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Accounting Policy Changes: Tangible Capital Assets

Halifax: April 11, 2000

Introduction

Over the past two years, the Government of Nova Scotia has been working to bring its accounting policies into compliance with generally accepted accounting principles (GAAP). The accounting change implemented in budget 2000–01 is how the province reports the cost of tangible capital assets (TCA).

Past Practice

The Government of Nova Scotia has traditionally used a cash flow approach (expenditure basis) when recording the cost of capital assets. This means all tangible capital purchases, such as vehicles or buildings, were shown as an expenditure in the year they occurred. This method matches the cost of the capital purchase with the cash actually spent in a particular period.

For instance, the capital cost of a building or a highway was charged to expenditures each year based on the amount of work completed that year. Reporting in this fashion ignores the fact that the building or highway still has a significant remaining value and will continue to be used for many years.

New Policy Implemented

In June 1997, generally accepted accounting principles (GAAP) were developed for governments to report on tangible capital assets. The Province of Nova Scotia adopted a policy effective April 1, 1999, which is implemented for the 2000–01 Estimates. The impact of the policy is that rather than having the cash cost of the capital purchase recorded the year it was made (expenditure basis), the government will record the dollar value that has been used up that year (expense basis).

By following a simple matching process, a portion of the capital cost (amortization) is charged to each year of the useful life. Since a new asset usually provides better benefit, (i.e., less maintenance costs), than an older one, more amortization is recorded in the early years than in the later years. This is called the Declining Balance Method, which is an accepted method under GAAP and is one of the most widely used methods in accounting.

GAAP requires that a change in accounting policy be implemented retroactively. The new policy requires that government identify the original cost of all eligible tangible capital asset purchases and calculate the amortization charges to date, as if the policy had been followed in prior years, and the net residual book value of the assets.

Impact of TCA on 2000–01 Estimates

It is important to understand that in the 2000–01 Estimates "Net Program Expenditures" means all capital purchases in the year they were purchased. In contrast, "Net Program Expenses" removes the cash cost of the capital purchase and replaces it with the related amortization expense for assets purchased in the current and prior years.

Here is an example of how the new policy shows an expense on a tangible capital purchase:

Assume a department planned to purchase a new vehicle with a cost of $25,000.

Previously: The $25,000 capital expenditure was part of their budget and an expenditure in that year.

New Policy: The vehicle will be set up as a tangible capital asset and charged to expenses at a rate of 30 per cent per year on the declining balance basis.

Impact: In 2000–01, $7,500 ($25,000 x 30%) will be charged to their budget as a result of the purchase; $5,250 will be charged in 2001–02 [($25,000–7500) x 30%] and so on.

Comparisons between what has happened in previous years and what is happening in the current year have become more complicated. However, it is possible to recalculate the accounts so that they are on the same basis. Below is an example of what has happened to the budget for the Department of Education:

	1999–2000 Estimate	1999–2000 Actual	2000–01 Estimate
Net Program Expenses			858,832
Less Amortization			(16,472)
Net Current Program Spending	849,645	844,145	842,360
Capital Purchases	24,101	33,543	31,801
Total Education	873,746	877,688	874,161
Assistance to Universities	197,232	197,232	201,232
Total Education Cash Envelope	**1,070,978**	**1,074,920**	**1,075,393**

Benefits of TCA

One benefit of this new policy is that year-to-year comparisons will not be distorted by significant capital purchases. For instance, in 1999 many departments and agencies had significant Y2K capital purchases that have not been repeated. However, as the new policy shows the amortized cost, the impact of a one-time bump in expenditure is lessened and the expense numbers are more easily compared.

The former method of reporting also did not provide meaningful information about the government's ability to provide future services. This new accounting policy will help measure the rate at which such long-lived assets are being used up. It will be possible to see whether the province is running down capital assets or whether we are replacing them as they wear out. This system should lead to better economic decision making and a proper respect for long-term decision making.

An example of where accounting policy can influence good decision-making is with respect to building renovations. Government owns and operates many buildings, some of them in need of major improvements and renovations. Under the old system, when money is tight these much-needed renovation projects are often deferred because the full cost of the renovation has to be included in the capital budget for the year the project is completed. This approach could well lead to even more significant problems in the years ahead. Under TCA, however, the cost of the renovation will be charged over a number of years, making it more feasible to undertake what would otherwise be a significant one-time capital expenditure.

