



PROVINCIAL PRE-BUDGET SUBMISSION 2017/2018

January 11, 2017

Presented To: The Hon. Randy Delorey, Nova Scotia Minister of Finance

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Who We Are

The Halifax Chamber of Commerce, representing 1,600 companies with over 65,000 employees, 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. Our 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 9001:2008 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, and countless numbers of opportunities for exposure through member services, advertising, and sponsorship.

2013-2018 STRATEGIC PLAN

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.

Goals

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 the prosperity of Chamber members by providing first class networking events, benefit programs, advocacy to governments, education, information, and by making connections.

As part of our 2013-2018 Strategic Plan, the Halifax Chamber of Commerce Board of Directors created two Task Forces to implement the Plan. The members of these Task Forces are a diverse group of individuals with significant expertise on key policy issues.

Task Force Leads

- Create a Positive Business Environment – Paul Bent, retired, formerly Grant Thornton
- Grow and Nurture the Skilled Workforce – Don Bureaux, President, NSCC

Executive Summary

As the Provincial Government is well into the fourth year of its mandate, talk is naturally turning to what comes next. As we look to the next election, what will be the big ideas that drive public policy in Nova Scotia going forward? Major goals such as balancing the provincial budget and significantly boosting immigration have either been achieved or are well underway. While provincial labour relations will obviously continue to be a major issue, it is not clear what exactly the Government's next big priorities will be.

The following pre-budget submission highlights the top priorities of the Halifax Chamber of Commerce's membership. Our recommendations are based on many conversations with our members over the past year and work on balancing the needs of the Halifax business community. We feel that these recommendations will help create a positive business environment, encourage growth, and promote investment.

As of 2016, Halifax has roughly 45% of Nova Scotia's population and comprises 56% of Nova Scotia's entire economy. As well, in 2016 and 2017 the Conference Board of Canada is estimating that Halifax will grow over two and a half times faster than the rest of Nova Scotia.¹ Clearly, our city's success is critical to the overall success of our Province. Our members have made it clear that they are ready to support bold public policy and the tough decisions that are necessary to make Nova Scotia sustainable for years to come.

RECOMMENDATIONS

1. **Taxation:** Reduce the tax burden by either reducing the corporate income tax rate, increasing the small business rate threshold, or indexing personal income tax brackets.
2. **Fiscal Responsibility:** Implement a balanced budget for 2017/18 and keep the Provincial Government on track to achieve the Ivany Report's fiscal sustainability goals. Consider more aggressive action such as reducing departmental spending by 1%.
3. **Regulation:** Set annual targets for red tape reduction and push for more aggressive reforms.
4. **Immigration:** Increase the amount of provincial immigration funding and continue engaging the business community on how they can take advantage of Nova Scotia's immigration programs.
5. **Education and Youth Retention:** Ensure that existing programs that support youth in the workplace are fast, flexible, and have a low administrative burden. For example, allow all businesses to take advantage of the Graduate to Opportunity Program.

Taxation

Nova Scotia has the unfortunate distinction of having one of the highest tax burdens in Canada. Whether you measure it by personal income taxes, corporate income taxes, or the HST, our Province fares poorly in comparison to other Canadian provinces. While Nova Scotia does have a relatively low small business tax rate, it unfortunately has the lowest small business rate threshold in Canada.²

We firmly believe that tax reductions need to be done responsibly and increasing the deficit to reduce taxes is not sustainable. Fortunately, Nova Scotia will likely end 2016/17 with a balanced budget and is well positioned to post a second balanced budget in 2017/18. Furthermore, the Province is projecting a surplus of \$79 million in 2018/19 and \$132 million in 2019/20.³

Previously the Chamber has identified the following three options as its top three tax priorities:

1. Reducing the corporate income tax rate to 14%, down from 16%.
 - Nova Scotia is currently tied with PEI for the highest corporate income tax rate in Canada. Most other province's rates are around 10-12%.⁴
2. Increasing the small business rate threshold from \$350,000 to \$500,000
 - Every other province except for Manitoba and Nova Scotia has a rate threshold of \$500,000 and increasing the rate threshold will encourage small business growth.⁵
3. Indexing personal income tax brackets to inflation.
 - Nova Scotia is one of only three provinces that do not index their personal income tax brackets to inflation.⁶

