

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, April 15, 2015

LEGISLATIVE CHAMBER

Brotten Tax Review and Regulatory Review

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Public Accounts Committee

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[Mr. Brendan Maguire was replaced by Mr. Ben Jessome.]

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Mr. Terry Spicer
Assistant Auditor General

WITNESSES

Department of Finance and Treasury Board

Mr. Byron Rafuse
Associate Deputy Minister

Ms. Lilani Kumaranayake
Executive Director,
Fiscal Policy, Economics & Budgetary Planning Division

Mr. Ben McBeth
Policy Analyst,
Fiscal Policy, Economics & Budgetary Planning Division



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, APRIL 15, 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN: Good morning, I call this meeting to order. Today we have the Department of Finance and Treasury Board to discuss the Broten Tax and Regulatory Review. We'll begin with introductions, starting with Mr. Jessome.

[The committee members and witnesses introduced themselves.]

MR. CHAIRMAN: Thank you very much. Mr. Rafuse, I'll let you begin with opening comments and then we'll begin with questioning.

MR. BYRON RAFUSE: Thank you, Mr. Chairman, and thank you for the opportunity to come here today to speak about the independent Tax and Regulatory Review report as provided by Ms. Broten. As I indicated earlier, I have with me Lilani and Ben - both of them are from the Department of Finance and Treasury Board like myself.

The Tax and Regulatory Review was launched with the intent of evaluating our tax system and formulating a plan to support Nova Scotians and business within our province. The review began in February 2014, shortly after the release of the Now or Never report by the Nova Scotia Commission on Building the New Economy, as chaired by Mr. Ray Ivany.

The Now or Never report was encouraging the government's commitment to engage in a comprehensive review of our tax policies and measures. Their consultations highlighted some major challenges that face Nova Scotia and they indicated, having heard from many stakeholders, that the province's tax system was hindering business development and investment in Nova Scotia.

On February 27, 2014, the Minister of Finance and Treasury Board appointed Laurel Broten to lead an independent tax and regulatory review. A team of public servants, including myself, supported Ms. Broten. They came from the Department of Finance and Treasury Board, as well as other government departments.

Ms. Broten was asked to consult with stakeholders and thought leaders to review the province's tax and regulatory system and make recommendations based on the principles of simplicity, fairness, competitiveness and sustainability. She was tasked with reporting back to government with recommendations indicating how our provincial tax and regulations could promote an environment more conducive to investment, wealth creation and business expansion in Nova Scotia while promoting innovation, productivity, entrepreneurship and private sector development.

Over the course of the Spring and summer, Ms. Broten met with about 250 stakeholders, including economists, academics, business groups and others. She travelled throughout Nova Scotia and consulted locally, nationally and internationally. She also conducted research on current and best practices in other jurisdictions across Canada and beyond.

On November 19th Ms. Broten presented a report to the Minister of Finance and Treasury Board, and it will be up to the minister, along with her colleagues, to determine which of the recommendations are accepted and how they are going to be implemented. I also want to remind everybody that in the report, there were 22 tax recommendations, 16 regulation recommendations, and four user fee recommendations.

Mr. Chairman, I would be happy to take questions now.

MR. CHAIRMAN: Thank you very much, Mr. Rafuse. We'll move to Mr. Houston for 20 minutes.

MR. TIM HOUSTON: Thank you, Mr. Rafuse, for that introduction. I don't know if you noticed on the way in this morning, but there's a sound stage set up. We're expecting a lot of people on the street today, so we might as well get started with the Film Tax Credit and the changes to the Film Tax Credit. How familiar are you with the cost of this credit to the Province of Nova Scotia?

MR. BYRON RAFUSE: I'm quite familiar with the cost of this credit and all the credits we have, both on the personal and income tax side.

MR. HOUSTON: Okay, so very familiar. Would you have access to historical data that shows how much the credit has cost the fiscal framework annually for the past five years?

MR. BYRON RAFUSE: I do have that. It costs us around \$26 million currently, and that number has grown over the last number of years. I can give you the exact figures shortly, but I think we actually handed that out last week as part of our budget brochures.

MR. HOUSTON: Okay, I would like to see that if we could get that for the last five years.

MR. BYRON RAFUSE: Do you want me to bring out the numbers now?

MR. HOUSTON: If you have them right on hand.

MR. BYRON RAFUSE: I can just speak to them.

MR. HOUSTON: Roughly? Sure.

MR. BYRON RAFUSE: For 2013, it's \$27 million; 2012 is \$16 million; 2011 is \$22 million; 2010 is \$15.5 million.

MR. HOUSTON: Thank you for that. So, how familiar are you with the history of the credit, how it's changed over time? Are you pretty familiar with how this credit has evolved over the last decade, I guess?

MR. BYRON RAFUSE: The credit itself has had a number of changes, both on the base rate and also on the - once including a cap, to an exclusion of a cap, and then introduction of what we refer to as Eligible Geographic Area bonuses as well as the Frequent Filmer Credit that came into play over a number of years. I can walk those through with you if you want in kind of a historical look at this.

Up from 1994 to June 1998, there was a base rate of 30 per cent, included in the tax rate with a production cost to cap at 15 per cent. In June 1998, that changed to a 32.5 per cent base rate to a production cap cost of 16.25 per cent, and that remained in place until April 2000. In April 2000, the base rate moved to 30 per cent with the introduction of the Eligible Geographic Area component of five per cent and a production cost cap of 15 per cent. That stayed in place until 2005.

In 2005, the base rate was moved to 35 per cent. The Eligible Geographic Area component stayed at 5 per cent, but we introduced the Frequent Filmer Credit at 5 per cent with a production cost cap of 17.5 per cent; that stayed in place until October 2007. In 2007, the base rate moved to 50 per cent, with the Eligible Geographic Area bonus

increasing to 10 per cent and Frequent Filmer Credit remaining at five per cent, with the cap increasing to 25 per cent. That stayed in place until 2010.

In 2010, the base rate stayed at 50 per cent, the Eligible Geographic Area bonus stayed at 10 per cent, and the Frequent Filmer Credit stayed at 5 per cent, but the cap was removed. That's what stayed in place until the current regime was in place.

MR. HOUSTON: Were you involved over time as this was being changed?

MR. BYRON RAFUSE: I've been at the Department of Finance and Treasury Board since about 2005. I would have been involved in those budgetary matters from the changes from 2005.

MR. HOUSTON: So, you're pretty familiar with how this credit has evolved. How familiar are you with how the credit is used by industry to carry out their productions? Are you pretty familiar with how industry uses this credit?

MR. BYRON RAFUSE: We have a good understanding about how the industry structures itself from financing, legal and accounting-wise. I understand they use individual numbered companies for production purposes, for the purposes of applying the tax credit to obtain financing.

