

Nova Scotians
TAX ^{for} **FAIRNESS**
Tax Fairly Spend Wisely

January 15, 2013

Maureen MacDonald,
Minister of Finance
Department of Finance
7th Floor, Provincial Building
1723 Hollis Street
Halifax, Nova Scotia B3J 2N3

Dear Minister MacDonald:

Thank you for the opportunity to present our views on the 2013 Nova Scotia Budget process and to listen to your presentation about the context in which you will be making decisions.

General principles

We believe taxes are essential to create a healthy, productive, and equitable society. Nova Scotians for Tax Fairness support fair taxation and wise spending. This means that higher income individuals and corporations must pay their fair share along with the rest of us and that spending must be prudent and effective, creating real value for Nova Scotians with the goal of ensuring that all live with dignity.

A good budget will be based on these two principles. We trust that you and your government agree with these 2 principles.

A survey by Environics for the Broadbent Institute last year showed that most Canadians – 64% - are willing to paying slightly higher taxes, as long as that would improve social programs – education, health care, infrastructure and support for the most vulnerable among us.ⁱ

Public Information

Surveys show that Nova Scotians, like other Canadians, support these principles. However several think tanks and advocacy groups and others relentlessly advocate against government spending and higher taxes. Spending scandals make good news stories but the amounts of money as a proportion of government expenditures are almost always tiny. The public perception of general waste is grossly inflated compared with reality. After more than 30 years of anti government campaigning, we believe members of the public are often misinformed and adopt knee jerk responses to the question of taxes, assuming that all taxes are wasted.

It is long past time to change the public debate and to create a more accurate understanding of the role of taxes and government investment in public services. It is no accident that some of the most equitable as well as economically successful societies in the world have taxes much higher than Nova Scotia and Canada – northern Europe and Germany are the stand outs.

Nova Scotians for Tax Fairness is committed as an organization to help change the public debate. We are doing this through the media and through public events.

We believe it is vital that the government promote the value of high quality public services and programs and the necessity for all of us to pay for the services we get, in a fair and equitable way. The budget process is an excellent time to do this. The interactive budget tool this government used in earlier years was an important element of this kind of public education although it limited the options too severely.

Recommendation 1: Create a public information campaign explaining what taxes pay for.

Many would be surprised to learn that 2/3 of the provincial budget goes to the very things that Nova Scotians value highly – health, education and income support and services for those who are disabled or at risk of homelessness or hunger. Highways and public safety which are also considered essential public goods take the percent even higher.ⁱⁱ

The Balanced Budget Goal

The economy continues to struggle. This is not just a NS phenomenon. It is affecting provincial governments including powerhouses Ontario and Alberta which are facing large deficits as well as the Federal Government. Our national government delayed the year they intend to return to a balanced budget from 2014-15 to 2015-16 and in November they mused about another year's delay to 2016-17. Discipline is important but it does not make sense to increase the drag on the fragile economy by budget cutting.

Some argue the public debt is the sole burden we will bequeath to our children so it must be reduced and eventually eliminated at all costs. However, education directly affects the long term success of the next generation and we will also bequeath to our children many valuable assets, from highways and public buildings and wilderness areas to working forests in crown lands. So reducing the debt is only one of many important public goals.

Recommendation 2: Defer the goal of a balanced budget by at least one year from 2013-14 to 2014-15.

As you know, the public debt as a per cent of GDP was forecast to be 35% this year. This is much lower than the 48.7% it was in 2000 and much smaller than the 39% forecast for this year in your government's 2010-11 budget forecast.ⁱⁱⁱ There is room to defer the balanced budget goal and remain a reasonable per cent of GDP.

Fair Taxation

We believe Nova Scotians recognize the need for investment in schools and universities, health care and poverty reduction. They are tired of cuts. They are willing to pay the taxes required to allow for re-investment as long as they are assured that that's what the money will be used for.

We recommend the following suite of tax changes:

Recommendation 3: Increase personal income taxes for those who can afford to pay.

This is the most important area of taxation where fairness can be improved. Nova Scotians are more willing to pay their share of taxes if they can see that the system is fair and that those who can afford it most easily are paying a higher proportion of their income.

We recommend adding new tax brackets and increases the marginal tax rate by small amounts that increase as incomes increase, as follows. The 2 new brackets are above \$375,000/year. These measures will make our tax system more progressive but the top rate will remain far below historic levels in the 1950's and 1960's. We have not yet calculated the impact of these increases, but we know they would produce far more than \$100 million in increased revenue based on the Canadian Centre for Policy Alternative – Nova Scotia (CCPA-NS)'s 2012 calculations for smaller increases.

NS rates:

15.45% from \$29,501 to \$59,180	(0.5% above the current rate)
17.67% from \$59,181 to \$93,000	(1% above the current rate)
19.5% from \$93,001 to \$150,000	(2% above the current rate)
24% from \$150,001 to \$375,000	(3% above the current rate)
26% from \$375,001 to \$500,000	(5% above the current rate)
28% from \$500,001 upwards	(7% above the current rate)

Recommendation 4: Assess income taxes on 100% of capital gains instead of 50% of capital gains. Treat stock option income the same way.