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Budget Bulletin

Changing with the Times in Agriculture

Halifax: April 11, 2000

Agriculture has always been an important part of the Nova Scotia economy. In some parts of the province, the strength of the local economy depends on a strong agricultural sector. Across Nova Scotia, 16,000 people rely on agriculture for their living.

Just as Nova Scotia's agriculture industry has kept up with changing technology and market forces, the Department of Agriculture and Marketing is changing to meet the increasingly sophisticated and global needs of today's farmers.

To encourage new levels of growth in the industry, the department will focus on providing development programs and decrease one-on-one specialist and consultation services. Support will be directed to industry groups, rather than individuals, empowering farm groups to effectively address challenges and take advantage of new opportunities.

The department is consolidating its 12 local offices into five regional service centres in Antigonish, Kentville, Sydney, Truro, and Weymouth. Agricultural representatives will be reduced in line with office reductions, and production-based specialist positions will be eliminated.

With these changes, the department will provide funding to some industry organizations to assist them in hiring specialists to address their commodity-specific needs. (A commodity is a specific agricultural product, such as blueberries or beef.) Funding will also be provided to enable individual farmers and producers to access specialists as needed.

New Entrants Program

Access to capital is a significant hurdle for people wishing to start a farming business. Given the importance of food production, the department recognizes the need to attract and support new and young farmers. The New Entrants Program is designed to provide this support by offering interest relief to people just entering the agriculture business. Funding for this program is set at $600,000 in 2000–01.

Improving the Safety Net

Provincial funding for assistance to farmers hurt by such unforeseen conditions as market downturns and drought has increased to $4.8 million. These programs are cost shared with the federal government and provide assistance when these conditions cause income levels to drop.

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Budget **Bulletin**

New Budgetary Pressures

Halifax: April 11, 2000

If the Nova Scotia government had done nothing to get the province's finances under control, Nova Scotians would be faced with a deficit in 2000–01 of at least $564 million.

Here's how this number was arrived at. The 1999–2000 operating deficit is forecast to be $388 million (excluding Sysco clean-up and pension liability). Add to this new expenditure commitments and lost revenues of $409.9 million, which bring the total to $797.9 million. This figure is offset by $233.8 million of new revenues and non-recurring expenses, creating a total revenue shortfall of $564.1 million.

Following is a summary of major new spending commitments and lost revenues in 2000–01.

	($ thousands)
CHST Supplement *(lost revenue)*	$107,000
Restructuring, technology, wages	91,000
Increased debt-servicing costs	84,900
HST compensation *(lost revenue)*	53,000
P3 school leases	29,000
Prior year adjustment *(lost revenue)*	25,000
Acquiring municipal social assistance costs	11,000
University funding formula	4,000
Office space leasing increases	3,000
Hiring more child protection workers	2,000
Total	**$409,900**

Major new revenues and non-recurring expenses in 2000–01:

Other provincial revenue increases	$103,000
CHST Supplement	75,000
Y2K expense	46,700
Election expense	6,000
Older fisheries workers assistance expense	3,100
Total	**$233,800**

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NOVA SCOTIA
Department of Finance

Budget **Bulletin**

Helping Children Learn to Read

Halifax: April 11, 2000

Making sure Nova Scotian children get what they need to learn to read, early on, is the goal of a significant new package of educational programming funded in this year's budget.

The new Active Young Reader program, for children in grade primary through grade 3, is the centrepiece. It includes new books and other resources to inspire young readers and additional support for teachers to promote best practices in teaching children to read. The goals of the program are to help all children read by the end of grade 1 and to ensure they can apply their reading skills in any subject by grade 3.

In addition, the highly successful Reading Recovery program is being expanded to reach more areas and more children across the province. Reading Recovery has an 80 per cent rate of success in putting children with reading problems back on track. Children in need of help are identified in grade 1, and teachers trained in Reading Recovery provide that help.

This year is the first year for the new, comprehensive literacy strategy, and $1.5 million has been allocated for these programs.

Literacy is the foundation of learning. The province plans to focus on reading and writing skills in future testing. All students must be literate before they leave the school system. A testing system will be designed to fulfil that objective.

