2025 Nova Scotia Pre-Budget Proposal

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Canadian Taxpayers Federation

NOVEMBER 2024

Canadian Taxpayers Federation

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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.

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Executive Summary

Nova Scotia's budgetary situation remains a cause for concern. This year's budget deficit is coming in at nearly 40 per cent greater than what was expected in spring 2024, totaling over $654 million.[1] Government spending in the province is at record-levels, and there is no plan to balance the budget. The provincial government is planning to keep borrowing indefinitely.

Unless a different path is charted, this means net government debt will climb to $24.7 billion by 2027-28.[2] Such high net debt means the government will spend nearly $1.1 billion in tax dollars every year just to service provincial debt interest charges. This works out to about $998 per Nova Scotia wasted on interest charges rather than going towards essential services or tax relief.[3]

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 Nova Scotia should focus on providing relief through sales tax cuts to curb the rising cost of living.

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 grow the economy. Reducing taxes and growing the economy means more money in the pockets of Nova Scotians.

To finance tax relief, this report relies on ending corporate welfare and finding additional efficiencies 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. **Cutting the provincial portion of the HST by two percentage points.**
2. **Cutting income tax by five per cent.**
3. **Replacing business subsidies with business tax relief.**
4. **Reducing non-health spending to 2022 levels.**
5. **Bringing government compensation in line with Nova Scotia's labour market.**
6. **Conducting a thorough spending review with the aim of reducing overall spending levels.**

With these proposed measures, 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.

1. https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2024.pdf
2. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf
3. Based on current population numbers: https://www.novascotia.ca/finance/statistics/archive_news.asp?id=19662&dg=&df=&dto=0&dti=3

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	$551	
Cutting income tax by five per cent	$209	
Replacing business subsidies with business tax cuts	$300	$377
Bringing non-health spending back to 2022 levels		$811
Bringing employee compensation to market levels		$488
Total per category	**$1060**	**$1,676.00**
Net budget impact:		**$616**

*Millions.

Tax relief

Introduction

Nova Scotians are still struggling with rising living costs. Since 2021, the price of goods has jumped by 13.5 per cent.[4] Even though inflation is starting to ease, Nova Scotians need relief to manage the financial strain caused by these price hikes over the past few years.

Governments unfairly benefit from inflation through increased sales tax revenue as rising prices mean more money collected from sales taxes. That is why the provincial government's recently announced plan to reduce the provincial portion of HST from 10 per cent to nine per cent is a positive move.[5]

However, this submission calls for the government to take this plan further and reduce the provincial portion of the HST by an additional percentage point to eight per cent. This measure would not only provide relief to families struggling with inflation, but also boost incomes and drive higher economic growth.

Meanwhile, the provincial government should also look to reduce income tax bills. While last year's budget took the crucial step in eliminating bracket creep, Nova Scotians have not seen meaningful income tax relief despite years of inflation which allowed the government to profit from increased income tax revenue. This submission calls to return that revenue back to Nova Scotians through a five per cent reduction in income tax.

A widening prosperity gap continues to affect Nova Scotia compared to other provinces. In 2023, the province's GDP per capita fell by 1.4 per cent to $41,121, well behind Newfoundland and Labrador's $53,512 and Alberta's $70,876.[6]

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.

Low levels of business investment have led Atlantic Canada as a region to struggle in generating economic growth, according to the Fraser Institute.[7]

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.[8][9]

Implementing these recommendations would help Nova Scotia better manage their living costs and enhance Nova Scotia's economic competitiveness.

4. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2024&referencePeriods=20240901%2C20240901
5. https://www.cbc.ca/news/canada/nova-scotia/hst-taxes-nova-scotia-reduction-1.7360492
6. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/
7. https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf
8. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
9. https://www.oecd.org/mena/competitiveness/41997578.pdf

Cut the provincial portion of the HST by two percentage points

Tax relief: $551 million | $702 per household[10]

The rising cost of living has hit Nova Scotians hard over the past three years. The overall price of goods is now 13.5 per cent higher than it was in 2021.[11]

To help families and businesses directly deal with the issue of high prices, the government should take further steps to 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.

