2018

Tax Review Report: Background and Analysis

Independent Tax Review Committee
Newfoundland and Labrador

11/30/2018

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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 October 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 interest 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 detailed survey on taxation to be undertaken by the Newfoundland and Labrador Statistics Agency. This telephone survey was completed during the Summer. The methodology and sample size provided statistically valid responses for the province.

Overall, the survey results provided the ITRC with significant insight and influenced the final approach to the exercise and report. Key findings of the survey will be highlighted later in this report (the complete survey and results are presented in Appendix C).

In addition, the ITRC met with a number of individuals and interest groups between May and August 2018. The groups included:

- Restaurants Canada;
- Canadian Federation of Independent Business;
- Newfoundland and Labrador Federation of Labour;
- NL Employers' Council;
- Chartered Professional Accountants Newfoundland and Labrador;
- Common Front NL;
- Atlantic Institute for Market Studies;
- Office of the Seniors' Advocate;
- Investment Industry Association of Canada;
- St. John's Board of Trade; and
- Canadian Manufacturers and Exporters.

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 that our approach provided meaningful information and insight to guide our report.

WHAT IS A TAX?

(selections from Tax Policy in Canada, Chapter 1, R. D. Brown and J. Mintz)

Taxes are compulsory payments made by individuals and businesses to government treasuries to finance public services. Some taxes are directed to specific purposes, however, and these are often called "benefit taxes." As an example of a benefit tax, consider the social security payments made by individuals to fund public pensions and unemployment insurance (employment insurance in Canada), which are made available to the whole population. Individuals must pay the tax (and then receive the benefit as determined by law) without choice.

Taxes are not the only source of government revenue. Governments also use non-tax revenues, including royalties paid by companies for the extraction of resources from public lands, profits from Crown corporations, fees paid for use of public services, grants (such as foreign aid), investment income, fines, and voluntary transfers to the state.

Tax policy determines how a country allocates the burden of its taxes— the taxes necessary to support government expenditure. But tax policy also deals with the effects, short- and long-term, of the tax system on incomes and investments, the allocation of resources, and social policies. Tax policy in Canada involves complex considerations about the ultimate role of governments and the interplay of responsibilities in a federal state.

Good tax policy is policy that maximizes economic well-being and reflects the views of citizens. A tax system that reflects sound policy is generally competitive internationally, employs tax bases that are as broad and inclusive as possible, has relatively low tax rates, and is for the most part neutral among different types of economic activities (and hence avoids distortions in effort, consumption, and investment).

Source: Raise the Flag (Canada), Pinterest

Source: Time.com April 20, 2012

However, tax policy in Canada is determined not just by the somewhat complex and occasionally contradictory arguments of economists, but also by considerations of the practicalities of administration and harmonization in a federal state, and by the highly pragmatic views of Canadians themselves. **The setting of tax policies is therefore not only an academic art but also an exercise in practical democracy.**

GOVERNMENT RESPONSIBILITIES

The federal level government deals with areas of law listed in the Constitution Act, 1867 and that generally affect the whole country. The Constitution also specified that every issue not mentioned as belonging to the provincial or territorial governments comes under the power of the Federal Government.

The ten provinces are responsible for areas listed in the Constitution Act, 1867. The three territories were created under federal law and have their own governments, with responsibilities that are given to them by the Government of Canada.

Crown lands in the territories are retained by the federal government in the Crown in right of Canada. This differs from the provinces, which own provincial lands in the Crown in right of the province. In a territory, federal Parliament may enter into provincial-type affairs. Territorial governments are not included in the Constitutional amending formula—the way we decide if we want to change something in the Canadian Constitution. Provinces get a vote when a change is proposed—territories do not.

The municipal level are creations of the provincial or territorial governments which can create, modify, or eliminate a municipal government at will and controls exactly the powers a municipal government is entitled to execute.

There are hundreds of municipalities in each province and territory and are labelled in many different forms. "Upper tier" municipalities include regions, counties, and districts and are often headed by a chair or a warden. "Lower tier" municipalities which exist within an upper tier include cities, towns, townships, and municipalities, and are most frequently headed by a mayor.

Across the country there are also band councils which govern First Nations communities. These elected councils make decisions that affect their local communities.

Government Responsibilities In Canada

Federal government responsibilities include:

- defence;
- criminal law;
- employment insurance;
- postal service;
- census;
- copyrights;
- trade regulation;
- external relations;
- money and banking;
- transportation;
- citizenship; and
- Indian affairs.

In general, provincial and territorial responsibilities include:

- property and civil rights;
- administration of justice;
- natural resources and the environment;
- education;
- health; and
- welfare.

Municipal responsibilities vary from location to location but generally include:

- water;
- sewage;
- waste collection;
- public transit;
- land use planning;
- libraries;
- emergency services;
- animal control; and
- economic development.

Source: ITRC

GOVERNMENTS MAKE CHOICES

While similar levels of governments are generally tasked with delivering similar services, there may be large differences in what is actually delivered and what is spent. Examples include different provinces having different drug formularies, or some provinces offering low tuition fees for post-secondary education while others charge more.

Within the same level of government, within the same jurisdiction (municipal or regional) there may be significant differences in the mix of services provided, expenditure levels, revenue generation, borrowing, and debt. Between jurisdictions, the differences within similar levels of government (provincial and others) may be considerable as well.

Scale, geography, delivery approach, and many other factors will influence average or per person costs and ultimately, total expenditures. Again, differences amongst jurisdictions could result in significantly different expenditure requirements or efforts.

There are differences on the revenue side as well. One government may favour relatively high levels of tax to ensure a high level of service, while another may choose to offer lower service levels for the sake of lower taxation. Yet another government may favour fees and cost recovery over taxation and deliver a mid-level service. Some governments choose to borrow money to fund services rather than reducing expenditures or raising taxes and fees in the short-term. Simply put, governments decide:

- When to spend;
- What to spend on;
- How much to spend; and
- How to pay for the spending.

Ultimately, there are vast number of permutations or combinations possible for all levels of government. Unfortunately, this makes comparisons between governments challenging.

Why Public Goods Are Underprovided In Free Markets

A public good has two characteristics: non-rivalry, or when a good is consumed it doesn't reduce the amount available for others; and non- excludability, or when it is not possible to provide a good without it being possible for others to enjoy.

These characteristics mean public goods are often underprovided in free markets. Firms may not provide goods when they have difficulty charging people for their use. Public goods have a free rider problem. Once it has been provided, it is not possible to prevent anyone from enjoying a good. Therefore there is no incentive for people to pay for the good.

However, this behavior will lead to goods not being provided and social inefficiencies. As a result, governments typically provide needed public goods. Examples of public goods include street lighting, national defence, statistical services, and flood protection.

A quasi-public good is a near-public good which have elements of non- excludability and non-rivalry. Roads are a good example—once provided most people can use them (those with a driving licence). However, when you use a road, the amount others can benefit is reduced to an extent due to increased congestion. It has some of the characteristics of a public good especially when it becomes rival in consumption at times of peak demand.

While classical economic theory suggests public goods will not be provided by a free market, there are examples of people coming together to voluntarily provide public goods. Behavioural economics suggests that some individuals can have motivations other than just money.

People may volunteer to contribute to local projects out of a sense of community pride or genuine interest. Therefore, in the real world, enough people may contribute to paying for a public good, even if it may be rational to avoid paying. For example, people may raise money to fund construction of a community arena.

There is a difference between public spending and public goods. Not all government spending is on 'public goods', governments also spend on other goods and services. Merit goods or services (such as education and vaccinations) are provided free for the benefit of the entire society by a government because they would be under-provided if left to the market forces or private enterprise.

2018-19 PROVINCIAL BUDGETARY POSITIONS

For the fiscal year 2018-19, only four provincial governments are forecasting a balanced budget (or better)—British Columbia, Quebec, Nova Scotia, and Prince Edward Island.

The other six provinces are projecting deficits ranging from $8.8 billion in Alberta to $187 million in New Brunswick. Newfoundland and Labrador is forecasting a deficit of $683 million.

On a per capita basis, the estimated provincial government fiscal positions ranged from a surplus of $139 per person in British Columbia to a deficit of over $2,050 in Alberta. On a per capita basis, Newfoundland and Labrador had the second highest forecasted deficit at about $1,290 per resident.

On the expenditure side, per capita program spending ranged from a low of $9,088 per person in Quebec to a high of $13,981 per person in Newfoundland and Labrador.

In 2016-17, it was estimated that the total spending by all provinces and territories combined was in excess of $409 billion—approximately $29 million of this spending was for debt charges.

On a per capita basis, the combined spending was in excess of $11,300. The combined spending amounted to approximately 20% of Canada's total Gross Domestic Product (GDP).

The combined total revenues of all provinces and territories in 2016-17 were nearly $400 billion—resulting in a combined deficit of over $9 billion—or about $250 per person.

Fiscal Policy 101

Government Budgetary Position = Revenues - Expenditures

- Balanced budget is when total government revenues are equal to total government expenditures.
- Surplus budget is when total government revenues are more than total government expenditures.
- Deficit budget is when total government expenditures exceed total government revenues.
- Gross debt captures all government liabilities, including items such as future pension payments, payments for goods/services which the government has contracted but not yet paid, etc.
- Net debt comprise all financial liabilities minus all financial assets of general government.

T.1 Provincial Budgetary Position 2018-19

	$ Millions
British Columbia	669
Alberta	-8,802
Saskatchewan	-365
Manitoba	-521
Ontario	-6,704
Quebec	0
New Brunswick	-187
Nova Scotia	29
Prince Edward Island	2
Newfoundland & Labrador	-683

THE CHALLENGES AHEAD

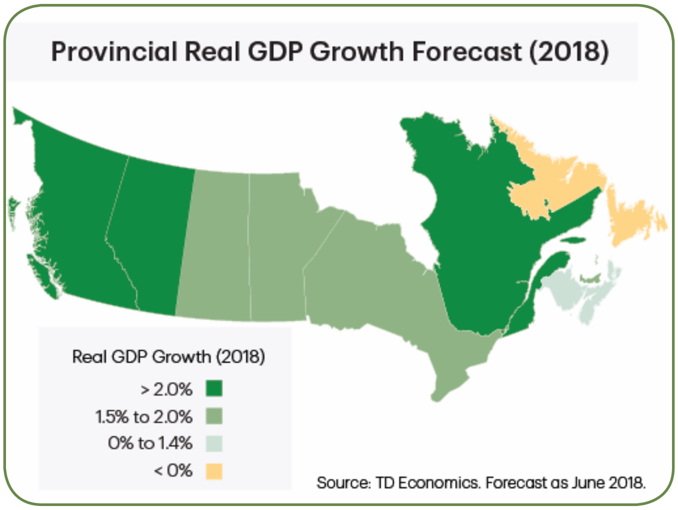
It is difficult to assess Newfoundland and Labrador's tax system without briefly discussing some major challenges which our province is facing. These challenges and how we address them will undoubtedly influence how our province moves forward.

Our discussions will be limited to five areas (challenges):

- Population and Demographics;
- Structural Economic Issues;
- Cost of Services;
- Our Debt; and
- Tax Pressures From Other Jurisdictions.

While this list is certainly not exhaustive of issues faced by our province, it captures the most difficult challenges and sets the needed tone. There has been a lot written about the first four areas—our review will simply highlight some of the pertinent facts and needed direction. The last issue is clearly related to a tax review and will serve as a good segue into our specific tax discussion.

From nomadic beginnings in Labrador, a land of opportunity for immigrants, a remote colony frequently fought over, the sacrifices of two world wars, and as Canada's newest province, we have always addressed challenges head on. We chart a course and we move forward.



Provincial Outlook

Long-Term Economic Forecast: Newfoundland and Labrador—2018

The Conference Board of Canada, March 27, 2018

Document Highlights

- The offshore oil industry will continue to play a key role in the provincial economy.
- A declining population will constrain potential output over the long term.
- Residents of Newfoundland and Labrador will continue to move to other provinces over the long term.
- An aging population and the need for health care spending will put pressure on the provincial budget.
- Housing starts will fall throughout the forecast period due to population aging.
- Newfoundland and Labrador will post the highest unemployment rate in Canada over the forecast period.

"In an analysis of Newfoundland & Labrador's oil price sensitivity earlier this year, we highlighted that Newfoundland and Labrador's non-renewable resource revenue (i.e. oil offshore royalties plus mining tax and royalties) represent about 13% of total revenues. This is down significantly from close to 40% in 2012. With Brent oil performing better than plan, we saw little risk around the Province's projected 2017/2018 and 2018/19 deficit projections. We maintain this view."

—CIBC World Markets March 2018

POPULATION AND DEMOGRAPHICS

Since Confederation in 1949, our province's population has changed considerably.

From the 1950s through the 1980s, our population grew. From the 1990s through present day, population has generally declined. Further, this population decline has not been uniform—different regions have seen different changes. Some regions, such as the Avalon, have seen significant growth while others such as the Northern Peninsula, experienced major declines.

Despite the general population decline, on a percentage basis, our province has the largest rural population of all provinces. Approximately 47% of our population could be considered rural. This compares to around 17% for Canada overall.

Coinciding with our general population decline there have been other major demographic changes. The province's birthrate has declined significantly, there have been large swings in migration, and people are living longer.

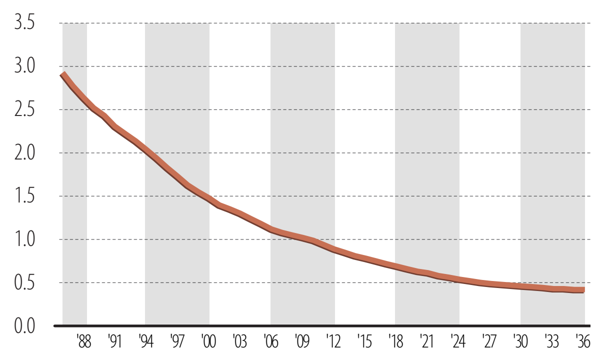
In general, today we have a smaller, older population that utilizes more government services especially health care. This trend is expected to continue over the coming decades. By 2036, more than 15% of our residents will be 75 years of age or older and our total population could fall to around 506,000.

POPULATION
Newfoundland and Labrador

1951	361,416
1956	415,074
1961	457,853
1966	493,396
1971	522,100
1976	557,720
1981	567,681
1986	576,306
1991	579,644
1996	559,698
2001	522,046
2006	510,584
2011	525,037
2016	530,305

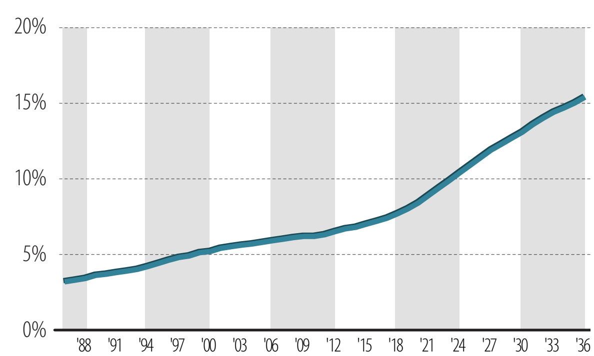
Source: Department of Finance

F.1 Ratio Persons Aged 0-14 to 65+
NL, 1986-2036



Source: Department of Finance

F.2 Percentage of Population 75+
NL, 1986-2036



Source: Department of Finance

STRUCTURAL ECONOMIC ISSUES

Newfoundland and Labrador's economy is quite different than any other province in Canada. Over the past two decades we have seen very strong growth and we continue to be near the top in terms of per capita provincial output. Further, oil production has, at times, produced large windfalls for the provincial coffers.

While these facts are impressive, they are somewhat misleading. Newfoundland and Labrador leads all provinces with a very high unemployment rate and low participation rate. We continue to see a very high reliance on seasonal jobs and Employment Insurance. As well, public sector employment continues to play a larger role in our economy when compared to the country as a whole.

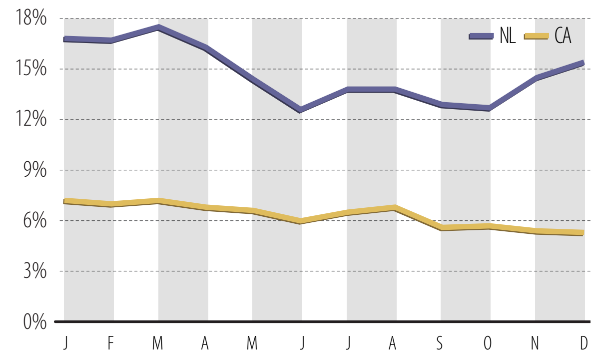
The offshore oil industry has had a major impact on our economy. Oil production is the primary reason why our economy has grown considerably over the past two decades. Oil has created significant wealth, real business opportunities, and many well-paying jobs.

In particular, St. John's and the Avalon Peninsula have benefited markedly from offshore oil. Population has increased, housing prices have climbed, many new businesses have flourished, employment remains strong, and so on. While recent years has brought an adjustment, the region continues to see the benefits of an oil industry. Unfortunately, other regions of the province have not seen the same degree of success brought to the Avalon by oil. In many areas, the fishery, resource extraction, and health care dominate local economies.

Arguably, in Newfoundland and Labrador we have historically:

- Failed to diversify our economy;
- Relied too heavily on the benefits from oil; and
- Exasperated regional economic differences.

F.3 Unemployment Rate, 2017



Source: Department of Finance

T.2 Selected Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unemployment Rates by Economic Region (%)										
Region 1	10.1	11.2	10.9	8.9	9.0	7.9	8.2	8.9	10.5	11.0
Region 2	17.6	22.0	20.9	18.0	16.9	16.7	18.9	18.0	18.6	21.5
Region 3	16.7	18.8	17.3	15.9	16.2	15.6	14.0	17.6	16.0	17.5
Employment by Economic Region (thousands)										
Region 1	124.3	122.6	128.2	134.3	141.5	140.8	140.1	138.8	138.2	131.5
Region 2	56.0	52.0	53.1	54.8	55.9	57.4	54.1	55.2	51.8	50.5
Region 3	40.8	40.5	41.5	42.8	43.4	44.4	44.4	42.2	42.6	42.2
Labour Force by Economic Region (thousands)										
Region 1	138.1	138.0	143.9	147.5	155.5	152.9	152.6	152.3	154.4	147.7
Region 2	68.0	66.7	67.0	66.8	67.3	68.9	66.7	67.3	63.6	64.2
Region 3	49.0	49.9	50.2	50.9	51.7	52.6	51.6	51.2	50.6	51.0

Note: Region 1 Avalon Peninsula
Region 2 South Coast—Burin Peninsula and Notre Dame—Central Bonavista Bay
Region 3 West Coast—Northern Peninsula and Labrador

COST OF SERVICES

In simple terms, the overall cost for a service is a function of the cost per service and demand for the service. As well, for a public service or good, access is also a key determinant of overall cost.

Access (or accessibility) is frequently the major driver for the location of services. Access can be influenced by many factors such as the standard of service, geography, transportation infrastructure, weather, population density, and so on.

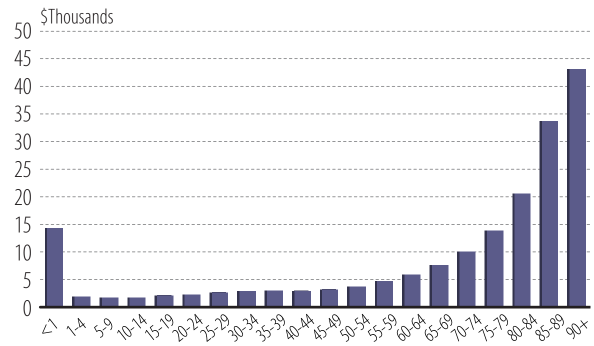
Cost per service will also have many determinants—staffing levels, rates of pay, physical infrastructure costs, operations, maintenance, etc. Demand for services of course will be highly dependent upon the characteristics of the population served. For example, medical or health care usage is highly correlated with age. Simply put, older people tend to use more health care.

Arguably, Newfoundland and Labrador has some of the highest cost determinants for public services in Canada. This could explain why our province has the highest per capita program expenditures of any province.

Newfoundland and Labrador:

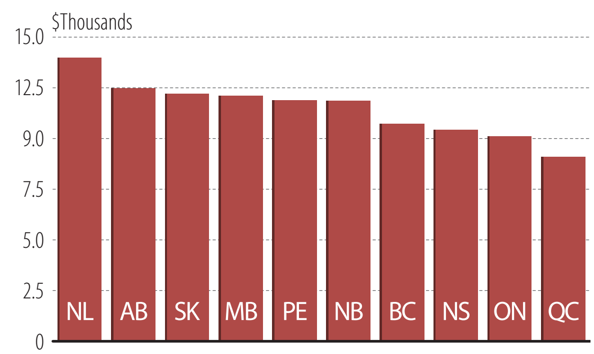
- Has a large geographic area relative to our population size;
- Has the oldest population in the country;
- Has the largest rural population of any province;
- Has low levels of literacy and educational attainment;
- Has high incidence of chronic disease;
- Has a high reliance on imported goods; and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

F.4 Health Care Expenditure Per Capita
By Age Group, 2016



Source: Canadian Institute for Health Information

F.5 Per Capita Program Spending
by Province, 2018-19



Source: Department of Finance

OUR DEBT

Debt has become a major challenge for our province. Our net debt has grown significantly in recent years.

Servicing our debt now represents our third largest expenditure area—third only to health care and education (includes K-12 and Post-Secondary). Both areas will continue to put pressure on government spending plans.

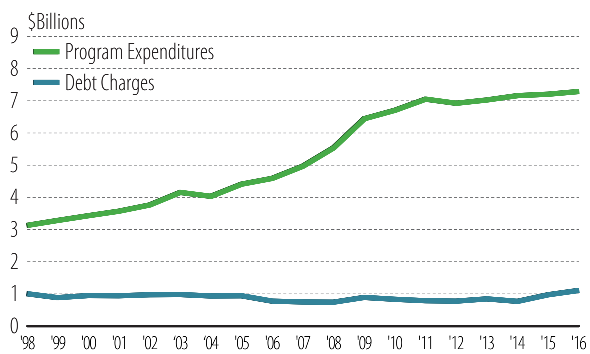
With regards to net debt, over the past 15 years, Newfoundland and Labrador has experienced what is perhaps best described as a "roller coaster ride".

In the early 2000s, our net debt was increasing rapidly. In 2003-04, the province had a $914 million deficit. Over the next five years, the largest deficit in our history turned into our largest surplus. In 2008-09, the province had a $2.35 billion surplus. During this period, our net debt fell sharply to less than $8 billion.

Beginning in 2012-13, the province again entered a period of significant deficits. Spending had increased rapidly and revenues from offshore oil had declined drastically.

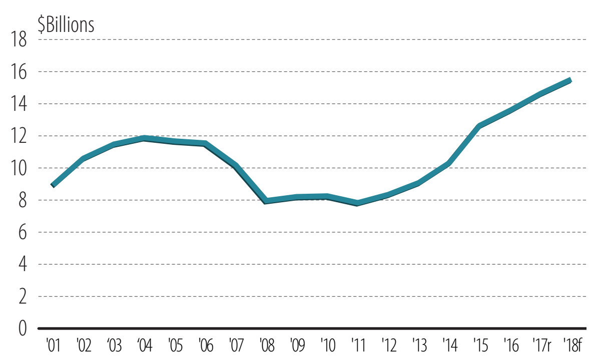
By the end of 2018-19, our net debt is projected to be in excess of $15.5 billion—or more than $29,000 for every resident of our province. Our per capita net debt is the highest of any provincial government in Canada by a large margin.

F.6 **Total Expenditures**
NL, Fiscal 1998-99 to 2016-17



Source: Department of Finance

F.7 **Net Debt** NL, Fiscal 2001-02 to 2018-19



r: revised; f: forecast
Source: Department of Finance

NL Budgetary Position

1995-96	-190
1996-97	-107
1997-98	133
1998-99	-187
1999-00	-269
2000-01	-350
2001-02	-468
2002-03	-644
2003-04	-914
2004-05	-489
2005-06	199
2006-07	154
2007-08	1,421
2008-09	2,350
2009-10	-33
2010-11	594
2011-12	974
2012-13	-195
2013-14	-389
2014-15	-1,006
2015-16	-2,207
2016-17	-1,080
2017-18R	-778
2018-19F	-683

TAX PRESSURES FROM OTHER JURISDICTIONS

In early 2018, TD Economics prepared a commentary on the recent U.S. tax cuts. The article offered the following advice on how Canadian governments should respond.

