2018

Tax Review Report

Independent Tax Review Committee
Newfoundland and Labrador

11/30/2018

Dear Minister Osborne:

On August 22, 2017, members of the Independent Tax Review Committee were appointed to complete a comprehensive, independent review of the tax system, including tax expenditures, with a report due to the Minister of Finance by November 2018. On behalf of the Independent Tax Review Committee, I am pleased to submit our Tax Review Report and Tax Review Background and Analysis document that includes the Terms of Reference, key findings and detailed results of the public survey and observations and recommendations.

The committee's mandate, including scope of work, objectives and guiding principles, was outlined in the Terms of Reference (see Appendix A). The Independent Tax Review Committee had full autonomy to determine the approach to best meet its mandate. Early in the process of the review however, it was determined that the current state of the Province's finances significantly influenced the thoughts of the committee including many lengthy discussions about finances and spending. The approach of the committee was also shaped by the results of the survey undertaken by the Newfoundland and Labrador Statistics Agency on behalf of the committee. A "common sense" approach was stressed throughout the initiative with the goal being to produce a practical report. The committee feels it has delivered and met this objective.

Based on our observations and analysis, there are three points that I would like to highlight for you. First, Newfoundland and Labrador's taxes are reasonable compared to many other parts of Canada when combined with provincial, regional and municipal taxation. Second, Newfoundland and Labrador has a fiscal challenge. We have the highest per capita net debt of any province and face continued deficits in the near-term. Given our current taxation levels, the committee feels that this can only be addressed by reducing spending. Third, the results of our survey identified that many residents of Newfoundland and Labrador seem to have little or no understanding of basic government finances although residents demand better services and expect more from Government. Taxes are an essential portion of revenues needed to provide programs and services.

The committee met nearly every month, either in person or by teleconference, between September 2017 and November 2018. The committee launched a website in early 2018 to provide appropriate background information to the public and a means for interested parties to contact or provide feedback to the committee. The Committee held stakeholder consultations with various interest groups between May and August 2018. The committee also wrote regional Boards of Trade in the province asking them to provide their member's comments, feedback or recommendations. All of the presentations were informative. A wide range of views, preferences, and recommendations were presented. The committee would like to thank representatives from all groups that took time to present their views to the committee and showed an interest in our tax system.

The committee reviewed major tax revenue sources, other taxes and revenue sources, recent fiscal challenges, spending, debt, new revenue opportunities and challenges ahead. Based on this analysis, the committee developed a set of observations and recommendations for consideration in the upcoming budget process. The committee intensely discussed many aspects of taxation and government finances recognizing that taxation, revenues, expenditures, services and government's fiscal position are connected. The recommendations of the committee can be categorized into seven broad actionable areas including sound fiscal management, financial education and communications, hold the line on most taxes, spend smarter with improved transparency and accountability, grow the economy, ensure we support our most vulnerable, and pursue other revenue options.

Specific tax recommendations include the following:

- Any future tax reductions should initially be focused on personal income tax;
- Efforts to broaden consumption tax bases should be considered;
- Consideration should be given to ending the Temporary Deficit Reduction Levy prior to the legislated date;
- A study of the impact of local taxes and fees should be undertaken to determine the total tax burden in our province;
- The Province should consider implementing a provincial property tax so that all property owners pay a minimum tax on all properties in the province;
- Increasing the HAPSET exemption threshold from $1.2 million to $2.5 million; and
- Consider tax credit programs for the green economy.

Other recommendations include bringing expenditures in line with available, consistent revenue sources, prioritizing spending, especially in the health and education sectors, encouraging greater regional cooperation, reviewing the merits of a higher minimum wage and establishing a cost recovery threshold for ferry operations and other government services.

On behalf of the Independent Tax Review Committee, it was a pleasure to work on this important project. I trust that the observations and recommendations presented in the Tax Review Report will be considered by Government during the upcoming budget process.

Sincerely,

Stephen Jerrett

Chair

ACKNOWLEDGEMENTS

The Independent Tax Review Committee would like to acknowledge the interest, support, and suggestions from the general public, business community, organized groups, and all others that followed or participated in this challenging project.

From the outset it was clear this would be a very demanding exercise—expectations varied considerably and the subject matter was difficult. Ultimately, the current state of the Province's finances significantly influenced the thoughts of the Independent Tax Review Committee including many lengthy conversations about finances and spending.

Recommending or implementing change to any mature system is often controversial. Our tax system has evolved over decades and touches the daily lives of nearly everyone in our province.

Our province and economy needs stability as we move forward. Our tax system is an integral part of our economy—changing this system must be well-planned and managed carefully. The long-term fiscal situation of the Province of Newfoundland and Labrador, along with a strong and productive provincial economy, must be paramount when considering or implementing tax changes.

As Chair, I would like to thank each member of the Committee for the significant insight, time, and effort they contributed to the exercise. I would also like to acknowledge the outstanding support from the Economic, Fiscal, and Statistics Branch of the Department of Finance.

S. Jerrett

Chair

WHAT READERS SHOULD TAKE AWAY FROM THIS REPORT

Given the broad range and technical nature of this report's subject matter, and in lieu of a traditional executive summary, it is more practical to provide readers with three general take-aways from this exercise.

- Overall, taxation in our province is reasonably comparable to many other parts of Canada. When provincial, regional, and municipal taxation (including local fees for essential services such as water, waste water, storm sewer, and garbage disposal) are combined and compared, Newfoundland and Labrador's taxes are not unreasonable.
- Newfoundland and Labrador has a fiscal challenge. We have the highest per capita net debt of any province and face continued deficits in the near-term. Arguably, this challenge has been caused by spending rather than under-taxation or inability to generate revenues.
- Many residents of Newfoundland and Labrador seem to have little or no understanding of basic government finances. While no one likes paying taxes and most people feel over taxed, many people demand better services and expect more from government without giving consideration to the additional strain on government finances. Taxes are an essential portion of revenues needed to provide services and programs.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

MANDATE

The Government of Newfoundland and Labrador committed to completing a comprehensive independent review of the tax system, including tax expenditures, to be completed within the current government's mandate.

To meet this commitment, Government formed the Independent Tax Review Committee (ITRC). In late August 2017 the members of the ITRC were announced and the review process initiated.

Government established a Terms of Reference for the Independent Tax Review (ITR) which included:

- Scope of work;
- Objectives; and
- Guiding principles.

The ITRC was supported by the Economic, Fiscal, and Statistics Branch of the Department of Finance. Officials from the Tax and Fiscal Analysis Division were assigned to the project. The ITRC was mandated to provide a report to the Minister of Finance by November 30, 2018.

COMMITTEE & APPROACH

In late August 2017, five individuals were appointed to serve on the ITRC. The appointees were:

- Stephen Jerrett (Chair, Botwood);
- Brian Bonnell (Corner Brook);
- Carol Furlong (St. John's);
- Marion Pardy (St. John's); and
- Peter Woodward (Goose Bay).

While supported by the Department of Finance, the ITRC was independent with full autonomy to determine the approach to best meet its mandate. ITRC members brought diversified backgrounds, along with significant work and academic experience to the initiative. The varied careers and life experiences allowed each member to contribute a unique view and perspective to the exercise. A "common sense" approach was stressed throughout the initiative with the goal being to produce a practical report.

Our Guiding Tax Policy Principles

Effectiveness is a measure of the program's ability to meet its stated goals.

Equity in a tax program denotes a concept of fairness particularly as it relates to the distribution of wealth or burden of taxation. Horizontal equity is when taxpayers in similar circumstances pay the same amount of tax whereas vertical equity is when taxpayers with higher incomes should be expected to pay a higher percentage of tax as compared with those in lower incomes.

Utilization refers to the degree to which a targeted group utilizes a tax expenditure.

Administrative efficiency refers to the additional burden imposed by a tax program. This burden may manifest in the form of increased administration, red tape and/or costs and can be an issue for government as well as taxpayers.

Budgetary Impact—Tax programs should be assessed in the context of government's commitment to sound fiscal management.

Economic efficiency is the concept that tax expenditures should not distort the allocation of resources in the economy and that taxes should be levied in an efficient manner.

Relevance—is the expenditure still relevant given changes in family composition, industry and market composition.

Simplicity—the tax system should be simple for the public to understand and easy for government to administer. As well, simplicity means that there should be fewer broad based taxes when possible to reduce the complexity of the system.

Between September 2017 and November 2018 the ITRC met nearly every month, either in person or by teleconference. Initial meetings focused on gaining a sound working knowledge of our province's fiscal framework, revenue sources, and tax system. How to efficiently engage the general public, business community, and other groups in a meaningful manner was frequently discussed early in the exercise.

A website with appropriate background material was established in early 2018. The site provided ongoing information to the public, including background material prepared for the ITRC, and a means for interested parties to contact or provide feedback to the Committee.

In late Spring 2018, the ITRC began development of a survey on taxation to be undertaken by the Newfoundland and Labrador Statistics Agency. This telephone survey was completed in Summer 2018. The methodology and sample size provided statistically valid responses for the province.

The results of the survey identified that there is a lack of general knowledge about government finances and taxation, which provided the ITRC with significant insight and influenced the final approach to the exercise and report. Key findings of the survey will be highlighted in this report.

In addition, the ITRC met with a number of individuals and interest groups between May-August 2018. All of the presentations were informative. A wide range of views, preferences, and recommendations were presented. The representatives from all groups should be commended for their interest in our tax system.

As well, the ITRC wrote each and every regional Board of Trade in the province asking them to provide their group's (or individual member's) comments, feedback, or recommendations. Further, the committee met with a number of officials from different provincial government departments to discuss specific program funding.

The ITRC is confident this approach provided meaningful information and insight to guide our report.

OVERVIEW

This document will review, discuss and present:

- Our Major Tax Revenue Sources;
- Other Taxes & Revenues Sources;
- Our Recent Fiscal Challenges;
- Our Spending;
- Our Debt;
- New Revenue Opportunities;
- Challenges Ahead;
- Key Findings of the Public Survey; and
- Observations and Recommendations.

Accompanying this document is a Background and Analysis document, including a fairly comprehensive discussion document focused on our tax system along with government responsibilities and decision making.

