2026–27 Newfoundland and Labrador Pre-Budget Proposal

Devin Drover, Atlantic Director
Canadian Taxpayers Federation

JANUARY 2026

Contents

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is 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.

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 Updates emails. Financial supporters can also 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, the CTF raised $6.3 million on the strength of 74,472 donations. Donations to the CTF are not deductible as a charitable contribution. The CTF does not accept foreign funding.

Prepared by Devin Drover,
Atlantic Director

Canadian Taxpayers Federation

Cover photo: [Jonathan Cooper]

Executive Summary

Newfoundland and Labrador's budgetary situation remains a serious cause for concern. This year's budget deficit is coming in at 155 per cent higher than what was expected in spring 2025, totaling over $847 million.[1] This $576-million deficit increase is greater than the $528-million aggregate surplus projected over the next three years.[2] As such, unless a different path is charted, the provincial government will continue to miss its balanced budget targets and continue to borrow indefinitely.

Net debt is now projected to reach $19.5 billion at the end of the present fiscal year.[3] Such high net debt means the government is spending nearly $1.1 billion in tax dollars every year just to pay provincial debt interest charges.[4] This works out to about $2,100 for every Newfoundlander and Labradorian wasted on interest charges rather than going towards essential services or tax relief.[5]

For this budget year, the government must reverse course and start to live within its means. To avoid adding burdens to future generations, the government should reduce spending and stop mass borrowing. At the same time, the government of Newfoundland and Labrador should focus on providing relief through 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 Newfoundlanders and Labradorians.

To finance 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 finally implement the cost savings recommendations outlined in the Premier's Economic Recovery Team Report.

The measures proposed in this submission include:

1. **Raising the basic personal income tax exemption.**
2. **Cutting the provincial portion of the HST by one percentage point.**
3. **Making the gas tax cut permanent.**
4. **Replacing business subsidies with business tax relief.**
5. **Bringing government compensation in line with Newfoundland and Labrador's labour market.**
6. **Implementing spending reductions from PERT report.**

With these proposed measures, 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.

1. https://www.gov.nl.ca/releases/2025/fin/1216n02/#:~:text=In%20the%20first%20part%20of,million%20forecast%20in%20Budget%202025
2. https://www.gov.nl.ca/budget/2024/wp-content/uploads/sites/8/2024/03/Budget-2024-Overview.pdf
3. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
4. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Budget-2025-Overview.pdf
5. https://www.gov.nl.ca/fin/economics/eb-population/

Costed Measures	Tax Relief	Budgetary Savings
Raise the basic personal income tax exemption	$93	–
Cutting the HST by one percentage point	$178	–
Making the gas tax cut permanent	$77	–
Replacing business subsidies with business tax cuts	$84	$158
Bringing employee compensation to market levels	–	$350
Implementing PERT spending reduction measures	–	$894.6
Total per category	**$432**	**$1,402.6**
Net budget impact:		**$970.6**

*Millions

Tax Relief

Introduction

Newfoundlanders and Labradorians are still struggling with rising living costs. The price of goods has jumped by 13.5 per cent since 2021.[6] Even though inflation isn't rising as quickly, Newfoundlanders and Labradorians need relief to manage the financial strain caused by these price hikes over the past few years.

To address cost-of-living pressures, this submission calls for the government to implement electoral promises to raise the basic personal income tax exemption and permanently extend the gas tax cut.

Furthermore, since governments unfairly benefit from inflation through increased sales tax revenue, this submission calls for the government to permanently reduce the provincial portion of the HST by one percentage point to nine per cent. This measure would not only provide relief to families struggling with inflation, but also boost incomes and drive higher economic growth.

Newfoundland and Labrador's GDP per capita has fell about 8.3 per cent from 2019 to 2024.[7] This 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.

Low levels of business investment have led Atlantic Canada as a region to struggle in generating economic growth, according to the Fraser Institute.[8]

To 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.[9] [10]

Implementing these recommendations would help Newfoundland and Labrador better manage their living costs and enhance the province's economic competitiveness.

6. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2024&referencePeriods=20240901%2C20240901
7. https://economicdashboard.alberta.ca/dashboard/gdp-per-capita/
8. https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf
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

Raise the basic personal income tax exemption

Tax relief: $93 million
$425 per household

Newfoundland and Labrador families continue to face severe cost-of-living pressures. Prices remain significantly higher than pre-pandemic levels and household budgets are stretched by rising mortgage payments, food costs and energy bills. Providing broad-based tax relief is the most direct way the government can help workers keep more of their earnings.

