



# 2023 Nova Scotia Pre-budget Submission

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Canadian  
**Taxpayers**  
Federation

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# About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizens' 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 organization. At the end of 2020, the CTF had over 235,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (Saskatchewan and Manitoba), Ontario, Québec and Atlantic Canada. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers 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 organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive emailed 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 members and representatives are prohibited from donating to or holding a membership in any political party. In 2019-20, the CTF raised \$4.8 million on the strength of 39,792 donations. Donations to the CTF are not tax deductible as a charitable contribution.



# Executive Summary

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

To help Nova Scotians deal with soaring inflation and high living costs, the government of Nova Scotia should focus on providing relief through sales and income tax cuts.

Nova Scotia ended the last fiscal year with an unexpected surplus, largely due to an increase in tax revenue of \$1.3 billion over what was projected.<sup>1</sup> Instead of running a projected \$585 million deficit, the province balanced the books and ran a \$351 million surplus.<sup>2</sup> However, the government plans to run a deficit of \$554.2 million in fiscal year 2023-24.

The measures outlined in this report aim to lower the tax burden, stimulate the economy and cut the deficit. 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 Nova Scotians 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 review spending in every ministry to eliminate the remainder of the deficit through departmental spending reductions.

The measures proposed in this submission include:

1. Eliminating bracket creep.
2. Cutting the provincial portion of the HST by one percentage point.
3. Cutting income tax bills by five per cent.
4. Replacing business subsidies with business tax relief.
5. Bringing government compensation in line with Nova Scotia's labour market.
6. 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 one percentage point	\$222.2	
Cutting all income tax bills by five per cent	\$161.1	
Replacing business subsidies with business tax cuts	\$107.6	\$157.2
Bringing employee compensation to market levels		\$350.0
<b>Total per category</b>	<b>\$490.9</b>	<b>\$507.2</b>
<b>Net budget impact:</b>		<b>\$16.3</b>

All numbers are in millions.

<sup>1</sup> <https://www.cbc.ca/news/canada/nova-scotia/nova-scotia-posts-a-351m-surplus-in-2021-22-budget-much-higher-than-anticipated-1.6577341>

<sup>2</sup> <https://www.cbc.ca/news/canada/nova-scotia/nova-scotia-posts-a-351m-surplus-in-2021-22-budget-much-higher-than-anticipated-1.6577341>

# Tax Relief

## Introduction

Nova Scotians 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 last year,<sup>3</sup> while Nova Scotians were hit even harder at 7.3 per cent.<sup>4</sup> The cost of food alone has increased at a rate of roughly 11.4 per cent.<sup>5</sup>

The government of Nova Scotia is the only government in the region to fail to deliver any meaningful relief to help taxpayers get through this difficult inflationary period. Nova Scotians need and deserve relief, and it should be permanent.

The first crucial step is eliminating bracket creep. Nova Scotia is one of only two provinces that still fails to index its tax brackets to inflation. Bracket creep punishes taxpayers for simply keeping up with higher living costs. Given that inflation is at a level not seen for decades, this year bracket creep will hit Nova Scotians much harder than in other recent years.

Had personal income tax brackets been indexed since they were last changed in 2000, a taxpayer earning \$50,000 this year would be paying nearly \$960 less in income taxes.<sup>6</sup> It is time for the government to stop profiting off of inflation by finally indexing tax brackets to the rate of inflation.

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 nine per cent to help lower costs for consumers nearly everywhere they shop.

We are also calling on the government to lower income tax bills across the board by five per cent, in part to make up for years of over-taxation due to bracket creep.

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 Nova Scotia and the rest of Canada. Out of ten provinces, Nova Scotia's GDP per capita was ninth compared to all other provinces. In 2020 the GDP per capita was \$41,412, compared to the national average of \$52,564.<sup>7</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.

<sup>3</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

<sup>4</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

<sup>5</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

<sup>6</sup> Authors calculations

<sup>7</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1>

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.<sup>8</sup>

To help further stimulate investment, the government should replace subsidies with business tax cuts. Tax cuts attract investment and job creators, unlike subsidies, where economic research has found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>9 10</sup>

Reducing taxes also has an added benefit of increasing competitiveness with other jurisdictions, incentivising new businesses and individuals to set up and invest in Nova Scotia, rather than in some other locale.

Peer-reviewed studies have found a clear link between tax cuts and economic growth.<sup>11 12 13 14 15</sup> Given the heavy tax burden that Nova Scotians shoulder, at nearly 36 per cent of GDP,<sup>16 17</sup> there is room to reduce it to stimulate the province's economy and provide relief.

These recommendations would help Nova Scotians better afford their bills and increase competitiveness.

## Eliminate bracket creep

**Tax relief: N/A**

Nova Scotia 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. Failing to index brackets is a form of covert tax hike known as bracket creep.