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Budget
Bulletin

Cost Recovery Measures

Halifax: April 11, 2000

All taxpayers help to pay for the hundreds of programs and services offered by government. However, not all Nova Scotians use all of these programs, and some Nova Scotians use these services more than others.

The philosophy behind cost recovery measures for social programs is that the people who most directly benefit from a service should contribute more to the cost of providing the service than those who do not use it. For some programs, such as Pharmacare, increased usage and costs mean that higher fees for those who benefit from the program are essential to sustain it. The same principle applies for regulatory program cost recoveries, such as the fee for licensing insurance agents, where the direct beneficiaries of the service help pay for its cost.

Government is attempting to strike a balance between the need for users to contribute more to the cost of a service and the importance of the service to individuals. For example, the increased tolls on provincial ferries will affect only cash-paying customers. Local and frequent users will have the option of purchasing books of tickets. Those rates will not rise.

In other areas, Nova Scotia is catching up to what other provinces already do. Nova Scotia is the only province in Canada that does not recover from the Workers' Compensation Board the cost of legal services provided to workers appealing decisions of the WCB. Also, Nova Scotia is the only province to pay one-third the costs of arbitration conducted under the Trade Union Act and the Corrections Act. Both of these items will now be subject to cost recovery.

Summary of changes	***($ thousands generated)***
Commissions and payments eliminated:	
Gas and diesel tax wholesalers	435
Tobacco tax wholesalers	100
Industry and community groups for water management	200
	735
Fees increased:	
Ambulance users	5,000
Pharmacare co-pay	4,400
Home support services	2,200
Driver testing, handbooks, and abstracts	950
Social assistance prescription drugs	700
Ferries	300
Insurance agents, companies' licences	200
Environmental approvals	200
	13,950

Summary of changes	*($ thousands generated)*
Fees for justice, labour, and public safety:	
Workers' Advisory Program cost recovery	1,800
Summary offence tickets	1,500
Sheriffs and probate fees	975
911 service cost recovery	745
Defaulting on maintenance enforcement	200
Licensing stationary engineers	200
Propane fuel and electrical permits	166
Child abuse registry	77
Eliminate 1/3 cost-sharing of arbitrations	75
	5,738
Total new and increased cost-recovery measures	**20,423**

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Budget **Bulletin**

Debt and Debt Servicing

Halifax: April 11, 2000

The public debt of almost $11 billion represents the biggest single threat to the programs and services Nova Scotians care about.

The Nova Scotia government debt has steadily increased to the point where, in 2000–01, debt-servicing costs are the government's second-largest single expenditure, more than is spent on education from grade primary to grade 12. It wasn't always like this. In 1974, Nova Scotia's debt-servicing costs were $40 million, and more than four times that amount, $165 million, was spent on primary to grade 12 and vocational education. In 2000–01, debt-servicing costs will be $900 million, a 2,250 per cent increase in 26 years. The total government debt is now growing at a rate of more than $1,000 every minute.

Unlike many aspects of government finances, such as revenue and program expenditures, there is often little direct control over debt-servicing costs. Government is vulnerable to fluctuations in interest and currency rates. An increase of 1 per cent in interest rates would result in increased debt-servicing costs of $15 million.

The $900-million debt-servicing cost pays only the interest on the debt, it does not make a dent on the principle of almost $11 billion. The debt will only begin to be paid off once government balances the books and stops running deficits, which is projected to be in 2002–03.

Provinces like Nova Scotia with excessively high debt loads are watched closely by agencies that rate our bonds. Selling bonds is how governments finance much of their borrowing. If a province has a poor bond rating, it will have a more difficult time selling its bonds and will have to pay a higher interest rate to attract buyers. Currently, Nova Scotia's outlook is rated as "stable" by three of the four major bond-rating agencies. The fourth has a "negative" outlook.

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Budget **Bulletin**

Help for Families and Children

Halifax: April 11, 2000

Children living in poverty are a national problem, and Nova Scotia is no exception. For Nova Scotian families who are trapped by dependence on social assistance, help to find their way into the work force will address the root of the problem. But the government believes a more immediate response is also called for.

Beginning in August 2000, families on social assistance will receive additional benefits in time to help their children get ready for the return to school. On the August social assistance cheques, there will be $100 for every child over the age of 13, and $50 for children aged 12 and under.