Per the December fiscal update, corporate income taxes in Nova Scotia only brought in 4.8% of the Province's total revenue, so undertaking reforms is a realistic proposition.⁷ While reducing the corporate income tax rate remains our top priority, we acknowledged that it may be politically easier to reduce taxes for households. Indexing personal income tax brackets would be a welcome change for many of our small members and as well as for our larger members who must recruit talent from across Canada and around the world. According to the Nova Scotia Tax Regulatory Review this measure would have a cumulative cost of \$20.4 million per year.⁸

Finally, were very pleased that the Provincial Government signed an agreement with the federal government that should enable Nova Scotia to meet federal climate change standards at a reasonable cost.⁹ As the Province works on building the system we strongly encourage them to consult with the business community on the system's design.

Recommendation:

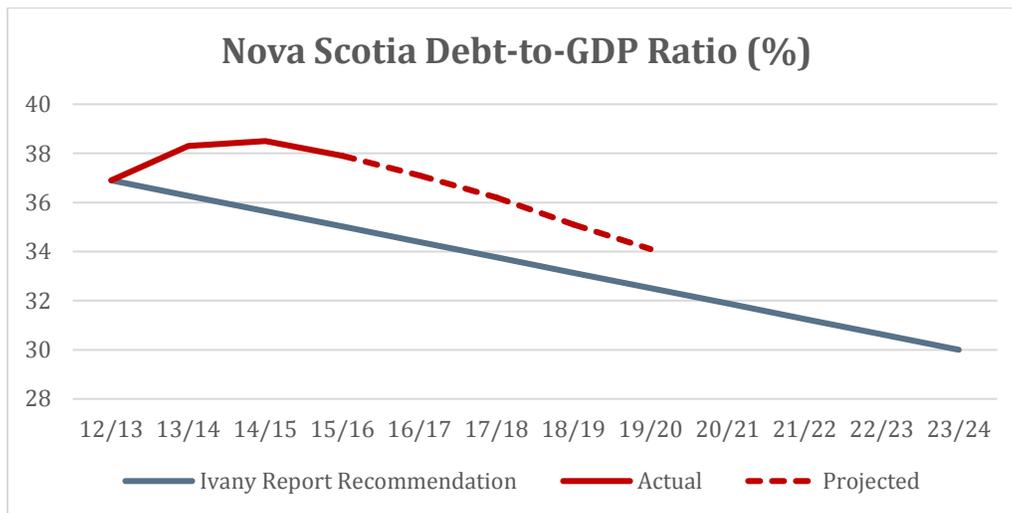
- Reduce the tax burden by either reducing the corporate income tax rate, increasing the small business rate threshold, or indexing personal income tax brackets.

Fiscal Responsibility

The last time a Nova Scotia government posted consecutive balanced budgets was 2008-09. Since the financial crisis consecutive governments have attempted, with varying levels of success, to put our Province on a sustainable fiscal footing. Thankfully, with the December fiscal update showing a surplus of \$12 million for 2016-17, the Government is in a good position going into the next fiscal year.¹⁰

The Chamber has been a consistent advocate for balanced budgets for many years and we would be very disappointed to see the Government revert to a deficit position.

The Ivany Report recommended that “By 2024 the Province of Nova Scotia’s net debt to GDP ratio, which was 36.7% for the year ending March 31st, 2013, will be 30% or less.”¹¹ This is a reasonable goal for the Province’s finances, although we believe that achieving this target should be considered the minimum standard. Nevertheless, despite the Government’s progress in improving Nova Scotia’s finances, it will require many more years of fiscal discipline to reach a debt-to-GDP ratio of 30% or less.¹²



As a Chamber, we support taking even more aggressive action to bring down our Province’s debt burden, such as reducing departmental spending by 1%. While this would entail some difficult decisions, it would provide the Province with significantly more fiscal room.

At the end of the day governments are in the business of making choices. Spending money on one project means that there is less money to spend on another. When making funding decisions, governments must consider not just whether individual projects pass a cost-benefit analysis, but the highest and best use of public funds. Nova Scotia’s Fiscal Plan does not leave much room for error over the next four years and the Government needs to be sure that it is focusing on projects that will boost Nova Scotia’s economy over the long-term.

