 by the Province upon harmonization of the provincial sales tax with the federal Goods and Services Tax (GST).

Table 41 – Overview of Nova Scotia’s university rebate (2001-2010)

	Per cent rebate (Provincial/Federal)	Cost of rebate (000s) (Universities/Colleges)	Number of filers benefiting
2001	67%/67%	\$8,176/\$1,873	117
2002	67%/67%	\$11,224/\$1,441	119
2003	67%/67%	\$10,004/\$1,574	113
2004	67%/67%	\$9,915/\$1,808	114
2005	67%/67%	\$9,197/\$2,037	114
2006	67%/67%	\$9,867/\$1,828	113
2007	67%/67%	\$7,694/\$2,066	113
2008	67%/67%	\$9,672/\$2,401	113

2009	67%/67%	\$10,349/\$2,569	N/A
2010	67%/67%		

Source: Estimate books, Final Official or most recent estimate.

Schools

Schools are eligible for a rebate of 68 per cent of PVAT in respect of the PVAT on taxable purchases. Schools generally include any elementary or secondary education institution operating to provincially determined standards. For profit schools are not eligible for the rebate even if they meet other eligibility criteria. Like other public sector body rebates, schools provide exempt services and can not claim input tax credits for some their taxable purchases. This rebate eliminates most of the unrecoverable PVAT paid by these institutions, thereby lowering the consumer price of the goods and services supplied. Typically the consumer is a school board which is funded by the province. Ultimately the unrecoverable PVAT is recovered by the Province through tax revenues offsetting the cost to the Province. However, the unrecoverable CVAT is a transfer from the Province to the Federal Government. Most purchases are eligible for the rebate however where taxable supplies are made, schools must first recover the PVAT through input tax credits where permitted. General exclusions from the rebate are:

- Construction of parking spaces;
- Long-term residence not restricted to youths, seniors, students, impaired individuals, or individuals in needs based rental arrangements;
- Memberships in sports facilities;
- Tobacco and alcohol; and
- Anything giving rise to an employee benefit.

The Provincial rebate was introduced in 1997.

Table 42 – Overview of Nova Scotia’s school rebate (2001-2010)

	Per cent rebate (Provincial/Federal)	Cost of rebate (000s)	Number of filers benefiting
2001	68%/68%	\$6,115	231
2002	68%/68%	\$6,598	246
2003	68%/68%	\$6,884	258
2004	68%/68%	\$7,900	462
2005	68%/68%	\$8,144	837
2006	68%/68%	\$8,546	935

2007	68%/68%	\$9,695	958
2008	68%/68%	\$9,549	921
2009	68%/68%	\$10,218	N/A
2010	68%/68%		

Source: Estimate books, Final Official or most recent estimate.

Hospitals

Hospitals are generally eligible for a rebate of 83 per cent of the PVAT on their taxable purchases. Hospitals are generally defined as public hospitals designated by the Canada Revenue Agency. Designation requires all of the following characteristics to be present in the facility or groups of facilities:

- Medical practitioners make their services available at all times for the care of the general public;
- Inpatient beds and care based on assigned inpatient beds are supplied;
- Operational and capital funding is provided by Provincial government for publically insured supplies; and
- The facility or facilities operate under the authority of the Province governing hospitals.

Generally most health care services not considered to be supplied in the course of operating a hospital are eligible for the not for profit rebate. These services include long-term care, outpatient care without inpatient care, research facilities, and clinics (such as dieticians, physiotherapy, etc.). Facility operators and external suppliers to hospitals who are either public institutions, not for profit or charitable organizations can also apply for the rebate provided they are designated by the Canada Revenue Agency.

Like other public sector body rebates, hospitals provide exempt services and can not claim input tax credits for some their taxable purchases. This rebate eliminates most of the unrecoverable PVAT paid by these institutions, thereby lowering the consumer price of the goods and services supplied. Typically the consumer is a district health authority in Nova Scotia which is funded by the Province so the ultimately the unrecoverable PVAT is recovered by the Province through tax revenues offsetting the cost to the Province. However the unrecoverable CVAT is a transfer from the Province to the Federal Government. Most purchases are eligible for the rebate however where taxable supplies are made, hospitals must first recover the PVAT through input tax credits where permitted. General exclusions from the rebate are:

- Construction of parking spaces;
- Long-term residence not restricted to youths, seniors, students, impaired individuals, or individuals in needs based rental arrangements;

- Memberships in sports facilities;
- Tobacco and alcohol; and
- Anything giving rise to an employee benefit.

The hospital rebate was introduced by the Province in 1997. Substantial changes were made to the rebate limiting some facilities offering combined hospital and non-hospital activities as part of the 2005 Federal budget.

Table 43 – Overview of Nova Scotia’s hospital rebate (2001-2010)

	Per cent rebate (Provincial/Federal)	Cost of rebate (000s)	Number of filers benefiting
2001	83%/83%	\$15,977	151
2002	83%/83%	\$18,735	142
2003	83%/83%	\$19,424	136
2004	83%/83%	\$20,147	136
2005	83%/83%	\$22,086	141
2006	83%/83%	\$24,022	149
2007	83%/83%	\$25,808	147
2008	83%/83%	\$28,292	153
2009	83%/83%	\$30,274	N/A
2010	83%/83%		

Source: Estimate books, Final Official or most recent estimate.

Municipalities

Municipalities are generally eligible for a rebate of 57.14 per cent of the PVAT paid on taxable purchases. Municipalities are generally not restricted to municipal government and its operation – they can be designated by the Minister or determined to be municipalities through administrative policy at the Canada Revenue Agency.

Like other public sector body rebates, municipal services are typically exempt and can not claim input tax credits for some their taxable purchases. This rebate eliminates most of the unrecoverable PVAT paid by these institutions, thereby lowering the consumer price of the goods and services supplied.

Typically these services are funded through fees or property taxes. However the unrecoverable PVAT is a transfer from the municipality to the Province. Most purchases are eligible for the rebate however where taxable supplies are made, municipalities must first recover the PVAT through input tax credits where permitted. General exclusions from the rebate are:

- Construction of parking spaces;
- Long-term residence not restricted to youths, seniors, students, impaired individuals, or individuals in needs based rental arrangements;
- Memberships in sports facilities;
- Tobacco and alcohol; and
- Anything giving rise to an employee benefit.

The Federal municipal rebate was increase on February 2, 2004 as part of the ‘new deal’ for communities intended to enhance municipal infrastructure.

Table 44 – Overview of Nova Scotia’s municipal rebate (2001-2010)

	Per cent rebate (Provincial/Federal)	Cost of rebate (000s)	Number of filers benefiting
2001	57.14%/57.14%	\$16,424	572
2002	57.14%/57.14%	\$16,749	578
2003	57.14%/57.14%	\$19,181	595
2004	57.14%/57.14%	\$22,506	606
2005	57.14%/100%	\$25,618	593
2006	57.14%/100%	\$27,926	621
2007	57.14%/100%	\$28,396	618
2008	57.14%/100%	\$28,381	634
2009	57.14%/100%	\$30,370	N/A
2010	57.14%/100%		

Source: Estimate books, Final Official or most recent estimate.

Not for profit and charities

Not for profit and charities are generally eligible for a rebate of 50 per cent of the PVAT on their taxable purchases. Charities parallel the definition of charity for income tax purposes which is based on common law interpretations of charitable activities such as relief of poverty, advancement of education, or advancement of religion. Not for profit does not follow the income tax definition of non-profit and instead requires the organization to be created for purposes other than profit and 40 per cent of its revenues must be from government funding. This rebate was introduced in 1997 as charities and not for profit organizations produce socially desirable benefits. Lowering the cost through rebates lowers the effective tax paid on supplies from charities and not for profit organizations compared to taxable supplies. The combination of exemption and rebates provide partial but not full relief from PVAT and CVAT because of the unrecoverable tax.

Most purchases made by these organizations are eligible for rebates however where taxable supplies are made, charities and not for profit organizations must first recover the PVAT through input tax credits where permitted.

Table 45 – Overview of Nova Scotia’s not or profit and charities rebate (2001-2010)

	Per cent rebate (Provincial/Federal)	Cost of rebate (000s) (Charities/ Not for Profit)	Number of filers benefiting
2001	50%/50%	\$5,420/\$1,433	2,993
2002	50%/50%	\$6,004/\$1,219	3,092
2003	50%/50%	\$6,546/\$1,421	3,198
2004	50%/50%	\$6,885/\$1,283	3,197
2005	50%/50%	\$7,633/\$1,345	3,222
2006	50%/50%	\$8,094/\$2,360	3,245
2007	50%/50%	\$7,841/\$2,338	3,098
2008	50%/50%	\$8,172/\$2,105	2,988
2009	50%/50%	\$8,258/\$2,127	N/A
2010	50%/50%		

Source: Estimate books, Final Official or most recent estimate.

First-time homebuyers

The first time home-buyer rebate is provided to individuals who have not owned a home in the previous five years and are purchasing a new home or substantially renovating an existing home. The rebate was introduced to make home ownership more affordable for individuals who don't currently own home and to indirectly subsidize the homebuilding industry by lowering the after tax price of homes for some purchasers. The eligibility for first time home buyers requires the individual or their spouse to have not occupied a residence owned by them in the past five years. If an individual loses their home due to fire they are also eligible for the rebate. A home is generally considered to include detached and semi-detached homes, condominiums, co-op homes, mobile homes, and floating homes. It can also include detached structures from the home that are integral to the enjoyment of the home. A substantial renovation generally means a conversion from non-residential to residential use, or the removal and replacement of 90 per cent of the interior of the home. The individual must qualify for the Federal rebate to qualify for the Provincial rebate. The value of the rebate is based on a number of administrative policies depending on the nature of the expenditures underlying the cost of the home. The rebate was introduced in 1997 at the same time as harmonization. Effective July 1, 2010 the rebate ceased to be administered by the Canada Revenue Agency and is administered by the Department of Service Nova Scotia and Municipal Relations.

Table 46 – Overview of Nova Scotia's first time homebuyer rebate (2001-2010)

	Per cent rebate rate (of provincial tax)	Maximum value (credit/home value)	Cost of rebate (000s)	Number of filers benefiting
2001	18.75%	\$2,250/\$450,000	\$4,303	N/A
2002	18.75%	\$2,250/\$450,000	\$2,474	N/A
2003	18.75%	\$1,500/\$450,000	\$1,174	N/A
2004	18.75%	\$1,500/\$450,000	\$1,290	N/A
2005	18.75%	\$1,500/\$450,000	\$1,038	N/A
2006	18.75%	\$1,500/\$450,000	\$1,244	N/A
2007	18.75%	\$1,500/\$450,000	\$1,183	N/A
2008	18.75%	\$1,500/\$450,000	\$1,271	N/A
2009	18.75%	\$1,500/\$450,000	\$1,060	N/A
2010	18.75%	\$1,500/\$450,000		N/A

Source: Estimate books, Final Official or most recent estimate.

New Home Construction Rebate

"The new home construction rebate was introduced on August 12, 2009 and intended to help keep skilled tradespeople in Nova Scotia and to boost the home-building industry to help stimulate the economy during the recession. Up to 1,500 people who build or purchase a new home will qualify for this one-time rebate. The rebate is equivalent to 50 per cent of the provincial portion of the HST, to a maximum of \$7,000.

The municipal building permit eligibility date was moved to Jan. 1, 2009 to address industry concerns while keeping the goal of the program to stimulate the economy. In addition, applicants must demonstrate that the home will be a primary residence for themselves or a relative. Applicants must have completed construction or closed the sale by March 31, 2010.

The program applies to homes constructed by the owners, homes purchased from a contractor and manufactured homes on leased property. The application for the rebate is a two-stage process. The first or preliminary application establishes that applicants have the basic documentation, and the home construction falls within the right time lines to be considered. It does not guarantee that the applicant will receive the rebate, just a place on the eligibility list. Final application forms will be sent to the first 1,500 applicants whose projects meet the preliminary criteria. The second phase of the application will determine if all of the program requirements have been met in order to be eligible to receive the appropriate rebate amount.

There is only one rebate per homeowner, and the rebate cannot be paid to the builder.

Table 47BN – Overview of Nova Scotia’s New Home Construction Rebate for the fiscal year ended

	Per cent rebate rate (of provincial tax)	Maximum value (credit/home value)	Cost of rebate (000s)	Number of filers benefiting
2010	50%	\$7,000	\$9,359	

Disability rebates

Individuals without the use of both lower limbs may qualify for a partial rebate of harmonized sales tax on their purchases of vehicles. The rebate is intended to reduce the cost of vehicles equipped with assistive devices that generally increase the cost of the vehicle. The rebate can be claimed by either the impaired individual or another person who transports that individual. The vehicle must be equipped with a device intended to provide access to the disabled person (i.e., a ramp or lift). The vehicle can not be a heavy truck or a vehicle with a weight capacity exceeding 680.4 kg. If the vehicle is purchased by an individual transporting another impaired individual the vehicle can only be used to transport that

individual and it must be registered in their name. If the vehicle is purchased by the impaired individual they must have valid drivers license and it can be the only vehicle registered in their name. The rebate was first introduced in Nova Scotia under the health services tax in 1980 and was adopted under the harmonized sales tax in 1997.

Individuals who are students with visual impairment, hearing impairment or are immobile purchasing computers can claim a partial rebate of harmonized sales tax. Introduced in 1989 this measure is intended to lower the cost of purchasing computers for students facing greater expense than students without impairment. The rebate was adopted as a harmonized sales tax rebate in 1997.

Table 48 – Overview of Nova Scotia’s lower limb impairment rebate and computer rebate for impaired students (2001-2010)

	Per cent rebate rate (of purchase price)	Maximum value (vehicle)	Maximum value (computer)	Cost of rebate (000s)	Number of filers benefiting
2001-2002	8%	\$3,000	\$300	\$144.5	N/A
2002-2003	8%	\$3,000	\$300	\$159.0	N/A
2003-2004	8%	\$3,000	\$300	\$189.7	N/A
2004-2005	8%	\$3,000	\$300	\$170.7	N/A
2005-2006	8%	\$3,000	\$300	\$92.0	N/A
2006-2007	8%	\$3,000	\$300	\$174.7	N/A
2007-2008	8%	\$3,000	\$300	\$98.1	N/A
2008-2009	8%	\$3,000	\$300	\$101.0	N/A
2009-2010	8%	\$3,000	\$300	\$86.0	N/A
2010-2011	10%	\$3,750	\$375		N/A

Source: Service Nova Scotia and Municipal Relations.

Volunteer firefighter department rebates

Volunteer fire departments purchasing firefighting equipment may qualify for a full or partial rebate of the harmonized sales tax. Typically volunteer fire departments are determined to be municipalities for the purposes of the municipal rebate of the harmonized sales tax. In this instance they receive a municipal rebate for their purchases. Volunteer fire departments spanning a broad geographic area may not be determined to be municipalities and consequently receive the not for profit rebate. The

volunteer fire department rebate provides a rebate equal to the unrecoverable PVAT paid. Originally an exemption from the health services tax, the Province adopted this rebate in 1997 when the harmonized sales tax replaced the health services tax.

Table 49 – Overview of Nova Scotia’s volunteer fire department rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Maximum value	Cost of rebate (000s)	Number of filers benefiting
2001-2002	8%	\$7,400	\$134.0	N/A
2002-2003	8%	\$7,400	\$54.7	N/A
2003-2004	8%	\$7,400	\$192.9	N/A
2004-2005	8%	\$7,400	\$62.6	N/A
2005-2006	8%	\$7,400	\$114.0	N/A
2006-2007	8%	\$7,400	\$231.6	N/A
2007-2008	8%	\$7,400	\$40.6	N/A
2008-2009	8%	\$7,400	\$28.0	N/A
2009-2010	8%	\$7,400	\$49.0	N/A
2010-2011	10%	\$9,250		N/A

Source: Service Nova Scotia and Municipal Relations.

Your Energy Rebate Program

The Your Energy Rebate Program (YERP) provides a rebate to individuals purchasing electricity, firewood, coal, kerosene, propane, or oil for home heating purposes. Introduced in 2006, the rebate is intended principally to provide a tax reduction to all households and more specifically provide tax relief on heating costs. The provincially administered rebate functions like a point of sale rebate to consumers since the suppliers of most home heating fuels remit taxes on behalf of the individual and the Province compensates suppliers.

Table 50 – Overview of Nova Scotia’s your energy rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of rebate (000s)	Number of filers benefiting
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2001-2002			
2002-2003			
2003-2004			
2004-2005			
2005-2006			
2006-2007	8%	\$19,137	N/A
2007-2008	8%	\$74,904	N/A
2008-2009	8%	\$53,149	N/A
2009-2010	8%	\$49,383	N/A
2010-2011	10%		N/A

Source: Service Nova Scotia and Municipal Relations and Social Policy Simulation Database/Model (Statistics Canada).

Heritage property rebates

Renovation materials used in provincially or municipally registered heritage properties may be eligible for a partial rebate of harmonized sales tax. The rebate applies to unrecoverable PVAT for non-commercial heritage property. The rebate is administered in the Heritage Division of the Department of Tourism, Heritage and Culture and Service Nova Scotia and Municipal Relations. Heritage Division staff assess the suitability of renovations prior to work commencing, whether proper permits were obtained, and process certifications of the use of materials. Introduced as an exemption in 1988 to health services tax, the exemption was continued as a rebate of harmonized sales tax in 1997.

Table 51 – Overview of Nova Scotia’s heritage property renovation rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of rebate (000s)	Number of filers benefiting
2001-2002	8%	N/A	N/A
2002-2003	8%	N/A	N/A
2003-2004	8%	N/A	N/A
2004-2005	8%	N/A	N/A
2005-2006	8%	N/A	N/A

2006-2007	8%	N/A	N/A
2007-2008	8%	\$1.8	N/A
2008-2009	8%	\$2.7	N/A
2009-2010	8%	\$2.7	N/A
2010-2011	10%		

Source: Service Nova Scotia and Municipal Relations

Point of sale rebates on printed books and books on compact discs

The point of sale rebate on printed books provides a rebate at the point of sale on printed books and printed books on compact discs. Printed books include:

- audio books;
- printed books;
- religious scripture; and
- any of the above combined with either a right to access a website or read only medium software.

The rebate was introduced in 1997 as a point of sale rebate. Prior to 1997 harmonized provinces did not tax printed books however they were taxed federally. Point of sale rebates were introduced as a mechanism to effectively zero rate a good without removing it from the tax base. In 2006 the point of sale rebate was extended to some books containing compact discs. Publishing trends, particularly in post secondary institutions, relied on distributing complementary materials with books causing them to not be printed books under the *Excise Tax Act* (Canada) and Regulations to the *Sales Tax Act* (Nova Scotia). The rebate definition was amended to account for this trend in the application of the rebate.

Table 52 – Overview of Nova Scotia’s printed books rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of rebate (000s)	Number of filers benefiting
2001	8%	\$7,718	N/A
2002	8%	\$8,697	N/A
2003	8%	\$7,580	N/A
2004	8%	\$8,160	N/A

2005	8%	\$8,543	N/A
2006	8%	\$8,609	N/A
2007	8%	\$9,525	N/A
2008	8%	\$9,022	N/A
2009	8%	\$9,339	N/A
2010	10%		N/A

Source: Estimate books, Final Official or most recent estimate.

Point of sale rebates on children's clothing

The point of sale rebate on children's clothing provides a rebate on most clothing:

- Baby clothing;
- Hosiery, hats, gloves, scarves, gloves, mittens in sizes intended for children;
- Canada standard size 20 for boys; and
- Canada standard size 16 for girls.

Exemptions to the point of sale rebate include adult sized clothing, costumes, and sport gear. The rebate was introduced in 2010. The presence of children in the households tends to increase the amount of harmonized sales tax paid by that household whereas this point of sale rebate benefits those same households.

Table 53 – Overview of Nova Scotia's children's clothing rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of credit (000s)	Number of filers benefiting
2001			
2002			
2003			
2004			
2005			
2006			

2007	
2008	
2009	
2010	10%

Source: Estimate books, Final Official or most recent estimate.

Point of sale rebates on children’s footwear

The point of sale rebates on children’s footwear applies to:

- Footwear for babies;
- Footwear for girls or boys up to and including size 6; and
- Footwear designed for boys or girls without numerical size in small, medium or large;

Adult footwear, skates, ski boots, protective footwear, and stockings (and similar products) are excluded from the rebate. The rebate was introduced in 2010. The presence of children in the households tends to increase the amount of harmonized sales tax paid by that household whereas this point of sale rebate benefits those same households.

Table 54 – Overview of Nova Scotia’s children’s footwear rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of credit (000s)	Number of filers benefiting
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			

2010

10%

Source: Estimate books, Final Official or most recent estimate.

Point of sale rebates on feminine hygiene products

Feminine hygiene products are eligible for a point of sale rebate after July 1, 2010. Included products are:

- Tampons;
- Sanitary belts and napkins; and
- Other good marketed exclusively for similar purposes.

Excluded goods include:

- Deodorants;
- Douches;
- Sprays;
- Syringes; and
- Feminine wipes.

The rebate was introduced in 2010.

Table 55 - Overview of Nova Scotia's feminine hygiene rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of credit (000s)	Number of filers benefiting
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			

2009	
2010	10%

Source: Estimate books, Final Official or most recent estimate.

Point of sale rebates on diapers

The point of sale rebates on diapers applies to cloth or disposable children’s diapers. Adult or other incontinence diapers are not eligible for the rebate but are zero rated under Section 37 of Schedule VI to the *Excise Tax Act* (Canada). The rebate was introduced in 2010. The presence of children in the households tends to increase the amount of harmonized sales tax paid by that household whereas this point of sale rebate benefits those same households.

Table 56 – Overview of Nova Scotia’s diapers rebate (2001-2010)

	Per cent rebate rate (of purchase price)	Cost of credit (000s)	Number of filers benefiting
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010	10%		

Source: Estimate books, Final Official or most recent estimate.

Motive fuel tax expenditures

Several exemptions from the motive fuel tax are offered. Individuals or entities who are eligible for these exemptions must apply for an exemption certificate to Service Nova Scotia and Municipal

Relations which allows them to purchase exempt fuel. Exempt fuel is market by a dye to differentiate tax exempt fuel from taxable fuel. Exemptions include:

- Naphtha gasoline (S. 22(1)(b));
- Furnace oil and stove oil (S. 22(1)(b));
- Vehicles operated by the Department of Transportation and Infrastructure Renewal (S. 22(2)(a));
- Vehicles and equipment owned by a city, town, municipality or service commission or corporation operated as a public work or service by or for a city, town or municipality (S. 22(2)(b));
- Vehicles operated solely for firefighting (S. 22(2)(c));
- Fishing vessels, while the fishing vessel is being used for the purpose of fishing or harvesting of marine plants, provided that such fishing vessel is a Canadian fishing vessel or is leased to a Canadian corporation and lands its catch in Canada, or transfers all or part of its catch to another vessel while inside Canadian fisheries waters or to operate machinery and apparatus utilized in aquaculture (S. 22(2)(d));
- Used to operate drilling equipment used in the drilling of wells for the supply of water, but not including motor vehicles (S. 22(2)(e));
- Ship, boat or vessel while it is being used as a commercial ferry on a regularly scheduled route (S. 22(2)(f));
- Railway locomotives (S. 22(2)(g));
- Heating buildings (S. 22(2)(h));
- Machinery used in a commercial farming operation by a farmer (S. 22(2)(j)(i));
- Machinery used in the production or harvesting of forest products for sale (S. 22(2)(j)(ii));
- Machinery used in the manufacture or production of goods for sale (S. 22(2)(j)(iii));
- Machinery used to develop electricity to power machinery and apparatus when used in the manufacture or production of goods for sale (S. 22(2)(j)(iv));

Machinery exemptions are overridden in the following circumstances:

- Manufacturing asphalt or ready-mix concrete;
- Repair or maintenance of any kind;
- Salvaging any goods or materials;
- Production or processing of non-renewable resources, including but not limited to, the quarrying and crushing of rock, the mining of sandstone, coal, gypsum and limestone and oil exploration and processing;
- Construction, including, road construction, land development, earth movement and building construction;
- Operation of any motor vehicle or any motorized vehicle, including but not limited to, golf carts, dune buggies, go-carts, all-terrain vehicles, snowmobiles and water recreational vehicles;

- Operation of motor vehicles and machinery and apparatus used to construct and maintain logging roads;
- Transportation in, receiving, handling and storage of raw materials prior to the start of manufacture or production;
- Handling, holding and storage of goods for sale after manufacture or production and prior to transportation out;
- Cutting brush and dead wood; and
- Custom sawing.

