



2023 Newfoundland and Labrador Pre-budget Submission

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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 Newfoundlanders and Labradorians hard. Bills are now more expensive and families need relief.

To help Newfoundlanders and Labradorians deal with soaring inflation and high living costs, the government of Newfoundland and Labrador should focus on providing relief through sales and income tax cuts. The government should also implement the recommendations for savings put forward by the Premier's Economic Recovery Team Report.

Newfoundland and Labrador ended the last fiscal year with a smaller deficit than expected.¹ Instead of running a projected \$825.5 million deficit, the province ran a \$271.9 million deficit.² The fiscal situation has improved, but much more work is needed to be done.

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 Newfoundlanders and Labradorians who will be able to spend it as they see fit.

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

The measures proposed in this submission include:

1. Cutting the provincial portion of the HST by two percentage points.
2. Extending the gas tax cut.

3. Scrapping the pop tax.
4. Replacing business subsidies with business tax relief.
5. Bringing government compensation in line with Newfoundland and Labrador's labour market.
6. Implementing the spending reduction plan outlined in the Premier's Economic Recovery Team's Report.

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

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

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	\$287.1	
Extending the gas tax cut	\$71.9	
Scrapping the pop tax	\$8.7	
Replacing business subsidies with business tax cuts	\$93.7	\$101.6
Bringing employee compensation to market levels		\$240.0
Implementing spending reductions from PERT report		\$571.9
Total per category	\$461.4	\$913.5
Net budget impact:		\$452.1

All numbers are in millions.

¹ <https://www.saltwire.com/atlantic-canada/news/newfoundland-and-labrador-reports-2719-million-deficit-for-2021-22-fiscal-year-100789776/>

² <https://www.saltwire.com/atlantic-canada/news/newfoundland-and-labrador-reports-2719-million-deficit-for-2021-22-fiscal-year-100789776/>

Tax Relief

Introduction

Newfoundlanders and Labradorians are confronting increases in living costs that haven't been seen in decades. Canada as a whole saw prices rise by 6.9 per cent last year,³ while Newfoundlanders and Labradorians were hit at 6.1 per cent.⁴ The cost of food alone has increased at a rate of roughly 11.4 per cent.⁵

While the government of Newfoundland and Labrador has made some moves in the right direction to help taxpayers facing higher costs, all of the relief announced so far has been temporary and is set to expire at the end of 2022. Taxpayers need the government to deliver on relief that will last into the next fiscal year and beyond.

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

Tax relief is also crucial in addressing the province's long-term economic problems. There is a prosperity gap between Newfoundland and Labrador on the one hand and the rest of Canada on the other. Out of all ten of Canada's provinces, Newfoundland and Labrador's GDP

growth in 2022 has been the slowest in the nation.⁶ 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 have been cited as a main reason why Atlantic Canada has struggled relatively in economic growth compared to the rest of the country.⁷

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.^{8,9}

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

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

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

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

⁶ <https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1>

⁷ <https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf>

⁸ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

⁹ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

Peer-reviewed studies have found a clear link between tax cuts and economic growth.^{10 11 12 13 14} Given the heavy tax burden that Newfoundlanders and Labradorians shoulder, there is room to reduce it to stimulate the province's economy and provide relief.

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

Cutting the provincial portion of the HST by two percentage points

Tax relief: \$287.1 million

Inflation has hit Newfoundland and Labrador hard this year. Necessities have only gotten more expensive, with the cost of living rising this year by 6.1 per cent.¹⁵

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.

Newfoundland and Labrador is tied with the other Atlantic provinces for the highest sales taxes in Canada.¹⁶ Reducing the total tax to 13 per cent would see Newfoundland and Labrador with the lowest sales tax in the region.

Lowering the HST would not only help Newfoundlanders and Labradorians better afford their bills, but it would also increase competitiveness and attract consumers looking to save on their tax bills. Sales tax revenue was \$230.9 million higher in the previous fiscal year than originally projected.^{17 18} This windfall should be passed back to Newfoundlanders and Labradorians in the form of tax relief.