A critical aspect of the Government's fiscal plan is concluding affordable collective agreements with the Province's major public sector unions. As 52% of provincial spending is on wages and benefits, finalizing reasonable collective agreements is an important issue for the business community.¹³ Furthermore, many of our members feel that the public sector receives higher pay and benefits than the private sector. We continue to support the Government's overall position and hope to see this situation resolved in the months to come.

Finally, we would be interested in seeing the government explore whether it would be worthwhile for major government entities to be able to engage in a multi-year budgeting process. While the impact on the Province's finances would have to be carefully considered, this process might allow public entities to more easily engage in transformation measures that could save funds over the long term.

Recommendation:

- Implement a balanced budget for 2017/18 and keep the Provincial Government on track to achieve the Ivany Report's fiscal sustainability goals.
 - Consider more aggressive action such as reducing departmental spending by 1%.

Regulation

Some of the most common complaints of Chamber members, both small and large, are about red tape and customer service. Inefficient regulations and poor customer service slow business growth and do not contribute to the Province's core regulatory goal of protecting the public.

We have been very supportive of the work of the Office of Regulatory Affairs and Service Effectiveness since it was announced in 2015. The Office has done excellent work promoting cooperation between the Atlantic provinces and harmonizing regulations between jurisdictions. Some successes include:

- Harmonizing increases to the minimum wage in the Maritime provinces;
- Simplifying interprovincial trucking regulations;
- Aligning record-keeping requirements; and
- Mutual recognition for certain aspects of occupational health and safety.¹⁴

While these steps are welcome, it appears as if progress has slowed. Aside from a new partnership with the Halifax Regional Municipality, the number of new, publicly announced regulatory reduction initiatives seems to have decreased over the course of 2016. We are looking for the Office to adopt firm targets for regulatory reductions and above all else would like to see a push for larger reforms. Focusing on a specific industry or issue might make substantial improvements to the regulatory burden easier to achieve. The inter-provincial trade deal that was announced over the summer may also help reduce regulations but until more details are released we cannot know for sure.¹⁵

Capped Assessment Program: We continue to urge the provincial government to reconsider the Capped Assessment Program (CAP). While the CAP limits assessment increases for existing homeowners, it does so at the cost of discouraging intraprovincial labour mobility and increasing the property tax burden on rental properties and newly purchased homes. Rental properties are popular among young people (not to mention the poor) and new arrivals are often looking to buy homes.¹⁶ It is illogical that, in the face of demographic crisis, the provincial government maintains a program that raises the cost of living for those people we desperately need to retain.

While we understand that removing the CAP would be politically challenging, its negative impact is real and will only get worse. If removing the CAP is impractical, the situation could be substantially improved by raising the CAP back to its 2007-08 level of 10% per year.¹⁷ This would still protect Nova Scotians from extreme increases in their property assessments while allowing the inequities in the system to ease.¹⁸

Recommendation:

- Set annual targets for red tape reduction and push for more aggressive reforms.

Immigration

To date, 2016 has been a record-breaking year for immigration to Nova Scotia. More immigrants arrived in Nova Scotia during the first three quarters of 2016 than in all of 2015 combined. The 4,545 immigrants that have arrived in Nova Scotia as of Q3 2016 are significantly more than our Province has received in any given year over the past decade.¹⁹

Certainly, the influx of Syrian refugees helped boost our intake but economic immigration has also risen significantly. The Office of Immigration reported that 1,459 provincial nominees arrived in the first 6 months of 2016 compared 1,394 in all of 2015.²⁰

We are continuing to push for more immigrants and increased retention levels, however it is worth acknowledging this achievement. In past years, the provincial government and organizations such as the Chamber advocated for more provincial nominees and higher levels of immigration, often to little effect.

Recently, starting with the last federal government and continuing with the current one we have seen a sustained increase in the number of provincial nominees allotted to Nova Scotia and are thankfully seeing this translate into a significantly higher level of immigration.

While this is certainly a cause for celebration, there are two challenges we need to address going forward, maintaining this new higher level of immigration and improving retention.

Last summer provincial and federal leaders launched an exciting immigration pilot project as part of the Atlantic Growth Strategy. The pilot project will provide the Atlantic region with an additional pool of 2,000 provincial nominees in 2017. Nova Scotia is the only Atlantic province currently using its maximum allotment of provincial nominee certificates and we are well placed to secure more than our share of the new pool.²¹ Capitalizing on this opportunity is critical if we want to maintain a higher level of immigration over the coming years.

