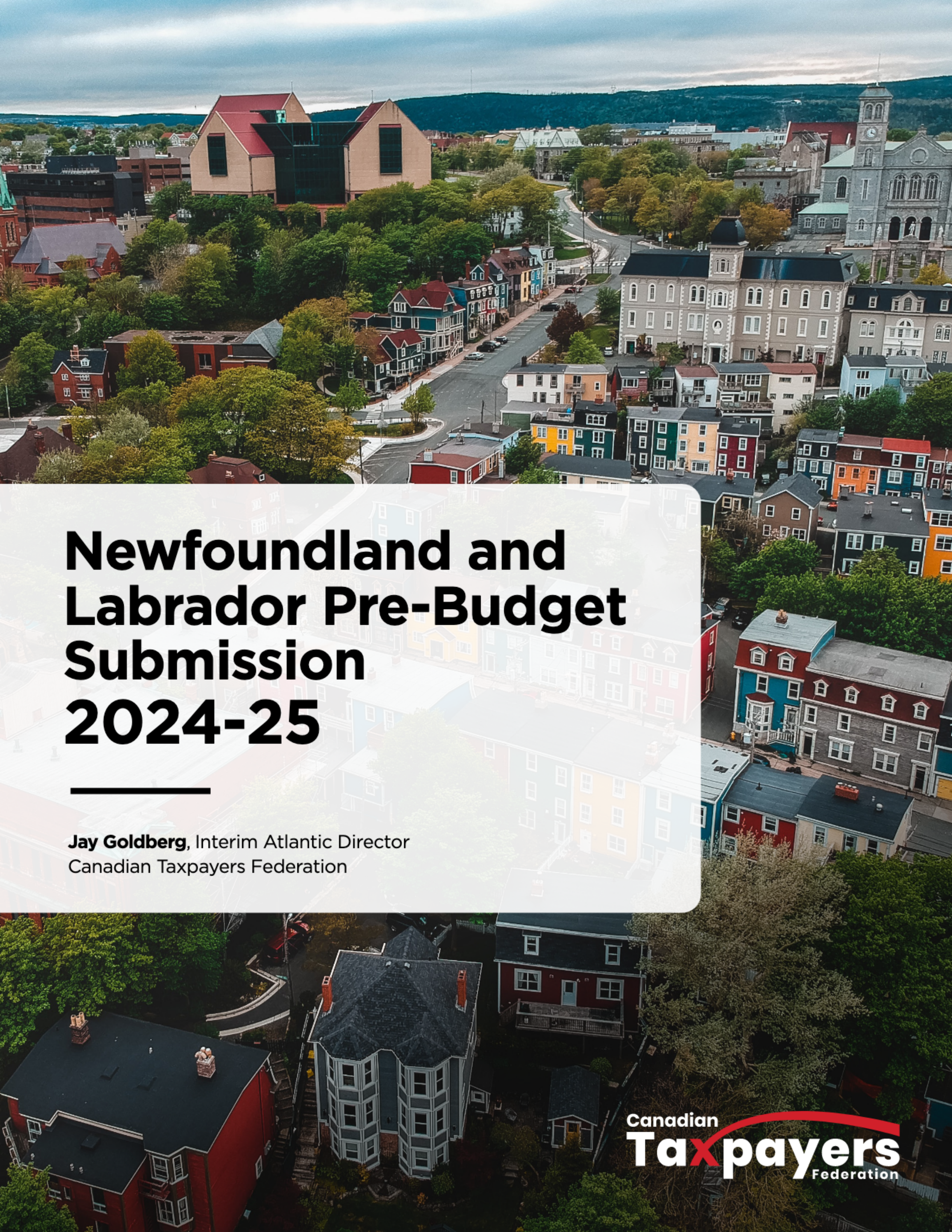

Newfoundland and Labrador Pre-Budget Submission 2024-25

Jay Goldberg, Interim Atlantic Director
Canadian Taxpayers Federation

Canadian Taxpayers Federation

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organisation. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organisers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organise petition drives, events and campaigns to mobilise citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2021-22, the CTF raised $5.1 million on the strength of 45,509 donations. Donations to the CTF are not deductible as a charitable contribution.

Prepared by Jay Goldberg, Atlantic Interim Director

Canadian Taxpayers Federation

Cover photo: Erik McLean

Executive Summary

Near-record increases to the cost of living have hit Newfoundlanders and Labradorians hard. Bills are now more expensive and families need relief.