Newfoundland and Labrador has the slowest GDP growth in the nation this year.¹⁹ One of the factors explaining this poor economic performance is the fact that Newfoundland and Labrador households have an after-tax disposable income level that is nine per cent below the national average.²⁰ This means that after Newfoundlanders and Labradorians have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy. This only becomes worse after considering near-record levels of inflation.

¹⁰ <https://academic.oup.com/qje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

¹¹ <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&&from=f>

¹² https://www.nber.org/system/files/working_papers/w20753/w20753.pdf

¹³ <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

¹⁴ <https://www.jstor.org/stable/41789231>

¹⁵ <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

¹⁶ <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

¹⁷ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

¹⁸ <https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf>

¹⁹ <https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1>

²⁰ <https://royal-bank-of-canada-2124.docs.contently.com/v/provinces-enter-advanced-stages-of-recovery-in-2022-pdf>

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.^{21 22 23}

Lowering the HST by two percentage points would free up \$287.1 million to be invested into the local economy and help families ease the burden of inflation.²⁴

Extending the gas tax cut for another year

Tax relief: \$71.9 million

In early 2022, the government of Newfoundland and Labrador recognized that taxpayers needed relief at the pumps. Beginning in June, the Furey government implemented a seven cent per litre gas tax cut, scheduled to end at the end of the year. This tax relief is saving the typical Newfoundland and Labrador family \$275.²⁵

The relief taxpayers received at the pumps was badly needed. However, the need for gas tax relief will be even more paramount in the years to come. The federal government plans to triple its carbon tax between now and 2030,²⁶ which will lead to soaring gas and home heating prices for Newfoundland and Labrador families. The government should follow the lead of the Ford government in Ontario²⁷ and extend the province's gas tax cut for another year.

Extending the gas tax cut for another year will save Newfoundland and Labrador taxpayers approximately \$71.9 million.²⁸

Scrapping the pop tax

Tax relief: \$8.7 million

As part of Budget 2021-22, the government of Newfoundland and Labrador announced its plans to implement a 20 cents per litre pop tax across the province.²⁹ The implementation date for this tax was Sept. 1, 2022.³⁰

Food taxes don't work as they don't account for consumer responses to their implementation, which occur in three ways.

Some choose to absorb the tax, preferring purchasing their preferred brand of sugary drink over the savings associated with not paying said tax.

Others respond by substituting for cheaper alternatives in the same category. In the case of sugar-sweetened beverages, this can mean switching from name-brand to store-brand products.

Yet others respond by substituting taxed products with untaxed products. This can take the form of replacing a bottle of pop with a sweetened latte drink from a nearby coffee shop or a chocolate bar from the corner shop.

²¹ https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf

²² <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

²³ <https://taxfoundation.org/what-evidence-taxes-and-growth/#~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

²⁴ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

²⁵ <https://www.taxpayer.com/newsroom/furey-poised-to-increase-gas-taxes>

²⁶ <https://torontosun.com/opinion/columnists/lilley-trudeau-is-about-to-raise-taxes-three-times-but-hopes-you-wont-notice>

²⁷ <https://www.theglobeandmail.com/canada/article-gas-tax-cut-ontario-doug-ford/>

²⁸ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

²⁹ <https://www.gov.nl.ca/budget/2021/>

³⁰ <https://www.gov.nl.ca/releases/2021/fin/1019n06/>

Ultimately, all these responses reduce the tax's hoped effects on a population's health.

An analysis of ethical issues surrounding pop taxes commissioned by the Institut national de la santé publique du Québec, a Quebec government body dedicated to public health, concluded that: "A tax on sugary drinks is, by design, a regressive tax."³¹

In a context where food prices have increased by 9.5 per cent³² on average across the province in the last year, increasing taxes on some categories of food is hurting low- and middle-income families in Newfoundland and Labrador and will do little to impact health outcomes.

As such, we call on the government of Newfoundland and Labrador to scrap the pop tax. Doing so will save Newfoundlanders and Labradorians \$8.7 million a year.

Replacing business subsidies with business tax relief

Savings: \$101.6 million | Tax relief: \$93.7 million

While the pandemic's effects on the labour market seem to have waned, Newfoundland and Labrador's unemployment rate, sitting at 9.8 per cent,³³ remains a cause for concern.