OUR MAJOR TAX REVENUE SOURCES

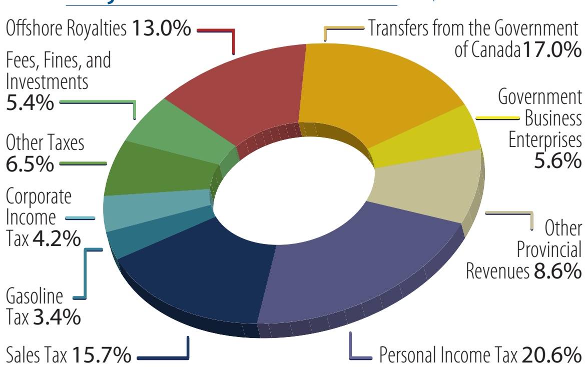
In general, Newfoundland and Labrador's tax system is in line with other Canadian provinces. Our four largest sources of tax revenue are:

- Personal Income Tax;
- Sales Tax;
- Corporate Income Tax; and
- Gasoline Tax.

These areas combined account for some 87% of total taxes collected by our provincial government. It is estimated that these sources will generate over $3.37 billion in the 2018-19 fiscal year.

The Government of Newfoundland and Labrador in its 2018-19 Budget projected total revenues of $7.67 billion. Just over 50% of total revenues, $3.87 billion, was to be derived from taxation.

F.1 Major Revenue Sources NL, 2018-19



Source: Department of Finance, Budget 2018, Schedule V

Personal Income Tax

Newfoundland and Labrador's largest source of tax is Personal Income Tax (PIT). For the current fiscal year, 2018-19, the province will generate over $1.58 billion from personal income taxes or the equivalent of more than $3,000 per resident (based on a population of 526,000).

The Government of Canada administers the income tax system on behalf of most provinces. Under this arrangement, provinces agree to allow the federal government to define taxable income. The system is generally effective and efficient, as well, at a cost of around $2 per resident and is good value for money for Newfoundland and Labrador.

Personal Income Tax is determined through a combination of tax rates and income brackets. Further, jurisdictions establish basic personal exemptions and credits. The result is that effective tax rates vary considerably province to province. Nothing about our brackets, rates, credits, and personal exemption, stands out—good or bad. Our effective (average) provincial personal income tax rates range from nearly 0% at a taxable income of $20,000 increasing incrementally to 15.5% for a taxable income of $250,000.

T.1 Personal Income Tax Rates & Brackets in Canada 2018 Tax Year

Government of Canada	Ontario
15% on the first $46,605 of taxable income, + 20.5% on the next $46,603, + 26% on the next $51,281, + 29% on the next $61,353, + 33% of taxable income over $205,842	5.05% on the first $42,960 of taxable income, + 9.15% on the next $42,963, + 11.16% on the next $64,077, + 12.16% on the next $70,000, + 13.16% on the amount over $220,000
Newfoundland and Labrador	**Manitoba**
8.7% on the first $36,926 of taxable income, + 14.5% on the next $36,926, + 15.8% on the next $57,998, + 17.3% on the next $52,740, + 18.3% on the amount over $184,590	10.8% on the first $31,843 of taxable income, + 12.75% on the next $36,978, + 17.4% on the amount over $68,821
Prince Edward Island	**Saskatchewan**
9.8% on the first $31,984 of taxable income, + 13.8% on the next $31,985, + 16.7% on the amount over $63,969	10.5% on the first $45,225 of taxable income, + 12.5% on the next $83,989, + 14.5% on the amount over $129,214
Nova Scotia	**Alberta**
8.79% on the first $29,590 of taxable income, + 14.95% on the next $29,590, + 16.67% on the next $33,820, + 17.5% on the next $57,000, + 21% on the amount over $150,000	10% on the first $128,145 of taxable income, + 12% on the next $25,628, + 13% on the next $51,258, + 14% on the next $102,516, + 15% on the amount over $307,547
New Brunswick	**British Columbia**
9.68% on the first $41,675 of taxable income, + 14.82% on the next $41,676, + 16.52% on the next $52,159, + 17.84% on the next $18,872, + 20.3% on the amount over $154,382	5.06% on the first $39,676 of taxable income, + 7.7% on the next $39,677, + 10.5% on the next $11,754, + 12.29% on the next $19,523, + 14.7% on the next $39,370, + 16.8% on the amount over $150,000
For **Quebec** please go to - *www.revenuquebec.ca/en/citizens/your-situation/new-residents/the-quebec-taxation-system/income-tax-rates/*	

Source: Canada Revenue Agency https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html

Overall, Newfoundland and Labrador's personal income tax system could be described as mid to high. Our basic exemption, credits, and needs-based tax expenditure programs are generally in line with other provinces. Our rates are typically lower than the Maritimes and Quebec, close to Manitoba, and higher than Ontario, Saskatchewan, Alberta, and British Columbia.

The summary table does not include provincial surtaxes (Ontario and Prince Edward Island) or other taxes such as the Ontario Health Premium, British Columbia Health Premium, Alberta Health Premium, and the Newfoundland and Labrador Temporary Deficit Reduction Levy (TDRL). It should be noted that surtaxes can be significant. For example, Ontario has two surtaxes—20% on tax greater than $4,740 plus 36% on tax greater than $6,067. This means Ontario's highest tax rate is effectively 13.16% x 1.56 = 20.53% (excluding the Ontario Health Premium).

T.2 **Average Tax Rates** 2018 Tax Year, Selected Provinces & Taxable Incomes

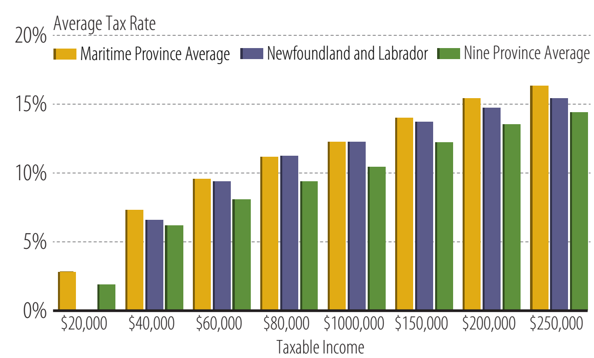
	NL	NS	NB	PE	ON	MB	SK	AB	BC
$20,000	0.0%	3.0%	1.5%	4.0%	1.9%	5.1%	1.5%	0.0%	0.0%
$40,000	6.6%	7.5%	6.7%	7.9%	4.6%	8.0%	5.6%	4.7%	4.4%
$60,000	9.4%	10.1%	9.1%	9.7%	6.1%	9.4%	7.6%	6.3%	5.5%
$80,000	11.3%	11.8%	10.5%	11.3%	7.1%	10.9%	8.8%	7.2%	6.1%
$100,000	12.3%	12.8%	11.7%	12.4%	8.6%	12.2%	9.5%	7.8%	7.1%
$150,000	13.8%	14.4%	13.4%	14.4%	11.5%	13.9%	10.8%	8.8%	9.5%
$200,000	14.8%	16.0%	15.1%	15.4%	13.4%	14.8%	11.7%	9.8%	11.3%
$250,000	15.5%	17.0%	16.1%	16.0%	14.7%	15.3%	12.3%	10.6%	12.4%

Note: Average tax rates calculated for a single taxpayer with employment income only and claiming the basic personal amount, CPP and EI credits.
Source: Department of Finance

Newfoundland and Labrador is generally competitive with most other jurisdictions. For a person with a taxable income of $50,000, the difference with the lowest taxed province, British Columbia, is $1,500. Nova Scotia is the highest taxed province at a taxable income of $50,000 with a difference of about $500. Similarly, a person with a $100,000 taxable income pays $5,200 more in provincial income tax than a resident of British Columbia but that same person would pay about $500 less in this province compared to Nova Scotia. These individuals would be as well off, or better, in our province compared to four or five other provinces.

Arguably, when other taxes and costs are considered the gap narrows significantly—for example, the BC Non-Profit Housing Association indicates that the average rent in Newfoundland and Labrador is $836/month, much lower than British Columbia ($1,148) and Alberta ($1,279). Conversely, food and other consumables may be more expensive in more remote areas including our province.

F.2 **Comparing Newfoundland and Labrador to Maritime and Nine Province Averages** 2018 Tax Year



Source: Department of Finance

From the discussion above it should be apparent that making even simple comparisons is a challenge—regional differences, personal preferences, and unique circumstances make realistic comparisons difficult. It should be noted, that in most tax comparisons no effort is made to capture local or regional taxation which would include property, business, and utility taxes/fees.

Canada's tax system, including Newfoundland and Labrador, is considered progressive and fair. People capable of paying more (i.e. those with higher taxable incomes) pay progressively more. As well, people in similar circumstances are treated similarly. Further, the system is not wrought with loopholes or breaks which favour higher earners.

In Newfoundland and Labrador in 2016, approximately 51% of income tax filers had taxable incomes of $30,000 or less. This group paid about 3.9% of the total personal income tax collected by the province. Or put another way—49% of tax filers paid over 96% of personal income tax collected by Newfoundland and Labrador in 2016. Further, in 2016, less than 7% of tax filers had a taxable income of $100,000 or greater, while over 20% had a taxable income of less than $10,000.

T.3 Stratification of Personal Income Tax Filers by Taxable Income
2016 Final Personal Income Tax Data

Taxable Income	Count	Percent of Total	Cumulative Ascending Percent of Total	Total NL Tax	Percent of Total Tax Paid	Cumulative Ascending Percent of TTP
< 10,000	90,697	20.74%	20.74%	136,783	0.01%	0.01%
10,000 - 19,999	70,695	16.17%	36.91%	6,030,611	0.43%	0.44%
20,000 - 29,999	61,199	13.99%	50.90%	47,663,601	3.44%	3.88%
30,000 - 39,999	55,290	12.64%	63.54%	91,328,381	6.59%	10.47%
40,000 - 49,999	42,114	9.63%	73.17%	125,167,158	9.03%	19.49%
50,000 - 59,999	27,804	6.36%	79.53%	121,029,572	8.73%	28.22%
60,000 - 69,999	21,192	4.85%	84.38%	122,596,987	8.84%	37.06%
70,000 - 79,999	17,179	3.93%	88.31%	123,985,148	8.94%	46.00%
80,000 - 89,999	12,235	2.80%	91.10%	106,151,826	7.65%	53.66%
90,000 - 99,999	8,372	1.91%	93.02%	83,729,940	6.04%	59.70%
100,000 - 109,999	5,929	1.36%	94.37%	67,815,182	4.89%	64.59%
110,000 - 119,999	4,605	1.05%	95.43%	58,908,587	4.25%	68.83%
120,000 - 129,999	3,609	0.83%	96.25%	51,034,598	3.68%	72.51%
130,000 - 139,999	2,853	0.65%	96.91%	44,031,422	3.18%	75.69%
140,000 - 149,999	2,210	0.51%	97.41%	36,812,175	2.65%	78.34%
150,000 - 199,999	5,574	1.27%	98.69%	108,603,533	7.83%	86.18%
200,000 - 250,000	2,010	0.46%	99.15%	48,418,218	3.49%	89.67%
> 250,000	3,738	0.85%	100.00%	143,295,727	10.33%	100.00%
Totals	**437,305**	**100.00%**		**1,386,739,449**	**100.00%**	