To help Newfoundlanders and Labradorians deal with soaring inflation and high living costs, the government of Newfoundland and Labrador should focus on providing relief through sales and gas tax cuts. The government should also reduce spending in areas other than health care back to pre-pandemic levels to help balance the budget.

Newfoundland and Labrador ended the 2022-23 year with a surplus of $784 million.[1] Unfortunately, the government chose to return to deficit spending in fiscal year 2023-24, with Finance Minister Siobhan Coady projecting a $160 million deficit in her spring 2023 budget.[2] While the government has signalled that it plans to balance the budget in fiscal year 2024-25, Newfoundland and Labrador continues to grapple with a heavy debt burden. The short-term fiscal situation is expected to improve, but much more work is needed to be done to make the province more competitive and reduce the debt burden over the long term.

The measures outlined in this report aim to lower the tax burden, stimulate the economy and reduce the debt. They provide tax cuts to both individuals and businesses to save families money and help grow the economy. Reducing taxes and helping grow the economy means more money in the pockets of Newfoundlanders and Labradorians who will be able to spend it as they see fit.

To finance tax relief, this report relies on ending corporate welfare, bringing government employee wages and benefits in line with the private sector and implementing the recommendations outlined in the Premier's Economic Recovery Team Report.

The measures proposed in this submission include:

1. **Cutting the provincial portion of the HST by two percentage points.**

2. **Extending the gas tax cut.**

3. **Replacing corporate welfare with corporate tax relief.**

4. **Bringing government employee compensation in line with Newfoundland and Labrador's labour market.**

5. **Implementing the spending reduction plan outlined in the Premier's Economic Recovery Team's Report.**

With these proposed measures we are confident that the government will be able to provide much-needed tax and inflation relief, while not negatively impacting its fiscal position.

This report includes two main sections: tax relief and spending reductions.

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1. https://economics.td.com/newfoundland-labrador-budget
2. https://www.gov.nl.ca/budget/2023/what-you-need-to-know/budget-highlights/

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	$338.4	
Extending the gas tax cut	$78.9	
Replacing business subsidies with business tax cuts	$128.5	$154.5
Bringing employee compensation to market levels		$306.7
Implementing spending reductions from PERT report		$719.4
Total per category	**$545.8**	**$1,181**
Net budget impact:		**$635.2**

*Numbers in millions.

Tax Relief

Introduction

Newfoundlanders and Labradorians are confronting increases in living costs that haven't been seen in decades. Canada as a whole saw prices rise by 6.3 per cent in 2022,[3] while Newfoundlanders and Labradorians were hit at 5.7 per cent.[4] The cost of food alone increased at a rate of roughly 11 per cent.[5] Rising prices continue to be of great concern in 2023.

The government did make at least one good move on delivering relief by temporarily reducing the gas tax. However, the government's temporary gas tax cut will expire on April 1, 2024. Taxpayers need the government to deliver on relief that will last into the next fiscal year and beyond.

To help lower costs for cash-strapped taxpayers, the government should extend the gas tax cut by another year and reduce the sales tax. Governments profit off of inflation through higher sales tax revenue. When the price of goods rises, so too does revenue brought in from sales taxes. This submission is calling on the government to cut the provincial portion of the HST from 10 per cent to eight. The government should also extend its gas tax cut for an additional year.

Tax relief is also crucial in addressing the province's long-term economic problems. There is a prosperity gap between Newfoundland and Labrador on the one hand and the rest of Canada on the other. Out of all 10 of Canada's provinces, Newfoundland and Labrador's GDP growth in 2020 was the slowest in the nation and per capita GDP declined in both 2021 and 2022.[6] [7] That translates into lower salaries for workers and lower profits for local businesses. As the government aims to grow the province's economy, addressing this gap through growing business investment should be a top priority.

Growing business investment involves making sure individuals and businesses have the funds available to make investments and grow their local markets.

An effective way for the government to do this is to take less cash out of citizens' and local businesses' pockets by reducing their taxes.

Recent periods of low levels of business investment have been cited as a main reason why Atlantic Canada has struggled relatively in economic growth compared to the rest of the country.[8]

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3. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=12&cubeTimeFrame.startYear=2022&referencePeriods=20221201%2C20221201
4. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=12&cubeTimeFrame.startYear=2022&referencePeriods=20221201%2C20221201
5. https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117a-eng.htm
6. https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1
7. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/
8. https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf

To help further stimulate investment, the government should replace corporate welfare with corporate tax cuts. Tax cuts attract investment and job creators. On the other hand, there is no clear evidence that corporate welfare stimulates investment or economic growth.[9] [10]

Reducing taxes also has an added benefit of increasing competitiveness with other jurisdictions. It encourages new businesses and individuals to set up and invest in Newfoundland and Labrador, rather than in another province or country.

