

# Nova Scotia Budget Priorities

2017-18

Submitted to the Honourable Randy Delorey

Minister of Finance

Province of Nova Scotia

Atlantic Chamber of Commerce

January 2017



**Atlantic Chamber  
of Commerce**

Representing business since 1896

**Chambre de commerce  
de l'Atlantique**

Représentant les affaires depuis 1896



## Background

### Government Operations

Over the past three years the province of Nova Scotia has made significant progress in its public fiscal management, moving from a \$680M deficit in 2013-14 to a projected \$12M surplus for 2016-17 through principled fiscal management. In addition, the government has led and partnered on programs that address the Provinces challenges in population/workforce development, regulation, supporting growth sectors (e.g., ICT and Oceans), exports, and new investment attraction.

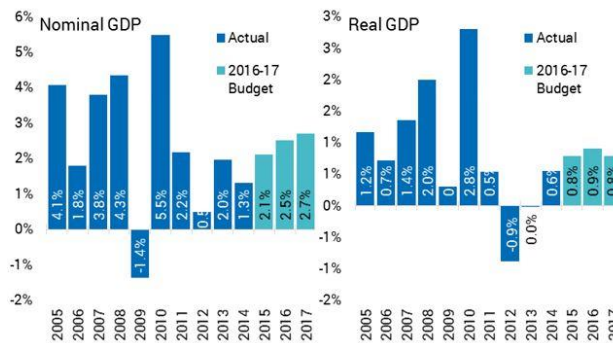
Soon your government will table its fourth annual budget. As previously mentioned, the province is in a better state than at the beginning of the government’s mandate, but several threats and opportunities exist that could influence the nature of the provincial budget for 2017-18 and future prosperity.

One of the most concerning issues is the size of the provincial debt which now stands at over \$15B or more than \$16,000 per person. The costs of servicing this debt was estimated at \$842M in last year’s budget, meaning that 8.2% of revenues and federal transfers are unavailable to support delivery of public services<sup>1</sup>. While interest rates on public debt have been historically low, even a small increase could have a significant impact on the province’s fiscal situation.

The province must equally consider the likelihood of decreases in federal transfer payments and the fact that the province has used several avenues to increase taxes significantly reducing the options for increasing revenues. The most promising options left are decreasing program spending in relation to current revenues and increasing revenue through trade and investment promotion.

### The Economy

Growth of the NS economy in recent years has been sluggish at best, partially attributable to global economic conditions but also because we have not maximized the potential of our economic resources. While last year’s budget estimates for future growth are very conservative, the expectation remains that the economy will grow at rates below the national average.



Source: NS Finance and Treasury Board  
[https://www.novascotia.ca/finance/statistics/topic\\_news.asp?id=11779&fto=22v&rdval=2016-04](https://www.novascotia.ca/finance/statistics/topic_news.asp?id=11779&fto=22v&rdval=2016-04)

<sup>1</sup> Working Together for a Stronger Nova Scotia: Budget 2016-2017



The Nova Scotia business community believes strongly that they are capable of creating jobs and increasing investment under the right conditions. These conditions include the ability to create and retain profits, improve access to consumers by increasing disposable income, and implement incentives to increase productivity and access new markets. Currently the reality of being the province with the second highest personal tax rate, the highest corporate tax rate and the highest sales tax restricts the amount of money that individuals and businesses can spend in support of economic growth.

In keeping with the recommendations in the report by Laurel Broten<sup>2</sup>, government needs to:

- create a tax structure that will better position Nova Scotia to address its demographic, fiscal, and economic challenges: and
- evaluate regulations and fees against their impact on Nova Scotia's economic and business climate, competitive position, and the extent to which they hinder business investment, private sector employment, and economic growth.

In support of these principles, the members of the Atlantic Chamber of Commerce provide several recommendations in the following areas:

1. Taxation
2. Fiscal Management
3. Regulation
4. Population Renewal and Workforce Development

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<sup>2</sup> Charting a Path for Growth – A Ten Year Plan for Tax and Regulatory Review

## Budget Recommendation

### Taxation

Nova Scotia has the dubious distinction of being the most heavily taxed province in the country. Viewed negatively, this fact most certainly disadvantages the province in its ability to attract investment and create high paying jobs. On the positive side, it does offer an opportunity for government to implement tax cuts that provide immediate stimulatory effects on the economy.

While start-up companies in Nova Scotia enjoy one of the more generous small business tax rates (3%) it is uniquely capped at \$350,000 in revenues. Once businesses hit their growth phase, where job creation becomes a distinct possibility, they are hit with a 13% tax increase on income, reducing their ability to invest and create jobs. These two factors combine to create a competitive challenge for our companies and a disincentive to growth.

