2026 Nova Scotia Pre-Budget Proposal

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Canadian Taxpayers Federation

Contents

Photo credit: Chen Liu

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 organization. Today, the CTF has hundreds of thousands of 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 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 affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive Action Update emails. 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 2023-24 fiscal year, the CTF raised $6.3 million on the strength of 74,858 donations. Donations to the CTF are not deductible as a charitable contribution. The CTF does not accept foreign funding.

Canadian Taxpayers Federation

Executive Summary

Last year, the Nova Scotia government delivered meaningful tax cuts that put more money back into the pockets of hard-working Nova Scotians. These included a one-percentage-point reduction in the HST, an increase in the basic personal amount, a reduction in the small business tax rate, and an increase in the small business income threshold.

However, Nova Scotia must get its budgetary situation under immediate control. The provincial government is now projected to borrow $1.2 billion this year, an increase of $528 million from projections in spring 2025.[1] Government spending in the province is at record levels and there is no plan stop increasing the debt until at least the 2028-29 fiscal year.

The province needs to change course otherwise the net government debt will climb to $29 billion.[2] Such high net debt means the government will spend nearly $1.25 billion in tax dollars every year just to pay provincial debt interest charges. This works out to about $1,158 per Nova Scotian wasted on interest charges rather than going toward essential services or tax relief.[3]

For this budget year, the government must reverse course and start living within its means. To avoid adding additional burdens to future generations, the government should reduce spending and stop borrowing money. At the same time, the government of Nova Scotia should continue to focus on providing relief through sales tax cuts to curb the rising cost of living.

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 grow the economy. Reducing taxes and growing the economy means more money in the pockets of Nova Scotians.

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

The measures proposed in this submission include:

1. **Cutting the provincial portion of the HST by 1.5 percentage points.**
2. **Replacing business subsidies with business tax relief.**
3. **Reducing non-health spending to 2022 levels.**
4. **Bringing government compensation in line with Nova Scotia's labour market.**
5. **Conducting a thorough spending review with the aim of reducing overall spending levels.**

With these proposed measures, the government will be able to provide much-needed tax without increasing the debt.

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

1. https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2025.pdf
2. https://beta.novascotia.ca/sites/default/files/documents/6-3891/ftb-bfi-045-en-budget-2025-2026.pdf
3. Based on current population numbers: https://novascotia.ca/finance/statistics//archive_news.asp?id=20843

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by 1.5 percentage points	$227	–
Replacing business subsidies with business tax cuts	$167	$377
Bringing non-health spending back to 2022 levels	–	$848
Bringing employee compensation to market levels	–	$544
Total per category	**$394**	**$1,769**
Net budget impact:		**$1,375**

*Millions.

Tax relief

Introduction

Nova Scotians have faced years of rising living costs. Since 2021, the price of goods has jumped by 15.4 per cent.[4] Governments unfairly benefit from inflation through increased sales tax revenue as rising prices mean more money is collected from sales taxes.

To combat this, the Nova Scotia government responded by reducing the provincial portion of the HST from 10 per cent to nine per cent in its most recent budget.

However, this submission calls for the government to take this plan further and reduce the provincial portion of the HST by an additional 1.5 percentage points. This measure would not only provide relief to families struggling with inflation, but also boost incomes and drive higher economic growth.

Meanwhile, a widening prosperity gap continues to affect Nova Scotia compared to other provinces. While the province's GDP per capita increased by 1.2 per cent to $42,276 in 2024, it remains behind every other province in Canada except New Brunswick.[5] For example, Nova Scotia's GDP per capita is 22 per cent lower than that of neighbouring Newfoundland and Labrador which sits at $54,307.

A low GDP per capita translates to lower salaries for workers and lower profits for local businesses. As the government aims to grow the province's economy, local businesses need a more competitive environment to attract capital and expand.

Attracting 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.