MR. HOUSTON: Page 4 of the guidelines for applying for the credit on the Finance and Treasury Board website indicates it's a labour-based credit. It says right on there, "The Nova Scotia Film Industry Tax Credit (FITC) is a labour-based incentive designed to encourage employment of Nova Scotians and is available to local and guest producers. It is calculated based on an applicant company's "Eligible Salaries" incurred in the making of an "Eligible Film".

The website provides a series of forms that must be completed in order to be eligible for a refund, seven forms, in fact. One of them is called the Declaration of Residency. Are you familiar with that form?

MR. BYRON RAFUSE: Yes, I am.

MR. HOUSTON: On that form it makes it very clear that the people benefiting from the refund are taxpaying Nova Scotians who must include their social insurance number on the declaration. Does the Department of Finance and Treasury Board verify these forms?

MR. BYRON RAFUSE: Those forms are a part of the application that goes into Film & Creative Industries and they would have those forms on file. We would not see those forms.

MR. HOUSTON: Okay. You don't have any analysis that goes through those forms? From the information on those forms, you know the people, you know their social insurance numbers, you could figure out how much tax they pay. Has any type of analysis ever been done like that?

MR. BYRON RAFUSE: We would not do analysis on the individual taxes. When we determine the taxes paid from this industry, we would use our more holistic yield amount as opposed to going to every individual's tax returns. We would look at the number and the salary associated with that on a more holistic basis as opposed to an individual basis.

MR. HOUSTON: The information is available but nobody is really doing an analysis of it?

MR. BYRON RAFUSE: On an individual basis, no, that would not be appropriate for us to do it on an individual basis. Our analysis is based on a more holistic view of taxpaying and tax spending analysis.

MR. HOUSTON: You say it wouldn't be appropriate for all those individuals. How many individuals would there be? How many of those forms would you have received?

MR. BYRON RAFUSE: I would ask Ms. Kumaranayake.

MS. LILANI KUMARANAYAKE: It depends on the production. For example, one production could have up to 19 pages in terms of a spreadsheet because you have a large number of folks involved in production. If you look at the application form there's a separate sheet for third party costs and there are different rates that are eligible for that so that includes equipment rentals, all sorts of things like that.

In the attempt to streamline administration related to the Film Industry Tax Credit, over the past year or so what the department has done is worked with Film and Creative Industries to avoid duplication. What we have done is, Film and Creative Industries has received all of the application materials including things like the declaration. To streamline our processing we have tried to avoid two people doing the same job.

MR. HOUSTON: The nature of my question is, how can you be certain that the measures proposed by this budget, where we're going to get into what type of analysis was done, but to me this seems like a pretty significant bit of information that was available for analysis. You know how many Nova Scotians are receiving money through this credit through labour compensation but that's not something that you look at.

MR. BYRON RAFUSE: To be clear, I didn't say we didn't look at it. We don't look at it on an individual basis. We look at it in the way we analyze all our tax information - we use holistic kinds of yields and returns about the number of individuals and the amount

of salaries they earn and the taxes we would generate from that. It's not on an individual basis because we would have to go and pull everybody's individual claim to do that.

MR. HOUSTON: So the ability from the forms is there to follow the money, so to speak? You know the reach and the impact of the tax credit and you've done a holistic approach - an overview let's say, of the impact to the economy of that - but in making this change you didn't really say, well, if we're going to change this credit, we should dig a little deeper? You kind of relied on the analysis that was just happening anyway - would that be a fair statement? Was there any digging deeper before this change was made?

MR. BYRON RAFUSE: I don't know what you mean by "digging deeper." The analysis on what the return is from an incremental tax perspective is an ongoing process. It involves looking at the labour component of the eligible salaries associated with this tax credit.

We determine the incremental provincial tax associated with this, also the incremental consumption tax around HST associated with their spend and the corporate income taxes that are generated from corporations as industries that pay corporate tax. That is an ongoing process as we evaluate these taxes.

We do not do it on an individual basis; we do it on our tax yield calculations that are appropriate for this type of analysis. We can and have looked at certain individuals who would be outliers on this process.

MR. HOUSTON: I guess the issue is, and I'm going to come to it in a second - there's a lot of discrepancy as to what's the value to our economy of this credit. So you have a number from your analysis, the industry has a number and there are other numbers. In the face of that, I guess what I was trying to figure out is: Did you do more analysis to see how this disconnects?

I'm going to come to that and I just want to ask specifically about the change to this credit in this budget. Did you do analysis that compared the value of the credit to Nova Scotia as compared with other provinces?

MR. BYRON RAFUSE: Across jurisdictional comparison of the support for the film industry has been done for comparing ourselves to provincial and other - the United States. That analysis was completed; it's an ongoing process for us.

MR. HOUSTON: So that would be the analysis of what the actual credit available is. I'm wondering, is there an analysis that looked at what economic activity the credit produced? So if you looked at the structure we have in Nova Scotia, you have a number for how much economic activity that credit produced or generated. Other provinces have their own credits. Did you compare how much economic activity their credits create, to see

who is kind of getting the best bang for the buck, I guess? Did you look across jurisdictions to see which one, who was having the most effective credit?

MR. BYRON RAFUSE: We would not have done the analysis ourselves. We relied on other provinces that have released analyses on the effectiveness of their tax credit. I think most recently the Government of Manitoba just released a report of the effect that their credit has on their economy and what it means to them. Other provinces have done so.

MR. HOUSTON: Did you compare all those? Is there a nice spreadsheet that says Manitoba did this, here's what they say; we do this, this is what we say? Was that comparison done?

MR. BYRON RAFUSE: That comparison would be done on a report basis. We don't have a spreadsheet; we have a spreadsheet that shows what their credit looks like and how they support the industry, but we let the province's study stand on its own.

MR. HOUSTON: So in deciding how to change the tax credit in Nova Scotia, it wasn't really a factor in your decision as to how things were working in other provinces?

MR. BYRON RAFUSE: A lot of factors are considered when government makes a decision about what it supports from an expenditure, or a tax credit perspective. What others do, and they are Parties of the government, and then the fiscal position of the province are all factors that are considered when you are looking and evaluating a change into a tax credit.

MR. HOUSTON: Right, there should be a lot of factors that go into those decisions. I guess what I'm worried about is that not enough factors were evaluated in changing this credit, so that's something I was wondering - was there an analysis? I would have expected this to be just a simple spreadsheet that had the provinces and what the credit was and the economic activity and people could see what others were doing. It sounds like that specific analysis was not done, and instead, the credit changes were proposed after just looking in the silo of what was happening here. I think that would be unfortunate if that's the case.