Service Nova Scotia and Municipal Relations do not collect information on the value of particular exemptions. They do collect data on aggregate marked fuel sales and the number of outstanding Consumer's Exemption Permits which are summarized in Table 57. Consumer's Exemption Permits are required to purchase marked fuel or other fuels on a tax exempt basis.

Table 57 – Total sales of exempt (marked) fuel, fiscal year ended

	Exempt gasoline volume	Exempt diesel volume	Exempt consumers
2001	N/A	N/A	N/A
2002	N/A	N/A	N/A
2003	N/A	N/A	5,685
2004	3,044,684	185,604,612	5,700
2005	1,251,510	162,039,432	5,605
2006	918,350	163,330,279	5,560
2007	689,993	164,253,870	5,507
2008	747,133	153,509,113	5,346
2009	851,996	134,354,965	5,232
2010	688,414	129,403,679	5,204

Source: Department of Finance, Service Nova Scotia and Municipal Relations.

Tobacco tax expenditures

Exemptions to the tobacco tax include the offshore area (except for regularly scheduled ferry services, docks, wharfs or other structures above the low water mark), some individuals in Canada for diplomatic purposes, tobacco intended for resale, and sales of tobacco on reservations.

Table 58 – Exempt purchases of tobacco in Nova Scotia, fiscal year ended (fiscal year ended)

	Exempt tobacco volume (taxable units)	Exempt tobacco tax foregone
2001	91,277,120	\$4,377,375
2002	91,512,740	\$4,904,203
2003	91,584,550	\$5,859,276
2004	82,907,900	\$10,794,609
2005	82,357,320	\$12,781,856
2006	85,457,080	\$13,262,939
2007	85,468,445	\$13,264,703
2008	80,233,830	\$12,949,911
2009	79,666,695	\$12,823,240
2010	99,097,350	\$18,897,632

Source: Service Nova Scotia and Municipal Relations (manufacturer's shipments of unmarked tobacco).

Private levy on used tangible personal property expenditures

Several full or partial exemptions are available for some purchasers of used tangible personal property:

- Status Indians as defined in the *Indian Act* (Canada) receive a full exemption;
- Gifts from family receive a full exemption;
- Visiting diplomats, and foreign representatives receive a full exemption;
- Vessels operated for public transit, transportation of goods, dredging, salvaging or toeing other vessels are fully exempt;
- Aircraft operated as commercial airplanes are fully exempt;
- Purchases by any level of government are fully exempt;
- Fire departments receive a full exemption;
- Ambulances are fully exempt (through a rebate);
- Harmonized sales tax registrants engaged in commercial activities are fully exempt (through a rebate);
- Physiologically impaired individuals are partially exempt (through a rebate); and
- Charitable and religious organizations are partially exempt (through a rebate).

Large corporate tax expenditures

Energy tax credit

Announced in the 2006 Budget to promote energy conservation and to enhance business competitiveness, the Energy Tax Credit is applied against the Large Corporations Capital Tax (LCT). The credit is worth 25 per cent of the eligible investment in energy efficiency and renewable energy sources within the province in a given tax year. The Energy Tax Credit is used to reduce up to a maximum of 50 per cent of the LCT payable in a tax year, and any unused portion of the credit can be carried forward seven years. The Energy Tax Credit came into effect July 1, 2006.

Summary of tax expenditures by calendar year

Table 59 summarizes the tax expenditures and value of exemptions currently provided under Provincial authority made under each revenue source. Several tax expenditures not currently permitted are still being financed. As such this table understates the total cost of tax expenditures currently being made.

Table 59 – Summary of tax expenditures by revenue source, calendar year unless otherwise noted (000s)

Expenditure	2004	2005	2006	2007	2008	2009	2010
Personal income tax							
Basic personal amount	\$372,189.0	\$374,678.8	\$379,809.7	\$402,459.6	\$417,003.9	\$428,795.2	N/A
Spouse amount	\$32,978.4	\$31,941.1	\$30,409.0	\$27,889.2	\$28,018.3	\$28,530.4	N/A
Age amount	\$29,267.2	\$29,448.3	\$29,872.0	\$33,181.1	\$35,520.7	\$37,796.9	N/A
Dependant amount	\$130.4	\$122.5	\$120.9	\$122.6	\$130.6	\$128.6	N/A
Young children amount	N/A	N/A	\$1,419.2	\$3,243.8	\$3,344.5	\$3,318.1	N/A
Canada Pension Plan amount	\$38,032.3	\$39,157.7	\$40,758.9	\$42,912.6	\$44,645.3	\$44,841.7	N/A
Employment Insurance amount	\$16,188.1	\$16,312.2	\$16,096.1	\$16,200.7	\$16,230.0	\$16,344.9	N/A
Pension income amount	\$8,966.9	\$9,191.7	\$9,519.1	\$11,896.6	\$12,826.8	\$13,586.7	N/A
Caregiver amount	\$1,097.3	\$1,096.7	\$1,085.5	\$1,126.8	\$1,195.9	\$1,329.3	N/A
Disability amount	\$6,854.6	\$7,400.3	\$8,050.4	\$9,231.2	\$10,349.0	\$11,239.3	N/A
Student loan interest credit	\$1,436.2	\$1,558.8	\$1,887.9	\$1,995.5	\$1,842.8	\$1,266.2	N/A

Expenditure	2004	2005	2006	2007	2008	2009	2010
Education/tuition amount	\$24,780.1	\$25,745.8	\$26,330.4	\$25,881.1	\$26,343.8	\$26,254.1	N/A
Medical expenses	\$16,637.1	\$17,062.6	\$18,761.3	\$20,610.0	\$22,651.5	\$24,186.0	N/A
Donations and gifts	\$2,296.8	\$2,746.1	\$3,048.1	\$2,978.7	\$2,751.0	\$2,741.0	N/A
Dividend tax credit	\$49,153.9	\$57,455.7	\$69,887.0	\$79,172.0	\$71,669.2	N/A	N/A
Foreign employment tax credit	\$947.5	\$1,313.3	\$1,763.2	\$2,248.4	\$2,635.8	N/A	N/A
Low income tax reduction	\$16,597.8	\$16,145.1	\$16,178.3	\$14,880.0	\$13,118.6	\$12,381.3	\$12,486.9
Political contributions	\$422.6	\$471.2	\$784.7	\$596.9	\$506.8	\$1,214.8	\$607.6
Post-secondary credit	N/A	N/A	\$1,401.8	\$3,192.0	\$5,635.4	\$4,185.9	N/A
Graduate retention rebate	N/A	N/A	N/A	N/A	N/A	\$3,851.0	\$15,563
Equity tax credit	\$4,064.5	\$4,456.5	\$5,643.9	\$4,826.6	\$3,970.1	\$4,614.5	\$6,971.7
Labour sponsored venture corporation	\$635.4	\$539.9	\$406.8	\$377.0	\$219.8	\$173.6	\$173.6
Volunteer credits	N/A	N/A	N/A	\$1,384.8	\$2,573.0	\$3,676.6	\$3,676.6
Healthy living tax credit	N/A	\$392.0	\$1,256.5	\$1,355.6	\$1,473.8	\$1,580.4	N/A
Corporate income tax							
Scientific research and experimental development	\$13,415.5	\$15,773.9	\$13,408.8	\$19,909.2	\$21,043.3	\$26,156.5	\$27,235.1
Political contributions	\$84.9	\$46.1	\$85.8	\$78.6	\$34.0	\$82.0	\$51.0
New small business tax holiday	\$178.9	\$168.8	\$199.8	\$217.6	\$234.2	\$74.4	\$77.5
Film industry tax credit	\$10,768.7	\$9,850.9	\$16,194.6	\$11,547.7	\$19,609.7	\$17,190.6	\$21,626.1
Digital media tax credit	N/A	N/A	N/A	\$0	\$1,659.9	\$2,234.4	\$2,234.3
Harmonized sales tax							

Expenditure	2004	2005	2006	2007	2008	2009	2010
Municipalities	\$22,506.0	\$25,618.0	\$27,926.0	\$28,396.0	\$28,381.0	\$30,370	\$35,178.2
Hospitals	\$20,147	\$22,086	\$24,022	\$25,808	\$28,292	\$30,274	\$35,067.9
Universities	\$9,915.0	\$9,197.0	\$9,867.0	\$7,694.0	\$9,672.0	\$10,349	\$11,988.4
Colleges	\$1,808.0	\$2,037.0	\$1,828.0	\$2,066.0	\$2,401.0	\$2,569	\$2,976.0
Schools	\$7,900.0	\$8,144.0	\$8,546.0	\$9,695.0	\$9,549.0	\$10,218	\$11,836.0
Charities	\$6,885.0	\$7,633.0	\$8,094.0	\$7,841.0	\$8,172.0	\$8,258	\$10,129.2
Not for profit	\$1,283.0	\$1,345.0	\$2,360.0	\$2,338.0	\$2,105.0	\$2,127	\$2,609.1
First time home buyer	\$1,290.0	\$1,038.0	\$1,244.0	\$1,183.0	\$1,271.0	\$1,060	\$1,298.0
New Home Construction	N/A	N/A	N/A	N/A	N/A	\$9,359	N/A
Disability credits *	\$170.7	\$92.0	\$174.7	\$98.1	\$101.0	\$86.0	\$91.0
Volunteer fire departments *	\$62.6	\$114.0	\$231.6	\$40.6	\$28.0	\$49.0	\$52.2
Your energy rebate *				\$19,137.0	\$74,904.0	\$53,149	\$58,315.0
Heritage property renovations *	N/A	N/A	N/A	N/A	\$1.8	\$2.7	\$2.7
Printed books	\$8,160.0	\$8,543.0	\$8,609.0	\$9,525.0	\$9,022.0	\$9,339	\$10,457.3
Children's clothing	N/A	N/A	N/A	N/A	N/A	N/A	\$3,702.7
Children's footwear	N/A	N/A	N/A	N/A	N/A	N/A	\$545.2
Children's diapers	N/A	N/A	N/A	N/A	N/A	N/A	\$254.0
Feminine hygiene	N/A	N/A	N/A	N/A	N/A	N/A	\$869.8
Motive Fuel							
Marked fuel	\$29,055.0	\$25,148.0	\$25,295.2	\$25,402.0	\$23,756.2	\$20,822.7	\$20,034.9
Tobacco							
Exempt tobacco	\$10,794.6	\$12,781.9	\$13,262.9	\$13,264.7	\$12,949.9	\$12,823.2	\$18,897.6
Large corporations tax							
Energy efficiency tax credit	N/A	N/A	\$13.8	\$36.7	\$36.2	\$1,164.8	\$750.0

Note: * Reported on a fiscal year ended basis.

PART III: Measures of distribution, burden, and comparisons

The sections below provide an overview of Nova Scotia's tax system, the underlying bases on which revenues are collected, and comparisons to other jurisdictions. Undoubtedly differences in tax bases, deductions, rebates, credits, distribution, etc. can create large differences in the measured rate of tax in when compared across multiple jurisdictions. The sections below rely on standard measures known as average effective tax rates and marginal effective tax rates to overcome the comparability problem. Average effective tax rate is a backward looking measure of the ratio of a revenue stream and the economic aggregate generating it. The measure is a proxy for the degree of distortion introduced into economic decisions but it does not take into account incentives for decisions that have not already been made. Obvious problems with the average effective tax rate arise due to: conceptual differences between the timing of income being earned (economic aggregates) and being recognized for tax purposes (when the tax is paid), differences between the tax base and the economic aggregate purported to create revenues, and the use of credits, rebates, and deductions between years. The average effective tax rate methodology has been exhaustively studied and is internationally recognized as a standard measure of tax burden and distribution.

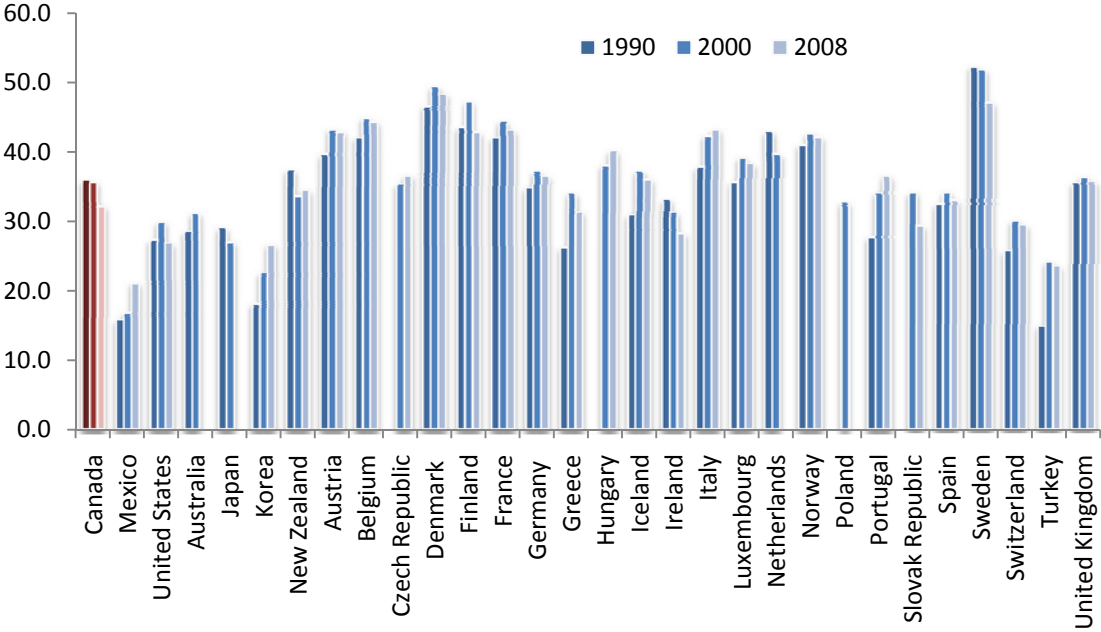
Since the Province has the ability to impose direct taxes (taxes paid directly by individuals and businesses) many average effective tax rates are expressed as a ratio of a nominal gross domestic product aggregate. This is appropriate because nominal gross domestic product accounts for the market value of final goods and services consumed and the resulting income but ignores intermediate goods and services. Since indirect taxes are usually collected on expenditures and income other than final goods and services, using nominal gross domestic product provides a reasonable basis for comparison between provinces and countries.

The second measure typically used to compare tax burden and distribution is the marginal effective tax rate which examines the incremental tax paid on income. This forward looking measure also aims to measure the degree of distortion introduced into economic decisions however it does so directly (average effective measures are indirect or proxy measures). Marginal effective rates also require that individuals actually respond to marginal (or inframarginal) incentives that alter decisions. In some instances these assumptions are not appropriate (ie: when individuals can not expand their labour supply when marginal tax rates fall). The comparisons in this document rely on average effective tax rates to compare jurisdictions.

Internationally, average effective tax rates for all taxes (including social security contributions) have declined marginally since 2000. Canada's reduction in the average total effective tax rate was the third

most substantial between 2000 and 2008 aside from Finland¹ and the Slovak Republic². Canada’s average total effective tax rate stands at 9th lowest among the 26 countries for 2008 among Organization for Economic Cooperation and Development. Figure 1 illustrates average total tax rates for Organization for Economic Cooperation and Development in 1990, 2000, and 2008. Within Canada, Nova Scotia’s average total effective tax rate is third highest among provincial governments.

Figure 1 – Total taxes as a share of nominal gross domestic product (per cent)



Source: Organization for Economic Cooperation and Development, Tax Database (Table O.1)

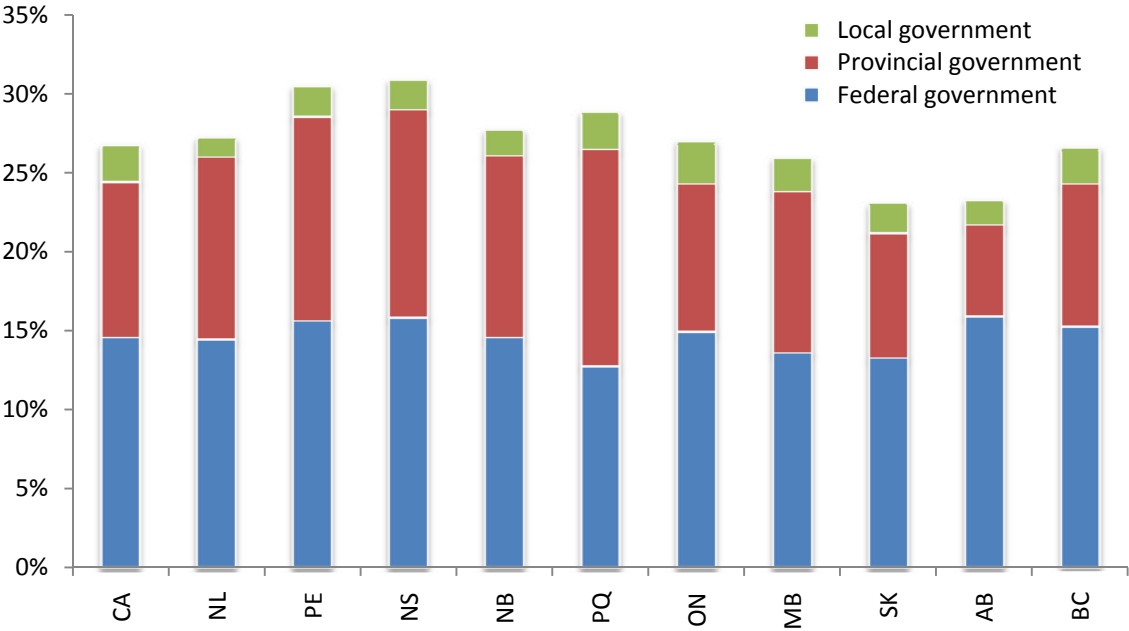
Figure 2 illustrates the last actual average effective total tax ratio by level of government and Province. It is important to note that in all provinces, the Federal government exercises a greater tax effort than provincial governments. It is also worthwhile noting that the Federal government must also finance equalization expenditures from all provinces. On average, Federal taxes paid by Nova Scotia residents are equal to the national average however provincial taxes as a share of nominal gross domestic product

¹ In 2005, 21 per cent of the workforce was employed by government. Reforms to reduce the number of government employees has reduced the need for collecting tax revenues combined with growth in gross domestic product outpacing revenue growth have lowered the average effective tax rate.

² Slovak Republic has substantially lowered taxes on personal income when it moved to a flat tax in 2004 from a progressive rate structure however personal income taxes are a relatively small portion of revenues. Changes to public pensions, health premiums (a payroll tax), and a reduction in the corporate income tax rate financed through the removal of exemptions, and lower indirect taxes all contributed to the reduction in the total tax ratio.

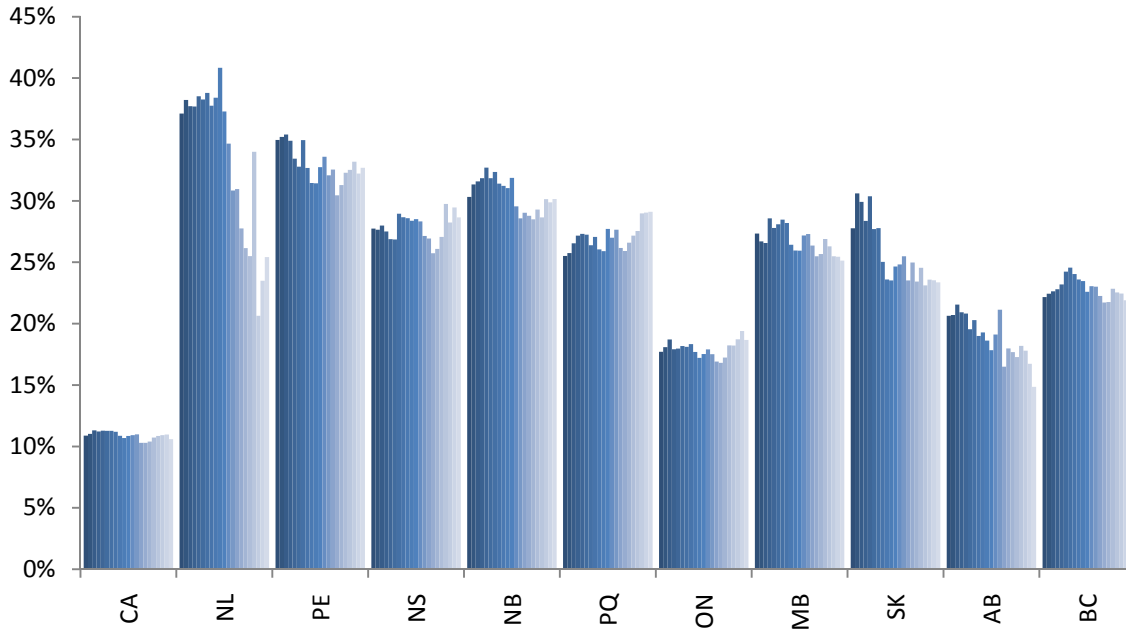
exceed the national average marginally. Through time, there is a geographic divide in the approach to setting total taxes relative to nominal gross domestic product. First, the trend in the western parts of the provinces shows a reduction in total taxes as a per cent of nominal gross domestic product. This reflects a series of policy decisions (particularly in British Columbia and Manitoba) and strong economic growth primarily fueled by natural resource extraction. In the centre of the country, average total taxes as a per cent of nominal gross domestic product remain relatively unchanged with recent trends showing a marginal increase in total taxes compared to the economic tax base nominal gross domestic product. Eastern provinces, except Newfoundland, show a little change in total taxes compared to the economic tax base. In fact, most changes in the Eastern provinces can be attributed to changes in transfers from other levels of government. Newfoundland's total taxes relative to nominal gross domestic product has been influenced significantly by natural resource extraction (from the collapse of significant parts of the fisheries to offshore oil and gas and mineral extraction from the mid-1990s onward) and by transfers from other levels of government.

