

An aerial photograph of a rugged coastline. The left side shows dark blue water meeting a rocky shore. The right side features a grassy area with a parking lot containing several cars, a paved path, and a small concrete structure. The rocks are reddish-brown and layered.

# 2025 PEI Pre-Budget Proposal

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# Contents

<b>About the Canadian Taxpayers Federation</b>	<b>3</b>
<b>Executive Summary</b>	<b>4</b>
<b>Tax Relief</b>	<b>6</b>
Introduction	6
Eliminate bracket creep	7
Cut the provincial portion of the HST by two percentage points	7
Replacing business subsidies with business tax relief	8
<b>Finding Savings in Government Expenditure</b>	<b>10</b>
Introduction	10
Reducing government non-health spending to 2022 levels	10
Bringing government compensation in line with Prince Edward Island's labour market	10
Implementing a Sunshine List	11
Conduct a thorough review with the aim of reducing spending	12
<b>Conclusion</b>	<b>14</b>

# About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive Action Updates emails. Financial supporters can also receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2023-24, the CTF raised \$6.27 million on the strength of 74,472 donations. Donations to the CTF are not deductible as a charitable contribution. The CTF does not accept foreign funding.

Prepared by Devin Drover,  
Atlantic Director & General Counsel



# Executive Summary

Prince Edward Island's budgetary situation remains a cause for concern. Despite this year's deficit coming in at nearly 85 per cent less of what was expected in spring 2024,<sup>1</sup> long term projections from the independent Parliamentary Budget Officer show Prince Edward Island's planned government spending is unsustainable.<sup>2</sup>

Government spending in the province is at record-levels. This is despite no plan to balance the budget and planned borrowing to continue until at least the 2026-27 fiscal year.

Unless a different path is charted, this means net government debt will climb to \$3.5 billion by 2026-27. Such high net debt means the government will spend nearly \$200 million in tax dollars every year just to service provincial debt interest charges. This works out to about \$1,120 of each Islander's tax dollars being used to serve interest rather than towards essential services or tax relief.<sup>3</sup>

For this budget year, the government must reverse course and start to live within its means. To avoid adding additional burdens to future generations, the government should reduce spending and balance the budget. At the same time, the government of Prince Edward Island should focus on providing relief through sales tax cuts to curb the rising cost of living and general affordability. A path for doing so is outlined here.

The measures outlined in this report aim to lower the tax burden and stimulate the economy. They provide tax cuts to both individuals and businesses to save families money and help grow the economy. Reducing taxes and helping grow the economy means more money in the pockets of Islanders.

To finance the relief, this report relies on ending corporate welfare and finding additional efficiencies, including through reducing labour costs. It will also call on the province to find significant additional savings by reducing non-health spending to 2022 levels.

The measures proposed in this submission include:

- 1. Eliminating bracket creep.**
- 2. Cutting the provincial portion of the HST by two percentage points.**
- 3. Replacing business subsidies with business tax relief.**
- 4. Reducing non-health spending to 2022 levels.**
- 5. Bringing government compensation in line with Prince Edward Island's labour market.**
- 6. Implementing a Sunshine List.**
- 7. Conducting a thorough spending review with the aim of reducing overall spending levels.**

1. <https://atlantic.ctvnews.ca/more/prince-edward-island-reports-14-8-million-deficit-in-fiscal-2023-24-17071484>

2. <https://www.pbo-dpb.ca/en/publications/RP-2425-014-S--fiscal-sustainability-report-2024--rapport-viabilite-financiere-2024>

3. Based on current population numbers: <https://www.cbc.ca/news/canada/prince-edward-island/pei-population-2024-1.7333750#>

With these proposed measures we are confident that the government will be able to provide much-needed tax and inflation relief, while not negatively impacting its fiscal position.

This report includes two main sections: tax relief and spending reductions.