Peak government budget season in Canada is fast approaching. Both the passage of the Tax Cuts and Jobs Act (TCJA) and North American Free Trade Agreement worries has been upping the heat on the federal and provincial governments to take action to mitigate growing competitive risks. There are even calls to match the U.S. cuts tit-for-tat.

That strategy is convenient but too simplistic since it ignores the many trade-offs of policy choices. As we have discussed, competitiveness is driven by a complex array of variables (perhaps even more so in today's era relative to the past). For instance, depending on program structure, providing incentives for the private sector to up skill workforces in the accelerating age of automation might deliver a greater bang for the buck on competitiveness than say, matching the U.S. move to full expensing. Moreover, each region of Canada faces different competitive challenges and vulnerabilities.

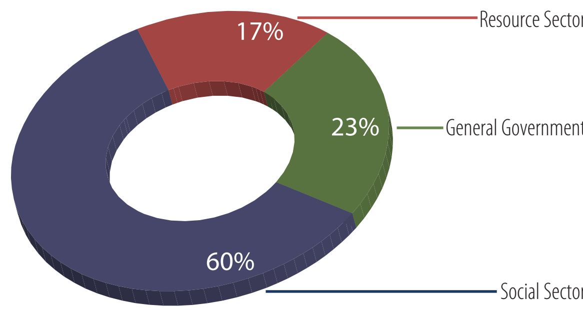
A more detailed policy prescription goes beyond the scope of this report. We would offer up the following for governments to consider:

- First, and perhaps most obvious, governments need to avoid implementing actions that would make Canada less competitive than it is today.
- Measures to strengthen competitiveness need to be balanced against longer-term fiscal sustainability. Rising budget shortfalls and increasingly elevated debt burdens are counterproductive over the longer haul, as was observed in Canada in the 1990s.
- Governments need to consider the stage of the business cycle. Similar to the U.S., Canada's economy has little spare capacity. Injecting significant fiscal stimulus in Canada at this point could lead to higher interest rates and raise pressure on highly-indebted households.
- This speaks to our preference of tax reform over tax cuts. Governments can reduce taxes that are most harmful on investment (i.e. corporate income taxes) and offset the impact on revenue by increasing levies that are less damaging (i.e. sales taxes). Simplifying the tax system through eliminating inefficient tax credits and other tax expenditures could free up room for productivity-enhancing actions. There also remain a number of provinces that have not harmonized their sales taxes with the GST, which is an impediment on investment and growth.
- More broadly, resources could be freed up by efforts to reallocate public spending from areas of low priority to areas of greater importance. But barring fundamental reforms in areas such as health care, such savings tend to be relatively small or unsustainable.
- Lastly, regulatory systems in Canada remain challenged with many outdated and inefficient rules. Efforts to remove inefficient regulations and modernize systems need to be stepped up.

OUR SPENDING

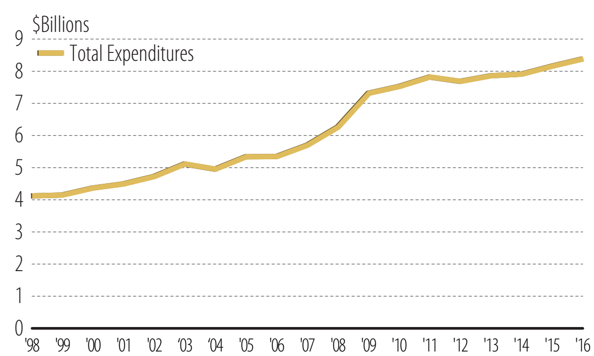
- For 2018-19, our spending is projected to be nearly $8.36 billion—about $15,900 per person.
- Nearly 60%, over $4.97 billion, of our spending is in the social sector:
  - Health & Community Services—about $3.2 billion;
  - Education & Early Childhood Development—nearly $878 million; and
  - Over $894 million in other social spending—including Municipal Affairs and Environment, Justice and Public Safety, Newfoundland and Labrador Housing Corporation, and Children, Seniors and Social Development.
- We spend about $1.4 billion in the resource sector.
- General government expenses and the Legislative Branch spend nearly $1.95 billion.
- Over the past two decades, provincial government expenditures have increased significantly. In 2002-03, total expenditures amounted to just over $4.51 billion.
- On a per capita basis, in nominal terms, spending has increased from around $8,700 to nearly $15,900 per person in our province.
- When you factor in general inflation, we spend nearly $11,750 per capita in 2002 dollar terms—roughly a 35% increase.
- The health and resource sectors have increased from around 71% of total spending to nearly 77% of total government spending. In 2002, we spent just under $6,200 per person for these sectors. This year we will spend nearly $12,200 per person, or nearly $9,000 in 2002 terms. In real terms, this is a spending increase of over 45%.

F.8 **Spending by Sector** NL, 2018-19



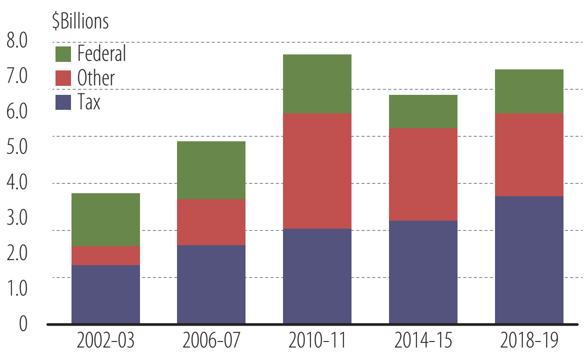
Source: Department of Finance, Budget 2018, Schedule II

F.9 **Total Expenditures**
NL, Fiscal 1998-99 to 2016-17



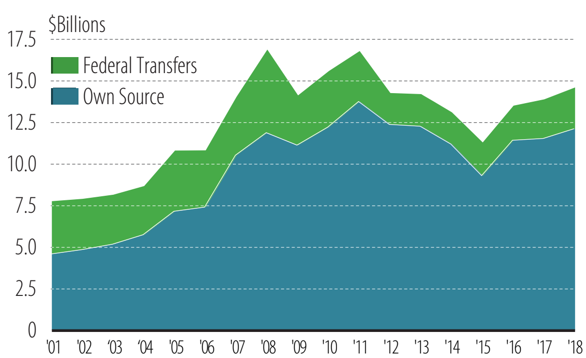
Source: Department of Finance

F.10 **Total Revenue by Source**
NL, Selected Fiscal Years



Source: Department of Finance

F.11 **Per Capita Revenues**
by Source, NL, Fiscal 2001-02 to 2018-19



Source: Department of Finance

OUR REVENUES

For 2018-19, the province will generate revenues in excess of $7.67 billion or about $14,600 per person. Nearly $3.87 billion, or about $7,350 per person, will be generated through taxation.

Other major sources of revenue for 2018-19 include:

- Offshore Royalties will generate some $1 billion;
- Fines and fees will generate nearly $339 million;
- Investments and other miscellaneous own source revenues account for over $77 million;
- Transfers from the Government of Canada amount to $1.31 billion; and
- Government Business Enterprises contribute some $429 million—Atlantic Lottery Corporation ($133 million), Nalcor Energy ($118 million), Newfoundland and Labrador Liquor Corporation ($178 million).

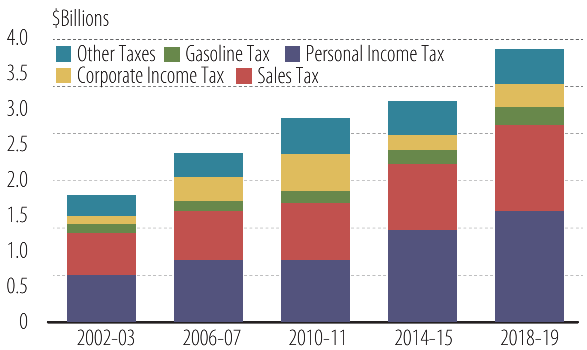
In general, Newfoundland and Labrador's revenues have increased significantly over the past two decades. Total revenues increased from less than $4 billion at the turn of the century to more than $8.8 billion in just over a decade. Such a rapid revenue increase has rarely, if ever, been seen in Canada.

Unfortunately, the revenue boon was somewhat short-lived. Within four years, total provincial government revenues had decreased to less than $6 billion. Again, a nearly unprecedented event in the fiscal history of Canada.

In recent years, revenues have again begun to grow at a healthy rate.

F.12 Revenue from Major Tax Bases

NL, Selected Fiscal Years



Source: Department of Finance

T.3 Tax Revenue Distribution by Major Base

	2002 to 2003	2006 to 2007	2010 to 2011	2014 to 2015	2018 to 2019
Personal Income Tax	37.4%	37.1%	30.7%	41.9%	40.9%
Sales Tax	32.8%	28.7%	27.7%	30.0%	31.2%
Gasoline Tax	7.6%	6.1%	5.8%	5.9%	6.7%
Corporate Income Tax	6.0%	14.3%	18.4%	7.0%	8.4%
Other Taxes	16.2%	13.9%	17.4%	15.2%	12.7%

T.4 Tax Revenue as a Percentage of Total Revenues

2002-2003 ....45.5%
2006-2007 ....43.3%
2010-2011 ....35.5%
2014-2015 ....45.1%
2018-2019 ....50.4%

OUR TAXES

Taxes account for just over half of Newfoundland and Labrador's total revenue—approximately 50.4%, or about $3.87 billion out of $7.67 billion in total revenues.

Personal Incomes Taxes (PIT), Corporate Income Taxes (CIT), Sales Tax and Gasoline Taxes combined account for about $3.37 billion—over 87% of the Province's projected tax revenue:

- PIT—$1.58 billion, 40.9% of tax revenue (20.6% of total revenue);
- Sales Tax—$1.21 billion, 31.2% of tax revenue (15.8% of total revenue);
- CIT—$324 million, 8.4% of tax revenue (4.2% of total revenue);
- Gasoline—$261 million, 6.7% of tax revenue (3.4% of total revenue); and
- Other—$491 million, 12.7% of tax revenue (6.4% of total revenue).

Over the past 15 years, taxation as a percentage of total revenues has varied significantly. Falling to a low of around 35% some 7-9 years ago coinciding with significant oil revenues and Atlantic Accord benefits.

PERSONAL INCOMES TAXES

As noted above, Personal Income Tax (PIT) is Newfoundland and Labrador's largest source of tax revenue. Our PIT system is progressive—meaning tax rates increase with increased income.

The Canada Revenue Agency administers the income tax system in Canada collecting both federal and provincial income taxes for most provinces.

- Taxable income is defined by the federal government.
- Provinces set their own rates, brackets, basic exemption, credits and deductions.

Excluding 2015-16 & 2016-17, for nearly 10 years, PIT rates declined in Newfoundland and Labrador—as well, tax expenditure program spending has increased significantly since 2007.

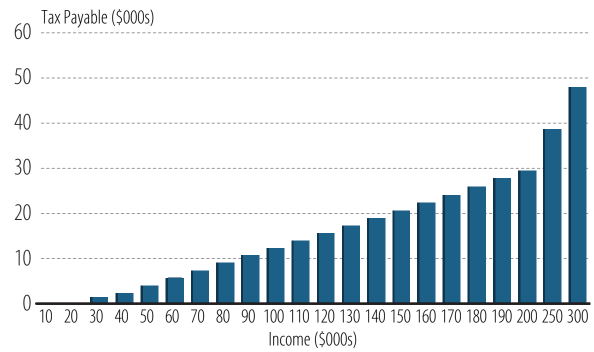
2015 saw the introduction of two higher income tax brackets. 2016 saw a number of changes to our tax system including higher PIT rates and the introduction of a Temporary Deficit Reduction Levy (TDRL).

The TDRL was modelled after the Ontario Health Premium. It is scheduled to be eliminated after 2019. While part of the income tax system, the levy is more of a head tax than a progressive income tax.

Newfoundland and Labrador PIT levels are now comparable to levels last seen in this province in 2006. In general, the PIT burden in Newfoundland and Labrador is below Quebec, comparable to the Maritimes and Manitoba, and greater than Ontario and the three western provinces.

It would be accurate to characterize PIT as the most discussed or debated tax. What one person considers fair, another person may see as unreasonable. For the most part, our PIT is comparable with other Canadian jurisdictions.

F.13 Personal Income Tax, Provincial
NL, 2018



Note: Single taxpayer. Calculations are for a single taxpayer with employment income only and claiming the basic personal amount, CPP and EI credits.
Source: Department of Finance

T.5 Personal Income Tax Payable By Province, 2018

Taxable Income	NL	NS	NB	PE	ON	MB	SK	AB	BC
10,000	-	-	-	-	-	14	-	-	-
20,000	2	598	300	799	388	1,023	293	-	-
30,000	1,648	1,520	1,504	1,914	1,201	2,031	1,273	928	1,007
40,000	2,639	3,010	2,661	3,150	1,822	3,199	2,254	1,861	1,771
50,000	4,031	4,500	3,993	4,465	2,733	4,403	3,330	2,795	2,567
60,000	5,653	6,033	5,444	5,814	3,631	5,643	4,546	3,763	3,321
70,000	7,303	7,753	6,926	7,369	4,546	6,973	5,796	4,763	4,091
80,000	9,033	9,446	8,408	9,039	5,656	8,713	7,046	5,763	4,879
90,000	10,713	11,113	10,003	10,709	6,852	10,453	8,296	6,763	5,929
100,000	12,293	12,839	11,655	12,379	8,565	12,193	9,546	7,763	7,138
110,000	13,973	14,589	13,307	14,203	10,306	13,933	10,796	8,763	8,367
120,000	15,553	16,339	14,959	16,040	12,047	15,673	12,046	9,763	9,822
130,000	17,233	18,089	16,611	17,877	13,788	17,413	13,312	10,800	11,292
140,000	18,936	19,839	18,322	19,714	15,529	19,153	14,762	12,000	12,762
150,000	20,666	21,589	20,106	21,551	17,270	20,893	16,212	13,200	14,232
160,000	22,396	23,689	22,028	23,388	19,167	22,633	17,662	14,463	15,912
170,000	24,126	25,789	24,058	25,225	21,064	24,373	19,112	15,763	17,592
180,000	25,956	27,889	26,088	27,062	22,961	26,113	20,562	17,063	19,272
190,000	27,740	29,989	28,118	28,899	24,858	27,853	22,012	18,363	20,952
200,000	29,570	32,089	30,148	30,736	26,755	29,593	23,462	19,663	22,632
250,000	38,720	42,589	40,298	39,921	36,858	38,293	30,712	26,612	31,032

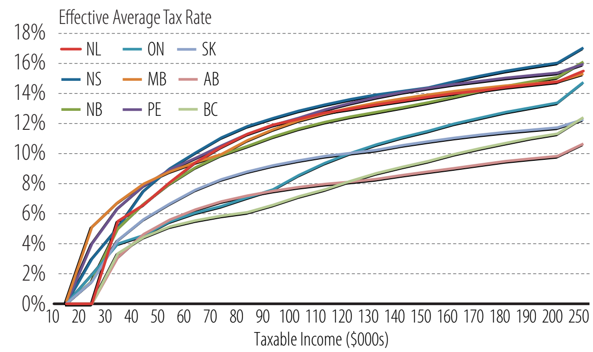
Note: Single taxpayer. Calculations are for a single taxpayer with employment income only and claiming the basic personal amount, CPP and EI credits.
Source: Department of Finance

NON-REFUNDABLE TAX CREDITS, BENEFITS AND TAX REDUCTION (2018 TAX YEAR)

Newfoundland and Labrador offers the following credits and tax reductions which reduce provincial tax payable:

- Adoption expenses;
- Age amount;
- Allowable amount of medical expenses for other dependants;
- Amount for an eligible dependant;
- Amount for infirm dependants age 18 or older;
- Amounts transferred from your spouse or common-law partner;
- Basic personal amount;
- Child care amount;
- CPP or QPP contributions on self-employment and other earnings;
- CPP or QPP contributions through employment;
- Caregiver amount;
- Direct equity tax credit;
- Disability amount (for self);
- Disability amount transferred from a dependant;
- Donations and gifts;
- Employment insurance premiums on self-employment and other eligible earnings;
- Employment insurance premiums through employment;
- Foreign tax credit;
- Interest paid on your student loans;
- Low Income Tax Reduction;
- Medical expenses for self, spouse or common-law partner, and your dependent children born in 2000 or later;
- Newfoundland and Labrador Income Supplement;
- Pension income amount;
- Political contribution tax credit;
- Resort property investment tax credit;
- Seniors' Benefit;
- Spouse or common-law partner amount;
- Tuition and education amounts;
- Tuition and education amounts transferred from a child;
- Venture capital tax credit; and
- Volunteer firefighters' amount.

F.14 Personal Income Tax, Effective Average Tax Rates Selected Provinces, 2018



Note: Single taxpayer. Calculations are for a single taxpayer with employment income only and claiming the basic personal amount, CPP and EI credits.
Source: Department of Finance

T.6 Effective Personal Income Tax Rates By Province, 2018

Taxable Income	NL	NS	NB	PE	ON	MB	SK	AB	BC
10,000	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
20,000	0.0%	3.0%	1.5%	4.0%	1.9%	5.1%	1.5%	0.0%	0.0%
30,000	5.5%	5.1%	5.0%	6.4%	4.0%	6.8%	4.2%	3.1%	3.4%
40,000	6.6%	7.5%	6.7%	7.9%	4.6%	8.0%	5.6%	4.7%	4.4%
50,000	8.1%	9.0%	8.0%	8.9%	5.5%	8.8%	6.7%	5.6%	5.1%
60,000	9.4%	10.1%	9.1%	9.7%	6.1%	9.4%	7.6%	6.3%	5.5%
70,000	10.4%	11.1%	9.9%	10.5%	6.5%	10.0%	8.3%	6.8%	5.8%
80,000	11.3%	11.8%	10.5%	11.3%	7.1%	10.9%	8.8%	7.2%	6.1%
90,000	11.9%	12.3%	11.1%	11.9%	7.6%	11.6%	9.2%	7.5%	6.6%
100,000	12.3%	12.8%	11.7%	12.4%	8.6%	12.2%	9.5%	7.8%	7.1%
110,000	12.7%	13.3%	12.1%	12.9%	9.4%	12.7%	9.8%	8.0%	7.6%
120,000	13.0%	13.6%	12.5%	13.4%	10.0%	13.1%	10.0%	8.1%	8.2%
130,000	13.3%	13.9%	12.8%	13.8%	10.6%	13.4%	10.2%	8.3%	8.7%
140,000	13.5%	14.2%	13.1%	14.1%	11.1%	13.7%	10.5%	8.6%	9.1%
150,000	13.8%	14.4%	13.4%	14.4%	11.5%	13.9%	10.8%	8.8%	9.5%
160,000	14.0%	14.8%	13.8%	14.6%	12.0%	14.1%	11.0%	9.0%	9.9%
170,000	14.2%	15.2%	14.2%	14.8%	12.4%	14.3%	11.2%	9.3%	10.3%
180,000	14.4%	15.5%	14.5%	15.0%	12.8%	14.5%	11.4%	9.5%	10.7%
190,000	14.6%	15.8%	14.8%	15.2%	13.1%	14.7%	11.6%	9.7%	11.0%
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: Single taxpayer. Calculations are for a single taxpayer with employment income only and claiming the basic personal amount, CPP and EI credits.
Source: Department of Finance

TAX EXPENDITURE PROGRAMS

Newfoundland and Labrador currently offers some 25 tax expenditure programs in five different program areas. Over the years, programs change and evolve, new programs are introduced, others are reworked or combined, and others are eliminated outright. Tax expenditure programs utilize our tax system to deliver targeted benefits to individuals, families, businesses, and municipalities.

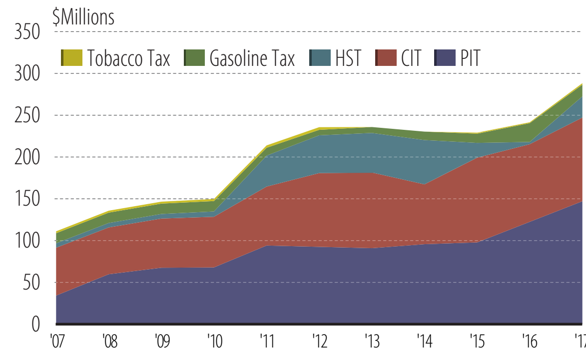
Since 2007-08, expenditures through these programs have increased from $111.2 million to $288.3 million. This represents an increase of nearly 160% of targeted benefits. On a per capita basis, 2018-19 expenditures are approximately $550 per person.

Five programs account for a large majority of total tax expenditure program cost:

- Small Business Tax Rate Reduction ($83.4 million);
- Newfoundland and Labrador Income Supplement ($61.3 million);
- Seniors' Benefit ($58.8 million);
- Municipalities Rebate ($23.6 million); and
- Low Income Tax Reduction ($12.5 million).

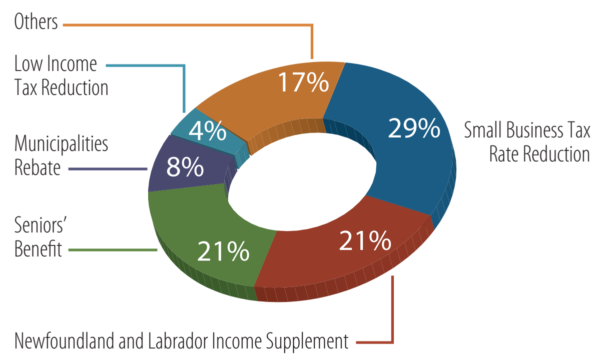
In total, these programs will provide estimated benefits of nearly $240 million.

F.15 **Tax Expenditures by Program Area**
NL, Fiscal 2007-08 to 2017-18



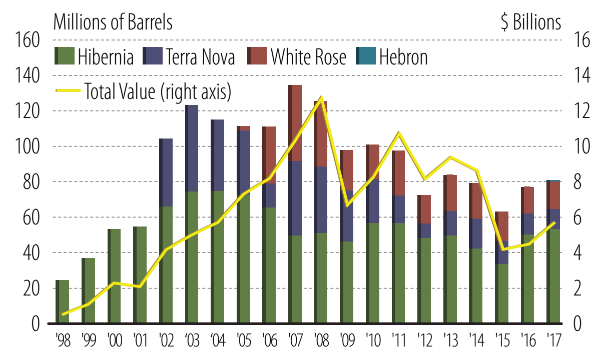
Source: Department of Finance

F.16 **Major Tax Expenditure Programs**
NL, 2018-19



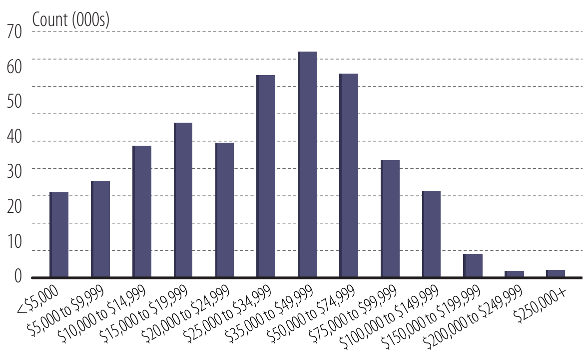
Source: Department of Finance

F.17 **Offshore Oil Production** NL, 1998 to 2017



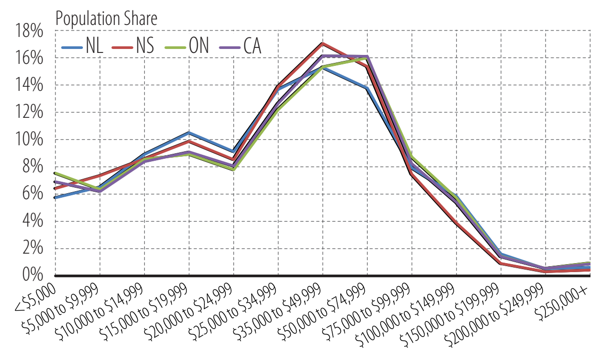
Source: Department of Finance

F.18 **Individuals by Income Group** NL, 2015



Source: Department of Finance

F.19 **Distribution of Individuals by Income Group**
Selected Provinces and Canada, 2015



Source: Department of Finance

T.7 **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

OBJECTIVES OF THE TAX REVIEW

To ensure the tax system is competitive and fair

- From an international perspective the Canadian tax system fairs well. Compared to other OECD countries, Canada relies:
  - more from taxes on income, profits, capital gains, payroll, and property; and
  - less from taxes on goods & services, as well as, social security contributions.
- Overall, recent rankings by the OECD show Canada's competitiveness slipping somewhat, but still scoring relatively high.
- For much of the last decade Canada has led the G7 in tax competitiveness—particularly, on the business tax front. Our effective tax rates on corporate profits are some of the lowest in the G20.
- Recent tax measures in the USA, our largest trading partner and export market, will undoubtedly influence future tax reforms in Canada.
- Newfoundland and Labrador's overall tax system is generally competitive within the Canadian federation. For the most part, our tax bases and structures are generally comparable, so too are our tax expenditures.
- Effective rates of our four major areas of tax—personal income, sales, corporate income, and gasoline—could be characterized as moderate to high, but not excessive.
- For the most part, our personal tax expenditures are targeted to help the most vulnerable of society or those with exceptional needs. On the corporate side, tax expenditures maintain competitiveness with other Canadian jurisdictions and reduce the burden for smaller businesses.