Figure 2 – Total taxes (excluding social security contributions) by province as a per cent of nominal gross domestic product, 2009



Source: Social Policy Simulation Database/Model v18.1, Provincial Economic Accounts

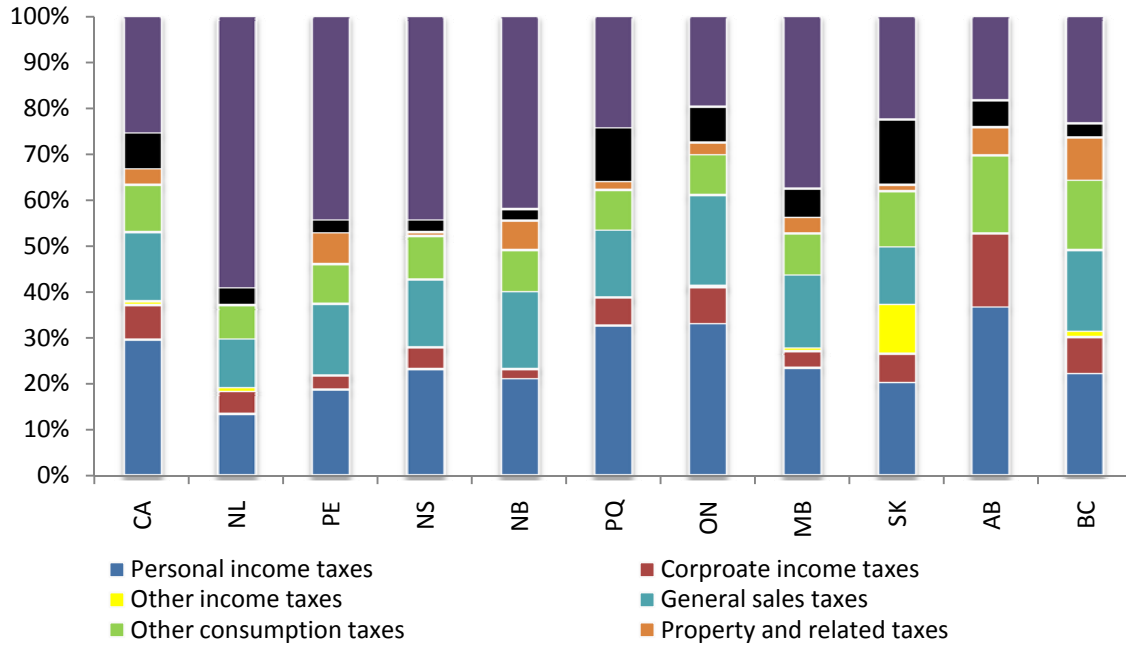
Figure 3 – Total revenues as a per cent of nominal gross domestic product, 1988 to 2008



Source: Statistics Canada (CANSIM 385-0001)

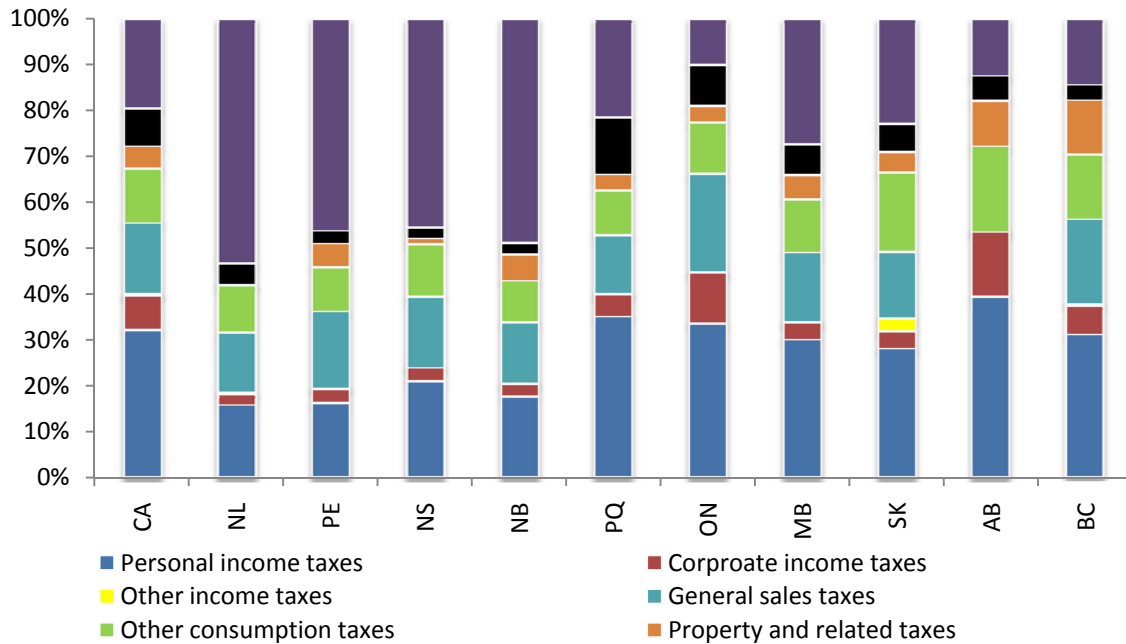
Looking at the revenue mix Provincial taxes used across Canada between 1998-99 and 2008-09, several notable changes have occurred. Figure 4 and Figure 5 illustrate the revenue mix across Canadian provinces. Across Canada, corporate income taxes have not declined in their relative importance among all revenue sources while personal income taxes have declined marginally. Several resource taxes have increased the importance of royalties and resource based income taxes. Property taxes and consumption taxes have decreased in their importance in the revenue mix while the importance of transfers from other levels of government has increased substantially. Over the same period provinces have experienced relatively uneven economic growth and several significant changes to transfers from the Federal Government to the Provincial Government have occurred.

Figure 4 – Provincial own-source revenue mix, 2008-2009



Source: Statistics Canada (CANSIM 385-0001)

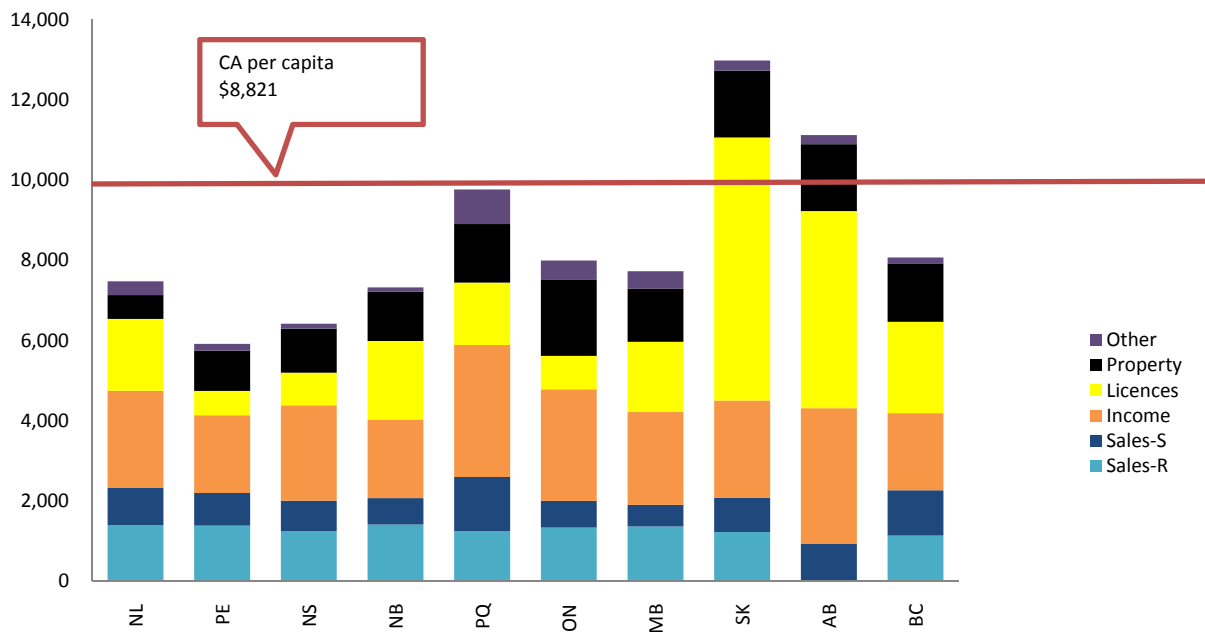
Figure 5 – Provincial own-source revenue mix, 1998-1999



Source: Statistics Canada (CANSIM 385-0001)

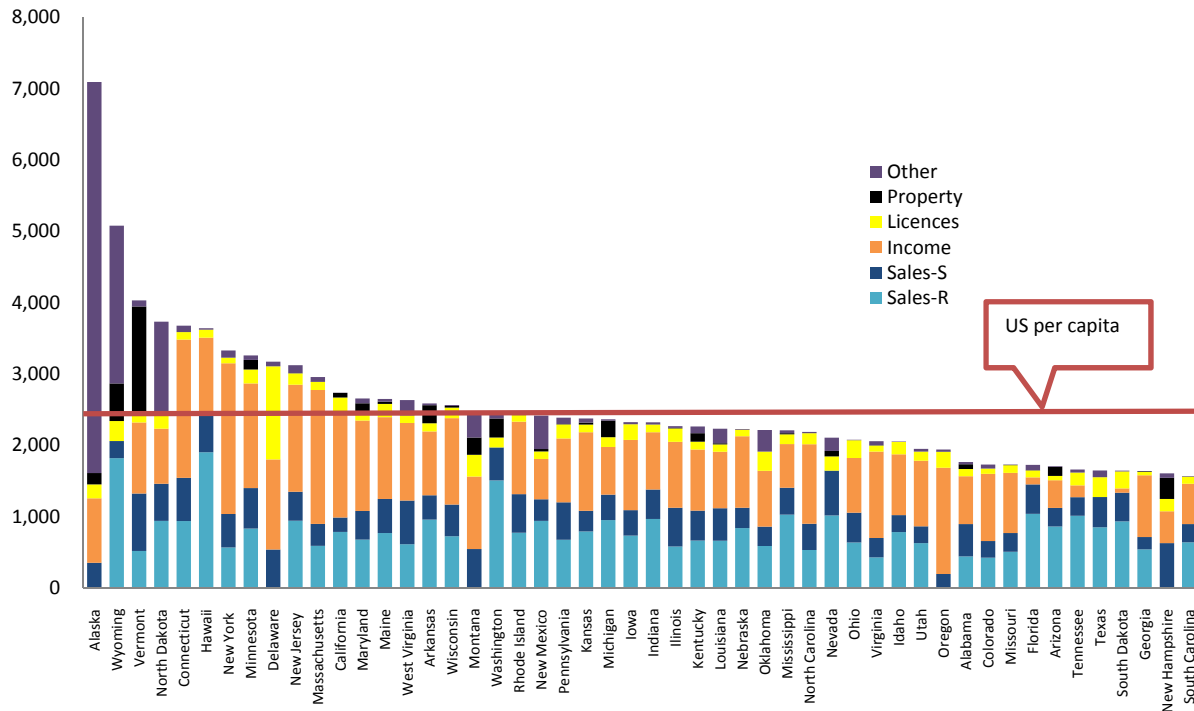
Figure 6 illustrates the mix of taxes expressed as a ratio of taxes and the population in each province. The connection between the average effective tax rate and tax effort is the standard of living in each province, or per capita gross domestic product. Provinces with high tax efforts require lower average effective tax rates because the per capita income and expenditures underlying tax revenues are greater. In general, the deficiency of a province's tax effort from the Canadian average tax effort is accounted for by equalization payments from the Federal government. Figure 7 compares the tax effort in US states, which are significantly lower than the Canadian provinces tax effort. This is primarily because Canadian spending by government is more decentralized than in the US and the aggregate level of government spending is greater in Canada than the US.

Figure 6 – Tax effort by province, 2008



Source: Financial Management System (385-0001) and Population estimates (015-0001)

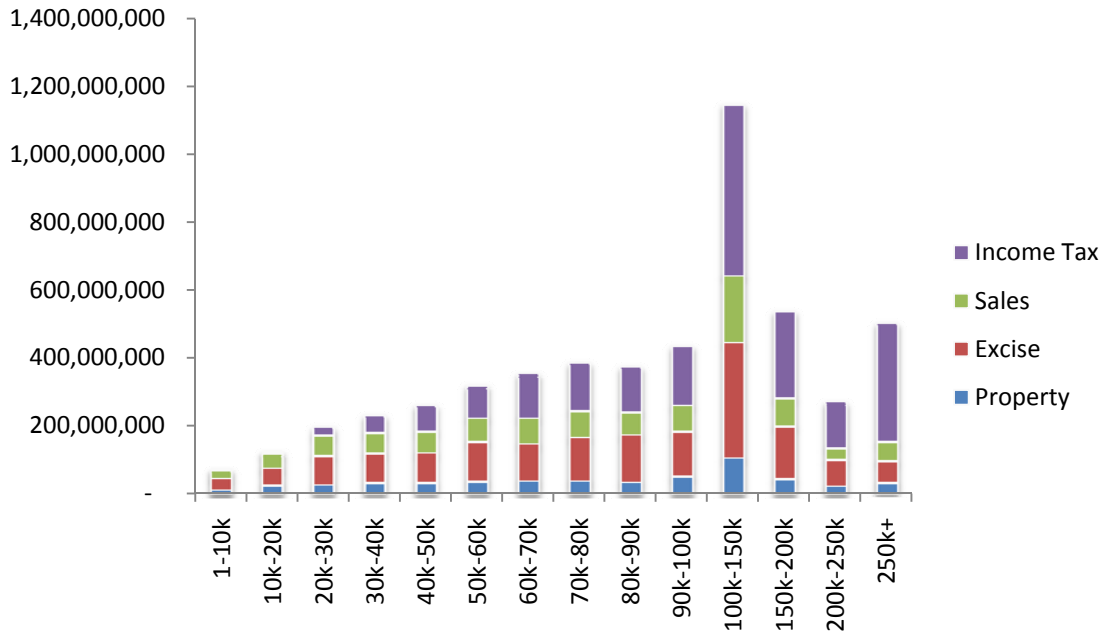
Figure 7 –United States sub national (state) level tax effort



Source: Bureau of Economic Analysis

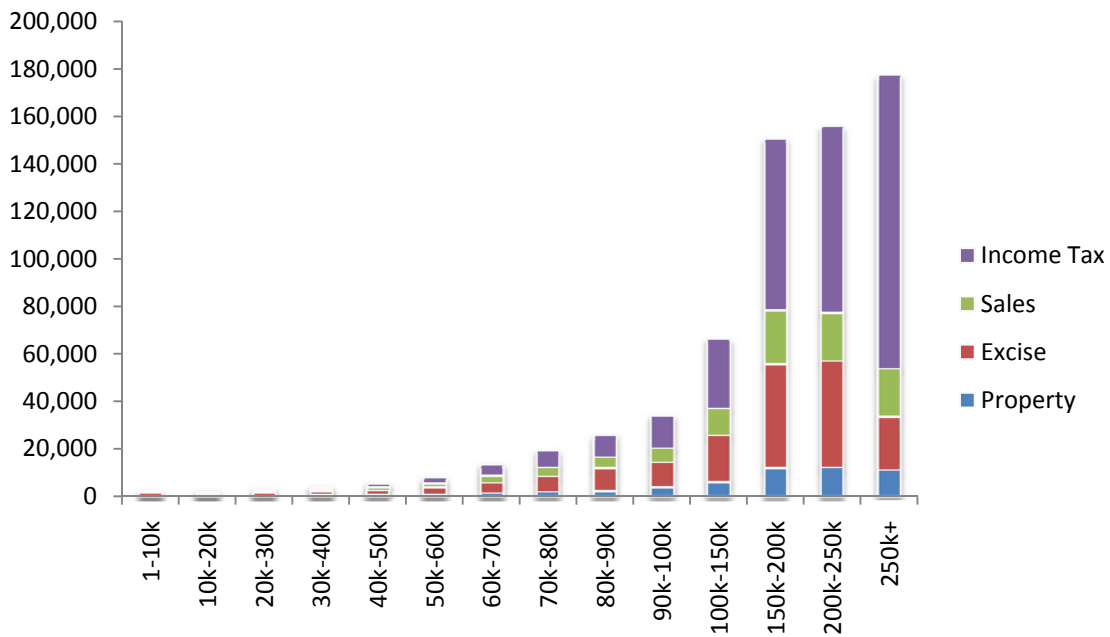
Overall, the largest portion of total taxes on persons is paid by middle to high income households earning over 80,000 per year. The largest component of taxes on persons is the personal income tax. However given the personal income tax progressive rate structure most of the tax is paid by high income households. Sales taxes and excise taxes (motive fuel taxes, liquor profits, and tobacco taxes) tend to be regressive over most of the income distribution. Figure 8 to Figure 10 illustrate the distribution of taxes by household income range for 2010. The average Nova Scotia household will have spent \$12,800 in these taxes accounting for an average of 19 per cent of household income.

Figure 8 – Total provincial and municipal taxes paid by household total income range, 2010



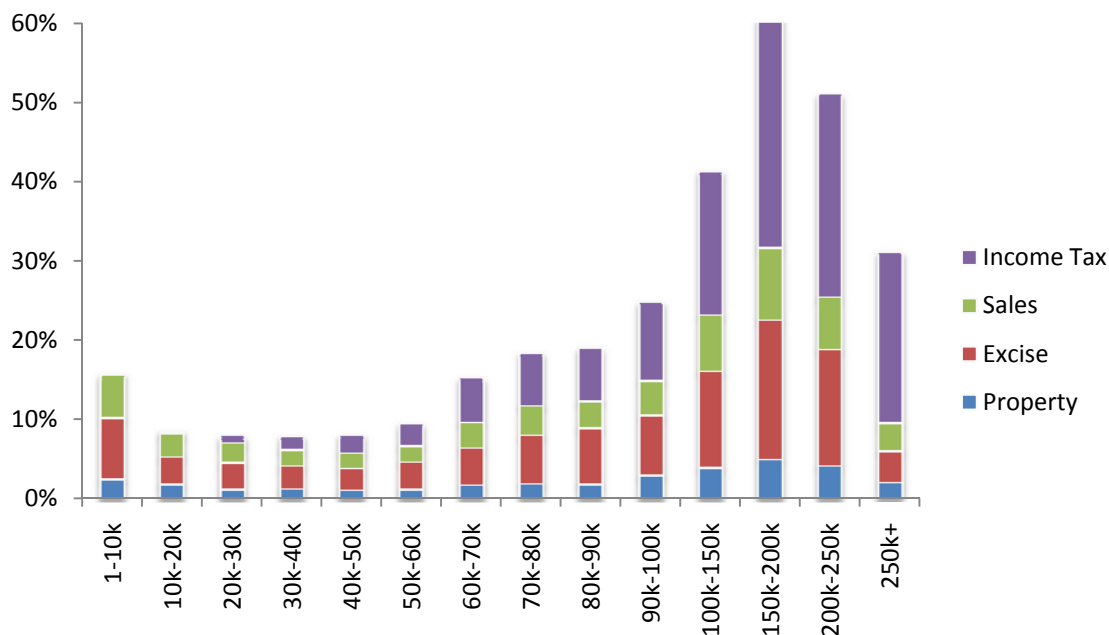
Source: Social policy simulation database model, v. 18.1

Figure 9 – Average provincial and municipal taxes paid by household total income range, 2010



Source: Social policy simulation database model, v. 18.1

Figure 10 – Total provincial and municipal taxes paid relative to household income, 2010

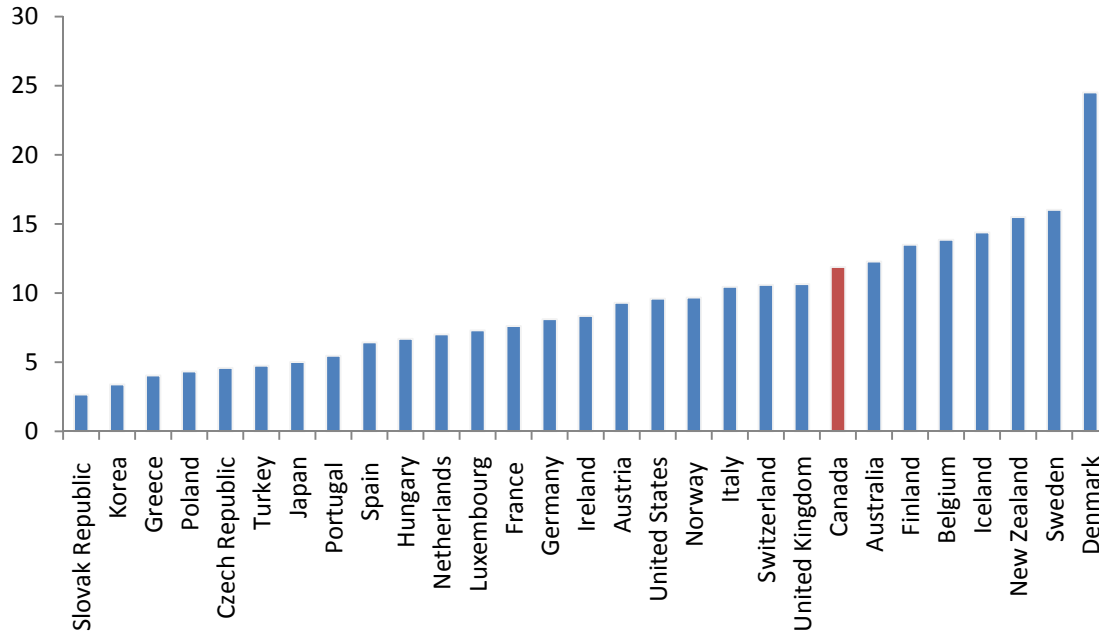


Source: Social policy simulation database model, v. 18.1

Taxes on personal income

Average tax ratios for personal income taxes as a share of gross domestic product vary substantially internationally. Among member countries of the Organization of Economic Cooperation and Development, or OECD, Canada (including provinces) has one of the highest average tax ratios. Based on 2005 OECD data, Canada has the eighth highest total personal income taxes as a portion of gross domestic product. On the other hand, Canada derives the fifth highest share of total tax revenues from personal income taxes among the same group of countries. Generally countries with high personal income tax average tax ratios rely on this revenue source for redistributive purposes. Among OECD member countries, the importance of personal income tax in the tax mix has declined over the past 30 years. These have generally been replaced with social security contributions or payroll taxes conferring benefits. This is also part of a broader move to reduce the progressivity of the tax system within OECD countries. Within Canada, Nova Scotia exceeds the national average ratio of personal income taxes as a share of nominal gross domestic product as illustrated by Figure 12. This is attributable to relatively low ratios in resource based economies, Nova Scotia’s relatively high share of nominal gross domestic product accounted for by a ratio of personal income to nominal gross domestic product, and higher statutory rates in Nova Scotia compared to other provinces.

Figure 11 – Personal income taxes as a per cent of gross domestic product for OECD member countries, 2005

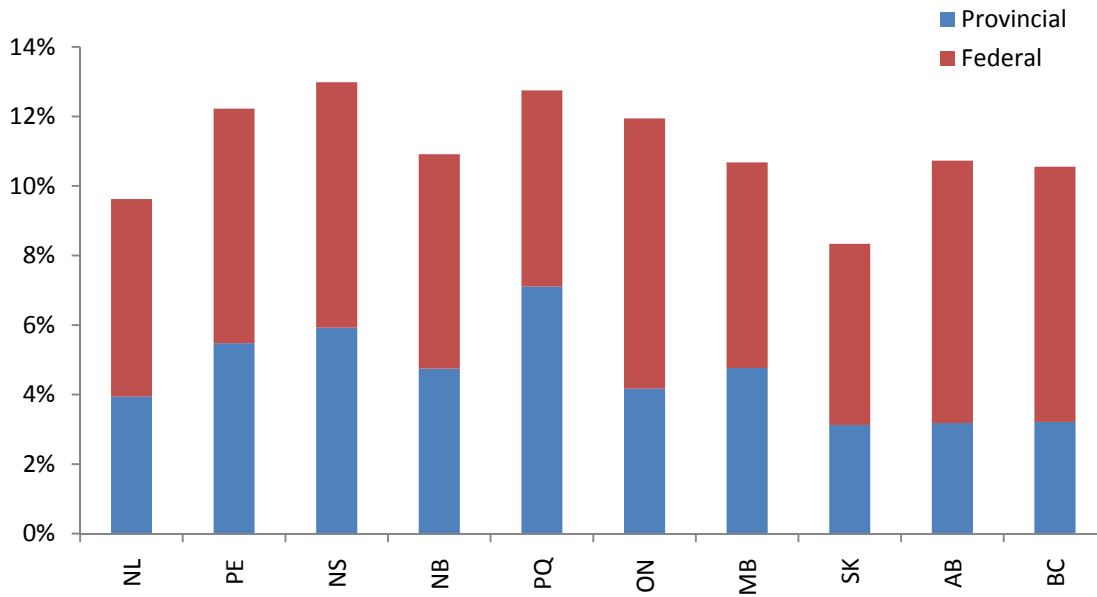


Source: Organization for Economic Cooperation and Development, Revenue Statistics 2008 edition (Table 10)

Provincial personal income taxes net of personal income tax credits averaged slightly over 6 per cent of personal income in 2008-2009. Personal income is technically not the same as taxable income³ however it is a measure of the flow of income earned in a year subject to tax. Figure 13 illustrates the ratio of provincial personal income taxes as a proportion of personal income for the 2008 year. Compared to other provinces, Nova Scotia ranks as the third highest personal income tax average effective rate. Quebec residents benefit from Federal personal income tax abatement which reduces the effective combined Federal and Provincial taxes as shown. Figure 14 illustrates a similar pattern using tax administration data based on taxable income instead of personal income. Nova Scotia has the fourth highest average effective rate of personal income tax based in 2008.

