Tax Burden – Are Things Getting Better or Worse?

Tax burden – What's the real picture?

Every year, the federal budget is widely hailed as either visionary or misguided, depending on your point of view. But what's the real picture – is our tax burden getting better or worse?

The Chamber decided to get the answer. We asked tax specialists at two of Atlantic Canada's leading professional service firms Deloitte and Stewart McKelvey Stirling and Scales to cut through the fog and give us the real picture on taxes.

They will present their findings at the Chamber's first annual tax breakfast –"Taxation 2004" – to coincide with the release of the 2004 federal budget in February.

Their analysis started with two important tasks – defining tax burden and measuring where we stood in 2002.

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Defining tax burden

Tax burden is the financial load that we must carry for the services provided by government.

It has been said that taxes are the price of civilization – taxes fund many important public services and benefits. But it also important to measure the burden that taxes put on citizens and business to understand how efficiently government is providing services and to ensure that taxes do not place an unreasonable or uncompetitive burden on the cost of goods.

For the purpose of this analysis, our tax burden includes all of the taxes and fees charged by federal and provincial governments to citizens and business in Nova Scotia. A complete assessment of tax burden should also include the taxes and fees charged by local governments, however, there is not sufficient comparative data to complete this assessment accurately.

In determining where we stood in 2002, we reviewed four measures.

First, we looked at Nova Scotia tax burden in December 2002 compared with Nova Scotia tax burden in 2000; second, the Nova Scotia tax burden in December 2002 compared with other Canadian provinces; and third, Nova Scotia tax burden compared with tax burden in the United States in 2002.

Finally, we asked property tax experts at the Altus Group to assess the impact that municipal property taxes are having on citizens and businesses in Metropolitan Halifax. Although we were not able to use this data for comparison with other jurisdictions, property taxes can represent a significant tax burden so we felt it was important that they be considered in our overall assessment.

Where we stood in 2002

Nova Scotia tax burden in December 2002 compared with Nova Scotia tax burden in 2000

In December 2002, Nova Scotians spent approximately 46% of their income on some form of tax.

At first glance, one might think that the tax burden faced by Nova Scotians was lower in 2002 than in 2000. After all, the federal government made much of its actions to lower the personal and corporate income tax rates.

However, less has been made of tax increases in other areas – payroll taxes, as well as fuel and excise taxes have risen. Changes in the frequency of property assessments combined with increasing property values, has significantly increased property taxes, particularly in Halifax. In addition, the government has added and increased user fees for a variety of services.

As a result, tax burden for citizens and large businesses remained relatively stable over the two-year period ending December 2002. Over that period, tax burden for small business increased.

Nova Scotia tax burden in December 2002 compared with other Canadian provinces

It should come as no surprise that Nova Scotia tax burden in December 2002, compared with other Canadian provinces, was above average. At the end of 2002, Nova Scotia had the highest per capita debt in the country. Worse, the provincial debt to GDP ratio (a partial measure of our ability to repay debt) was 46.2%, the worst in the country.

In 2002, Nova Scotians paid more in personal income tax than all other Canadians except those living in Quebec, Prince Edward Island and Newfoundland. Worse, our tax burden relative to other provinces had actually slipped. Unlike many other provinces, Nova Scotia did not reduce personal income tax rates. Nova Scotia also increased other taxes more than other provinces in the two-year period ending December 2002.

Tax burden for small business in Nova Scotia is comparable with other provinces; however, the corporate income tax rate for big business is significantly higher than the national average, ranking 7th and higher than our closest provincial neighbor, New Brunswick.

Nova Scotia tax burden compared with tax burden in the United States in 2002

It should also come as no surprise that Nova Scotia tax burden compared with tax burden in the United States in 2002 is high. However, the validity of this comparison varies widely from state to state – some states deliver far fewer government services than others. For the purpose of our analysis, we chose the state of Massachusetts because of its proximity and relatively high (by US standards) tax rates.

Nova Scotians face a personal tax burden approximately 30% higher than citizens in Massachusetts. The corporate income tax burden faced by small Nova Scotia businesses in Nova Scotia is significantly lower than those in Massachusetts; however, large Nova Scotian businesses face a slightly higher tax burden.

The impact that municipal property taxes are having on citizens and businesses in Metropolitan Halifax

The property tax you pay is the product of two values – the assessed value of your property (determined by the province) and the tax rate (set by the municipality).

The Nova Scotia Government uses "Market Value" as the benchmark to determine the assessed value of your property. Until 1999, the government made their assessment of your property's value every three years. Subsequent to 1999, they have made this assessment every year.

This increase in the frequency of assessments, combined with the recent increases in the market value of real estate, have dramatically escalated the impact that property taxes are having on citizens and businesses in Nova Scotia – particularly in the Halifax Regional Municipality (HRM).

Residential assessments rose, on average, 14.5% in the two-year period from 2001 to 2003. Commercial assessments increased more than 10% in the same period across the province. Because there were no offsetting reductions in the tax rates set by municipalities, property tax bills have risen dramatically for most people and businesses.

More importantly, the increased tax burden can vary significantly depending on the location of your property. Many rural areas have seen very little rise in taxes, beyond modest inflationary increased.

Within HRM, some neighborhoods have seen property tax bills increase more than 50% over the past five years. Commercial assessments in HRM have increased more than 35% over the same period of time. These increases are particularly onerous for business. Businesses must also pay business occupancy tax that is based on their property assessment. As a result, both taxes have risen sharply for most businesses.

The real picture

If you have reviewed where we stood in 2002, you have seen that for most of us tax burden has not decreased over the past two years. Compared to the rest of Canada and Massachusetts, tax burden is relatively high. The burden of property taxes have hit especially hard in HRM

Have things changed in 2004?

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