Pros and Cons of the Taxation of Personal Income

Source: A Primer on Federal Personal Taxes, Library of Parliament

The personal income tax system is one of a number of policy instruments available to governments for the purpose of redistributing wealth in a society. Other policy tools include personal transfers to low-income individuals through social assistance programs, transfers to seniors, insurance programs such as Employment Insurance and workers' compensation, and the provision of public services such as health care and education.

Discussion of the general influence of the personal income tax system on individual economic decisions has sometimes focused on its effects in two main areas: labour supply and savings.

Economists disagree on the net impact of the personal income tax system on labour supply decisions. One theory is that personal income taxes may induce individuals to increase their hours of work in order to replace income lost to personal taxes paid. A contrasting theory is that personal income taxes reduce the return from paid labour activities, with the result that individuals may replace additional working hours with non-paid activities. Empirical studies have not been able to demonstrate a consistent and significant general relationship between labour supply decisions and the personal income tax system. For a given level of labour income and up to a certain point, however, the lower the marginal personal tax rate, the more individuals tend to work.

The impact of personal taxation of investment income on individual savings decisions has also been examined, and the net impact depends on individual preferences. While this taxation increases government revenues, from the perspective of the individual investor, it may reduce expenditures and savings. That being said, a reduction in the tax rate applied on investment income increases the after-tax rate of return on investments. In theory, when this tax rate falls, individuals may either be encouraged to increase their savings, since the cost of saving is lower, or they may save less, since fewer savings are required to provide the same after-tax rate of return.

Pros and Cons of the Taxation of Consumption

Source: A Primer on Federal Consumption Taxes, Library of Parliament

Consumption is believed by some to be a better proxy of a taxpayer's well-being than income. According to this view, it is what taxpayers consume rather than what they earn that effectively determines their economic well-being. Consistent with this view, governments should apply taxes on taxpayers' actual expenditures, instead of on their ability to spend.

If you assume that consumption taxes apply the same tax rate on current and future consumption, such taxes do not influence an individual's decision to buy now or save for later spending. Income taxes, on the other hand, may make immediate consumption more attractive than saving, since the returns on savings, such as interest earned, are usually taxed.

General consumption taxes are viewed to be more efficient than other taxes in that the impact on the allocation of economic resources is less pronounced. Competitive markets tend to allocate resources, such as capital or labour, to their best or most-valued uses, resulting in lower costs for customers. Thus, when applied on all goods and services, consumption taxes do not affect consumption levels or how resources are allocated.

General consumption taxes applied on all goods and services may affect labour supply with two potential and competing effects. On one hand, with all other factors remaining unchanged, individuals must earn more if they are to consume the same quantity and quality of goods and services as before the implementation of a tax (or a rate increase). This may lead individuals to work more and engage in less leisure. On the other hand, such a tax reduces the benefits associated with earning income, since the spending enabled by a given amount of work is reduced as a consequence of the tax. Thus, some people may work less and enjoy more leisure.

Consumption taxes are believed to have fewer adverse effects on work incentives than income taxes. However, consumption taxes are said to be regressive given they have a greater effect on low-income individuals who typically consume a greater share of their income. As well, consumption taxes may discriminate against those whose preferences involve taxable goods and services versus individuals who spend a relatively greater proportion of their income on non-taxable items. Further, consumption taxes are criticized due to their compliance costs for businesses, which must collect the tax on each sale, keep track of taxes paid on inputs, and remit the difference to governments.

- Tax fairness is the concept of having an equitable tax system. Tax fairness is a subjective term with no single hard-and-fast definition. But in general, a fair tax system will treat similar individuals in a similar manner.
- Our income tax system is a progressive tax system. This means that progressively higher portions of income are taxed at progressively higher rates. The generally accepted intent is to ensure that those with higher incomes pay more tax on the part of their income deemed "high."
- Unfortunately, some people do not consider a progressive tax system "fair". The concept of a flat tax, where people notionally pay the same percentage of income in taxes, continues to be somewhat popular—the idea being that a truly fair personal income tax system treats all people the same.
- While the notion of tax fairness has many definitions to many people, the basic concept should be to ensure that no one group of the populace has more tax benefits or burdens than another.
- Debates, arguments, and lobbying for and against changes, has been a part of our tax system since its inception. Many passionate advocates masterfully articulate their positions on taxation—the need to reduce, eliminate, establish, or increase many different taxes has been a constant.

To identify ways to simplify the tax system

- Much of the debate around tax fairness involves differences of opinions about whether the percentage of income paid in taxes is more or less important than the amount of income paid in taxes. But perhaps, more important than relative rates, is the mix of the tax system. Overreliance on one (or two) relatively large sources of taxes could be problematic in the long-run, however, many smaller jurisdictions in Canada may have limited choices or options when it comes to growing revenues.
- An efficient and effective tax system must have an appropriate mix of taxes. Further, a comprehensive provincial revenue regime must include appropriate user fees, licensing arrangements, cost recovery strategies, etc., and also include mechanisms to identify ongoing and future revenue opportunities.
- Overall, Newfoundland and Labrador's tax mix is in line with other provinces. Our income tax rates and brackets are generally comparable. Our effective income tax rates place Newfoundland and Labrador mid pack, i.e. lower than the other Atlantic provinces, Quebec, and Manitoba, but behind Ontario and the three western most provinces. Newfoundland and Labrador has harmonized its sales tax with the federal government. Other consumption taxes in Newfoundland and Labrador tend to be higher and we have broadened the tax base by taxing some items not taxed in other jurisdictions.
- While there is no hard and fast rule, from a tax policy perspective, simplifying the tax system generally suggests:
  - ☐ Broadening Tax Bases;
  - ☐ Reducing Tax Expenditures;
  - ☐ Widening or Eliminating Brackets; and
  - ☐ Eliminating Certain Taxes Outright.

Pros and Cons of the Taxation of Corporate Income

Source: A Primer on Federal Corporate Taxes, Library of Parliament

Corporate income tax is sometimes described as performing a "withholding" function. Corporations are owned by individuals, whether domestic or foreign shareholders, and corporate income ultimately flows to these individual owners in the form of dividends or capital gains and is taxed at the personal level. However, foreign shareholders may have lower domestic taxes on income from dividends and capital gains, depending on where they reside and the applicable tax treaties, or corporations could choose to re-invest their income; in these cases, the withholding function is distorted. The corporate income tax ensures that corporate income is subject to a certain amount of immediate taxation. To offset this taxation, the dividend gross-up and dividend tax credit regime minimizes double taxation of corporate income that occurs when dividends are distributed by the corporation to Canadian shareholders.

Corporate taxes affect the rate of return to corporate investors, and the burden of corporate taxes may be shifted to consumers through higher prices and/or to employees through lower compensation. The extent to which the corporate tax burden may be shifted from shareholders to consumers or employees is, however, affected by market forces, and varies across firms and industries as well as over time.

A factor to consider in assessing the pros and cons of the taxation of corporate income is the growing global competitive pressures faced by Canadian corporations. Given the international mobility of capital, Canadian corporations that do not provide a competitive after-tax rate of return on capital may experience difficulties in accessing capital. In addition, in countries with high corporate taxes, firms may be more inclined to finance investments through debt rather than through equity in the event that interest on debt financing is deductible for tax purposes.

Corporate income taxes may also affect investment, either discouraging or encouraging new investment. Economists sometimes rely on the notion of the marginal effective tax rate (METR) on business investment to assess the tax disincentive to invest. The METR represents the proportion of the rate of return on a marginal investment that accrues to governments. The calculation of METRs usually includes not only statutory corporate tax rates, but also retail sales taxes on business inputs, investment tax credits and other incentives, CCA rates, inventory accounting methods, capital taxes and the ability to deduct interest costs.

- From a practical perspective efforts can be made and measures introduced to reduce paperwork, make forms more user friendly, improve overall access including better access to knowledgeable staff, straight-forward "plain speak" information, improved communications, and programs aimed at better informing the general public about taxes and related issues.
- Unfortunately, very few people seem to like taxes and even fewer like to pay taxes. Most people believe that, in general, most taxes in Newfoundland and Labrador are too high. Further, efforts to simplify the tax system may contradict fairness and targeted social measures.
- Many people understand that taxes are required to generate revenues. But taxes are more than revenue. Taxation is also about the fair distribution of economic benefits and addressing societal inequalities. Separating tax policy entirely from social policy is not reasonable. Universal health care is one of Canada's most cherished social programs—a public good that most of us value considerably.
- Perhaps our biggest challenge with the tax system is the most obvious. Our economy, the ultimate tax base, has a limited capacity to support taxation. Put another way, you can reach a point where taxation, the redistribution of resources, and the provision of public goods can actually be a drag on the economy.
- Making decisions about taxation and the provision of public goods is a central role of all governments. Often governments have to walk a very fine line to balance reasonable taxation against appropriate services.

To reduce costs for both government and taxpayers

- Saving money is most always a laudable objective. No one likes to waste precious resources or overspend and we all appreciate good value for money.
- The good news is that administration of our tax system is surprisingly efficient. A very small percentage of total Government of Newfoundland and Labrador spending is utilized to administer and collect taxes. The bad news is there are likely very limited opportunities to reduce or make this spending more efficient.
- Making the tax system more user friendly and helping people better understand taxation issues may generate some savings for taxpayers. Helping people to better comply with the tax system may further produce some efficiencies.
- The greatest efficiency gains or reduced costs, however, may come from the government decision making process. As previously presented, government decides:
  - When to spend;
  - What to spend on;
  - How much to spend; and
  - How to pay for the spending.

FEDERAL TRANSFERS TO NEWFOUNDLAND AND LABRADOR

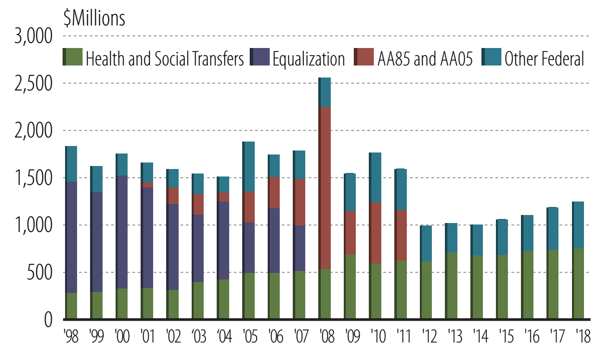
Until recent years, transfers from the Government of Canada made up a substantial part of Newfoundland and Labrador's total revenues. During the 1990s, federal transfers ranged from $1.4 to $2.0 billion annually, fluctuating from just under 42% of our total revenues to nearly 49%. In 2000-01, federal transfers amounted to over $1.75 billion or nearly 44% of total revenue. Equalization was the largest transfer at nearly $1.2 billion.

As a result of offshore oil production and associated royalties, equalization payments to Newfoundland and Labrador fell rapidly through the early to mid-2000s. The province received its last equalization payment of $477 million in 2007-08. As well, starting in the early 2000s, Newfoundland and Labrador received payments under the Atlantic Accord. The accord was intended to lessen the sharp reduction in equalization payments. In total, Newfoundland and Labrador received over $5 billion through the accord for over 11 years beginning in 2001-02. In 2008-09, Newfoundland and Labrador received $1.7 billion under the Atlantic Accord and over $2.5 billion in total transfers from the Government of Canada, representing nearly 30% of the province's total annual revenue.

Between 2008-09 to 2012-13, total annual federal transfers to Newfoundland and Labrador fell from over $2.5 billion to less than $1.0 billion, from nearly 30% of total provincial revenues to less than 15%. This sharp reduction in federal transfers was predicted. Simply put, offshore oil increased Newfoundland and Labrador's revenue generating capacity sufficiently to transform our province from a "have-not" to a "have" jurisdiction. Equalization payments are determined via a formula which assesses every provinces capacity to generate revenues. Eligible provinces are then brought up to a prescribed per capita revenue standard.

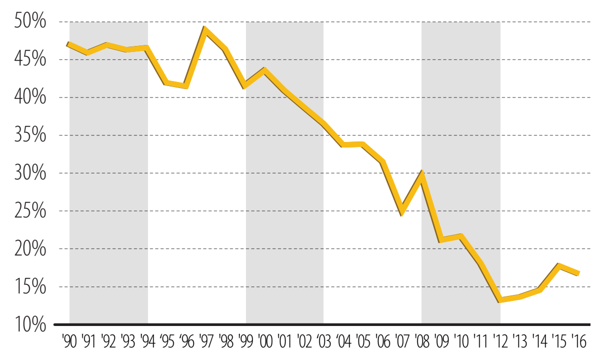
During the latter years of the accord, oil royalties increased sharply, thus dampening the impact of the

F.20 Annual Federal Transfers by Program NL, Fiscal 1998-99 to 2018-19



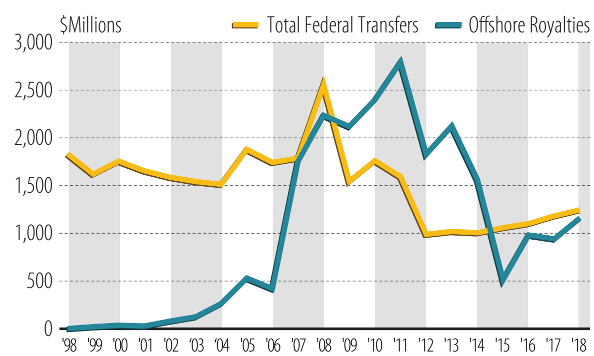
Source: Department of Finance

F.21 Federal Transfers as Percentage of Revenues NL, Fiscal 1990-91 to 2016-17



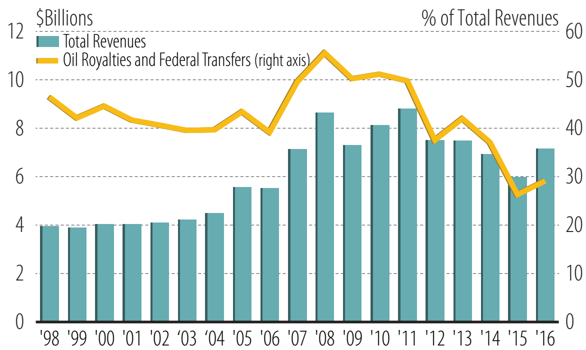
Source: Department of Finance

F.22 Oil Royalties and Federal Transfers NL, Fiscal 1998-99 to 2018-19



Source: Department of Finance

F.23 Oil Royalties, Federal Transfers and Total Revenues NL, Fiscal 1998-99 to 2016-17



Source: Department of Finance

major reduction in federal transfers. It was not until 2013-14, 2014-15, and 2015-16, when oil royalties fell by over 75% (declining annually by over $1.5 billion) did the province feel the impact of lower federal transfers. Through this period federal transfers remained around the $1 billion mark each year or about 13-14% of total revenue.

In recent years, total federal transfers have increased by approximately $100 million. For 2018-19, total transfers are estimated to be over $1.3 billion or 17% of the province's total revenue. Over the past two years, oil royalties have again started to increase. Unfortunately royalties remain well below those seen five to seven years ago.

It is unlikely that the province will receive equalization payments in the near future. The province's capacity to generate revenue will remain high for the foreseeable future. Unfortunately, this means that the province remains vulnerable to the revenue volatility associated with oil.

THE "NEAR PERFECT" STORM

Our recent fiscal challenges can perhaps be best described as a "near perfect" fiscal storm. After arguably experiencing the best five to ten year economic period in our history we were hit with a fiscal tsunami:

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

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 certain 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 a 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 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.

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.

An in-depth review of local taxation is beyond the range of the this exercise, rather this section will be a high level discussion focusing on residential property taxes and residential service fees. Similarly, a detailed review of local business/commercial taxation is outside of the scope of this project. Both exercises, however, may be worthwhile exercises in the future.

Property Tax Reigns Supreme

The major source of funding for most municipalities in Canada is property tax. Similarly, many regional governments rely heavily on property taxes, and most provinces have a form of property taxation. In many cases it is called a provincial education tax.

How property tax is collected varies significantly between jurisdictions. In some locations the province collects on behalf of municipal and/or regional governments, in some areas the regional government administers property tax and redistributes funds collected, and in many instances municipalities collect their own taxes.

Property taxes are based on a number of factors—most common being property types, assessed values, and tax (mil) rates. Assessed property values change periodically, commonly increasing or decreasing with the housing market and the local economy. Mil rates are adjusted accordingly to reflect assessed values and budget needs. In Canada, most municipalities are required by law to present balanced budget plans—meaning mil rates may be adjusted frequently, often annually based on projected budget needs.

It is common to have different mil rates for different property types—residential, commercial, multi-unit, etc. Similarly, what property owners actually pay varies greatly depending on local government budget needs, services, and areas of responsibility.

In Newfoundland and Labrador we do not have regional or county governments and our municipalities tend to have a narrower scope of service delivery. There is some limited regional cooperation in Newfoundland and Labrador on fronts such as water delivery, fire protection, and waste management.

Our municipalities are not generally involved with education, health, welfare, policing, or regional highways—such responsibilities fall mostly to the Newfoundland and Labrador Government. Conversely, most Newfoundland and Labrador municipalities are direct providers of water, sewer, and drainage water services, often with infrastructure investments from the province.

When A Tax Isn't A Tax—It Could Be A Utility Charge

As noted above, most municipalities in Newfoundland and Labrador charge property owners directly for water and sewer services. In this province, such costs are considered as direct taxation and the expenses for such services are paid out of general revenues. In most other provinces such services are provided by utility companies on a cost recovery basis. As such, these costs (or fees) are frequently not classified as taxes in other provinces.

A Challenge To Make Comparisons

It is a challenge to make objective comparisons of local taxation levels or efforts across Canada. Making "apples to apples" comparisons require subjective assumptions such as water consumption or lot size—simply put, there is no effective way to capture every possible scenario or permutation.

There are significant differences across the country. Mil rates, property values, water rates, sewer fees, wastewater charges, drainage fees, etc. vary considerably across the country.

The table below illustrates these differences. St. John's has the third lowest property tax rate and third lowest average property value resulting in the lowest average tax bill.

Similarly, St. John's has a flat rate of $580 for water and sewer services. This is different from many major cities which have utility agents delivering water, sewer, and drainage services. In these cities, property owners pay fees for services directly to the utilities. Further, in many cases the fees are based on factors such as the amount of water consumed over a given period, the size of the water line, property lot size, etc.

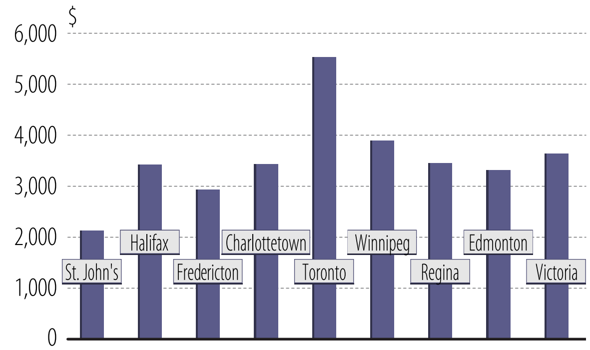
T.8 Residential Property Tax Rates and Average Property Values 2018

	Rounded Mil Rate	Average Property Value ($000s)
St. John's	7.30	292
Halifax	11.09	308
Fredericton	14.21	207
Charlottetown	16.70	206
Toronto	6.36	871
Winnipeg	12.49	312
Regina	10.74	321
Edmonton	8.69	382
Victoria	5.20	699

Source: ITRC

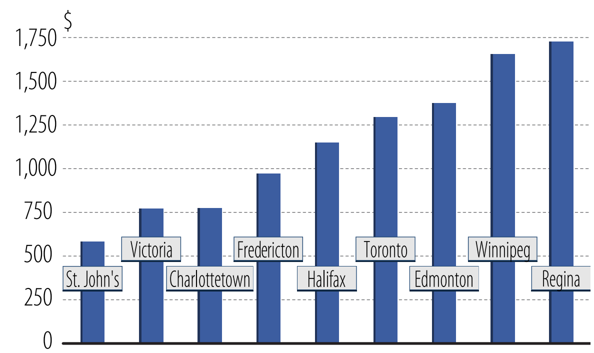
Provincial Capitals: **2018 Comparisons**

F.24 Property Tax



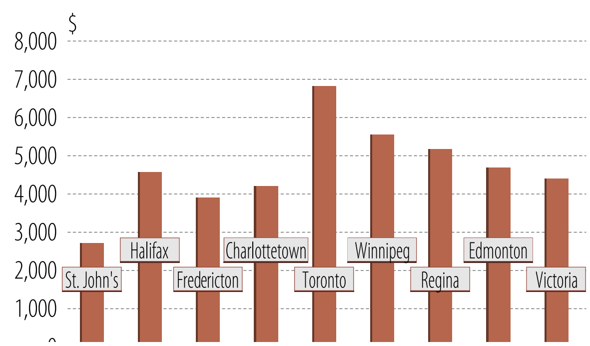
Source: ITRC, Special Tabulation

F.25 Estimated Water, Sewer,& Other Utility Costs



Source: ITRC

F.26 Local Tax



Source: ITRC

For example, the City of Victoria charges a quarterly water connection fee of $34.97 plus $3.97/unit of water (2,832 litres) and on average $1.95/unit of sewer. With a monthly usage of 25 cubic metres this would amount to approximately $765.28 annually.

Again, St. John's compares favourably to other capital cities with regard to the cost of water, sewer, and other local government utility services. The graph above shows estimated water, sewer, and other utility costs based on consumption of 300 cubic metres of water annually.

In general, the following can be said about local taxation in Newfoundland and Labrador:

- Our residential mil rates appear to be lower than most jurisdictions;
- Commercial mil rates and business taxes also appear to be lower in most cases;
- Our urban property values appear lower than other urban areas of the country and our rural property values appear lower than other rural areas of the country; and
- Other fees, such as water rates and sewer fees, appear to be significantly lower.

Overall, local taxation in Newfoundland and Labrador appears to be well below similar taxes in most other parts of Canada. More research is required, however, to confirm this observation.

CONSUMPTION TAXES

Consumption tax, commonly known as a sales tax, is a tax on purchases of goods and services— whether buying household items, grabbing some fast food, or using the services of a contractor. Across the country, when purchasing such items, sales tax is added to the cost of the items bought to derive the total cost.

The federal government levies a 5% Goods and Services Tax (GST). Some provinces also levy a Provincial Sales Tax (PST); the amount varies by province ranging from 6% to 10%. Some provinces have chosen to combine the two taxes into a single tax—the Harmonized Sales Tax (HST)—which includes both the provincial and federal portion. Only Alberta has no PST.

	HST	GST	PST
NL	15%	-	-
NS	15%	-	-
PE	15%	-	-
NB	15%	-	-
ON	13%	-	-
QC	-	5%	9.975%
MB	-	5%	8%
SK	-	5%	6%
AB	-	5%	-
BC	-	5%	7%

Source: PEI Association for Newcomers to Canada

In Ontario, for example, the HST is 13% with 5% going to the federal government and 8% to the province. If you are shopping in British Columbia, however, your sales receipt will show GST and PST separately, at 5% and 7% respectively.

Harmonized provinces have ceded certain rights to the federal government—they have agreed to use the GST base and have limited ability to set rates and rebates.

Some items are "zero-rated" from sales taxes: basic groceries, prescription drugs, medical devices, and farm equipment—they are subject to sales tax but at a rate of 0%. Some items are "exempt"— medical and dental services, educational services, financial services and fees, and daycare. For zero-rated goods and services, you don`t charge or collect GST or HST, but still can claim input tax credits (ITCs). For exempt products, you do not charge or collect GST or HST and you cannot claim ITCs.

In Newfoundland and Labrador there are a number of other products, outside of HST which the province has chosen to implement a Retail Sales Tax (RST).

