



SUBMISSION TO THE PROVINCIAL TAX, REGULATORY, AND FEE REVIEW

May 8, 2014

Presented To: Laurel Broten, Lead Reviewer

Who We Are

The Halifax Chamber of Commerce is a best-practice, business advocacy organization that continuously strives to make Halifax an even more attractive city in which to live, work, and play. Together, the approximately 1,700 member businesses and their over 90,000 employees, act as a single powerful voice to promote local business interests. The volunteer Board of Directors, and Chamber staff, undertake initiatives on behalf of the Chamber's diverse membership.

With origins dating back to 1750, we are recognized as the first Chamber established in North America. The Halifax Chamber is certified to the ISO 9001:2000 international quality standard, the first and only Chamber in North America to receive this accreditation.

The Halifax Chamber of Commerce offers over 100 events annually, countless numbers of opportunities for exposure through member services, advertising, and sponsorship. It also issues Certificates of Origin for those businesses that export internationally.

2013-2018 STRATEGIC PLAN – ASPIRATIONAL SENTENCE AND GOALS

The Halifax Chamber of Commerce is committed to enhancing the prosperity of its members and to realizing Halifax's potential to be among the top 3 highest growth city economies in Canada by 2018.

1. To create a positive business environment to be reflected by being among the top 3 highest growth city economies in Canada by 2018.
2. To increase the skilled workforce by 20% from 2012 to 2018.
3. To accelerate prosperity of Chamber members by providing first class networking events, benefit programs, advocacy to governments, education, information and by making connections.

As part of the 2013-2018 Strategic Plan, the Halifax Chamber of Commerce created two Task Forces to provide input on the Plan's implementation. The members of the Task Forces are a diverse group of individuals with significant expertise on key policy issues. The Create a Positive Business Environment Task Force played a significant role in the development of this submission.

Introduction

Given the broad range of companies the Halifax Chamber of Commerce represents, it is not surprising that our members have a wide range of opinions on a variety of topics. Yet, the most consistent message we hear from businesses, no matter their size or industry, is that Nova Scotia's tax system is broken. Their views are certainly not surprising; Nova Scotia's tax rates are among the highest in Canada.¹ Our members consistently cite these high rates as a barrier to investment, expansion, and employee retention.

We also understand the fiscal challenge our province is facing. Our debt will soon top \$15 billion and our province is not expected to run a surplus until 2017-18.² To make matters worse, demographic forces will soon begin tightening our fiscal straightjacket.³ Our Minister of Finance has made it clear that, if things stay as they are, there will be little revenue available for tax reductions over the next couple of years.⁴ With the provincial debt projected to increase by over \$1 billion by 2017-18, it would be irresponsible to finance tax cuts with borrowed money. We strongly support a more aggressive plan to balance the budget next year. The sooner our budget is balanced, the sooner meaningful tax reform can begin.

Given these conditions, it is clear that meaningful tax reform needs to be paired with spending reductions. This means that previously off-limits areas, such as health and education, will need to be examined, and that labour costs across the public sector will have to be brought into line with the private sector. The disparity between private and public sector benefits puts our members at a competitive disadvantage and results in a higher tax burden for everyone.

This submission outlines the Chamber's views on the major tax rates levied by our province and our recommendations for how to move forward. The One Nova Scotia Commission's report made it clear that our province needs bold action, and we have every confidence that you will rise to the occasion.

Nova Scotia's Tax System

The message the Chamber has received from its members is that tax rates matter. While there are a variety of ways to measure the tax burden, most businesses and their employees calculate it by looking at the major tax rates in other provinces. Whether you think the tax burden in Nova Scotia is appropriate or not, there is no denying that our province has a reputation as an unaffordable place to live and do business.⁵ Above all else, this reputation needs to change.

Below is an overview of how the Chamber views our tax, regulatory, and fee system and our recommendations to make the system better.

Taxes

Corporate Tax Income Taxes

Nova Scotia is tied with PEI for the highest corporate income tax rate in the country at 16%, while most other province's rates are around 10-12%. Additionally, some provinces charge a lower tax rate on manufacturing and processing. While corporate income taxes are widely used, they have problems. Taxing corporate income discourages investment and the tax incidence of corporate income taxes is unclear.⁶ It is hard to feel confident in the effectiveness of corporate income taxes when economists still do not know who the tax burden falls on in the end. Finally, corporate income taxes (including the small business tax rate) only raise \$441 million annually, less than 5% of the government's total revenue.⁷ This is an area where headline tax rates could be reduced without a substantial reduction in revenue.

Small Business Tax Rate and Threshold

Nova Scotia has the 4th lowest small business tax rate in Canada at 3%; however it also has the least generous rate threshold at \$350,000 (most provinces use \$500,000). While the Chamber would appreciate a higher tax threshold, we believe other tax rates should be addressed first.

Personal Income Taxes

Nova Scotia has some of the highest personal income tax rates in the country. Which province has the highest rate depends on how much you earn; however, Nova Scotia is almost always in the top three. Nova Scotia also has the second smallest 'basic personal amount' in Canada. These high tax rates make the higher wages available in other provinces even more attractive and there is anecdotal evidence that high tax rates are having a negative effect on the retention of high-skilled workers. Economic research indicates that personal income taxes create substantial negative effects by reducing the incentive to work.⁸

The HST

The HST is one of the most visible and arguably least popular taxes in Nova Scotia. With a rate of 15%, Nova Scotia has the highest HST in Canada (although Quebec's rate of 14.975% is very close). Reducing the HST would be politically popular however; economists favour the HST as it creates less economic distortions than personal and corporate income taxes.⁹ For that reason, it should be given a lower priority when deciding which taxes deserve to be reduced.

Regulations

In light of the province's fiscal situation, regulation will likely be the most important aspect of this review in the short-term. We would encourage the review to collect as many examples as possible of unnecessary regulations that are out-of-step with other North American jurisdictions. As well, our province needs to create an "open for business" culture within the public service that supports and incents the removal and consolidation of regulations.

A more detailed regulatory submission that includes feedback from Chamber members is being submitted as an attachment to this document.

Fees

The Chamber supports the concept that users should contribute to the services they receive through reasonable user fees. Increasing entrepreneurship however, is a major goal of this government and the One Nova Scotia Commission. We strongly urge the government to consider the fees it levies for businesses registration and creation to guarantee that they are not hindering business formation in Nova Scotia.

Recommendations

Given the province's fiscal situation and the scope of this review, the Chamber recommends that the province:

- Focus on modernizing the province's regulatory and fee system in the short term;
- Commit to lowering the tax burden once the provincial budget is balanced;
- Reduce corporate and personal income taxes;
- Accept and act upon the fact that spending reductions must happen to allow for tax reform, including the public sector and its compensation models.

References

- ¹<http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>
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- ⁵<http://www.cbc.ca/news/business/taxes/tax-season-2014-where-in-canada-do-you-pay-the-most-tax-1.2507059>
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<http://economix.blogs.nytimes.com/2013/02/19/who-pays-the-corporate-income-tax/>
- ⁷http://www.novascotia.ca/finance/sitefinance/media/finance/budget2014/Budget_Assumptions_And_Schedules.pdf (page 9)
- ⁸<http://www.parl.gc.ca/content/lop/researchpublications/2011-45-e.htm>
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