The provincial government currently provides the lowest basic personal amount in Atlantic Canada. This means low-income workers begin paying income tax sooner and middle-income earners see more of each raise lost to taxation.

Province	Basic Personal Amount
Newfoundland and Labrador	**$11,067**
Nova Scotia	**$11,744**
New Brunswick	**$13,396**
Prince Edward Island	**$14,250**

During the provincial election campaign, Premier Tony Wakeham committed to increasing the basic personal income tax exemption to $15,000.[11] Implementing this promise would allow residents to earn more income before paying provincial income tax, reducing the burden on lower- and middle-income workers who have been hit hardest by inflation.

Economic research consistently demonstrates that reducing marginal effective tax rates on labour encourages employment, boosts disposable income and increases overall economic activity.[12]

Raising the basic personal exemption to $15,000 would provide approximately $93 million in annual tax relief. That is money left directly in the hands of workers who will spend it at local businesses, pay down household debt, and invest in the province’s economy.

The government should honour its commitment and raise the basic personal income tax exemption to $15,000 immediately in its upcoming budget.

11. https://www.cbc.ca/news/canada/newfoundland-labrador/pcs-promise-big-tax-cuts-while-ndp-focus-on-labrador-travel-costs-1.7637265

12. https://www.fraserinstitute.org/sites/default/files/economic-costs-of-increased-marginal-tax-rates-in-canada.pdf

Cut the provincial portion of the HST by one percentage point

Tax relief: $178 million
$351 per household[13]

The rising cost of living has hit Newfoundlanders and Labradorians hard over the past four years. The overall price of goods is now 13.5 per cent higher than it was in 2021.[14]

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.

Newfoundland and Labrador is tied with other New Brunswick and Prince Edward Island with the highest provincial sales tax in the country:

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%
Prince Edward Island	10%
Newfoundland and Labrador	**10%**

An HST cut would help Newfoundlanders and Labradorians better afford their bills and increase competitiveness by matching neighbouring Nova Scotia. As such, Newfoundland and Labrador should cut the HST by one percentage point to match Nova Scotia.

Newfoundland and Labrador's GDP per capita has fell about 8.3 per cent from 2019 to 2024.[15] One of the factors behind this poor economic performance is that provincial households have some of the lowest after-tax disposable income levels in the country. This means that after Newfoundlanders and Labradorians have paid all of their taxes, they have less cash available to spend at local businesses or to invest in the local economy.

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.[16] [17] [18]

Lowering the HST by one percentage point would free up approximately $178 million to be invested into the local economy and help families ease the burden of inflation and high living costs.[19]

13. Based on an average household income of $100,000. See: https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf
14. 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
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
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.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Estimates-2025.pdf

Making the gas tax cut permanent

Tax relief: $77 million
$352 per household

In early 2022, the government of Newfoundland and Labrador recognized that taxpayers needed relief at the pumps. The previous government implemented a seven cent per litre gas tax cut which has since been extended to March 31, 2026.[20] A family filling up a minivan and a sedan once a week has saved more than $1,000 since the measure was first introduced.

During the provincial election campaign, Premier Tony Wakeham committed to making this gas tax cut permanent. This would provide permanent relief to taxpayers at the pumps and provide certainty that there will be no sudden increases in gas prices this year.

Making the gas tax cut permanent will save Newfoundlanders and Labradorians approximately $77 million this year.[21]

Replacing business subsidies with business tax relief

Savings: $158 million
Tax relief: $84 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.[22] The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.[23]

Growing the economy and finding employment for out-of-work Newfoundlanders and Labradorians is not a matter of helping a handful of sectors. It depends on creating a good 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.[24] Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns.

Research shows no statistically significant link between business subsidies and economic growth or per capita GDP.[25] Corporate tax levels, compared to competing jurisdictions, directly impact a company's profitability and growth.[26]

20. https://www.gov.nl.ca/releases/2025/fin/0303n06/
21. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
22. https://www.fraserinstitute.org/sites/default/files/economic-recovery-in-canada-before-and-after-covid.pdf
23. https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/
24. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
25. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
26. https://www.oecd.org/mena/competitiveness/41997578.pdf

In other words, competitive tax rates attract job creators and direct investment.[27] Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.[28]

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.

Like other Atlantic provinces, Newfoundland and Labrador's corporate tax rate puts the province at a disadvantage. Newfoundland and Labrador has a corporate tax rate at 15 per cent, which is 2.5 per cent above the 12.5 per cent national average.