Finding employment for out-of-work Newfoundlanders and Labradorians and making sure existing jobs don't disappear is not a matter of helping a handful of sectors

of the economy. 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.³⁴

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.³⁵ Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns for their investment project.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.³⁶ 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.³⁷

In other words, competitive tax rates attract job creators and direct investment.³⁸ Lower tax rates also contribute to lowering the cost of capital³⁹ for job creators, thus increasing their ability to re-invest in their company.

³¹ https://www.inspq.qc.ca/sites/default/files/publications/2320_analyse_enjeux_ethiques_taxation_boissons_sucrees.pdf

³² <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401&pickMembers%5B0%5D=1.3&cubeTimeFrame.startMonth=10&cubeTimeFrame.startYear=2020&cubeTimeFrame.endMonth=12&cubeTimeFrame.endYear=2021&referencePeriods=20201001%2C20211201>

³³ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1410028703>

³⁴ https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf

³⁵ <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

³⁶ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

³⁷ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

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

³⁹ https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

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

Source: Provincial government websites

Subsidy	Amount
Low Carbon Economy Leadership Program	\$20,168,400
Fisheries marketing and development	\$200,000
Mineral development	\$1,700,000
Oil and gas industry support	\$6,000,000
Oil and gas corporation of Newfoundland and Labrador	\$33,274,800
Business and Innovation – Accelerated growth	\$279,000
Innovation and Business Investment Corporation	\$16,836,000
Investment Attraction Fund	\$8,000,000
Sector Diversification	\$115,000
Comprehensive Economic Development	\$14,960,600
Tourism – Strategic Product Development	\$115,000
TOTAL	\$101,648,800

Source: Government of Newfoundland and Labrador, Department of Finance.

Compared with other provinces, Newfoundland and Labrador's corporate tax rate puts the province at a disadvantage, with a higher rate of 15 per cent versus the 12.7 per cent national average.⁴⁰

Last year, the government of Newfoundland and Labrador projected it would spend \$101.6 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs.⁴¹ This is equivalent to 27 per cent of what the province expected to collect through corporate income taxes over the same period.

Replacing business subsidies with corporate tax cuts would have also eliminate the economic distortion associated with targeted financial measures.⁴²

Newfoundland and Labrador's economic strength should not rely on growth expectations in a few targeted sectors, but rather on a broad-based growth of its economic pie.

The province should replace these subsidies with an equivalent tax cut in the general and small business tax rates. Lowering the small business tax rate from its three per cent to 2.4 per cent and the general corporate tax rate from 15 per cent to 12 per cent would represent \$93.7 million in savings for Newfoundland and Labrador businesses of all sizes.⁴³

⁴⁰ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

⁴¹ <https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf>

⁴² https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

⁴³ <https://www.gov.nl.ca/budget/2021/wp-content/uploads/sites/5/Estimates.pdf>

Savings

Introduction

Increases in the cost of living have hit near-record levels in Canada and in Newfoundland and Labrador. High levels of federal government spending enabled by the government bond purchasing of the Bank of Canada has strongly influenced the rise of inflation.^{44 45}

The government of Newfoundland and Labrador posted a smaller deficit than expected in fiscal year 2021-22.⁴⁶ This was largely due to the unprecedented levels of inflation leading to higher tax revenue. The government should maintain and improve upon its stronger fiscal position while passing the greatest amount of savings possible onto taxpayers.

Nonetheless, the government plans to run yet another deficit this year and debt is growing fast. In the larger picture, government debt in the province is a huge concern. Even though the province posted a smaller deficit in 2021-22, the net debt level increased significantly compared to the year prior.⁴⁷

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 employee compensation in line with the Newfoundland and Labrador labour market

Savings: \$240.0 million

Salaries and wages have represented the largest line-item in the government of Newfoundland and Labrador's budget over the past five years.⁴⁸

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.⁴⁹

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.⁵⁰

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.⁵¹ 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.