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	\$100.3	
Replacing business subsidies with business tax cuts	\$41	\$66.1
Bringing employee compensation to market levels		\$91.3
Bringing non-health spending back to 2022 levels		\$154
<b><u>Total per category</u></b>	<b><u>\$141.30</u></b>	<b><u>\$311.40</u></b>
<b>Net budget impact</b>		<b>\$170.10</b>

\*Millions.

# Tax relief

## Introduction

Islanders are still struggling with rising living costs. Since 2021, the price of goods has jumped by 12.5 per cent.<sup>4</sup> Even though inflation is starting to ease, Islanders need relief to manage the financial strain caused by these price hikes over the past few years.

In the last two budgets, the province started adjusting some income tax brackets to keep pace with inflation. However, the indexing in Budget 2023 and Budget 2024 were not universal, nor were they permanent. Every other province in Canada adjusts these brackets automatically on a yearly basis to keep pace with inflation, and Islanders deserve similar, permanent annual adjustments across all brackets.

But the tax relief shouldn't stop there. Governments unfairly benefit from inflation through increased sales tax revenue, as rising prices mean more money collected from sales taxes. This submission calls for the government to reduce the provincial portion of the HST from 10 per cent to eight per cent, lowering costs for consumers almost everywhere they shop.

These measures would not only provide relief to families struggling with inflation, but also boost incomes and drive higher economic growth and prosperity.

A widening prosperity gap continues to affect Prince Edward Island compared to other provinces. In 2023,

the province's GDP per capita fell by 1.8 per cent to \$41,321, well behind Newfoundland and Labrador's \$53,512 and Alberta's \$70,876.<sup>5</sup>

This translates to lower salaries for workers and lower profits for local businesses. As the government aims to grow the province's economy, local businesses need a more competitive environment to attract capital and expand.

Attracting business investment involves making sure individuals and businesses have the funds available to make investments and grow their local markets. An effective way for the government to do this is to take less cash out of citizens' and local businesses' pockets by reducing their taxes.

Recent periods of low levels of business investment has led Atlantic Canada as a region to struggle in generating economic growth, according to the Fraser Institute.<sup>6</sup>

To help further stimulate investment, the government should replace corporate welfare with corporate tax cuts. Tax cuts attract investment and job creators. Studies from the OECD and elsewhere show that tax cuts, not subsidies, have a clear relationship with stimulating economic growth.<sup>7,8</sup>

Implementing these recommendations would help Islanders better manage their living costs and enhance Prince Edward Island's economic competitiveness.

4. <https://www150.statcan.gc.ca/t1/tbl/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2024&referencePeriods=20240901%2C20240901>

5. <https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/>

6. <https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf>

7. <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

8. <https://www.oecd.org/mena/competitiveness/41997578.pdf>

## Eliminate bracket creep

### Tax relief: N/A

Prince Edward Island is the only province that fails to automatically index its tax brackets to inflation. That means taxpayers are forced into higher tax brackets by inflation, even though their actual buying power hasn't gone up.

The government of Prince Edward Island had started to address this with adjustments in the previous two budgets for most tax brackets. However, in the upcoming budget, an inflation adjustment across all brackets should be adopted as permanent government policy moving forward to ensure competitiveness with other Canadian provinces.

## Cut the provincial portion of the HST by two percentage points

### Tax relief: \$100.3 million \$702 per household<sup>9</sup>

The rising cost of living has hit Islanders hard over the past three years. The overall price of goods is now 12.5 per cent higher than it was in 2021.<sup>10</sup>

To help families and businesses directly deal with the issue of high prices, the government should lower the provincial portion of the HST.

Sales taxes exacerbate issues caused by higher prices. Since the tax is applied at the end of transactions,

higher prices mean higher taxes. This problem hits low-income taxpayers the hardest, as sales taxes are regressive. A regressive tax takes a larger percentage of income from low-income earners compared to higher-income earners, disproportionately burdening those who can least afford it.

The government can help families cover higher bills by charging them less when they go to buy things they need.