Additionally, the province is expanding early intervention programs to help children with developmental disabilities. Through early intervention, and one-on-one attention, children, from birth to five years old, will get the help they need to reach their full potential. An additional $615,000 in the budget for this program alone will allow its expansion to areas of the province not currently covered.

The Direct Assistance Program is now exclusively for families with children. Benefits available to qualifying those families have, as a result, doubled from $125 to $250.

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NOVA SCOTIA
Department of Finance

Budget **Bulletin**

Four-Year Fiscal Plan: 2000–01 to 2003–04

Halifax: April 11, 2000

With this budget, the Nova Scotia government is embarking on a four-year plan to fiscal stability. The plan will see deficits gradually eliminated with a small surplus in 2002–03 and a surplus and tax cut in 2003–04.

The objective is to remake government into one that reflects the priorities of Nova Scotians. This means a smaller, less costly government, concentrating on those areas of responsibility where government belongs. The result will be a more efficient, service-oriented government that operates within its means.

That result will be achieved by careful adherence to the government's four-year fiscal plan. Under this plan, revenues, fueled by private-sector led economic growth, will increase. It is therefore critical that the cost of running government does not grow with revenues, but remains under control. By controlling program expenses, revenue growth will eliminate the need for deficit financing in 2002–03. As revenues continue to grow, a larger surplus will enable the government to return increased revenues to Nova Scotians in the form of a 10 per cent tax cut in 2003–04.

The size of Nova Scotia's debt means that debt-servicing costs will remain high throughout the four-year plan. Debt-servicing costs will start to decline once deficit financing is eliminated and surpluses can be applied to the principal.

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NOVA SCOTIA
Department of Finance

Budget Bulletin

Growing Economy Impacts Revenues

Halifax: April 11, 2000

The Nova Scotia economy is doing well. Among the most positive aspects of economic growth is increased employment. In 1999, the private sector created 12,600 new jobs for Nova Scotians.

Other areas are doing well, too. Total personal income in 1999 increased by $804 million over 1998 levels. Since 1996, Nova Scotians' income increased by $1.9 billion. Nova Scotians are showing their confidence in the economy by spending more. Housing starts in 1999 jumped 35.5 per cent, and sales of new cars, trucks, and other motor vehicles grew by 12.3 per cent over 1998. Exports of goods and services were up 10 per cent, and tourism revenues grew by 16 per cent.

The increased number of working Nova Scotians means additional income tax revenues that pay for education, health care, and other important programs and services. A healthy economy also contributes to additional revenues from other provincial sources, such as corporate income tax and HST.

With the private sector fuelling job creation, it is critical that government does not act as a drag on a growing economy. A government carrying a heavy debt load and running high deficits threatens the very economic growth that is creating much-needed jobs for Nova Scotians.

Following is a summary of provincial revenue sources *($ thousands):*

	Estimate 1999–2000	**Estimate 2000–01**
Personal income tax	$1,044,742	$1,144,925
Corporate income tax	127,102	161,653
Harmonized Sales Tax	759,450	786,309
Motive fuel taxes	219,945	232,335
Nova Scotia Gaming Corporation	161,622	175,119
Nova Scotia Liquor Commission	133,500	141,000
Tobacco tax	77,685	80,100
Registry of Motor Vehicles	56,335	61,440
Interest revenues	35,325	35,507
Other provincial sources	171,056	166,165
Total	**$2,786,762**	**$2,984,553**

Provincial Revenue Sources Increase, Federal Sources Down

Provincial revenue sources are estimated to increase by 6.6 per cent over 1999–2000 estimate levels. Federal revenue sources for 2000–01 are estimated to be $1,810 million, a reduction of 1.4 per cent over the estimate for the previous year.

In 1999–2000, revenues from provincial sources will account for 60.8 per cent of all revenues. In 2000–01, provincial source revenues will make up 62.2 per cent of all revenues, thereby lessening Nova Scotia's dependence on federal transfers.

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Budget **Bulletin**

Protecting the Future of Pharmacare for Seniors

Halifax: April 11, 2000

Nova Scotia seniors deserve assurances that the Pharmacare program will continue to be there to assist them with the high cost of drugs. This requires changes to the Pharmacare program now that will bring costs of the program under control and protect the program for seniors now and into the future.