Apart from a few changes to the basic personal amount, tax brackets in Nova Scotia have remained unchanged since 2000.<sup>18</sup> Meanwhile, the purchasing power of a dollar has gone down by 50.6 per cent in Nova Scotia.<sup>19</sup>

Across the country, most governments have recognized the negative impacts of bracket creep and have indexed their tax brackets to inflation. Only Nova Scotia and Prince Edward Island fail to index any of their tax brackets.

Indexation would have a significant impact on Nova Scotians in the long run as the impact of bracket creep compounds year over year. Nova Scotia should change its Income Tax Act, so the basic minimum amount and tax brackets are indexed to the consumer price index. The table below provides an overview of the impact bracket creep since 2000 is having on this year's tax bill for three sample income earners.

<sup>8</sup> <https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf>

<sup>9</sup> <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

<sup>10</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>11</sup> <https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

<sup>12</sup> <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f>

<sup>13</sup> [https://www.nber.org/system/files/working\\_papers/w20753/w20753.pdf](https://www.nber.org/system/files/working_papers/w20753/w20753.pdf)

<sup>14</sup> <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

<sup>15</sup> <https://www.jstor.org/stable/41789231>

<sup>16</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610022201>

<sup>17</sup> <https://cffp.recherche.usherbrooke.ca/wp-content/uploads/2021/01/Bilan-de-la-fiscalite-Edition-2021.pdf>

<sup>18</sup> <https://nslegislature.ca/sites/default/files/legc/statutes/income%20tax.pdf>

<sup>19</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.7&cubeTimeFrame.startYear=2000&cubeTimeFrame.endYear=2020&referencePeriods=20000101%2C20200101>

Income earner	Extra taxes paid this year due to bracket creep
\$50,000	\$960.00
\$70,000	\$1,235.00
\$90,000	\$1,527.00

Source: Canadian Taxpayers Federation.  
Base Year: 2000.

## Cut the provincial portion of the HST by one percentage point

**Tax relief: \$222.2 million**

Inflation has hit Nova Scotians hard this year. Necessities have only gotten more expensive, with the cost of living rising this year by 7.3 per cent.<sup>20</sup>

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 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.

Nova Scotia is tied with the other Atlantic provinces for the highest sales taxes in Canada.<sup>21</sup> Reducing the total tax to 14 per cent would see Nova Scotia with the lowest sales tax in the region.

Lowering the HST would not only help Nova Scotians better afford their bills, but it would also increase competitiveness and attract consumers looking to save on their tax bills. Sales tax revenue was \$613.5 million higher in the previous fiscal year than originally projected.<sup>22,23</sup> This windfall should be passed back to Nova Scotians in the form of tax relief.

Nova Scotia has the second-lowest level of GDP per capita in the country at \$41,412 per person.<sup>24</sup> One of the factors explaining this poor economic performance is the fact that Nova Scotia households have an after-tax disposable income level that is nine per cent below the national average.<sup>25</sup> This means that after Nova Scotians 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.

There is a clear relationship between household disposable income and household consumption, and between consumer spending and GDP growth. Economic research is also very clear about the link between tax relief measures and economic growth.<sup>26,27,28</sup>

Lowering the HST by one percentage point would free up \$222.2 million to be invested into the local economy and help families ease the burden of inflation.<sup>29</sup>

<sup>20</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

<sup>21</sup> <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

<sup>22</sup> [https://0-nsleg-edeposit-gov-ns-ca.legcat.gov.ns.ca/deposit/b1067973x\\_2021-2022\\_slides.pdf](https://0-nsleg-edeposit-gov-ns-ca.legcat.gov.ns.ca/deposit/b1067973x_2021-2022_slides.pdf)

<sup>23</sup> <https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2022.pdf>

<sup>24</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1>

<sup>25</sup> <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022.pdf>

<sup>26</sup> [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)

<sup>27</sup> <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

<sup>28</sup> <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

<sup>29</sup> [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)

## Cutting income tax bills by five per cent

**Tax relief: \$161.1 million**

Nova Scotians are significantly overtaxed, in part, because of bracket creep. The government has been profiting off of failing to index tax brackets for too long. While bracket creep may have been less obvious to some in the five years prior to the pandemic, when the cost of living in Nova Scotia grew by an average of 1.3 per cent per year,<sup>30</sup> its impact will be profound this year, with living costs in Nova Scotia having increased by 7.3 per cent, one of the highest in the country.<sup>31</sup>

This submission has called on the government to end bracket creep. It is also calling on the government to reduce income taxes at every level by five per cent to return at least some of the excess tax revenue the government is now collecting.

Another reason the province should cut income taxes is because it is becoming less competitive. New Brunswick recently introduced income tax cuts impacting most brackets for the 2023 tax year. Once those tax cuts are implemented, they stand to save the average New Brunswick taxpayer \$310.<sup>32</sup> Nova Scotia should follow New Brunswick's lead in reducing income taxes.