A reasonable compromise in reducing the cost of doing business in NS and mitigating the impact on government revenues was proposed in the Broten Report – a revenue-neutral tax reform including a reduction in the corporate tax rate and a gradual increase in the small business tax rate. To this end we support the concept of a business-government committee to advise on the issue of tax reform.

Two aspects of the current personal tax regime stand out as effective opportunities to increase consumer spending and reduce poverty levels.

Increasing the basic personal exemption (currently 50% lower than Alberta) would provide low-income earners with some relief and increase their ability to pay for basic needs. It would also reduce pressure to increase minimum wages. By restricting increases in minimum wage to increases in the CPI, government can minimize inflationary pressures and protect many entry-level jobs as employers would no longer be forced to consider reductions in staffing due to loss of competitiveness from increased labour costs. We urge the government to not attempt to harmonize minimum wage rates with the other Atlantic provinces at \$11 an hour.

Equally attractive would be for Nova Scotia to join the seven out of ten Provinces that index their tax brackets, providing consumers with more disposable income to spend on goods and services in Nova Scotia.

Economic analysis indicates that in order for tax cuts to stimulate spending, government needs to communicate that they are permanent and broad-based in order to boost consumer and business confidence.

### Recommendations:

- **Implement a multi-year tax reform program including a reduction in the corporate tax rate, an increase in the small business threshold to \$500,000, index personal exemptions to provide relief to low-income earners, and eliminate bracket creep.**

## Fiscal Management

With the recent forecast of a \$12M budget surplus for 2016-2017, Nova Scotia has demonstrated sound financial management. But our recently achieved status as one of only three surplus Provinces must be maintained while being threatened by significant factors such as a massive public debt and debt service costs; unresolved labour contracts; and federal transfers that will be reduced and/or tied to specific programs. Any one of the issues noted above could quickly revert the province to deficit financing unless actions are taken to reduce program spending or grow the economy.

Under optimal circumstances, government spending should be based on minimum required service provision standards using the most cost-effective method for delivery, and growing at the rate of inflation. The current government has demonstrated admirable success in minimizing increases in expenditures but there remains significant opportunities for alternative service delivery including technology, private sector service delivery, and creation of regional service centres.

Analysis of provincial demographics by Corporate Research Associates indicate that 95% of the Provinces population live within 50 kilometres of eight communities distributed across the province. Consolidation of essential services (health, education, culture) in these centres, supplemented by more on-line access to government, provide opportunities for infrastructure and labour efficiencies across the province.

Reducing government expenditures is critical, but so is investment in public and trade-enabling infrastructure. The ACC strongly supports provincial participation in the federal government's infrastructure spending program including the announcements of significant support for post-secondary institutions recently announced under the Atlantic Growth Strategy. The basis for this recommendation is the belief that there are public infrastructure investments that can spur economic growth (e.g., investment in rural broadband capacity) and provide communities with new capacity to support business creation. Our province needs to take advantage of these strategic opportunities to improve the competitiveness of businesses across the province.

### Recommendation:

- **Focus efforts to maintain surplus budgets by structurally changing the manner in which government services are delivered, while maintaining equitable access to essential services.**
- **Evaluate capital spending on the basis of its contribution to economic growth and reduced costs of doing business.**

## Regulation

The recent announcement that Nova Scotia will implement a cap and trade program to reduce greenhouse gas emissions provides a reminder of government's central role in regulating business operations for the greater public good. It also represents a significant new administrative cost that our economy will have to absorb. As the government moves forward in designing a made in Nova Scotia

solution to carbon pricing, it is essential that the business community be consulted and economic impacts well understood prior to implementation.

We applaud the Nova Scotia and Atlantic governments materially demonstrated commitment to addressing the costs of regulation through the establishment of the Atlantic Red Tape Partnership supported by the dedicated resources of the Office of Regulatory Affairs and Service Effectiveness. The Atlantic Provinces have long recognized the need for greater harmonization and removal of regulatory conflict in our region, and have achieved numerous successes under project specific mandates. This is the first time our governments have passed parallel legislation and engaged dedicated staff to spearhead efforts at improving service levels, reducing the compliance burden and removing trade barriers.

Still in its second year, this Red Tape Partnership has achieved measurable results and is currently engaged in developing internal measurement and reporting standards for departments to use in evaluating the cost-benefit of their regulatory and administrative practices. Recognizing the complexity of harmonizing extensive legislation and regulations or heritage computer programs, we recommend that the Atlantic Provinces focus on adopting mutual recognition of registrations and certifications and harmonization of reporting information.

While voicing support for the reduction in the cost of compliance, we urge the government to critically examine internal processes that impact services levels to businesses and individuals. It is acknowledged that the public is unforgiving in instances where government decisions are later determined to be less than optimal. However in the interests of supporting economic growth, business needs dependable and predictable response times for programs and authorizations that directly impact their business plans.

