

# Prince Edward Island Pre-Budget Submission 2024-25

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# 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



# Executive Summary

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

To help Islanders deal with rising living costs and general affordability, the government of Prince Edward Island should focus on providing relief through sales tax cuts. At the same time, to avoid adding additional burdens to future generations, the government should reduce spending and balance the budget. A path for doing so is outlined here.

The measures outlined in this report aim to lower the tax burden and stimulate the economy. 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 Islanders who will be able to spend it as they see fit.

To finance the relief, this report relies on ending corporate welfare and finding additional efficiencies, including through reducing labour costs. It will also call on the province to find significant additional savings by reducing non-health spending to 2022 levels.

1. **Eliminating bracket creep.**
2. **Cutting the provincial portion of the HST by two percentage points.**
3. **Replacing corporate welfare with corporate tax relief.**
4. **Reducing non-health spending to 2022 levels.**
5. **Bringing government compensation in line with Prince Edward Island’s labour market.**
6. **Implementing a Sunshine List.**
7. **Conducting a thorough spending review with the aim of reducing overall spending levels.**

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.

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	\$88.9	
Replacing corporate welfare with corporate tax relief	\$35.6	\$64.5
Bringing employee compensation to market levels		\$83.6
Bringing non-health spending back to 2022 levels		\$71.0
<b>Total per category</b>	<b>\$124.5</b>	<b>\$219.1</b>
<b>Net budget impact:</b>		<b>\$94.6</b>

\*Numbers in millions.

# Tax Relief

## Introduction

Islanders are confronting increases in living costs that haven't been seen in decades. Canada as a whole saw prices rise by 6.9 per cent in 2022,<sup>1</sup> while Islanders were hit even harder at 8.4 per cent.<sup>2</sup> The cost of food alone increased at a rate of roughly 11.4 per cent.<sup>3</sup> Rising prices continue to be of great concern in 2023.

The government made an important announcement in Budget 2023 and is finally adjusting income tax brackets to keep pace with inflation. However, the indexing announced in Budget 2023 is only for a single fiscal year. Islanders need more than a one-year break from bracket creep: the government must make indexing permanent.

Relief should not stop there. Governments also 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 per cent to help lower costs for consumers nearly everywhere they shop.

The above recommendations would not only provide inflation relief for families and boost incomes, but it would also lead to higher economic growth and more prosperity.

There exists a prosperity gap between Prince Edward Island and the rest of Canada. Prince Edward Island's GDP per capita is the lowest compared to all other provinces. In 2022, GDP per capita was \$38,680, compared to \$56,520 in Newfoundland and Labrador and \$74,390 in Alberta.<sup>4</sup>

This translates to 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 at the top of its economic priorities.

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 has led Atlantic Canada as a region to struggle in generating economic growth, according to the Fraser Institute.<sup>5</sup>

1. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

2. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

3. <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

4. <https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/>

5. <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. Studies from the OECD and elsewhere show that tax cuts, not subsidies, have a clear relationship with stimulating economic growth.<sup>6,7</sup>

Given the heavy tax burden that Islanders shoulder, at nearly 34 per cent of GDP,<sup>8,9</sup> there is room to reduce it to stimulate the province's economy and provide relief.

These recommendations will help Islanders better afford their living costs and increase the competitiveness of Prince Edward Island's economy.

## Eliminate bracket creep

**Tax relief: \$35 million (already budgeted)**

Prince Edward Island is one of only two provinces that fails to index its tax brackets to inflation. That means taxpayers are forced into higher tax brackets by inflation, even though their actual buying power hasn't gone up. The federal government and most provinces fix this problem by indexing tax brackets to inflation. The government of Prince Edward Island announced in Budget 2023 that brackets will be shifted to reflect inflation for the 2024 tax year, but this was a one-time announcement.<sup>10</sup> In the upcoming budget, the one-off approach taken in 2024 should be adopted as permanent government policy going forward.

