



2026 Prince Edward Island Pre-Budget Proposal

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Contents

About the Canadian Taxpayers Federation	3
Executive Summary	4
Tax Relief	6
Introduction	6
Cut the provincial portion of the HST by one percentage point	7
Replacing business subsidies with business tax relief	8
Finding Savings in Government Expenditure	10
Introduction	10
Reducing government non-health spending to 2022 levels	10
Bringing government compensation in line with Prince Edward Island's labour market	11
Implementing a Sunshine List	12
Conduct a thorough review with the aim of reducing spending	12
Conclusion	14

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.



Executive Summary

Last year, the Prince Edward Island government delivered meaningful tax cuts that put more money back into the pockets of hard-working Islanders. These included adjustments to income tax brackets, 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, Prince Edward Island must now get its budgetary situation under immediate control. Provincial government debt has now exceeded \$3 billion for the first time in the province's history.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 have nearly doubled in a 10-year period.² Such high net debt means the government will spend nearly \$237 million in tax dollars every year just to pay provincial debt interest charges. This works out to about \$1,250 per Islander 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 Prince Edward Island should focus on providing relief through sales tax cuts to curb the rising cost of living.

The measures outlined in this report will 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 Islanders.

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 one percentage point.**
- 2. Replacing business subsidies with business tax relief.**
- 3. Reducing non-health spending to 2022 levels.**
- 4. Bringing government compensation in line with Prince Edward Island's labour market.**
- 5. Implementing a Sunshine List.**
- 6. 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://wdf.princeedwardisland.ca/download/dms?objectId=cf091b05-1e15-4f4b-8b61-41a06d496d17&fileName=2025%20-%20PA%20-%20Volume%20I.pdf>

2. <https://wdf.princeedwardisland.ca/download/dms?objectId=cf091b05-1e15-4f4b-8b61-41a06d496d17&fileName=2025%20-%20PA%20-%20Volume%20I.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 one percentage point	\$52	–
Replacing business subsidies with business tax cuts	\$72	\$244
Bringing non-health spending back to 2022 levels	–	\$405
Bringing employee compensation to market levels	–	\$102
<u>Total per category</u>	<u>\$124</u>	<u>\$751</u>
Net budget impact:		\$627

*Millions.

Tax relief

Introduction

Islanders have faced years of rising living costs. Since 2021, the price of goods has jumped by 12.5 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 Prince Edward Island government must reduce the provincial portion of the HST from 10 per cent to nine per cent in its upcoming budget. 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 Prince Edward Island compared to other provinces. While the province's GDP per capita increased by 1.6 per cent to \$42,313 in 2024, it remains behind every other province in Canada except New Brunswick and Nova Scotia.⁵ For example, Prince Edward Island'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 Prince Edward Island 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 Prince Edward Island better manage its living costs and enhance economic competitiveness.

4. <https://www150.statcan.gc.ca/t1/tbl/en/tv.action?pid=1810000402&pickMembers%5B0%5D=1.2&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2025&referencePeriods=2Q25O9Q1%2C2Q25O9Q1>

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 one percentage point

Tax relief: \$52 million | \$351 per household⁸

The rising cost of living has hit Islanders hard over the past four years. The overall price of goods is now 12.5 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.

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

A HST cut would help Islanders better afford their bills and increase competitiveness by matching neighbouring Nova Scotia. As such, Prince Edward Island should cut the HST by one percentage point to match Nova Scotia.

Prince Edward Island has the third lowest level of GDP per capita in the country at \$42,313 per person.¹⁰ One of the factors behind this poor economic performance is that Island households have some of the lowest after-tax disposable income levels in the country. This means that after Islanders 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.^{11 12 13}

Lowering the HST by one percentage point would free up approximately \$52 million to be invested into the local economy and help families ease the burden of inflation and high living costs.¹⁴

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%

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/tbl/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/>

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=ln%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

14. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

Replacing business subsidies with business tax relief

Savings: \$244 million | Tax relief: \$72 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 Islanders 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

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

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>

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

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

While the provincial government recently cut the small business tax rate, Prince Edward Island's corporate tax rate is the highest in the country and still puts the province at a disadvantage.

Corporate welfare costs Island taxpayers over \$244 million annually.²² This is greater than the 179 million the province collects through corporate income taxes over the same period.²³

Replacing business subsidies with corporate tax relief would also have an added advantage: reducing economic distortions.²⁴ Prince Edward Island's economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth approach.

The province should replace these subsidies with a 40 per cent reduction in corporate tax rates. This change would further lower the small business tax rate from 1 to 0.6 per cent and the general corporate rate from 15 to nine per cent. Such a cut would make the province's corporate tax rate the second lowest in Canada, well below the national average, and deliver \$72 million in savings for businesses of all sizes across the province.²⁵

Meanwhile, by eliminating the subsidies, the province would still realize \$172 million in government savings. Those savings could be redirected reduce debt while still delivering broad-based tax relief to businesses.

