

# NOVA SCOTIA BUDGET BACKGROUNDER

FOR THE FISCAL YEAR 2006-07



## *Lower Taxes for Businesses*

### **Corporate Income Tax**

#### **Small Business Rate Reduction Threshold**

The 2006-2007 budget includes a reduction in the corporate income tax threshold for small businesses.

As of April 1, 2006, Nova Scotia small businesses pay 5 per cent on the first \$400,000 in taxable income, and 16 per cent on income over that amount. This increases the threshold from \$350,000 last year and \$200,000 in 2003.

#### **Large Corporations Capital Tax**

This year's budget includes measures to reduce tax for large corporations to help them compete in national and global markets.

The Province of Nova Scotia will continue phasing out the Large Corporations Capital Tax (LCT) until it is completely eliminated in 2012. The LCT is paid on share capital, long term debt and other capital components.

The LCT was reduced from 0.3 per cent to 0.275 per cent effective July 2005. The rate will go down to 0.25 on July 1, 2006.

This year's budget outlines an extension of the phase-down in the LCT at an accelerated rate of 0.05 percentage points per year after 2008, until the Large Corporations Tax on capital is completely eliminated effective July 1, 2012.

### **Energy Efficiency Tax Credit**

Effective July 1, 2006 a new tax credit will be introduced to help promote energy conservation and enhance the competitive performance of Nova Scotia companies.

This is a non-refundable tax credit to be applied to the Large Corporations Capital Tax equal to 25 per cent of eligible capital investments on renewable energy sources or energy efficiency investments made by a corporation in any given year after that date. The credit amount usable in any year will be limited to 50 per cent of the Large Corporate Capital Tax payable.

**Estimated cost in 2006-2007: \$875,000**

### **Film Tax Credit**

Effective July 1, 2006, film productions with more than 50 per cent of production outside of the Halifax Regional Municipality are eligible for the 5 per cent regional bonus on the entire production. This is further to last years' 5 per cent increase in the Film Tax Credit, which saved the industry some \$2.0 million.

The province's film industry receives over \$12 million in support each year from the Film Tax Credit.

**Estimated cost in 2006-07 (of refinement):  
\$100,000**

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### ***Dividend Tax Credit***

The Government of Canada has announced its intention to increase the dividend tax credit from 13 per cent to 19 per cent for public corporations. Nova Scotia will implement changes to its dividend tax credit such that individuals will pay substantially the same provincial personal income tax on dividends as they do now.

### ***Tax Rate on Used Motor Vehicles***

The Province will be introducing legislation to adjust the rate on used motor vehicles from 15 per cent to 14 per cent to correspond with the 1 percentage point decrease in the Federal GST rate announced for July 1, 2006.

**Estimated cost in 2006–2007:** \$750,000

**Estimated annual cost as of 2007–2008:**  
\$1.044 million

### ***Liquor Levy Change***

The 3.5 per cent levy on liquor purchased by licensees will be eliminated, effective January, 2007. This will benefit hundreds of small businesses in the tourism and hospitality sectors.

**Estimated cost in 2006–2007:** \$700,000

**Estimated annual cost as of 2007–2008:**  
\$2.8 million

### ***Housekeeping Tax Changes***

The province will also be introducing a number of housekeeping changes to existing legislation which will ensure that the current taxation programs are operating as intended. The most significant of these amendments include

- extending the lapse date of the Equity Tax Credit to 2009
- removing the provincial guarantee for CEDIFs
- introducing a rollover provision for CEDIFs
- providing a mechanism to effectively terminate the M&P Tax Credit as previously announced
- defining eligibility under the Film Tax Credit for frequent filers as previously announced



**The Honourable Michael G. Baker Q.C.**  
Minister of Finance