## Cut the provincial portion of the HST by two percentage points

**Tax relief: \$88.9 million | \$702 per household<sup>11</sup>**

Inflation has hit Islanders hard over the past two years. The cost of living is now 10 per cent higher than it was in early 2022.<sup>12</sup>

To help families and businesses directly deal with the issue of high prices, the government should lower the provincial portion of the HST.

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

The government can help families afford their higher bills by charging them less when they go to buy things they need.

Prince Edward Island is tied with the other Atlantic provinces for the highest sales taxes in Canada.<sup>13</sup> Reducing the total tax to 13 per cent would see P.E.I. with the lowest sales tax in the region.

Lowering the HST would not only help Islanders better afford their bills, but it would also increase competitiveness and attract taxpayers from other provinces looking to save on their tax bills. Last year, sales tax revenue was \$71.6 million higher than originally projected.<sup>14</sup> This windfall should be passed back to Islanders in the form of tax relief.

6. <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

7. <https://www.oecd.org/mena/competitiveness/41997578.pdf>

8. <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610022201>

9. <https://www.princeedwardisland.ca/sites/default/files/publications/estimatesbook.pdf#page=185>

10. <https://www.princeedwardisland.ca/en/news/government-introduces-changes-to-income-tax>

11. Based on an average household income of \$100,000. See: <https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf>

12. <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

13. <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

14. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

Prince Edward Island has the second-lowest level of GDP per capita in the country at \$39,680 per person.<sup>15</sup> One of the factors explaining this poor economic performance is that fact Prince Edward Island's households have an after-tax disposable income level that is also one of the lowest in the country. This means that after Islanders 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 recent near-record levels of inflation.

There is a clear relationship between household disposable income and household consumption, and between consumer spending and GDP growth. Economic research from the Brookings Institute, the Tax Policy Center and the Tax Foundation is very clear about the link between tax relief measures and economic growth.<sup>16 17 18</sup>

Lowering the HST by two percentage points would free up \$88.9 million to be invested into the local economy and help families ease the burden of inflation and high living costs.<sup>19</sup>

## Replacing corporate welfare and corporate tax relief

**Savings: \$64.5 million**

**Tax relief: \$35.6 million**

The pandemic was difficult for businesses and the labour market, while the province's economy has continued to stagnate. The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.<sup>20</sup>

Growing the economy and finding employment for out-of-work Islanders is not a matter of helping a handful of sectors. It depends on creating a good business environment for all sectors to thrive in.

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.<sup>21</sup> Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>22</sup> What is clear is that the level of corporate taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.<sup>23</sup>

15. <https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/>

16. [https://www.brookings.edu/wp-content/uploads/2016/06/09\\_effects\\_income\\_tax\\_changes\\_economic\\_growth\\_gale\\_samwick.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf)

17. <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

18. <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

19. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

20. <https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/>

21. <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

22. <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

23. <https://www.oecd.org/mena/competitiveness/41997578.pdf>

In other words, competitive tax rates attract job creators and direct investment.<sup>24</sup> Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.<sup>25</sup>

### Provincial general corporate tax rates

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

Source: Provincial government websites.

Compared with other provinces, Prince Edward Island’s corporate tax rate puts the province at a disadvantage, with the highest rate in the country at 16 per cent versus the 12.7 per cent national average.<sup>26</sup>

Corporate welfare costs P.E.I. taxpayers \$64.5 million annually.<sup>27</sup> This is equivalent to 47 per cent of what the province collected through corporate income taxes over the same period.

Replacing corporate welfare with corporate tax relief would also have an added advantage: reducing the economic distortion.<sup>28</sup> Prince Edward Island’s economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth approach.