Accordingly, the Nova Scotia government made the right decision by reducing the small business tax rate and increasing the income threshold last year.

However, 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 to stimulating economic growth.[6] [7]

Implementing these recommendations would help Nova Scotia better manage its living costs and enhance Nova Scotia's economic competitiveness.

4. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&pickMembers%5B0%5D=1.2&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2025&referencePeriods=20250901%2C20250901
5. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/
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

Cut the provincial portion of the HST by 1.5 percentage points

Tax relief: $227 million | $526 per household[8]

The rising cost of living has hit Nova Scotians hard over the past four years. The overall price of goods is now 15.4 per cent higher than it was in 2021.[9]

Sales taxes exacerbate the issues caused by higher prices. Since the 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. A regressive tax takes a larger percentage of income from low-income earners than from higher-income earners, disproportionately burdening those who can least afford it.

Nova Scotia provided much-needed tax relief by lowering the provincial portion of the HST by one percentage point on April 1, 2025. However, Nova Scotia still has higher than average provincial sales tax compared to the rest of the country.

Further HST cuts would help Nova Scotians better afford their bills. It would also increase competitiveness and attract taxpayers from other provinces looking to save on their tax bills. As such, Nova Scotia should cut the HST by an additional 1.5 percentage points, lowering the provincial tax to 7.5 per cent. This would place Nova Scotia below the national average.

Province	Provincial Sales Tax (%)
Alberta	0
Saskatchewan	6%
British Columbia	7%
Manitoba	7%
Average	**7.7%**
Ontario	8%
Nova Scotia	**9%**
Quebec	9.975%
New Brunswick	10%
Newfoundland and Labrador	10%
Prince Edward Island	10%

Nova Scotia has the second lowest level of GDP per capita in the country at $42,276 per person.[10] One of the factors behind this poor economic performance is that Nova Scotia's households have some of the lowest after-tax disposable income levels in the country. This means that after Nova Scotians have paid all of their taxes, they have less cash available to spend at local businesses or to invest in the local economy.

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

9. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&pickMembers%5B0%5D=1.2&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2025&referencePeriods=20250901%2C20250901

10. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/

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 as well as the Tax Foundation is very clear about the link between tax relief measures and economic growth.[11] [12] [13]

Lowering the HST by 1.5 percentage points would free up approximately $351 million to be invested into the local economy and help families ease the burden of inflation and high living costs.[14]

Replacing business subsidies with business tax relief

Savings: $377 million | Tax relief: $167 million

The provincial economy and labour market have continued to stagnate since the pandemic. Employment in the private sector continues to lag behind growth in the public sector.[15] The government should improve outcomes for businesses by providing tax relief that frees up cash flow and allows for growth.[16]

Growing the economy and finding employment for out-of-work Nova Scotians is not a matter of helping a handful of sectors. It depends on creating a favourable business environment for all sectors.

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.[17] Subsidies merely act as icing on the cake for companies that have already analyzed the risks and potential returns.

Economic research has found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.[18] 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.[19]

11. https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf
12. https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run
13. https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living
14. https://beta.novascotia.ca/sites/default/files/documents/6-3891/ftb-bfi-045-en-budget-2025-2026.pdf
15. https://www.fraserinstitute.org/sites/default/files/economic-recovery-in-canada-before-and-after-covid.pdf
16. https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/
17. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
18. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
19. https://www.oecd.org/mena/competitiveness/41997578.pdf

In other words, competitive tax rates attract job creators and direct investment.[20] Lower tax rates also contribute to lowering the cost of capital for job creators, thus increasing their ability to reinvest in their company.[21]

Provincial general corporate tax rates	
Canadian Jurisdiction	**General corporate tax rate**
Prince Edward Island	15%
Newfoundland and Labrador	15%
Nova Scotia	**14%**
New Brunswick	14%
Provincial Average	**12.5%**
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.5%
Ontario	11.5%
Alberta	8%

Source: Provincial government websites

While the provincial government recently cut the small business tax rate, Nova Scotia's corporate tax rate still puts the province at a disadvantage. Nova Scotia's corporate tax rate of 14 per cent is above the 12.5 per cent national average.