This is the 2nd most important area of taxation where fairness can be improved. Some argue that Nova Scotia cannot do this without Federal participation because our tax collection is administered by the Canada Revenue Agency (CRA). Ontario's conservative government of Mike Harris announced that it intended to create a "made for Ontario" tax system that would give them full control over their tax rates and deductions and **reduce the inclusion rate for capital gains taxation to 50%**. In the end, they did not follow through because the federal government made some of the changes they sought, including the lower capital gains inclusion rate. However, this illustrates how this idea could be implemented.

Nova Scotia should take this same approach. Announce your intention to make capital gains taxation fair in this way and negotiate this change with the CRA. This is a change that would be much more effective if done by the federal government, so it would apply equally across the country. In the meantime, NS can take the lead.

Recommendation 5: Change tax deductions to tax credits.

This is another step toward making the tax system more fair. A tax credit ensures that the tax savings from a particular non-taxable expense are equitable – the same for someone earning \$40,000/year as for someone earning \$200,000 per year, quite unlike tax deductions which are far more valuable to the \$200,000 earner for the same size of expense. This has been recommended in CCPA-NS's alternative budget in recent years. In 2012 CCPA-NS' budget estimated this would bring in \$189 million more in revenue.

Like the change in capital gains, this would require negotiation with the CRA as administrator of the tax collection system. We recommend that you announce your intention to make tax collection fair in this way and negotiate the change with the CRA.

Recommendation 6: Make the 10% HST permanent.

Nova Scotians were paying a combined total of 15% HST since the mid 1990's. It is reasonable to continue to pay this amount now to allow us to pay for the services valued by the public. The amount of funding that will be lost by cutting the HST by 2% cannot be replaced except by cutting public services instead of investing more in them. It will be more than \$330 million in 2013-14.

This is not generally considered to be fair taxation since it hits lower income citizens more heavily than higher income citizens, simply because a greater portion of their income is spent on purchases subject to the sales tax. However, the government's Affordable Living Tax Credit and the Poverty Reduction Tax Credit are an effective antidote to this very real problem.

Recommendation 7: Freeze the small business tax rate at this year's 3.5%.

In March 2012, KPMG released a study showing Nova Scotia communities are very cost competitive. "Halifax ranked as the third most cost-competitive city to do business in for Canada and fourth worldwide, according to a report released Thursday. The report, released by business consulting firm KPMG, looked at 26 business cost elements, including labour, taxes, real estate and utilities. When put together, Halifax earned a cost index of 92.7 in 2012....When it came to small centres, Truro ranked first nationally, with a cost index of 91.9, followed by Sydney at 92. Access to educational facilities, a favourable regulatory environment, and innovation are all reasons cited by KPMG as to why cities and towns in Atlantic Canada did so well." ^{iv}

If we already have the lowest costs in Canada we don't need to reduce those costs further by reducing taxes. Excellent infrastructure and services, including streamlined regulations, are more valuable for a competitive business climate than simply having low taxes. Small businesses should pay taxes to contribute to the valued services they rely on.

Federal measures

Tax Havens are a growing scourge for countries around the world. They facilitate enormous losses of taxes in Canada and Nova Scotia. Other countries are beginning to take action. Canadians for Tax Fairness writes "A study released in late 2011 by the non-partisan Tax Justice Network estimates that tax evasion costs the Canadian government, as well as provincial and municipal jurisdictions, about \$80 billion dollars a year. This robbery—no other word fits—creates unnecessary fiscal deficits, starves Canadians on social assistance of benefits they need to feed their families healthy diets and heat their homes, squeezes school budgets, elevates university fees beyond students' ability to pay, and contributes to the degradation of the infrastructure that's crumbling around us."

The federal government is responsible for action to reduce tax evasion and tax avoidance through the CRA. They are acting, but not at the level required or to the same degree as other countries are. As Chair of the Council of the Federation, Premier Dexter could help make this a national

issue and persuade the federal government to increase its pursuit of tax avoiders and evaders. This would bring much needed revenue to Nova Scotia as to every other province and the federal government.

Recommendation 9: Advocate for effective measures to reduce taxes losses to tax havens.

This is another vitally important measure to make the tax system fairer. Five actions recommended by the Tax Justice Network as well as Canadians for Tax Fairness are:

1. Publish an official estimate of the size of the tax evasion problem including the impact of tax havens.
2. Press vigorously for international cooperation in places such as the United Nations Tax Committee and the G20.
3. Increase the audit and enforcement capacity of the Canada Revenue Agency and focus more on going after the big time tax cheats who are using tax havens.
4. Force corporations to publish what they pay in taxes on a country by country basis.
5. Promote automatic tax information exchange as a way to facilitate more efficient sharing of information and timely collection of revenue.

See the attachment for more detail.