I do want to ask, on June 13, 2014, the Nova Scotia Motion Picture Industry Association submitted a position paper to Laurel Broten. Are you familiar with their submission?

MR. BYRON RAFUSE: Yes, I'm familiar with it. I did read the report. It was put under consideration with Ms. Broten, who wrote her report.

MR. HOUSTON: Sure. So, on Page 10 of that submission, the Nova Scotia Motion Picture Industry Association says, “. . . in 2013, the approximate \$25M dispersed [sic] in provincial film and television tax credits . . .” So they say \$25 million, and that was pretty

close to the number you gave me earlier of \$27. But they say that that \$25 million “. . . generated \$124M in production.”

That’s a pretty big return on that investment for the economy - you said \$99 million of triggered capital net investment, let’s say. A 396 per cent return on investment if you were looking at it in those terms. Was this data considered in your advice to seriously alter the tax credit?

MR. BYRON RAFUSE: The size of the spin of the industry was included in our report and our analysis as well. Those types of spinning activities are - we say that there is disagreement. I don’t think there is a great disagreement on the size of the industry here, but when we look at evaluating a tax credit, we look at the size of the industry that is supported by the tax credit. That number that is quoted in the report is the entire industry in Nova Scotia. There are aspects of that that are not supported by the tax credit and you don’t take that into consideration.

MR. HOUSTON: To that point - actually, Mr. Lahey asked me this question. He was wondering, would you have done the analysis on the value to the promotion of Nova Scotia in general and to the benefits to tourism? Would you have ever looked at, if that’s the industry number, there is probably a positive spin-off on tourism and general promotion of the province. Is that something that you would have then factored into the decision?

MR. BYRON RAFUSE: They said in the decision to change the tax credit, there are a lot of things that go in play that are considered with that. We look at the financial return to the province from an income and a revenue perspective. You’re talking about the economic impact of peripheral aspects, which are hard to quantify, to be honest with you, whether or not it has a positive impact.

MR. HOUSTON: But do you look at those factors within the walls of Finance and Treasury Board?

MR. BYRON RAFUSE: Our advice to the government on these matters is on the incremental provincial tax revenues associated with the tax credit and not those kind of - I’m going to call it - more peripheral benefits. There is an acknowledgement that there would be some of that, but that’s not something that we would factor into our analysis . . .

MR. HOUSTON: So if that wouldn’t be part of your analysis, would you agree that it should be part of somebody’s analysis? You have a specific mandate in your role and you provide analysis and you submit that to the minister.

MR. BYRON RAFUSE: I am quite sure that the people who made the decision would take that into consideration when they were evaluating changes, like we would on the incremental tax revenue, as we would with the . . .

MR. HOUSTON: Did you ever participate in a discussion with about this tax credit where there was a bunch of people sitting around the table and you said, here is my analysis, and other people said, and here is our analysis and here is what we think. Did you ever have a discussion like that where people were bringing different perspectives to possible changes to the tax credit?

MR. BYRON RAFUSE: When we were completing our analysis of the effectiveness of the tax credit as it is currently designed, we would be talking with creative industries about their thoughts about what the tax credit meant to the industry, what it meant in a broader perspective, and what possibly what changes would have been to the industry.

MR. HOUSTON: Did you have those discussions personally?

MR. BYRON RAFUSE: Yes, with Film and Creative Industries. I was not involved in all of those discussions, nor was I involved in all the deliberations the Treasury Board or Cabinet would have had on the discussions around changing a tax measure.

MR. HOUSTON: How am I doing here?

MR. CHAIRMAN: You have about 20 seconds.

MR. HOUSTON: I will pass to my honourable colleague.

MR. CHAIRMAN: We will now move to the NDP with Ms. MacDonald - perhaps you would introduce yourself as well.

HON. MAUREEN MACDONALD: Yes. Thank you. Good morning. Thank you for being here; it's a very timely visit to the Public Accounts Committee from our friends in the Department of Finance and Treasury Board. Today's topic of course is the Broten tax review and I think people in the province today are particularly focused on the film industry and the digital media tax credits which are a very small component of this review.

I want to read the recommendations which I know the deputy would be very aware of, but maybe not everybody is. The recommendations from the tax review says the following, Recommendation 1.13:

“The regulatory framework and detailed elements of both the Nova Scotia Tax Credit and the Digital Media Tax Credit should be better aligned with similar tax measures in other Canadian jurisdictions.

Film and Creative Industries Nova Scotia should be solely responsible for the administration of both tax credits.

Industry and the province should use the period leading up to the sunset of the two credits in 2020 to determine the most effective tools to grow the creative economy in Nova Scotia and transition the tax credits to departmental expenditure programs that are transparent, accountable, and focused on economic growth.”

Those were the recommendations and here we are. We find ourselves in a situation where certainly the last two of those recommendations have been somewhat hijacked by the budget that the government introduced. Film and Creative Industries Nova Scotia no longer exists, it has been assassinated and it's gone.

So the body that Broten recommended administer the tax credits, the body that she says in her report has the knowledge and the expertise around this industry doesn't exist anymore. The whole idea of transitioning to 2020, extending for five years the existing credit and working with the industry over a five-year period, has been collapsed into three months, and given the meeting with the minister on Wednesday, further collapsed to three days. The industry is expected, according to the Premier, to come back with a plan on Friday.

I don't know what to say when I look at these recommendations and a report that is quite thorough and rests on information that was provided by the Department of Finance and Treasury Board. So I guess that's the first thing I would ask you to confirm, the information contained in the two pages on the Film Tax Credit in the tax review, including the way the tax review at a very high level works and what have you. This information was all primarily provided to Ms. Broten by the Department of Finance and Treasury Board and by Film and Creative Industries Nova Scotia - is that not the case?

MR. BYRON RAFUSE: Generally speaking, the information that Ms. Broten used to write her report would kind of work like this: If she had a request for an analytical piece of work to be completed, if we were able to do so we would complete that work for her. She did meet with a number of economists and others of which would have provided her some insight from their perspective as well. She would have had received submissions over the life of the report and she would take those and combine those things together to formulate her report.

So some of it which came from us, whatever kind of work that she asked for a piece of work to be analyzed, or to go out and do a jurisdictional scan, or do an impact of this or that, that's where we would come into play, and if we had the ability or the resources to do so, we would.

MS. MACDONALD: So would you provide this committee with the analysis that you submitted to Ms. Broten with respect to these tax credits? I think it would be very useful for us to have an opportunity to look at that analysis. I know that you indicated that

it's an ongoing process but for that point in time I think it's important for the members of the Legislature to have that information.

MR. BYRON RAFUSE: Certainly, there was a lot of research that was conducted in the course of this report and certainly it is an independent report. I'm thinking within my ability to provide the kind of research, we certainly will. I do not have that with me at this time but if you're looking in particular for the Film Industry Tax Credit or are you looking for all the research?

