HALIFAX CHAMBER OF COMMERCE
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Emerging Issues

June 2008

What will be the impact on business if Nova Scotia goes the way of New Brunswick with similar recommendations for tax reform?

Earlier this month, the New Brunswick government released a discussion paper proposing sweeping provincial tax reforms. Nova Scotia's government announced this spring that we can expect a discussion paper on tax reform this fall. One can assume that Nova Scotia's government is watching the results of the tax reform discussions in New Brunswick with interest and so should we.

New Brunswick's Finance Minister Victor Boudreau stated in a press release that there are two main objectives for the comprehensive review; one, to ensure that New Brunswickers can keep even more of their hard-earned dollars, to save, spend and invest as they choose; and two, to ensure that the province keeps and attracts business, investment and people.[1]

Highlights for business of the New Brunswick proposal include:

1. A simplified personal income tax structure. Two options are proposed to replace the current four rate structure. The first is single flat tax of 10 per cent of taxable income for all New Brunswickers, the second option is two tax rates of 9 and 12 percent.

2. Reduction of the general corporate income tax rate; from the current 13 percent to 10, 7 or 5 percent.

3. Increasing the HST. A modest increase of two per cent in the HST, bringing it back to the level it was at two years ago.

4. A carbon tax. Any such tax would have to be phased in gradually over several years, and include a reimbursement credit to offset the impact of such a measure on low-income New Brunswickers.

5. Phase-out of industry specific tax credits and the elimination of the financial capital tax.

6. Reduction of business property tax rates.

The cost to the New Brunswick government will depend of course, on the options that are chosen. However, the government estimates revenue loss in the range of $500 million. To offset this, revenue from the proposed carbon tax and the HST increase — which would take the overall sales tax to 15 per cent — would generate an estimated $350 million per year.

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[1] http://www.gnb.ca/cnb/news/fin/2008e0831fi.htm

The Halifax Chamber of Commerce has asked Nova Scotia's government for many of the reforms New Brunswick is discussing. Recently, at the Chamber's Annual Spring Dinner, former New Brunswick Premier Frank McKenna, now deputy chairman of the TD bank financial group, suggested that in order to stimulate growth governments should make cuts to corporate and personal income taxes and increase the HST. Obviously, someone was listening.

If Nova Scotians were presented with the same tax reform options as New Brunswickers, there would be clear preferences from the Chamber's perspective:

1. A simplified personal income tax structure.

The single flat tax of 10 percent would be preferable over two tax rates of 9 and 12 percent. In order to keep our young people here in Nova Scotia, the government must do what it can to create adequate opportunities by reducing taxes that hinder innovation and growth and by making sure that individuals that do stay are not hampered by excessive levels of taxation. Nova Scotia and Newfoundland were the only provinces to endure a population decline from 2006 to 2007. It is difficult to maintain and recruit a skilled labour force in provinces with higher income taxes. A simple personal income tax structure is best.

2. Reduction of the general corporate income tax rate.

In Nova Scotia's 2007 Fiscal Overview, the current economic indicators demonstrate that Nova Scotia is falling behind the Canadian average in GDP, employment, unemployment, labour income, value of building permits, manufacturing shipments, and international merchandise export of goods. The province needs to change its approach and develop innovative ways to improve our economic performance.

Nova Scotia currently has two corporate income tax rates – 5 percent is the small business rate, 16 percent is the corporate rate. The 16 percent rate applies to taxable income earned in Nova Scotia above the Nova Scotia business limit of $400,000.[2] Currently, Alberta has the lowest corporate tax rate in the country at 10 percent.

Given options of 10, 7 or 5 percent, the preferable option from a business perspective would be 5 percent, if the tax cut is sustainable. Bold action is required to improve Nova Scotia's performance regionally, nationally and internationally. With strategic tax cuts, the actual revenue reduction to government is often smaller than projected, due to the fact that lower tax rates encourage taxpayers to work, save and invest more. As a result, the multiplier effect can even increase tax revenue through increases in the tax base.[3]

3. **Phase-out of industry specific tax credits.**

[2] http://www.gov.ns.ca/finance/en/home/taxation/businesstax/corporateincometax/default.aspx
[3] Mitchell, Daniel J. (March 2003) Nine Simple Guidelines for Pro-Growth Tax Policy. Executive Memorandum: The Heritage Foundation, Washington, D.C.