Peer-reviewed studies from the University of Chicago, the American Economic Association and elsewhere have found a clear link between tax cuts and economic growth.[11] [12] [13] [14] [15] Given the heavy tax burden that Newfoundlanders and Labradorians shoulder, there is room to reduce it to stimulate the province's economy and provide relief.

These recommendations would help Newfoundlanders and Labradorians better afford their bills and increase competitiveness.

Cutting the provincial portion of the HST by two percentage points

Tax relief: $338.4 million | $710 per household[16]

Inflation has hit Newfoundland and Labrador hard over the past two years. Necessities have only gotten more expensive and family budgets are being squeezed.

To help families and businesses directly deal with the issue of high prices, the government should lower the provincial portion of the HST. Cutting the sales tax will help to lower costs for families and businesses nearly everywhere they shop.

Sales taxes worsen issues caused by inflation. Since sales tax is applied at the end of transactions, higher prices mean higher taxes. This problem hits low-income taxpayers the hardest, as sales taxes are regressive.

The government can help families make ends meet by charging them less when they go to buy things they need.

Newfoundland and Labrador is tied with the three other Atlantic provinces for the highest sales tax in Canada.[17] Reducing the total tax to 13 per cent would see Newfoundland and Labrador with the lowest sales tax in the region.

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9. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
10. https://www.oecd.org/mena/competitiveness/41997578.pdf
11. https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext
12. https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f
13. https://www.nber.org/system/files/working_papers/w20753/w20753.pdf
14. https://www.journals.uchicago.edu/doi/abs/10.1086/701424
15. https://www.jstor.org/stable/41789231
16. https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf
17. https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/

Lowering the HST would not only help Newfoundlanders and Labradorians better afford their bills, but it would also increase competitiveness and attract consumers looking to save on their tax bills. Sales tax revenue was $227.8 million higher in the previous fiscal year than originally projected.[18] [19] This windfall should be passed back to Newfoundlanders and Labradorians in the form of tax relief.

Newfoundland and Labrador had the slowest GDP growth in the nation last year.[20] One of the factors explaining this poor economic performance is the fact that Newfoundland and Labrador households have an after-tax disposable income nine per cent below the national average.[21] This means that after Newfoundlanders and Labradorians have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy. This only becomes worse after considering near-record levels of inflation.

Lowering the HST by two percentage points would free up $338.4 million to be invested into the local economy and help families ease the burden of inflation. It would save the average household $710 per year, delivering meaningful relief to families across the province.[22]

Extending the gas tax cut for another year

Tax relief: $78.9 million

In early 2022, the government of Newfoundland and Labrador recognized that taxpayers needed relief. Beginning in June of 2022, the government implemented an 8.05 cent per litre gas tax cut, originally set to end at the end of the year. That tax cut was later extended until March 31, 2024. By next March, the tax relief will have saved the typical Newfoundland and Labrador family $920 at the gas pump.[23]

The relief taxpayers have enjoyed since June of 2022 has been sorely needed. However, the need for gas tax relief will be even more paramount in the years to come. The federal government plans to triple its carbon tax between now and 2030,[24] which will lead to soaring gas and home heating bills for Newfoundland and Labrador families. The Furey government should extend the province's gas tax cut for another year.

Extending the gas tax cut for another year will save Newfoundland and Labrador taxpayers approximately $78.9 million.[25]

18. https://www.assembly.nl.ca/business/electronicdocuments/Budget2023Estimates.pdf
19. https://www.gov.nl.ca/budget/2022/wp-content/uploads/sites/6/2022/04/Estimates-2022.pdf
20. https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1
21. https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf
22. https://www.assembly.nl.ca/business/electronicdocuments/Budget2023Estimates.pdf
23. https://www.taxpayer.com/newsroom/furey-saving-families-hundreds
24. https://torontosun.com/opinion/columnists/lilley-trudeau-is-about-to-raise-taxes-three-times-but-hopes-you-wont-notice
25. https://www.gov.nl.ca/budget/2022/wp-content/uploads/sites/6/2022/04/Estimates-2022.pdf

Replacing business corporate with corporate tax relief

Savings: $154.5 million
Tax relief: $128.5 million

While the pandemic's effects on the labour market seem to have waned, Newfoundland and Labrador's unemployment rate, sitting at 8.1 per cent,[26] remains a cause for concern.