MS. MACDONALD: I'm looking specifically at the Film Industry Tax Credit and the Digital Media Tax Credit information.

MR. BYRON RAFUSE: Just for clarity, there are no proposed changes for the Digital Media Tax Credit in this year's budget. But the analysis that was completed for that would have been as I said, it would have been back to the historical aspects of this, what other jurisdictions have done, the impact that would have on her thoughts and some suggestions she would have received elsewhere of which we would not have the ability to provide you that type of research.

MS. MACDONALD: I guess the other thing I have some concern about - I don't think it's necessarily fair to put this to you, but I want to put it on the record. The first recommendation with respect to aligning tax measures in this province to tax measures for this industry in other provinces, it leads me to the question of what would be our competitive advantage if we did that.

If we suddenly had the same set of regulatory and monetary incentives as Ontario, let's say, Quebec, B.C., bigger provinces, bigger GDPs, more diversified economies, significant other industries resting on resources than our own, and we take a sector that is robust and growing and important to our economy and we eviscerate the tax credit system so that we put ourselves at a less competitive position. It doesn't really make sense to me and I'm wondering if someone could help me understand the sense of that.

MR. BYRON RAFUSE: In the context of this report, the notion of better aligning it with similar tax jurisdictions, it is recognized that the regime we had in Nova Scotia was the most generous in Canada and that's where that comment came from. Other tax programs in other provinces are designed to maybe incent some of the uniqueness that they wish to have in their industry. Some may be geared to what I'm going to call feature motion pictures, as opposed to other aspects, certainly on the digital side of the house. Some provinces have chosen to invest in certain strategies that would be more different.

It would be difficult to say how that would affect our competitiveness I would think, given that they have chosen certain aspects of which they wish to incent as opposed to a more general kind of perspective that we have here in Nova Scotia.

MS. MACDONALD: Since the Broten report and the analysis that you prepared for her around this particular tax credit - you indicate that the tax analysis is ongoing. Did the department prepare additional or update the analysis that was available to her for this report for the Finance and Treasury Board Minister and Cabinet, with respect to the development of the budget?

MR. BYRON RAFUSE: Just for your benefit as well, this report was ongoing. There was also a program review underway within the Province of Nova Scotia. The genesis for changes for the tax credit actually did generate out of the program review, which looked at all government spending and our tax credits. So yes, there were other analyses done, and yes, there are always other options which are presented for consideration.

MS. MACDONALD: Would the analysis that you prepared be available to our committee?

MR. BYRON RAFUSE: I am not able to provide to you the other options that were presented to government. Those types of things are for Cabinet deliberations or Treasury Board deliberations. I can only speak to the options which they have chosen to follow.

MS. MACDONALD: So it's a secret what the other options that were considered might have been. That's unfortunate. I think people are really trying to understand the thinking of the government with respect to the Film Tax Credit.

I want to ask you about something that I'm quite curious about, following the questions from my colleague here to my left - I'm sure he'll like that characterization. (Laughter) You indicated you look at the direct cost and benefit of this industry with respect to the cost of the tax credit, the amount of public dollars that are invested, and then on the revenue side, corporate tax, personal income tax, and I think you said consumption tax that's directly related to the industry, but you don't look at the multiplier effect. Is that an accurate interpretation of what you indicated earlier?

MR. BYRON RAFUSE: Not entirely. When we look at the incremental revenue to the province, we do incorporate the multiplier effect that this economy would have or spend in the greater economy of Nova Scotia. We would consider that.

MS. MACDONALD: Is that done by Thomas and the brainiacs (Laughter) in the economic unit over there in Finance and Treasury Board?

MR. BYRON RAFUSE: Yes, we rely on our economics group to do the economic impact associated with that level of spend. Then we would, as we do with all revenues, hand that over to our revenue side to determine the actual incremental revenue associated for the province.

MS. MACDONALD: Is that analysis, that information, available to this committee?

MR. BYRON RAFUSE: We actually are attempting to find a way to release that to you. We use information provided to us by Stats Canada, and we need their authorization to release that type of multiplier impact which they have - I'm going to call it a proprietary ownership with. We use it, but we can't release it, so we are attempting to do that for you.

MS. MACDONALD: Thank you. That would be most helpful.

The other thing I am wondering about with respect to this tax credit, having been in the Department of Finance for a nanosecond, for a very brief period, and having had an opportunity to learn a bit about the Film Tax Credit - in the political business, there's so much happening all the time that your memory can sometimes play tricks on you.

My recall is that I had quite a lengthy discussion with the former deputy minister, in fact, about doing a comprehensive economic assessment that went beyond the number crunching from within the Department of Finance and Treasury Board. Not that there was anything wrong with the number crunching within the Department of Finance and Treasury Board, but it was confusing for me as a layperson, not in the industry, to have information, be briefed about how this credit works on one day, and then seeing the Nova Scotia Business Inc. CEO the next day in the media talk about the value of this industry and there was a disconnect between the information I was getting.

So as somebody who likes to have clarity, I'm quite sure we had lengthy discussions about having a thorough, comprehensive review to get some clarity around the competing discourse around what the actual cost and benefit of this industry - this sector - was in the province. My understanding was - and I'm quite sure that meetings occurred at very high levels between officials in the Department of Finance and Treasury Board and officials in what was then the Department of Economic and Rural Development and Tourism, in the creative industries division, I guess I would say.

That's quite a long time ago. That's almost two years ago. Had no work been done on that? It seems to me that there was probably a fair amount of work done, perhaps even some reports. That's my question: was there work done between those two divisions? Was there any clarity reached? Were there reports done? At what stage might those reports have been left? I'll stop there for the moment.

MR. BYRON RAFUSE: That study that you're thinking about was not completed. That kind of more comprehensive review, I'm call it, of what the industry means to the economy - the last time it was done in Nova Scotia was 2004. We refer to that study as the Nordicity report that had certain analysis and conclusions drawn in it. That's the same organization that recently did the one that I spoke of earlier that was released by the

Province of Manitoba, but that type of review was not completed by the province in the time frame you're talking about.

MS. MACDONALD: So it wasn't completed but it was initiated. I know it was initiated. Was there any work done at all on it and at what stage would the work have proceeded to? Were there drafts? Was there a draft report?

MR. BYRON RAFUSE: I'm quite certain there was not a draft report done. I don't think anything proceeded along that advanced. I'm not aware of anything actually starting, so therefore the report could not have been completed so there would not have been a draft that I'm aware of.

MS. MACDONALD: So we don't have any comprehensive understanding of this industry, based on that kind of study, since 2004?