Prince Edward Island is tied with the other Atlantic provinces for the highest sales taxes in Canada, though Nova Scotia intends to cut HST by one per cent on April 1, 2025.<sup>11</sup> Reducing the total tax to 13 per cent would see P.E.I. with the lowest sales tax in the region.

Lowering the HST would not only help Islanders better afford their bills, but it would also increase competitiveness and attract taxpayers from other provinces looking to save on their tax bills. In the last two years, sales tax revenue was a combined \$128 million higher than originally projected.<sup>13</sup> This windfall should be passed back to Islanders in the form of tax relief.

Prince Edward Island has the second-lowest level of GDP per capita in the country at \$41,321 per person.<sup>14</sup> One of the factors explaining this poor economic performance is that fact Prince Edward Island's households have an after-tax disposable income level that is also one of the lowest in the country. This means that after Islanders have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy.

9. Based on an average household income of \$100,000. See: <https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf>

10. <https://www150.statcan.gc.ca/t1/tbl/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2024&referencePeriods=20240901%2C20240901>

11. <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

12. <https://globalnews.ca/news/10826104/nova-scotia-hst-drop-2025/>

13. <https://wdf.princeedwardisland.ca/download/dms?objectId=69bf256d-2d2e-46a4-ab9c-17770588c18f&fileName=2024%20-%20PA%20-%20Volume%20I.pdf>  
<https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

14. <https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/>

There is a clear relationship between household disposable income and household consumption, and between consumer spending and GDP growth. Economic research from the Brookings Institute, the Tax Policy Center as well as the Tax Foundation is very clear about the link between tax relief measures and economic growth.<sup>15 16 17</sup>

Lowering the HST by two percentage points would free up \$100.3 million to be invested into the local economy and help families ease the burden of inflation and high living costs.<sup>18</sup>

## Replacing business subsidies with business tax relief

**Savings: \$66.1 million**

**Tax relief: \$41 million**

The provincial economy and labour market has continued to stagnate since the pandemic. Employment in the private sector continues to lag behind growth in the public sector.<sup>19</sup> The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.<sup>20</sup>

Growing the economy and finding employment for out-of-work Islanders is not a matter of helping a handful of sectors. It depends on creating a good business environment for all sectors.

Other factors, such as regulatory burdens, tax regime, workforce education, and availability of transportation infrastructure, have a much bigger impact on decisions to locate in one jurisdiction than one-off financial aid packages at taxpayers' expense.<sup>21</sup> Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>22</sup> What is clear is that the level of corporate taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.<sup>23</sup>

In other words, competitive tax rates attract job creators and direct investment.<sup>24</sup> Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.<sup>25</sup>

15. [https://www.brookings.edu/wp-content/uploads/2016/06/09\\_effects\\_income\\_tax\\_changes\\_economic\\_growth\\_gale\\_samwick.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf)

16. <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

17. <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

18. <https://wdf.princeedwardisland.ca/download/dms?objectId=69bf256d-2d2e-46a4-ab9c-17770588c18f&fileName=2024%20-%20PA%20-%20Volume%20I.pdf>

19. <https://www.fraserinstitute.org/sites/default/files/economic-recovery-in-canada-before-and-after-covid.pdf>

20. <https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/>

21. <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

22. <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

23. <https://www.oecd.org/mena/competitiveness/41997578.pdf>

24. <https://www.oecd.org/mena/competitiveness/41997578.pdf>

25. [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)

Provincial general corporate tax rates	
Canadian Jurisdiction	General corporate tax rate
<b>Prince Edward Island</b>	<b>16%</b>
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
<b>Canadian Provincial Average</b>	<b>13%</b>
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.5%
Ontario	11.5%
Alberta	8%

Source: Provincial government websites

Compared with other provinces, Prince Edward Island's corporate tax rate puts the province at a disadvantage, with the highest rate in the country at 16 per cent versus the 13 per cent national average.