The province should replace these handouts with a tax cut in the general and small business tax rates by 25 per cent. Lowering the small business tax rate from its current one percentage point to 0.75 percentage points, and the general corporate tax rate from its current 16 percentage points to 12 percentage points, would put P.E.I.’s corporate tax rate under the national average and amount to \$35.6 million in savings for Prince Edward Island businesses of all sizes.<sup>29</sup>

24. <https://www.oecd.org/mena/competitiveness/41997578.pdf>  
 25. [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)  
 26. <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>  
 27. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>  
 28. [https://www.jec.senate.gov/public/\\_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf](https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf)  
 29. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

# Finding Savings in Government Expenditure

## Introduction

The government of Prince Edward Island plans to run deficits for the foreseeable future.<sup>30</sup> It is fundamentally unfair to continue to grow the province's debt burden that will be passed on to future generations.

The section below will provide recommendations of various areas to find savings to help the government balance the budget and reduce the debt while still providing tax relief to families and help to stimulate the economy.

## Reducing government non-health spending to 2022 levels

### Estimated Savings: \$71 million

Government spending and debt in the province of Prince Edward Island has gotten out of control in recent years. The provincial debt has increased by \$103.8 million in the last two years alone and the government expects to add another \$382.4 million to the debt over the next three years.<sup>31</sup> This rapidly increasing debt is unfair to future generations. The government's fiscal approach must change.

During the 2023 provincial election, Premier Dennis King promised to continue to spend additional money to address the shortcomings in the province's health-care system. However, while health-care spending is expected to increase by \$41.8 million this year, non-health spending is also expected to increase by \$52.9 million.<sup>32</sup>

This pre-budget submission is proposing that the government moderately reduce its non-health spending back to 2022-23 spending levels. This move would save taxpayers \$71 million and will allow the government, in concert with other measures outlined here, to balance the budget.<sup>33</sup>

## Bringing government compensation in line with Prince Edward Island's labour market

### Estimated Savings: \$83.6 million

Salaries and wages have represented the largest line-item in the government of Prince Edward Island's budget over the past five years.<sup>34</sup>

In 2023, the province spent \$1.02 billion on employee compensation, representing over 69 per cent of what it collected via taxes.<sup>35</sup>

30. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

31. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

32. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

33. <https://www.assembly.pe.ca/sites/www.assembly.pe.ca/files/Premier.King.05252023.2023-24%20Estimates%20of%20Revenue%20and%20Expenditure.pdf>

34. [https://www.princeedwardisland.ca/sites/default/files/publications/public\\_accounts\\_volume\\_i\\_2023.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/public_accounts_volume_i_2023.pdf)

35. [https://www.princeedwardisland.ca/sites/default/files/publications/public\\_accounts\\_volume\\_i\\_2023.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/public_accounts_volume_i_2023.pdf)



In the interest of fairness, and to free up resources for much-needed inflation relief, the government must make sure its employee compensation costs are in line with that of non-government workers in Prince Edward Island.

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.<sup>36</sup>

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.<sup>37</sup>

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.<sup>38</sup> 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 Prince Edward Island also retire earlier and have higher levels of job security than those who work in the private sector.<sup>39</sup>

To bring government employee wages in line with private sector practices, the government of P.E.I. must implement an 8.5 per cent reduction in compensation costs. Much of this can be achieved through attrition and offering lower salaries for any new employees.

This will reduce the estimated cost for government salaries and benefits from \$983.8 million to \$900.2 million.<sup>40</sup> This will result in a savings of \$83.6 million that can then be used to help provide relief for taxpayers.

## Implementing a Sunshine List

### Estimated savings: Unknown

Taxpayers have a right to know what their money pays for and what government employees earn. It is with that in mind that the vast majority of Canadian provinces have implemented what are known as sunshine lists, allowing taxpayers to see the costs of the highest-paid government employees in their jurisdiction.