Perhaps the most common is on the sale and purchase of used automobiles. The province has set the RST rate on the private sale of used automobiles equivalent to the HST—15%. Other provinces have taken a similar approach towards a PST for used vehicles.

Similarly, in 2016 Newfoundland and Labrador opted to reintroduce RST on insurance premiums. A tax rate of 15% is applied to the taxable premiums for contracts of insurance relating to property, risk, peril or events in the province. Provinces across Canada charge provincial tax on select forms of insurance premiums, usually in the range of between 5% and 9%. The rate in B.C. is 7%, while in Ontario it is 8% and in Quebec it's 9%.

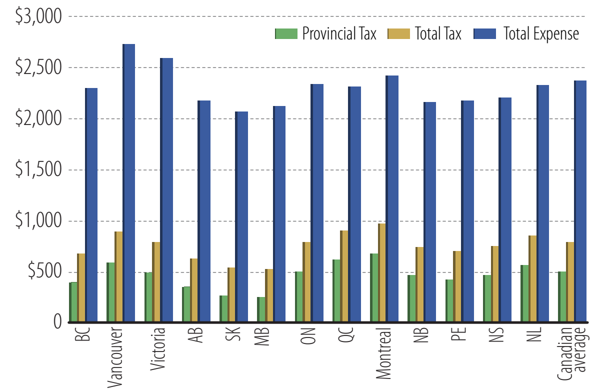
As part of Budget 2018, the tax on automobile insurance will be reduced by two per cent on January 1, 2019, followed by one per cent reductions on January 1 in 2020, 2021 and 2022.

GASOLINE TAXES

Newfoundland and Labrador has some of the highest fuel taxes in the country. Taxes along with the price of crude plus marketing and refining costs determine fuel prices. Newfoundland and Labrador has tended to have significantly higher taxes, higher crude costs, but significantly lower marketing and refining costs.

Ultimately, what each consumer pays for fuel over the course of a given year will vary—vehicle type, driving activity, and fuel costs combine to produce a unique figure.

F.27 Annual Gas Taxes Per Vehicle



Source: Department of Finance

Annual Gas Tax

"Canada is a big country and we have to drive to get around. According to the Canadian Vehicle Use Study from Transport Canada the average vehicle owner buys 1,765 litres of fuel a year to drive 15,616 kilometres in a year. That means paying $789 in gas taxes, with over $58 of that being be tax-on-tax. If you drive further or drive a pickup truck you will be paying significantly more. Which province and city you live in can also make a big difference. In Manitoba, it means paying $525 in tax while in Montreal it means paying $971."

20th Annual Gas Tax Honesty Day
Canadian Taxpayers Federation, May 2018

20th Annual Gas Tax Honesty Day — Canadian Taxpayers Federation, May 2018

FACT SUMMARY

- Montreal has the highest gas taxes at 55 cents per litre. Vancouver is close behind with gas taxes of 51 cents per litre. Newfoundland and Labrador had the highest gas taxes last year, but since then the provincial excise tax was lowered by 12.5 cents per litre and it now has the fourth highest gas taxes.
- Manitoba has the lowest gas taxes in the country at 30 cents per litre, followed closely by Saskatchewan with taxes of 31 cents per litre.
- On average, Canadians pay 45 cents of tax per litre of gas and 39 cents per litre of diesel.
- Taxes make up 33% of the pump price for gasoline on average and 30% for diesel.
- Federal and provincial governments will collect an estimated $24 billion in fuel taxes in 2018, including $1.8 billion in tax-on-tax.
- Tax-on-tax costs an extra three cents per litre on average for gasoline and diesel.
- Before-tax prices of gasoline are relatively consistent across Canada. Taxes are why some provinces and cities pay a lot more to fill-up than others. However, some regions like Vancouver and Victoria have both high taxes and high pre-tax prices, resulting in exceptionally high pump prices.
- Each time Canadians fill their tank (64 litres) they pay $28.61 in taxes, including $2.12 of tax-on-tax. The average Canadian pays $789 in gas tax each year.

OTHER TAXES

Insurance Companies Tax

The Insurance Companies Tax applies to the premium revenue of insurance companies.

Effective July 1, 2016, insurance companies are required to remit to the province a tax of 5% of premiums generated in Newfoundland and Labrador during a particular year. Prior to July 1, 2016, the rate for Insurance Companies Tax was 4%.

Financial Corporations Capital Tax

Newfoundland and Labrador does not impose a general capital tax.

Effective January 1, 2016, banks, loan and trust companies with permanent establishments in Newfoundland and Labrador are subject to a 6% capital tax.

From April 1, 2015 to December 31, 2015, the financial corporations capital tax rate was 5%. Prior to April 1, 2015, the tax rate was 4%. For corporations with taxation years that straddle these dates, the rate is prorated based on the number of days in the taxation year.

Tax is payable on capital allocated to Newfoundland and Labrador including:

- paid-up capital stock;
- contributed surplus;
- retained earnings;
- long-term debt; and
- reserves.

For companies with aggregate capital less than $10 million, the first $5 million is exempt from the tax.

As of October 31, 2008, the provincial Financial Corporations Capital Tax has been harmonized with the federal (capital) tax base.

The Canada Revenue Agency administers the province's harmonized capital tax.

Health and Post-Secondary Education Tax (Payroll Tax)

Payroll tax, at a rate of 2%, is payable by employers whose annual remuneration in this province exceeds a predetermined exemption threshold.

Budget 2018 announced that the exemption threshold for the provincial payroll tax is being increased by $100,000, from $1.2 million to $1.3 million.

Employers who are associated with other corporations, or who are in partnership with other employers, and pay remuneration to employees, are required to file an allocation agreement for the purposes of allocating the exemption threshold.

Retail Sales Tax on Insurance Premiums

A tax rate of 15% will be applied to the taxable premiums for contracts of insurance relating to property, risk, peril or events in the province.

The following types of insurance premiums will be exempted from the RST, as they are defined in the Insurance Companies Act:

- Accident and sickness insurance;
- Life insurance;
- Marine insurance (excluding marine insurance on sport watercraft 20 tonnes or less); and
- Surety, guarantee or fidelity type insurance are also excluded from tax.

Generally, all dues, assessments, transaction fees, processing fees, policy fees, and other consideration charged by the insurer or the insurer's agent are taxable. The 15% RST charged is not HST and is not eligible as an ITC on the HST return. The RST on insurance premiums must be shown as a separate item on any receipt, bill, invoice, or other document issued by the insurer or insurer's agent.

T.9 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

TAXES ON CORPORATE INCOME IN CANADA*

As a general rule, corporations resident in Canada are subject to Canadian corporate income tax (CIT) on worldwide income. Non-resident corporations are subject to CIT on income derived from carrying on a business in Canada and on capital gains arising upon the disposition of taxable Canadian property. The purchaser of the taxable Canadian property is generally required to withhold tax from the amount paid unless the non-resident vendor has obtained a clearance certificate.

Canadian CIT and withholding tax (WHT) can be reduced or eliminated if Canada has a treaty with the non-resident's country of residence. A list of treaties that Canada has negotiated is provided in the Withholding taxes section, along with applicable WHT rates.

Federal Income Tax

Federal Rate (%)	
Basic Rate	38.0
Less: Provincial Abatement [1]	(10.0)
Federal Rate	28.0
Less: General Rate Reduction or M&P Deduction [2]	(13.0)
Net Federal Tax Rate [3,4]	**15.0**

The following rates apply for 31 December 2018 year-ends. For non-resident corporations, the rates apply to business income attributable to a permanent establishment (PE) in Canada. Different rates may apply to non-resident corporations in other circumstances. Non-resident corporations may also be subject to branch tax.

Notes (1)The basic rate of federal tax is reduced by a 10% abatement to give the provinces and territories room to impose CITs. The abatement is available in respect of taxable income allocated to Canadian provinces and territories. Taxable income allocable to a foreign jurisdiction is not eligible for the abatement and normally is not subject to provincial or territorial taxes. (2)The general rate reduction and manufacturing and processing deduction do not apply to the first CAD 500,000 of active business income earned in Canada by Canadian-controlled private corporations (CCPCs), investment income of CCPCs, and income from certain other corporations (e.g. mutual fund corporations, mortgage investment corporations, and investment corporations) that may benefit from preferential tax treatment. (3)Provincial or territorial taxes apply in addition to federal taxes. Provincial and territorial tax rates are noted below. (4) For small CCPCs, the net federal tax rate is levied on active business income above CAD 500,000; a federal rate of 10% (10.5% before 1 January 2018; 9% after 31 December 2018) applies to the first CAD 500,000 of active business income. Investment income (other than most dividends) of CCPCs is subject to the federal rate of 28%, in addition to a refundable federal tax of 10⅔%, for a total federal rate of 38⅔%.

* This summary was obtained from the website of PWC
http://taxsummaries.pwc.com/ID/Canada-Corporate-Taxes-on-corporate-income

Provincial Income Tax

Income Tax Rate (%) [1,2]	
NL	15.0
NS	16.0
PE	16.0
NB	14.0
QC[5]	11.7
ON[4]	11.5 or 10.0
MB	12.0
SK[5,6]	12.0 or 10.0
AB	12.0
BC[3]	12.0

All provinces impose income tax on income allocable to a PE in the province or territory. Generally, income is allocated to a province or territory by using a two-factor formula based on gross revenue and on salaries and wages. Provincial income taxes are not deductible for federal income tax purposes. The rates given apply to 31 December 2018 year-ends and do not take into account provincial tax holidays, which reduce or eliminate tax in limited cases.

Notes (1) When two rates are indicated, the lower rate applies to manufacturing and processing income. (2) In all provinces and territories, the first CAD 500,000 (CAD 450,000 in Manitoba before 2019; CAD 600,000 in Saskatchewan after 2017) of active business income of a small CCPC is subject to reduced rates that range from 0% to 8%, depending on the jurisdiction. (3) British Columbia's general and manufacturing and processing rate increased from 11% to 12% on 1 January 2018. (4) The lower Ontario rate applies to profits from manufacturing and processing, and from farming, mining, logging, and fishing operations, carried on in Canada and allocated to Ontario. Corporations subject to Ontario income tax may also be liable for corporate minimum tax (CMT) based on adjusted book income. The CMT is payable only to the extent that it exceeds the regular Ontario income tax liability. The CMT rate is 2.7% and applies when total assets are at least CAD 50 million and annual gross revenue is at least CAD 100 million on an associated basis. (5) Quebec's rate decreased from 11.8% to 11.7% on 1 January 2018, and will decrease to 11.6% on 1 January 2019, and to 11.5% on 1 January 2020. (6) Saskatchewan's general rate decreased from 12% to 11.5% on 1 July 2017, and was then restored to 12% on 1 January 2018; the decrease to 11% on 1 July 2019 has been cancelled. (7) The minimum rate that applies to Saskatchewan's manufacturing and processing profits decreased from 10% to 9.5% on 1 July 2017, and was then restored to 10% on 1 January 2018; the decrease to 9% on 1 July 2019 has been cancelled. The manufacturing and processing reduction from the general rate is determined by multiplying the maximum rate reduction (2%) by the corporation's allocation of income to Saskatchewan.

SALES TAX ON USED VEHICLES—A BRIEF CANADIAN SCAN*

If you buy a used car or truck from a dealer, you will be charged both federal and applicable provincial sales taxes, just as you would when you buy most other consumer goods.

If you buy a used vehicle privately, you do not pay GST. Instead, you pay only applicable provincial sales tax, usually when registering the vehicle, and it is typically calculated based on the current value of the vehicle.

■ BRITISH COLUMBIA has the country's most complicated sales tax program for used vehicle purchases. The rate of tax applied to the purchase of a used car depends on the purchase price. For cars bought from private sellers, with a purchase price of -

- Up to $124,999—12% PST applies;
- Between $125,000 to $149,999—PST is 15%; and
- $150,000 or greater—PST of 20% applies.

For vehicles bought from dealers, GST applies, with PST calculated based on the purchase price:

- Less than $55,000—7% PST;
- between $55,000 and $55,999—8% PST;
- between $56,000 and $56,999—9% PST;
- between $57,000–$124,999—10% PST;
- between $125,000–$149,999—15% PST; and
- $150,000 or greater—20% PST.

■ ALBERTA is the only province without a provincial sales tax so, as in other provinces, you'll only pay the federal GST (5%) if you buy your vehicle from a dealership, and private sales are not taxed.

■ SASKATCHEWAN'S 2018 budget included a used-car provincial sales tax (PST) policy that adds six percent to the price of any used vehicle for which the buyer pays $5,000 or more. If you buy a vehicle privately, you will have to pay the tax when you register it in your name with SGI, Saskatchewan's vehicle licensing body.

Private buyers who pay less than $5,000 on a vehicle "registered for personal or farm use" are exempt from the new tax, but dealers have to collect the PST on all cars they sell, regardless of price.

While the six percent is calculated on the purchase price, the $5,000 private-sale exemption is based on Canadian Red Book values. And, as in other non-HST provinces, vehicles bought from dealers are also subject to the GST for a total of 11 percent.

■ MANITOBA has an eight percent sales tax (RST) that applies to all used car purchases and is either paid to the dealer or, if you buy privately, the province's motor vehicle insurer. GST applies when buying from a dealer.

■ ONTARIO applies 13 percent to all used car purchases. If you buy from a dealer, its added to your bill. For private transactions it is due when registering the vehicle at the Ministry of Transport (MTO), which bases the tax on Canadian Red Book's valuation of the car.

■ QUEBEC applies its 9.975 percent sales tax (QST) plus the five percent GST to used cars bought from dealers, and the QST alone to vehicles purchased from private sellers.

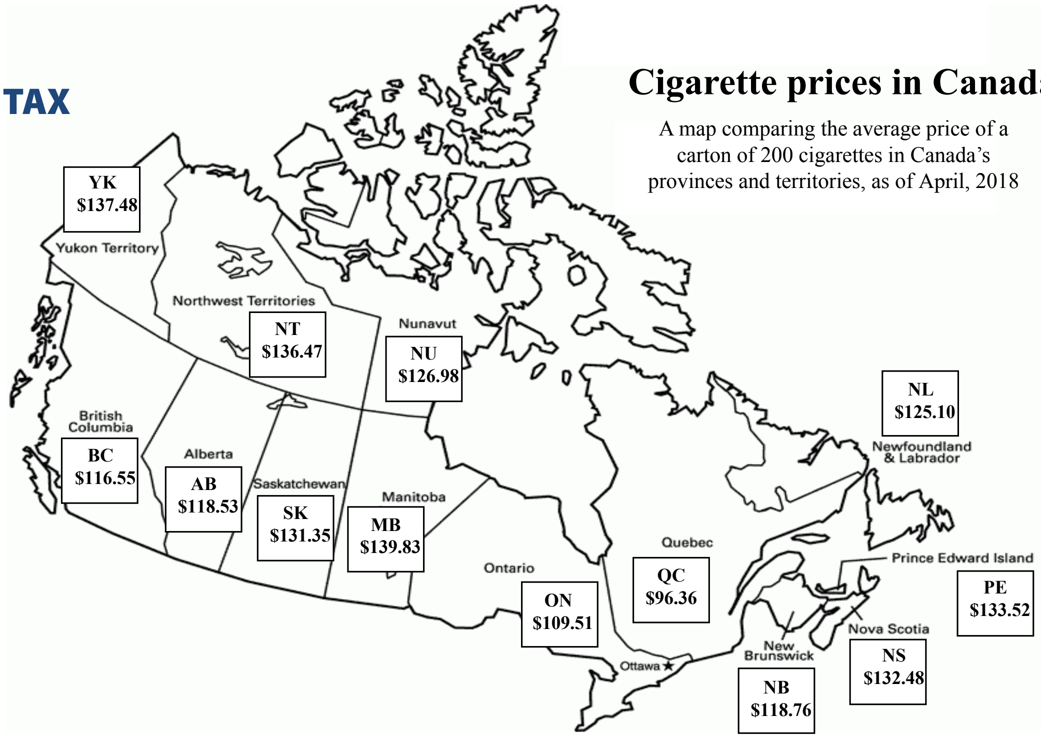
Those taxes are calculated differently, however. The dealer charges GST based on the purchase price, but the QST is set on the higher of the sale price or the vehicle's estimated value.

■ ATLANTIC CANADA This quartet share a 15 percent Harmonized Sales Tax rate applied to all used vehicles bought from a dealership.

If you buy privately, you pay the same percentage, but in the form of provincial retail sales tax (New Brunswick gets specific and calls it Provincial Vehicle Tax) payable when you register the vehicle in your name. The tax is calculated based on either the purchase price or the average wholesale value.

* This scan is a summary of "How Used Car Taxes Stack Up Across Canada" by Chris Chase published June 12, 2018 on the website Autotrader.ca
www.autotrader.ca/newsfeatures/20180612/how-used-car-taxes-stack-up-across-canada

TOBACCO TAX



Source: Smoking and Health Action Foundation, www.nsra-adnf.ca

Federal and Provincial/Territorial Tobacco Tax Rates, April 2018
Per 200 cigarettes

	Average pre-tax price[1] (2017 figure)	Federal excise duty[2]	Provincial/ Territorial excise tax	Provincial/Territorial Sales Tax or Harmonized Sales Tax[3]	Federal GST[4] 5%	Total tobacco taxes	Total retail price
Yukon	$47.08	$23.85	$60.00[5]	No PST	$6.55	$90.40	$137.48
Northwest Territories	$45.32	$23.85	$60.80[6]	No PST	$6.50	$91.15	$136.47
Nunavut	$37.08	$23.85	$60.00	No PST	$6.05	$89.90	$126.98
British Columbia	$32.15	$23.85	$55.00[7]	No PST	$5.55	$84.40	$116.55
Alberta	$39.04	$23.85	$50.00	No PST	$5.64	$79.49	$118.53
Saskatchewan	$40.48	$23.85	$54.00[8]	PST: 6% = $7.10	$5.92	$90.87	$131.35
Manitoba	$40.89	$23.85	$59.00	PST: 8% = $9.90	$6.19	$98.94	$139.83
Ontario	$36.11	$23.85	$36.95[9]	HST: 13% = $12.60	See HST	$73.40	$109.51
Quebec	$38.12	$23.85	$29.80	No PST	$4.59	$58.24	$96.36
New Brunswick	$28.38	$23.85	$51.04	HST: 15% = $15.49	See HST	$90.38	$118.76
Prince Edward Island	$43.27	$23.85	$50.00	HST: 14% = $16.40	See HST	$90.25	$133.52
Nova Scotia	$36.31	$23.85	$55.04	HST: 15% = $17.28	See HST	$96.17	$132.48
Newfoundland	$35.93	$23.85	$49.00	HST: 15% = $16.32	See HST	$89.17	$125.10

1 This average estimate of "pre-tax price" for each province is calculated by using the Consumer Price Index and the CPI Intercity Index from Statistics Canada for a carton of 200 cigarettes available in May 2017. The full methodology for the calculations is available upon request.

2 Canada tobacco tax increase effective 28 February 2018. See https://www.budget.gc.ca/2018/docs/plan/budget-2018-en.pdf.

3 PST/HST is calculated on the total of pre-tax price + federal excise duty + provincial excise tax.

4 GST is calculated on the total of pre-tax price + federal excise duty + provincial excise tax.

5 Yukon tobacco tax increase effective 1 April 2018. See http://www.finance.gov.yk.ca/pdf/budget/201718_Budget_address.pdf.

6 NWT tobacco tax increase effective 1 April 2017. See http://www.fin.gov.nt.ca/sites/default/files/documents/2017-18_budget_address_and_papers_final_pdf.pdf

7 British Columbia tobacco tax increases effective 1 April 2018. See http://bcbudget.gov.bc.ca/2018/bfp/2018_Budget_and_Fiscal_Plan.pdf.

8 Saskatchewan tobacco tax increase effective 23 March, 2017. See http://finance.gov.sk.ca/budget17-18/2017-18Budget.pdf.

9 Ontario tobacco tax increase effective 29 March, 2018. See http://budget.ontario.ca/2018/budget2018-en.pdf.

Terms of Reference

2017-18 TAX REVIEW COMMITTEE

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

OBJECTIVES OF THE TAX REVIEW

The objectives of the review are:

- To ensure the tax system is competitive and fair,
- To identify ways to simplify the tax system, and
- To reduce costs for both government and taxpayers.

During the review, consideration should be given to whether the appropriate tax mix is applied to taxpayers as well as the progressivity of the tax system.

In completing the review, it is critical to remain competitive to position Newfoundland and Labrador as an attractive place to live and work. A more competitive and less cumbersome tax system will attract investment and provide an incentive for young families and businesses to put down roots in Newfoundland and Labrador. The tax system should be fair to all residents of the province, including seniors and people living on fixed incomes.

SCOPE OF THE TAX REVIEW COMMITTEE

Both personal and business taxes will be evaluated during the tax review and will include the following:

- Personal Income Tax, including rates, brackets and credits;
- Gasoline Tax;
- Tobacco Tax;
- Retail Sales Tax on Insurance Premiums;
- Retail Sales Tax on Used Vehicles;
- Harmonized Sales Tax (HST);
- Corporate Income Tax, including the small business tax rate reduction;
- Health and Post-Secondary Education Tax;
- Insurance Companies Tax; and
- Financial Corporations Capital Tax.

The scope of the tax review committee will not include the following tax programs and tax expenditures:

- Mining and Mineral Rights Tax;
- Utilities and Cable Television Companies Tax;
- Economic Diversification and Growth Enterprises (EDGE) program;
- Direct Equity Tax Credit;
- Film and Video Industry Tax Credit;
- Venture Capital Tax Credit; and
- Research and Development Tax Credit.

Tax expenditures would be assessed against a post-implementation framework and generally accepted principles of tax policy to determine whether changes should be recommended.

In addition to existing taxes and tax expenditures, the scope of the review will consider new revenue sources (e.g. sugar-sweetened beverage tax) and new tax incentives including labour-based tax incentives for emerging industries and tax incentives for employers in the skilled trades who increase the number of apprentices they take on.

The tax review will also include an analysis of other jurisdictional tax reviews. Comprehensive reviews have been recently completed by Nova Scotia, New Brunswick and Quebec as well as the federal government. A review of best practices implemented in other jurisdictions would be considered and a review of recent academic studies for relevant information would be completed.

Tax review will also consider the tax capacity for the Province, taking into account issues such as competitiveness and economic impacts.

PRINCIPLES GUIDING THE REVIEW

The principal function of the tax system is to raise revenues necessary to fund government programs and services, however the tax system is often used as an instrument that serves to advance a wide range of economic, social and other public policy objectives.

When evaluating the tax system and tax expenditures, it is necessary to use a framework to assess the outcomes. There are several guiding principles of tax policy that should be considered. These principles are of equal importance but there may be times when the principles are complementary or contradictory. Often a tradeoff between principles must take place.

The tax policy principles that will form the basis for the tax review include:

- Effectiveness – Effectiveness is a measure of the program's ability to meet its stated goals.
- Equity – Equity in a tax program denotes a concept of fairness particularly as it relates to the distribution of wealth or burden of taxation. Both horizontal and vertical equity should be examined. 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 to those in lower incomes.

- Utilization – Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- Administrative Efficiency – Administrative efficiency (compliance) 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 expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- Economic Efficiency – 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.

COMPOSITION OF THE INDEPENDENT TAX REVIEW COMMITTEE AND DELIVERABLES

Government will appoint a five person committee (including the chair) of experts to complete the review with support provided by the Department of Finance. Individuals with backgrounds in economics, tax policy, public policy and/or academic research will be considered. The committee would prepare a report with recommendations to government.

The committee may draw on external expertise where necessary and determine if and when public and/or stakeholder consultations are necessary.

The committee would be expected to provide periodic updates, perhaps monthly or quarterly, to government on their progress. An interim report would be required in Fall 2017 to provide recommendations for possible implementation in Budget 2018. A final report would be expected from the committee in Fall 2018 for consideration of all recommendations prior to Budget 2019 at which point the review would be concluded.

The committee would be advisory only, and government would consider the recommendations put forth by the committee during its budget deliberations.

ROLE OF THE DEPARTMENT OF FINANCE

The Department of Finance will provide the necessary information, briefings, analysis and support to the committee. This may include providing an overview of the tax system and data to support the tax policy analysis as required.

The provision of tax data would be consistent with the obligations of the province under existing information sharing agreements with the Canada Revenue Agency.