In the last several years, Pharmacare costs have grown significantly. This year alone, it is projected to grow by 12 per cent, to a total cost of $116 million.

The cost-share ratio has also changed significantly. In 1995, the goal of Pharmacare was to cost-share the program 50-50, between government and seniors. As a result of escalating program costs, the cost-share is now 79 per cent by government, 21 per cent by seniors.

To protect the program for the long term:

- The premium seniors pay remains unchanged this year.
- The co-pay changes from 20 per cent to 33 per cent per prescription, to a maximum of $350 per year (an average increase of about $5 per prescription). This change is effective immediately.
- Starting next year, increases in the premium and co-payments will be linked to a drug inflation index. The drug inflation index will be established in consultation with the Senior Citizens' Secretariat and other seniors' groups.

The Nova Scotia Pharmacare program remains one of the most generous in the country. After these changes, government will continue to fund more than 70% of the total Pharmacare costs.

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NOVA SCOTIA
Department of Finance

Budget Bulletin

What It Means for Post-Secondary Education

Halifax: April 11, 2000

Overall grants to Nova Scotia's post-secondary education institutions will increase in this year's budget.

Total operating grants to universities will increase by $4 million to $196.4 million, recognizing the role of universities in supporting Nova Scotia's innovation, research, and development infrastructure.

This is the third consecutive year of increases to university funding, as the Government of Nova Scotia moves toward the target recommended by the Nova Scotia Council on Higher Education. The increase should allow Nova Scotia universities to maintain academic services to students and keep tuition increases to a minimum.

Capital grants for universities will remain constant at $4.8 million. This will include funding for the completion of the Faculty of Arts and Social Science building at Dalhousie University and for the most pressing capital needs of the province's other universities.

The operating grants for the Nova Scotia Community College will increase $2.5 million to cover increasing costs and position the college to meet student demands for its programs.

The Collège de l'Acadie and Université Sainte-Anne will be expected to start sharing administrative services in 2000–01 to achieve a reduction of $500,000. This will allow for more efficient delivery of post-secondary training and education programs for Acadian and Francophone Nova Scotians.

The Department of Education also anticipates administrative savings of $500,000 through the restructuring of the Nova Scotia Council on Higher Education.

The 2000–01 budget for basic student assistance will be maintained, and eligibility criteria will not be changed. Funding for a maximum of 30 months of interest relief for all students with loans will also continue.

However, the current loan remission program will be discontinued in 2000–01. The budget will cover loan remission grants for students who meet the eligibility criteria and applied for student loans by March 31, 2000.

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NOVA SCOTIA
Department of Finance

Budget **Bulletin**

Province Exploring NSLC Sale

Halifax: April 11, 2000

The provincial government will get out of the retail and wholesale liquor business, provided such a move makes good sense for taxpayers.

In the budget address today, Finance Minister Neil LeBlanc identified the Nova Scotia Liquor Commission as a candidate for privatization, in whole or in part. Privatization will only proceed, however, if the government can retain current revenues from the sale of alcohol.

The province will undertake a comprehensive review of alternatives to the current system, in which the Crown corporation controls all aspects of alcohol distribution and sales. Nova Scotia is the only province in Canada that does not permit any private involvement in liquor distribution, wholesale or retail.

This announcement is in keeping with the government's commitment to focus on core government priorities while achieving fiscal objectives.

A steering committee, including senior staff from across government, will carry out the assessment and make a recommendation to government.

The committee will identify and analyse potential business models for warehousing, selling, and distributing alcohol and the impact of each of those models on NSLC staff, government finances, service, and control over the sale and distribution of alcohol.

Options for alternative service delivery are numerous and range from distribution of beer and wine through grocery or corner stores to full privatization.

Regardless of the approach, government will maintain its responsibility to ensure policies and regulations are in place to control alcohol sales and distribution and to minimize the negative societal effects of alcohol.

The Nova Scotia Liquor Commission currently controls the possession, sale, transportation, and delivery of alcohol beverages in Nova Scotia. For the year ending March 31, 1999, sales reached $351.6 million, with $129.2 million returned to provincial revenues.

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NOVA SCOTIA
Department of Finance

Budget **Bulletin**

What It Means for Rural Nova Scotia

Halifax: April 11, 2000

The 2000–01 budget includes a number of measures to build upon the strengths of rural Nova Scotia, including increased support for rural businesses.

