



TO: Ms. Laurel Broten, Chair Nova Scotia Tax & Regulatory Review
FROM: Kevin Lacey, Atlantic Director, Canadian Taxpayers Federation
DATE: June 12, 2014
Re: Submission To Tax Review

Introduction

Nova Scotians have a long history of taxation.

One of the first taxes in all of British North America was implemented here to pay for the protection of the British Garrison housed on Citadel Hill.

Taxes were initially started to help provide a few public services mostly to ensure protection of citizens. However as the government has grown, the tax burden on Nova Scotians has grown right along with it.

Over the past 10 years, the total provincial government spending has increased 38% which is far higher than the average rate of inflation over the same time period.

Now, depending on how you measure it, Nova Scotians pay some of the highest taxes in all of Canada.

Finance Minister Diana Whalen launched the tax review asking for comments on her "taxation vision." What she failed to ask was if the total amount of taxes we pay is fair and just in the first place.

The Canadian Taxpayers Federation believes the answer to that question is no.

We recommend a number of measures to help bring down our taxes and help re-charge the province's economy.

Vision For Taxation

Competitiveness

In terms of competitiveness, Nova Scotia ranks far behind other Canadian provinces and the rest of North America.

Just looking at income taxes alone, a Nova Scotian earning \$60,000 will pay about \$17,546 in federal and provincial taxes, compared to someone earning the same wage in British Columbia who would pay just \$14,930 (this includes all payroll taxes).

Nova Scotia also has amongst the highest sales taxes.

The comparison between jurisdictions is even starker when you add in what the same person would pay in taxes in a New England state like New Hampshire. There, someone earning \$60,000 would pay just a 5% flat state income tax, there are no sales taxes in the state.

We need new settlers to come to Nova Scotia to live, work and start a family. Our high taxes are a deterrent.

Sustainability

Nova Scotians have not had a substantial tax reduction in recent memory. Meanwhile, government spending has continued to increase, over and above inflation.

Nova Scotians expect that they will pay taxes and receive quality public services, but for too many years, governments have focused on new spending at the expense of the taxation competitiveness.

It's time to inject some balance into the Nova Scotia government's fiscal policy, and do deal with our high taxes.

Fairness

We believe the taxation system should not punish those who work hard, earn more money and contribute to the Nova Scotia economy.

That is why our group supports sales taxes that tax consumption, and not earnings. If income is to be taxed, we support as flat of an application of income taxes as possible. In other words, taxpayers should pay the same percentage no matter their income.

Simplicity

The current "progressive" tax system takes a larger percentage of a workers' income as their income increases. This type of tax system punishes success.

A flat tax would be simpler to administer and would also help to promote economic growth.

Recommendations

Short Term / Immediate – Eliminate Unfair Taxation

There are some taxes that are levied against Nova Scotian's that are so unfair our government needs to address them as soon as possible.

End bracket creep – Nova Scotia is one of just three provinces (Manitoba and PEI) that do not index their tax brackets for inflation, which means virtually every single Nova Scotian will see a “sneaky tax” thanks to “bracket creep” each year.

Nova Scotia Premier Stephen McNeil [committed to ending “bracket creep”](#) while in opposition.

The federal government started indexing its tax rates for inflation in 2000 – 14 years ago. Most of the other provinces followed suit and adopted the taxpayer fairness initiative but Nova Scotia, PEI and Manitoba still have not.

Since 2012, bracket creep costs someone earning \$60,000 about \$134 more in income taxes each and every year they work.

Tax-on-Tax on Gasoline – At present, the HST is calculated based on the base price of gas *plus* the provincial and federal excise taxes. As a result, drivers are paying taxes (HST) on top of the federal and provincial excise taxes, costing drivers about 4 cents a litre.

The CTF has called on both federal and provincial governments to end the practice of calculating the HST after they've already levied provincial and federal excise taxes on gasoline, thereby taxing the taxes. The result has been governments collected \$43.3 million from unsuspecting motorists or about \$2 every time they fill up their tank (based on 50 litre tank).