Spend Wisely

It is equally important to NSTF that government spending be prudent and effective. There are now a growing number of measures that have been shown to reduce costs while also improving the lives of Canadians.

Recommendation 10: Invest in services that not only enable disadvantaged Nova Scotians to live a life with more dignity and social participation but which will also result in fiscal savings for the Province.

Given the constrained fiscal environment in Nova Scotia, adopting a social investment approach not only makes sense but is one which we really cannot afford not to embrace. Conversely, Nova Scotians can no longer afford the status quo, a social investments approach is the only way forward.

Several examples are listed below. Some create savings very soon, while others create savings over a longer time.

1. Invest in full day care, following Quebec's example.

Several recent studies have shown that when governments invest in day care, their investment is handsomely repaid. Most recently, a comprehensive literature review carried out by TD Economics, concluded: "While governments at all levels are in no position to boost program spending at this time given budget constraints, this is one area that they should consider making a high priority over the medium term, as their finances move back into balance. Ultimately, investment in early education can help to address core economic and social challenges facing Canada. It can help reduce poverty, address skills shortages, improve productivity and innovation, and a host of other national priorities."^v

2. **Commit to bringing social assistance incomes (taking into account all applicable Federal income supports) to the Low-Income Cut-Off poverty lines within five years.**
Current social assistance rates leave low-income individuals and families with children hundreds of dollars per month below the point where they can afford a minimally nutritious diet.^{vi} Social assistance shelter rates in Nova Scotia have not been raised since 2006. On the other hand, an emerging consensus in the scholarly literature holds that “[social] investments made over the next few years could prove highly profitable, since it is recognized that reducing poverty leads to reduced costs for health care, the criminal justice system, social programs and so on, and increases the economic contribution of a part of the population whose talents are not currently being exploited to their full potential.”^{vii}
3. **Invest in Housing First programs for people who are homeless or at risk of becoming homeless, with targeted supports for the individuals in the program.**
Studies have shown that the cost of permanent housing with support is less than the costs of policing, emergency and chronic health care and emergency accommodation.^{viii}
4. **Invest in a comprehensive program to treat patients with heart disease, diabetes or at risk of these diseases with a consistent preventive program of exercise and diet.**
Nova Scotia has higher rates of these diseases than most provinces and territories. Patients identified as high risk or already with the disease could be referred to a well structured, coordinated system consisting of education and training and long term consistent follow-up. American private insurers that have adopted this approach have experienced significant short term gains in reduced heart surgeries and use of medications. This is an example of a best practice that would improve health outcomes while saving money in the short as well as long term.^{ix}
5. **Invest in comprehensive home care to reduce the use of hospital beds for those with chronic conditions awaiting permanent care beds.**
This is a chronic situation which results from a lack of supportive, community based housing for people with disabilities. In the meantime, many people are held against their will in psychiatric and other institutions for no medical or legal reason—they remain detained against their will simply because they cannot afford adequate housing.^x

We understand that budgeting is a complex process in which you must weigh many factors. We believe it is time to take a different direction and that if tax increases are tied to specific improvements in programs and services, Nova Scotians will support this new direction.

Yours sincerely,

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ENDNOTES

ⁱ Toronto Star – April 9, 2012 – Op Ed by Ed Broadbent. “Almost two-thirds (64 per cent) of Canadians are willing to pay slightly higher taxes if that’s what it would take to protect our social programs. A majority of Conservative voters (58 per cent) are willing to pay more taxes to protect social programs, while Liberal and NDP voters are even more supportive: 72 per cent of them would pay more. Interestingly, even high-income earners are as willing as the rest of Canadians to pay slightly more in taxes.”

ⁱⁱ 65% of public expenditures are for health, education and social services. Social services includes income for seniors and people with disabilities so they won’t live in poverty. I don’t have figures for public security and infrastructure renewal.

ⁱⁱⁱ 2012-13 NS Government Budget Assumptions – 2012 - p 1.17

^{iv} Chronicle Herald – March 3, 2012 - “**Halifax ranked fourth globally as cost-effect business site**”

^v TD Economics: Special Report: *Early Childhood Education Has Widespread and Long Lasting Benefits* (Nov. 27, 2012) http://www.td.com/document/PDF/economics/special/di1112_EarlyChildhoodEducation.pdf

^{vi} Can Nova Scotians Afford to Eat Healthy?” (MSVU 2011)

^{vii} "Federal Poverty Reduction Plan: Working in Partnership Towards Reducing Poverty in Canada" (Report of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities -November 2010) at page 249:

<http://www.parl.gc.ca/content/hoc/Committee/403/HUMA/Reports/RP4770921/humarp07/humarp07-e.pdf>

^{viii} See the Mental Health Commission of Canada (MHCC),

<http://www.homelesshub.ca/Library/Beyond-Housing-At-Home-Chez-Soi-Early-Findings-Report-55032.aspx>

^{ix} Several studies are quoted in “The Spectrum” by Dean Ornish.

^x See Mental Health Commission of Canada (2012)