While recruiting substantially more immigrants to Nova Scotia is a win for the Province, it will all be for naught if they do not stay. Nova Scotia has made significant progress increasing the rate of retention for immigrants, rising from 37% in 2001 to 74% in 2013. It will be critical to maintain this rate of retention even as the total number of immigrants arriving in Nova Scotia increases. Reevaluating whether Nova Scotia currently provides enough funding for immigration services should be part of this discussion.

Recommendation:

- Increase the amount of provincial immigration funding and continue engaging the business community on how they can take advantage of Nova Scotia's immigration programs.

Education and Youth Retention

We have a longstanding problem in Nova Scotia of failing to help our youth and recent graduates find successful careers here at home. Too often, young Nova Scotians find themselves working in jobs that do not take advantage of their skills or departing for other parts of Canada in order to achieve their career goals. At the same time, we constantly hear from employers that they are having a hard time finding the skilled talent they need to make their business successful. Clearly there is a disconnect going on.

One way we feel that we can help improve the connections between youth and the workplace is through work-integrated learning (WIL). WIL is a broad term that covers any kind of experience that links youth and students with employers to help build their skillset and knowledge of the workplace. It can mean everything from paid co-ops and internships to industry projects and sandboxes.

We know it can often be a challenge for employers to engage in the learning process. Hosting students takes time and effort and that can be difficult when employers are focused on running their businesses. That is why we want to do what we can to reduce the barriers to employer engagement in WIL and to promote a broad range of opportunities to get engaged.

We also believe that engaging in WIL is not as hard as people might think and that it brings real benefits to businesses. We have heard from numerous employers who say that once they got the process down, engaging in WIL became a critical part of how they recruit talent and build their business.

We understand that the primary responsibility for this lies with businesses and post-secondary institutions. As a Chamber, we are working on holding roundtables to hear from our members about their challenges in this area so that we can better understand how to help them.

That said, the provincial government still has an important role to play in this field. Ensuring that all government programs that support youth in the workplace are fast and flexible enough to match employer's needs and do not impose an unnecessary administrative burden on businesses is critical if these programs are to be effective. For example, allowing businesses of all sizes to take advantage of the Graduate to Opportunity Program would help improve the program's uptake among businesses and help more graduates get their first job.

Recommendation:

- Ensure that existing programs that support youth in the workplace are fast, flexible, and have a low administrative burden.
 - For example, allow all businesses to take advantage of the Graduate to Opportunity Program.

Conclusion

Over the past few years it has been encouraging to see the Provincial Government make substantial progress on issues important to Halifax Chamber members, such as balancing the provincial budget and increasing immigration. These are significant accomplishments that will help improve Nova Scotia's long term prospects.

While these steps are positive, other major priorities remain. Our members have made it clear to us that they are still looking for assistance from the Provincial Government to help them manage the high cost of doing business in Nova Scotia.

This submission has outlined the top three tax priorities of the Halifax business community. These options are reasonable given the fiscal capacity of our Province and bring Nova Scotia in line with the tax policies of other Canadian provinces. We look forward to hearing your thoughts on these issues and on how we can move Nova Scotia forward together.

The Chamber is recommending:

1. Reducing the tax burden by either reducing the corporate income tax rate, increasing the small business rate threshold, or indexing personal income tax brackets.
2. Implementing a balanced budget for 2017/18 and keeping the Provincial Government on track to achieve the Ivany Report's fiscal sustainability goals.
 - a. Considering more aggressive action such as reducing departmental spending by 1%.
3. Setting annual targets for red tape reduction and pushing for more aggressive reforms.
4. Increasing the amount of provincial immigration funding and continuing to engaging the business community on how they can take advantage of Nova Scotia's immigration programs.
5. Ensuring that existing programs that support youth in the workplace are fast, flexible, and have a low administrative burden.
 - a. For example, allowing all businesses to take advantage of the Graduate to Opportunity Program.

This submission has been created in collaboration with the Chamber's Task Forces, and includes input from our many Chamber members. The mandate of the Chamber's Task Forces are to support the development of policies on issues of importance to our members.

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