Corporate welfare costs P.E.I. taxpayers \$66.1 million annually.<sup>26</sup> This is equivalent to 37 per cent of what the province collected through corporate income taxes over the same period.

Replacing business subsidies with corporate tax relief would also have an added advantage: reducing the economic distortion.<sup>27</sup> Prince Edward Island's economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth approach.

The province should replace these subsidies with a tax cut in the general and small business tax rates by 25 per cent. Lowering the small business tax rate from its current one percentage point to 0.75 percentage points, and the general corporate tax rate from its current 16 percentage points to 12 percentage points, would put P.E.I.'s corporate tax rate under the national average and amount to \$41 million in savings for Prince Edward Island businesses of all sizes.<sup>28</sup>

26. [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_book\\_2024-25\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2024-25_web.pdf)

27. [https://www.jec.senate.gov/public/\\_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf](https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf)

28. [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_book\\_2024-25\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2024-25_web.pdf)

# Finding Savings in Government Expenditure

## Introduction

The government of Prince Edward Island posted a deficit for the last two years and plans to run deficits for the foreseeable future.<sup>29</sup> It is fundamentally unfair to continue to grow the province's debt burden that will be passed on to future generations.

The section below will provide recommendations of various areas to find savings to help the government balance the budget and reduce the debt while still providing tax relief to families and help to stimulate the economy.

## Reducing government non-health spending to 2022 levels

### Estimated Savings: \$154 million

Government spending and debt in the province of Prince Edward Island has gotten out of control in recent years. The provincial debt has increased by \$300.7 million in the last two years alone and the government expects to add another \$852 million to the debt over the next three years.<sup>30</sup> Unless the province stops borrowing, the net debt will have increased by 49 per cent over a six-year period.

This rapidly increasing debt is unfair to future generations. The government's fiscal approach must change.

During the 2023 provincial election, Premier Dennis King promised to continue to spend additional money to address the shortcomings in the province's health-care system. However, while health-care spending is expected to increase by \$65.9 million this year, non-health spending is also expected to increase by \$49.9 million.<sup>31</sup> This pre-budget submission is proposing that the government moderately reduce its non-health spending back to 2022-23 spending levels. This move would save taxpayers \$154 million and will allow the government, in concert with other measures outlined here, to balance the budget.<sup>32</sup>

## Bringing government compensation in line with Prince Edward Island's labour market

### Estimated Savings: \$91.3 million

Salaries and wages have represented the largest line-item in the government of Prince Edward Island's budget over the past six years.<sup>33</sup>

29. [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_book\\_2024-25\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2024-25_web.pdf)

30. [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_book\\_2024-25\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2024-25_web.pdf)

31. [https://www.princeedwardisland.ca/sites/default/files/publications/estimates\\_book\\_2024-25\\_web.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2024-25_web.pdf)

32. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

33. <https://wdf.princeedwardisland.ca/download/dms?objectId=69bf256d-2d2e-46a4-ab9c-17770588c18f&fileName=2024%20-%20PA%20-%20Volume%20I.pdf>

In 2024, the province spent \$1.1 billion on employee compensation, representing over 71 per cent of what it collected via taxes.<sup>34</sup>

Since 2019, government employment has grown 25.5 per cent in Prince Edward Island compared to just 6.9 per cent in the private sector.<sup>35</sup>

In the interest of fairness, and to free up resources for much-needed inflation relief, the government must make sure its employee compensation costs are in line with that of non-government workers in Prince Edward Island.

After adjusting for 12 different individual characteristics, a Fraser Institute report found that the average government employee in Canada earns an 8.5 per cent wage premium over their private sector counterparts.<sup>36</sup>

Government employees are also more likely to be enrolled in a pension plan than a private sector employee. Only 39.9 per cent of private employees are covered by a pension plan compared to 90.6 per cent of those that work for the government.<sup>37</sup>

Government pension plans are also much more generous than those of the private sector. Of those who have a pension in the government sector, 90.6 per cent of them are defined benefit plans, compared to only 39.9 per cent of plans for those covered in the private sector. A defined benefit plan offers the employee a guaranteed benefit during retirement. This guarantee is often on the back of taxpayers who would be saddled with the cost of a bailout if pension funds do not perform well.