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

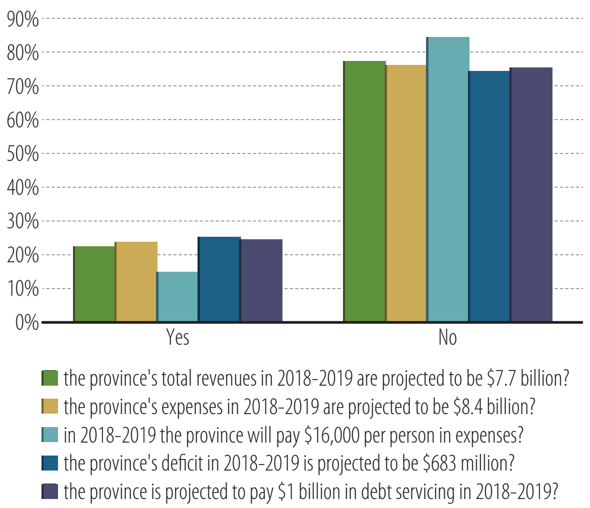
The general knowledge of respondents about government finances and taxation was surprising. When asked to assess their knowledge, nearly 54% stated that they were very or somewhat knowledgeable about government finances and taxation. Unfortunately, this assessment was overstated. A significant majority (>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

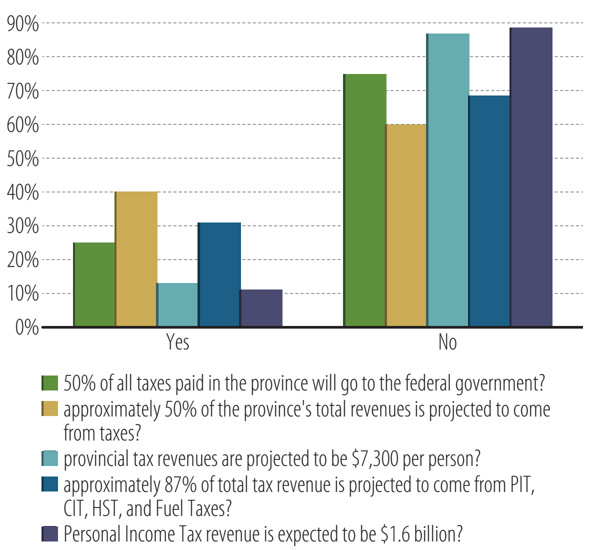
F.28 Prior to participating in this survey, were you aware that ...



Source: ITRC Public Survey, Summer 2018

General Knowledge of the Province's Tax System

F.30 Prior to participating in this survey, were you aware that in 2018-19 ...



Source: ITRC Public Survey, Summer 2018

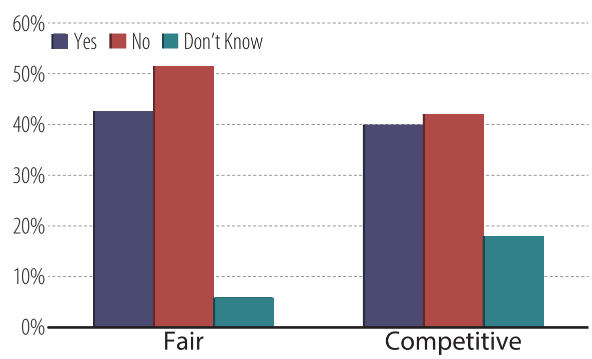
Views on Taxation

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.

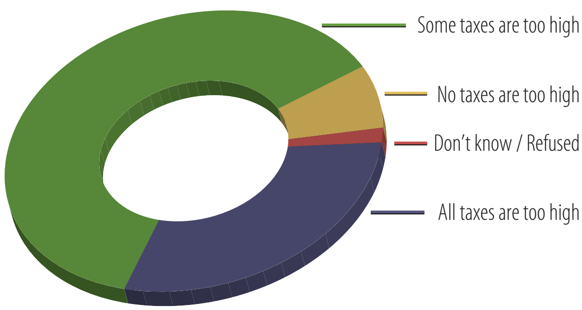
A large percentage of respondents indicated that low income earners (those at or below the poverty level) should receive a tax break. Finally, nine out of 10 respondents said that all or some taxes are too high.

F.29 Overall, do you feel the current tax system in NL is...



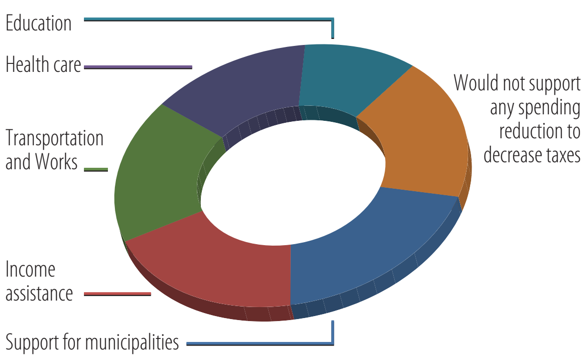
Source: ITRC Public Survey, Summer 2018

F.35 Best describes your view on taxes in the province



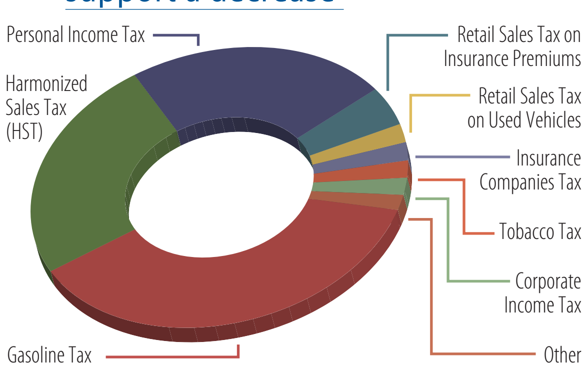
Source: ITRC Public Survey, Summer 2018

F.36 In which area would you support a spending reduction in order to achieve a tax decrease?



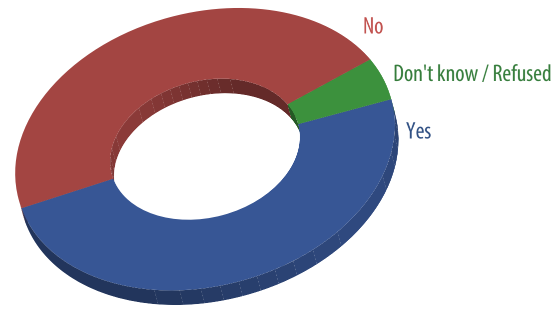
Source: ITRC Public Survey, Summer 2018

F.34 In which specific taxes would you support a decrease



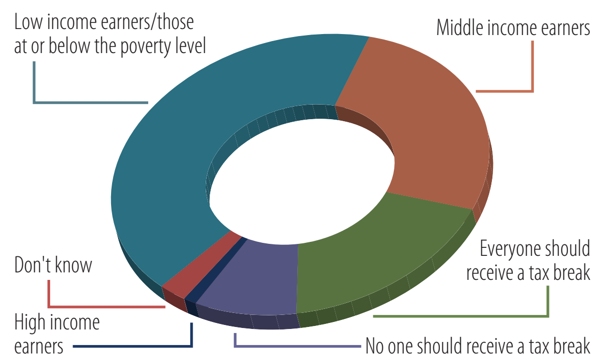
Source: ITRC Public Survey, Summer 2018

F.31 Would you support a tax increase if the increased revenue helped reduce the province's deficit and/or prevented spending cuts?



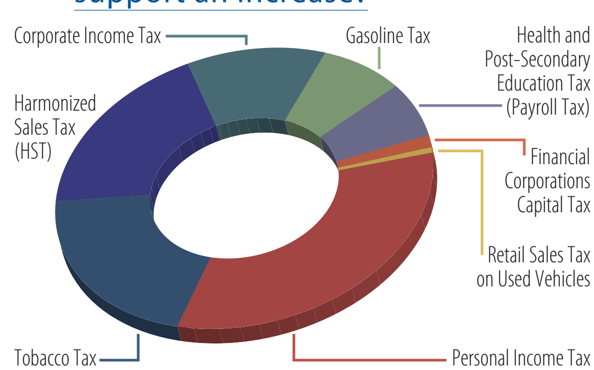
Source: ITRC Public Survey, Summer 2018

F.32 Which of the following do you feel should receive a tax break?



Source: ITRC Public Survey, Summer 2018

F.33 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%

Public Survey 2018— Weighted Results

Section A – General Knowledge of Province's Finances

A1. Which of the following best describes your knowledge level with respect to the province's finances? By 'finances', we are referring to the province's revenues, expenses, deficit, etc. Would you say you are...? SELECT ONE RESPONSE ONLY

Very knowledgeable	4.0%
Somewhat knowledgeable	49.8%
Not very knowledgeable	34.0%
Not at all knowledgeable	12.2%

A2. Prior to participating in this survey, were you aware that the province's total revenues in 2018-2019 are projected to be $7.7 billion?

Yes	22.6%
No	77.4%

A3. Prior to participating in this survey, were you aware that the province's expenses in 2018-2019 are projected to be $8.4 billion?

Yes	23.8%
No	76.2%

A4. Prior to participating in this survey, were you aware that in 2018-2019 the province will pay $16,000 per person in expenses?

Yes	15.0%
No	84.5%
Refused	.5%

A5. Prior to participating in this survey, were you aware that the province's deficit in 2018-2019 is projected to be $683 million?

Yes	25.4%
No	74.4%
Refused	.3%

A6. Prior to participating in this survey, were you aware that the province is projected to pay $1 billion in debt servicing in 2018-2019?

Yes	24.6%
No	75.4%

Section B – General Knowledge of Province's Tax System

B1. Which of the following best describes your knowledge level with respect to the province's tax system? By 'tax system', we are referring to the types of taxes in the province, how they contribute to government revenues, etc. Would you say you are...? SELECT ONE RESPONSE ONLY

Very knowledgeable	4.3%
Somewhat knowledgeable	48.2%
Not very knowledgeable	37.0%
Not at all knowledgeable	10.5%

B2. Prior to participating in this survey, were you aware that in 2018-2019, 50% of all taxes paid in the province will go to the federal government?

Yes	25.1%
No	74.9%

B3. Prior to participating in this survey, were you aware that in 2018-2019, approximately 50% of the province's total revenues is projected to come from taxes?

Yes	40.1%
No	59.9%

B4. Prior to participating in this survey, were you aware that in 2018-2019, provincial tax revenues are projected to be $7,300 per person?

Yes	13.1%
No	86.9%

B5. The four largest sources of tax revenue for the province are Personal Income Tax, Corporate Income Tax, Harmonized Sales Tax (HST), and Fuel Taxes. Prior to participating in this survey, were you aware that in 2018-2019, approximately 87% of total tax revenue is projected to come from these four sources?

Yes	30.9%
No	68.5%
Refused	.5%

B6. Prior to participating in this survey, were you aware that in 2018-2019, Personal Income Tax revenue is expected to be $1.6 billion?

Yes	11.1%
No	88.6%
Refused	.2%

Section C – Tax Fairness and Competitiveness

C1. Overall, do you feel that the current tax system in Newfoundland and Labrador is fair?

Yes	42.6%
No	51.5%
Don't know	5.6%
Refused	3%

C2. Why do you feel Newfoundland and Labrador's current tax system is NOT fair?

Enter response:	93.6%
Don't know	5.4%
Refused	1.0%

Subset: Respondents who chose "No" in C1.

C2_Coded. Why do you feel Newfoundland and Labrador's current tax system is NOT fair?

Higher income-earners should be paying more taxes/lower income-earners should be paying less tax	27.6%
Middle income-earners are paying too much tax (compared to lower and higher income-earners)	14.4%
Everybody should pay an equal amount in taxes/ should be taxed at the same rate	6.8%
People in Newfoundland and Labrador pay more taxes (compared to other provinces)	7.0%
Small percentage of the population paying the vast majority of taxes	3.2%
Vulnerable groups (e.g., seniors, veterans, people on income support) are paying too much in tax	4.6%
Taxes already too high (especially with the deficit reduction levy, high cost of living, high unemployment rate, etc.)	16.8%
Businesses/corporations (especially larger ones) should be paying more taxes	2.7%
Higher-income earners pay too much tax (i.e., less incentives to work harder or want higher-paying jobs)	7.7%
Other	9.1%

Subset: Respondents who entered a response in C2.

C3. Overall, do you feel that the current tax system in Newfoundland and Labrador is competitive?

Yes	39.9%
No	42.1%
Don't know	17.7%
Refused	3%

C4. Why do you feel Newfoundland and Labrador's current tax system is NOT competitive?

Enter response:	86.3%
Don't know	13.1%
Refused	7%

Subset: Respondents who chose "No" in C3.

C4_Coded. Why do you feel Newfoundland and Labrador's current tax system is NOT competitive?

People are leaving the province/unwilling to move/stay here (difficult to attract & retain skilled & educated workforce)	37.4%
Difficult to keep businesses open/start a new business/attracting businesses to set up/invest in NL	6.7%
Taxes are too high/higher cost of living (compared to other provinces)	41.7%
Other	14.2%

Subset: Respondents who entered a response in C4.

Section D – Taxation And Government's Fiscal Position

D1A, D1B, D1C. Keeping in mind that cutting spending may lead to a reduction in services and borrowing will increase the province's debt, which method should be government's first/second/third choice to deal with budget shortfalls?

	Rank
Cut spending	1
Raise taxes	2
Borrow	3

D2. Which of the following best describes your view on taxes in the province? SELECT ONE RESPONSE ONLY

All taxes in NL are too high	29.2%
Some taxes in NL are too high	61.5%
No taxes in NL are too high	7.6%
Don't know	1.5%
Refused	2%

D3. Given that decreasing taxes may result in less spending on services, in which areas would you support a spending reduction in order to achieve a tax decrease? (Select all that apply.)

Healthcare (39% of spending)	16.1%
Education (19% of spending)	12.1%
Transportation and Works (5% of spending)	19.7%
Support for municipalities (4% of spending)	22.2%
Income assistance (3% of spending)	21.7%
Would not support any spending reduction to decrease taxes	20.6%
Other (specify):	27.3%
Don't know	5.9%
Refused	.2%

Totals may exceed 100% due to multiple responses.

D3_Other. Given that decreasing taxes may result in less spending on services, in which areas would you support a spending reduction in order to achieve a tax decrease?

Debt servicing, financial services and other government functions	23.4%
Government/MHA salaries, pensions, allowances, travel and other expenses	35.2%
Reductions in government and public service sector (administration, staff, operations)/making government more efficient	21.8%
Muskrat Falls Project and Inquiry	4.5%
Other	15.1%

Subset: Respondents who chose "Other" in D3.

D4. In which specific taxes would you support a decrease? (Select all that apply.)

Personal Income Tax	29.4%
Corporate Income Tax	2.5%
Gasoline Tax	47.8%
Tobacco Tax	2.6%
Harmonized Sales Tax (HST)	32.1%
Retail Sales Tax on Insurance Premiums	6.2%
Retail Sales Tax on Used Vehicles	2.8%
Health and Post-Secondary Education Tax (Payroll Tax)	1.8%
Insurance Companies Tax	2.7%
Financial Corporations Capital Tax	.4%
Other (specify):	33.0%
Don't know	13.4%
Refused	.7%

Totals may exceed 100% due to multiple responses.
Subset: Those respondents who chose an area in D3 (Healthcare, Education, TW, Support for municipalities, Income assistance, Other)

D4_Other. In which specific taxes would you support a decrease?

Taxes on alcohol products (e.g., beer, wine, etc.)	6.4%
Taxes on food/groceries	12.7%
Deficit reduction levy	11.7%
Taxes on utilities and home heating fuel (e.g., furnace oil)	20.7%
Taxes on fuel	7.5%
Municipal taxes (e.g., poll tax), land/property taxes, water tax	5.3%
Taxes on small businesses	4.3%
Taxes on home purchases	2.0%
Taxes on Motor Vehicle Registration/license renewal fees	2.2%
Taxes for vulnerable groups (e.g., seniors, those on income support, lower income-earners, etc.)	5.5%
Other	21.6%

Subset: Respondents who chose "Other" in D4.

D5. Would you support a tax increase if the increased revenue helped reduce the province's deficit and/or prevented spending cuts?

Yes	48.9%
No	45.9%
Don't know	4.2%
Refused	1.0%

D6. In which specific taxes would you support an increase? (Select all that apply.)

Personal Income Tax	24.5%
Corporate Income Tax	9.1%
Gasoline Tax	5.9%
Tobacco Tax	15.7%
Harmonized Sales Tax (HST)	14.4%
Retail Sales Tax on Used Vehicles	.5%
Health and Post-Secondary Education Tax (Payroll Tax)	5.2%
Financial Corporations Capital Tax	1.1%
Other (specify):	28.3%
Don't know	32.9%

Totals may exceed 100% due to multiple responses.
Subset: Respondents who chose "Yes" in D5.

D6_Other. In which specific taxes would you support an increase?

Taxes on alcohol and cannabis products	46.4%
Taxes on junk food	7.2%
Taxes on Motor Vehicle Registration/license renewal fees	5.3%
Taxes for higher income-earners	11.1%
Taxes on fuel	3.9%
Municipal taxes, land/property taxes, water tax	9.0%
Increase all taxes/general tax increase	3.5%
Other	13.5%

Subset: Respondents who chose "Other" in D6

D7. Which of the following do you feel should receive a tax break? SELECT ONE RESPONSE ONLY

Low income earners/those at or below the poverty level	42.8%
Middle income earners	25.8%
High income earners	1.2%
Everyone should receive a tax break	18.5%
No one should receive a tax break	9.0%
Don't know	2.6%

D8. Please indicate whether you agree or disagree with the following statements related to taxation and government's fiscal position.

D8. a) I am concerned about the province's long term fiscal situation with respect to our growing debt.

Agree	91.3%
Disagree	7.2%
Don't know	1.3%
Refused	.2%

D8. b) 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.

Agree	75.2%
Disagree	21.7%
Don't know	2.3%
Refused	.8%

D8.c) Government will have to make some difficult decisions concerning taxation and spending to deliver a meaningful multi-year fiscal plan.

Agree	95.2%
Disagree	3.4%
Don't know	1.2%
Refused	.2%

D8.d) Government spending must be reduced to help address the province's growing deficit and debt.

Agree	88.2%
Disagree	10.0%
Don't know	1.8%

D8.e) Increasing taxes alone is not enough to address the province's debt and deficit concerns.

Agree	89.6%
Disagree	8.9%
Don't know	1.3%
Refused	.2%

D8.f) Reducing expenditures alone is not enough to address the province's debt and deficit concerns.

Agree	84.5%
Disagree	12.9%
Don't know	2.3%
Refused	.2%

D8.g) 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.

Agree	88.4%
Disagree	9.6%
Don't know	1.8%
Refused	.2%

D8.h) Government should consider eliminating some services altogether to preserve other services.

Agree	59.4%
Disagree	32.3%
Don't know	6.8%
Refused	1.6%

D8.i) Government should consider implementing new and/or higher fees for some services, so the people benefiting pay more of the cost.

Agree	62.0%
Disagree	32.1%
Don't know	5.1%
Refused	.8%

D9. Do you have any suggestions for additional taxes or other sources of revenue for the province?

Yes (enter suggestions):	28.5%
No	71.5%

D9_Coded. Do you have any suggestions for additional taxes or other sources of revenue for the province?

Increase taxes for alcohol, tobacco, cannabis and other controlled substances	9.2%
Reduce government/MHA salaries, pensions, functions, programs, services, etc/make govt more efficient	21.1%
Increase taxes for higher income-earners	2.6%
Small user fees for visiting doctors (e.g., GP's, specialists)	4.6%
Introduce tolls for highways/roads	2.1%
Investing in wind/solar power and other sources of renewable energy (e.g., wind-turbine farms)	8.9%
Economic diversification/attracting more businesses/encourage innovation, immigration	18.5%
Increase taxes on ferries/ferry users	2.6%
Increase in oil exploration/investment, higher royalties from oil	1.7%
Other	28.7%

Subset: Respondents who entered a response in D9.

Section E – Demographics

E1. Which of the following categories best describes your age? SELECT ONE RESPONSE ONLY

18 to 29	15.6%
30 to 40	15.5%
41 to 50	17.5%
51 to 60	20.0%
Over 60	31.3%

E2. Are you a business owner?

Yes	9.6%
No	90.4%

E3. What is your main source of income? SELECT ONE RESPONSE ONLY

Employment income	58.4%
Income from owning a business	3.6%
Investment income	1.5%
Income support	3.8%
Pension (private or public)	9.2%
Old Age Security (OAS)/Canada Pension Plan (CPP)	17.5%
Other (specify):	5.7%
Refused	.3%

E3_Other. What is your main source of income?

Canada Pension-Disability	13.9%
Employment Insurance	13.6%
No source of income (e.g., stay-at-home parent)	36.3%
Other	36.3%

Subset: Respondents who chose "Other" in E3.

E4. To the best of your knowledge, which of the following categories best describes your individual income in 2017, before taxes and other deductions? SELECT ONE RESPONSE ONLY

Less than $25,000	32.9%
$25,000 to less than $50,000	28.7%
$50,000 to less than $75,000	18.0%
$75,000 to less than $125,000	13.2%
$125,000 or more	4.8%
Don't know	1.0%
Refused	1.5%

E5. Do you have a spouse or common-law partner who lives with you and contributes income to the household?

Yes	65.9%
No	34.1%

E6. To the best of your knowledge, which of the following categories best describes the total income from you and your spouse or partner in 2017, before taxes and other deductions? SELECT ONE RESPONSE ONLY

Less than $25,000	3.9%
$25,000 to less than $50,000	21.7%
$50,000 to less than $75,000	14.1%
$75,000 to less than $125,000	28.2%
$125,000 or more	28.3%
Don't know	1.1%
Refused	2.7%

Subset: Respondents who chose "Yes" in E5.

Tax Expenditure Analysis

CHILD CARE TAX CREDIT

Program Overview

- The Child Care Tax Credit was introduced in Budget 2011 to provide financial support for families with children to assist with child care costs. This non-refundable tax credit is equal to the amount of child care expenses deductible from income on Line 214 of the income tax return. The current limits on the amount of deductible child care expenses are as follows:
  - For children under 6 years of age, $8,000 per year
  - For children 6 to 17, $5,000 per year
  - For children of any age for whom the disability amount can be claimed, $11,000 per year.
- The child care expenses claimed on Line 214 are multiplied by the lowest provincial tax rate, currently 8.7%, to determine the amount of the credit. The maximum benefit for this credit is currently $957 per child and will depend on a child's age and the value of deductible child care expenses.

Other Jurisdictions

- Newfoundland and Labrador is the only province to offer this type of non-refundable credit.

Effectiveness

- Effectiveness is a measure of the program's ability to meet its stated goals. The stated purpose of the program is to provide financial support to families with children to assist with child care costs.
- The program is effective in providing financial support to families with children that incur child care costs although the support is provided sometimes up to a year after the expenditure is incurred. Every dollar in program spending achieves the goals of the program and is consistent with the program objectives.

Equity

- 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 means that taxpayers in identical circumstances should be treated the same. Vertical equity means that taxpayers in higher income brackets should pay a greater proportion of their income in tax as compared to those in lower income brackets.
- The child care tax credit is equitable in that families in similar circumstances would be eligible for the credit if they have incurred child care expenses. However, because the credit is non-refundable, families in lower income brackets may not be able to avail of the maximum value of the credit if they are not in a taxable position.

Utilization (Targeting)

- Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- The number of claims for the child care tax credit is included in the table below. Data is not available to determine the total population of those that incur child care costs to determine the degree of utilization for this credit.

Tax Year	Number of Claims
2012	13,100
2013	13,200
2014	13,200
2015	13,600
2016	13,200

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- The child care tax credit does not impose a significant burden on the claimants as the credit is claimed by entering the amount on one line of the tax return and there are no additional calculations required. The amount is carried over from Line 214 of the return to determine the amount of the credit.
- The child care tax credit is administered by the CRA on behalf of the province at no additional cost as it is part of the non-refundable tax credit block resulting in no administrative burden on the provincial government. Due to the simplicity of the credit and its reliance on the child care expenses deducted from income, there is very little administrative burden on the federal government.

Budgetary Impact

- Tax expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- The cost of the child care tax credit has been increasing since it was introduced in 2011. This is in part due to the increase in the lowest tax rate (from 7.7% to 8.7%) and the increase in the maximum allowable expenses for child care. The annual tax expenditure amount for the child care tax credit is shown in the table below.

Fiscal Year	Amount ($Millions)
2011-12	3.0
2012-13	3.5
2013-14	3.6
2014-15	4.3
2015-16	4.5
2016-17	5.5
2017-18	5.6
2018-19 (Estimate)	5.6

- When assessing the budgetary impact of a tax expenditure, affordability and sustainability of the expenditure should be considered. With the significant fiscal problems facing the province and the pressure to reduce expenditures, it is questionable whether these types of expenditures should be continued.