### **Recommendation**

- **Upon completion of regulatory assessment frameworks, the province commit to address a specific set of inter-provincial trade barriers that upon removal will translate into free movement of goods and services across borders.**

### **Population Renewal and Workforce Development**

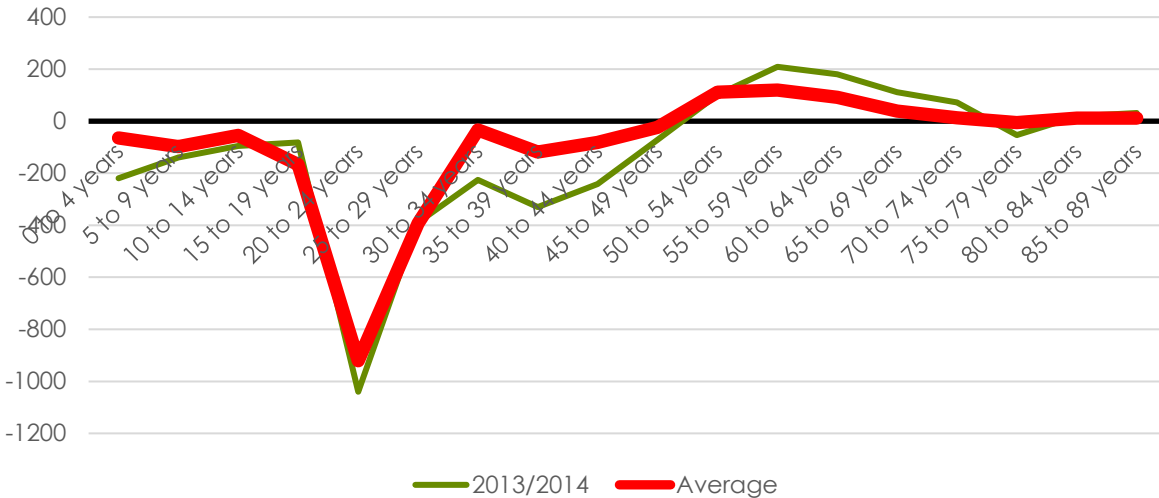
After decades of calling on the federal government to increase immigration quotas, Nova Scotia has finally achieved success settling a record number of immigrants in 2016. This is an essential determinant of the province's future economic prosperity as the median age of the province's population continues to increase and is now second highest in Canada at 43.4 years (close to 19% are 65 and older).<sup>3</sup> A clear indicator that the province faces challenges in maintaining a skilled workforce is the fact that our youth (age 20-25) has and continues to leave the province. It is clear that this situation is untenable in the long run and efforts must be made to reverse this trend

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<sup>3</sup> StatsCan: Population Estimates July 2012 <http://www.statcan.gc.ca/pub/91-215-x/2012000/t583-eng.htm>



## Net Outmigration by Age Group 2013-2014 vs. 1995-2014 Mean



Source: Presentation Danny Graham Engage Nova Scotia

Moving forward, the Atlantic Growth Strategy provides an opportunity to demonstrate that the province is ready and capable of accommodating heightened levels of new immigrants. Under this pilot program, NS has the potential of accepting 800 or more immigrants plus their family members, plus previously allocated Nominee program candidates. So the numbers are there but the key to long term success will be our ability to ensure Nova Scotians have appropriate workplace skills and are aware of employment and business opportunities that establish a connection to our province.

It is essential that the government continue to engage in recruitment of new immigrants and ensure capacity to connect immigrants and youth to work opportunities across the province. We urge the government to critically assess levels of support for settlement programs and work more closely with businesses to ensure our graduates are appropriately trained and assisted in making the transition to the workplace.

### Recommendation

- **In collaboration with business and settlement association, ensure the province is capable of integrating increased numbers of immigrants with programs that include language training, credential recognition, and connections to the business community.**
- **Maximize the potential of retaining foreign students enrolled in Nova Scotia post-secondary institutions by increasing the availability of work placements and pathways to permanent residency.**
- **Introduce incentives and support to immigrant entrepreneurs and continue to publicize success stories, focussing on demonstrate success in exporting Nova Scotia products and services.**



## Conclusion

The current government has made significant strides to improve the province's fiscal situation. It is critical that these efforts continue as the province faces several potential issues that could materially affect our ability to maintain a surplus:

- Massive public debt makes the province susceptible to increases in interest rates;
- Unresolved public employee contracts and associated settlement costs in terms of dollars and labour unrest;
- Declining federal transfer payments;
- No additional room to raise taxes without negatively impacting growth and investment.

While applauding the positive achievements of the past 3 years, we recommend that the government expand implementation of the recommendation contained in strategic reports such as *Now or Never* and *Charting a Path to Progress*. Our key recommendation is that government and business work together to **develop a long term tax reform plan** that provides stimulus to the economy, fairness to taxpayers and showcases the province's interest in supporting growth in business activity and job creation.