- Government will provide bursaries to cover up to 50 per cent of the cost of tuition for medical students who agree to set up their practice in currently under-serviced areas.
- Rural Nova Scotia's transportation infrastructure will be strengthened through a $9-million commitment to improving secondary roads.
- The Community Economic Development Investment Fund portion of the Equity Tax Credit has been extended until December 2003 to assist with community economic development initiatives.
- The Film Industry Tax Credit will be increased to 35 per cent for films produced in rural Nova Scotia, an increase of 2.5 per cent over last year.
- Provincial funding for agriculture safety net programs has been increased to $4.8 million. Safety nets are programs cost-shared with the federal government that help farmers when income levels drop below average due to unforeseen conditions such as drought and market downturns. Such programs help provide much needed stability to farm families. Under a new three-year agreement with the federal government, which started April 1, 2000, total program funding for Nova Scotia farmers has almost doubled—from $6.2 million to $11.9 million.
- Funding for the provincial 4-H program has been maintained at $707,000. The province-wide 4-H program has a proven track record in developing rural Nova Scotia youth and instilling the importance of lifelong learning, entrepreneurial spirit, and community contribution.
- Agriculture and Marketing is establishing the New Entrants Program to assist new and young farmers with interest relief. This $600,000 program will encourage and support a healthy, progressive, and stable agricultural industry for the future.

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Budget **Bulletin**

Helping Individuals Move to Self-Sufficiency and Independence

Halifax: April 11, 2000

A new adult education program and additional child care are two areas where government will invest over $1 million, to help people who are dependent on assistance to move to self-sufficiency and independence.

One in 12 Nova Scotians depends on income assistance. One of the barriers many face to moving into the work force is the need for a grade 12 education.

Government is investing $500,000 in a new adult basic education initiative to benefit Nova Scotians caught in the low education–low opportunity trap. Specifically, the program will help adults complete their grade 12 and prepare for work or additional education and training. The program will be targeted at social assistance recipients, women re-entering the work force, and Nova Scotians displaced from traditional industries.

The need for adequate child care can be another barrier for individuals who wish to enter the work force.

Government is investing $535,000 for 100 new subsidized day-care seats, which will assist parents entering the work force or training. Five of the seats will be reserved for children with special needs—and all will be linked to the child, not the facility—giving parents more access and more choice in child care.

New legislation, slated for fall 2000, will help shape future program development and reinforce government's commitment to help more Nova Scotians move to self-sufficiency.

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NOVA SCOTIA
Department of Finance

Budget **Bulletin**

Tax Credit Review

Halifax: April 11, 2000

A review of personal and corporate income tax credits and sales tax rebates was announced in the 1999–2000 budget address. The objective of the review was to ensure that Nova Scotia's tax credits and rebates are meeting the intentions they were created for and at a reasonable cost.

Tax credits and rebates are tax dollars the government foregoes collecting in order to create a social or economic benefit.

The review began last fall with an inventory of the credits and rebates and collection of relevant information. A website was then developed inviting public comment and response on the review process. Consultation was also held with credit and rebate users and accounting and legal professionals, and direct input was received from interested individuals and organizations.

Because of scope of the review, the task was divided into phases. Phase I decisions dealt with the following six credits and rebates.

Equity Tax Credit

The ETC is a 30 per cent non-refundable personal income tax credit for investing in new, eligible businesses. The objective was to provide capital to small and medium-sized Nova Scotia businesses and Community Economic Development Investment Funds (CEDIF). CEDIFs assist with economic development initiatives in rural Nova Scotia. The ETC was established in 1994 and is due to expire on December 31, 2001. The credit cost $1.9 million in 1998–99.

Decision:

The expiry date for the CEDIF portion of the credit will be extended two years to December 31, 2003. The general ETC portion is still scheduled to expire at the end of 2001, but will be reviewed again to determine if an extension is warranted.

Film Industry Tax Credit

The FITC was created in 1995 to encourage increased film production in Nova Scotia. The credit is a 32.5 per cent refundable corporate tax credit based on salaries of Nova Scotians employed in film production in the province. Since its inception, 80 film productions have resulted in $16 million being paid in credits.