Note: Most recent data available at the time this report was prepared.
Source: Department of Finance

Sales Tax

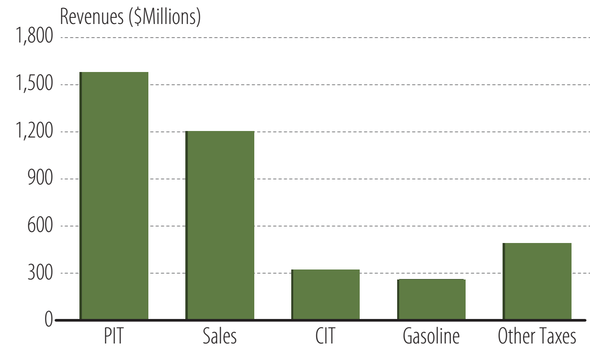
Our second largest tax source is sales tax. For the current fiscal year, 2018-19, the province will generate over $1.2 billion from sales taxes or the equivalent of nearly $2,300 per person. Sales taxes include the Harmonized Sales Tax (HST), along with Retail Sales Tax on the private sale of used vehicles and insurance premiums.

HST is a Value-Added Tax (VAT). A consumption tax system which allows business registrants to recover HST paid on expenses related to commercial activities by claiming input tax credits (ITCs). Ultimately, the end user or consumer of a good or service pays the consumption tax. Economists tend to favour consumption taxes because they distort the economy less than income taxes and tend to better reflect individual's ability to pay or financial circumstances.

As with our income tax system, the HST is administered by the federal government on behalf of the province. Again, the system appears to be effective, efficient, and good value. Just as taxable income is defined by the federal government so too is the base for HST—simply put, the federal government determines what goods or services are subject to HST. It should be noted, the province pays no fees to the federal government for its administration of the HST.

Not all provinces have harmonized their sales taxes with the Government of Canada. The four Atlantic Provinces have a 15% HST, while Ontario has a 13% HST. Four of the other provinces have their own Provincial Sales Tax (PST) in addition to the 5% Goods and Services Tax—British Columbia (7%), Saskatchewan (6%), Manitoba (8%), and Quebec (9.975%). GST is calculated after the PST is added. Alberta has no PST. Further, all provinces with the exception of Alberta charge PST on the private sales of used vehicles. Further, a number of provinces also have consumption type taxes on a number of goods and services. For example, our province currently taxes insurance premiums at 15%.

F.3 **Major Tax Revenues by Source,** NL, 2018-19



Source: Department of Finance, Budget 2018, Schedule I

A 15% HST means that the end users of taxable goods and services in Atlantic Canada pay the highest consumption tax rates in the country. However, as a VAT, the HST is arguably more efficient than PST and keeps the end costs of goods and services lower. With the exception of Alberta, consumption taxes are generally competitive across the country.

Corporate Income Taxes & Gasoline Taxes

Gasoline taxes and corporate income taxes (CIT) are the next largest sources of tax revenue for the provincial government. The latter is projected to generate approximately $323 million in 2018-19, and as with PIT, our Corporate Income Tax system is administered federally. Similar to PIT, there appears not to be a significant spread in rates and small business income thresholds amongst provinces for corporate taxation.

With the exception of Quebec at 8%, small business tax rates vary across Canada from 0% to 4% with the income threshold ranging from $500,000 to $600,000. General corporate rates vary from 12% to 16%. Newfoundland and Labrador's small business rate is 3% with a $500,000 threshold and our general rate is 15%.

T.5 Gasoline Pricing & Taxes
A Cross Canada Comparison

Province/City	Tax Bill	Pre-Tax Price	Pump Price	Tax Portion
Montreal	$0.55	$0.83	$1.38	40%
QC (with regular rate)	$0.51	$0.81	$1.32	39%
Vancouver	$0.51	$1.05	$1.55	33%
NL	$0.48	$0.85	$1.32	36%
Victoria	$0.45	$1.02	$1.47	30%
ON	$0.44	$0.88	$1.33	33%
NS	$0.42	$0.83	$1.25	33%
NB	$0.42	$0.81	$1.23	34%
PEI	$0.39	$0.84	$1.24	32%
BC (excl Vancouver & Victoria)	$0.38	$0.92	$1.31	29%
AB	$0.36	$0.88	$1.24	29%
SK	$0.31	$0.87	$1.17	26%
MB	$0.30	$0.91	$1.21	25%

Source: Canadian Taxpayers Federation Gas Tax Honesty Report May 2018

It was noted during several of the ITRC meetings that a fair tax system is desirable, while a competitive tax system is essential. One person remarked, "If our tax system is not competitive, you won't have to worry about fairness—businesses and people will leave". This sentiment is difficult to ignore, and generally echoes the principle of the mobility of capital. If we cannot attract and retain businesses along with a skilled and well-educated workforce, we have a major challenge.

Gasoline taxes and prices are a good example of Newfoundland and Labrador being more competitive than we realize. It is correct to say that we have some of the highest gasoline taxes in the country, however, we do not have the highest overall taxes and the overall price of fuel in our province is not significantly out of line with many other jurisdictions. For 2018-19 the province estimated that gasoline tax would generate over $260 million.

There are three general components to the price of gasoline—crude oil costs, refining and marketing costs, and taxation. In our province we tend to have higher crude costs and relatively high tax levels, however, refining and marketing costs are significantly lower due to our regulated price system.

In general terms, Newfoundland and Labrador's major tax revenue sources are in line with other Canadian jurisdictions. Our rates tend to be higher, but not to the point where we are grossly uncompetitive. As well, when other costs (and taxes) are considered our jurisdiction becomes more competitive.

OTHER TAXES & REVENUES SOURCES

Newfoundland and Labrador has several other sources of tax revenues—payroll, tobacco, cannabis, corporate capital, mining, and insurance companies taxes. These other sources combined account for over 12% of our total tax revenue or about $491 million (2018-19).

Other provincially controlled revenue sources outside of taxation include fees and revenues from Government Business Enterprises. The latter is primarily made up of contributions from Atlantic Lottery Corporation, Nalcor Energy, and the Newfoundland and Labrador Liquor Corporation.

T.4 Total Projected Revenues NL, 2018-19

	$Millions
Taxation	3,865
Fees, Fines, and Investments	416
Offshore Royalties	1,000
Transfers from the Government of Canada	1,308
Government Business Enterprises	429
Other Provincial Revenues	655
Total	7,673

Source: Department of Finance, Budget 2018, Schedule I

In 2018-19, our province is expected to derive roughly half of its total revenue from sources other than taxation. Transfers from the Government of Canada and Offshore Royalties combined represent $3 out of every $10 Newfoundland and Labrador collects.

Federal Transfers

Until the past decade or so our province had relied heavily on federal transfers. In particular, Newfoundland and Labrador was the recipient of significant funding via equalization. In the late-1990s and early-2000s federal transfers represented 40-50% of our total revenues.

Equalization is a Government of Canada program which is enshrined in the Canadian Constitution. The objective of the program is to ensure that provinces have reasonably comparable levels of services and reasonably comparable levels of taxation. Historically, Manitoba, Quebec, and the Atlantic provinces have been the principal beneficiaries of the program (the so called "have-not" provinces). Equalization remains a significant revenue source for the Maritime Provinces, Quebec and Ontario.

With the development of our offshore oil industry Newfoundland and Labrador's capacity to generate revenue increased significantly. Provincial Gross Domestic Product (GDP) is a good proxy of our revenue capacity. Between 1997 to 2017 in real terms, our provincial GDP grew by nearly 70%. Most of this growth in GDP can be directly attributed to our oil industry.

With our growing economy and increased revenue capacity, equalization payments to the province fell rapidly—declining from nearly $1.2 billion in 2000-01 to under $500 million in 2007-08. By 2008-09 the province was no longer eligible for equalization. Newfoundland and Labrador is unlikely to qualify for equalization in its present form anytime in the near future.

It should be noted that equalization is intended to address revenue capacity—no consideration is given to a province's relative cost for services or suite of programs. Newfoundland and Labrador has long argued that a true equalization program should incorporate service levels, costs, and utilization (often termed "expenditure-need"). Territorial Formula Financing, the equivalent of equalization for the territorial governments, was developed with an expenditure-need component.

The Atlantic Accord

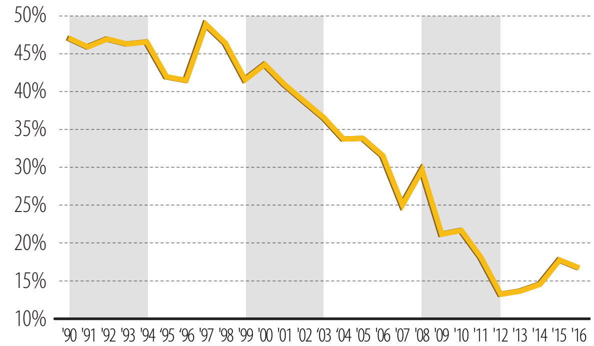
The 1985 Atlantic Accord was negotiated between the Government of Canada and the Government of Newfoundland and Labrador to ensure that our province was the principal beneficiary from the new oil industry developing off our coast. In part, the accord was a mechanism intended to partially offset reduced equalization entitlements—essentially, a means to cushion the impact of reduced transfers. The accord was designed to provide benefits to the province for 12 years once triggered. Its terms were modified by a 2005 arrangement between the parties. Between 2001-02 and 2011-12, Newfoundland and Labrador received over $5 billion in payments through the Atlantic Accord.

Overall, federal transfers as a percentage of Newfoundland and Labrador's total revenues have fallen significantly since the late 1990s, from nearly 50% two decades ago to under 15% five years ago. Over much of this period, our province was fortunate that oil royalties more than offset the reduced federal contributions.

Oil royalties have become a very important source of revenue for Newfoundland and Labrador. Unfortunately, oil revenues have been both a blessing and a curse for our government. Oil like many other commodities is cyclical. From year to year, month to month, there are relative changes in demand and price. Further, provincial oil royalties are a function of not only price, but also production levels and exchange rates.