Relevance

- The credit should be evaluated to determine if it still relevant given changes in family composition, industry and market composition.
- The child care credit is especially relevant given the high costs of child care in this province.

Recommendation

- The Tax Review Committee recommends that no changes be made to the Child Care Tax Credit.

GAS TAX EXEMPTIONS

Program Overview

- Newfoundland and Labrador, like other jurisdictions, frequently uses gas tax expenditures to promote specific economic or social objectives or to encourage desired behavior without incurring direct expenditure costs.
- Gas tax expenditures are administered by the Department of Finance and are delivered in three general forms.
- Individuals or entities engaging in qualifying activities may purchase fuel exempt of tax by obtaining a marked diesel permit from the Department of Finance.
- In other instances, eligible persons exempted from the tax on gasoline may apply to the Department of Finance for a tax rebate or refund. However, persons exempted from the tax on diesel purchases must apply to the Department prior to the purchase of exempt diesel for an exemption permit.
- Finally, there are other cases whereby eligible individuals are provided gas tax relief (by way of either an exemption or a reduced tax rate) at point of sale based on the place of where the supply is made. There are two examples of such relief measures: at Canada Revenue Agency (CRA) designated remote stores and in certain petroleum pricing zones along coastal Labrador (zones 11A and 14).
- Gas tax expenditures may reduce, or remove the amount of taxes levied on select individuals and industries. There are a variety of tax exemptions and rebates under the *Revenue Administration Regulations* applicable to the consumption of gasoline and diesel.

Other Jurisdictions

- All provinces and territories to varying degrees apply gas tax exemptions.

Effectiveness

- Many gas tax relief measures have been introduced at various points in history, many of which have dated back to the 1950s and 1960s. The original policy rationale for some of the exemptions is now unknown.
- The Department has not specifically determined what the fuel tax exemption program is designed to achieve (other than reducing taxes for eligible beneficiaries), therefore there is no way of knowing whether the fuel tax exemption programs are effective.

Tax Exemptions

- ☐ Government of Newfoundland and Labrador;
- ☐ Aircraft on flights that originate or terminate at locations outside of North America;
- ☐ Bulk gasoline purchases that are exported from the province;
- ☐ Furnace fuel, stove oil, kerosene, propane, butane or naphtha grades of gasoline used for a purpose other than the generation of power in an internal combustion engine; and
- ☐ Status Indians at an approved retail business.

Tax Refunds

- ☐ Prescribed Tour Operators.

Tax Exemptions or Rebates

- ☐ Specific farming purposes;
- ☐ Commercial logging and sawmill purposes;
- ☐ Fish plants (curing, processing or preparation of fish or fishery products;
- ☐ Gasoline used in a prescribed vessels and registered commercial fishing boats;
- ☐ Prescribed rock crushing, screening aggregates or producing asphalt;
- ☐ Stationary manufacturing equipment used directly in prescribed manufacturing;
- ☐ Locomotives;
- ☐ Prescribed equipment used directly in the generation of electricity;
- ☐ Mineral and petroleum exploration (certain activities); and
- ☐ Municipalities (except public conveyance).

Equity

- 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 means that taxpayers in identical circumstances should be treated the same. Vertical equity means that taxpayers in higher income brackets should pay a greater proportion of their income in tax as compared to those in lower income brackets.
- The gas tax expenditure programs arguably do not achieve horizontal equity in that certain sectors of the Newfoundland and Labrador economy are provided an exemption while others are not. It also fails to achieve vertical equity in that higher gas tax rates across all fuel sources are required in order to cover the costs associated with providing exemptions to select industries.
- Exemptions and preferences can cause economic distortions and often result in inequities and inconsistencies in the treatment of similar taxpayers. For example, while the province provides an exemption for logging, it affords no such treatment for the silviculture industry.

Utilization (Targeting)

- The gasoline tax exemptions are targeted to specific sectors and subsectors of the economy. It is not known whether the exemptions are effectively targeted and if fully utilized within a specific sector.

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- Depending on the manner in which a taxpayer avails of the exemption, there are varying levels of administrative burden imposed. In order to obtain the tax exemption permit, an application by the taxpayer and approval by the Department of Finance is required. There is some administrative burden imposed but it is not considered excessive or prohibitive. With respect to the refund/rebate process, an application with supporting documentation is required. Depending on the complexity of the request, there may be a significant administrative burden imposed on government.

Budgetary Impact

- In 2018-19, the province is expected to forego $17.5 million in gas tax expenditures. These costs have been inflated in recent years due to the temporary gas tax increase. As the provincial gasoline tax has been reduced, so too does the related gas tax expenditure.
- Affordability of providing these exemptions should be considered in the current fiscal environment.

Relevance

- The continued application of certain gas tax expenditures may no longer be relevant.

Recommendation

- The Tax Review Committee recommends that no changes be made to the existing gasoline tax exemptions.

HARMONIZATION OF CERTAIN NON-REFUNDABLE TAX CREDITS

Whether to harmonize certain provincial non-refundable tax credits with similar federal non-refundable tax credits.

Caregiver Credits

- To further simplify and improve existing tax measures for caregivers, Budget 2017 (Canada) introduced the Canada Caregiver Credit for the 2017 and subsequent taxation years. This new credit consolidated the existing infirm dependent credit, the caregiver credit (for in-home care of a relative) and the family caregiver credit.
- The Canada Caregiver Credit is available in respect of an individual's spouse or common-law partner, minor child or eligible relative who is dependent on the individual because of a mental or physical infirmity at any time in the year.
- This new, non-refundable credit will provide better support to those who need it the most, apply to caregivers whether or not they live with their family member, and help families with caregiving responsibilities.
- The new Canada Caregiver Credit will provide tax relief on an amount of:
  - $6,883 (in 2017) in respect of expenses for care of dependent relatives with infirmities (including persons with disabilities)
  - $2,150 (in 2017) in respect of expenses for care of a dependent spouse/common-law partner or minor child with an infirmity (including those with a disability).
- The Canada Caregiver Credit will extend tax relief to more caregivers, particularly those providing care to dependent relatives with infirmities or disabilities who do not live with their caregivers, by increasing the income threshold for the dependant at which the credit begins to phase out. The Canada Caregiver Credit will start to be reduced when the dependant's net income is above $16,163 (in 2017). This income threshold, along with the amounts for the credit, will be indexed to inflation for taxation years after 2017.

Provincial Caregiver Credits

- There are two provincial non-refundable tax credits that support caregivers – the amount for infirm dependents and the caregiver amount.
- For the 2017 tax year, the amount for infirm dependents tax credit provides a maximum credit of $2,851 for each dependent if the dependent's net income is less than $8,978. The credit is reduced by the amount claimed for an eligible dependent.
- The current caregiver amount tax credit provides a maximum credit of $2,851 for each dependent if the dependent's net income is less than $16,784. This credit is also reduced by the amount, if any, claimed for an eligible dependent.
- In an effort to simplify the tax system, the province could harmonize the income thresholds for these two credits, similar to the action taken by the federal government. This would require the income threshold for the infirm dependent tax credit to be increased from $8,978 to $16,784.
- Based on the 2016 preliminary income tax data, there were just over 500 people that claimed the infirm dependents credit. Of those that claimed the credit, there were about 20 that had income over the current threshold.
- The estimated cost of harmonizing the income thresholds for these credits would be approximately $25,000. This change would benefit about 20 income tax filers, but it may also allow some that were ineligible to claim the credit due to the lower income threshold to now qualify for the credit. Although an exact number is not known, it is not expected that there would be a significant number due to the low number of people that currently claim the credit.

Adoption Expenses

- The federal government and this province offer a non-refundable tax credit for eligible adoption expenses such as fees paid to an adoption agency. You can claim an amount for eligible adoption expenses related to the adoption of a child who is under 18 years of age. Two adoptive parents can split the amount if the total combined claim for eligible expenses for each child is not more than the amount before the split. Parents can only claim these incurred expenses in the tax year including the end of the adoption period for the child.
- The maximum federal credit is $15,670 for 2017. Eligibility for the provincial credit is the same as for the federal credit but the maximum amount of the credit is $12,116 for 2017.
- The federal Budget 2014 increased the maximum amount for adoption expenses from $11,774 to $15,000 to better recognize the costs unique to adopting a child. Prior to this change, the federal and provincial amounts were much closer in value at $11,774 and $11,576.
- There are only about 20 claims per year for the provincial adoption expenses tax credit at an estimated cost of $75,000.
- Consideration could be given to increasing the maximum amount of the provincial credit to match the federal credit at a cost of about $10,000 however, because the tax systems are indexed using Canadian CPI versus provincial CPI, the amounts would again be different in the next tax year but the spread in the amounts would not be as significant.
- Increasing the value of the credit would provide additional relief of about $300 to those that are eligible to claim the adoption expense tax credit.

Education Tax Credit

- The federal Education Tax Credit provided a non-refundable tax credit of $400 per month of full-time enrolment in a qualifying educational program and $120 per month of part-time enrolment in a specified educational program at a designated educational institution. The textbook tax credit provided a non-refundable tax credit of $65 per month of full-time enrolment in a qualifying educational program and $20 per month of part-time enrolment in a specified educational program at a designated educational institution.
- The Federal Budget 2016 eliminated the education and textbook tax credits effective for the 2017 taxation year. The rationale for eliminating the credit was to improve the affordability of post-secondary education for low- and middle-income families by using savings realized from eliminating the credits to enhance student financial assistance and to help provide timely assistance to students from low- and middle-income families.
- The province currently has an Education Tax Credit but does not have a textbook tax credit. The provincial credit is a maximum of $200 per month for full-time enrolment and $60 per month of part-time enrolment at a designated educational institution. The credit can be used by the student in the current year or carried forward to use in a future year, or transferred for use by a parent or grandparent.
- The province can continue to offer the Education Tax Credit, or similar to the federal government, choose to eliminate the credit. Other provinces have also eliminated the education tax credit and redirecting and savings to grants programs for low and middle-income families.
- Budget 2014 (NL) implemented full grants for eligible students. However, Budget 2016 reversed that earlier decision and implemented a system where eligible students can receive

maximum funding of $40 per week in the form of a loan and $100 per week as a grant at a savings of $5 million annually. If the credit was eliminated, students in the province might expect to see a return to a full grant system.

- Eliminating the credit would generate revenue of approximately $3.5 million annually.
- There were approximately 26,000 claims for the education tax credit based on the 2016 preliminary income tax data.

Recommendation

- The Tax Review Committee recommends that no changes be made to the provincial caregiver credits, the adoption expenses tax credit or the education tax credit.

LOW INCOME TAX REDUCTION

Program Overview

- The Low Income Tax Reduction (LITR) is a provincial personal income tax reduction for low income individuals and families. The LITR was introduced in Budget 2004, effective for the 2005 taxation year.
- For the 2017 taxation year, the LITR eliminates provincial income tax for individuals with net income up to $19,411 or for families with net income up to $32,824. Partial tax reductions are received by individuals with net income up to $24,486 and for families with net income up to $40,724.
- The LITR income thresholds are increased annually utilizing the provincial Consumer Price Index.

Other Jurisdictions

- Other jurisdictions provide similar income tax reductions for low-income individuals and families.

Effectiveness

- Effectiveness is a measure of the program's ability to meet its stated goals. The stated purpose of the program is to provide a provincial personal income tax reduction for low income individuals and families.
- The program is effective in providing personal income tax reductions for low income individuals and families.

Equity

- 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 means that taxpayers in identical circumstances should be treated the same. Vertical equity means that taxpayers in higher income brackets should pay a greater proportion of their income in tax as compared to those in lower income brackets.
- The LITR achieves horizontal equity in that eligible individuals in similar financial circumstances would be eligible for the same amount of tax reduction. It also achieves vertical equity in that higher income individuals are paying a larger proportion of their income in tax compared to those in lower incomes.

Other Jurisdictions: Low Income Tax Reduction

Province	Reduction Amount	Phase-out Rate	Beginning Phase-out Income Threshold	No Reduction at Income Threshold
BC	$444	3.56%	$19,749	$32,221
ON	$235 base amount plus $434 for each child or dependent with mental or physical infirmity	Can only be claimed by an individual whose Ontario tax payable does not exceed 200% of the individuals personal (base)amount		
NB	$641 base amount plus $641 spouse/common-law partner or an eligible dependent to a maximum of $1,282	3%	$16,513	$37,880 individual $59,246 family
NS	$300 base amount plus $300 spouse/common-law partner or an eligible dependent and $165 for each dependent child born in 1999 or later	5%	$15,000	Varies
PE	$350 base amount plus $350 spouse/common-law partner or an eligible dependent plus $300 for each child born in 1999 or later plus $250 for each senior	5%	$17,000	Varies

Utilization (Targeting)

- Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- The number of taxfilers availing of the LITR is shown in the table below. It is not known whether all eligible individuals are claiming the LITR.

Tax Year	Number of Claims for LITR
2012	33,000
2013	32,500
2014	38,600
2015	39,100
2016	38,800

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- The LITR imposes an additional burden on the taxpayers as there are several calculations required in order to claim the personal income tax reduction. The LITR is not automatically credited to those that are eligible, as eligible claimants have to claim the amount on their annual tax return.
- The LITR is part of the Newfoundland and Labrador Tax and Credits form (NL428) which is filed with the annual tax return. There is no additional cost to the provincial government for the administration of the program by the CRA. There is very little administrative burden on the federal government with the administration of this program.

Budgetary Impact

- Tax expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- The annual tax expenditure amount for the LITR is shown in the table below.

Fiscal Year	Amount ($Millions)
2012	8.8
2013	8.7
2014	11.9
2015	12.5
2016	13.4
2017-18	13.7
2018-19 (Estimate)	13.6

- When assessing the budgetary impact of a tax expenditure, affordability and sustainability of the expenditure should be considered. With the significant fiscal problems facing the province and the pressure to reduce expenditures, it is questionable whether these types of expenditures should be continued.

Relevance

- The credit should be evaluated to determine if it is still relevant given changes in family composition, industry and market composition.
- The LITR is still relevant as there are many people in the province earning minimum wage that avail of the provincial personal income tax reduction.

Recommendation

- The Tax Review Committee recommends that no changes be made to the Low Income Tax Reduction program.

NEWFOUNDLAND AND LABRADOR CHILD BENEFIT

Program Overview

- The Newfoundland and Labrador Child Benefit (NLCB) is a tax-free amount paid monthly to help low income families with the cost of raising children under 18 years of age. The Mother Baby Nutrition Supplement (MBNS) is an additional benefit paid to qualifying families who have children under one year of age. Benefit payments are combined with the Canada Child Benefit into a single monthly payment.
- Eligibility for the benefit is based on family net income from the previous tax year. Family net income is defined as the amount on Line 236 of the tax return plus the amount on Line 236 of the spouse's return, if applicable.
- If family net income is below $17,397, the full benefit will be received. If family net income is between $17,397 and $25,020, the amount of the benefit will be phased out for each dollar over $17,397. The 2017-18 benefit amounts and phase-out rates are provided in the table below.

Number of Children	Benefit Amount	Monthly Amount	Phase-out Rate
1st child	$386	$32.16	5.07%
2nd child	$410	$34.16	10.45%
3rd child	$440	$36.66	16.22%
4th child (+ additional)	$472	$39.33	6.19%

- The MBNS provides a benefit of $60 per month for each child under one year of age if a person is eligible for any amount of the NLCB.
- The NLCB benefit amounts are indexed however; the MBNS benefit amount is not indexed.
- The federal government provides the Canada Child Benefit for families with children under 18. The 2017-18 benefit amounts are $6,400 ($533.33 monthly) for children under 6 and $5,400 ($450.00 monthly) for children aged 6 to 17. The phase-out rates and income thresholds are provided in the table below.

	Phase-out Rates	
	Income between $30,000 and $65,000	Income greater than $65,000
1 child	7.0%	$2,487 plus 3.2% of income > $65,000
2 children	13.5%	$4,796 plus 5.7% of income > $65,000
3 children	19.0%	$6,750 plus 8% of income > $65,000
4 or more children	23.0%	$8,171 plus 9.5% of income > $65,000

Other Jurisdictions

- Most other provinces provide a child benefit program with the exception of PEI and Saskatchewan. The benefit amounts and phase-out thresholds vary significantly. A detailed list of the provincial benefit programs is provided on page D:24.

Effectiveness

- Effectiveness is a measure of the program's ability to meet its stated goals. The stated purpose of the program is to provide financial support to low-income families to assist with the costs of raising children.
- The program is effective in providing financial assistance to low income families.

Equity

- 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 means that taxpayers in identical circumstances should be treated the same.
- Both the NLCB and the MBNS are equitable in that families in similar circumstances would be eligible for the same benefit amount.

Utilization (Targeting)

- Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- The number of recipients of the NLCB/MBNS have been decreasing over the years as the lower income threshold to qualify is not indexed. This causes families that receive the benefit to either no longer be eligible or to receive a reduced benefit amount simply due to inflationary impacts on incomes.
- The number of recipients for the NLCB/MBNS are included in the table below. The total number of families that would be eligible for the NLCB/MBNS is not known so it is not possible to say that utilization is 100%.

	Number of Families	
Benefit Year	NLCB	MBNS
2012-13	12,400	880
2013-14	11,800	945
2014-15	11,200	900
2015-16	10,900	865
2016-17	10,500	850
2017-18	10,200	800

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- The NLCB does not impose an additional burden on the benefit recipients as the payments are made monthly by the CRA to eligible families. For the NLCB and the MBNS, no additional application is required. A person has to file their annual tax return to determine eligibility for the benefit, similar to other income tested benefit programs.
- The NLCB and MBNS programs are administered by the CRA on behalf of the province. There is no administrative burden on either level of government as the payments are integrated with the federal Canada Child Benefit payments.

Budgetary Impact

- Tax expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- The cost of the NLCB (including the MBNS) is shown in the table below. The amount of the expenditure has been decreasing in recent years as the lower income threshold is not indexed thereby making less families eligible for the full benefit due to inflationary impact of rising incomes. However, consideration should be given as to whether the expenditure is affordable based on the current fiscal situation of the province.

Fiscal Year	Amount ($Millions)
2012-13	7.5
2013-14	7.2
2014-15	7.0
2015-16	6.9
2016-17	6.8
2017-18	6.7
2018-19 (Estimate)	6.9

Relevance

- The credit should be evaluated to determine if it is still relevant given changes in family composition, industry and market composition.
- The NLCB and MBNS programs are still relevant as they provides direct financial support to families and single parents in low-income that need financial assistance in raising children.

Recommendation

- The Tax Review Committee recommends that no changes be made to the Newfoundland and Labrador Child Benefit.

Other Provincial Child Benefit Programs

Alberta child benefit (ACB)

The ACB is a tax-free amount paid to families that have children under 18 years of age and an annual family net income below $41,750. For July 2017 to June 2018, benefit amounts are:

- $1,114 ($92.83 per month) for the first child
- $557 ($46.41 per month) for the second and any additional children

The benefit is reduced as family income exceeds $25,832. If adjusted family net income is between $25,832 and $41,750, a partial benefit may be received.

BC early childhood tax benefit (BCECTB)

The BCECTB is a tax-free monthly payment to qualifying families to help with the cost of raising children under the age of six. For 2017-18, the BCECTB provides a benefit up to $660 ($55 per month) per child under the age of 6. The BCECTB is reduced if the family's net income exceeds $100,000 and is zero once the family's net income exceeds $150,000.

New Brunswick child tax benefit (NBCTB)

The NBCTB is a tax-free amount paid monthly to qualifying families with children under 18 years of age.

For July 2018 – June 2018, the NBCTB provides a basic benefit of up to $250 ($20.83 per month) for each child. The amount of the basic benefit is reduced if adjusted family net income is more than $20,000.

Nova Scotia child benefit (NSCB)

The NSCB benefit is a tax-free amount paid monthly to help low- and modest-income families with the cost of raising children under 18 years of age. From July 2017 to June 2018, benefit amounts are:

- $625.00 ($52.08 per month) for the first child;
- $825.00 ($68.75 per month) for the second child; and
- $900.00 ($75.00 per month) for each additional child.

If adjusted family net income is between $18,000 and $26,000, a partial benefit may be received.

Ontario child benefit (OCB)

The OCB is a tax-free amount paid to help low- to moderate-income families provide for their children.

For July 2017 to June 2018, a parent may be eligible for a benefit of up to $1,378 ($114.83 per month) for each child under 18 years of age. If adjusted family net income is above $21,037, a partial benefit may be received.

Manitoba child benefit (MCB)

The MCB is a tax-free amount paid to families that have children under 18 years of age and an annual family net income below $25,864. For July 2017 to June 2018, the MCB provides a benefit of up to $420 for each child. The benefit is reduced as family income exceeds $15,000. If adjusted family net income is between $15,000 and $25,864, a partial benefit may be received.

Quebec child assistance payment (QCAP)

The QCAP is a form of financial assistance paid to all eligible families with one or more dependent children under the age of 18 living with them. The benefit amount varies based on the number of children, the family income and the family situation (i.e. single-parent or two-parent). The maximum assistance is:

- $2,430 ($202.50 per month) for the first child
- $1,214 ($101.16 per month) for the second and third children
- $1,821 ($151.75 per month) for the fourth and subsequent children.

A single parent family receives an additional $852 annually ($71 per month).

NEWFOUNDLAND AND LABRADOR INCOME SUPPLEMENT

Program Overview

- The Newfoundland and Labrador Income Supplement (NLIS) was introduced in Budget 2016 to ensure the impact of the tax burden was lessened on the most vulnerable including low income seniors, individuals, families and persons with disabilities. Budget 2016 implemented the NLIS in part to offset the loss of benefits due to the elimination of the Home Heating Rebate Program and the former HST Credit.
- Eligible individuals can receive up to $450 with additional amounts paid for a spouse, children and persons with disabilities as shown in the table below.
- The NLIS is combined with the quarterly payments of the federal GST/HST credit.

	NLIS Amount (2018 Benefit Year)
Amount for Eligible Individuals	Basic credit of $220 Maximum credit of $450 (1)
Amount for Spouse	$60
Amount for Eligible Children	$200
Amount for Individuals Claiming the Disability Tax Credit	$200
Phase-in Income Threshold	$15,000
Lower Phase-out Income Threshold (2)	$40,000

(1) Additional amount of $230 to be phased in at a rate of 4.6% for family net income in excess of $15,000. Eligible individuals with family net income of $20,000 to $40,000 will receive the maximum benefit of $450.

(2) The phase out of the benefit begins at family net income of $40,000 at a rate of 9%.

Other Jurisdictions

- Other jurisdictions have similar programs that provide payments to low income individuals and families to offset increased costs due to carbon tax, HST, energy costs and property taxes. Pages D:27-D:28 provide a summary of the various provincially funded programs administered by the Canada Revenue Agency.

Effectiveness

- Effectiveness is a measure of the program's ability to meet its stated goals. The stated purpose of the program is to lessen the impact of the Budget 2016 revenue measures on low income seniors, individuals, families and persons with disabilities.
- The program is effective in that it is providing direct financial assistance to low income seniors, individuals, families and persons with disabilities on a quarterly basis.

Equity

- 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 means that taxpayers in identical circumstances should be treated the same. Vertical equity means that taxpayers in higher income brackets should pay a greater proportion of their income in tax as compared to those in lower income brackets.
- The NLIS is equitable in that eligible individuals in similar financial circumstances would be eligible for the same amount of the credit.

Utilization (Targeting)

- Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- The program has been in existence for just over two years. The number of payments during the 2017-18 benefit year was just over 156,000. The program is not indexed so it is estimated that a similar number of payments will be made for the 2018-19 benefit year.
- Eligibility for the program is determined when an individual files their annual income tax return. Assuming that most individuals file their tax returns each year, utilization should be near 100% as there is no application required.

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- The NLIS does not impose an additional burden on the benefit recipients as the payments are made quarterly to eligible individuals and no application is required in order for people to be eligible to receive the payment. Individuals have to ensure that their annual tax return is filed to determine eligibility for the benefit, similar to other income-tested programs.
- The NLIS is administered by the CRA on behalf of the province. There is no additional cost to the provincial government for the administration of the program. There is no administrative burden on the federal government (i.e. CRA) as the payments are integrated with the federal GST credit and eligibility for the NLIS is very similar to eligibility for that program, with the exception of different credit amounts and qualifying income thresholds.