Nova Scotia has already announced their intention to cut HST by one per cent on April 1, 2025.[12] However, to further help families cover higher bills following years of inflation, Nova Scotia should cut HST by an additional per cent, lowering the total tax to 13 per cent.

Lowering the HST would not only help Nova Scotians better afford their bills, but it would also increase competitiveness and attract taxpayers from other provinces looking to save on their tax bills. Currently, Nova Scotia is tied with the other Atlantic provinces as having the highest sales tax in the country.[13] A two per cent cut would make Nova Scotia attractive for consumers over neighbouring Prince Edward Island and New Brunswick.

Nova Scotia has the lowest level of GDP per capita in the country at $41,121 per person.[14] One of the factors explaining this poor economic performance is the fact that Nova Scotia's households have an after-tax disposable income level that is also one of the lowest in the country. This means that after Nova Scotians have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy.

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.[15] [16] [17]

Lowering the HST by two percentage points would free up $551 million to be invested into the local economy and help families ease the burden of inflation and high living costs.[18]

10. Based on an average household income of $100,000. See: https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf
11. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2024&referencePeriods=20240901%2C20240901
12. https://globalnews.ca/news/10826104/nova-scotia-hst-drop-2025/
13. https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/
14. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/
15. 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://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf

Cutting income tax bills by five per cent

Tax relief: $209 million

Nova Scotians are significantly overtaxed. This is a result of over two-decades of failing to index tax brackets to inflation. While last year's budget took the crucial step in eliminating bracket creep, its impact has still been profound in recent years due to high inflation.[19] To help offset previous years of bracket creep, the government should cut income tax bills across the board by five per cent.

Income tax cuts would also make Nova Scotia more competitive. New Brunswick introduced income tax cuts impacting most brackets for the 2023 tax year. A taxpayer living in New Brunswick earning $75,000 a year now pays $1,940 less in provincial income tax than a taxpayer in Nova Scotia.[20]

By lowering the province's income tax burden by five per cent, the government would directly inject $209 million dollars into the local economy.[21]

Replacing business subsidies with business tax relief

Savings: $377 million
Tax relief: $300 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.[22] The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.[23]

Growing the economy and finding employment for out-of-work Nova Scotians 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.[24] 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.[25] 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.[26]

19. https://www.taxpayer.com/newsroom/houston-slays-the-bracket-creep-beast
20. https://www.wealthsimple.com/en-ca/tool/tax-calculator/nova-scotia
21. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf
22. https://www.fraserinstitute.org/sites/default/files/economic-recovery-in-canada-before-and-after-covid.pdf
23. https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/
24. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
25. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
26. https://www.oecd.org/mena/competitiveness/41997578.pdf

In other words, competitive tax rates attract job creators and direct investment.[27] Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.[28]

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

Source: Provincial government websites

Like other Atlantic provinces, Nova Scotia's corporate tax rate puts the province at a disadvantage. Nova Scotia has a corporate tax rate at 14 per cent, which is one per cent above the 13 per cent national average.

Corporate welfare costs Nova Scotia taxpayers over $377 million annually.[29] This is equivalent to 49.1 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.[30] Nova Scotia'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 40 per cent. Lowering the small business tax rate from its current 2.5 percentage point to 1.5 percentage points, and the general corporate tax rate from its current 14 percentage points to 8.4 percentage points, would put Nova Scotia's corporate tax rate under the national average and amount to $300 million in savings for Nova Scotia businesses of all sizes.[31]

This tax cut would still allow government savings of $77 million to be put towards the existing government deficit.

27. https://www.oecd.org/mena/competitiveness/41997578.pdf
28. https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf
29. https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada-updated-edition.pdf
30. https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf
31. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf

Finding Savings in Government Expenditure

Introduction

Nova Scotia's present budget deficit totals over $654 million and thee province plans to run deficits for the foreseeable future.[32] 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: $811 million

Government spending and debt in the province of Nova Scotia has gotten out of control in recent years. The provincial debt has increased by $673 million in the last two years alone and the government expects to add another $4.5 billion to the debt over the next three years.[33] Unless the province stops borrowing, the net debt will have increased by 26 per cent over a five-year period.