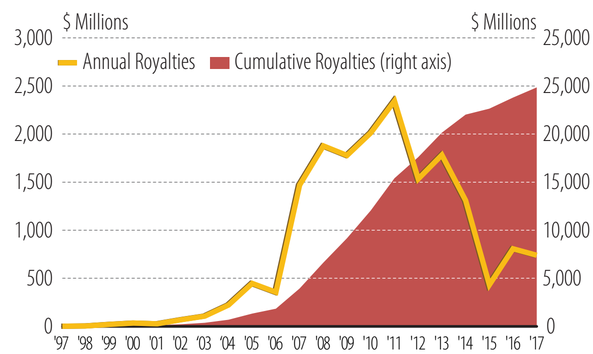
Since 1998, Newfoundland and Labrador has generated over $20 billion from oil royalties. Clearly, this has given our province significantly more resources than it would have had otherwise. This has meant increased services, programs, and in general terms, lower taxation. However, the volatility associated with oil is significant.

F.4 **Federal Transfers as a Percentage of Revenues** NL, 1990-91 to 2016-17



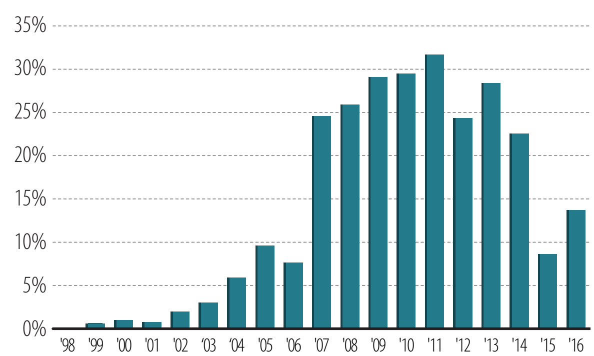
Source: Department of Finance

F.5 **Oil Royalties, Annual & Cumulative** NL, 1997-98 to 2017-18



Source: Department of Finance

F.6 **Oil Royalties as a Percentage of Total Revenues** NL 1998-99 to 2016-17



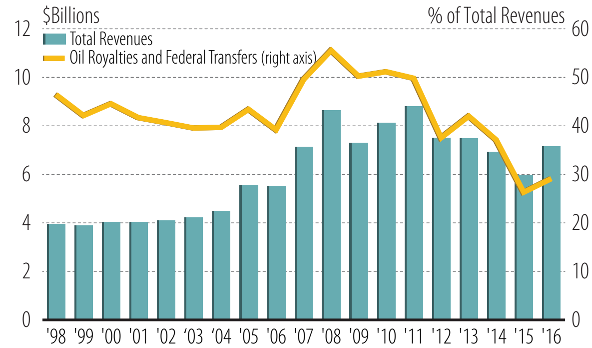
Source: Department of Finance

Forecasting long-term revenues from our oil industry is nearly impossible. Short-term forecasts are more feasible but still challenging. In 2006-07, oil royalties were about 8% of Newfoundland and Labrador's total revenue. By 2009-10, this had risen to around 30% and over the past couple of years, it has been less than 15%.

Beginning in 2012-13 Newfoundland and Labrador started to find itself in a precarious position. Equalization payments along with Atlantic Accord benefits had stopped, oil royalties were volatile and would fall significantly in 2014-15 and 2015-16. Between 2011-12 to 2015-16, the province's total annual revenues fell from over $8.8 billion per year to under $6.0 billion.

While total annual revenues declined from 2011-12 to 2015-16, and with the exception of 2011-12 to 2012-13, total provincial expenditures continued to increase. Over the past two decades, the province has more than doubled annual expenditures. Further, for much of our history, the province ran deficits—spending more than the province received in most years. Unfortunately, the past five years has brought, arguably, the most significant fiscal challenge the Government of Newfoundland and Labrador has faced.

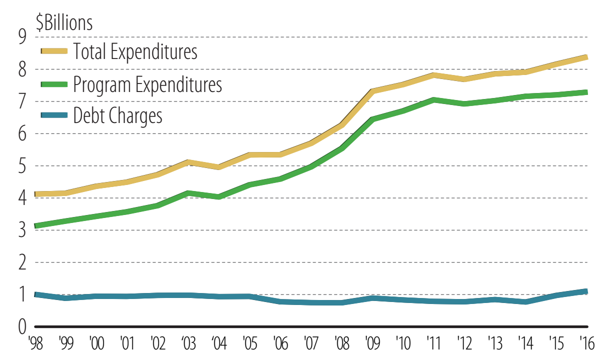
F.7 **Oil Royalties, Federal Transfers and Total Revenues** NL, 1998-2016



Source: Department of Finance

F.8 **Total Expenditures**

NL, Fiscal1998-99 to 2016-17



Source: Department of Finance

OUR RECENT FISCAL CHALLENGES

Our recent fiscal challenges can perhaps be best described as a "near perfect" fiscal storm. After experiencing an exceptional five to ten year period of economic prosperity we were hit with a fiscal tsunami:

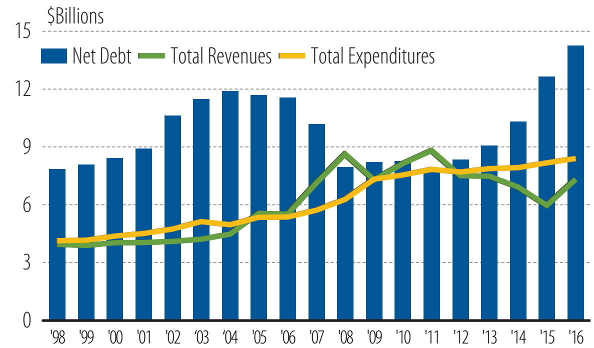
- Federal transfers had fallen by over $1.5 billion from 2008-09 to 2012-13;
- Oil royalties fell sharply over a three-year period;
- Spending increased significantly—effectively doubling over the past dozen years; and
- The province was backing a large mega project, while other projects were slowing.

By the fall of 2015 Newfoundland and Labrador was facing the prospect of very large deficits for the foreseeable future while dealing with the volatility of declining oil royalties caused by weak prices with no relief in sight. In December 2015, the province had difficulty borrowing money just to meet payroll obligations.

Due to the unprecedented fiscal situation facing the province, the Government of Newfoundland and Labrador's 2016-17 Budget brought a number of very difficult measures. Spending restraint, a hiring freeze, early retirement incentives, travel restrictions, program eliminations, higher user fees, increased alcohol and tobacco prices, an increase to the HST, higher income taxes, a new deficit reduction levy, and higher gasoline taxes. These measures meant that many people paid more to the province and likely saw their disposable incomes fall. These difficult measures were required to demonstrate that the Government of Newfoundland and Labrador was prepared to address a very challenging situation in a realistic and decisive manner. Without the confidence of our lenders this province would be in a very difficult situation. We continue to need to borrow large amounts of money.

F.9 Net Debt, Revenues, & Expenditures

NL, Fiscal 1998-99 to 2016-17



Source: Department of Finance

After Budget 2016 there was a common feeling and unprecedented level of frustration in the general public that taxes were too high in Newfoundland and Labrador. Headlines like "Get Out If You Can" fanned emotions, while other people used phrases such as "job killer" and "savage" about the budget measures. Compared with tax levels over most of the previous ten years, people were paying higher taxes on almost every front.

However, with the notable exceptions of TDRL and temporary fuel tax increases, taxes in 2016 were actually comparable to tax levels seen in the province in 2006. As an example, an individual earning $66,500 in 2006 would have an effective personal income tax rate of around 12%, and the same individual earning $80,500 in 2016 would also have an effective PIT rate of 12% including the TDRL.

The above individual (earning $80,500) would have an after-tax income of around $60,000. If you assume 2/3 of their income is spent on goods and services subject to HST, this individual would pay between $600-700 extra in sales tax with the HST increase from 13% to 15%.

A one cent per litre increase in gasoline tax costs the average Canadian driver about $20 per year. The 16.5¢/litre temporary tax on gas meant an average driver in Newfoundland and Labrador paid about $330 more annually.

As noted previously, a large percentage of our population pay a very small portion of total income tax collected by the province. Newfoundland and Labrador has put considerable support into several tax expenditure programs designed to help the less fortunate or vulnerable of our society. The province has continued to make tax expenditure programs a priority despite facing significant fiscal challenges.

T.6 **Tax Changes, 2006 vs 2016**

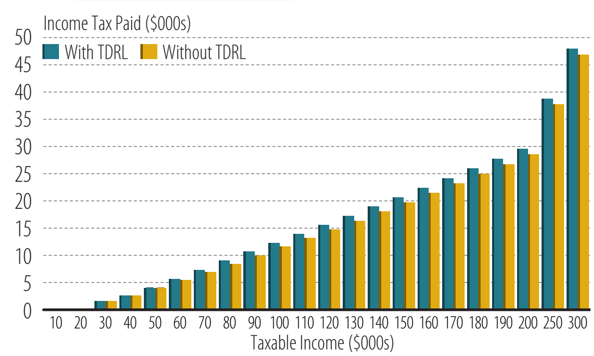
	2006	2016
Personal Income Tax Rates	10.57% - Income up to $29,590 16.16% - of the next $29,590 18.02% - income over $59,180 Surtax of 9% for tax over $7,032	8.7% - Income up to $35,148 14.5% - of the next $35,147 15.82% - of the next $55,205 17.3% - of the next $50,200 18.3% - over $175,700 Deficit Reduction Levy ($0-$1,800)
Harmonized Sales Tax	15% up to July 1, 14% July 1st	15% July 1st
RST on Used Vehicles	15%	15%
RST on Insurance Premiums	15%	15%
Gasoline Tax	16.5¢/litre for gas 16.5¢/litre for diesel 0.7¢/litre for aviation fuel	16.5¢+ temp 16.5¢/litre for gas 16.5¢+ temp 5¢/litre for diesel 2.5¢/litre for aviation fuel
Tobacco Tax	18¢/cigarette 30¢/gram fine cut	24.5¢/cigarette 40¢/gram fine cut
Corporate Income Tax	General Rate - 14% M&P - 5% Small Business - 5%	General Rate - 15% M&P - 15% Small Business - 3%
Insurance Companies Tax	4%	5%
Financial Corporations Capital Tax	4%	6%

Source: Department of Finance

It is important that we see our tax system in an appropriate context. Let's face it—nobody likes to pay taxes and at one point or another we have all complained about how much we pay to the "tax man". But yet people use government programs everyday and some people are very quick to demand more programs or spending.

The TDRL was introduced in Budget 2016 as a measure to generate additional revenue to address the very large deficit. The measure was modelled after the Ontario Health Premium and can be described better as a "head tax" than a pure income tax or surtax. Further, on a proportionate basis the TDRL impacts middle income earners greater than higher or lower earners—it is generally a regressive tax measure.

F.10 **Effect of the Temporary Deficit Reduction Levy** 2018 Tax Year



Source: Special Tabulation, ITRC

Tax Expenditures

Over the past decade, the annual cost of Newfoundland and Labrador's tax expenditure programs has increased approximately 260%—from around $111 million in 2007-08 to over $288 million in 2017-18.

Our five largest tax expenditure programs are:

- Newfoundland and Labrador Income Supplement;
- Seniors' Benefit;
- Small Business Tax Rate Reduction;
- Municipalities Rebate; and
- Low Income Tax Reduction.

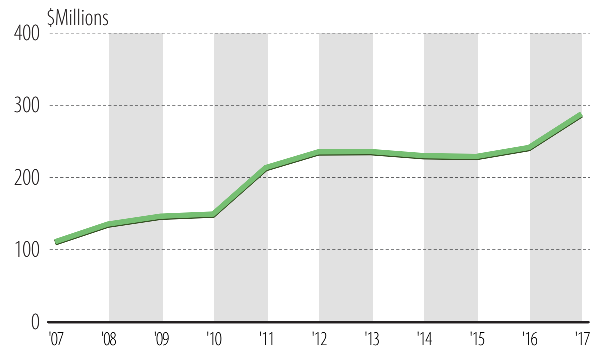
These programs are well-targeted providing benefits to small businesses, municipalities, seniors, and those with low incomes. The programs have good utilization rates, are cost effective, and administratively efficient.

OUR SPENDING

Governments need revenues to provide programs and services. Taxation is a major source of revenue for all governments in Canada. Without our major taxes, governments would have limited revenue opportunities, and thus would have difficulty funding programs and services. Newfoundland and Labrador is good at raising revenues—but we are even better at spending. On a per capita basis, we raise more revenue than any other province; we also spend more per person on programs than any other province.

As discussed earlier, provincial government spending has increased significantly in Newfoundland and Labrador over the past two decades. In nominal terms, our expenditures have essentially doubled over the past 20 years—from around $4 billion annually to over $8 billion today. On a per capita basis, program spending has increased from just under $6,000 person to nearly $14,000.

F.11 Total for All Tax Expenditures
NL, Fiscal, 2007-08 to 2017-18



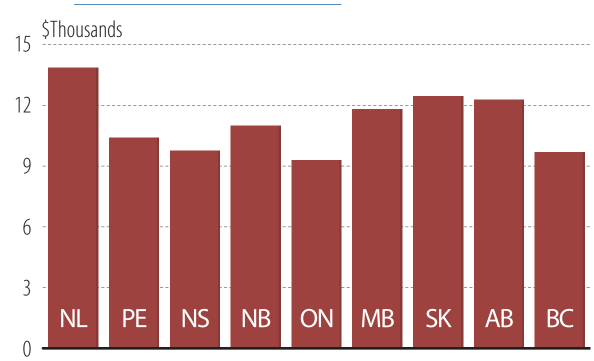
Source: Department of Finance

T.7 Major Tax Expenditure Program Costs 2017-18

	$Millions
NL Income Supplement	61.3
Seniors' Benefit	58.8
Small Business Tax Rate Reduction	83.4
Municipalities Rebate	23.6
Low Income Tax Reduction	12.5
Other TE Programs	48.7
Total TE Cost	**288.3**

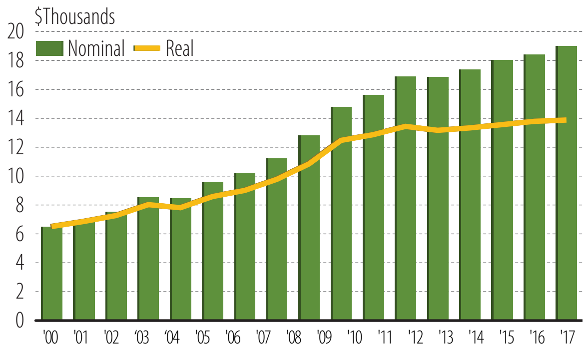
Source: Department of Finance, Budget 2018, Appendix I

F.12 Per Capita Program Spending Selected Provinces 2017-18



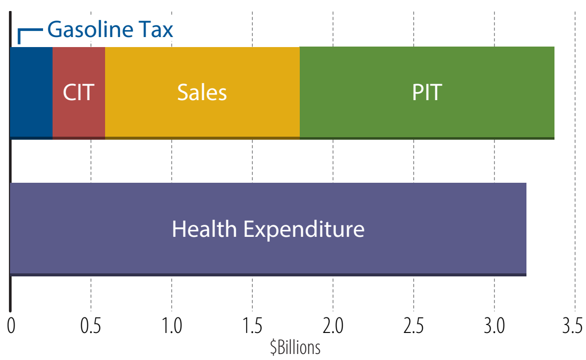
Source: Department of Finance

F.13 Per Capita Program Spending NL, 2000-2017



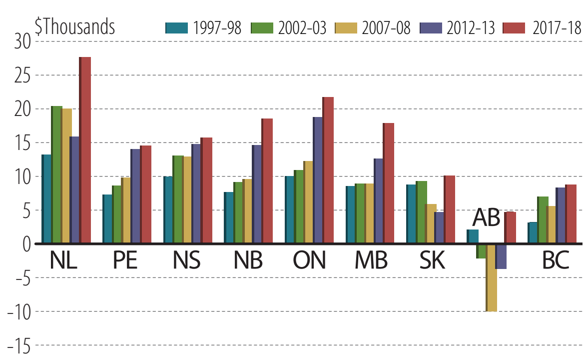
Source: Department of Finance

F.14 Major Taxes Compared to Health Spending NL, 2018-19



Source: Department of Finance, Budget 2018, Schedule I and II

F.15 Net Debt Per Capita Selected Provinces, Selected Fiscal Years 1997-98 to 2017-18



Source: Department of Finance

Our per capita program spending was approximately:

- $6,500 per person in 2000;
- $8,600 per person in 2005;
- $12,800 per person in 2010;
- $13,800 per person in 2015; and
- $14,000 per person in 2018-19.

Over the past five years we have done a reasonable job managing spending—annual growth has been curtailed and has been generally in line with inflation. However, over the 12 years from 2000 through 2012, annual spending typically increased at rates well above inflation. In particular, spending on education rose significantly.

Health care is our largest expenditure area. In 2018-19 Newfoundland and Labrador will spend about $3.2 billion in the health sector; our four major taxes combined will generate just under $3.4 billion. Our province spends more per capita on health care than any other province.

OUR DEBT

Over the last two decades our net debt has been on a real roller coaster ride. In the past five years, however, our net debt has grown by over 80%.

Newfoundland and Labrador has a debt challenge. Our per capita net debt is the highest of all provinces. Until we get our fiscal house in order we will continue to be challenged with a growing debt load. Servicing our debt is now our third largest expenditure, behind only the health sector and the education sector (includes K-12 and Post-Secondary Education expenditures).

Many people have commented that Newfoundland and Labrador is living beyond its means—saying that we are borrowing money at high interest rates to spend on services that we can't afford. Some people have even said that our province is going bankrupt.

The latter opinion is unlikely to happen. While we face a serious fiscal challenge, we still have options, resources, and avenues to address our problem.

Our Fiscal Dilemma

This is the fiscal dilemma of Newfoundland and Labrador:

- We have moderate to high provincially controlled taxes;
- We have a high revenue capacity;
- We spend more per capita than any other province;
- We have a long history of deficits; and
- We have the highest per capita net debt of any province.

Newfoundland and Labrador spends more per capita on programs than any other province in Canada. We spend around $13,700 per person while Ontario spends about $9,900.

But is this a fair comparison? It could be argued that the province of Newfoundland and Labrador has a much broader set of funding responsibilities than the province of Ontario. Ontario has larger cities and regional governments that undertake many of the responsibilities provided in Newfoundland and Labrador by our provincial government. Ontario residents pay significantly more in property taxes to regional and municipal governments than residents of Newfoundland and Labrador. As well, this pattern seems to hold across the entire country—Newfoundland and Labrador appears to be an outlier with an absence of some form of regional or county government, in most cases this space appears to have been retained by our province.

It could also be argued that it costs more to provide services in Newfoundland and Labrador. Our province:

- Has a large geographic area relative to our population size;
- Has the oldest population in the country;
- Has the largest rural population of any province;
- Has low literacy levels and educational attainment;
- Has a high incidence of chronic disease;
- Has a high reliance on imported goods; and
- Has high transportation costs.

Local Taxation

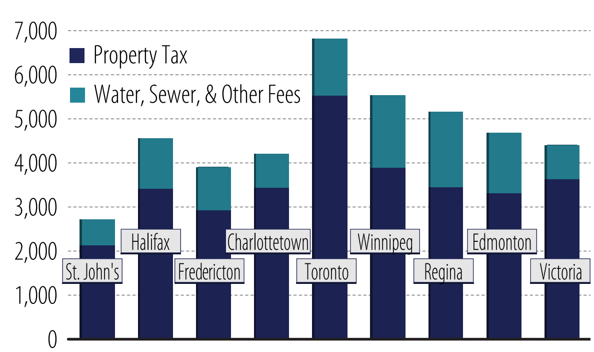
It is difficult to have a general discussion about taxation without at least briefly touching on local taxes and fees. The term "local" is intentionally used instead of "municipal" because in most jurisdictions outside of Newfoundland and Labrador, what we see as a municipal tax or fee, may encompass two or three levels of government (municipal, regional, provincial) and/or pseudo-government or crown entities.

Responsibilities between different levels of government and entities vary considerably between provinces. Most provinces have some form of county or regional government and many municipalities have specific entities to deliver services.

For 2018, on an accrual basis, the City of Toronto spends over $4,800 per resident. The City of St. John's spends less than $2,700. When these are combined with the respective provincial expenditures the expenditure gap between Ontario and Newfoundland and Labrador narrows considerably. The same observation holds on the revenue or tax side.

When local or municipal taxation (including utility costs such as water, waste water, and storm sewer) is considered it appears that the overall tax burden in Newfoundland and Labrador is significantly lower than initially thought. Simply put, our province has,

F.16 **Local Tax Comparison**
Residential, 2018 Tax Year



Source: Special Tabulation, ITRC

arguably, the lowest local taxes in Canada. As well, waste water, storm sewer, and water costs are commonly considered taxes in this province, while in many other jurisdictions such expenses are considered utility fees and not presented as taxes.

An in-depth review of local taxation is beyond the range of this exercise. Rather this section highlights, in a very general manner, the apparent differences in residential property taxes and residential service fees across Canada. Similarly, a review of local business/commercial taxation is outside of the scope of this project. Both exercises, however, would be worthwhile in the future.

NEW REVENUE OPPORTUNITIES

Members of the ITRC spent considerable time discussing potential new tax and revenue opportunities. The committee sought advice from Finance officials and other appropriate sources during such discussions. In addition to identifying revenue sources and potential benefits, committee members also discussed likely administrative costs and economic impacts of new measures. Overall, this "effort-return-impact" approach demonstrated that new untapped, efficient, revenue sources are difficult to identify and implement in a practical manner.

To generate tens of millions of dollars from new sources will take considerable administrative effort and likely cost millions of dollars. Conversely, there are sources utilized in other jurisdictions that could be considered but would likely have significant economic impacts. Further, new taxes or changes to existing taxes will create winners and losers—some people may pay more, while others could pay less.

For context, Newfoundland and Labrador currently spends less than $2 million annually to administer our tax programs. This amounts to spending less than 0.05% of our total tax revenues to oversee the programs.

Common suggestions for new revenue sources include a "junk food tax" or a "sugar sweetened beverage tax". While both could potentially generate revenues for the province, each would be difficult to establish and administer. For example, defining junk food could be problematic—is a sub sandwich junk food? Similarly, what is the sugar content threshold for taxing beverages? Most fruit juices have a high sugar content. As well, both taxes would be very difficult and costly to administer, enforcement would be challenging, and tax compliance could cause problems for retailers.

Another frequently suggested tax is a wealth tax. A wealth tax, or inheritance tax, is applied on an individual's estate upon their death. Some groups in Canada have called for the introduction of a federal inheritance tax with rates up to 45%. The United States has federal estate tax where the highest rate is 40% (> $1,000,000). But the U.S. also tends to have significantly lower personal income tax rates and consumption taxes, at both the state and federal level, than we have in Canada. Arguably, an estate tax in Canada could be seen as a form of double taxation. Estate taxes, for the most part, were repealed by provinces in the early to mid-1970s.

Land Transfer Taxes (LTT) are common in Canada. However, there is a significant variation in rates and costs. For example, fees associated with a sale of an average house in Toronto this September (2018) would have been $27,521. Rates range from 0.2% in Alberta to a high of 5% in Toronto (combined rate with Ontario LTT). In Newfoundland and Labrador our rate is a more modest 0.5%—meaning, buying a property for $200,000 will cost $1,000. Land transfer taxes reduce a jurisdiction's competitiveness, in particular, why should a business be taxed when it acquires a property or why should a family be taxed when they wish to purchase a larger home for a growing family.

Numerous other revenue or tax options were discussed as well, including but not limited to differential licensing fees for vehicles, a plastic bag fee, higher tire recycling fees, enhancing the beverage container fee program to include more items, a coffee cup or fast food container fee, and so on. From a practical perspective, with the exception of vehicle licensing, the revenue generated by each measure would be marginal given the implementation challenges. The committee recognized the merit of environmental or green taxes, but again, the implementation and enforcement challenges were seen as a barrier.

Further, the committee discussed some local taxation issues. The committee saw inequity with the absence of property taxes for unincorporated areas while recognizing that many of the responsibilities of regional governments in other jurisdictions were provided by the province in Newfoundland and Labrador. The committee also agreed that Newfoundland and Labrador appears to have very reasonable property and utility fees compared to many other jurisdictions, which was seen as a positive for our province.

CHALLENGES AHEAD

Newfoundland and Labrador will face some major challenges in coming years. These challenges, and how we address them, will certainly influence how our province moves forward. While the list below is not exhaustive, it captures perhaps some of the most difficult challenges and sets the needed tone.

Population and Demographics. Our province's population is aging rapidly. We will soon begin to see fewer people in the workforce—a trend that is expected to accelerate over the next two decades. Our workforce will likely decline by tens of thousands of workers which will have a major impact on our economy. Further, older people tend to have lower incomes and use more government services—this will add stress to government programs and expenditures, while less revenues may be available.

Cost of services has been, and will likely continue to be, a major challenge for our province. We spend more per capita on programs than any other province in Canada. We are a rural province with a large geographic area. Further, proportionately, our indicators of need are some of the least favourable in Canada—low literacy, high rates of chronic disease, high unemployment rates, etc.

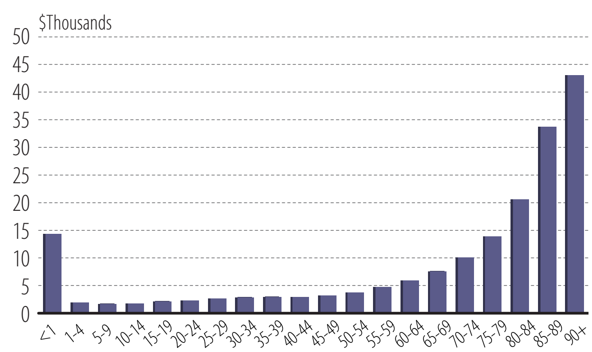
Structural Economic Issues. While some regions of our province have experienced strong economic growth over the past 15 years, other regions continue to experience weak economic conditions and have limited or no opportunities for growth. It is critical that we diversify our economy and ensure that all regions see real economic growth and real opportunities.

Debt will continue to be a major challenge for our province. Increasing debt will erode our ability to fund and ultimately deliver essential services. Borrowing means that, in many cases, we are providing services today by trading off spending on services in the future. Saddling our children with a large debt burden is a legacy that we should not take pride in.

External tax pressures cannot be ignored. This does not mean matching the policies or practices of other jurisdictions absolutely, but rather implementing well-reasoned appropriate taxation that supports the right balance of revenue generation and competitiveness.

F.17 Per Capita Health Care Expenditures

2016, By Age Group



Source: Canadian Institute for Health Information, National Health Expenditure Trends, 1975 to 2018: Table E1

KEY FINDINGS OF THE PUBLIC SURVEY

The ITRC was keen to hear from residents, businesses, organizations, and community leaders across our province. The committee had numerous discussions on how to best solicit appropriate feedback and opinions on our tax system. Further, the group wanted to gain an accurate insight into what, and how, people think about taxes.

The ITRC discussed the merits of holding a series of town hall type public meetings throughout our province. The committee struggled with the effectiveness and benefit of such an exercise.

This led the ITRC to investigate the merits and potential of conducting a large public survey on taxation. It was determined that, with assistance from the Department of Finance, such a survey was feasible. The survey conducted was in late-spring, early-summer 2018.

The survey questions were developed by the ITRC with assistance and guidance from the Newfoundland and Labrador Statistics Agency. The Newfoundland and Labrador Statistics Agency was then contracted to undertake the phone-based survey and generate a statistical report of the findings.

In simple terms, over 400 individuals were asked about:

- Their knowledge of government finances and taxation;
- Their views on taxation; and
- How government should move forward based on how they agreed or disagreed with a series of statements about taxation and the province's fiscal position.

To the best of our knowledge this was the first, statistically valid survey ever commissioned in the province focusing on taxation and government finances. As a statistically valid survey, the findings should represent the views of the general population of Newfoundland and Labrador with a confidence interval of 95% +/- 5.2%.

Overall, the survey yielded informative results while helping shape the development and direction of the report and recommendations. The key findings from the survey will be highlighted in this section.

Knowledge of Government Finances and Taxation

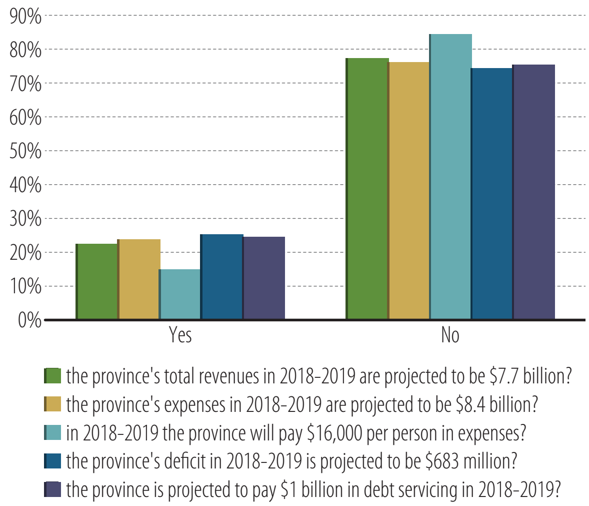
The general knowledge of respondents about government finances and taxation was surprising. When asked to assess their knowledge, nearly 54% stated that they were very or somewhat knowledgeable about government finances and taxation. Unfortunately, this assessment was overstated. A significant majority (>75%) of respondents were surprised by some very basic facts about provincial finances. For example, nearly 85% of people asked were surprised that the province expected to spend around $16,000 per person in 2018-19.

The same general pattern held for general taxation knowledge. The level of knowledge was overestimated compared to responses about some very basic taxation questions. For example, nearly 87% were surprised that the province expected to raise $7,300 per person from taxes.

This lack of general knowledge about government finances and taxation significantly shaped the approach and work of the ITRC. The committee decided that informing the public about the province's finances and tax system should become a major part of the ITRC mandate.

General Knowledge of the Province's Finances

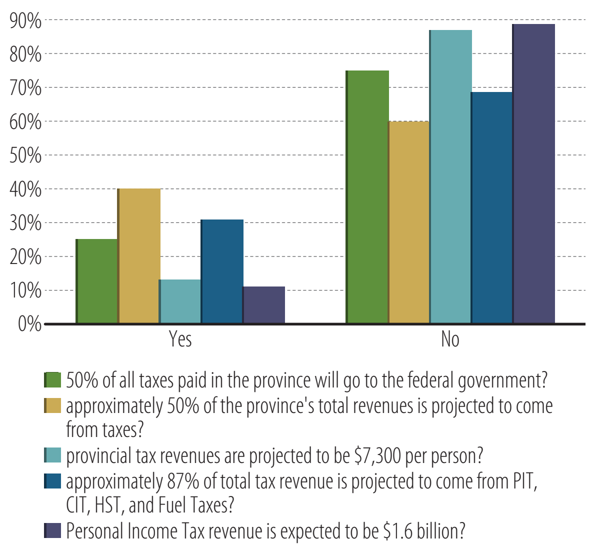
F.18 Prior to participating in this survey, were you aware that ...



Source: ITRC Public Survey, Summer 2018

General Knowledge of the Province's Tax System

F.19 Prior to participating in this survey, were you aware that in 2018-19 ...



Source: ITRC Public Survey, Summer 2018

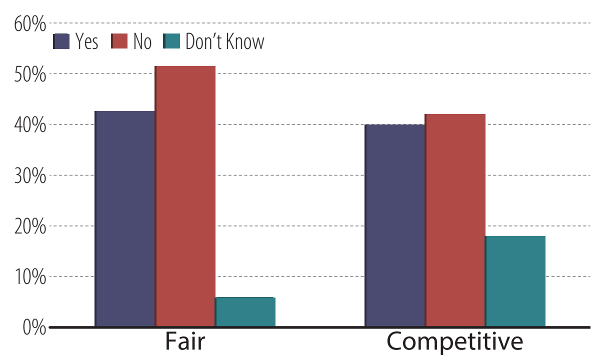
Views on Taxation

The views on taxation varied considerably and overall were inconsistent—perhaps best described as being "all over the map". More likely, responses were correlated with the respondents circumstances. That is, large users of government services likely did not support reduced services to fund tax reductions. Similarly, people that perceived themselves as lower income likely felt that higher income individuals should pay more taxes, and so on.

The views on fairness and competitiveness were more or less split—respondents did marginally indicate that they saw our tax system as not being fair. As well, support for a tax increase to help reduce the deficit or prevent spending cuts was also generally split with a slight edge towards yes. When asked to identify preferred areas for spending reductions to allow tax reductions no single area stood out. Personal Income Tax was identified as the preferred area if tax increases were required and gasoline tax identified as the preferred area for tax decreases.

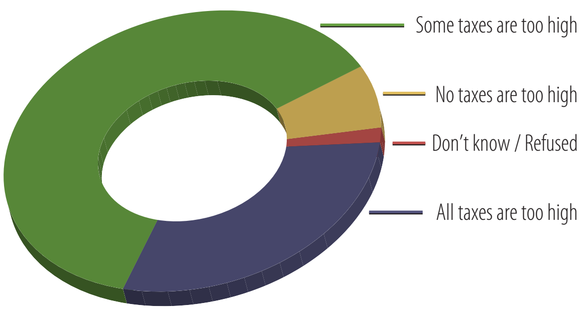
A large percentage of respondents indicated that low income earners (those at or below the poverty level) should receive a tax break. Finally, nine out of 10 respondents said that all or some taxes are too high.

F.20 Overall, do you feel the current tax system in NL is...



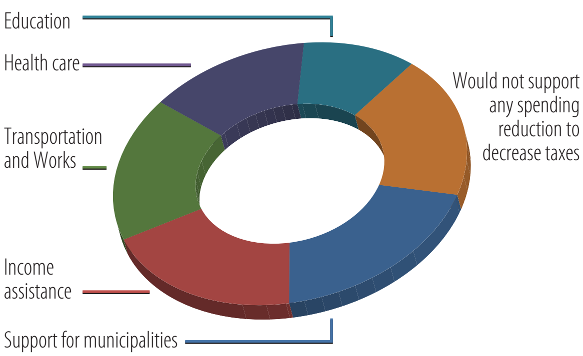
Source: ITRC Public Survey, Summer 2018

F.21 Best describes your view on taxes in the province



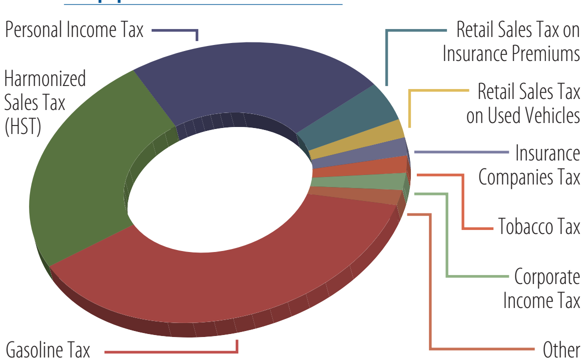
Source: ITRC Public Survey, Summer 2018

F.22 In which area would you support a spending reduction in order to achieve a tax decrease?



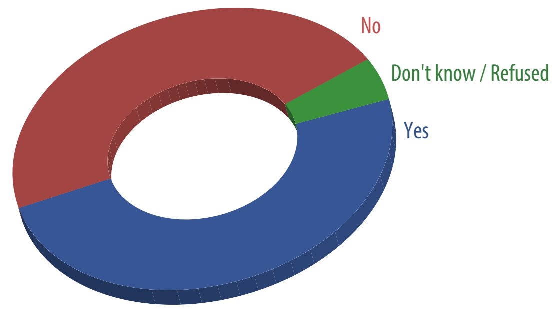
Source: ITRC Public Survey, Summer 2018

F.23 In which specific taxes would you support a decrease



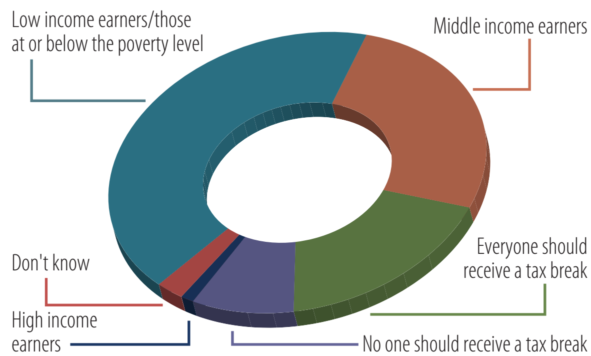
Source: ITRC Public Survey, Summer 2018

F.24 Would you support a tax increase if the increased revenue helped reduce the province's deficit and/or prevented spending cuts?



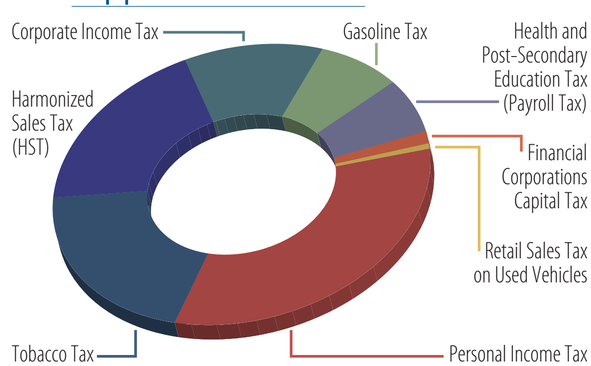
Source: ITRC Public Survey, Summer 2018

F.25 Which of the following do you feel should receive a tax break?



Source: ITRC Public Survey, Summer 2018

F.26 In which specific taxes would you support an increase?



Source: ITRC Public Survey, Summer 2018

Statements about Taxation and the Province's Fiscal Position

In most cases, a large majority of people responded favourably, agreeing with many of the statements. For example, over 90% indicated they were concerned about the province's long-term fiscal situation with respect to our growing debt. Similarly, over 95% agreed that government will have to make some difficult decisions concerning taxation and spending to deliver a meaningful multi-year fiscal plan.

This indicates good support for government to develop an effective fiscal plan as our province moves forward.

Please indicate whether you agree or disagree with the following statements related to taxation and government's fiscal position.

	AGREE	DISAGREE	DON'T KNOW OR REFUSED
I am concerned about the province's long term fiscal situation with respect to our growing debt.	91.3%	7.2%	1.5%
It is important for the province to live within its means, work towards balancing the budget and not add to our debt, even if that may mean a reduction in programs and services.	75.2%	21.7%	3.1%
Government will have to make some difficult decisions concerning taxation and spending to deliver a meaningful multi-year fiscal plan.	95.2%	3.4%	1.4%
Government spending must be reduced to help address the province's growing deficit and debt	88.2%	10.0%	1.8%
Increasing taxes alone is not enough to address the province's debt and deficit concerns.	89.6%	8.9%	1.5%
Reducing expenditures alone is not enough to address the province's debt and deficit concerns.	84.5%	12.9%	2.6%
If the government is going to cut services, it should make some services a priority over others and provide a greater level of funding to these, instead of cutting all services equally.	88.4%	9.6%	2.0%
Government should consider eliminating some services altogether to preserve other services	59.4%	32.3%	8.3%
Government should consider implementing new and/or higher fees for some services, so the people benefiting pay more of the cost.	62.0%	32.1%	5.9%

OBSERVATIONS AND RECOMMENDATIONS

While the specific mandate of the ITRC was to review taxation and make recommendations, discretion was given to the committee to make general recommendations related to government finances. The committee intensely discussed many aspects of taxation and government finances recognizing that taxation, revenues, expenditures, services, and government's fiscal position are connected.

Distinguishing elements in such a discussion may not always be feasible or practical. For example, what causes a government to run a deficit should not be the focal point of the discussion, but rather the discussion should focus on the fact that there is a deficit and how to best address it in the short to medium-term.

In general, the observations and recommendations of the ITRC can be categorized into seven broad actionable areas:

- Sound Fiscal Management
- Financial Education and Communication;
- Hold the Line on Most Taxes;
- Spend Smarter with Improved Transparency and Accountability;
- Grow the Economy;
- Ensure we Support our Most Vulnerable; and
- Pursue Other Revenue Options.

Note: ○ observation
\# recommendation

Sound Fiscal Management

○ Addressing our long-term fiscal situation has to be paramount. The Government of Newfoundland and Labrador must operate within its means. This requires appropriate and reasonable taxation combined with realistic and efficient expenditures.

○ Our province spends too much on interest and such costs are largely a function of credit rating and perceived risk.

1. Government needs to maintain its plan to eliminate our deficit and restrain our debt over a seven-year period. The plan could be enhanced with:
    a. A rolling three or five-year revenue plan with policies and practices that effectively smooth natural resource revenues;
    b. A rolling three or five-year spending plan with adequate contingencies; and
    c. A rolling three or five-year debt plan.
2. Once Government returns to surplus, a plan to maintain a surplus and reduce debt should be developed.
3. Our province needs to reduce our borrowing needs and borrowing costs. By demonstrating that we can implement a meaningful plan and follow it, we should be able to reduce our borrowing costs. It is critical that, for credibility reasons, Government meet the objectives established in its plan.
4. It is imperative that we renew our debt cost at current rates. The current cost is close to 8%. Renewing at current rates of 4% would save the province in excess of $500 million dollars. To accomplish this, we must demonstrate that we are prudent and in control.