Corporate welfare costs Nova Scotia taxpayers over $377 million annually.[22] This is equivalent to 45 per cent of what the province collects through corporate income taxes over the same period.

Replacing business subsidies with corporate tax relief would also have an added advantage: reducing economic distortions.[23] Nova Scotia'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 subsidies with a 20 per cent reduction in the general corporate tax rate. This change would further lower the small business tax rate from 1.5 to 1.2 per cent and the general corporate rate from 14 to 11.2 per cent. Such a cut would make Nova Scotia's corporate tax rate the second lowest in Canada, well below the national average, and deliver $167 million in savings for businesses of all sizes across the province.[24]

Meanwhile, by eliminating the subsidies, the province would still realize $210 million in government savings. Those savings could be redirected to help reduce the existing deficit while still delivering broad-based tax relief to businesses.

20. https://www.oecd.org/mena/competitiveness/41997578.pdf
21. https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf
22. https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada-updated-edition.pdf
23. https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf
24. https://beta.novascotia.ca/sites/default/files/documents/6-3891/ftb-bfi-045-en-budget-2025-2026.pdf

Finding Savings in Government Expenditure

Introduction

Nova Scotia's current budget deficit totals over $1.2 billion and the province plans to keep increasing the debt until at least 2028-29.[25] It is fundamentally unfair to continue increasing the province's debt burden which will ultimately be passed on to future generations.

The section below provides recommendations for various areas where the government can find savings to balance the budget and reduce debt, while continuing to provide tax relief to families and stimulate the economy.

Reducing government non-health spending to 2022 levels

Estimated Savings: $848 million

Government spending and debt in the province of Nova Scotia have gotten out of control in recent years. Since 2021, the provincial debt has increased by $2.5 billion, and the government expects to add another $9.3 billion by 2028-29.[26] Unless the province stops borrowing, the net debt will increase by 43 per cent over a five-year period.

This rapidly increasing debt is unfair to future generations. The government's fiscal approach must change.

During the 2021 Nova Scotia provincial election, the Progressive Conservatives promised to "fix" health care. Premier Tim Houston has repeatedly said that deficit spending is necessary to improve the state of the province's health-care system.

Yet about 60 per cent of new spending is not going toward health care.[27] This pre-budget submission proposes that the government moderately reduce overall spending by returning to 2022–23 levels, excluding the health sector. Such a move would save taxpayers $848 million next year alone[28] and play a major role in allowing the government to balance the books.

25. https://notices.novascotia.ca/files/budget-forecast-notices/budget-forecast-update-september-2025.pdf
26. https://beta.novascotia.ca/sites/default/files/documents/6-3891/ftb-bfi-045-en-budget-2025-2026.pdf
27. https://beta.novascotia.ca/sites/default/files/documents/6-460/ftb-bfi-020-en-budget-2024-2025.pdf
28. https://beta.novascotia.ca/sites/default/files/documents/6-3544/ftb-bfi-001-en-budget-2023-2024.pdf

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

Estimated Savings: $544 million

Salaries and wages have now become tied for the largest line item in the Nova Scotia government's budget, after six years in the number-two spot.[29]

In 2025, the province spent $6.4 billion on employee compensation, representing over 65 per cent of what it collected via provincial taxes.[30]

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

After adjusting for 12 different individual characteristics, a Fraser Institute report found that the average government employee in Canada earns an 8.5 per cent wage premium over their private sector counterparts.[31]

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.[32]

Government pension plans are also much more generous than those of the private sector. Of those who have a pension in the government sector, 90.6 per cent of them are defined benefit plans, compared to only 39.9 per cent of plans for those covered in the private sector.[33] 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.[34]

To bring government employee wages in line with private sector practices, the government of Nova Scotia 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.

