Charting a Path for Growth

Nova Scotia Tax and Regulatory Review

Competitive Corporate Taxes

Nova Scotia's priority must be a more competitive tax regime.

Having the highest provincial corporate tax rate in Canada puts Nova Scotia at a distinct competitive disadvantage. Corporations operating in Nova Scotia and elsewhere have incentives to shift profits outside the province. However, at three percent, Nova Scotia offers one of the lowest small business tax rates in Canada. The cost of this has ranged from $128 million to almost $200 million since 2008 and the New Small Business Tax Holiday – which does not exist in other provinces – eliminates income tax for the first three years.

Size does not directly relate to ability to generate entrepreneurship, growth and job creation. Most small firms do not grow. Only about 4 percent of small businesses create 50 percent of all new jobs. Small business tax breaks create an incentive for business to stay small, and do not recognize the reality that large corporations drive economic and job growth. However, small business does not benefit from the economies of scale and the organizational capacity of large firms to comply with taxes and regulations. This should be addressed through regulatory relief.

Using the tax credits as incentive for business creation, growth and economic development is a blunt and unsustainable instrument. A more balanced approach is needed in Nova Scotia to encourage private sector investment and strengthen the economy. Such preferential treatments oftem make systems more complex and costly, encourage the creation of winners and losers, set unsustainable presidents, and lack rigorous evaluation and transparency. The province and industries affected must work to develop strategies that will allow expansion and growth, while creating more certainty around costs. Charting a new direction on tax expenditures is critical to Nova Scotia's future economic prosperity and its ability to maintain a solid tax base.

Why

- Become more competitive
- Increase neutrality and fairness
- Make the system more simple and efficient
- Encourage small business to grow
- Help corporations drive economic and job growth

How

- Increase the small business tax threshold to $500-thousand from $350-thousand
- Over the next 10 years raise the Small Business tax rate to 8% from 3%
- Lower the corporate tax rate to 13.5% from 16% using increased revenues from higher Small Business tax rate
- Eliminate the underused and ineffective New Small Business Tax Holiday
- Apply the same parametres to corporate tax expenditures as to other business initiatives to determine effectiveness and efficiency
    - Limit the scope and duration of all business tax credits
    - Make sponsor departments accountable for any corporate tax expenditures
    - Publish and annual list of direct business support programs and any related spending
- Realign the regulatory and administrative framework of the Nova Scotia Film Tax Credit and Digital Media Tax Credit with similar tax measures in other jurisdictions
    - Assign administration of the Nova Scotia Film Tax Credit and Digital Media Tax Credit to Film and Creative Industries Nova Scotia
    - Use the sunset period before 2020 to determine the most effective tools to help grow the creative economy in Nova Scotia and transition the tax credits to departmental expenditure programs
- Work with the Federal government and Canada Revenue Agency to respond to concerns that the current Scientific Research and Experimental Development Tax Credit is not administered consistently across the province
- Double annual limits for the Equity Tax Credit (ETC) to $100,000 from $50,000. Target high-growth sectors, such as information technology and clean technology. Examine eligibility requirements
    - Explore expansion of the ETC to a regional tax credit
    - Consider allowing pooled investment funds to be eligible