Financial Education and Communication

- Based on our survey, there is a disconnect between perceived tax levels and service expectations in Newfoundland and Labrador. Most people do not have a good understanding of government finances and are not engaged on this important matter. A good example of this would be what Newfoundland and Labrador generates through our two largest tax sources relative to our largest expenditure area. While many people feel we pay too much in taxes, many are surprised to learn that revenues from PIT and sales taxes fund less than 90% of what we spend on health care. In our most recent budget, it was estimated that our two biggest sources (PIT and Sales Tax) would generate $2.8 billion while nearly $3.2 billion was budgeted for our health sector.
- Government must do better at explaining that it is not possible, or reasonable, to meet all service expectations or requests. Government has limited resources and frequently has to make very difficult decisions about how to best utilize available resources. Elected officials must be prudent when committing government resources.

5. Government must do a better job of educating and explaining our province's finances in a practical manner that engages more residents.
6. Government should not blindly respond to demands on social media or other avenues to pressure elected officials into making unreasonable financial decisions or commitments. Government must establish an appropriate and effective process to hear requests concerning revenue and expenditure measures.

Hold the Line on Most Taxes

- Opportunities for new taxes are limited.
- Overall, Newfoundland and Labrador has a progressive and fair taxation system. In 2016, approximately 51% of income tax filers had taxable incomes of $30,000 or less and paid about 3.9% of the total personal income tax collected whereas 49% of tax filers paid more than 96% of the total personal income tax collected. Further, in 2016, less than 7% of tax filers had a taxable income of greater than $100,000 but paid over 35% of total personal income tax collected.
- With an annual deficit in the range of $600-700 million, Newfoundland and Labrador is not in a position to reduce taxes significantly.
- Our four largest provincial tax sources (PIT, Sales, Gasoline, CIT) are moderate to high when compared to other provinces. From a practical perspective, the Government of Newfoundland and Labrador has limited room to increase rates in these areas to generate additional revenues without negatively affecting the province's competitive position. This is especially true for PIT and CIT.
- Outside pressures from other provinces and countries will continue to influence and shape perceptions of overall taxation—in particular, income taxes. High and very high earners are mobile as is capital. When attempting to attract investments along with well-educated talented professionals, we are on a competitive worldwide playing field.
- From an economics perspective, sales taxes and other consumption taxes are generally considered more efficient with fewer undesirable traits or consequences than income taxes.

- Environmental taxes and fees make sense—generate revenues from measures that influence behaviour and benefit our environment.
- While the unprecedented fiscal position of the province in 2016 dictated a number of significant taxation measures, from an income tax perspective the TDRL was poor tax policy. It is regressive and closer to a head tax than a progressive income tax. Government has indicated that the TDRL will remain in place until the end of 2019.
- When local taxes (and fees) are combined with our provincial taxes, the total tax burden in our province is much more moderate. Overall, residents of Newfoundland and Labrador appear to have relatively low property taxes and very low utility taxes (or fees).
- Newfoundland and Labrador appears to be the only province in the country without a provincial government property tax (commonly called "education" taxes in other provinces). Further, many parts of the country have regional or county governments which add a third layer of property taxation and/or service fees. In this province, many people live in unincorporated areas and pay no property taxes.
- On a per capita basis our province raises more money than any other province in our country. However, this simple assessment does not tell an informed story. For an accurate "apple-to-apple" comparison, total revenues raised by all comparable levels of government within each jurisdiction should be compared. This means revenues generated by the provincial government, all regional governments, and all municipal governments (including certain utility fees) of each province should be compared on a per capita basis.

7. Should Government find itself in a position to reduce taxes in the future, any initial reductions should be focused on PIT, which would include the TDRL.
8. The province should continue efforts to broaden consumption tax bases.
9. If practical, government should consider ending the TDRL before the end of 2019.
10. Government needs to study the impact of local taxes and fees to determine the total tax burden in our Province.
11. For equity and fairness reasons, the province should consider implementing a provincial property tax, one similar to provincial property taxes in other provinces. The goal is to have property owners pay at least a minimum property tax on all properties in the province.
12. The province must engage the federal government on comparing total revenues raised by all comparable levels of government within each jurisdiction.

Spend Smarter With Improved Transparency and Accountability

- If we accept that Newfoundland and Labrador has an expenditure problem rather than a revenue problem, the provincial government must focus on spending smarter. Consistent with recommendation #1, an effective multi-year expenditure plan could be considered as part of the broader fiscal plan.
- Residents of the province must understand how much our province spends to provide essential services. Cutting provincial expenditures will impact essential services including health and education. Running deficits and borrowing to fund basic services is not sustainable.
- With nearly 60% of our budgeted spending allocated to the health care, education, and social sectors, these areas will need to find savings and do more with less.

- The Government of Newfoundland and Labrador must spend smarter. We need to get more from our spending. We need to become more efficient at delivering services and we need to innovate; we need to examine new ways to run programs and produce better results with fewer resources. Telemedicine specialist appointments, distance learning initiatives, greater autonomy for local decision making, district level service priorities, regional cooperation, centralized administrative functions, improved tendering processes, partnerships with unions for training, and so on. All are potential examples of doing things differently.
- Government may need to make some difficult and potentially unpopular decisions. For example, one presenter to the ITRC suggested that increased regional cooperation at the municipal level could generate significant savings for Government.

13. Over the next four to seven years, the Government of Newfoundland and Labrador must bring expenditures in line with available consistent revenue sources.
14. Government departments must own programs. With increased flexibility and novel approaches will come increased accountability. Multi-year budgets should enable departments to innovate and meet objectives better. Departments must be held accountable to stay on budget.
15. Government must have the capacity to efficiently and effectively prioritize spending—including within larger program areas such as health care and education. Value for money must be an underlying consideration for all planning.
16. The province must encourage greater regional cooperation and failing this, impose arrangements.

Grow the Economy

- The Government of Newfoundland and Labrador must work tirelessly to grow the provincial economy. Increased economic activity will generate jobs, revenues, and further opportunities.
- We need to diversify our economy while reducing our dependence on government funded activities and employment. Further, we need to ensure that we are maximizing benefits and employment from our oil and gas industry.
- Newfoundland and Labrador should make the green economy a priority. A number of provinces have tax credit programs for eligible green initiatives. Eco-tourism, agriculture, aquaculture, forestry, recycling, and alternate energy opportunities are all part of the new green economy.
- A number of presenters identified the Health and Post-Secondary Education Tax (HAPSET) as a job killing tax. Payroll taxes are detrimental and are less common today than in years past in other jurisdictions.
- Newfoundland and Labrador must continue to attract immigrants. We will need to rely on immigration to maintain our workforce and a healthy economy. Government must develop effective and ethical programs to help make Newfoundland and Labrador attractive to immigrants and other Canadians.

17. Newfoundland and Labrador should consider tax credit programs for the green economy as fiscal resources allow.
18. Over the next four to seven years, the HAPSET exemption threshold should be increased from $1.2 million to $2.5 million.

19. Government should consider collapsing several existing business incentive programs to fund a new, more effective, direct equity investment program.

Ensure We Support Our Most Vulnerable

- A number of presenters thoughtfully reminded the committee that it is critical we maintain our social safety net and continue to support the most vulnerable in our society. The ITRC echoes this sentiment.
- Newfoundland and Labrador has programs to appropriately and adequately support our most vulnerable residents, specifically, programs to help lone parent families, persons not capable of working, and low income seniors. Programs include the Newfoundland and Labrador Income Supplement, the Seniors' Benefit and the Low Income Tax Reduction.
- Earning a real living wage is perhaps the best way to reduce an individual's reliance on, or usage of, government programs. Competitive wages will help attract immigrants to our province and people from other provinces.

20. Government should examine the merits and recent experiences in other provinces of a higher minimum wage.

Pursue Other Revenue Options

- Taxes represent just over half of our total revenues. Government raises revenues through many other avenues—user fees, cost recovery, royalties, federal transfers, and so on.
- Government must do a better job of recovering costs and/or generating contributions, particularly, for non-essential services and programs outside of the social sector. Departments should have a very good understanding of what it costs to deliver specific services and minimum cost recovery or contribution thresholds should be established and carefully followed. For example, Marine Atlantic in 2017-18 had a cost recovery rate around 45%. By linking fees to costs, arguably people would be better informed and appreciate more what services cost.
- It costs more to deliver services in our province than most other jurisdictions in the country. We have a relatively small, older population spread out over a relatively large geographic area. For example, arguably, to provide emergency room (ER) services to a specified access standard (let's say for 95% of our population should be able to drive to an ER within 45 minutes under normal driving conditions) costs more in our province. Simply put, because our population is spread out we need more ERs per capita. When you consider the age of our population and other social considerations, we likely have a large cohort that uses ER services above national averages. Other federal transfers include an "expenditure need" component, thus, this could be a reasonable avenue to pursue.
- The Atlantic Accord, signed between the Government of Newfoundland and Labrador and the Government of Canada, guaranteed that this province would be the principal beneficiary from oil development off our coast. Newfoundland and Labrador may be able to demonstrate that when all revenue sources are considered (PIT, CIT, HST, Royalties, etc.) plus reduced equalization payments to the province, the Government of Newfoundland and Labrador has not been the principal beneficiary.

21. The Government of Newfoundland and Labrador must pursue all practical revenue options.
22. The province could establish a cost recovery threshold for its ferry operations. Perhaps a goal of 25% would be reasonable with a range of 20-30% in given year.
23. There are many services or programs which could have fees linked to cost and/or usage. Examples include statutory inspection services provided at cost (boilers, ice plants, etc.), snow clearing and brush cutting services provided to communities with provincial roads on a shared cost basis, and so on.
24. Government business enterprises and other arms of government should look to generate additional revenues. This additional revenue could be from existing operations or through expansion such as partnering with other organizations for commercial ventures. For example, MUN could potentially leverage its expertise in cold-water climates to pursue commercial opportunities or the NLC could develop new product lines to be sold outside of Newfoundland and Labrador.
25. Newfoundland and Labrador should continue to make the case with the Government of Canada that it costs more to deliver services in our province than most other jurisdictions in the country.
26. Government should consider directly taxing all electricity generated in the province to increase revenues. Coinciding with this measure, Government should introduce a tax expenditure program to offset the tax on all electricity consumed in the province.