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

During the 2021 Nova Scotia provincial election, the Progressive Conservatives promised to "fix" health care. Premier Tim Houston has repeatedly said that deficit spending is necessary to improve the state of the province's health-care system.

Yet two out of every three new dollars now being spent is not going toward health care.[34] This pre-budget submission is proposing that the government moderately reduce government spending by returning to 2022-23 spending levels, other than in the health sector. Such a move would save taxpayers $811 billion next year alone[35] and play a major role in allowing the government to balance the books.

32. https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2024.pdf
33. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf
34. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf
35. https://beta.novascotia.ca/sites/default/files/documents/6-3544/ftb-bfi-001-en-budget-2023-2024.pdf

Bringing government compensation in line with Nova Scotia's labour market

Estimated Savings: $488 million

Salaries and wages have represented the second largest line-item in the government Nova Scotia's budget over the past six years.[36]

In 2024, the province spent $5.73 billion on employee compensation, representing over 52 per cent of what it collected via taxes.[37]

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 Nova Scotia.

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.[38]

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.[39]

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.[40] 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 Nova Scotia also retire earlier and have higher levels of job security than those who work in the private sector.[41]

To bring government employee wages in line with private sector practices, the government of Nova Scotia 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 Nova Scotia 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 $5.73 billion to $5.25 billion.[42] This will result in a savings of $488 million that can then be used to help provide relief for taxpayers.

Conduct a thorough review with the aim of reducing spending

Estimated savings: Unknown

Over the course of the last five years, spending in Nova Scotia has gone up by $4.1 billion, or about 34 per cent.[43] This rapid rise in spending must be addressed to bring the province's finances in order by conducting a review of provincial spending.

36. https://notices.novascotia.ca/files/public-accounts/2024/pa-volume-1-financial-statements-2024.pdf
37. https://notices.novascotia.ca/files/public-accounts/2024/pa-volume-1-financial-statements-2024.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.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
41. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
42. https://notices.novascotia.ca/files/public-accounts/2024/pa-volume-1-financial-statements-2024.pdf
43. https://notices.novascotia.ca/files/public-accounts/2024/pa-volume-1-financial-statements-2024.pdf

In 2020, the Newfoundland and Labrador government formed an an independent committee to review government expenditures and determine a plan to address the province's financial challenges.[44] 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.[45]

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:[46]

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.[47]

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.[48] 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.[49]

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.[50]

Nova Scotians 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.

44. https://thebigresetnl.ca/about/
45. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf
46. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
47. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
48. https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851
49. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
50. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

Conclusion

Higher living costs continue to hit families hard while the government of Nova Scotia 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.

To further promote affordability and leave more money in taxpayers' pockets, the government should reduce the sales tax by two percentage points, saving Nova Scotians $515 million next year alone – or about $702 per household.

While Nova Scotia has begun addressing bracket creep, residents still pay some of the highest income tax rates in Canada. To provide needed relief, and ensure competitiveness with neighbouring provinces, Nova Scotia should cut income taxes by five per cent across all brackets.

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 40 per cent and eliminating subsidies would see the government save $377 million and put $300 million directly back into the hands of Nova Scotian businesses.

The provincial debt has increased by $673 million in the last two years alone and the government expects to add another $4.5 billion to the debt over the next three years. If no changes are made, the province's net debt will have increased by nearly 26 per cent five six years, creating a significant burden for future generations that requires an immediate shift in fiscal strategy.

While spending is expected to rise by $994 million this year, two thirds of all new dollars are not being spent on healthcare. This submission recommends rolling non-health spending back to 2022-23 levels, which would save $811 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 $488 million next year.

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 Nova Scotians facing rising living costs.

Overall, the measures recommended in this report will put $1.1 billion back in Nova Scotians' pockets and help save at nearly $1.7 billion in government operations. This will have a net positive budgetary impact of $616 million, which allows the government to balance the 2024-25 budget.