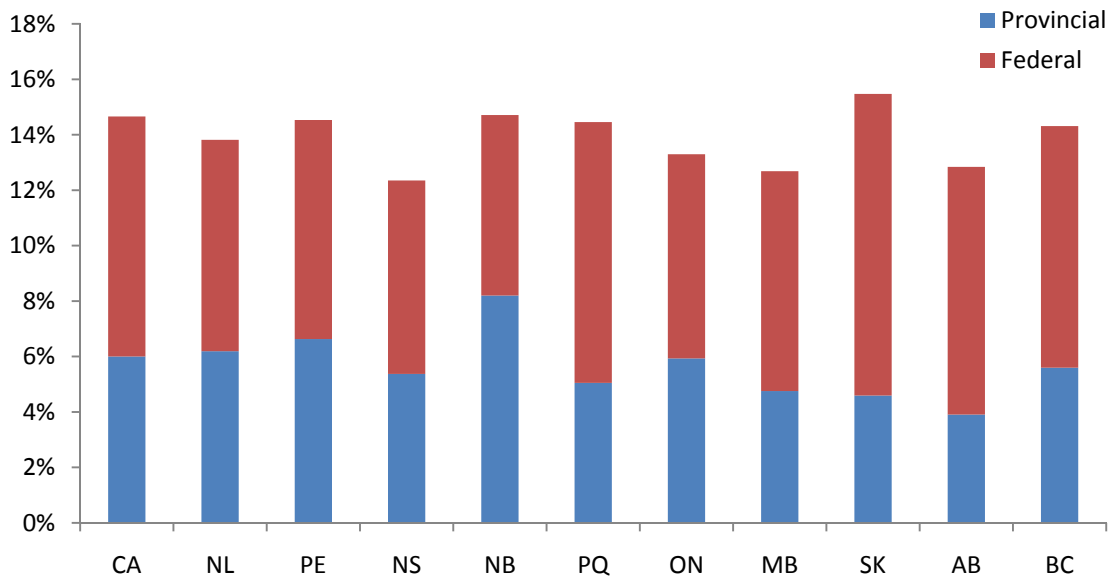
³ Personal income is a System of National Accounts (SNA) concept that measures income related to the current production. For example, SNA personal income measures capital gains as they relate to the current period while capital gains are taxed when they are realized for tax purposes.

Figure 12 – Federal and Provincial personal income taxes as a share of gross domestic product (except Quebec), 2009



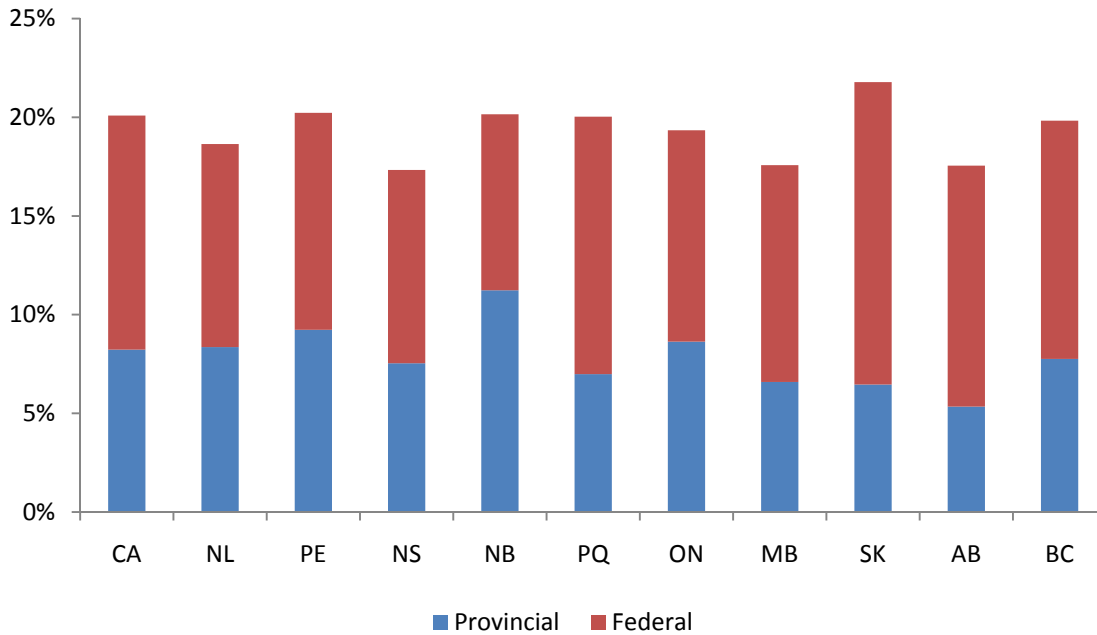
Source: Provincial Economic Accounts and Social Policy Simulation Database/Model v.18.1.

Figure 13 – Provincial personal income tax as a proportion of personal income, 2009



Source: Provincial Economic Accounts and Social Policy Simulation Database/Model v.18.1.

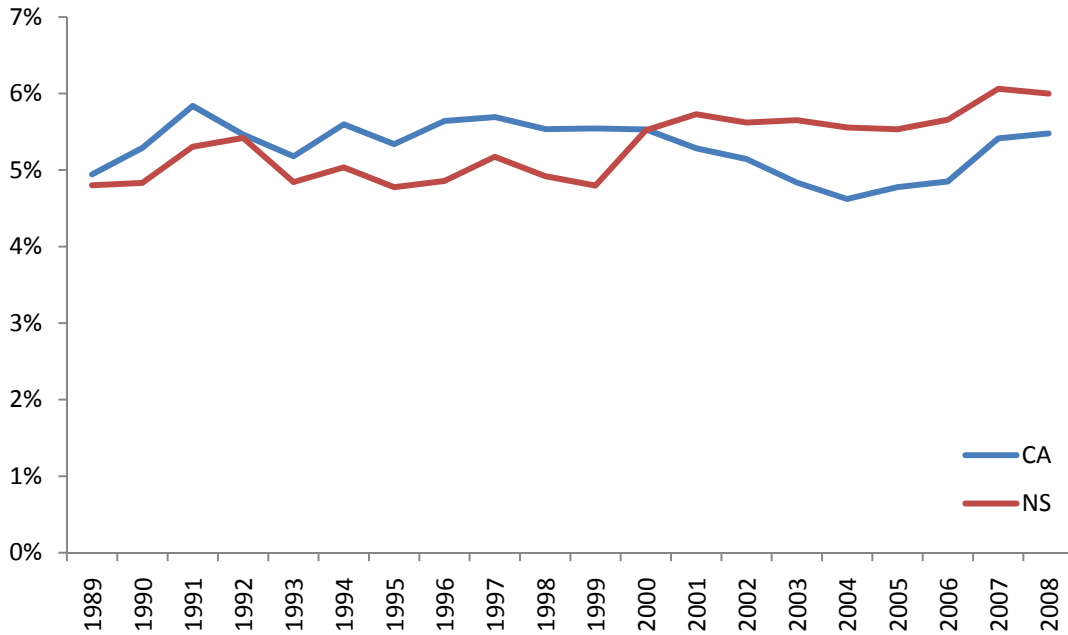
Figure 14 – Provincial personal income tax as a proportion of taxable income (administrative data), 2009



Source: Canada Revenue Agency, T1 Universe File, Table 5 and Social Policy Simulation Database/Model v.18.1.

Between 1989 and 2008, the ratio of provincial personal income taxes to personal income has increased 1.2 percentage points in Nova Scotia. Yearly changes in the average effective tax rate occur can occur for many reasons (ie: underground activity, income source substitution, deductions from total income, provincial credits). While Nova Scotia’s tax ratio has increased, the national average has declined primarily because of income tax reforms in British Columbia in the 2001 Provincial budget implemented as an election promise on economic policy.

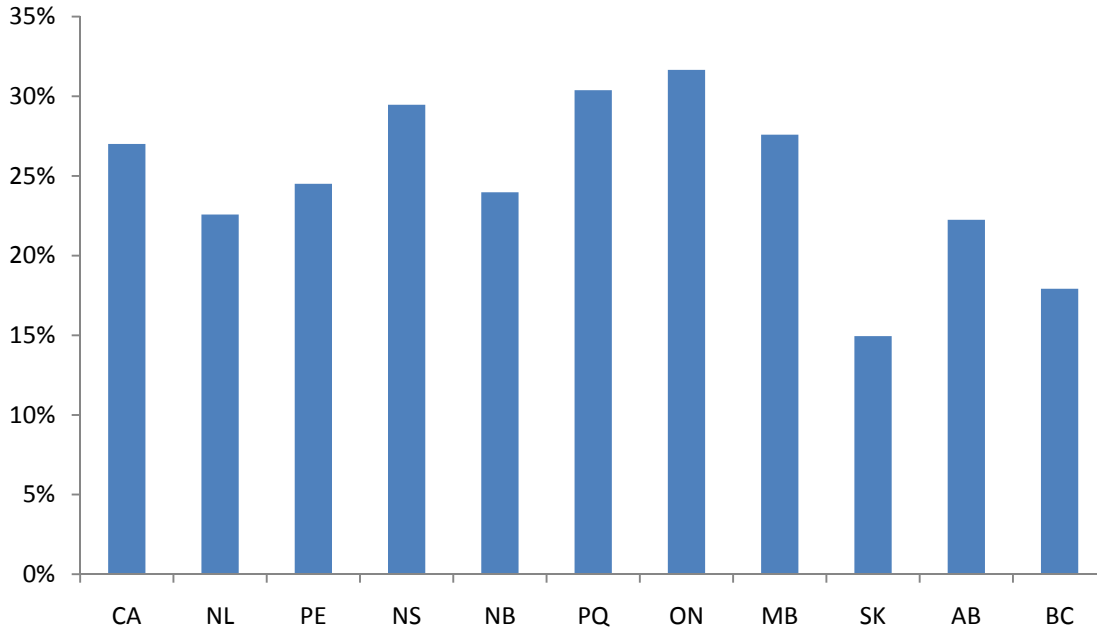
Figure 15 – Provincial personal income tax relative to personal income, 1989 to 2008, all provinces (excluding Quebec) and Nova Scotia



Source: Financial Management System (385-0001) and Provincial Economic Accounts (384-0012)

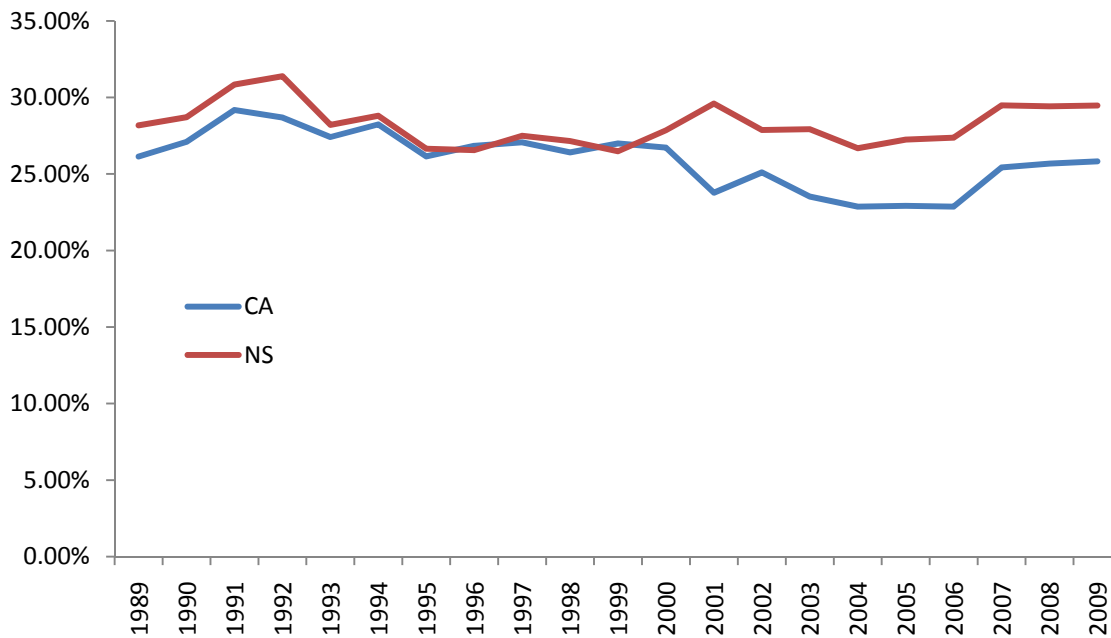
In 2008-2009, provinces derived an average of 27 per cent of their own-source revenues from personal income tax. Generally, personal income taxes are a provinces largest single source of tax revenues. Personal income taxes in Nova Scotia accounted for nearly 30 per cent of own-source revenues. Figure 16 illustrates the ratio of provincial personal income taxes to total own-source revenues for provinces in 2008-2009. Over time, Nova Scotia has derived an increasing proportion of its own-source revenues from personal income taxes. Figure 17 illustrates this over the 1988-1989 to 2008-2009 fiscal years for provinces. The general trend in provinces has been heavily influenced by reliance on resource rents (such as petroleum royalties, timber stumpage, potash royalties, etc.) crowding out other revenue sources proportionally.

Figure 16 – Provincial personal income tax as a per cent of total own-source revenues, 2008-2009



Source: Financial Management System (385-0001) and Provincial Economic Accounts (384-0012)

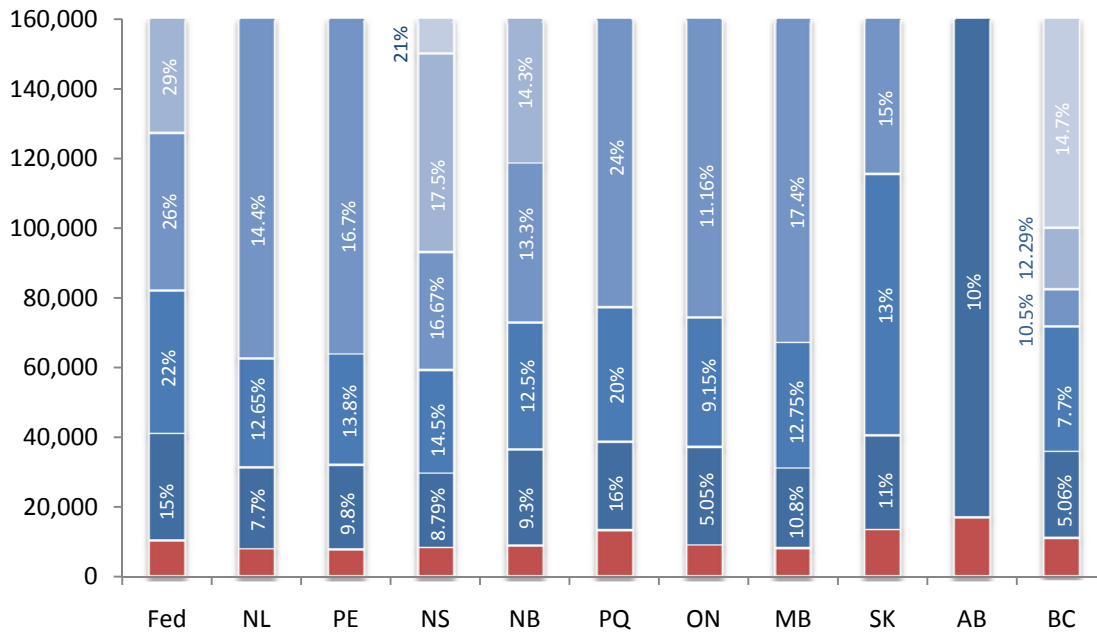
Figure 17 – Provincial personal income tax relative to total own-source revenues, 1989 to 2008, all provinces (excluding Quebec and Nova Scotia)



Source: Financial Management System (385-0001) and Provincial Economic Accounts (384-0012)

Comparing statutory rates and brackets across Provinces it is clear that Nova Scotia’s income tax has a significantly more progressive rate structure than other provinces. Figure 18 compares 2010 personal income tax brackets and rates. Nova Scotia and British Columbia are the only two provinces with five personal income tax brackets. Nova Scotia’s second and third bracket thresholds are comparable to other provinces however the rates applied to these brackets exceeds most other provincial rates. Nova Scotia’s first bracket rate is lower than most provinces (fourth lowest). Federal personal income taxes account for the majority of total income taxes paid by individuals.

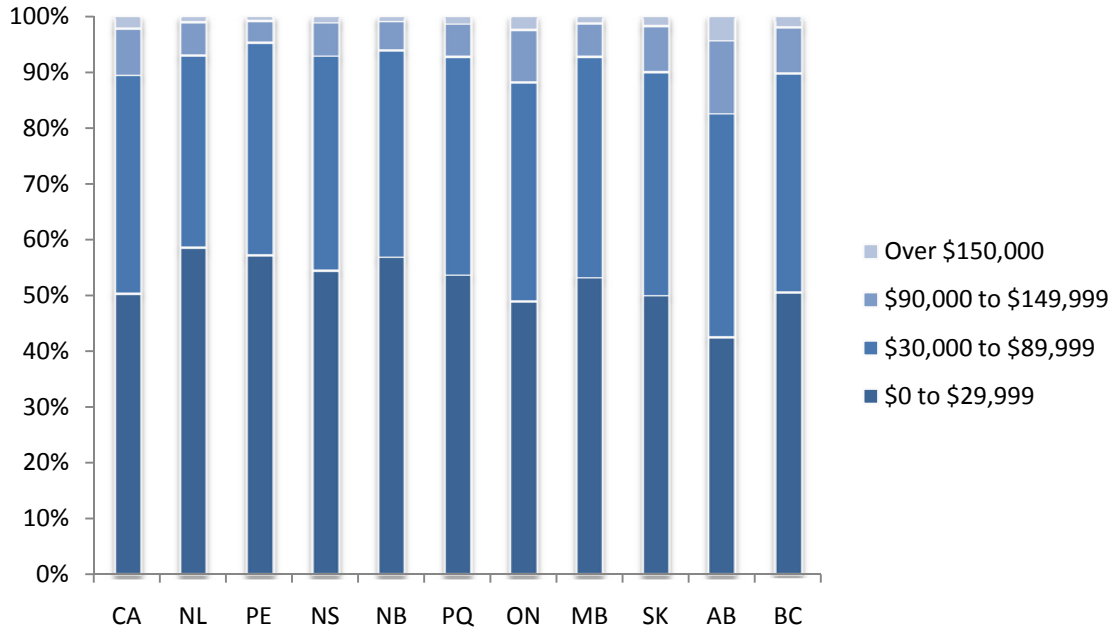
Figure 18 –Personal income tax brackets and rates, 2010 Provincial and Federal Government



Source: Department of Finance

Income distribution across provinces and time does not vary significantly. Figure 19 illustrates the proportion of individuals in various total income ranges for 2008. Nova Scotia’s income distribution tends to have a larger proportion of individuals in lower income ranges compared to the rest of Canada. This has the impact of lowering the revenues per dollar of taxable income the Province collects compared to other provinces. This a feature of the progressive rate structure in the Province and the income distribution on which taxes are based.

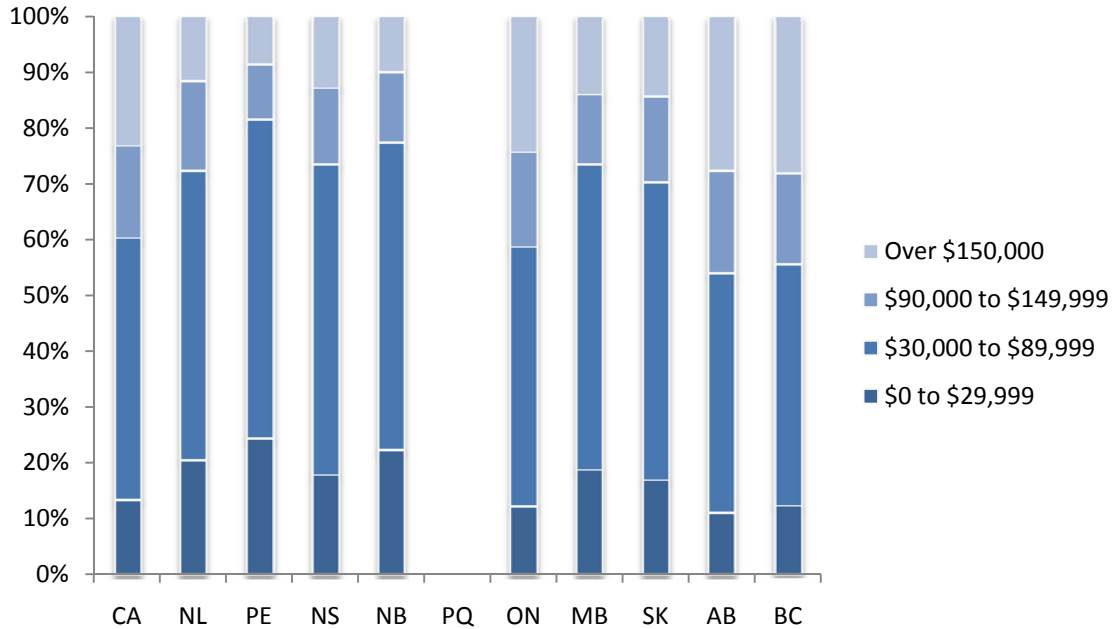
Figure 19 – Proportion of individuals in total income ranges (2008)



Source: Canada Revenue Agency T1 Final Statistics, Table 2A.

Figure 20 summarizes the proportion of individuals paying provincial taxes in each total income range. Individuals with total income under \$30,000 in Nova Scotia represent 11 per cent of those paying income taxes but pay 17 per cent of taxes, compared to 8 per cent of those paying taxes nationally paying 13 per cent. Individuals with total income over \$150,000 in Nova Scotia represent 5 per cent of those paying income taxes but pay 6 per cent of taxes, compared to 11 per cent of those paying taxes nationally paying 12 per cent.

Figure 20 – Proportion of personal income taxes paid by individuals in total income ranges, 2008



Source: Source: Canada Revenue Agency T1 Final Statistics, Table 2A.

A number of observations can be drawn from

Table 60 to

Table 64. Individuals earning less than \$30,000 per year comprise the majority of the population in the Nova Scotia. However the proportion of the population has fallen over 10 percentage points in seven years reflecting income growth and population churning (absences from reporting income). The top one per cent of income tax filers earns over \$150,000 in taxable income, account for 12 per cent of total taxable income and twenty per cent of net provincial taxes. By comparison, individuals earning less than \$30,000 account for an average of 30 per cent of taxable income and about 12 per cent of net provincial taxes. This reflects the degree of progressivity in Nova Scotia’s rate schedule whereby marginal rates increase as income increases and the high proportion of government income reported. Total income growth is concentrated in income groups with income over \$60,000 due to individuals moving from lower income groups into higher income cohorts and income growth of individuals in the cohort.