To further reduce compensation costs, the government of Nova Scotia should look to move towards a defined contribution rather than defined benefit pension scheme for its employees, as is common in the private sector.

This will reduce the estimated cost for government salaries and benefits from $6.4 billion to $5.86 billion. This will result in a savings of $544 million that can then be used to provide relief for taxpayers.

29. https://notices.novascotia.ca/files/public-accounts/2025/pa-volume-1-financial-statements-2025.pdf
30. https://notices.novascotia.ca/files/public-accounts/2025/pa-volume-1-financial-statements-2025.pdf
31. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
32. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
33. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
34. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf

Conduct a thorough review with the aim of reducing spending

Estimated Savings: Unknown

Over the last five years, spending in Nova Scotia has gone up by $5.3 billion, or about 42.2 per cent.[35] This rapid rise in spending must be addressed to bring the province's finances in order by conducting a review of provincial spending.

In 2020, the Newfoundland and Labrador government formed an an independent committee to review government expenditures and determine a plan to address the province's financial challenges.[36] The resulting report has identified $3.6 billion in government expenditure savings over a six-year period in which the provincial government has been tasked with implementing.[37]

In similar efforts to balance the budget in the 1990s, 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:[38]

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.[39]

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.[40] 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.[41]

The savings also allowed for significant tax relief, such as the GST reduction, business and personal income tax relief, and the establishment of TFSAs as a vehicle to boost household savings.[42]

Nova Scotians who are faced with an ever-increasing rising cost of living need tax relief and the first step is for the provincial government to control spending.

35. https://notices.novascotia.ca/files/public-accounts/2024/pa-volume-1-financial-statements-2024.pdf
36. https://thebigresetnl.ca/about/
37. https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf
38. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
39. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
40. https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851
41. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf
42. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

Conclusion

Last year, the Nova Scotia government delivered meaningful tax cuts that put more money back into the pockets of hard-working Nova Scotians. However, in order to provide further relief, Nova Scotia must get its budgetary situation under immediate control.

For this budget year, the government must reverse course and start living within its means. To avoid adding additional burdens to future generations, the government should reduce spending and balance the budget. At the same time, the Government of Nova Scotia should continue to focus on providing relief through sales tax cuts to curb the rising cost of living.

To leave more money in taxpayers' pockets, the government should reduce the sales tax by 1.5 percentage points, saving Nova Scotians approximately $277 million next year alone – or about $526 per household.

Economic research is clear on 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 allow the government to save $377 million and put $167 million directly back into the hands of Nova Scotian businesses.

Government spending and debt in the province of Nova Scotia have gotten out of control in recent years. Since 2021, the provincial debt has increased by $2.5 billion, and the government plans to add another $9.3 billion by 2028–29. Unless the province stops borrowing, the net debt will increase by 43 per cent over a five-year period. This creates a significant burden for future generations and requires an immediate shift in fiscal strategy.

About 60 per cent of new spending is not going toward health care. This pre-budget submission proposes that the government moderately reduce overall spending by returning to 2022–23 levels, excluding the health sector. Such a move would save taxpayers $848 million next year alone and play a major role in allowing the government to pay down the debt.

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 $544 million next year.

Lastly, drawing on successful examples from other jurisdictions, such as Newfoundland and Labrador's recent independent expenditure review and the Chrétien government's program review in the 1990s, the province must conduct a comprehensive assessment of its spending. By applying best practices – such as evaluating whether each expense serves the public interest, is necessary and can be made more efficient – the government can identify significant savings. These savings will reduce the province's debt burden and provide much-needed relief to Nova Scotians facing rising living costs.

Overall, the measures recommended in this report will put approximately $394 million back in Nova Scotians' pockets and help save nearly $1.7 billion in government operations. This will have a net positive budgetary impact of $1.38 billion, allowing the government to balance the 2026 budget and begin paying down net debt.