Budgetary Impact

- Tax expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- The annual tax expenditure amount for the NLIS is approximately $65 million annually. Affordability of this tax expenditure should be considered in the context of the current fiscal position of the province.

Relevance

- The credit should be evaluated to determine if it still relevant given changes in family composition, industry and market composition.
- Most of the Budget 2016 tax increases are still in place so the NLIS remains relevant. The only tax measures that have been changed since Budget 2016 include a reduction in the temporary gas tax and reinstating the provincial point-of-sale HST book rebate.

Recommendation

- The Tax Review Committee recommends that no changes be made to the NLIS.

Summary of Provincial Low Income Benefit Programs

Saskatchewan low income tax credit (SLITC)

- This credit is a tax-free amount paid to help Saskatchewan residents with low and modest incomes.
- For July 2017 to June 2018, this program provides $346 for an individual, $346 for a spouse or common–law partner (or for an eligible dependant), and $136 per child (maximum of two children), or an annual credit of up to $964 per family.
- The credit starts to be reduced when the adjusted family net income is more than $32,643. Families with adjusted family net income between $32,643 and $67,697 may get part of the credit.

Prince Edward Island sales tax credit

- This credit is a tax-free amount paid to help offset the increase in the sales tax for households with low and modest incomes.
- The program provides an annual credit of $110 for an individual plus, if applicable, $55 for a spouse, common law partner or an eligible dependant. There is also a supplement of 0.5% of adjusted family net income over $30,000, up to a maximum of $55.
- The total of the above is reduced by 2% of adjusted family net income over $50,000.

Ontario trillium benefit (OTB)

- The Ontario trillium benefit (OTB) is the combined payment of the Ontario energy and property tax credit, the Northern Ontario energy credit, and the Ontario sales tax credit.
- The annual OTB entitlement is usually divided by 12 and the payments issued monthly.
- The Ontario energy and property tax credit (OEPTC) is designed to help low- to moderate-income Ontario residents with the sales tax on energy and with property taxes.
- OPETC amount for the 2018 benefit year is a maximum of:
  - $1,043 if you are between 18 and 64 years old
  - $1,187 if you are over 65 years old
  - $232 if you live on a reserve or in a public long-term care home
  - $25 for the time you lived in a designated college, university or private school residence in 2017
- Northern Ontario Energy Credit amount for the 2018 benefit year:
  - If you're single, you could receive a maximum of $151.
  - Families could receive a maximum of $232.
- The Ontario sales tax credit (OSTC) is a tax-free payment designed to provide relief to low- to moderate-income Ontario residents for the sales tax they pay.
  - The program provides a maximum annual credit of $301 for each adult and each child in a family.
  - If you are a single individual with no children, the credit will be reduced by 4% of your adjusted net income over $23,156. If you are a single parent, or are married or living in a common-law relationship, the credit will be reduced by 4% of your adjusted family net income over $28,944.

Nova Scotia affordable living tax credit (NSALTC)

- This credit is a tax-free amount paid to make life more affordable for low and modest incomes to individuals and families. The credit offsets the increase in the HST and provides additional income for these individuals and families.
- For July 2017 to June 2018, the program provides a maximum annual credit of $255.00 for an individual or a couple, plus $60.00 for each child.
- The credit is reduced by 5% of adjusted family net income over $30,000.

New Brunswick harmonized sales tax credit (NBHSTC)

- This credit is a tax-free amount paid to help offset the increase in the sales tax for households with low and modest incomes.
- The program provides for a maximum annual amount of $300 for an individual, $300 for a spouse or common-law partner, and $100 per child under 19 years of age ($300 for the first child in a single parent family).
- The credit is reduced by 2% of the adjusted family net income over $35,000.

BC low income climate action tax credit

- The BC low income climate action tax credit (BCLICATC) is a tax-free payment made to help low income individuals and families offset with the carbon taxes they pay.
- For July 2017 to June 2018, the amounts have increased from $115.50 to $135.00 for an individual and a spouse or common law-partner, and from $34.50 to $40.00 per child ($135 for the first child in a single parent family). The new maximum quarterly amounts are $33.75 for an individual and a spouse or common law partner (and first child in a single parent family) and $10.00 per child.
- For single individuals with no children, the credit is reduced by 2% of his or her adjusted net income over $33,326. For families, the credit is reduced by 2% of their adjusted family net income over $38,880.

Alberta climate leadership adjustment rebate

- The Alberta climate leadership adjustment rebate (ACLAR) is a tax-free amount paid to low and middle income individuals and families. It is intended to help households adjust to the new provincial carbon price.
- For July 2017 to June 2018, you may be entitled to receive:
  - $250 if you are a single individual with no children
  - $375 if you have a spouse or common-law partner
  - $375 if you do not have a spouse or common-law partner, but have full custody of an eligible child

  plus

  - $37.50 per additional child under 18 years of age (to a maximum of 4 children)
- For single individuals with no children, the rebate is reduced by 2.67% of adjusted family net income over $47,500. For families, the credit is reduced by 4.0% of adjusted family net income over $95,000.

SENIORS' BENEFIT

Program Overview

- The Seniors' Benefit was introduced in 1999 to recognize the difficult financial circumstances of seniors and to provide financial assistance to low income seniors.
- Whether single or as a couple, seniors with family net income of up to $29,402 are eligible to receive the maximum benefit of $1,313. The amount of the benefit will be phased out at a rate of 11.66% as net income increases between $29,402 and $40,663. There is only one payment per household. The benefit amount is no longer indexed.
- The Seniors' Benefit is combined with the quarterly payments of the federal GST/HST credit.

Other Jurisdictions

- Other jurisdictions provide financial assistance to seniors in various forms. Some programs are administered by the CRA and some administered by provinces. It would be difficult to complete a direct comparison with the Seniors' Benefit program in this province due to the significant variations in programs across the country.

Effectiveness

- Effectiveness is a measure of the program's ability to meet its stated goals. The stated purpose of the program is to provide financial assistance to low income seniors.
- The program is effective in providing financial assistance to low income seniors as seniors receive payments on a quarterly basis.

Equity

- 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 means that taxpayers in identical circumstances should be treated the same. Vertical equity means that taxpayers in higher income brackets should pay a greater proportion of their income in tax as compared to those in lower income brackets.
- The Seniors' Benefit is equitable in that seniors in similar financial circumstances would be eligible for the same amount of the credit.

Utilization (Targeting)

- Utilization refers to the degree to which a targeted group makes avail of the tax expenditure.
- The number of seniors that have received the Seniors' Benefit is included in the table below.

Benefit Year	Number of Households
2012	45,000
2013	42,000
2014	43,200
2015	44,700
2016	46,300

Compliance/Simplicity

- Compliance 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. An increased compliance burden associated with availing of a tax expenditure program may be prohibitive for some individuals.
- The Seniors' Benefit does not impose an additional burden on the benefit recipients as the payments are made quarterly to eligible seniors and no application is required by the senior in order for them to be eligible to receive the payment. The senior only has to ensure that their annual tax return is filed to determine eligibility for the benefit, similar to other income-tested programs.

- The Seniors' Benefit is administered by the CRA on behalf of the province. There is a cost to the provincial government for the administration of the program but it is relatively small compared to the number of eligible seniors that receive payments under the program. There is no administrative burden on the federal government (i.e. CRA) as the payments are integrated with the federal GST credit and eligibility for the Seniors' Benefit is very similar to eligibility for that program, with the exception of different income thresholds.

Budgetary Impact

- Tax expenditures should be assessed in the broader context of government's commitment to sound fiscal management.
- Due to the aging population in the province and significant enhancements to the program, the cost of the Seniors' Benefit has increased significantly over the last number of years. To help control the amount of the expenditure for the Seniors' Benefit, the income thresholds and benefit amount are no longer indexed.
- The annual tax expenditure amount for the Seniors' Benefit is shown in the table below.

Fiscal Year	Amount ($Millions)
2012-13	35.7
2013-14	36.7
2014-15	40.2
2015-16	42.5
2016-17	42.5
2017-18	54.5
2018-19 (Estimate)	56.3

- Affordability of the expenditure should also be considered in light of the current fiscal situation.

Relevance

- The credit should be evaluated to determine if it still relevant given changes in family composition, industry and market composition.
- The Seniors' Benefit is especially relevant given the aging population in the province.

Recommendation

- The Tax Review Committee recommends that no changes be made to the Seniors' Benefit program.

SIMPLIFICATION OF THE TAX SYSTEM

Whether to eliminate the minimum income threshold for the spousal amount and the amount for an eligible dependent to simplify the tax system and harmonize the calculation with the federal government.

Spousal Amount and Amount for an Eligible Dependent:

- The income tax system includes personal credits to allow individuals to receive a basic amount of income on a tax-free basis.
- All individuals are entitled to claim the basic personal amount of $8,978 for 2017. Essentially, income of up to this amount is tax free as this non-refundable credit would reduce tax payable to zero.
- In addition to the basic personal amount, there is a spousal amount and an amount for an eligible dependent.
- The spousal amount can be claimed by a taxpayer for a spouse with income less than $8,070. The maximum credit is $7,336 and it is reduced by the spouse's net income, dollar-for-dollar, over $734.
- The amount for an eligible dependent can be claimed by a taxpayer for a dependent relative, such as a child, if they do not claim the spousal amount. The maximum credit for the amount for an eligible dependent is $7,336 and is reduced by income earned by the dependant over $734. The credit can be claimed by only one person for the dependant.
- Based on 2016 preliminary income tax data, there are approximately 12,000 taxfilers that claimed the spousal amount. However, there are about 9,600 that are affected by the income reduction calculation.
- Based on 2016 preliminary income tax data, there are approximately 14,200 taxfilers that claimed an amount for an eligible dependent. However, there are about 2,200 that are affected by the income reduction calculation.
- The cost to eliminate the income threshold for the spousal amount would be about $600,000 and the cost for the amount for an eligible dependent would be approximately $138,000.
- Elimination of the income threshold would harmonize the treatment of these credits with the federal government. The federal government eliminated the income threshold for these credits in Budget 2007 when they also equalized the amount with the basic personal credit.

Recommendation

- The Tax Review Committee recommends that there be no changes to the manner in which the spousal amount and the amount for an eligible dependent are determined.

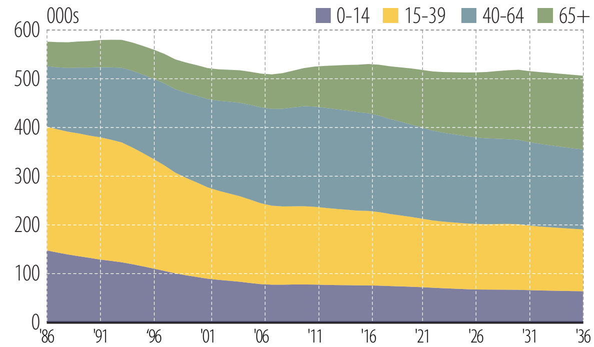
Observations

OUR CHALLENGING DEMOGRAPHICS

Over 30 years our population has changed significantly. In 1986 we had roughly 2.5 children for every senior, as well, we had more younger workers than older workers. Today older workers out number younger workers and seniors out number children.

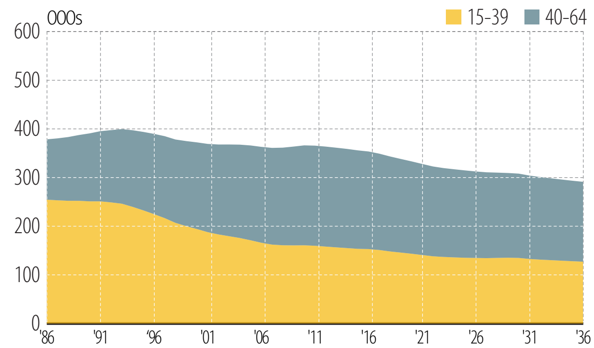
Over the next 20 years our total population will likely decline. The number of children will decline and our working age population will decline even faster. Seniors will be the segment of our population to see overall growth. By 2036, three out of 10 people living in our province could be over the age of 65.

F.37 Population by Age Groups NL,1986-2036



Source: Department of Finance

F.38 Working Age Population NL,1986-2036

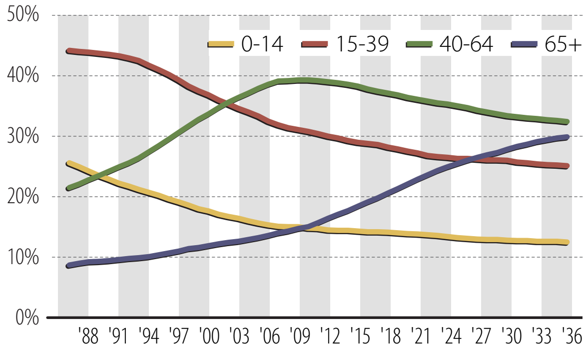


Source: Department of Finance

OUR CHANGING POPULATION WILL IMPACT TAXATION

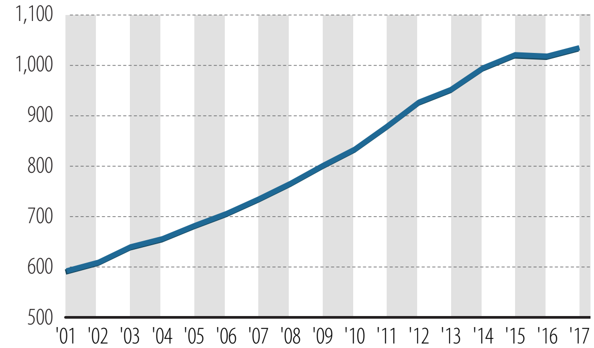
With fewer people of working age and more seniors, there will be an impact on taxation. In particular, it is likely that PIT revenues will decline. To offset these significant changes, we will need to have wages continue to increase—over the 15 years, average weekly wages have increased at the rate of the national average.

F.39 **Population Distribution**
by Age Group, NL 1986-2036



Source: Department of Finance

F.40 **Average Weekly Earnings**
Includes Overtime NL, 2001-2017

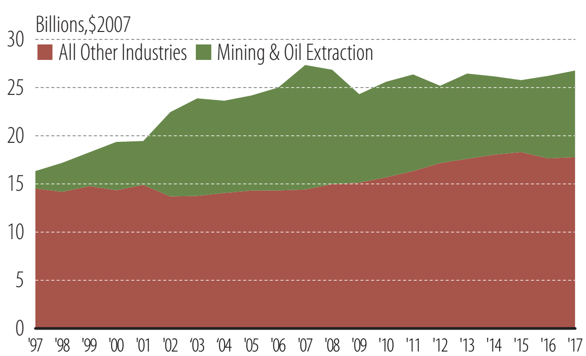


Source: Department of Finance

Our Economy Has Changed

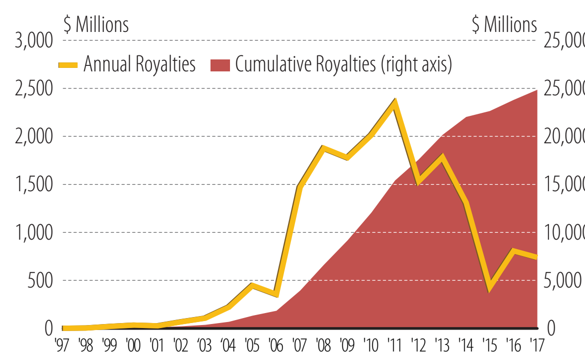
Over the past 20 years Newfoundland and Labrador's economy has grown significantly. A large part of this growth can be attributed to mining and oil extraction. This sector, particularly oil, has provided significant revenue for government.

F.41 **Real GDP at Basic Prices**
NL, 1997-2017



Source: Department of Finance

F.42 **Oil Royalties, Annual and Cumulative** NL, Fiscal 1997-98 to 2017-18

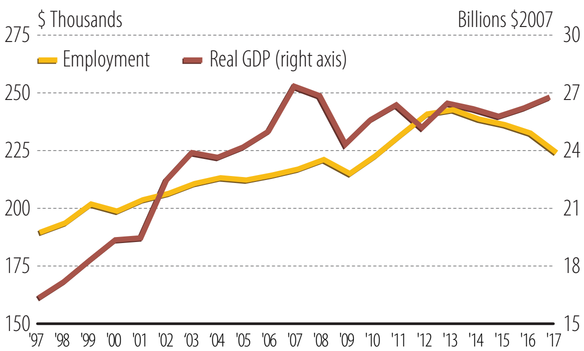


Source: Department of Finance

GDP Growth and Employment

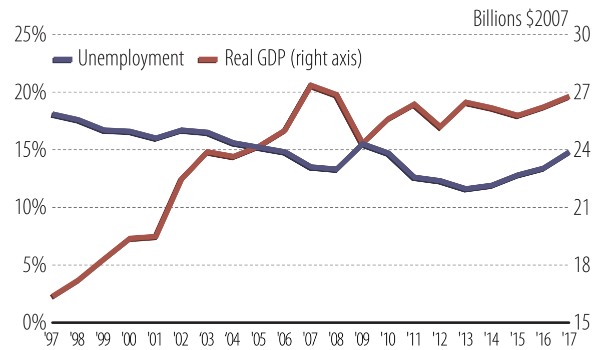
During this period of economic growth we have also seen increased employment. However, our unemployment rate has remained stubbornly high.

F.43 **Real GDP and Employment**
NL, 1997 to 2017



Source: Department of Finance

F.44 **Real GDP & Unemployment Rate**
NL, 1997-2017



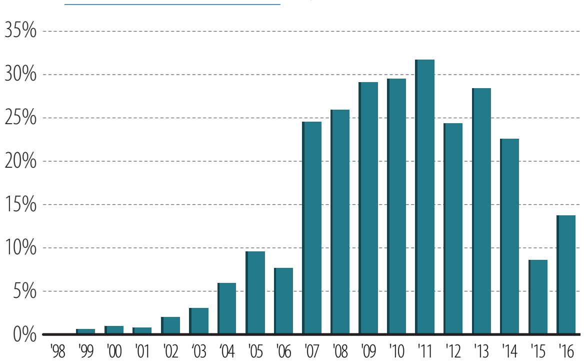
Source: Department of Finance

The Downside of Oil

Simply put, oil revenues are difficult to predict and budget as we have seen over the last 15 years. Oil revenues are a function of price, production volume, and exchange rates.

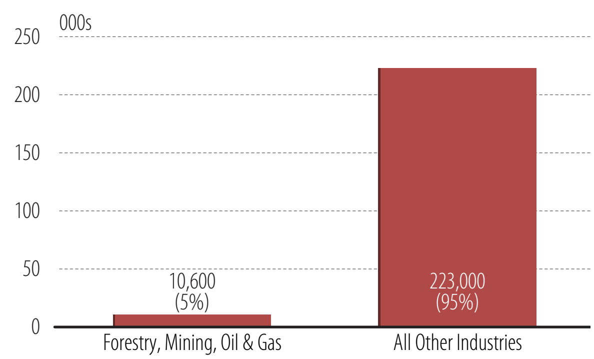
While oil and gas extraction now accounts for roughly 30% of our GDP, it accounts for less than 5% of our employment.

F.45 **Oil Royalties as a Percentage of Total Revenues** NL, Fiscal 1998-99 to 2016-17



Source: Department of Finance

F.46 **Employment** NL, September 2018

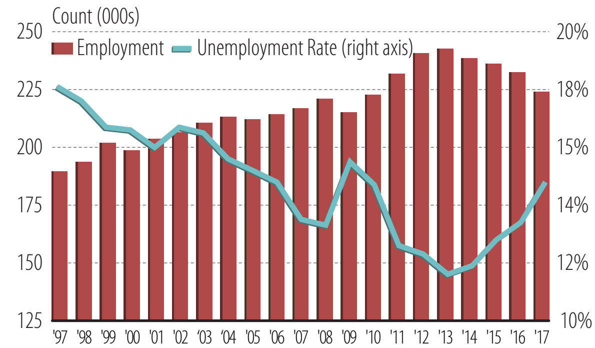


Source: Department of Finance

The Recent Oil Slump

The recent oil price slump and government restraint has impacted employment in our province. Over the past five years, total employment has fallen by some 20,000 jobs and our unemployment rate has jumped over 3%.

F.47 **Employment and Unemployment Rate** NL, 1997 to 2017

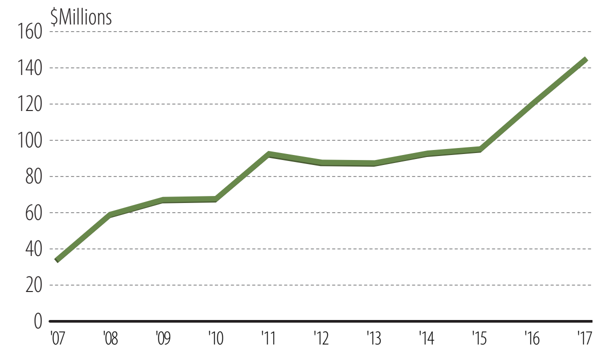


Source: Department of Finance

Tax Expenditure Programs—PIT Social

Over the past decade, Newfoundland and Labrador has done a credible job in developing tax expenditure programs for the most vulnerable or needy within our society. Total expenditures have increased from nearly $34 million 10 years ago, to more than $145 million.

F.48 **Tax Expenditure Programs—PIT Social** NL, Fiscal 2007-08 to 2017-18



Source: Department of Finance

T.10 **Tax Expenditure Programs**

Tax Expenditures—Personal Income Tax Social	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Child Benefit	9.4	9	8.8	8.5	8.3	7.7	8.1	7.3	7	7.1	7
Seniors' Benefit	12.4	26.8	28	28.6	38.3	36.2	38.5	40.4	42.1	43.4	58.8
HST Credit	5.3	4.8	4.6	4.5	4.4	4.1	4.1	3.7	3.7	-	-
Low Income Tax Reduction	6.8	6	16	16	11	9.9	8.2	11.1	12.2	11.8	12.5
Progressive Family Growth and Parental Leave Benefits	-	12.4	9.9	10.1	10.6	10	10	10.6	10.4	4.5	-
Child Care Tax Credit	-	-	-	-	3	2.9	3.5	3.6	4.4	5.1	5.5
Home Heating Rebate	-	-	-	-	17	17	15	16.2	15.4	0.9	-
Newfoundland and Labrador Income Supplement	-	-	-	-	-	-	-	-	-	47.8	61.3
Total	33.9	59	67.3	67.7	92.6	87.8	87.4	92.9	95.2	120.6	145.1

Income Distribution and Income Tax Paid

There appears to be a number of common misconceptions about income tax revenues.

The first is that growing income tax revenues is simply a matter of taxing the "rich" more—this group does not pay its fair share. Secondly, there is a prevalent view that income taxes target lower or middle class earners and that recent tax breaks have benefitted the rich.

As noted previously, our income tax is progressive—the more you earn, the more you pay in income taxes.

The table below provides an overview of 2016 Newfoundland and Labrador tax filers. In 2016, just over 437,000 individuals filed a tax return in this province.

Just over half of these filers (51%) had a taxable income below $30,000 and in total this group paid 3.9% of the total income taxes. Put another way, the highest earning 49% of filers paid over 96% of total income taxes in 2016.

Similarly, individuals with taxable incomes of $80,000 or greater (8.9% of filers) paid 53.7% of the total provincial income taxes in Newfoundland and Labrador in 2016.

The highest 5.6% of filers have taxable incomes above $100,000 and paid over 35% of the total. There were some 3,738 individuals that had taxable incomes above $250,000 or about 0.85% of filers. This group paid about $143 million in PIT to the province—10.3% of the total collected.

T.11 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

Our Taxes are Comparable

Residents of Newfoundland and Labrador face some of the highest taxes in Canada. But, surprisingly, we also have some of the lowest taxes as well. Local taxes and fees are arguably some of the lowest in our country.

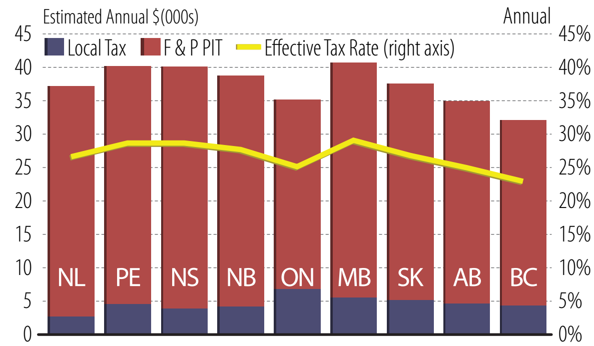
Most people only consider income tax, sales tax, fuel taxes, and sin taxes, when saying we are taxed "way more" than other Canadian jurisdictions. Arguably, this is an incomplete comparison which fails to identify other significant areas of taxation. Namely, it fails to recognize that we all need to live somewhere and there are local taxes or fees.