The province could address the tax-on-tax the following ways:

- a) Change the way the HST is charged on gasoline;
- b) Drop the provincial gas tax by 4 cents a litre;
- c) Use the UARB in setting the price to charge a floating tax rate on fuel that would eliminate tax-on-tax;
- d) Have Atlantic Premiers approve Nova Scotia's change to the gas taxes

Medium Term / Strategy to Reduce Taxes

1-2-3 Tax Plan – Nova Scotia's tax problems were not caused by short term tax increases and they won't be solved by reducing taxes overnight.

In order to deliver long term tax relief that will have a sustained positive impact on the province, our government needs a plan. Our plan has three key features: it is flexible, affordable and accountable.

The plan works like this: \$1 of tax relief for every \$2 of new revenue, implemented over 3 years.

This plan will be legislated after the government has balanced the budget. If revenues climb by \$100 million dollars over previous years, \$50 million of that money would be legislated towards tax reductions. Any money from federal government that is earmarked for specific government programs would be negated from the calculation.

Under this plan, the government has the flexibility to reduce whatever tax it believes would have the biggest benefit to the taxpayers and the economy of the province. They could reduce income taxes, sales taxes, corporate taxes, small business taxes, gas taxes, hiking personal exemption, etc. Which taxes to reduce and by how much will be part of the budget debate each and every year. However, the CTF would not consider ending bracket creep (indexing brackets to inflation) as part of the tax reductions, as bracket creep is a tax hike and ending it would be stopping a tax hike, not reducing taxes.

This plan is affordable. Tax reductions will only be committed to if there is money through revenue growth to support it.

Finally, the plan would be implemented every three years. This will give the government the ability to offer more substantial tax cuts every three years, rather than small, boutique tax cuts on an annual basis.

This is a simple and easy to understand plan that will show taxpayers that the government is willing to and is capable of dealing with the problems of high taxes in Nova Scotia. It also signals to other interests who want to see the government spend more that \$1 out of every \$2 of new revenue is already spoken for and cannot be used for increases in government spending.

Long Term – Simpler tax system

Reduce the number of brackets – move to flat taxes: Before moving to a flatter income tax system the government needs to invest in raising the level of basic personal exemption.

Nova Scotia could collapse the middle income tax brackets of \$29,590 to \$150,000 into a single tax rate. This would introduce the elements of a single rate of tax into the income tax system.

Further reform of the income tax system could happen as the fiscal situation of the province improves.

Other issues

Property taxes – Since 2008-09, there has been a cap on residential property taxes to inflation. That freeze ensures property assessments for tax purposes will not grow larger than the rate of inflation.

This policy introduces two important elements into the property tax system. First, an assessment cap provides predictability for homeowners. When you purchase a house you know that your taxes will not go up faster than inflation unless your city councillor votes to increase tax rates.

Second, many municipal politicians oppose tax caps because it forces them to raise tax rates if they want more revenue (over inflation) rather than relying on more discrete creeping assessments. Tax caps make politicians more accountable.

The cap though is not perfect, and our organization acknowledges that there are problems with the assessment system as a means to tax ratepayers.

However, if the mayors are truly concerned about residents' taxes, in addition to opposing the downloading of services from the province, they should support a tax cap and two further reforms that would bring accountability and transparency to the tax system.

We believe property assessment cap while not perfect should remain.

Taxes as a business subsidy – We believe that it is not the role of government to subsidize businesses either directly through cash hand outs or indirectly through the tax system.

There are two main problems with tax credits like those provided by Nova Scotia Business Inc, Department of Economic Development or other government agencies.

First, it discourages competition and growth. For example, if one company receives a payroll rebate it has an advantage in the market place that it can use to prevent other competitors from locating and hiring workers for similar work.

It also discourages outside competition from locating in Nova Scotia because the playing field is not even.

Second, often when the money runs out, so do the companies. Many either pack up and leave the province for jurisdictions with cheaper business environments or they seek extensions on the “short term” tax credits they received in the past.