MR. BYRON RAFUSE: That was the last time that type of study you were talking about took place.

MS. MACDONALD: Since 2004. Okay, that concludes my questions for the moment. I know my time is up.

MR. CHAIRMAN: Thank you, Ms. MacDonald. We'll now move to Mr. Rankin and the Liberal Caucus for 20 minutes.

MR. IAIN RANKIN: Thanks for coming in. So the minister had consultations for this tax report. I know I held consultations beforehand in my area before the report was released and submitted my opinions on the tax system. I'm just wondering if you can tell the committee how you judge effectiveness of tax credits from the perspective of the department. What's the impetus behind a tax credit and what is the nature of them? Are they supposed to be a permanent system in place? What brings the tax credit on? What is the main reason, and how do you measure the effectiveness?

MR. BYRON RAFUSE: There's probably two broad reasons why there are tax credits put in our tax system. One of them, I would suggest to you, is more of a societal type of benefit, to redistribute tax revenues from one taxpayer to another. I'm going to put something like the volunteer firefighters' tax credit into that type of category, more socio-societal tax credits.

There's others which are used to provide other types of incentives or to change behaviour or to provide some economic benefit. In fact, if you recall, in the actual report, Ms. Broten actually lists a lot of reasons why tax credits or tax measures are put in place. A lot of it stems from a very prestigious professor here in Nova Scotia, Mr. Gorman, who taught at Saint Mary's for a number of years and talks about the need or the desire to

incentivize certain behaviours or to change spending patterns and the like. That's the secondary reason why you would put in those types of tax changes.

We measure tax effectiveness or effectiveness of a tax credit by the incrementality of the measures. It's the same way we evaluate payroll rebates. We look at the amount of incremental spend in the economy that the tax measure supports. Then we look at the incremental revenue to the province associated with that by looking at incremental personal income tax, incremental consumption tax or HST, and incremental corporate income tax associated with the amount of that incentive, and we can make a comparison. Our test is generally around - it should be at the break-even basis from that measure. The - I want to call it - harder-to-measure benefits associated with such a thing would be an additional overlay that would be from a public policy perspective.

So we look at a tax credit like the Film Tax Credit, which we said was roughly around \$25 million a year, which the industry spends on eligible costs. We look at the incremental taxes generated from that, and from that analysis, we would say for that \$25 million, we get incremental taxes that are around the \$6 million range. That's where we would come to the conclusion from that perspective that would be an ineffective tax credit.

MR. RANKIN: Right. Okay, so for the payroll rebate that you mentioned - and obviously the latest one that's in the news that is being misconstrued as being comparable to the Film Industry Tax Credit is the RBC taxable rebate system in the payroll, which members of the Opposition have said they are against. Last night, one of them said that there was a cheque written from the government for \$22 million to the RBC.

I'm just wondering if there was a cheque for \$22 million written - if you can clarify how that works. Further to that, is there incremental tax revenue that's brought in? Should they meet that \$22 million of rebate?

MR. BYRON RAFUSE: The way that sort of works is a payroll rebate, so they need to hire before they get the rebate. So no, there was not a cheque sent to RBC for that initiative.

When we looked at the effectiveness of that one, we would look at the incremental spend associated with those types of hires and determine the extra tax revenue associated with it. That rebate was in the 8 to 10 per cent range. We would generate more incremental taxes from that.

MR. RANKIN: So if they were to achieve \$22 million in rebate, how much incremental tax revenue would be coming in off that? Do you have that number?

MR. BYRON RAFUSE: I don't have that with us, but it was - as I said, when we provided that analysis to NSBI, who provided that tax rebate, we would have done an

economic impact analysis associated with that spend and determined that that level of rebate would be - we would determine as effective.

MR. RANKIN: But it's safe to say that more revenue would be coming into the province that would be rebated for.

MR. BYRON RAFUSE: If they do the hires - so if they don't get the hires, they don't get the \$22 million anyway.

MR. RANKIN: The other thing that's lost in this is the new \$6 million fund that's set up for creative industries. Up until this budget, there was no opportunity for people who are in book publishing and some of the other creative industries, so that's kind of been drowned out with some of the other feedback. I'm just wondering if you can explain who's eligible for that, and what are the new types of industries that will now have access to that fund?

MR. BYRON RAFUSE: That fund, which comes into play next fiscal year, is the book publishing industry - is available to publishers. It's also to honour the government's commitment around supporting the sound industry, so that industry will be able to make access to the fund, and the film industry as well. The criteria and the parameters of which people can access that is something which has not been completely worked out. The minister has said that we will continue to work with industry on that, but it does open up the fund to other sectors that didn't have availability for funding from the province.

MR. RANKIN: Just one more question surrounding the film industry and the numbers that you were able to provide to the public and to the industry. I know that the minister and the Premier have met with some stakeholders. I'm not sure how the department has engaged in any analysis with that, but before that time, or even up until now, has there been any credible challenge to the numbers that were presented out of the Department of Finance and Treasury Board in terms of the return on investment?

MR. BYRON RAFUSE: Certainly we would have - before we actually released such numbers, we would have done our own internal Q&A on those types of things. We stand behind those numbers. It's our standard way of evaluating the effectiveness of an incentive program like that. We look at the incremental revenue associated with this. It is the same process we use when we evaluate any type of thing like that.

MR. CHAIRMAN: Thank you, Mr. Rankin. We'll move to Mr. Stroink.

MR. JOACHIM STROINK: Thank you for coming today. We've been chatting a lot about the Film Tax Credit, but when you started your speech you also talked about the other two components of this, and one was the user fees and one was the regulatory piece. I'm sure my colleagues will ask many more questions about the film industry, but I just want to touch a bit on the user fees. Was that a recommendation to increase that? In the

report, how did that affect your decision of where we are with the user fees and the increases of user fees?

MR. BYRON RAFUSE: On the user fees side of the report, there are actually four recommendations. The recent increase in our user fees, which are tied to cost-of-living adjustments for the last two years, does play into the recommendations. The recommendations do indicate that the government should move to full cost recovery on user fees. This is an attempt to better capture the full cost of those fees. It also indicates that government should adopt a common methodology around costing of programs and the costing of fees of which we get a better understanding.

We're quite confident - in fact, we have to declare that the fees don't exceed the cost associated with providing that service, but it's probably fair to say that in a number of circumstances the total cost is not being recovered. So the minister has indicated that a review of user fees will be undertaken this year, and we will do a kind of comprehensive review of all our fees and the costs associated with them to determine whether or not the fee structure is appropriate or, in some circumstances, as the report indicates, where perhaps fees do not or should not be charged from a public policy perspective.

MR. STROINK: I guess also with that - I mean, you said the recommendations go to a full cost recovery kind of program. Where do we sit now in the numbers? How much are we actually collecting to cover those costs that we are using with those user fees now?

MR. BYRON RAFUSE: I don't have the total number of user fees that are broken down by department so you could actually talk - this increase here generated an extra \$7.7 million in fees on the 1,400 fees that were impacted. That's about a 3 per cent increase at the base, so you can kind of get the size of the user fee.

MR. STROINK: So that would cover maybe 20 per cent of total costs of the user fees program, or . . .

MR. BYRON RAFUSE: The difficulty is we don't have a good handle on that. In some circumstances I would suggest to you, and actually there were some fees that were raised larger than 3 per cent because there was an analysis done to say the current fees is nowhere close to collecting the costs of the services, so those fees went up more than 3 per cent. What the minister is proposing is going across all them and getting a better determination about what the true cost is and, where it is still appropriate from a policy prospective to continue the fee, the fee will be adjusted to a more appropriate level.

MR. STROINK: I guess from there I kind of want to move onto the regulatory piece because that also has a huge impact on the business community primarily, and so I guess my ask is on the regulatory piece: Where do we sit with that, and what are the changes that are looking to happen there?

MR. BYRON RAFUSE: The recommendations are kind of pushing government to kind of move forward on the regulatory form basis. There had been some changes in the past and to be honest with you it has kind of slowed down a bit, but the recommendations indicated that the drive for regulatory reform should be housed into a single entity and that there should be a kind of impact assessment on regulations and what it means to individuals and businesses. The government has moved forward with that by creating the Office of Regulatory Reform within the new Department of Business.

That has gone beyond what the report has kind of indicated and the province has indicated that we're going to work with the Province of New Brunswick to better align our regulations between the two jurisdictions to address some concerns about some businesses that work in both, about the different regulatory regimes and so that's kind of going beyond. So the government has accepted every recommendation in the report on the regulatory side and is moving forward on it.

MR. STROINK: I guess part of that regulatory piece is also spending control. My understanding is that when government is spending and spending and spending we also have the need to rein in their spending to adjust to within our means, and I think part of that regulatory is going to help with that, and my understanding is to try to help focus this government into putting our money where we can enhance other programs.

MR. BYRON RAFUSE: Certainly that would be the objective on any kind of things, on the regulatory burden, is to reduce costs in government, but the primary focus on regulatory reform is to reduce the burden on business so they have the ability to invest their spending on things other than meeting the regulatory demands of the province. So there would be kind of a twofold benefit from that perspective.

MR. STROINK: Got you. I guess I'm also going to kind of move to another topic sort of thing, which there has been a lot of discussion within the carbon tax kind of area. I guess yesterday provincial and territorial leaders met in Quebec City to discuss the Canadian Energy Strategy, and we heard Ontario and Quebec are joining forces to put a cap and trade system. I guess part of the tax review was the carbon tax discussion about that.

Where are we with that whole plan in Nova Scotia? I mean, there was a big editorial in the paper today talking about it, so where do we sit with this?

MR. BYRON RAFUSE: Certainly over the winter when the minister was out doing her public consultations on the report and her pre-budget consultations, I did include a notion of a carbon tax and how it would look in Nova Scotia. I would say we're in kind of early days in that discussion. There certainly has to be a lot more dialog with stakeholders and within government about how a tax on carbon would be developed in Nova Scotia.

The report talks about the B.C. model, which has been highly regarded as an effective tax measure both from a fair way to price your carbon emissions, but at the same time, reducing the overall burden in other areas to make your tax structure more competitive. By law in B.C., everything they gather in a carbon tax has to be used to reduce their personal or corporate taxes for others, so it is a redistribution of the tax system. As I said, that's highly regarded and thought of as one of the world leaders in that type of area.

We would need to do further analysis with our counterparts in the Department of Environment and likewise about how such a structure would be developed in Nova Scotia. If it is decided to go down the road of a carbon tax or even if the decision is to go into a cap-and-trade regime, both of which have the same impact - you price your carbon and people pay for that carbon to the betterment of others. It's just a realignment process.

There is some ongoing work. I think the minister has indicated that she would want to speak to Nova Scotians more about the carbon tax. There was a fair amount of discussion, I would say, at those public sessions about the benefits and the drawbacks of a carbon tax. The report does indicate how somebody who is negatively impacted, especially in the lower income thresholds - how you could redistribute things through the Affordable Living Tax Credit or other means through the tax system to compensate who might be adversely affected by a carbon tax.

MR. STROINK: I guess the big thing with the B.C. model is that they achieved a revenue-neutral model. I think that's kind of what you're speaking to here, is it not?

MR. BYRON RAFUSE: Certainly, a revenue-neutral model is not only what B.C. has employed, but if you talk to an economist, it is what you must do so that there is not the drag on the economy by imposing higher taxes. Instead, you actually shift your taxes and that creates actually a lift in your economy by having reduced corporate or personal taxes by being neutral in that perspective. That actually has proven to be, in B.C., quite beneficial, and they're actually one of the leading economies in Canada right now.

MR. STROINK: I guess one of the things is that the big industries have seemed to be able to adjust to this; especially carbon-heavy companies have adjusted to this model. Do you have an understanding how they're doing that within these new constraints that they're working within?

MR. BYRON RAFUSE: They are adjusting by two ways. They're recouping their costs through their pricing, but also they would be benefitting from a reduced corporate tax that would be associated with their industry. They adjust and the market adjusts and the residents of B.C. have adjusted by the methodology and the process where they pay their taxes, so it worked out well. Their emissions are down and their general taxes are down. Both objectives were met in B.C.

MR. STROINK: How much time do I have left?

MR. CHAIRMAN: You have just less than two minutes.

MR. STROINK: For me, most jurisdictions are moving to a carbon tax model of some sort, even on a global footprint within Europe and the United States. Is this what you're seeing? Is this a common theme across, on a global footprint?

MR. BYRON RAFUSE: Certainly. In places like Europe, it's much more prevalent than what you see in North America, but you do see North America moving in this direction. You do see, generally, jurisdictions moving to consumption-based taxes and away from income-based taxes, which was a consistent theme within the report. The carbon tax would be consistent with that view as well. Those who consume pay, and not just those who earn.

Yes, you will see this jurisdictional change, a shift predominantly in Europe. I believe also you will see it in the Australia and New Zealand areas as well - they are kind of shifting in this area as well. In fact, I believe China is moving into a carbon taxing regime over the next little while as well.

MR. STROINK: Great. I think that's probably my time. Thank you very much for those answers.

MR. CHAIRMAN: Thank you, Mr. Stroink. There is about a minute, Ms. Miller, if you had a quick question, or we can move back to the PC Caucus.

MS. MARGARET MILLER: My question's longer, so we'll move back.

MR. CHAIRMAN: Okay, we'll move to the PC Caucus and Mr. Houston.

MR. HOUSTON: When we left off we were talking kind of about the quantitative analysis that may have been done for the changes to the Film Tax Credit. I don't want to use my time here but I would ask through you, Mr. Chairman, if maybe we would get some documentation afterwards with some numbers on your view of the total production dollars spent in Nova Scotia, total eligible salaries, total financing, total value of tax credit expenditure, average percentage of labour claimed - it's a maximum of 65, so the average - and then total number of projects. These are all things that people have to specify right on the application forms, so if we could maybe see some aggregation of that I'd appreciate that.

On this credit, this is a refundable credit. It's not up-front money and it takes a certain amount of time, I'm sure, to process these applications after the fact. Do you have an average processing time statistic? I've heard from industry that sometimes it takes up to two years to get the money. Do you have a rule of thumb that you guys understand as to how quickly these applications are processed?

MR. BYRON RAFUSE: The time of the application is kind of different than the time it takes . . .

MR. HOUSTON: Let's focus on when the cash goes back to the applicant. How long does it take them to get paid?

MR. BYRON RAFUSE: The application process - if I understand you correctly, from the time they make their final application until they receive their tax certificate - it's less than a year that that process takes. When they actually file their taxes and they get their refund, I can't specify when they actually get the cash in hand so that would be . . .

MR. HOUSTON: Okay, fair enough, thank you. Let's talk about specifically how the changes to the Film Tax Credit that came about in the budget, how they developed. We know that the minister signalled at a chamber of commerce event that the Film Tax Credit was on the table. From that day to today, people in the industry certainly say that it wasn't a strict interpretation. The credit wasn't axed, but the industry certainly feels like it was.

I just want to step back even before the chamber of commerce. To your knowledge, when did talk of changing this particular tax credit begin? When is the first time you heard talk in the hallways or in the boardrooms of hey, let's make some changes to the Film Tax Credit? Can you recall when that was?

MR. BYRON RAFUSE: I can't you give a specific as to when that started but the review of all government spending and our tax credit expenses was initiated last year by government. This was part of that review so . . .

MR. HOUSTON: So sometime within the last year?

MR. BYRON RAFUSE: Yes. As I said earlier, we analyze the impact of our tax credits on an ongoing basis that would have been part of every year's preparation and we would have made that information available for a decision . . .

MR. HOUSTON: I'm just wondering how it went. Did the minister come to your department and say, show me some stuff on how we can change the Film Tax Credit or did it go the other way, that the department went to the minister and said hey, I think we should change the Film Tax Credit? Do you remember how it was initiated?

MR. BYRON RAFUSE: This is kind of an iterative process. The government looks at all of its spending and part of that process - we would have just given to not only the minister but to Treasury Board and the Program Review Committee, here is the government's spending by broad categories on the departmental side as well as the tax credit. We would have done . . .

MR. HOUSTON: Thank you. So there's a list of things on the table, there's a list of items to be looked at, and somebody circled this one and said let's focus on this one because certainly not everything that was brought forward would have been acted on. We know the volunteer firefighters wasn't acted upon, we know the HST - so somebody circled this one and said let's go with that one. Was that at the department's urging or was that the minister who said this looks like a good place to go?

MR. BYRON RAFUSE: I don't think we urged the government to go in one direction or another in any of these types of things. What we would have provided is our analysis of the effectiveness of the tax credit, as we would with all tax credits.

MR. HOUSTON: Okay. So to your knowledge, when the minister spoke at the chamber of commerce, this was obviously something that there had been discussions about prior to that luncheon. After the luncheon there was some feedback from the community and from industry and then we saw the budget. Did the swift response of the industry to the comments at the chamber of commerce impact the resulting proposal that went to the minister? Do you recall if there were a lot of changes that happened in that time?

MR. BYRON RAFUSE: The items included in the budget are as a process that takes months to develop. I'm not going to get into when final decisions were made on which items and when. I don't think that would be . . .

MR. HOUSTON: Okay, I respect that. I'll ask it in another way. Between the chamber of commerce lunch and the date that the budget was delivered, changes were made to this Film Tax Credit and changes were made to other credits, would you say that - other changes were made as well or was everything done before the chamber of commerce?

MR. BYRON RAFUSE: Again, I'm not going to get into when the final decisions were made; you may want to ask the minister that. We have a process to develop a budget and we have process where our revenues are evaluated by the Auditor General. Those types of decisions would have been incorporated through that process.

MR. HOUSTON: Okay. So there is a specific date in the changes to this - July 1st. As it turns out, July 1st is an important date in the filming business, so why was July 1st considered an appropriate day to change the structure of the credit? A lot of times we see these things at the end of the year - December or something. July 1st kind of popped off the page at me. Do you remember - what was the department, the minister, trying to accomplish by picking the date of July 1st, do you know what the reason for that was?

MR. BYRON RAFUSE: If you recall that in our budget for this year, 2015-16, the amount of the tax credit remains relatively the same. The advice we were getting from Film and Creative Industries was that most of the filming that we were aware of, that was eligible for the credit, would be in principal photography by July 1st and as long as they're in

principal photography at that point, even if they extend beyond that time, they would be under the old tax regime.

MR. HOUSTON: So you're trying to minimize the impact for this year.

MR. BYRON RAFUSE: Gives them time to adjust, yes.

MR. HOUSTON: Considering the changes that were put forth in the budget - that were tabled with the budget - did you do any kind of economic modelling of how big the industry is going to be in the province after that tax credit? We talked before about all kinds of modelling of the old structure - did we model what the new structure is going to generate in terms of economic activity?

MR. BYRON RAFUSE: The change on the tax credit, the impact, would have been incorporated in our overall macroeconomics that we use for our projections into the future, both from the size of the economy and . . .

MR. HOUSTON: So if you look at the old one and the new one, which one has a bigger economic impact on the Province of Nova Scotia?

MR. BYRON RAFUSE: The economy of Nova Scotia grows, but I guess to put it in perspective we're talking about a sector here that if we want to - \$130 million, \$150 million - the economy of Nova Scotia is \$35 billion to \$40 billion . . .

MR. HOUSTON: Sure, but I'm trying to understand - in that sector, from your analysis with the old way and the new way and the size of the sector - under the new way or under the old way, is the size of the sector bigger or smaller? Because I'm certainly hearing that the size of the sector is going to be a lot smaller and I wonder if you did any analysis to look at how that may play out.

MR. BYRON RAFUSE: I'm going to ask Lilani to answer that question.

MS. LILANI KUMARANAYAKE: As part of the work related to the economic assumptions underlying the revenue estimates for the budget, we do economic modelling which is contained in the budget documents. So . . .