By lowering the province's income tax burden by five per cent, the government would directly inject \$161.1 million dollars into the local economy.<sup>33</sup>

The following chart shows the impact such reductions in income tax bills would have for Nova Scotians.

Taxable Income	Current Tax Bill	Tax bill with proposed tax cut	Savings under proposed plan
\$50,000	\$4,775	\$4,536	\$239
\$70,000	\$8,057	\$7,654	\$403
\$90,000	\$11,417	\$10,846	\$571

Source: [taxtips.ca](https://www.taxtips.ca)

## Replacing business subsidies with business tax relief

**Savings: \$157.2 million | Tax relief: \$107.6 million**

The pandemic was difficult for businesses and the labour market. The province's economy continues to struggle. The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.<sup>34</sup>

Weathering economic storms and finding employment for out-of-work Nova Scotians is not a matter of helping a handful of sectors. It depends on 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.<sup>35</sup>

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>36</sup> Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns for their project.

<sup>30</sup> <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

<sup>31</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

<sup>32</sup> [https://www2.gnb.ca/content/gnb/en/news/news\\_release/2022/11/0614.html#:~:text=As%20previously%20announced%2C%20for%20the.increased%20to%20%2417%2C840%20from%20%2417%2C630](https://www2.gnb.ca/content/gnb/en/news/news_release/2022/11/0614.html#:~:text=As%20previously%20announced%2C%20for%20the.increased%20to%20%2417%2C840%20from%20%2417%2C630)

<sup>33</sup> <https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2022.pdf>

<sup>34</sup> <https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/>

<sup>35</sup> [https://www.mercatus.org/system/files/farren\\_and\\_philpot\\_-\\_policy\\_brief\\_-\\_amazon\\_hq2\\_the\\_story\\_so\\_far\\_-\\_v1.pdf](https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf)

<sup>36</sup> <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>



Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>37</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>38</sup>

In other words, competitive tax rates attract job creators and direct investment.<sup>39</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>40</sup>

Provincial general corporate tax rates	
Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
<b>Nova Scotia</b>	<b>14%</b>
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, Nova Scotia's corporate tax rate puts the province at a disadvantage, at 14 per cent versus the 12.7 per cent national average.<sup>41</sup>

Last year, the government of Nova Scotia spent \$157 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs.<sup>42</sup> This is equivalent to 29 per cent of what the province collected through corporate income taxes over the same period.<sup>43</sup>

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion associated with targeted financial measures.<sup>44</sup> Nova Scotia's economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth of its economic pie and the associated employment and incomes that come with it.

The province should replace these subsidies with a tax cut in the general and small business tax rates by 20 per cent. Lowering the small business tax rate from its current 2.5 percentage points to 2 percentage points, and the general corporate tax rate from its current 14 percentage points to 11.2 percentage points, would put Nova Scotia's corporate tax rate under the national average and amount to \$107.6 million in savings for Nova Scotia businesses of all sizes.<sup>45</sup>

<sup>37</sup> <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

<sup>38</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>39</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>40</sup> [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)

<sup>41</sup> <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

<sup>42</sup> <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

<sup>43</sup> <https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2022.pdf>

<sup>44</sup> [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)

<sup>45</sup> <https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2022.pdf>

# Finding Savings in Government Expenditure

## Introduction

Increases in the cost of living have hit near-record levels in Canada and in Nova Scotia. High levels of federal government spending enabled by the government bond purchasing of the Bank of Canada has strongly influenced the rise of inflation.<sup>46 47</sup>

The government of Nova Scotia posted an unexpected surplus last year.<sup>48</sup> A surplus coming from higher-than-expected tax collections largely due to the unprecedented levels of inflation. The government should maintain its unexpectedly stronger fiscal position while passing the greatest amount of savings possible onto taxpayers.

Nonetheless, the government plans to go back into the red this year and debt is growing. In the larger picture, government debt in the province should not be forgotten. Even though the province posted a surplus in 2021-22, the net debt level did increase compared to the year prior.<sup>49</sup>

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

## Bringing government compensation in line with Nova Scotia's labour market

**Estimated Savings: \$350.0 million**

Salaries and wages have represented the second largest line-item in the government of Nova Scotia's budget over the past five years.<sup>50</sup>

Last year, the province spent over \$4.8 billion employee compensation, representing over 70 per cent of what it collected via taxes.<sup>51</sup> 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 Nova Scotia.