Table 60 – Number of individuals in taxable income ranges and Proportion of total income in taxable income ranges

	\$0 to \$29,999	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$149,999	\$150,000 and over
2001	493,846 (70.7%)	163,382 (23.4%)	27,224 (3.9%)	8,667 (1.2%)	5,857 (0.8%)

2002	491,790 (69.2%)	171,635 (24.2%)	30,922 (4.4%)	9,745 (1.4%)	6,190 (0.9%)
2003	487,002 (68.1%)	177,026 (24.7%)	34,345 (4.8%)	10,517 (1.5%)	6,384 (0.9%)
2004	465,762 (66.8%)	177,772 (25.5%)	35,628 (5.1%)	11,080 (1.6%)	6,549 (0.9%)
2005	452,474 (65.1%)	181,476 (26.1%)	42,265 (6.1%)	12,565 (1.8%)	6,499 (0.9%)
2006	440,473 (63.1%)	188,245 (27.0%)	47,987 (6.9%)	14,272 (2.0%)	7,346 (1.1%)
2007	434,081 (61.4%)	198,565 (28.1%)	50,924 (7.2%)	15,904 (2.2%)	7,760 (1.1%)
2008	421,419 (59.4%)	202,529 (28.6%)	58,646 (8.3%)	18,341 (2.6%)	8,405 (1.2%)
Average	460,856 (65.5%)	182,579 (26.0%)	40,993 (5.8%)	12,636 (1.8%)	6,874 (1.0%)

Source: Department of Finance

Table 61 –Total taxable income of individuals in taxable income ranges (thousands) and proportion of taxable income in taxable income ranges

	\$0 to \$29,999	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$149,999	\$150,000 and over
2001	6,074,429 (34.1%)	6,798,717 (38.2%)	1,926,472 (10.8%)	963,246 (5.4%)	2,046,315 (11.5%)
2002	6,086,614 (32.6%)	7,180,043 (38.5%)	2,187,141 (11.7%)	1,077,543 (5.8%)	2,115,216 (11.3%)
2003	6,080,483 (31.4%)	7,428,407 (38.4%)	2,427,221 (12.6%)	1,165,287 (6.0%)	2,237,289 (11.6%)
2004	5,898,154 (30.3%)	7,457,384 (38.4%)	2,520,452 (13.0%)	1,224,524 (6.3%)	2,341,708 (12.0%)
2005	5,793,875 (28.7%)	7,664,891 (38.0%)	2,992,067 (14.8%)	1,384,106 (6.9%)	2,342,307 (11.6%)
2006	5,725,841 (26.9%)	7,959,518 (37.4%)	3,400,306 (16.0%)	1,571,353 (7.4%)	2,631,118 (12.4%)
2007	5,918,803 (26.4%)	8,356,050 (37.3%)	3,615,783 (16.2%)	1,751,635 (7.8%)	2,738,300 (12.2%)
2008	5,764,304 (24.5%)	8,514,380 (36.2%)	4,177,268 (17.8%)	2,018,442 (8.6%)	3,053,225 (13.0%)
Average	5,917,813 (29.4%)	7,669,924 (37.8%)	2,905,839 (14.1%)	1,394,517 (6.8%)	2,438,185 (12.0%)

Source: Department of Finance

Table 62 – Total government income of individuals in taxable income ranges (thousands) and proportion of government income in taxable income ranges

	\$0 to \$29,999	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$149,999	\$150,000 and over
2001	927,263 (84.8%)	149,746 (13.7%)	13,848 (1.3%)	2,881 (0.3%)	336 (0.0%)
2002	934,342 (83.3%)	165,910 (14.8%)	16,637 (1.5%)	3,618 (0.3%)	528 (0.0%)
2003	947,888 (82.3%)	178,143 (15.5%)	20,516 (1.8%)	4,552 (0.4%)	665 (0.1%)
2004	925,397 (82.5%)	176,280 (15.7%)	15,862 (1.4%)	2,967 (0.3%)	671 (0.1%)
2005	944,950 (81.3%)	192,043 (16.5%)	20,887 (1.8%)	3,877 (0.3%)	523 (0.0%)
2006	978,715 (80.5%)	210,574 (17.3%)	22,512 (1.9%)	3,960 (0.3%)	658 (0.1%)
2007	1,013,872 (79.1%)	234,464 (18.3%)	26,149 (2.0%)	5,918 (0.5%)	1,410 (0.1%)
2008	992,143 (77.1%)	253,659 (19.7%)	32,205 (2.5%)	7,684 (0.6%)	1,011 (0.1%)
Average	958,071 (81.4%)	195,102 (16.4%)	21,077 (1.8%)	4,432 (0.4%)	725 (0.1%)

Source: Department of Finance

Table 63 – Total provincial income taxes paid by individuals in taxable individual ranges (millions) and proportion of provincial income taxes in taxable income ranges

	\$0 to \$29,999	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$149,999	\$150,000 and over
2001	202.85 (14.7%)	571.05 (41.3%)	210.08 (15.2%)	120.10 (8.7%)	279.78 (20.2%)
2002	201.91 (13.8%)	603.17 (41.3%)	239.15 (16.4%)	133.52 (9.1%)	282.59 (19.4%)
2003	201.20 (13.1%)	624.33 (40.7%)	264.76 (17.2%)	144.06 (9.4%)	300.98 (19.6%)
2004	173.97 (11.5%)	593.43 (39.4%)	267.88 (17.8%)	150.78 (10.0%)	321.57 (21.3%)
2005	170.78 (10.7%)	612.13 (38.4%)	318.45 (20.0%)	169.24 (10.6%)	322.85 (20.3%)
2006	167.65 (9.8%)	632.07 (37.0%)	359.61 (21.1%)	190.19 (11.1%)	357.08 (20.9%)
2007	174.04 (9.7%)	656.60 (36.6%)	382.72 (21.3%)	211.37 (11.8%)	368.83 (20.6%)
2008	162.04 (8.5%)	659.47 (34.5%)	442.51 (23.2%)	244.41 (12.8%)	401.76 (21.0%)

Average	181.81 (11.5%)	619.03 (38.7%)	310.65 (19.0%)	170.46 (10.4%)	329.43 (20.4%)
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Source: Department of Finance

Table 64 – Total federal income taxes paid by individuals in taxable individual ranges (millions) and proportion of federal income taxes in taxable income ranges

	\$0 to \$29,999	\$30,000 to \$59,999	\$60,000 to \$89,999	\$90,000 to \$149,999	\$150,000 and over
2001	346.71 (15.7%)	861.66 (39.1%)	311.73 (14.1%)	181.84 (8.2%)	503.60 (22.8%)
2002	332.81 (14.6%)	893.00 (39.1%)	350.87 (15.3%)	200.48 (8.8%)	508.90 (22.3%)
2003	325.11 (13.7%)	915.39 (38.4%)	385.72 (16.2%)	215.08 (9.0%)	540.28 (22.7%)
2004	303.23 (12.9%)	882.91 (37.5%)	386.58 (16.4%)	218.58 (9.3%)	560.63 (23.8%)
2005	254.43 (10.9%)	844.68 (36.3%)	443.85 (19.1%)	238.88 (10.3%)	546.53 (23.5%)
2006	232.86 (9.5%)	852.15 (34.8%)	496.11 (20.2%)	266.33 (10.9%)	604.17 (24.6%)
2007	194.34 (8.1%)	813.74 (33.8%)	503.44 (20.9%)	286.05 (11.9%)	611.60 (25.4%)
2008	185.23 (7.1%)	816.80 (31.4%)	581.25 (22.4%)	329.04 (12.7%)	684.84 (26.4%)
Average	271.84 (11.6%)	860.04 (36.3%)	432.44 (18.1%)	242.04 (10.1%)	570.07 (23.9%)

Source: Department of Finance

Table 65 provides the current non-refundable credits offered across provinces. Nova Scotia's non-refundable credit block conforms generally to other provinces. Notable exceptions are the disability, disability supplement and the education amounts where the Province's credits are significantly less generous than other provinces and the age amount which is significantly more generous than other provinces.

Table 65 – Selected non-refundable credits for 2010

Credit	Fed	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Basic personal	10,382	7,833	7,708	8,231	8,777	10,505	8,943	8,134	13,348	16,825	11,000
Spouse	10,382	6,400	6,546	6,989	7,453	N/A	7,594	8,134	13,348	16,825	9,653
Infirm	4,223	2,488	2,446	2,716	4,146	N/A	4,215	3,605	8,445	9,740	4,118

dependant											
Dependant threshold	5,992	5,345	4,966	5,515	5,881	N/A	5,992	5,115	5,992	6,434	6,559
Disability	7,239	5,285	6,890	4,887	7,106	2,390	7,225	6,180	8,445	12,979	7,058
Disability supplement	4,223	2487	4,019	3,348	4,015	N/A	4,214	3,605	8,445	9,740	4,118
Age amount	6,446	5,000	3,764	4,019	4,286	2,260	4,366	3,728	4,366	4,689	4,220
Age threshold	32,506	27,400	28,019	29,919	31,905	N/A	32,506	37,749	32,506	34,903	31,413
Pension income	2,000	1,000	1,000	1,138	1,000	2,010	1,237	1,000	1,000	1,296	1,000
Caregiver	4,223	2,487	2,446	4,753	4,145	N/A	4,216	3,605	8,445	9,739	4,118
Caregiver income threshold	14,422	12,156	11,953	13,274	14,156	N/A	14,421	12,312	14,423	15,486	13,936
Medical expense threshold	2,024	1,706	1,678	1,637	1,987	N/A	2,024	1,728	2,024	2,174	1,957
CPP	2,163	2,163	2,163	2,163	2,163	N/A	2,163	2,163	2,163	2,163	2,163
EI	747	747	747	747	747	N/A	747	747	747	747	747
Education (Full time)	465	200	400	200	400	N/A	481	400	400	654	200
Education (Part time)	140	60	120	60	120	N/A	144	120	120	196	60
Donation and Gifts (first 200)	15%	7.7%	9.8%	8.79%	9.3%	20%	5.05%	10.8%	11%	10%	5.06%
Donation and Gifts (over 200)	29%	15.50%	16.7%	17.5%	14.3%	24%	11.16%	17.40%	15%	21%	14.7%

Source: [KPMG Provincial and Federal non-refundable rates as of June 30, 2010](#) and [KPMG Quebec credits as of June 20, 2010](#)

To summarize Nova Scotia's current personal income tax system:

- The Province's tax mix favors personal income taxes proportionally more than most provinces;
- Nova Scotia's average effective tax rate is higher than the national average;
- Nova Scotia's statutory rates are higher than the national average on most brackets;

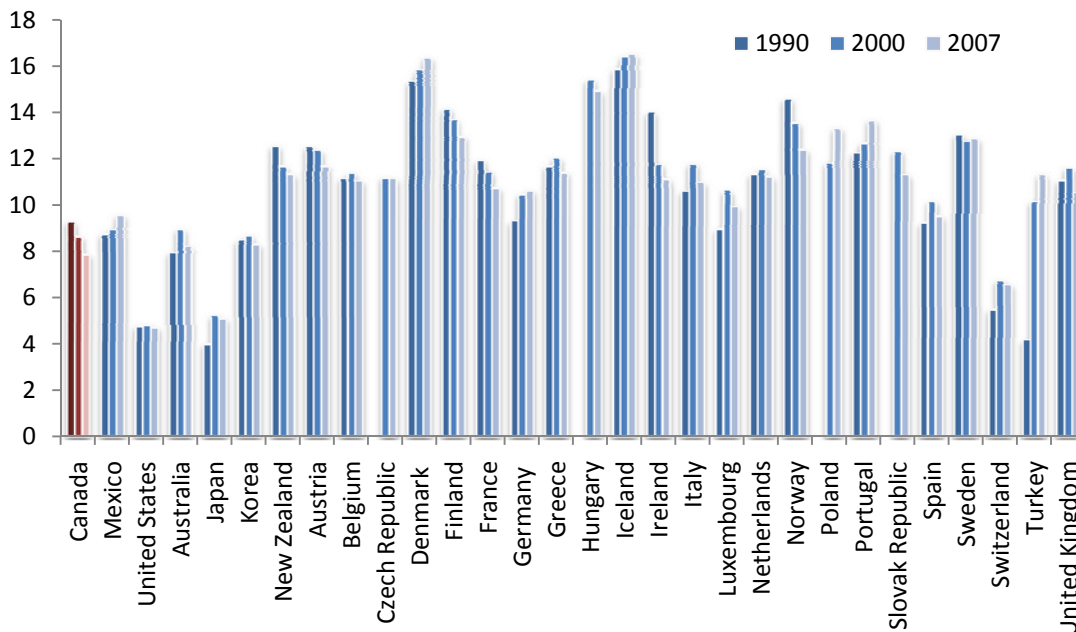
- Nova Scotia’s average tax rate on taxable income tends to be greater than other provinces because of the progressive rate structure and an income distribution centered largely in low rate brackets.

Consumption based taxes

Canada historically is less reliant on consumption based taxes compared to Europe and the Pacific. Over the past several years Canada and provinces have not significantly increased volumetric taxes.

Consequently, relative to gross domestic product, the average effective tax rate has fallen. Canada has also reduced the goods and services tax from 7 per cent to 5 per cent which influences the 2007 average effective tax rate in Figure 21. Organization for Economic Cooperation and Development countries overall have maintained average effective tax rates on consumption.

Figure 21 – Taxes on consumption as a share of nominal gross domestic product in OECD countries



Source: Organization for Economic Cooperation and Development, Tax Database (Table O.5)

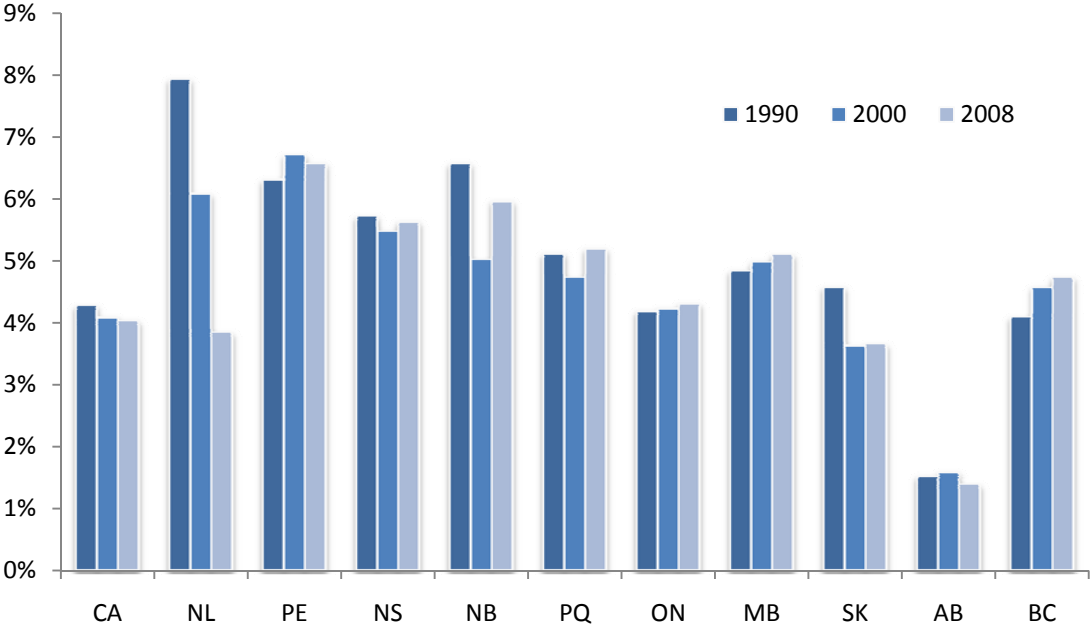
Note: Includes value added taxes, sales taxes, excise taxes, and customs and excises.

Figure 22 illustrates Provincial level taxes on consumption. Provincial consumption based taxes remained almost unchanged over the past twenty years except Newfoundland⁴, Saskatchewan⁵ and

⁴ Taxes have on average grown more slowly than nominal gross domestic product causing the average effective rate to fall. No significant changes in statutory rates or base other than the change from retail sales tax to value added tax in 1997 and tobacco tax increases have occurred.

British Columbia⁶. By comparison, Nova Scotia’s taxes on consumption are among the highest provincially and have not changed significantly over the 1990 to 2008 period. Figure 23 to Figure 25 illustrate the composition of taxes on consumption in 1990 and changes to the composition between 1990 and 2000, and 2000 and 2008. Notably, the harmonized provinces all suffered revenue losses on the change to harmonized sales tax in the 1990 to 2000 period.

Figure 22 – Provincial taxes on consumption as a share of provincial nominal gross domestic product

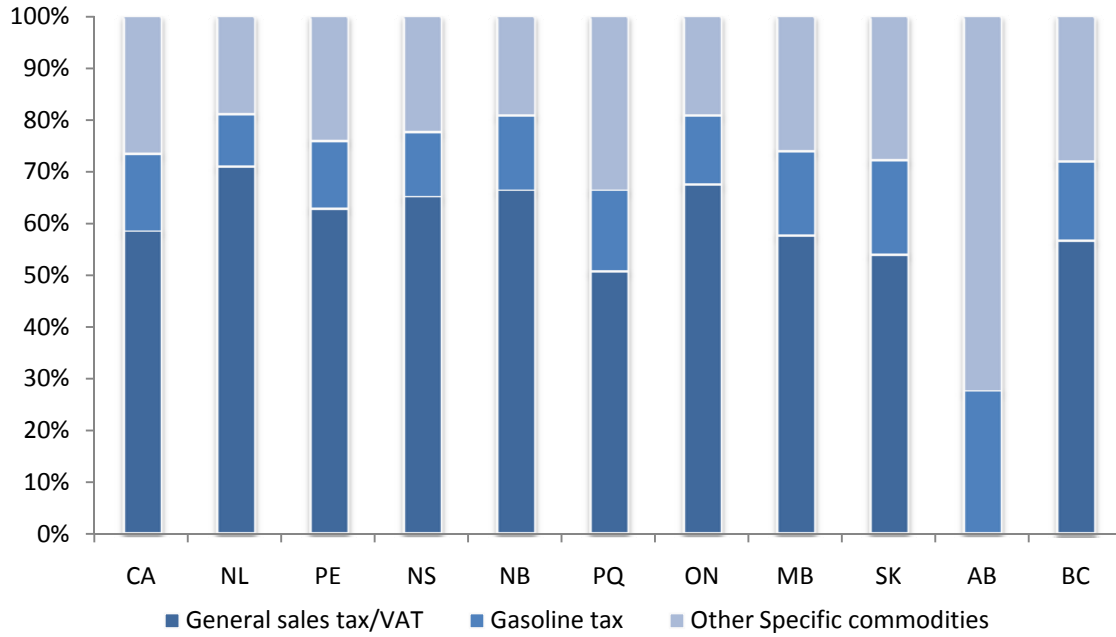


Source: Financial Management System (385-0001) and Provincial Economic Accounts (384-0012)

⁵ Saskatchewan’s retail sales tax has fallen from 7 per cent to 5 per cent between in two rate reductions, first in 1999 and then again in 2006 reducing average effective tax rates over the period.

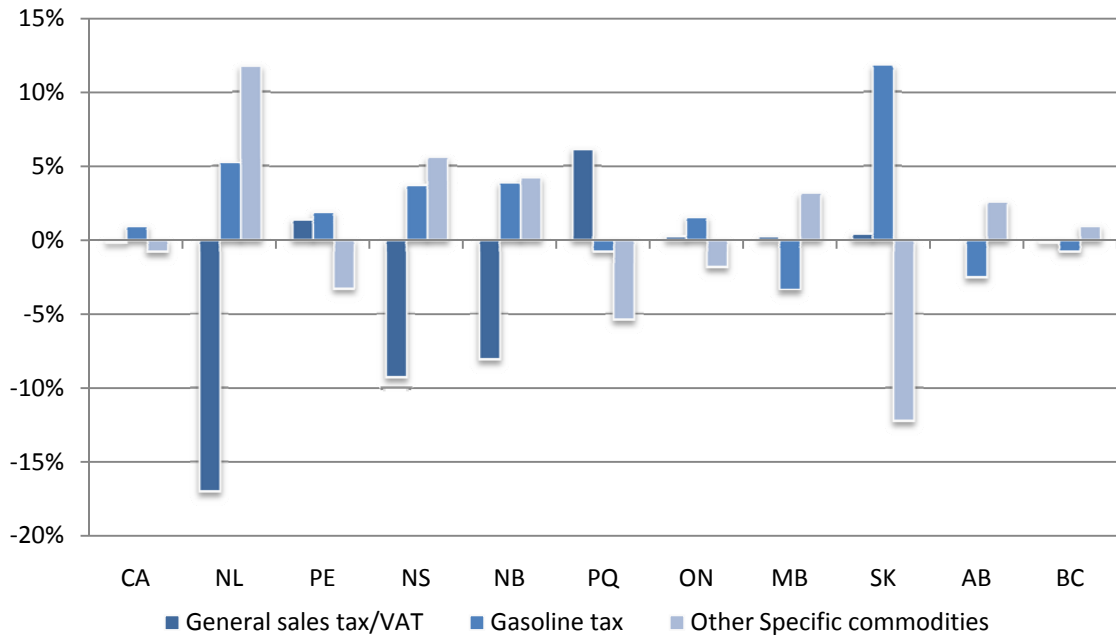
⁶ British Columbia increased its retail sales tax in 1993 from 6 per cent to 7 per cent increasing the average effective tax rate between 1990 and 2000.

Figure 23 – Composition of provincial taxes on consumption, 1990



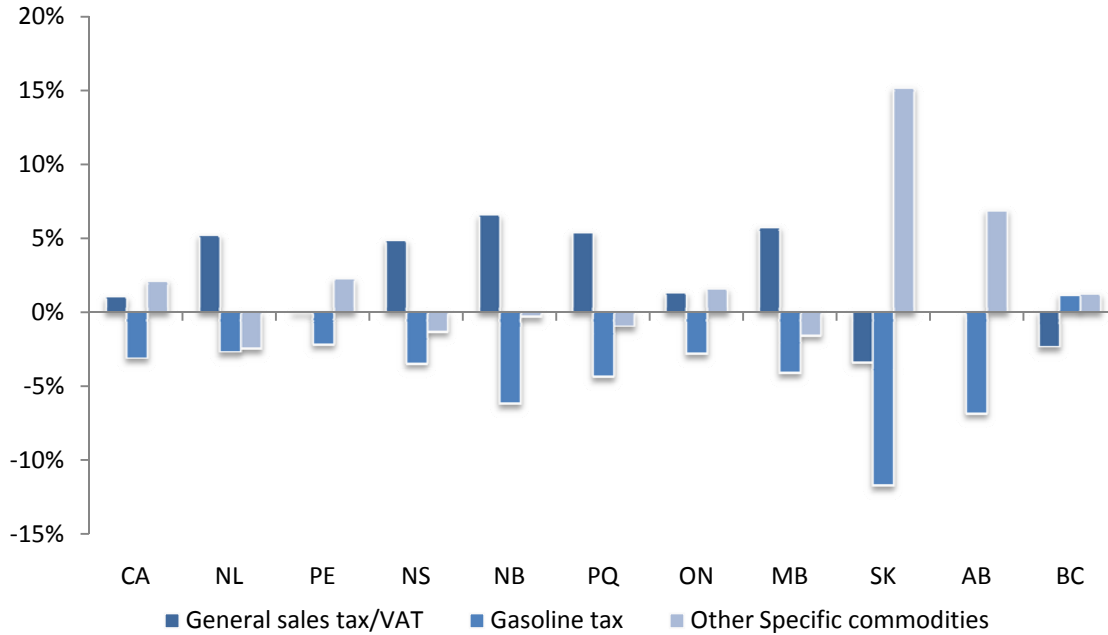
Source: Financial Management System (385-0001)

Figure 24 – Change in composition of provincial taxes on consumption 2000



Source: Financial Management System (385-0001)

Figure 25 – Change in the composition of provincial taxes on provincial consumption, 2008



Source: Financial Management System (385-0001)

While Nova Scotia ranks near the top of Provincial taxes on consumption compared to nominal gross domestic product, Nova Scotia ranks lower compared to other harmonized provinces in particular as illustrated in Figure 26. This can be attributed to four factors:

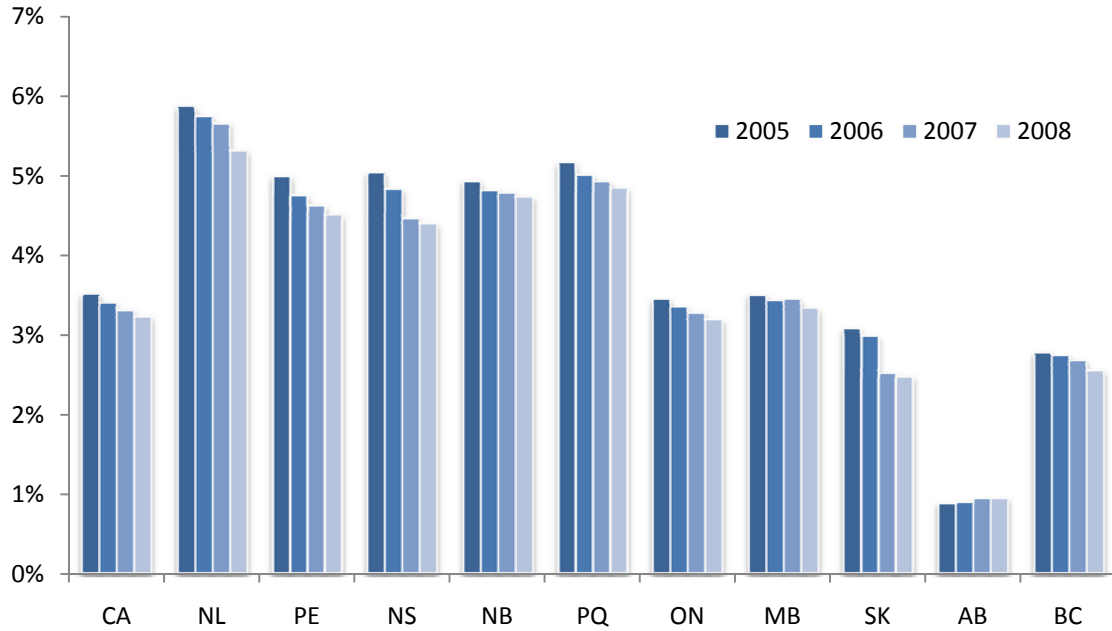
1. Nova Scotia’s consumer expenditures per capita are higher than other harmonized provinces (but lower than the national average);
2. Nova Scotia’s rebates for residential energy reduce the average rate on a significant portion of consumer expenditures;
3. Nova Scotia’s per capita gross domestic product is lower than other provinces;

Nova Scotia’s consumption mix tends to be more skewed to zero-rated and exempt goods and services (illustrated in

4. Figure 27).

The ratio of Nova Scotia’s consumer expenditures to nominal gross domestic product is second highest to only Prince Edward Island. This is the most significant contributor to a lower average effective tax rate on personal expenditures compared to nominal gross domestic product. The average effective tax rate can be broken down into the following ratios to see this relationship:

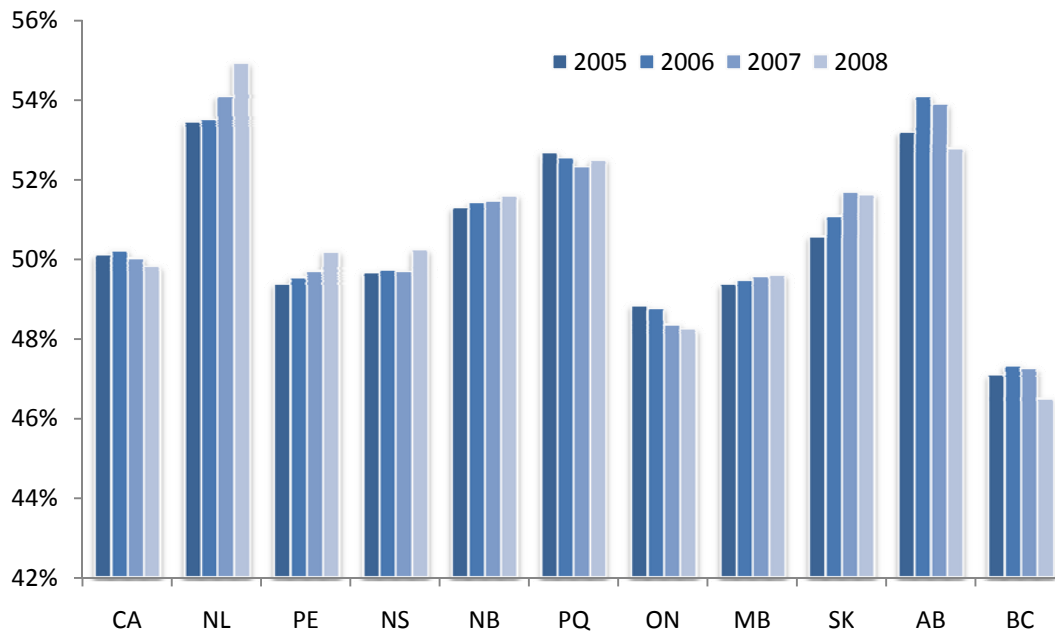
Figure 26 – Provincial sales taxes as a share of personal expenditures on goods and services



Source: Statistics Canada, J-series consumption data prepared for the Revenue Allocation Sub Committee

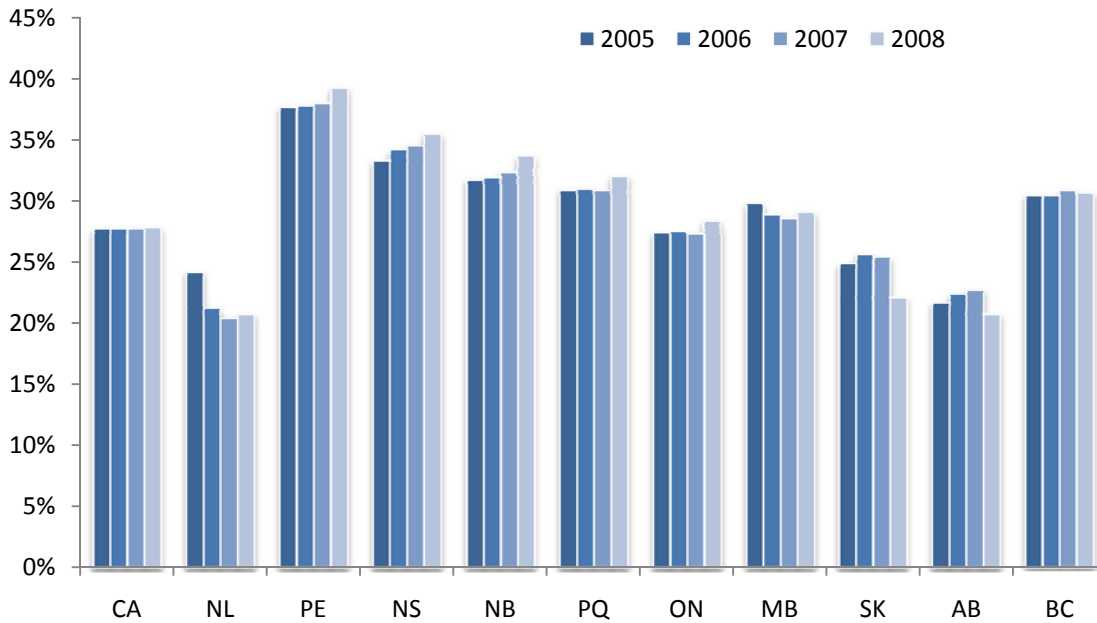
Note: Includes specific taxes on goods and services such as rental car taxes, hotel room taxes, and tobacco taxes

Figure 27 – Taxable consumption expenditures as a share of total consumption expenditures, 2008



Source: Revenue Allocation Sub Committee (Official estimates)

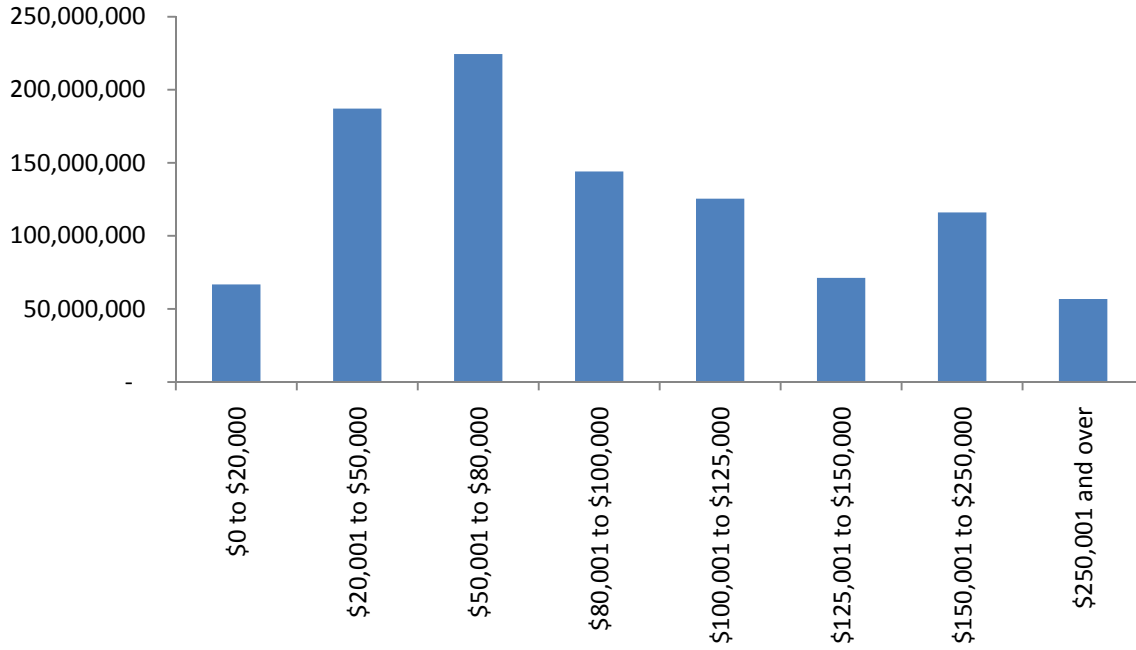
Figure 28 – Total taxable expenditures as a share of nominal gross domestic product, 2005 to 2008



Source: Revenue Allocation Sub Committee (Official estimates) and Provincial Economic Accounts (384-0001)

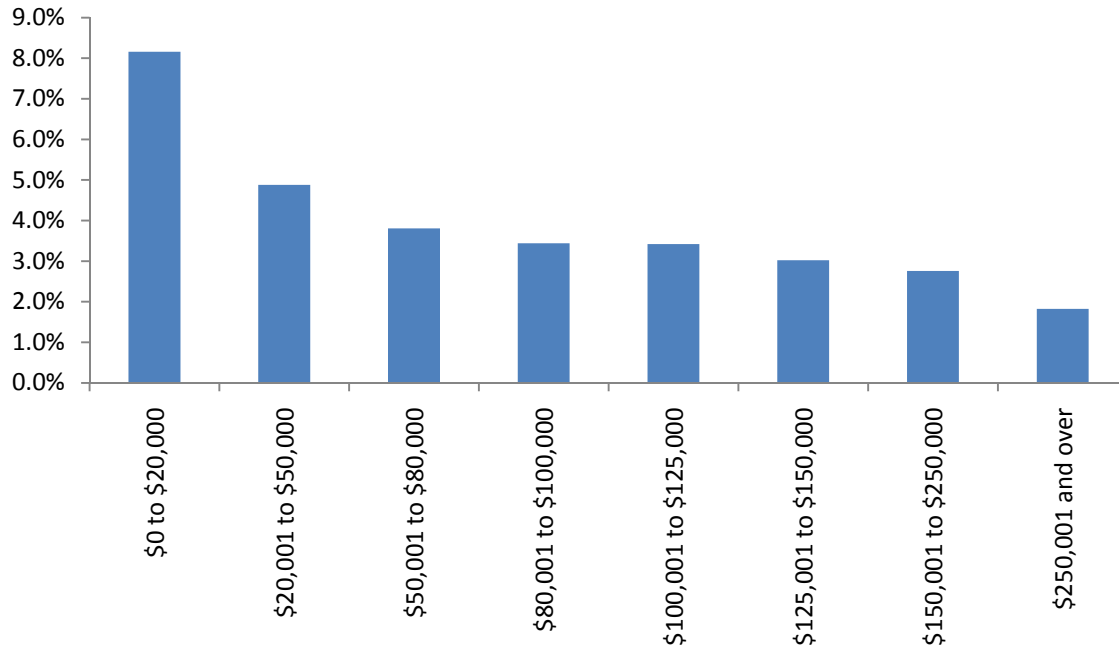
The harmonized sales tax is often viewed as a regressive tax because households with lower incomes dedicate more tax proportionate to their income compared to higher income households. While this may be true, this observation ignores the important role of savings. Over a lifetime harmonized sales taxes tend to be less regressive simply because individuals with lower income tend to save less than higher income households while higher income households tend to save more and consume more in the future. This makes the less regressive over the lifetime of a household. On average higher income households still consume a greater value than lower income households meaning that the average tax is higher in households with greater means. The largest group of taxpayers falls in the middle of the income distribution simply because of their volume. Since 2008, a rate change and consumption changes have left higher income households paying more tax on average. While households in all income ranges have marginally increased the average amount of tax, the increase is less pronounced in lower income groups. Transfer payments to households earning less than \$35,000 more than offset the impact of spending and policy changes.

Figure 29 – Distribution of harmonized sales tax and households by income range, households in 2010



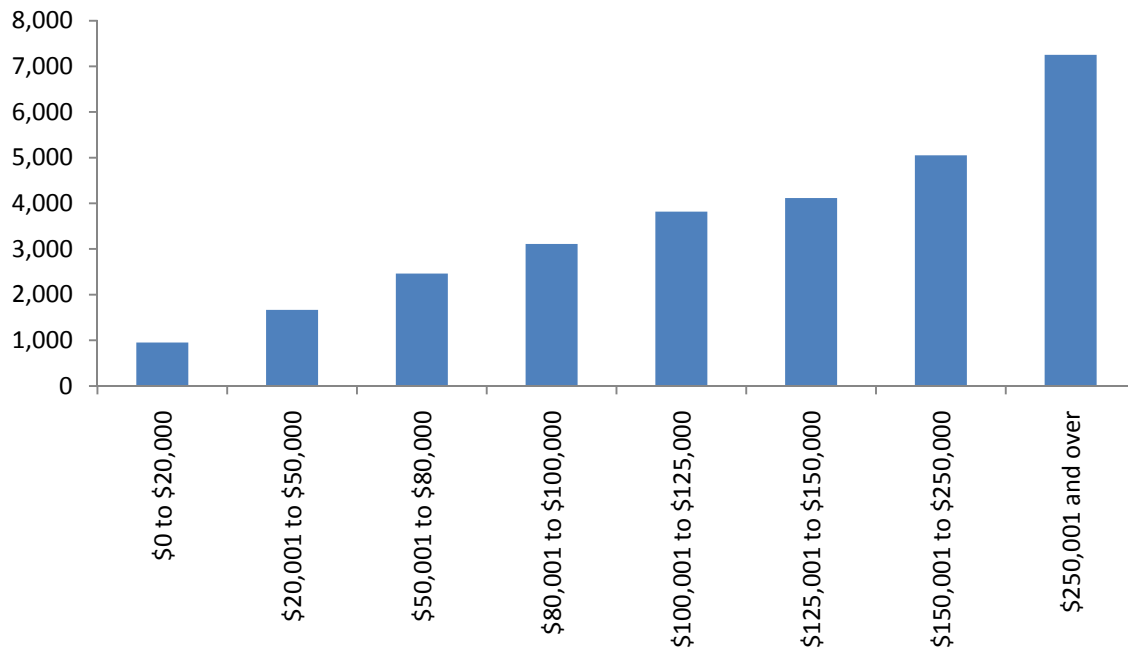
Source: Social Policy Simulation Database/Model v18.1 and Department of Finance Calculations

Figure 30 – Harmonized sales tax as a proportion of total household income by income range, households in 2010



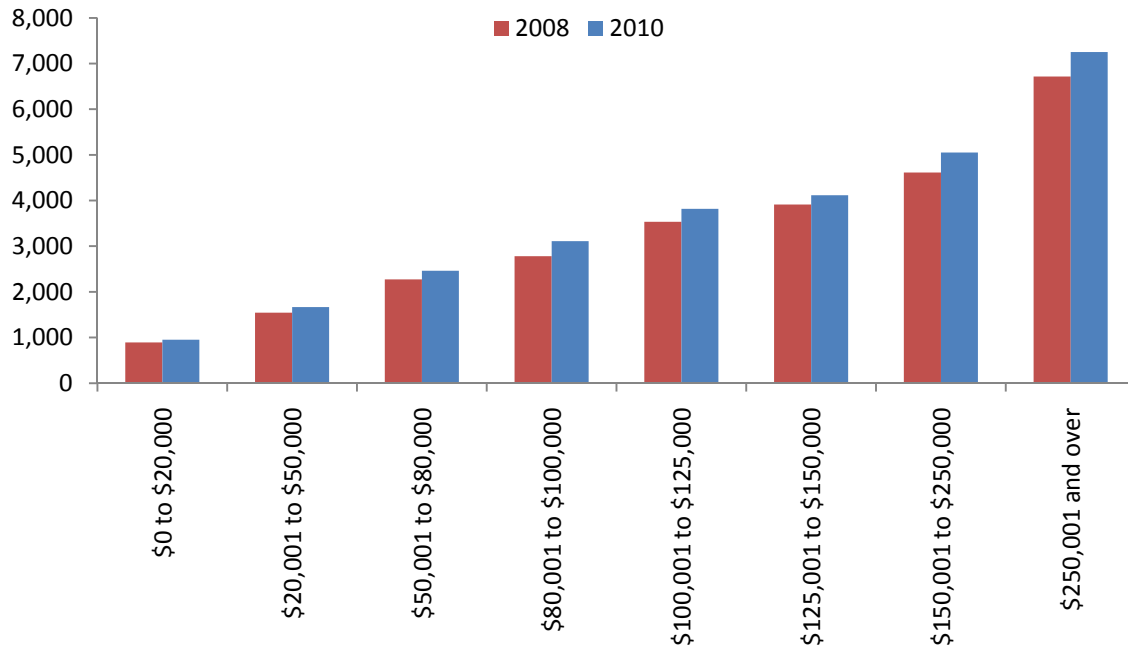
Source: Social Policy Simulation Database/Model v18.1 and Department of Finance Calculations

Figure 31 - Harmonized sales tax per household by income range, households in 2010



Source: Social Policy Simulation Database/Model v18.1 and Department of Finance Calculations

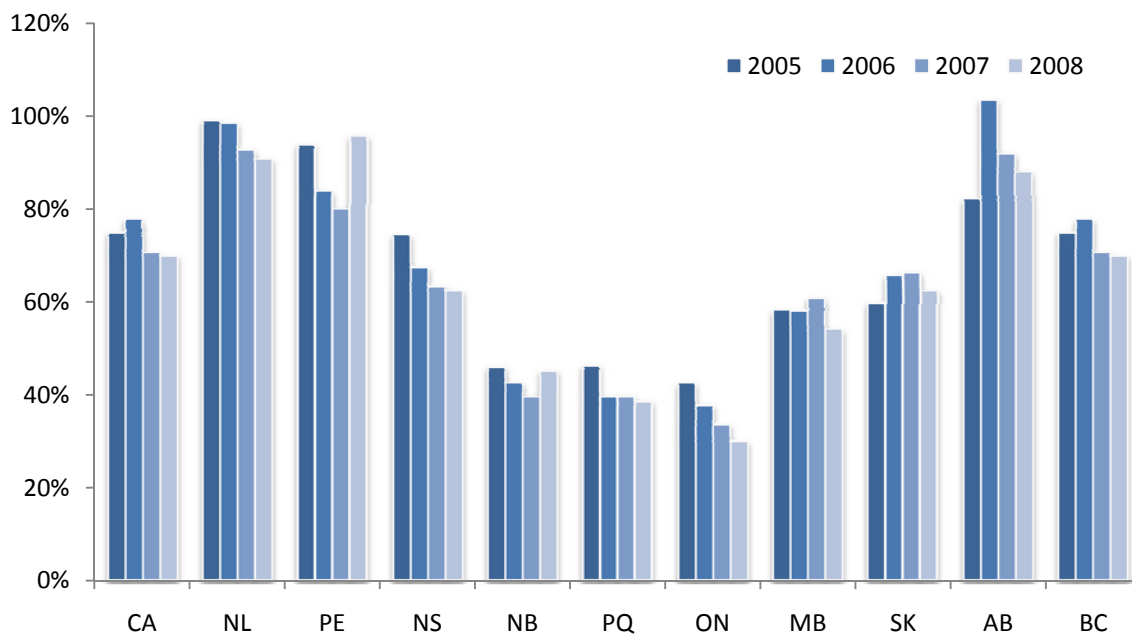
Figure 32 – Comparison of average sales taxes per household by income range and province, households in 2008 and 2010 [UPDATE for 2008]



Source: Social Policy Simulation Database/Model v18.1 and Department of Finance Calculations

Average effective tax rates on tobacco have on average declined relative to expenditures on tobacco and tobacco products. While Nova Scotia does have relatively high statutory rates, average effective tax rates are below the national average. Despite minor increases in Nova Scotia’s tax rates in 2007, expenditure growth on tobacco outpaced revenue growth lowering the average effective tax rate. Several other provinces have increased tobacco tax rates with little measurable effect on average effective tax rates⁷.

Figure 33 – Average effective tobacco taxes by province



Source: Statistics Canada, J-series (J105) consumption

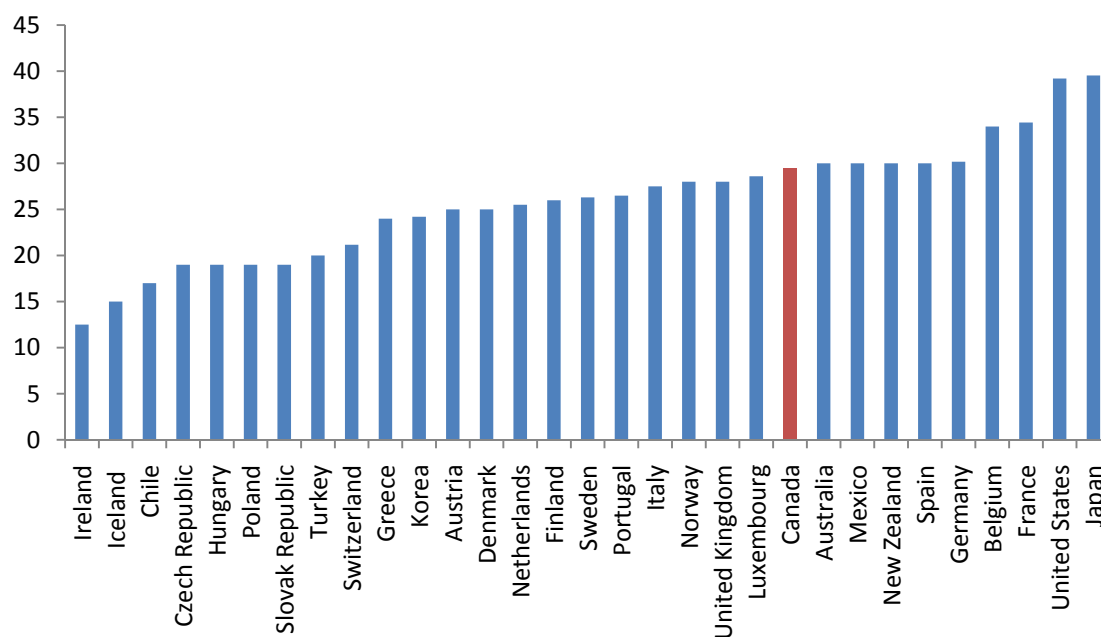
Taxes on business income

Taxes on business income include the corporate income tax and taxes on capital (financial institutions and non-financial institutions). Within Organization for Economic Cooperation and Development

⁷ For example, Alberta increase its tobacco tax from \$32/carton to \$37/carton in 2006 causing a temporary increase in average effective tax rates however this was caused by a year over year decline in expenditures between 2005 and 2006.

countries, Canada's taxes on business income (including sub-national governments) are slightly above median and rank 21st. Excluding sub-national governments, Canada ranks sixth lowest however. Given planned reduction in corporate income tax rates in Canada, this position will improve until reductions are fully phased in (the Federal statutory rate will reach 15 per cent in 2012). Figure 34 illustrates the combined statutory corporate income tax rates among OECD countries in 2010.

Figure 34 – Combined statutory corporate income tax rates in OECD countries, 2010



Source: Organization for Economic Cooperation and Development, Tax Database (Table II.2)

Table 66 – Summary of statutory rates and select credits by province, 2010

Credit	Fed	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Statutory rates											
General	18.00%	16.00%	16.00%	16.00%	11.50%	11.90%	13.00%	12.00%	12.00%	10.00%	10.50%
Small	11.00%	4.00%	1.28%	5.00%	5.00%	8.00%	5.00%	0.92%	4.50%	3.00%	2.5%
Manufacturing	18.00%	16.00%	16.00%	16.00%	11.50%	11.90%	11.00%	12.00%	10.00%	10.00%	10.50%

Credit	Fed	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Credits											
SR&ED	35.0%	15.0% ⁸	N/A ⁹	15.0% ¹⁰	15.0% ¹¹	N/A ¹²	10.0%/20% ¹³	20.0% ¹⁴	20.0% ¹⁵	10.00% ¹⁶	10.0% ¹⁷
Political contributions maximum	-	\$500	\$500	\$750	\$500	-	\$1,950 ¹⁸	-	\$650	\$1,000	\$500
Film (Labour/ Production)	25%/60%	40%/25%	-	50%/25%	-/40% ¹⁹	25% ²⁰ /-	35% ²¹ /-	45% ²² /-	45% ²³ /-	-	35% ²⁴ /-

⁸ Fully refundable.

⁹ While no SR&ED program is offered by PEI, the Province does offer the “innovation and development labour program” which provides a 37.5 per cent subsidy provided the job is full time and pays more than \$30,000 per year.

¹⁰ Fully refundable.

¹¹ Fully refundable.

¹² While no SR&ED program is offered by Quebec, they Province offers a tax credit against salaries and wages equal to 35 per cent. This benefit is gradually reduced to 17.5 per cent for companies with assets between \$25 million and \$50 million.

¹³ The 10 per cent refundable portion is similar to the SR&ED however the 20 per cent refundable portion requires an engagement with an eligible research institute.

¹⁴ Non-refundable but can be carried backward three years and forward ten years.

¹⁵ Non-refundable but can be carried backward three years and forward ten years.

¹⁶ Capped at \$400,000 per year.

¹⁷ Refundable if the corporation is a Canadian Controlled Private Corporation, otherwise the credit is non-refundable.

¹⁸ Capped at \$18,600 in 2010 in contributions but can be carried forward twenty years. The cap is indexed. Contributions are eligible for a credit equal to the product of the contributions made and the rate of tax.

¹⁹ No total production cost cap.

²⁰ Based on production costs, no cap.

²¹ Based on eligible labour, no cap.

²² Based on eligible labour, no cap.

Credit	Fed	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Digital media (Labour/ Production)	-	-	35% ²⁵ /-	50%/25%	-	30% ²⁶ /-	40%/-	40% ²⁷ /-	-	-	17.5%/-
New small business tax holiday	-	5 years ²⁸	-	3 years	-	5 years	-	-	-	-	2 years

Source: Department of Finance

Nova Scotia's average effective tax rates on corporate income taxes is comparable to other provinces despite high statutory rates. Figure 35 illustrates corporate income tax as a share of nominal gross domestic product. Nova Scotia's ratio is significantly lower than other provinces simply because corporate profits are a relatively small component of total income earned in the Province and because of conceptual and accounting differences. Most income earned in the province is earned in the form of wages and salaries and not as corporate profits. This implies a lower tax base in the Province compared to other provinces. There is also considerable difference between the income accounting used in System of National Accounts and used for corporate income tax purposes. This generates timing and magnitude differences between the numerator and denominator of the average effective tax rate. For example, System of National Accounts recognizes losses in the year in which losses occur while losses can be recognized three years backward and ten years forward from the period in which a loss occurred²⁹. This relationship can be seen by examining the components of the average effective tax rate.

Figure 36 illustrates the ratio of corporate income tax to corporate profits. This illustrates the average effective tax rate on the economic base generating revenues. As this rate increases, so to does the ratio of corporate taxes to nominal gross domestic product. Figure 37 illustrates the ratio of taxable income to profits. As more of the economic activity is taxed, the ratio of corporate taxes to nominal gross domestic product falls. This factor has almost no effect on the ratio of corporate taxes to nominal gross domestic product for Nova Scotia. Figure 38 illustrates share of corporate taxable income to nominal

²³ Based on eligible labour, no cap.

²⁴ Based on eligible labour, no cap.

²⁵ Through the innovation and development tax credit.

²⁶ Based on projects that are not third-party (ie: produced for final consumption). Other projects qualify for a labour credit rate of 26.25%

²⁷ Credit is capped at \$500,000 per project.

²⁸ A three year holiday applies to businesses in the Avalon Peninsula.

²⁹ Applies to non-capital losses and for tax years ended after March 22, 2004.

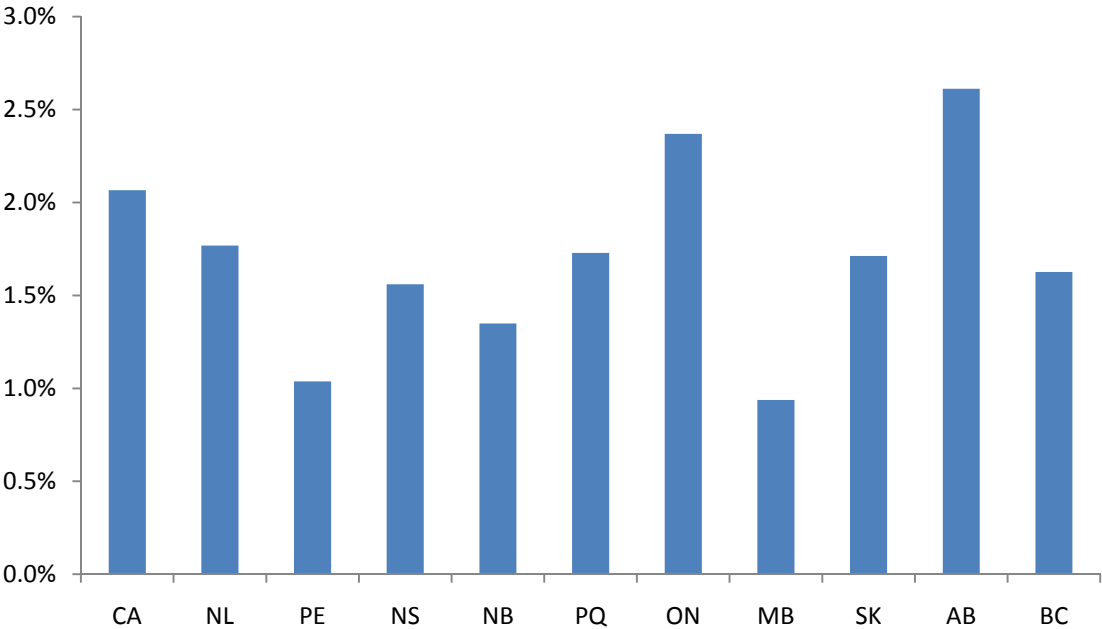
gross domestic product. As this increases, this tends to increase the ratio of corporate taxes to nominal gross domestic product.

The relationship between these ratios and the actual tax collected can be seen as follows:

$$\frac{\text{Corporate taxes}}{\text{NGDP}} = \frac{\text{Corporate taxes}}{\text{Corporate Profits}} \frac{\text{Corporate Profits}}{\text{Corporate taxable income}} \frac{\text{Corporate taxable income}}{\text{NGDP}}$$

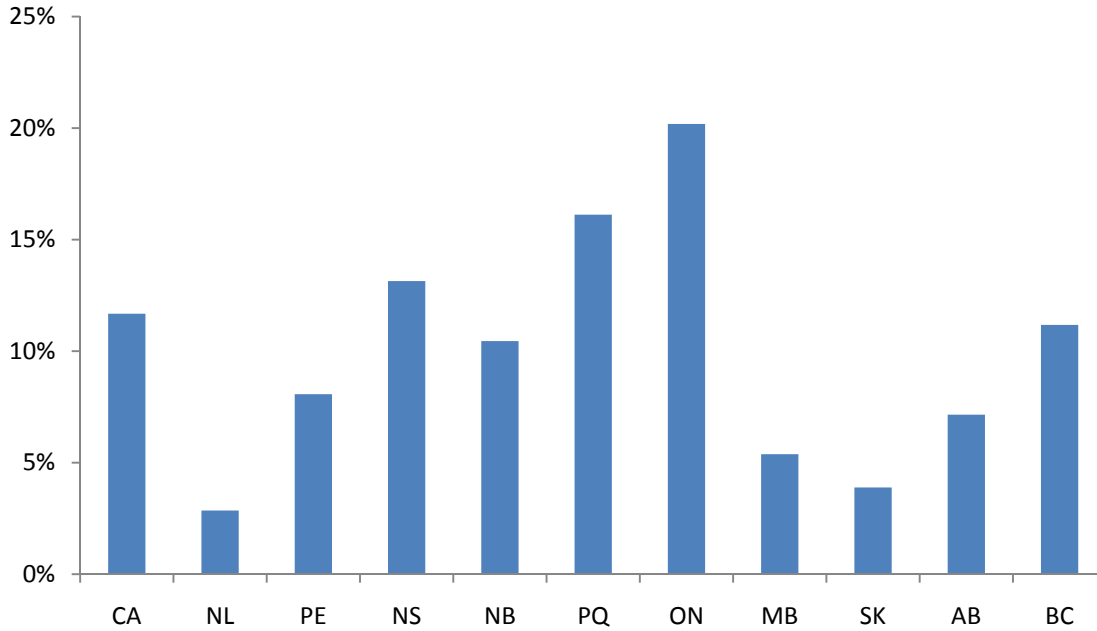
Corporate profit taxes as a share of nominal gross domestic product are lower than the national average primarily because Nova Scotia has a relatively higher average effective tax rate which is more than offset by relatively lower share of income earned as profits.

Figure 35 – Corporate profit taxes as a share of provincial nominal gross domestic product



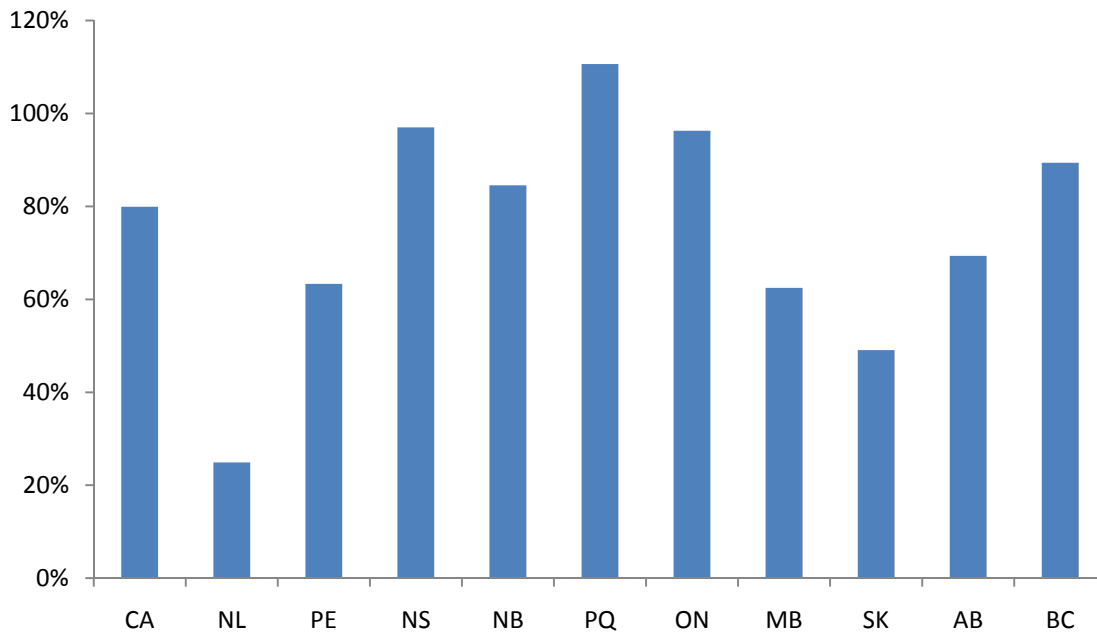
Source: Financial Management System (385-0001) and Provincial Economic Accounts (379-0025)

Figure 36 – Corporate profit taxes as a share of corporate profits before taxes, 2008



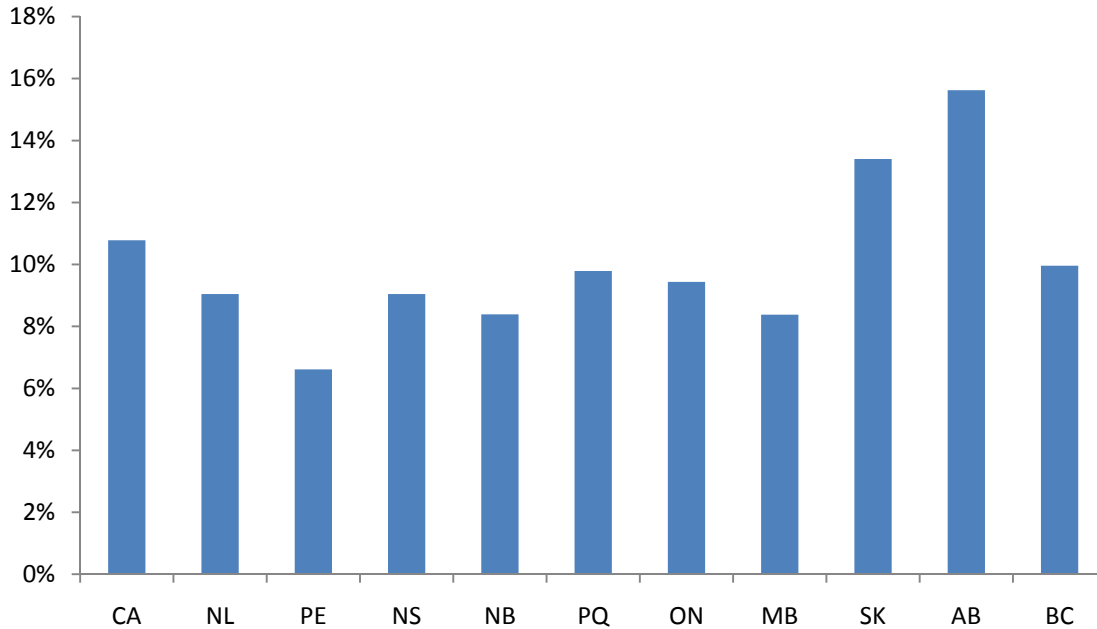
Source: Financial Management System (385-0001) and Provincial Economic Accounts (384-0012)

Figure 37 – Corporate taxable income as a share of corporate profits, 2008



Source: Provincial Economic Accounts (384-0012), Canada Revenue Agency (Tax Sharing Statements)

Figure 38 – Corporate taxable income as a share of nominal gross domestic product, 2008



Source: Provincial Economic Accounts (384-0001)

Over the past five years the number of businesses has generally increased with the exception of 2008. This does not necessarily reflect any increase in real activity as many businesses exist as separate corporate entities for the efficient management of activities. Businesses with permanent establishments in more than one jurisdiction account for a small proportion of filers but account for a significant portion of taxable income earned in the Province. These 8 per cent of filers account for an average of 45% of taxable income earned between 2003 and 2008 and 60 per cent of Nova Scotia corporate income tax over the same period. The distribution of taxable income is highly concentrated not only in the hands of multijurisdictional firms but relatively few firms. In looking at the cumulative distribution of taxable income, the top ten per cent of firms account for an average of 85 per cent of taxable income over the 2003 to 2008 period. To be in the top ten per cent of firms in 2008, a business needed to have taxable income of \$176,000. This shows that a very small number of businesses earn a significant portion of taxable income in the Province. The concentration of salaries and wages and revenues among the top ten per cent is only marginally less than taxable income again illustrating that revenues are paid by a small number of larger businesses.

Table 67 – Basic statistics of the corporate income tax in Nova Scotia

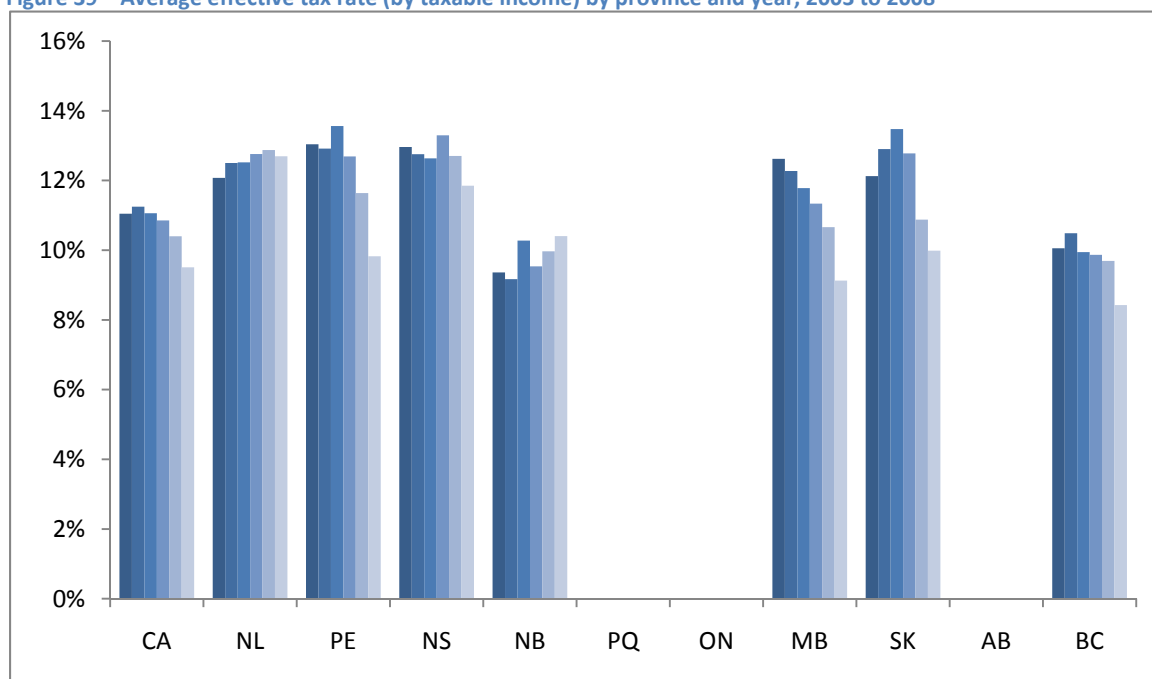
	2003	2004	2005	2006	2007	2008	Average
Number of filers	30,200	30,547	31,336	32,265	34,736	33,121	32,034
<i>Proportion of multijurisdictional</i>	8%	8%	8%	8%	8%	9%	8%
Taxable income (000s)	2,501,214	2,806,539	3,036,347	3,693,717	3,544,788	3,533,046	3,185,942
<i>Proportion attributable to multijurisdictional</i>	49%	49%	48%	46%	41%	35%	45%
<i>Proportion attributable to top 10 per cent</i>	84%	84%	85%	86%	85%	83%	85%
Nova Scotia wages and salaries	3,051,632,896	3,186,578,688	3,456,258,816	3,515,883,264	3,610,899,712	3,759,662,592	3,430,152,661
<i>Proportion attributable to multijurisdictional</i>	27%	29%	31%	29%	26%	27%	28%
<i>Proportion attributable to top 10 per cent</i>	78%	78%	79%	79%	80%	80%	79%
Nova Scotia gross revenues (000s)	45,048,619	47,157,998	54,970,982	56,872,833	57,627,824	58,554,135	53,372,065
<i>Proportion attributable to multijurisdictional</i>	44%	45%	39%	44%	43%	41%	43%
<i>Proportion attributable to top 10 per cent</i>	85%	86%	88%	87%	87%	87%	87%
Nova Scotia corporate income tax (000s)	301,728	341,112	347,405	450,098	393,999	388,678	370,504
<i>Proportion attributable to multijurisdictional</i>	63%	64%	66%	61%	55%	47%	60%
<i>Proportion attributable to top 10 per cent</i>	94%	93%	93%	94%	94%	92%	93%

Number of small business rate payers	10,673	11,050	11,342	11,560	11,959	12,208	11,465
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Source: Department of Finance

Average effective taxes on corporate taxable income, as shown in Figure 39, illustrate the combination of the general rate of corporate income tax, rates applied to small business and manufacturing income, the proportion of total income accounted for by small business filers and manufacturers. Most provinces offer lower rates of taxation on small business income and manufacturers as an economic policy. These tax reductions reduce the average effective tax rate below the province’s general rate. Given that Nova Scotia has one of the highest general rates in Canada, Figure 39 illustrates the significant concessions on small business income, reducing the general rate by 26 per cent from 16 per cent to 11 per cent. Compared to other provinces, this represents the second most significant reductions from the general rate.

Figure 39 – Average effective tax rate (by taxable income) by province and year, 2003 to 2008

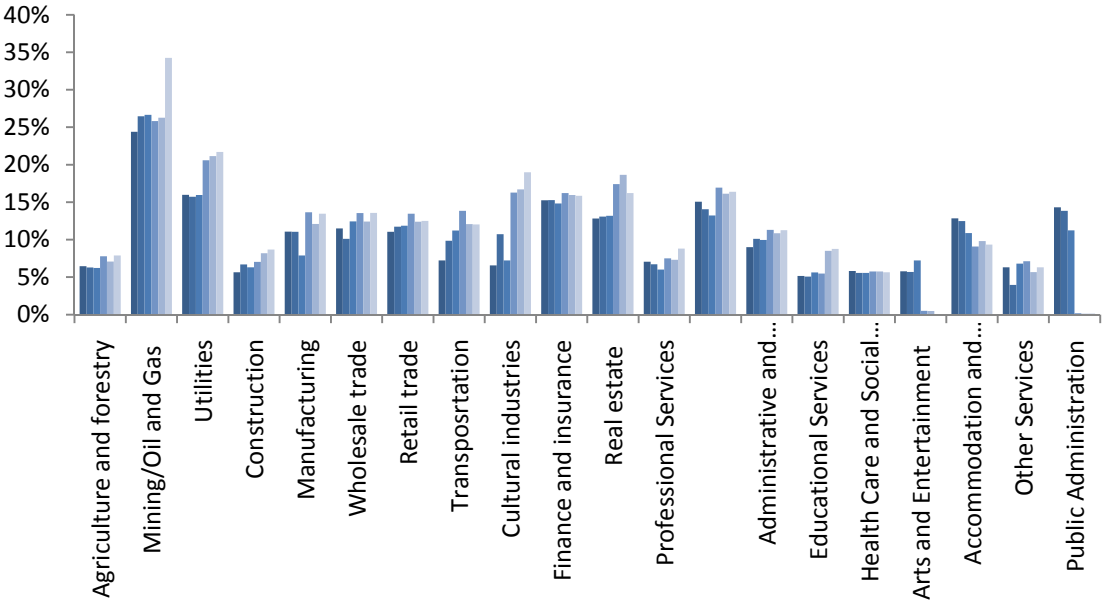


Source: Canada Revenue Agency, Tax Sharing Statements

Looking across industries within Nova Scotia, taxes on businesses vary significantly as shown in Figure 40. Firstly because the large corporations tax on the paid-up capital of large businesses tends to be paid by manufacturing and utilities more than other industries. This tends to increase average provincial taxes above the average. Secondly because of industry differences in the take up of small business rates which lower the average effective tax rates in industries where small business rate payers are concentrated. Figure 41 illustrates the distribution of small business rate payers across industries. Notable are the management of companies (holding companies and head offices) which contain

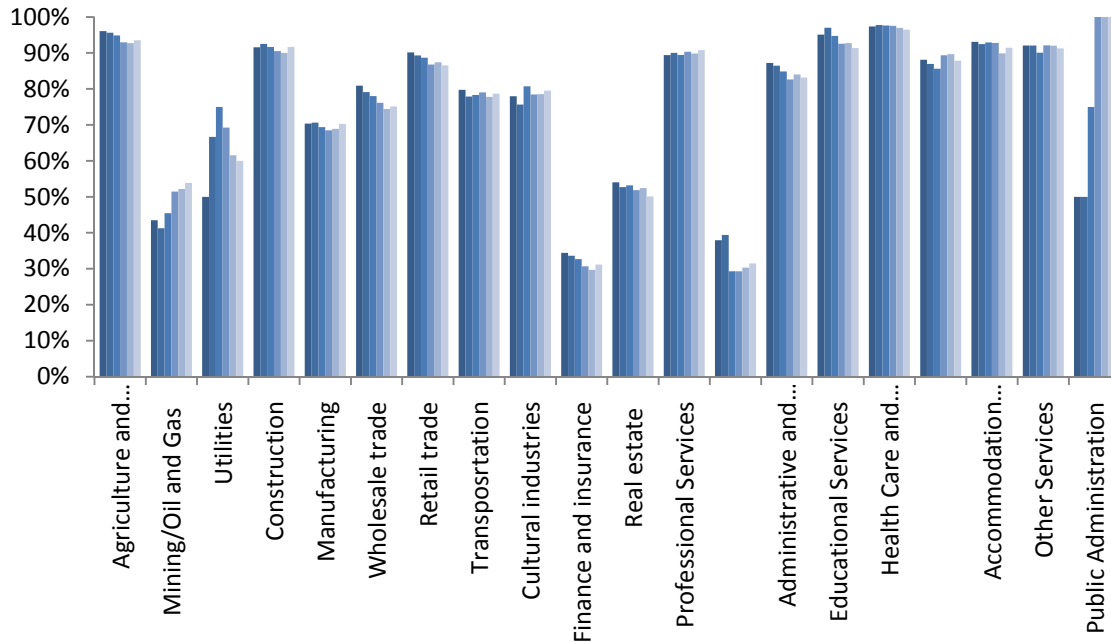
businesses primarily engaged in holding securities. Holding companies are gaining popularity for tax reasons (illustrated in Figure 50) because they can limit liability of shareholders, reduce taxes through legitimate tax planning, share losses in corporate groups, split business income between family members, increase registered retirement saving plan limits, and shelter small business income. While many of these schemes are legally valid, businesses in this industry are primarily the result of corporate finance decisions and bear little connection to economic activity *per se*. Small business deductions are generally only available to holding companies (more specifically, passive business income) if substantially all of the holding companies shares are in small businesses earning active business income. In the period 2003 to 2008, all but 7 of these companies are holding companies. Other notable exceptions, such as mining and oil and gas, and finance and insurance do not benefit from the small business rate primarily because businesses tend to be larger and do not qualify for the Federal small business deduction.

Figure 40 – Average effective tax rate by industry and year, Nova Scotia



Source: Department of Finance

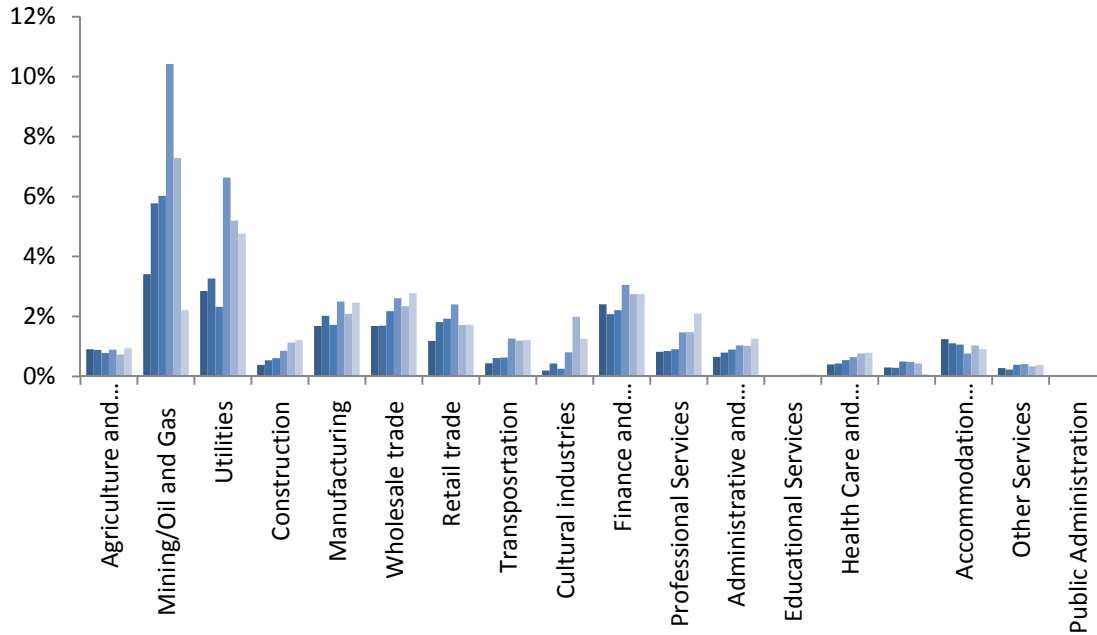
Figure 41 – Proportion of small business rate payers among businesses paying tax by industry, 2003 to 2008



Source: Department of Finance

A significant amount of industry variation can be seen in business taxes relative to the industry’s contribution to real gross domestic product. Figure 42 illustrates the average effective tax rate on the value added of each industry. Industries such as utilities and mining, and oil and gas tend to be larger firms with paid-up capital in excess of exemption threshold for large corporations tax. This tends to increase their average effective tax rate. Other industries tend on average to pay corporate income tax and large corporations tax equal to about two per cent of their total value added. This figure also illustrates the relative importance of an industry in producing value added compared to the importance of generating tax revenues. Proportionally, mining and oil and gas tend to account for a larger proportion of tax revenues than value added compared to other industries.

Figure 42 – Provincial taxes as a share of provincial gross domestic product at basic prices, 2003 to 2008



Source: Department of Finance

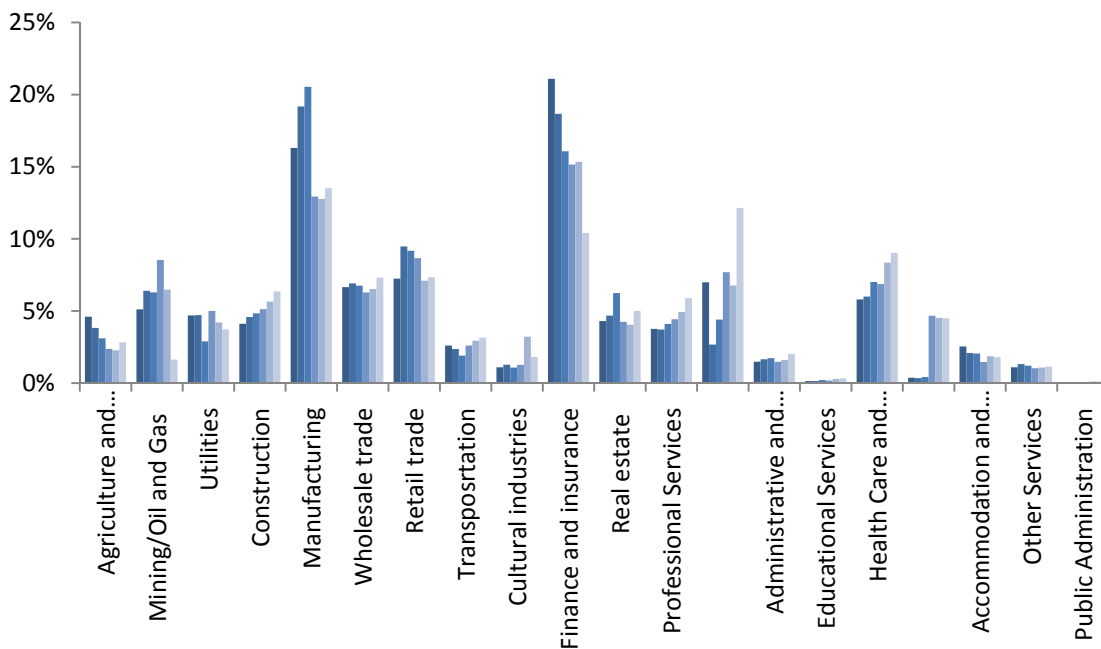
Across industries, manufacturing and finance and insurance tend to account for the majority of taxable income earned in the province.

Looking at the taxes paid by industry in Figure 46, the largest total amount of taxes paid is in the finance and insurance industry followed by manufacturing. These industries alone account for an average of 34 per cent of total business taxes (this ignores the corporation capital tax on financial institutions). The main difference in the distribution of taxable income and taxes paid is attributable to small business deduction, the large corporations tax and the use of tax credits. Figure 47 illustrates the use of tax credits across industries which clearly illustrates that largest recipients of tax credits are the manufacturing, cultural and professional industries. This reflects the effects of the manufacturing and processing tax credit which can no longer be used after 2009 which is concentrated in the manufacturing industry, the scientific research and experimental development credit concentrated in the manufacturing and professional services industries and the film tax credit which is concentrated in the cultural industries.

Figure 46 illustrates the proportion of taxable income in each industry. Losses in 2008 concentrated in mining, oil and gas, and finance and insurance industries were offset by gains in the taxable income of holding companies. The most profitable industries are not, however, the largest employers in the province. Figure 44 shows the distribution of wages and salaries paid in Nova Scotia across industries.

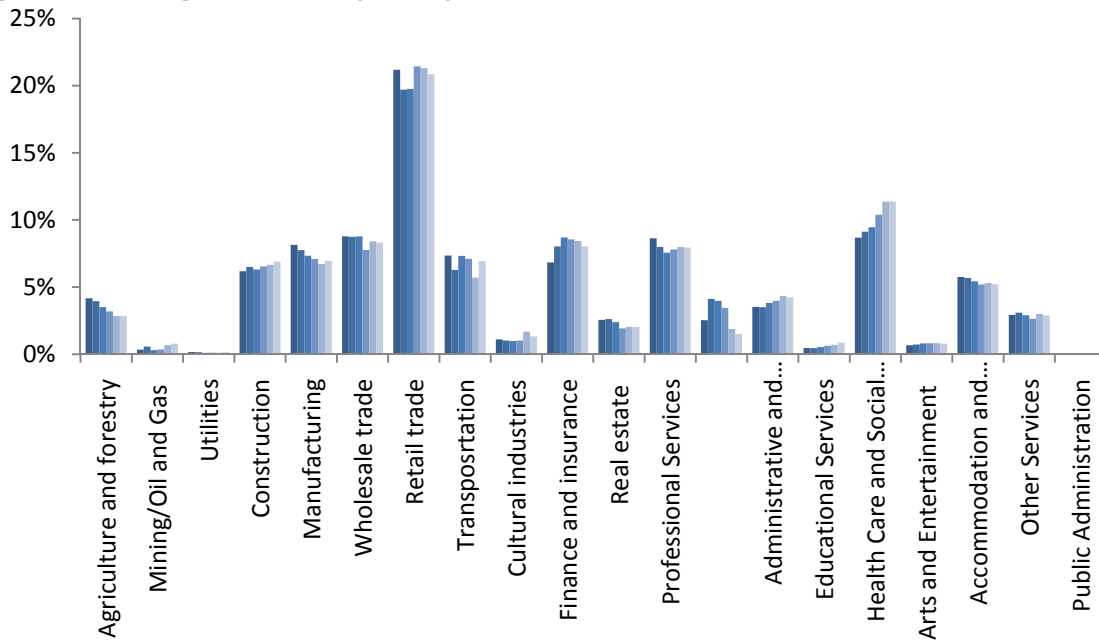
Figure 45 illustrates the distribution of revenues attributable to Nova Scotia. These two figures show the importance of a few industries in the employment and output in Nova Scotia. The largest single industry as measured by wages and salaries is the retail trade industry, accounting for an average of 21 per cent of total wages and salaries and 8 per cent of taxable income. Despite their importance in earning taxable income, utilities, mining and oil and gas industries account for a negligible portion of the total wages and salaries paid in the Province. Cultural and arts and entertainment services industries account for an average of 2 per cent of total wages and salaries and 4 per cent of total taxable income. Looking at total output, these figures tend to show a significantly different size distribution of firms. Manufacturing and trade industries account for the vast majority of output, despite earning only 31 per cent of taxable income.

Figure 43 – Total taxable income, 2003 to 2008



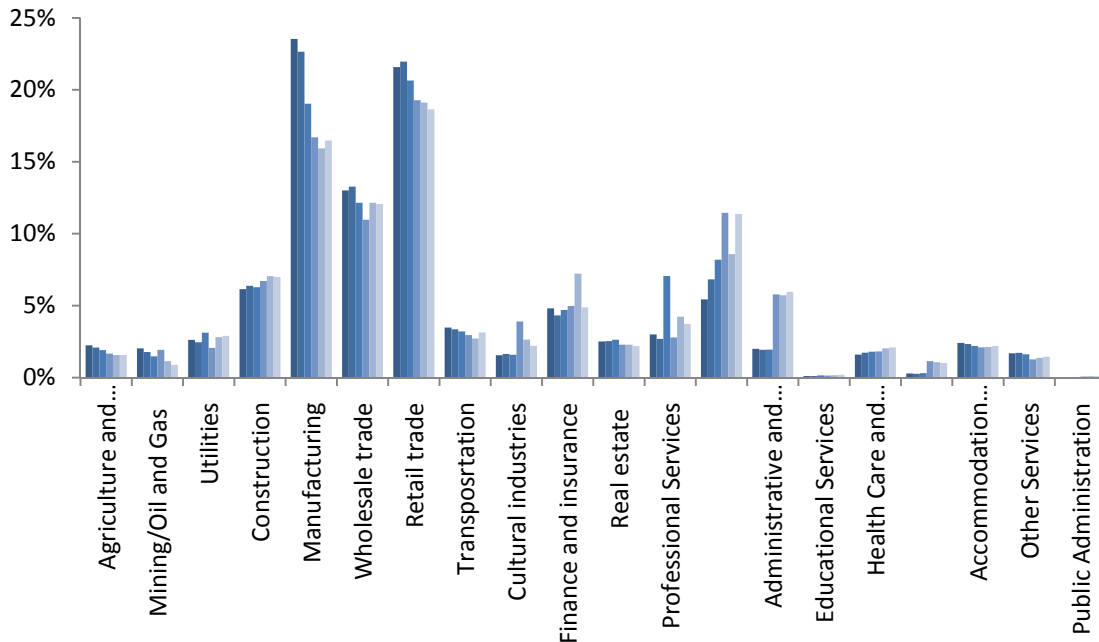
Source: Department of Finance

Figure 44 – Total wages and salaries by industry, 2003 to 2008



Source: Department of Finance

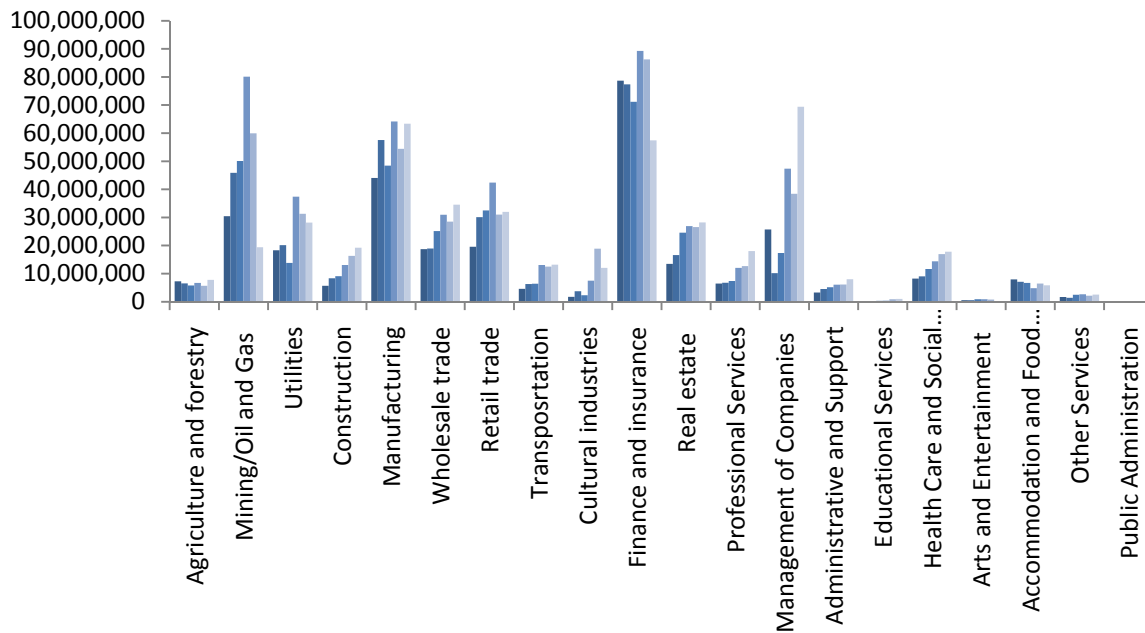
Figure 45 – Total revenues by industry, 2003 to 2008



Source: Department of Finance

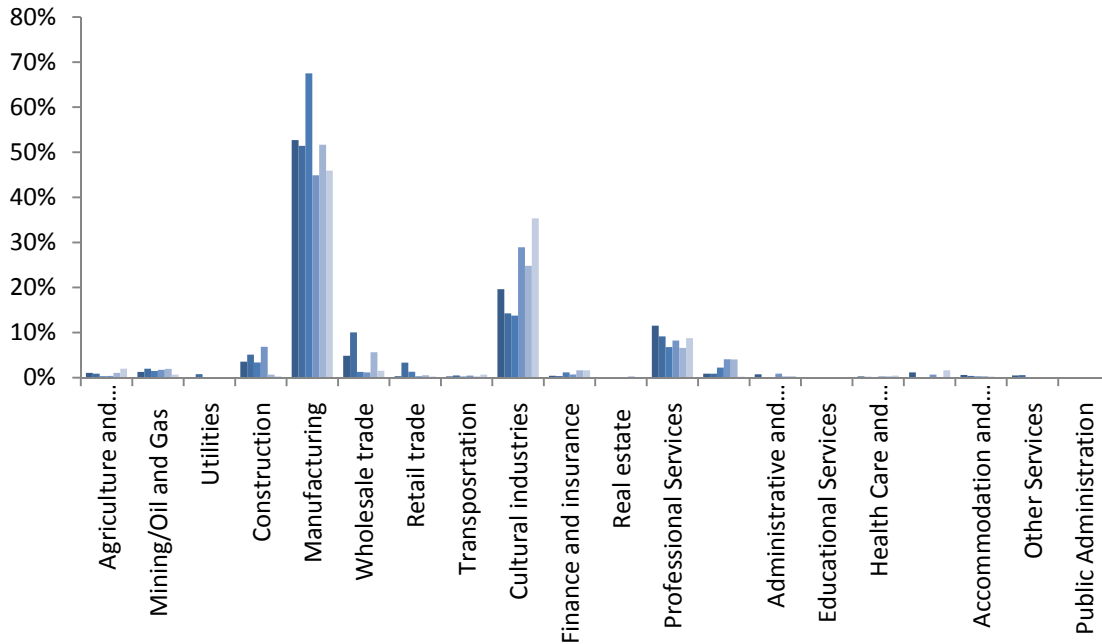
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Figure 46 – Total income taxes, 2003 to 2008



Source: Department of Finance

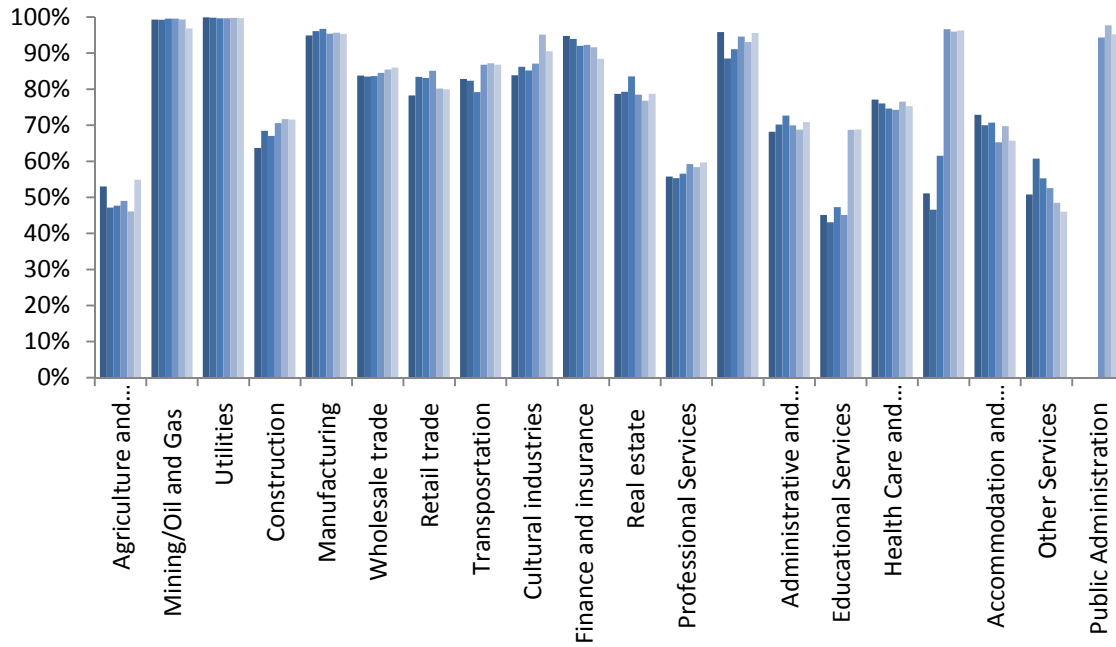
Figure 47 – Total tax credits by industry, 2003 to 2008



Source: Department of Finance

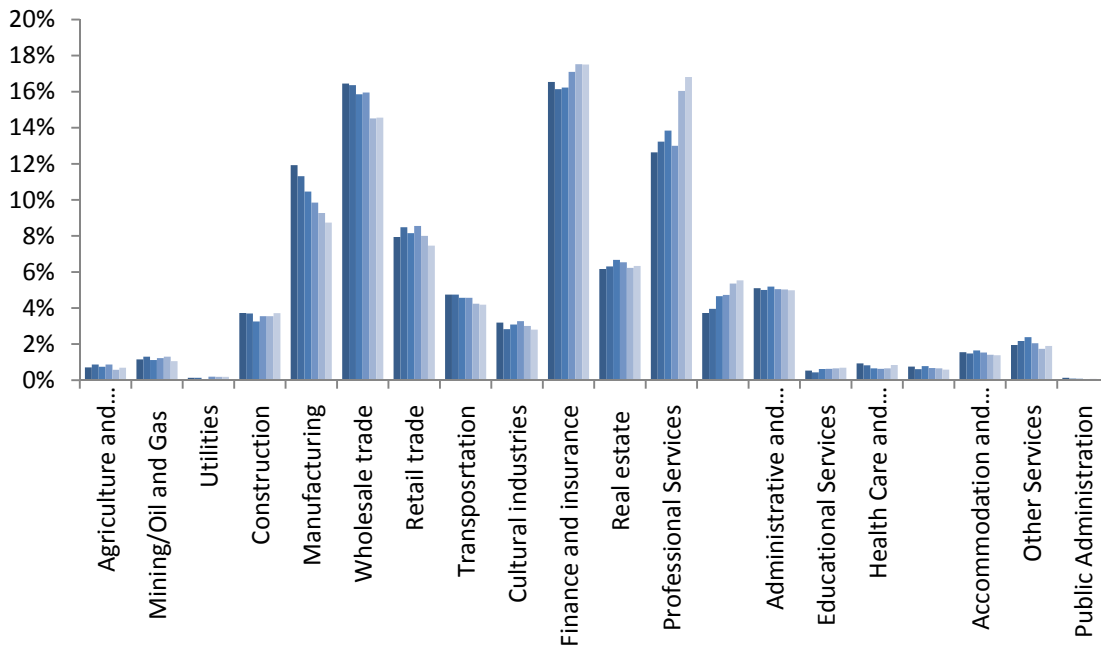
An important feature of the corporate income tax base in Nova Scotia is the extent to which it is influenced by a small number of large businesses. Figure 48 illustrates the concentration of taxable income in the hands of the top ten per cent of businesses in each industry. In most industries, the top ten per cent of businesses account for over 80 per cent of taxable income. In addition to being highly concentrated, these businesses tend to maintain permanent establishments in multiple jurisdictions and consequently make marginal decisions on expansions across multiple Provinces and countries.

Figure 48 – Proportion of taxable income among top 10 per cent of filers by industry, 2003 to 2008



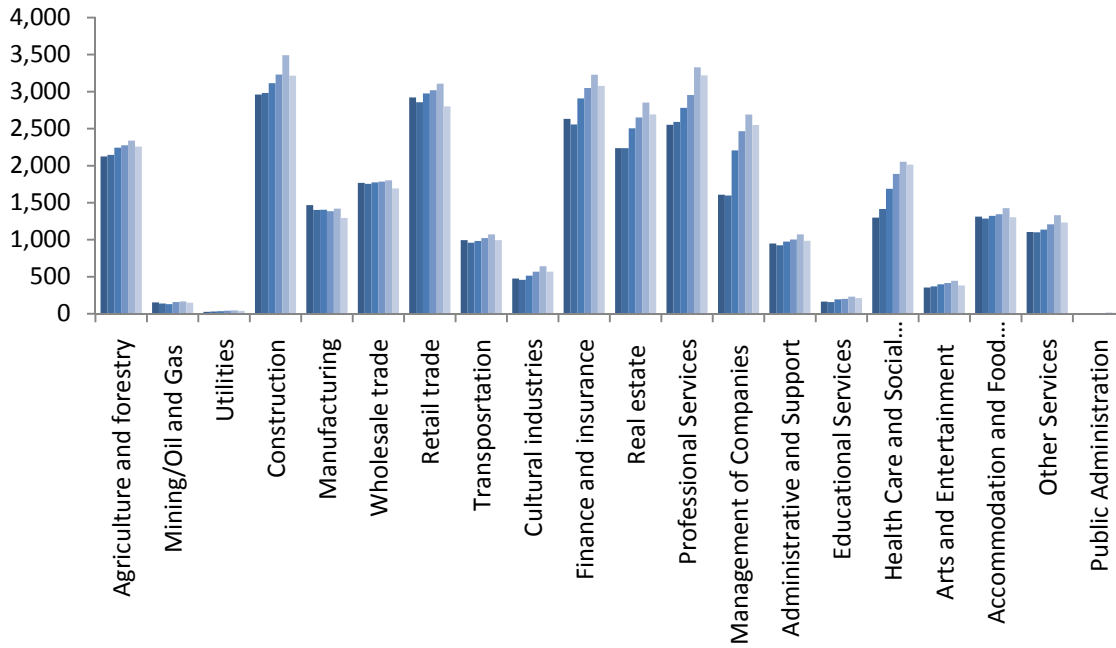
Source: Department of Finance

Figure 49 – Proportion of multijurisdictional filers by industry, 2003 to 2008



Source: Department of Finance

Figure 50 – Total number of businesses by industry, 2003 to 2008



Source: Department of Finance

In summary, business taxes and taxable income are concentrated within a small number of large businesses. A significant portion of taxable income and business taxes are further concentrated within two key industries; oil and gas and finance, insurance and real estate. Further to this deductions from tax also tend to be concentrated in two industries, manufacturing (which will no longer be the case after 2008) and cultural industries.