In Ontario, for instance, the sunshine list publishes the names and salaries of every government employee paid \$100,000 or more.<sup>41</sup> In New Brunswick, the threshold is reached at \$60,000 per year, while in Saskatchewan, the list begins at \$50,000.<sup>42 43</sup> Only Quebec and Prince Edward Island don't publish such a list.<sup>44</sup>

36. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

37. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf>

38. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

39. <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

40. [https://www.princeedwardisland.ca/sites/default/files/publications/web\\_volume\\_1\\_2021-2022\\_pa.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf)

41. <https://www.ontario.ca/page/public-sector-salary-disclosure>

42. <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf>

43. <https://www.cicorp.sk.ca/reports/payee-disclosure-reports>

44. <https://www.theglobeandmail.com/canada/article-sunshine-lists-have-helped-narrow-the-gender-pay-gap-but-ottawa-wont/>

To meet or surpass the standards of government transparency existing in the rest of the country, the government of Prince Edward Island should implement a sunshine list and publicly divulge information on the province's highest-paid bureaucrats.

## Conduct a thorough review with the aim of reducing spending

### Estimated savings: Unknown

Over the course of the last five years, spending in Prince Edward Island has gone up by \$841.1 million, or about 42 per cent.<sup>45 46</sup> This rapid rise in spending must be addressed to bring the province's finances in order.

In its efforts to balance the budget in the nineties, Prime Minister Jean Chrétien's government set forth the best practices for program reviews. The review was comprehensive and applied six tests to every expense:<sup>47</sup>

1. Does it serve the public interest?
2. Is government involvement necessary?
3. Is this an appropriate role for this level of government?
4. Are public-private partnerships possible / desirable?
5. Are there ways to make it more efficient?
6. Can taxpayers afford this expense?

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent of federal program spending at the time.<sup>48</sup>

This program review allowed the federal government to balance the budget in 1997-98 and pay down more than \$100 billion in federal debt before the financial crisis hit in 2008.<sup>49</sup> This reduced the proportion of tax dollars going towards debt interest payments from 30 per cent in 1996-97 down to 13 per cent in 2008-09.<sup>50</sup>

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSAs as a vehicle to boost household savings.<sup>51</sup> Relief that that is needed by Islander's who are faced with an ever-increasing rising cost of living.

45. <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

46. [https://www.princeedwardisland.ca/sites/default/files/publications/public\\_accounts\\_volume\\_i\\_2023.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/public_accounts_volume_i_2023.pdf)

47. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

48. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

49. [https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables\\_October2022.pdf?\\_ga=2.45019876.1912156774.1668026480-1443291271.1665068851](https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851)

50. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

51. [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

# Conclusion

Higher living costs have hit families hard. The government of Prince Edward Island should take bold action to reduce both spending and taxes to provide families with much-needed relief while improving the province's fiscal position.

Thanks to moves announced in Budget 2023, Prince Edward Island is finally catching up with most other provinces and the federal government by indexing its tax brackets in the coming year. This will ensure that Islanders can keep more of what they earn. However, this was a one-time measure. To ensure predictability going forward and to protect Islanders from bracket creep, the government should move to make its temporary approach to indexing permanent.

To further promote affordability and leave more money in taxpayers' pockets, the government should reduce the sales tax by two percentage points, saving Islanders \$88.9 million next year alone.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

To further help the province's economy grow, the government should also take steps to make the province more attractive to investment in all industries by replacing its corporate welfare with corporate tax cuts. Reducing

the corporate income tax by 25 per cent and eliminating corporate welfare would see the government save \$64.5 million and put \$35.6 million directly back into the hands of Prince Edward Island businesses.

Despite posting a surplus over the past two years, Prince Edward Island now sees itself back in deficit territory and net debt continues to grow.<sup>52</sup> 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 \$83.6 million next year.

Overall, the measures recommended in this report will put \$124.5 million back in Islanders pockets and help save at least \$219.1 million in government operations. This will have a net positive budgetary impact of \$94.6 million, which allows the government to [balance](#) the 2024-25 budget.

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52. [https://www.princeedwardisland.ca/sites/default/files/publications/web\\_volume\\_1\\_2021-2022\\_pa.pdf](https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf)