

NOVA SCOTIA BUDGET BACKGROUNDER

FOR THE FISCAL YEAR 2006–07



Lower Taxes for Individuals

Personal Income Tax Credits

Changes to personal income tax in the 2006–2007 budget will provide tax relief to Nova Scotia taxpayers at a cost of \$19.2 million this year.

Starting in 2007, the Basic Personal Allowance—the money people earn before they have to start paying taxes—will increase \$250 each year for four years.

This means that by the 2010 tax year, the Nova Scotia's basic personal amount will rise to \$8,231—an increase of 13.8 per cent.

This will benefit every taxpayer and will result in a total tax reduction for each individual of about \$200 over the next four years.

Nova Scotia will also increase non-refundable tax credits for eligible Nova Scotia taxpayers. These credits include amounts for the following:

- spouse or common-law partner
- dependent
- pension income
- disability
- caregiver
- age
- infirm/dependents age 18 or older

Impact of Basic Personal and Spousal Amount Increase

| Taxation Year | Family Type | |
|---------------------|-------------------|--------------------------|
| | Individual Earner | 2 Adults with one Income |
| 2007 | \$22 | \$41 |
| 2008 | \$44 | \$81 |
| 2009 | \$66 | \$122 |
| 2010 | \$88 | \$163 |
| Total 4 year | \$220 | \$407 |

In 2011 and beyond, the Personal Basic Allowance tax brackets and non-refundable tax credits will be indexed starting at 2 percent, which will result in lower taxes in future years.

Estimated 4-year cost: \$113 million

Fiscal Impact of Credit Increase

| Fiscal Year | Program Cost (\$M) | |
|--------------|-----------------------|---------------|
| | Basic Personal Amount | Other Credits |
| 2006–2007 | \$3.3 | \$0.7 |
| 2007–2008 | \$16.6 | \$3.6 |
| 2008–2009 | \$29.9 | \$6.4 |
| 2009–2010 | \$43.1 | \$9.2 |
| TOTAL | \$92.9 | \$20.0 |

Graduate Tax Credit

Beginning this year, students who graduate from an eligible post-secondary program and live and work in Nova Scotia, will be entitled to a non-refundable graduate tax credit to reduce their Nova Scotia personal income tax by up to \$1,000. Upon graduation, students will have three years in which to use the credit.

Estimated annual cost: \$9.2 million

Child Care Benefit Tax Credit

This year the province is introducing a non-refundable Tax Credit for parents/guardians of children under six. The tax credit rate will be set at the 8.79 percent rate applied to the full value of the new \$1,200 Federal Universal Child Care (\$600 in 2006).

Healthy Living Tax Credit

The Healthy Living Tax Credit was introduced in 2005 to provide a credit against allowable fees to help with the cost of registering children and youth in sport or recreation activities that offer health benefits. This credit, which was based on a maximum spending of \$150, is now based on a maximum of \$500 effective January 1, 2006.

Estimated annual cost: \$2.2 million per year

Healthy Living Tax Credit per Child

| Maximum Spending | 2005 | Jan. 1, 2006 |
|-------------------------|-------------|---------------------|
| \$150 | \$13.19 | |
| \$500 | | \$43.95 |

Biodiesel Incentive

Effective July 1, 2006, Nova Scotia produced biodiesel that meets the American Society for Testing and Materials fuel-quality specification is exempt from Motive Fuel Tax.

The current rate of tax on biodiesel is \$0.154/litre, similar to the rate applied to diesel oil. The exemption will be applied to the biodiesel portion of the blend only, while the diesel oil portion will continue to be taxed at current rates.

Estimated annual cost: up to \$1 million

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



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