Creating jobs and growing the economy doesn't happen through government handouts. Instead, it happens by creating a good business environment for all sectors to thrive in. When job creators decide where to relocate or expand, their primary focus is on long-term profitability rather than one-off subsidy packages.[27]

Other factors, such as regulatory burdens, tax regime, workforce education, and availability of transportation infrastructure, have a much bigger impact on decisions to locate in one jurisdiction than one-off financial aid packages at taxpayers' expense.[28] Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns for their investment project.

There is no statistically significant relationship between corporate subsidies and economic growth or per capita GDP levels, according to OECD research.[29] What is clear is that corporate tax rates impact profitability, investment and growth.[30]

Provincial general corporate tax rates

Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	**15%**
Nova Scotia	14%
New Brunswick	14%
Canadian Provincial Average	**12.7%**
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Source: Provincial government websites

Compared with other provinces, Newfoundland and Labrador's corporate tax rate puts the province at a disadvantage, with a higher rate of 15 per cent versus the 12.7 per cent national average.[31]

26. https://www.gov.nl.ca/fin/economics/eb-labour/
27. https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf
28. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
29. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
30. https://www.oecd.org/mena/competitiveness/41997578.pdf
31. https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html

This year, the government of Newfoundland and Labrador projects it will spend $154.5 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs.[32] This is equivalent to 24 per cent of what the province expects to collect through corporate income taxes over the same period.

Replacing corporate subsidies with corporate tax cuts would have also eliminate the economic distortion associated with targeted financial measures.[33] Newfoundland and Labrador's economic strength should not rely on growth expectations in a few targeted sectors, but rather on a broad-based growth of its economic pie.

The province should replace these subsidies with a tax cut in the general and small corporate tax rates. Lowering the small corporate tax rate from its three per cent to 2.4 per cent and the general corporate tax rate from 15 per cent to 12 per cent would represent $128.5 million in savings for Newfoundland and Labrador businesses of all sizes.[34]

32. https://www.assembly.nl.ca/business/electronicdocuments/Budget2023Estimates.pdf

33. https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

34. https://www.assembly.nl.ca/business/electronicdocuments/Budget2023Estimates.pdf

Savings

Introduction

The government of Newfoundland and Labrador expects to post a deficit of $160 million for fiscal year 2023-24.[35] While the government expects to balance the budget in 2024-25, the province's debt is growing this year and is hitting new and unsustainable levels.[36] Savings must be found to balance the budget over the long term, reduce the debt, and facilitate sufficient room for tax relief.

The section below will provide recommendations of various areas to find savings to help the government achieve three key goals: balance the books, reduce the debt, and reduce the tax burden to stimulate the economy.

Bringing government employee compensation in line with the Newfoundland and Labrador labour market

Savings: $310 million

Salaries and wages have represented the largest line-item in the government of Newfoundland and Labrador's budget over the past five years.[37]

After adjusting for 12 different individual characteristics, it has been found that the average government employee in Canada earns an 8.5 per cent wage premium over their private sector counterparts.[38]

Government employees are also more likely to be enrolled in a pension plan than a private sector employee. Only 39.9 per cent of private employees are covered by a pension plan compared to 90.6 per cent of those that work for the government.[39]

The type of pension plan given to government employees is also typically much more generous than those of the private sector. Of those who have a pension in the government sector, 97.9 per cent of them are defined benefit plans, compared to only 24.2 per cent of plans for those covered in the private sector.[40] A defined benefit plan offers the employee a guaranteed benefit during retirement. This guarantee is often on the back of taxpayers who would be saddled with the cost of a bailout if pension funds do not perform well.

Those who work for the government in Newfoundland and Labrador also retire earlier and have higher levels of job security than those who work in the private sector.[41]

35. https://economics.td.com/newfoundland-labrador-budget
36. https://economics.td.com/newfoundland-labrador-budget
37. https://www.gov.nl.ca/exec/tbs/publications/public-accounts/
38. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
39. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
40. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf
41. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf

Given the province's long term financial unsustainability[42] and ever-increasing compensation costs, Newfoundland and Labrador needs to look at one of its biggest line-item expenses: employee compensation.