Those who work for the government in Prince Edward Island also retire earlier and have higher levels of job security than those who work in the private sector.<sup>39</sup>

To bring government employee wages in line with private sector practices, the government of P.E.I. must implement an 8.5 per cent reduction in compensation costs. Much of this can be achieved through attrition and offering lower salaries for any new employees.

To further reduce compensation costs, the government of Prince Edward Island should look to move towards a defined contribution rather than defined benefit pension scheme for its employees, as is common in the private sector.

This will reduce the estimated cost for government salaries and benefits from \$1.1 billion to \$982.7 million.<sup>40</sup> This will result in a savings of \$91.3 million that can then be used to help provide relief for taxpayers.

## Implementing a Sunshine List

### Estimated savings: Unknown

Taxpayers have a right to know what their money pays for and what government employees earn. The vast majority of Canadian provinces have implemented what are known as sunshine lists, allowing taxpayers to see the costs of the highest-paid government employees in their jurisdiction.

In Ontario, for instance, the sunshine list publishes the names and salaries of every government employee paid \$100,000 or more.<sup>41</sup> In New Brunswick, the threshold is \$80,000 per year, while in Saskatchewan, the list begins

34. <https://wdf.princeedwardisland.ca/download/dms?objectId=69bf256d-2d2e-46a4-ab9c-17770588c18f&fileName=2024%20-%20PA%20-%20Volume%20I.pdf>

35. <https://www.fraserinstitute.org/sites/default/files/economic-recovery-in-canada-before-and-after-covid.pdf>

36. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

37. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

38. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

39. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

40. [https://www.princeedwardisland.ca/sites/default/files/publications/web\\_volume\\_1\\_2021-2022\\_pa.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf)

at \$50,000.<sup>42 43</sup> Only Quebec and Prince Edward Island don't publish such a list.

To meet or surpass the standards of government transparency existing in the rest of the country, the government of Prince Edward Island should implement a sunshine list and publicly divulge information on the province's highest-paid bureaucrats.

## Conduct a thorough review with the aim of reducing spending

### Estimated savings: Unknown

Over the course of the last six years, spending in Prince Edward Island has gone up by more than a billion dollars, or about 49 per cent.<sup>45 46</sup> This rapid rise in spending must be addressed to bring the province's finances in order.

Year	Total Consolidated Expenditures
2019	\$2,021.70
2020	\$2,165.60
2021	\$2,370.20
2022	\$2,570.50
2023	\$2,862.80
2024	\$3,030.70

\*Millions

In 2020, the Newfoundland and Labrador government formed an independent committee to review government expenditures and determine a plan to address the province's financial challenges.<sup>47</sup> The resulting report has identified \$3.6 billion in government expenditure savings over a six-year period in which the provincial government has been tasked with implementing.<sup>48</sup>

In similar efforts to balance the budget in the 1990s, Prime Minister Jean Chrétien's government set forth the best practices for program reviews. The review was comprehensive and applied six tests to every expense:<sup>49</sup>

1. Does it serve the public interest?
2. Is government involvement necessary?
3. Is this an appropriate role for this level of government?
4. Are public-private partnerships possible/desirable?
5. Are there ways to make it more efficient?
6. Can taxpayers afford this expense?