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<sup>46</sup> [https://www.scotiabank.com/content/dam/scotiabank/sub-brands/scotiabank-economics/english/documents/inflation-reports/inflation-report\\_2022-06-19.pdf](https://www.scotiabank.com/content/dam/scotiabank/sub-brands/scotiabank-economics/english/documents/inflation-reports/inflation-report_2022-06-19.pdf)

<sup>47</sup> <https://www.bankofcanada.ca/rates/banking-and-financial-statistics/bank-of-canada-assets-and-liabilities-weekly-formerly-b2/>

<sup>48</sup> <https://beta.novascotia.ca/public-accounts>

<sup>49</sup> <https://notices.novascotia.ca/files/public-accounts/2022/pa-volume-1-financial-statements-2022.pdf>

<sup>50</sup> <https://beta.novascotia.ca/public-accounts>

<sup>51</sup> <https://beta.novascotia.ca/public-accounts>

	2018	2019	2020	2021	2022
<b>Employee compensation</b>	\$4,091	\$4,085	\$4,381	\$4,507	\$4,866
<b>Total Consolidated Expenditures</b>	\$11,750	\$11,752	\$12,282	\$12,627	\$13,724
<b>Share of Total Consolidated Expenditures</b>	<b>34.8%</b>	<b>34.8%</b>	<b>35.7%</b>	<b>35.7%</b>	<b>35.5%</b>

Source: Government of Nova Scotia. All numbers in billions.

After adjusting for 11 different individual characteristics, it has been found that the average government employee in Atlantic Canada earns a 7.2 per cent wage premium over their private sector counterparts.<sup>52</sup> The cost of paying government employees in Nova Scotia has also seen a 19 per cent increase since 2018.<sup>53</sup>

Government employees are also more likely to be enrolled in a pension plan than a private sector employee. Only 13.4 per cent of private employees are covered by a pension plan compared to 70.7 per cent of those that work for the government.<sup>54</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>55</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 Nova Scotia also retire earlier and have higher levels of job security than those who work in the private sector.<sup>56</sup>

Given the province's long term financial unsustainability<sup>57</sup> and ever-increasing compensation costs, Nova Scotia 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 Nova Scotia must implement a 7.2 per cent reduction in compensation costs.

This will reduce the estimated cost for government salaries and benefits from \$4.87 billion to \$4.52 billion,<sup>58</sup> saving Nova Scotia taxpayers an estimated \$350.0 million by the end of the fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of Nova Scotia.

<sup>52</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

<sup>53</sup> <https://beta.novascotia.ca/public-accounts>

<sup>54</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

<sup>55</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

<sup>56</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

<sup>57</sup> <https://distribution-a617274656661637473.pbc-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

<sup>58</sup> <https://notices.novascotia.ca/files/public-accounts/2021/pa-volume-1-financial-statements-2021.pdf>

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

**Estimated savings: Unknown**

Bureaucracy grows to meet the needs of the expanding bureaucracy, as the saying goes. Over the course of the last five years, spending in Nova Scotia has gone up by \$1.97 billion, or about 17 per cent.<sup>59</sup>

	2018	2019	2020	2021	2022
Total Consolidated Expenditures	\$11,750	\$11,752	\$12,282	\$12,627	\$13,724

Source: Government of Nova Scotia. (Billions)

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>60</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>61</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>62</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>63</sup>

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSA's as a vehicle to boost household savings.<sup>64</sup>

Relief that that is needed by Islander's who are faced with an ever-increasing rising cost of living.

<sup>59</sup> <https://beta.novascotia.ca/public-accounts>

<sup>60</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>61</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>62</sup> [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)

<sup>63</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

<sup>64</sup> [https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper\\_Web\\_F.pdf](https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf)

# Conclusion

Nova Scotia is in a somewhat better fiscal position than initially projected, but still faces budgetary deficits moving forward. At the same time, higher living costs have hit families hard. 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 Nova Scotians 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 Nova Scotians' ability to spend and invest in local businesses.

Nova Scotia is one of only two provinces that fails to index its income tax rates to inflation. This leads to a situation where families are faced with a tax hike year after year, even if their real incomes haven't grown. Living costs have skyrocketed this year, forcing families to face tough choices.

To make life more affordable, the government should index its income tax brackets to inflation, reduce the sales tax by one percentage point and lower income taxes by five per cent. Reducing sales and income taxes would result in \$383.3 million being injected back into the local economy.

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 subsidies with corporate tax cuts. Reducing the corporate income tax by 20 per cent and eliminating subsidies would see the government save \$157.2 million and put \$107.6 million directly back into the hands of Nova Scotia businesses.

Despite a posted surplus last year, Nova Scotia's net debt is still increasing.<sup>65</sup> Working to reduce the debt through reductions in government spending will be paramount, 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 \$350 million next year.

Overall, the measures recommended in this report will put \$490.9 million back in Nova Scotians' pockets and help save at least \$507.2 million in government operations. This will have a net positive budgetary impact of \$16.3 million.

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<sup>65</sup> <https://beta.novascotia.ca/public-accounts>