To bring government employee wages in line with private sector practices, the government of Newfoundland and Labrador must implement an 8.5 per cent reduction in compensation costs. Some of these savings can be found through attrition and giving lower starting salaries to any new employees.

This will reduce the estimated cost for government salaries and benefits from $3.61 billion to $3.30 billion,[43] saving Newfoundland and Labrador taxpayers an estimated $310 million by the end of the next fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of Newfoundland and Labrador.

Implementing spending reduction measures outlined in the Premier's Economic Recovery Team's Report

Estimated savings: $719.4 million for 2024-25

The government took the right first step to solving its fiscal problems by tasking independent experts, led by Moya Greene, to work on an economic and fiscal recovery plan for the province. The first thing the Premier's Economic Recovery Team did was identify the extent of the problem.

As they put it: "Newfoundland and Labrador's annual cash shortfall represents approximately 25 per cent of its revenue."[44]

PERT's report is not alone in pointing out the provincial government's unsustainable spending habits. Estimates from the independent Parliamentary Budget Officer suggest that Newfoundland and Labrador's net debt as a percentage of GDP will increase from 25.4 per cent in 2022 to 37.9 per cent by 2047. Clearly, urgent action is needed to address that negative long-term trend.[45]

Debt is rising even though the province had the highest level of government revenue per capita in the country for most of the last decade.[46] It is clear that Newfoundland and Labrador is faced with a spending problem, not a revenue problem. As the PERT report notes: "Expenditure reduction is the major component of reducing the fiscal gap."[47]

42. https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e
43. https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf
44. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf
45. https://distribution-a617274656661637473.pbo-dpb.ca/14112865d6961441f766fa6e8f511a29368a6a15a3e8b8445af18c7cbda6d632
46. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf
47. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf

This is consistent with what economists have observed with regards to the most successful plans to tackle unsustainable finances. There is substantial economic literature that has pointed out that plans relying on spending cuts in advanced economies have had a lesser negative impact – sometimes even having a positive impact – on economic growth than plans relying on tax hikes.[48][49][50] In its report, the PERT identified areas where spending reductions can be realized for an estimated $719.4 million in savings in 2024-25.[51] These savings are estimated to reach $894.5 million by the 2026-27 budget year.

The government should implement the spending reduction measures outlined by the independent experts from the PERT.

48. https://www.nber.org/system/files/chapters/c10973/c10973.pdf
49. https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf
50. https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf
51. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf

Conclusion

Newfoundland and Labrador faces major fiscal sustainability challenges in the years ahead. At the same time, higher living costs have hit families hard and relief is needed in the present. The government should take bold action to reduce both spending and taxes to provide families with much-needed relief while improving the province's fiscal position.

To help Newfoundlanders and Labradorians faced with higher bills, the province should deliver universal tax relief to help all taxpayers weather the storm of inflation. Doing so will increase household incomes and enhance Newfoundlanders' and Labradorians' ability to spend and invest in local businesses.

To make life more affordable, the government must reduce the sales tax by two percentage points and extend the gas tax cut for another year. Reducing the sales and gas taxes would result in $417.3 million being injected back into the local economy.

The government should also take steps to make the province more attractive to investment by replacing its subsidies with corporate tax cuts. Reducing the corporate income tax by 20 per cent and eliminating subsidies would see the government save $154.5 million and put $128.5 million directly back into the hands of Newfoundland and Labrador businesses.

Despite aiming to balance the budget in 2024-25, Newfoundland and Labrador's net debt continues to increase at an alarming pace.[52] Working to reduce the debt through reductions in government spending will be crucial, as increasing interest rates mean that holding such a debt load will only become more expensive.

Given the wage and benefit premium enjoyed by government employees over those in the private sector and the impact of rising compensation on the government's bottom line, it is necessary to make fundamental changes and reduce the cost of government employee compensation. Eliminating the compensation gap between private sector employees and those working for government promotes fairness and would save taxpayers $310 million next year. As well, implementing the spending cuts recommended by the Premier's Economic Recovery Team would save taxpayers $719.4 million next year alone.

Overall, the measures recommended in this report will put $545.8 million back in Newfoundlanders' and Labradorians' pockets and help save $1.18 billion in government operations. This will have a net positive budgetary impact of $635.2 million.

52. https://distribution-a617274656661637473.pbo-dpb.ca/14112865d6961441f766fa6e8f511a29368a6a15a3e8b8445af18c7cbda6d632