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent of federal program spending at the time.<sup>50</sup>

41. <https://www.ontario.ca/page/public-sector-salary-disclosure>

42. <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf>

43. <https://www.cicorp.sk.ca/pub/Reports/Payee%20Disclosure%20Reports/2022-23-payee-disclosure-report-web-binder.pdf>

44. <https://www.theglobeandmail.com/canada/article-sunshine-lists-have-helped-narrow-the-gender-pay-gap-but-ottawa-wont/>

45. <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

46. <https://wdf.princeedwardisland.ca/download/dms?objectId=69bf256d-2d2e-46a4-ab9c-17770588c18f&fileName=2024%20-%20OPA%20-%20Volume%20I.pdf>

47. <https://thebigresetnl.ca/about/>

48. <https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf>

49. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

50. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

This program review allowed the federal government to balance the budget in 1997–98 and pay down more than \$100 billion in federal debt before the financial crisis hit in 2008.<sup>51</sup> This reduced the proportion of tax dollars going towards debt interest payments from 30 per cent in 1996–97 down to 13 per cent in 2008–09.<sup>52</sup>

The savings also allowed for significant tax relief, such as the GST reduction, business and personal income tax relief, and the establishment of TFSAs as a vehicle to boost household savings.<sup>53</sup>

Islanders who are faced with an ever-increasing rising cost of living need tax relief and the first step is for the provincial government to control spending.

51. [https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables\\_October2022.pdf?\\_ga=2.45019876.1912156774.1668026480-1443291271.1665068851](https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851)

52. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

53. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

# Conclusion

Higher living costs continue to hit families hard while the government of Prince Edward Island continues to spend beyond its means. The provincial government should take bold action to reverse course by reducing both spending and taxes to provide families with much-needed relief while improving the province's fiscal position.

Prince Edward Island remains the only province that does not automatically index its tax brackets to inflation, which results in taxpayers being pushed into higher brackets despite no real increase in their purchasing power. Although the government has made some progress in recent budgets, a permanent policy of inflation indexing for all tax brackets must be implemented to align with the practices of other provinces and ensure a fair and competitive tax system.

To further promote affordability and leave more money in taxpayers' pockets, the government should reduce the sales tax by two percentage points, saving Islanders \$100.3 million next year alone – or about \$702 per household.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

To further help the province's economy grow, the government should also take steps to make the province more attractive to investment in all industries by replacing its subsidies with corporate tax cuts. Reducing the corporate income tax by 25 per cent and eliminating subsidies would see the government save \$66.1 million and put \$41 million directly back into the hands of Prince Edward Island businesses.

Prince Edward Island's government spending and debt have surged in recent years, with the provincial debt growing by \$300.7 million in the past two years and another \$852 million projected over the next three years. If no changes are made, the province's net debt will have increased by nearly 50 per cent over six years, creating a significant burden for future generations that requires an immediate shift in fiscal strategy.

While health-care spending is expected to rise by \$65.9 million this year, non-health expenditures are also climbing by \$49.9 million. This submission recommends rolling non-health spending back to 2022-23 levels, which would save \$154 million and contribute, alongside other proposed measures, to balancing the provincial budget.

Given the wage and benefit premium enjoyed by government employees over those in the private sector and the impact of rising compensation on the government's bottom line, it is necessary to make fundamental changes and reduce the cost of government employee compensation. Eliminating the compensation gap between private sector employees and those working for government promotes fairness and would save taxpayers \$91.3 million next year.

Additionally, implementing a Sunshine List, as done in most other provinces, would enhance transparency by allowing taxpayers to see what high-earning government employees are paid. Prince Edward Island should adopt this practice to align with the transparency standards of other provinces and provide better accountability for public spending.

Lastly, drawing on successful examples from other jurisdictions, such as Newfoundland and Labrador's recent independent expenditure review and Chrétien's program review in the 1990s, the province must conduct a comprehensive assessment of its spending. By applying best practices – such as evaluating whether each expense serves the public interest, is necessary, and can be more efficient – the government can identify significant savings. These savings could help balance the budget, reduce the province's debt burden, and provide much-needed relief to Islanders facing rising living costs.

Overall, the measures recommended in this report will put \$141.3 million back in Islanders pockets and help save at least \$311.4 million in government operations. This will have a net positive budgetary impact of \$170.1 million, which allows the government to balance the 2024-25 budget.