⁴⁴ https://www.scotiabank.com/content/dam/scotiabank/sub-brands/scotiabank-economics/english/documents/inflation-reports/inflation-report_2022-06-19.pdf

⁴⁵ <https://www.bankofcanada.ca/rates/banking-and-financial-statistics/bank-of-canada-assets-and-liabilities-weekly-formerly-b2/>

⁴⁶ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

⁴⁷ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

⁴⁸ <https://www.gov.nl.ca/exec/tbs/publications/public-accounts/>

⁴⁹ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵⁰ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵¹ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.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.⁵²

Given the province's long term financial unsustainability⁵³ and ever-increasing compensation costs, Newfoundland and Labrador needs to look at one of its biggest line-item expenses: employee compensation.

To bring government employee wages in line with private sector practices, the government of Newfoundland and Labrador must implement a 7.2 per cent reduction in compensation costs.

This will reduce the estimated cost for government salaries and benefits from \$3.45 billion to \$3.21 billion,⁵⁴ saving Newfoundland and Labrador taxpayers an estimated \$240.0 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 Newfoundland and Labrador.

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

Estimated savings: \$571.9 million in 2023-24

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

As they put it: "Newfoundland and Labrador's annual cash shortfall represents approximately 25 per cent of its revenue."⁵⁵

PERT's report is not alone in pointing out the provincial government's unsustainable spending habits. Estimates from the independent Parliamentary Budget Officer peg the province's long term deficit figures at roughly \$1.7 billion using 2021 GDP figures.⁵⁶

This is despite the province having the highest level of government revenue per capita in the country for most of the last decade.⁵⁷ 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."⁵⁸

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

⁵³ <https://distribution-a617274656661637473.pbo-dpb.ca/93a1e3bc1b4432c0b2eac192241b866d36c048b5efc1aa8224e15364551f0c8e>

⁵⁴ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>

⁵⁵ <https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf>

⁵⁶ <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-010-S-fiscal-sustainability-report-2021-rapport-viabilite-financiere-2021>

⁵⁷ <https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-FullReport.pdf>

⁵⁸ <https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf>

This is consistent with what economists have observed with regards to the most successful plans to tackle unsustainable finances. There is substantial economic literature that has pointed out that plans relying on spending cuts in advanced economies have had a lesser negative impact – sometimes even having a positive impact – on economic growth than plans relying on tax hikes.^{59 60 61}

In its report, the PERT identified areas where spending reductions can be realized for an estimated \$571.9 million in savings in 2023-24.⁶² These savings are estimated to reach \$894.5 million by the 2026-27 budget year.

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

⁵⁹ <https://www.nber.org/system/files/chapters/c10973/c10973.pdf>

⁶⁰ <https://www.econstor.eu/dspace/bitstream/10419/106147/1/815406657.pdf>

⁶¹ https://www.mercatus.org/system/files/deRugy_RelativeEffects_v1.pdf

⁶² <https://thebigresetnl.ca/wp-content/uploads/2021/05/PERT-ExecutiveSummary.pdf>

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Conclusion

Newfoundland and Labrador is in a somewhat better fiscal position than initially projected earlier this year, but still faces significant budget 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 Newfoundlanders and Labradorians faced with higher bills, the province should deliver universal tax relief to help all taxpayers weather the storm of inflation. Doing so will increase household incomes and enhance Newfoundlanders' and Labradorians' ability to spend and invest in local businesses.

To make life more affordable, the government reduce the sales tax by two percentage points, extend the gas tax cut for another year and eliminate the pop tax. Reducing the sales and gas taxes and scrapping the pop tax would result in \$461.4 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 \$101.6 million and put \$93.7 million directly back into the hands of Newfoundland and Labrador businesses.

Despite a lower-than-expected deficit last year, Newfoundland and Labrador's net debt is still increasing at an alarming pace.⁶³ 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 \$240 million next year. As well, implementing the spending cuts recommended by the Premier's Economic Recovery Team would save taxpayers \$571.9 million next year alone.

Overall, the measures recommended in this report will put \$461.4 million back in Newfoundlanders' and Labradorians' pockets and help save \$913.5 million in government operations. This will have a net positive budgetary impact of \$452.1 million.

⁶³ <https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2021-22.pdf>