Decision:

The asset cap, which excludes production companies with assets over $25 million from accessing the FITC, will be removed. The credit will be reduced to 30 per cent for films being produced in urban areas, and increased to 35 per cent in rural Nova Scotia. The expiry date is to be extended for two years, to December 31, 2002. An intensive review of all government assistance to the film industry will be undertaken.

Research and Development Tax Credit

The RDTC was introduced in 1984 to encourage investment in research and development in Nova Scotia. It provides for a 15 per cent refundable corporate income tax credit on eligible R&D expenditures. In 1997, 166 companies from many different industries received $7.1 million in credits. Most eligible firms were involved in manufacturing or business services.

Decision:

The credit will be maintained as it is currently structured. However, in order to eliminate the practice known as “stacking”, research and development work that is funded by government will no longer be eligible for a credit. This is in line with federal government rules.

Manufacturing and Processing (M&P) Investment Tax Credit

The M&P credit is a 30 per cent non-refundable corporate income tax credit on qualifying investments in new manufacturing and processing equipment. It was introduced in 1997 to encourage new and expanded manufacturing and processing activity in Nova Scotia. The credit is due to expire December 31, 2002.

From the credit’s inception in 1997 to October 1998, $202.4 million of eligible investments were reported in a broad range of industries. This represents a potential cost to the province of $60.7 million.

Decision:

The M&P credit has accomplished its objective and will expire on its due date. The credit rate will be reduced to 15 per cent on Jan. 1, 2001. Projects that were largely completed by that date will qualify for the 30 per cent rate.

Harmonized Sales Tax (HST) Rebates

Phase I of this review dealt with HST rebates to municipalities, universities, colleges, schools, and hospitals, as well as to qualifying non-profit organizations (NPOs) and charities. The rebates started with the introduction of the HST in 1997 and are based on certain percentages of HST paid on purchases made by the institutions.

The percentages are as follows: municipalities, 57.14 per cent; universities and colleges, 67 per cent; schools, 68 per cent; hospitals, 83 per cent; NPOs and charities, 50 per cent. In 1998, $44.7 million was rebated back to qualifying institutions and organizations.

Decision:

As this rebate was designed to ease the sales tax burden on public institutions and charitable organizations, it has been largely successful and will continue.

ISO 9000/ISO 14000 Tax Credits

These credits are non-refundable corporate income tax credits designed to assist Nova Scotia corporations with the cost of becoming International Standards Organization (ISO) certified. ISO 9000 is a standard of quality management, and certification is often a prerequisite for companies wishing to compete for contracts. ISO 14000 certification indicates a company has a recognized environmental management system, meaning that it minimizes harmful effects to the environment caused by its activities. This is also a common prerequisite for prospective contractors.

From 1994 to 1999, $1.1 million was credited to 121 Nova Scotia companies under the ISO 9000 credit. Two companies have qualified for the ISO 14000 credit for a total of $30,000. Companies surveyed indicated that competitive reasons were behind their obtaining certification, and not the tax credit.

Decision:

While the credit was an economic benefit to the companies that qualified for it, it did not in itself provide an incentive to obtain ISO 9000 or ISO 14000 certification. The credit will expire at the end of 2000.

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To read the complete report of Phase I of the Tax Credit Review and other 2000–01 budget information, visit the Department of Finance website at www.gov.ns.ca/finance.

Budget **Bulletin**

Tax on Income

Halifax: April 11, 2000

Starting in the 2000 taxation year, Nova Scotia will move to a tax on income (TONI) system of assessing personal income tax. The new system will apply a Nova Scotia tax to the federally determined taxable income. The previous system applied provincial tax as a percentage of federal tax.

Nova Scotia will set tax on income rates for the 2000 tax year to be equivalent to the effective tax-on-tax rates in place in 1999. Nova Scotia will also use the 1999 brackets to determine when the rates apply.

In addition, Nova Scotia will also adopt the federal non-refundable credit amounts for the 2000 taxation year, including the enhancements made for the 2000 taxation year in the February 28 federal budget. These credits include the basic personal amount, spousal amount, age credits, CPP, and EI premiums credits, tuition and education amounts, and all other federal non-refundable credits.

These measures combined result in a tax cut to Nova Scotians of approximately $7.5 million. Nova Scotians will pay no more tax in 2000 than they did in 1999 on the same amount of taxable income, assuming all other factors remain constant.

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