Corporate welfare costs Newfoundland and Labrador taxpayers over $158 million annually.[29] This is equivalent to about 38 per cent of what the province collects through corporate income taxes over the same period.[30]

Replacing business subsidies with corporate tax relief would also have an added advantage: reducing the economic distortion. Newfoundland and Labrador'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 tax cut in the general and small business tax rates by 20 per cent. Lowering the small business tax rate from its current three percentage points to 2.4 percentage points, and the general corporate tax rate from its current 15 percentage points to 12 percentage points, would put Newfoundland and Labrador's corporate tax rate under the national average and amount to $84 million in savings for Newfoundland and Labrador businesses of all sizes.[32]

This tax cut would still leave $74 million available to reduce the provincial deficit.

27. https://www.oecd.org/mena/competitiveness/41997578.pdf
28. https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf
29. https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada-updated-edition.pdf
30. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
31. https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf
32. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf

Finding Savings in Government Expenditure

Introduction

Newfoundland and Labrador's budgetary deficit is 155 per cent higher than what was expected in spring 2025, totaling over $847 million. This $576 million deficit increase is greater than the $528 million aggregate surplus projected over the next three years. As such, unless a different path is charted, the provincial government will continue to miss its balanced budget targets and continue to borrow indefinitely.

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.

Bringing government compensation in line with Newfoundland and Labrador labour market

Estimated Savings: $350 million

Salaries and wages represent the largest line-item in the government of Newfoundland and Labrador's budget.[33] In 2025, the province spent $4.1 billion on employee compensation, representing about 88 per cent of what it collected in taxes.[34]

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 Newfoundland and Labrador.

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.[35]

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.[36]

33. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
34. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
35. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
36. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf

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.[37]

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. 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 $4.1 billion to $3.75 billion.[38] This will result in a savings of $350 million that can then be used to help provide relief for taxpayers.

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

Estimated savings: $894.6 million

The government took the right first step toward 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 (PERT) 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."[39]

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 spending is now unsustainable compared to other resource rich provinces like Saskatchewan and Alberta.[40]

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. 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."[42]

37. https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada-2023.pdf
38. https://www.gov.nl.ca/budget/2025/wp-content/uploads/sites/9/2025/04/Statements-and-Schedules-2025.pdf
39. https://www.gov.nl.ca/exec/files/The-Big-Reset.pdf
40. https://distribution-a617274656661637473.pbo-dpb.ca/17e59c636036ab66462ec8f935c66672f417b0049e135c8a3fee279aa33b719e
41. https://www.gov.nl.ca/exec/files/The-Big-Reset.pdf
42. https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf

This is consistent with what economists have observed regarding 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 a positive impact – on economic growth compared to plans relying on tax hikes.

In its report, the PERT identified areas where spending reductions can be realized for an estimated $894.6 million in savings in 2026-28.[43] Furthermore, the government can increase these savings by implementing reductions recommended in the report for previous fiscal years not yet implemented.

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

43. https://www.gov.nl.ca/exec/files/The-Big-Reset.pdf

Conclusion

Higher living costs continue to hit families hard while the government of Newfoundlanders and Labradorians continues to spend beyond its means. The provincial government should take bold action to reverse course by reducing both spending and taxes to provide families with much-needed relief while improving the province's fiscal position.

To further promote affordability and leave more money in taxpayers' pockets, the government should raise the basic personal income tax exemption and reduce the sales tax by one percentage points, cumulatively saving Newfoundlanders and Labradorians $271 million next year.

Further, the government should make the temporary gas tax cut a permanent one, saving taxpayers another $84 million.

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 $158 million and put $84 million directly back into the hands of Newfoundland and Labrador businesses.

Newfoundland and Labrador's budgetary deficit is 155 per cent higher than what was expected in spring 2025, totaling over $847 million. This $576 million deficit increase is greater than $528 million surplus projected over the next three years. As such, savings must be found to balance the budget over the long term, reduce the debt, and facilitate sufficient rom for tax relief.

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.

Lastly, the province took the right first step toward 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 (PERT) did was identify the extent of the problem. Now it is time to implement the proposed cost-savings recommendations to save taxpayers $894.6 million over the next fiscal year.

Overall, the measures recommended in this report will put $432 million back in the pockets of Newfoundlanders and Labradorians and help save over $1.4 billion in government operations. This will have a net positive budgetary impact of over $970 million, which allows the government to balance the 2026-27 budget and begin to repay government debt.