The Chamber of Commerce has advocated for broad based corporate tax rate cuts for several years. Industry specific tax credits do not stimulate the entire economy as do broad based tax cuts.

4. **Elimination of the financial capital tax**.

In the Chamber's 2008 pre-budget submission to the province, the Chamber advocated strongly for elimination of the financial capital tax. Capital taxes are considered an inefficient form of taxation and reduction of capital taxes will make the province more attractive to investors.

Premier MacDonald spoke to the importance of making a hospitable environment for financial services companies looking to locate in Nova Scotia in his latest speech from the throne. Building a tax structure that is competitive will help attract businesses in the financial services sector.

5. **Reduction of business property tax rates.**

The Chamber has been actively involved at the municipal government level, in raising awareness of the inequities that currently exist between the commercial and residential property tax rates. In Halifax, commercial property owners pay approximately four times the residential tax rate. Through the municipal tax reform process that is currently underway, it is hoped that some of the inequities can be resolved.

6. **Carbon tax.**

Given that the carbon tax is being offset by deductions in corporate income tax, business can realize an overall reduction in taxes, if they take steps to decrease their carbon footprint. The proof that business in Nova Scotia must prepare for the realities of a carbon conscious world is piling up. We must prepare ourselves to meet not only the demands of our government to decrease carbon emissions, but also the demands of countries we trade with and consumers who purchase our products.

Carbon taxes are a not new on the international scene. In the 1990's, Sweden, Norway, Italy, the Netherlands and Finland introduced a carbon tax. In 2008 British Columbia announced plans to implement a $10/tonne carbon tax beginning July 1st 2008, to be phased in over five years. The BC tax will rise by $5 a year until it reaches $30 in 2012. Legislation will keep the pending carbon tax revenue neutral, as money collected through the new tax will be returned through a package of tax cuts and credits.

Dr. David Suzuki, fresh from a cross-Canada tour in which he heard from thousands of people in more than 40 cities, told CTV's Question Period on April 22nd, 2008 that Canadians are ready for a carbon tax."We met over 30,000 Canadians. They recorded over 500 personal statements about what they would do if they were minister for the environment and I'm telling you, they want carbon taxes." [4]

The findings of The Canadian Press Harris-Decima survey released in May 2008, when asked whether they supported the idea of a carbon tax on businesses and people based on the carbon emissions they generate, 61 per cent of poll respondents said yes and 32 per cent said no.[5] Clearly, public opinion is

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[4] http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20070422/green_qp_070422/20070422?hub=TopStories
[5] http://thechronicleherald.ca/Canada/1054671.html

shifting and consumers and businesses must prepare for the future. For more about Carbon Tax read the Chamber's Carbon Tax 101.[6]

Nova Scotia has experienced several years of solid fiscal improvements and strong economic performance; but we need to do more. Nova Scotia has hard issues and economic realities to face: delays in the development of Deep Panuke will reduce offshore royalty payments in the forthcoming years, the province is facing a major infrastructure deficit and will be facing increasing health and education costs. At the same time, a decreasing population will reduce federal transfer payments for health and education, since both are calculated with respect to the size of the provincial population. This revenue reduction will occur in conjunction with anticipation of higher costs for health services, resultant from both the poor health of Nova Scotians relative to other Canadians and our aging population. We are approaching a pivotal time in history. With a declining and aging population, it is incumbent upon Nova Scotia to create an environment in which our economy and tax base will grow; tax reform is one of the key ways in which our province can take a major step towards preparing ourselves for the future.

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[6] http://www.halifaxchamber.com/images/Policy/carbontax101.pdf