Other industry specific tax credits should also be scrapped. Specifically, the film tax credit. Why is one type of industry more important to Nova Scotia than another one?

If these credits and lower taxes really do create more jobs and grows companies than it makes sense to extend the same tax benefits given to one industry to all of the companies. After all, if we are serious about improving the Nova Scotia job picture it does not matter if those jobs are in the film industry or another comparable industry.

Tobacco Tax – According to numbers obtained by FOIPOP from Service Nova Scotia and Municipal Relations, over 137,000 cigarettes were sold tax-free for the personal use of Status Indians in 2011-12. However, there are only 14,989 status Indians in Nova Scotia, making up 1.5 per cent of the entire population. Yet, 13.3 per cent of all tobacco sold in the province was sold on reserve, officially for the personal use of Status Indians.

There are only two explanations for these numbers; either there is some sort of unprecedented smoking epidemic on Nova Scotia reserves, or the more likely explanation, much of the tax-free tobacco is being sold illegally to people who are not Status Indians. These numbers show that the government is losing millions in illegal tobacco sales.

The CTF notes that these numbers only include tobacco that is sold by wholesalers to Nova Scotia reserves, so the overall contraband problem could be much worse.

The CTF says these numbers point to the need for the province to investigate tax-free tobacco sold on Native reserves.

The province also needs to study the impact of the high tobacco tax on the growth of black market cigarettes. The province could be losing tax revenue as a result of high taxes that are resulting in increases in black market (tax free) cigarettes.

Pop Tax – Some have pushed for the province to implement a tax on sugary beverages to help Nova Scotians to slim down and shape up.

But this seemingly altruistic government goal could lead to some policies that may just make the government coffers fat and your wallet a little thinner.

Some claim that a small tax on sugary drinks would force people to choose something else to quench their thirst.

But the evidence says otherwise.

Research shows that a “small” tax like the one suggested by the medical officer would do little to nothing to actually change people’s behaviour or to make anyone healthier. Instead, people just pay the tax and then keep doing what they are doing, or they find ways to avoid paying the tax. The only winner with these types of taxes is the government who pockets all the revenue.

The other problem with these taxes is it targets the wrong culprit.

Over the past 15 years, overall soda consumption in Canada is on the decline. Yet, at the same time obesity rates continue to increase. If soda consumption has so much to do with the growing waist-lines of adults and children alike, why does there seem to be an inverse relationship between them?

While, there have been a handful of public studies showing a connection between soda and childhood obesity there have been more that are unable to find any link.

For example, a study of Grade 5 students in Nova Scotia compared the availability of soft drinks in school cafeterias and found no difference in the risk of weight gain between children who could drink soda at school and those who do not. However, "the association between obesity levels and frequency of physical education classes was striking," [the report found](#). Children in families that ate dinners together were also less likely to be overweight.

So if hiking taxes won’t change people’s behaviour and pop is not the guilty culprit that many like Dr. Sweet make it out to be, why is the government also looking to spend money to launch an advertising campaign to tell you that drinking pop is not healthy? Most people know that anyway.

Conclusion

We believe that after years of government spending increases and tax increases to go along with it, Nova Scotians deserve a break.

Our organization understands the short term fiscal pressures that the province is under, however we believe that there are some taxes that are so unfair that it is time to deal with those issues immediately.

We know that solving the problem of Nova Scotia’s tax burden will not happen over night since the problem was not created over night.

That is why it is time to for our province to have a long term plan for how we will provide tax relief while at the same time making the province more competitive.

Our 1-2-3 tax relief plan ensures that Nova Scotia will become more tax competitive but only at a rate and pace that we can afford. Tax relief will come as the Nova Scotia economy grows, and the plan will be reviewed every three years.

We believe that legislating and committing to lower taxes is the only way to make Nova Scotia competitive with the rest of Canada.

There are many reasons for Nova Scotia's economic decline. Some of those reasons the government can't control, but others, like tax competitiveness, they can.

That is why it is important to take action now to get our province growing again.