There is a massive difference in local taxation across Canada. For example, in 2017 Saskatchewan's combined water and sewer rates range from a low of $1/month to high of nearly $430/month with the average being around $85. In Ontario in 2017 weighted mil rates range from 4.74 to 25.06 with a mean of 10.64. When you consider that Ontario has some of the most expensive properties in the country, these rates appear significantly higher than in our province. As well, in many jurisdictions local services are provided by utilities and their fees are not categorized as taxation. The apparent gap at the local level becomes even more evident.

Further, Newfoundland and Labrador appears to be the only province that does not tax property in some manner. A number of provinces have education taxes or fees based on property values. Some provinces levy direct property taxes, others have differentiated taxes in place for non-resident owners, vacation homes, and properties outside of municipalities.

F.49 Basic Taxes—Capital Cities 2018

Two Earners—$60K & $80K



Source: ITRC

Do We Have A Spending Problem?

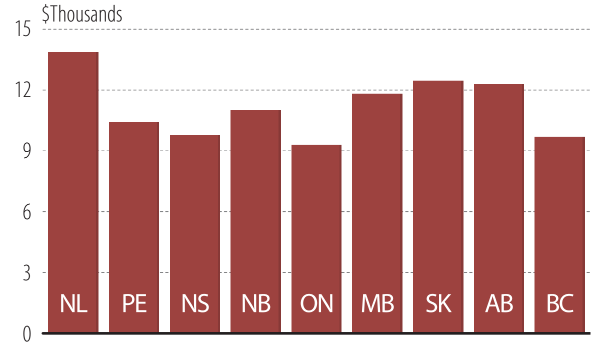
Newfoundland and Labrador spends more per capita on programs than any other province in Canada. We spend around $13,800 per person while Ontario spends about $9,300.

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 Ontario. Ontario has larger cities and regional governments that undertake many of the responsibilities provided by our province.

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.

Further, one could argue that it simply costs more to provide services in our province.

F.52 Per Capita Program Spending
Selected Provinces, 2017-18



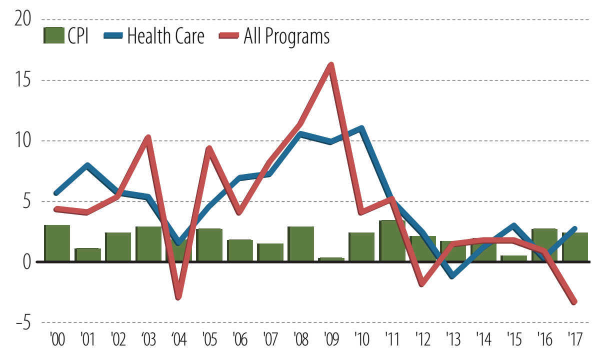
Source: Department of Finance

We Have a Spending Problem...

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.

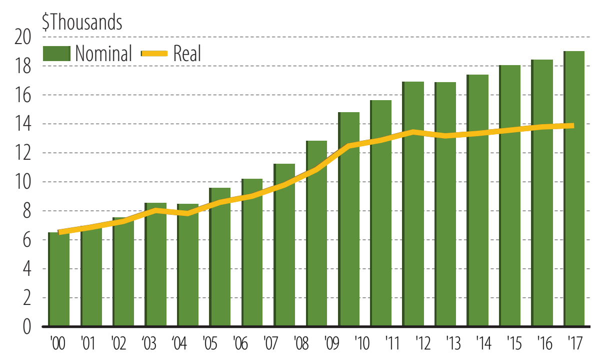
Over the past five years we have done a reasonable job managing spending—annual growth has been curtailed and has been generally in line with inflation. However, over the 12 years from 2000 through 2012, annual spending typically increased at rates well above inflation. In particular, spending on health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

F.50 Spending Growth vs CPI NL, 2000 to 2017



Source: Department of Finance

F.51 Per Capita Program Spending
NL, 2000 to 2017



Source: Department of Finance

We Have A Debt Challenge

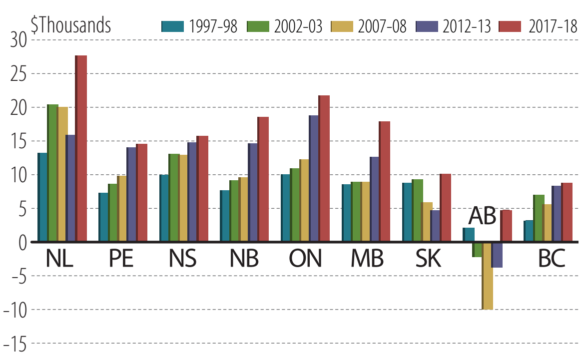
Newfoundland and Labrador has a debt challenge. Our per capita net debt is the highest of all provinces. Until we get our fiscal house in order we will continue to be challenged with a growing debt load.

Servicing our debt is now our third largest expenditure, behind only health and education (including K-12 and Post-Secondary). In the past five years our per capita net debt has grown by over 80%.

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.

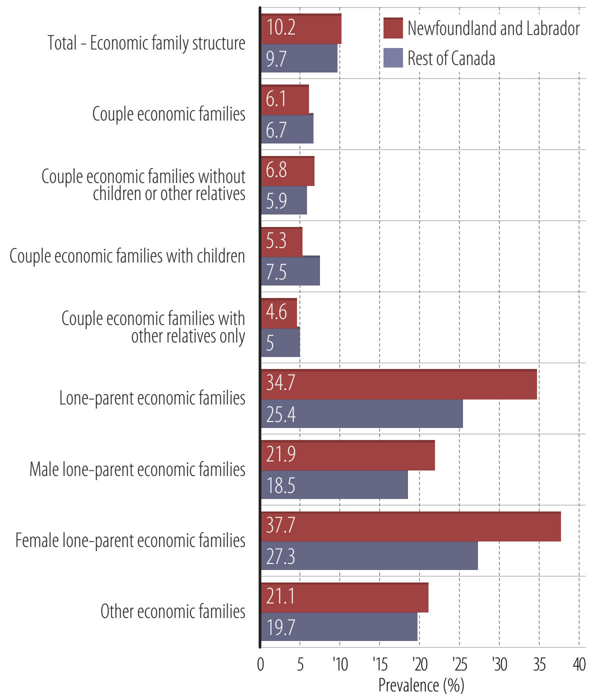
F.53 **Net Debt Per Capita**
Selected Provinces, Fiscal 1997-98 to 2017-18



Source: Department of Finance

We Need to be Mindful of Most Vulnerable

F.54 **Prevalence of Low Income**
by Economic Family Type, NL and Rest of Canada, 2015



Source: Department of Finance

TAX FACT SHEET

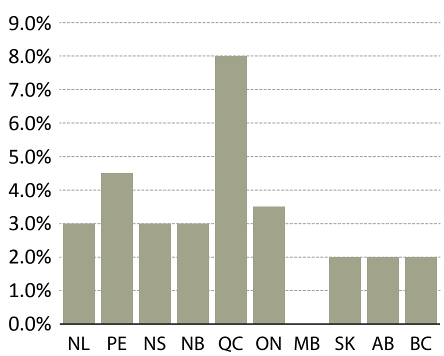
CORPORATE INCOME TAX

Businesses with a permanent establishment in the province are subject to corporate income tax

Fortis Place on Springdale Street, St. John's

Small Business Rates

January 1, 2018



- If a business operates in more than one jurisdiction, taxable income is allocated to each province so there is an incentive for businesses to allocate to jurisdictions with lower tax rates.
- The active business income of small businesses is taxed at a lower rate than large corporations.
- Corporate income tax is calculated on the taxable income of a company, taxable income is based on profits and as such, corporate income tax revenues are very volatile.
- The personal and corporate income tax systems are integrated. The purpose of integration is that the combined corporate and personal income tax burden on the company and shareholder should be the same regardless of how the income is taken, ensuring that the salary versus dividend decision is tax neutral.

Prepared for Independent Tax Review Committee (2018)

- The province has a very narrow corporate income tax base, i.e. a small number of taxpayers pay a significant portion of the corporate income tax, if several large taxpayers have significantly reduced taxable income, this could materially impact the amount of corporate income tax revenues for a particular year.
- Corporate tax rate is the second highest in Canada. An increase in the general rate by 1 percentage point would generate $21 million in revenue, and an increase in the small business rate would generate $7 million in revenue.
- A corporation with taxable income of $1 million would pay $150,000 in provincial corporate income tax in this province compared to $160,000 in Nova Scotia.
- A small business with taxable income of $400,000 would pay $12,000 in corporate income tax in this province as well as in Nova Scotia and New Brunswick, but would pay $18,000 in PEI.

Corporate Income Tax Rates

January 1, 2018

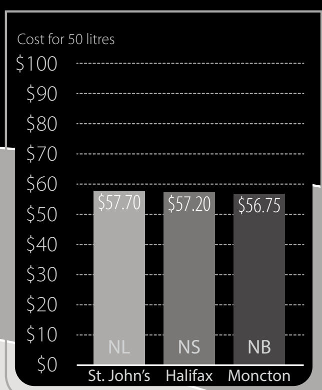
	General Rate (%)	M&P Rate (%)	Small Business Rate (%)
NL	15.0	15.0	3.0
PE	16.0	16.0	4.5
NS	16.0	16.0	3.0
NB(1)	14.0	14.0	3.0
QC(2)	11.7	11.7	8.0
ON	11.5	10.0	3.5
MB	12.0	12.0	0.0
SK	12.0	10.0	2.0
AB	12.0	12.0	2.0
BC	12.0	12.0	2.0

(1) Effective April 1, 2018, small business rate will decrease to 2.5%
(2) General rate will be reduced by 1/10 of a point effective January 1, 2019 and 2020 (to 11.5 in 2020)

TAX FACT SHEET

GASOLINE TAX

Gasoline tax is collected by the province on the sale of most gasoline, diesel, auto propane, marine diesel and aviation fuel



Source: NRCAN Average Retail Prices for Gasoline in 2018

- Gasoline tax is levied on each litre of fuel and included in the price paid by consumers at the pump, HST also applies to gasoline and heating fuels.
- Furnace fuel, stove oil, kerosene, propane, butane or naphtha grades of gasoline used for a purpose other than the generation of power in an internal combustion engine are not taxable.
- Gasoline consumed in or by fishing, farming, logging, manufacturing and processing, transportation by boat, locomotives, generation of electricity and household fuels may be exempted from the tax.
- Gasoline tax rates for diesel affect the price of goods and services in the province as transportation costs are passed on to consumers and embedded in the price paid for various products.
- Based on the current retail price of gasoline (January 1, 2018), a purchase of 50 litres of fuel would cost consumers, on average, $57.70 in St. John's compared to $57.20 in Halifax, Nova Scotia and $56.75 in Moncton, New Brunswick. Based on the current maximum regulated price however, consumers would pay $63.20 for 50 litres of fuel in St. John's.
- Based on the average weekly price for gasoline in 2017, consumers in St. John's would have paid $3,134.09 for 2,500 litres of gasoline. This includes the 16.5 cents per litre temporary gasoline tax for part of the year.

Gasoline Tax Rates

January 1, 2018

	Gasoline (cents/litre)	Diesel (cents/litre)
NL	20.5	21.5
PE	13.1	20.2
NS	15.5	15.4
NB	15.5	21.5
QC	19.2	20.2
ON	14.7	14.3
MB	14.0	14.0
SK	15.0	15.0
AB	13.0	13.0
BC	14.5	15.0

TAX FACT SHEET

HARMONIZED SALES TAX [HST]

The Harmonized Sales Tax (HST) is a value added tax that combines the provincial sales tax with the federal Goods and Services Tax (GST), to create a single, federally administered tax

Provincial Sales Tax Rates

January 1, 2018

	Consumer		Business	
	RST	HST	RST	HST
NL	-	10%	-	0%
PE	-	10%	-	0%
NS	-	10%	-	0%
NB	-	10%	-	0%
QC	-	9.975%	-	0%
ON	-	8%	-	0%
MB	8%	-	8%	-
SK	6%	-	6%	-
AB	0%	-	0%	-
BC	7%	-	7%	-

- A value-added tax is applied to a broad range of goods and services in an effort to keep the rate as low as possible. Most goods and services supplied in Newfoundland and Labrador are subject to the HST. Basic food items and medical supplies are zero-rated meaning that they are taxed at 0%.
- The HST is administered by the federal government on behalf of the province under the Canada-Newfoundland and Labrador Comprehensive Integrated Tax Coordination Agreement (CITCA).
- Under CITCA, the province agrees to impose the tax on the same base as the GST and includes a formula for the sharing of revenue between the federal government and HST participating provinces.
- CITCA limits the province's ability with respect to the HST to setting tax rates and offering rebates. The province does not have the ability to make changes to the tax base, changes to the base requires the approval of the federal government.
- The HST in many ways is progressive in that individuals are only subject to the tax based on consumption of mostly discretionary goods and services. Individuals can always choose to consume less and thus, pay less HST.
- Consumption taxes impose a relatively higher tax burden on low-income households because they tend to consume a higher proportion of taxable goods and services.
- General consumption taxes are believed to be more efficient than other types of taxes and consistent with this approach, governments could apply taxes on taxpayers' actual expenditures, instead of on their ability to spend.
- Sales tax rates are the same across the Atlantic region so there would be little difference in the amount of HST paid by consumers with the exception of some province specific rebates.

TAX FACT SHEET

PERSONAL INCOME TAX DISTRIBUTION

- Over 35%, about 155,000, individual tax filers in this province do not pay provincial income tax.
- About 27% of total individual tax filers pay 79% of total provincial income tax revenue.

Taxable Income	Number of Taxfilers	Percent of Total Taxfilers	Personal Income Tax Revenue	Percent of Total Revenue
0 - 9,999	92,289	20.99%	70,927	0.01%
10,000 - 19,999	71,131	16.18%	5,833,948	0.45%
20,000 - 29,999	61,517	13.99%	44,747,813	3.44%
30,000 - 39,999	54,373	12.37%	84,770,565	6.51%
40,000 - 49,999	40,329	9.17%	111,447,246	8.56%
50,000 - 59,999	27,183	6.18%	108,818,795	8.36%
60,000 - 69,999	21,728	4.94%	113,468,497	8.72%
70,000 - 79,999	17,457	3.97%	112,596,288	8.65%
80,000 - 89,999	12,600	2.87%	97,426,236	7.48%
90,000 - 99,999	8,642	1.97%	77,453,930	5.95%
100,000 - 109,999	6,183	1.41%	63,356,362	4.87%
110,000 - 119,999	4,806	1.09%	55,100,532	4.23%
120,000 - 129,999	3,903	0.89%	49,373,841	3.79%
130,000 - 139,999	2,997	0.68%	41,530,024	3.19%
140,000 - 149,999	2,211	0.50%	32,806,075	2.52%
150,000 - 199,999	5,604	1.27%	97,776,835	7.51%
200,000 - 250,000	2,093	0.48%	43,703,560	3.36%
>250,000	4,560	1.04%	161,381,238	12.40%
Totals	439,606	100.00%	1,301,662,720	100.00%

Source: *Department of Finance, 2015 Remainder Personal Income Tax Data*

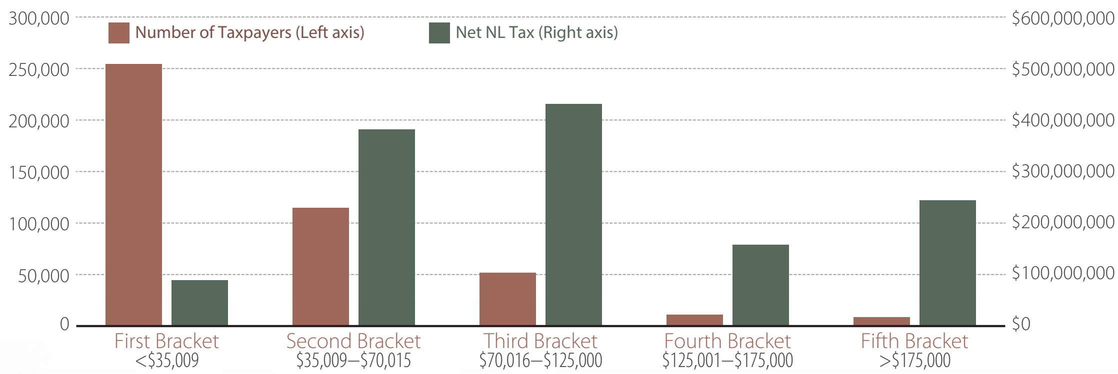
Prepared for Independent Tax Review Committee (2018)

Newfoundland and Labrador has the lowest top marginal rate east of Manitoba. The top marginal rate is the rate paid on an additional dollar of income earned by an individual. The top marginal rate is applied at different income thresholds in each province.

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC[1]
Top Marginal Rate (%)	18.30	18.37	21.00	20.30	20.31	20.53	17.40	14.75	15.00	14.70
Income Threshold ($)	179,214	98,410	150,000	152,100	103,915	220,000	68,005	129,214	303,900	108,460

(1) Increasing to 16.8% for 2018

Number of Taxpayers and Total NL Tax Payable by Income Bracket
(2015R Personal Income Tax Data)



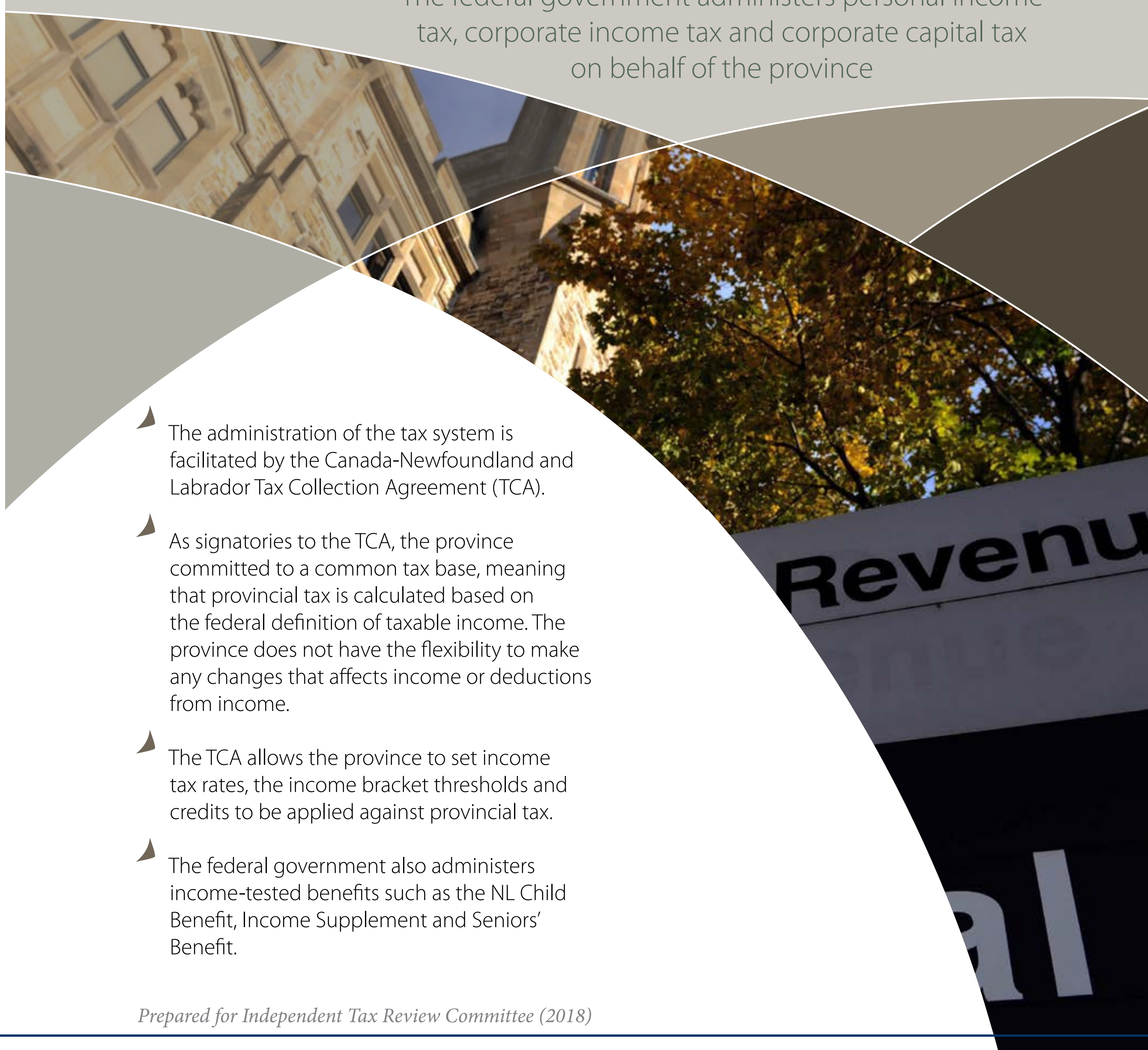
Average Personal Income Tax Rates
(2017 Taxation Year, Single Individual)

	Taxable Income		
	$30,000	$70,000	$150,000
NL	5.6%	10.6%	13.9%
NS	5.9%	11.1%	14.4%
NB	5.1%	10.0%	13.5%
PE	6.6%	10.6%	14.4%
ON	4.0%	6.6%	11.6%
MB	6.8%	10.1%	14.0%
SK	4.3%	8.5%	11.0%
AB	3.2%	6.8%	8.8%
BC	4.2%	6.5%	9.9%

TAX FACT SHEET

ROLE OF THE FEDERAL GOVERNMENT AND THE CANADA REVENUE AGENCY

The federal government administers personal income tax, corporate income tax and corporate capital tax on behalf of the province



- The administration of the tax system is facilitated by the Canada-Newfoundland and Labrador Tax Collection Agreement (TCA).
- As signatories to the TCA, the province committed to a common tax base, meaning that provincial tax is calculated based on the federal definition of taxable income. The province does not have the flexibility to make any changes that affects income or deductions from income.
- The TCA allows the province to set income tax rates, the income bracket thresholds and credits to be applied against provincial tax.
- The federal government also administers income-tested benefits such as the NL Child Benefit, Income Supplement and Seniors' Benefit.

TAX FACT SHEET

TOBACCO TAX

- Tobacco tax is collected on the sale of most cigarettes, fine cut tobacco and cigars

- Tobacco tax is levied on each cigarette or gram of fine cut tobacco whereas tax on cigars is based on a percentage of the purchase price.

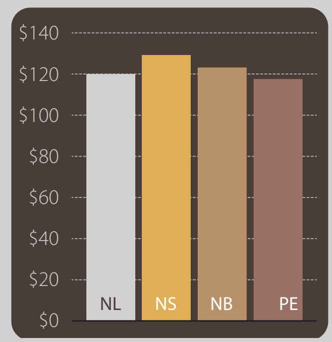
- A reduced rate of tobacco tax is provided in the Labrador Border Zones area (Labrador City, Wabush and the south Coast of Labrador) to reduce cross border shopping in those areas.

- High tobacco prices discourage smoking, and are especially effective in preventing youth from taking up the habit, however, higher tobacco prices also encourage the purchase of contraband products.

- Concerns for public health must be weighed with the potential for increasing the demand for contraband product.

- A consumer would pay $122.46 for a carton of cigarettes in Newfoundland compared to $129.85 in Nova Scotia, $116.13 in New Brunswick and $130.90 in Prince Edward Island. These costs are based on the average price of a carton of cigarettes compiled by the Smoking and Health Action Foundation as of July 2017. (*www.nsra-adnf.ca*)

Price per Carton of Cigarettes



Source: *Smoking and Health Action Foundation*

Tobacco Tax Rates

January 1, 2018

	Cigarettes (Cents/Cig)	Fine Cut Tobacco (Cents/Gram)	Cigars (% of Retail Price)
NL	24.5	40.0	125
PE	25.0	21.5	71.6
NS	27.52	26.0	60
NB	25.52	25.52	75
QC	14.9	14.9	80
ON (1)	16.475	16.475	56.6
MB	29.5	28.5	75
SK	27.0	27.0	100
AB	25.0	37.5	129
BC (2)	23.9	23.9	90.5

(1) In 2018 and 2019 tobacco taxes will be increased by an additional 2 cents per cigarette or gram of tobacco each year.

(2) Rate is to increase to 24.7 cents per cigarette and gram of fine cut tobacco at a date to be announced.