22. <https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada-updated-edition.pdf>

23. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

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

25. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

Finding Savings in Government Expenditure

Introduction

Prince Edward Island's government debt now totals over \$3 billion and the province plans to keep increasing the debt until at least 2028–29.²⁶ 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: \$405 million

Government spending and debt in the province of Prince Edward Island have gotten out of control in recent years. Since 2022, the provincial debt has increased by over \$1.1 billion, and the government expects to add another 676 million by 2027–28.²⁷ Unless the province stops borrowing, the net debt will double over a ten-year period.

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

During the 2023 provincial election, the Progressive Conservatives promised to "fix" health care through increased deficit spending. However, while health-care spending has increased by 36 per cent, non-health care spending also increased by 28 per cent.²⁸ This pre-budget submission is proposing that the government moderately reduce its non-health spending back to 2022–23 spending levels. This move would save taxpayers \$405 million and will allow the government, in concert with other measures outlined here, to balance the budget.

26. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

27. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

28. <http://wdf.princeedwardisland.ca/download/dms?objectId=cf091b05-1e15-4f4b-8b61-41a06d496d17&fileName=2025%20-%20PA%20-%20Volume%20I.pdf>;
<https://wdf.princeedwardisland.ca/download/dms?objectId=038da63d-2d03-415d-ae01-7b57ea9c35dd&fileName=2022%20-%20PA%20-%20Vol%20I.pdf>

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

Estimated Savings: \$102 million

Salaries and wages are the largest line item in Prince Edward Island's government's budget, representing 36 per cent of total spending.²⁹

In 2025, the province spent \$1.2 billion on employee compensation, nearly double 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 Prince Edward Island.

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 Prince Edward Island 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 Prince Edward Island 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 result in savings of \$102 million that can then be used to provide relief for taxpayers.

29. <https://wdf.princeedwardisland.ca/download/dms?objectId=cf091b05-1e15-4f4b-8b61-41a06d496d17&fileName=2025%20-%20OPA%20-%20Volume%20I.pdf>

30. <https://wdf.princeedwardisland.ca/download/dms?objectId=cf091b05-1e15-4f4b-8b61-41a06d496d17&fileName=2025%20-%20OPA%20-%20Volume%20I.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>

Implementing a Sunshine List

Estimated savings: Unknown

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

In Ontario, for instance, the sunshine list publishes the names and salaries of every government employee paid \$100,000 or more.³⁵ In New Brunswick, the threshold is \$80,000 per year, while in Saskatchewan, the list begins at \$50,000.^{36 37} Only Quebec and Prince Edward Island don't publish such a list.³⁸

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

Conduct a thorough review with the aim of reducing spending

Estimated savings: Unknown

Government spending and debt in the province of Prince Edward Island have gotten out of control in recent years. Since 2022, the provincial debt has increased by over \$1.1 billion and the government expects to add another 676 million by 2027–28.³⁹ Unless the province stops borrowing, the net debt will double over a 10-year period.

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 independent committee to review government expenditures and determine a plan to address the province's financial challenges.⁴⁰ 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.⁴¹

In similar efforts to balance the budget in the 1990s, former 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.⁴²

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

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

37. <https://www.cicorp.sk.ca/pub/Reports/Payee%20Disclosure%20Reports/2022-23-payee-disclosure-report-web-binder.pdf>

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

39. https://www.princeedwardisland.ca/sites/default/files/publications/estimates_book_2025-26.pdf

40. <https://thebigresetnl.ca/about/>

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

42. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

- 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.⁴³

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 2008.⁴⁴ 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 2008–09.⁴⁵

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.⁴⁶

Islanders 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.

43. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

44. https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851

45. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

46. https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

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Conclusion

Last year, the Prince Edward Island government delivered meaningful tax cuts that put more money back into the pockets of hard-working Islanders. However, to provide further relief, the provincial government 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 should continue to focus on providing relief through a sales tax cut to curb the rising cost of living.

To leave more money in taxpayers' pockets, the government should reduce the sales tax by one percentage point, saving Islanders approximately \$52 million next year alone – or about \$351 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 40 per cent and eliminating subsidies would allow the government to save \$244 million and put \$72 million directly back into the hands of Island businesses.

Government spending and debt in the province of Prince Edward Island have gotten out of control in recent years. Provincial government debt has now exceeded \$3 billion for the first time in the province's history. 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. This creates a significant burden for future generations and requires an immediate shift in fiscal strategy.

About half 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 \$405 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 \$102 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 Islanders facing rising living costs.

Overall, the measures recommended in this report will put approximately \$124 million back in Islanders' pockets and help save 751 million in government operations. This will have a net positive budgetary impact of 627 million, allowing the government to balance the 2026 budget and begin paying down net debt.