MR. HOUSTON: So in the interest of time, do you have an analysis of it as bigger or smaller?

MS. KUMARANAYAKE: Let me just explain what we would do. Partly, from Statistics Canada the industry is around 0.14 per cent . . .

MR. HOUSTON: Sorry. Sorry, the process is not as important to me as the end result. Do you know if the industry is bigger or smaller after this change?

MS. KUMARANAYAKE: I will tell you what we modelled. We modelled the reduction in government spending and then the impact to GDP on the reduction in government spending. We do it on total government spending, and then we get the GDP estimates, so you can look at the GDP estimates that were produced.

MR. HOUSTON: Okay, so it sounds like there is no specific analysis of whether this would impact on that industry.

MS. KUMARANAYAKE: We don't do industry by industry; we're looking at a macroeconomic model . . .

MR. HOUSTON: So there was nobody who looked at . . .

MR. CHAIRMAN: Order, please. We do need to keep a clear distinction of who is speaking. It's a getting a bit out of hand. So Mr. Houston, did you want to clarify and allow Ms. Kumaranayake to answer?

MR. HOUSTON: No, I'll clarify and move on. What I understand is that there was no specific analysis as to how this change would impact the industry. There was a broader analysis as to what happens to the whole GDP of the province, but nothing specifically for this industry. That's what I took there.

This is for Mr. Rafuse. The Broten report made some recommendations around this tax credit, but the minister chose to go a different way. Why was that? Was there any discussion of just going with the Broten recommendations? Why did they scrap the Broten recommendations and come up with their own?

MR. BYRON RAFUSE: The Broten recommendations on the film are, I'm going to say, not very specific in that area. Options were given to the government for considerations around the Film Tax Credit. Why they chose one, I think, is a public policy issue that would be best answered by the minister.

MR. HOUSTON: Okay, so the minister made a decision to move away from the 100 per cent refundable. That's fine. Okay, so I appreciate that.

Back in November 2014, Minister Samson - the then-Minister of Economic and Rural Development and Tourism - tabled a bill in the Legislature called An Act to Improve Economic Development in Nova Scotia, to extend the Film Tax Credit until 2020. He tabled that bill, Bill No. 49, in November 2014, less than - I don't know how many months ago that was. It seems like a long time ago.

That Act required somebody to be appointed to conduct a review of the Film Tax Credit and recommend changes. So you had Broten looking at this. You had an Act before that passed Royal Assent that said, let's get somebody to look at it. Did anybody look at

it? Did you see analysis that came as a result of Bill No. 49 that the government passed in November?

MR. BYRON RAFUSE: If I understand correctly, that notion of having a review of the tax was in relation to the recently introduced corporate capital investment tax credit, not specific to the Film Tax Credit. That review was part of that tax credit, not this.

MR. HOUSTON: Actually, the bill was very specific on the film industry, that there would be a review done. In fact, it called for a new strategic framework to be submitted by March 1st from Film and Creative Industries Nova Scotia. It sounds like you never saw that framework.

MS. KUMARANAYAKE: So, what that Act did was - the requirement around the evaluation, etcetera, was related to the five-year strategic plan of Film and Creative Industries Nova Scotia.

MR. HOUSTON: Right.

MS. KUMARANAYAKE: It set a new time and date for the timing of that plan. I know that Film and Creative Industries Nova Scotia was working on that plan for submission as part of their planning. However, government made the decision to move those activities within Nova Scotia Business Inc., so going forward, that will be reflected.

MR. HOUSTON: Okay, so they passed a bill, and a few months later, they did something else to completely change the spirit of the bill that they just passed. That's what we saw happen there.

Just a final question quickly, Mr. Chairman. I know people in the industry, big, big company players . . .

MR. CHAIRMAN: Order, please. I'm sorry, but we have run out of time. We'll move to the NDP Caucus. Ms. MacDonald.

MS. MACDONALD: Thank you very much. I don't have a large number of questions. I think we're starting to get a picture here that the decision of the government to make the changes that they've made in the Film Tax Credit really are driven by the program review. The decision that's been made is really that the Film Tax Credit is a casualty of the program review of the government. It doesn't rest on any comprehensive analysis in terms of the economic impact that this industry has on the province. The data and the information that we have for that particular understanding is quite outdated - 2004.

I do want to just get a better appreciation of the data that we do have. How many companies were in receipt of the Film Tax Credit last year?

MS. KUMARANAYAKE: There were 55.

MS. MACDONALD: So last year 55 companies were in receipt of the Film Tax Credit. What were the number of tax filers last year, the personal tax revenue piece - the people who live and work in Nova Scotia, the "I pay taxes too" group? How many individuals does that represent?

MR. BYRON RAFUSE: The number of tax filers in Nova Scotia would be about 720,000 - total tax filers? Is that what -

MS. MACDONALD: No, associated with the industry.

MR. BYRON RAFUSE: Oh, associated with the industry. Sorry.

I think we'd need to go back and add up all the names on those applications we were talking about. I think the industry standard indicates that there would be about 1,200.

MR. BEN MCBETH: We haven't done that detailed analysis of each individual application and everybody who's on there. But what the industry produces is a report, and they estimate the number of full-time equivalents in the industry. Their number for the entire industry, which includes aspects that aren't covered by the Film Tax Credit per se, that total industry of film and television production, according to the MPA, is 1,140 for 2013-14.

MS. MACDONALD: I don't want to be disrespectful, but I want to say you're kidding me. The Department of Finance and Treasury Board, the government, have made a decision to have this impact on this sector, and we don't know how many people work in this sector in the province? We haven't done the analysis of that?

MR. BYRON RAFUSE: We know the number of individuals that are associated with the applications that are eligible for the Film Tax Credit. You asked for the number of individuals working in the entire industry - that is an entirely different number. That's the number we quote. We get that information from industry as the total sector. When we do our analysis, we use the individuals associated with the claims. That's our analysis. I would not think it would be appropriate to say that we don't know the amount of people associated with claims.

MS. MACDONALD: I get that. When the industry applies - because it is a rebate on labour, we would obviously know the number of people associated with those rebates. But it seems to me that we should also know how many people are working and associated with this industry, and apparently we don't.

What I would like to know is, of those 55 companies that filed last year, how many of them were able to take advantage of the rural incentive, and as well, how many were able to take advantage of the frequency incentive?

MR. BYRON RAFUSE: We don't have that with us, but we certainly would be able to provide that to the committee.

MS. MACDONALD: Thank you. I think at this stage I will turn my time over to my colleague.

HON. DAVID WILSON: I know we only have about nine minutes, so I will try to be as clear and concise as possible. Through this whole process around the Film Tax Credit and the changes we see, one of the things that resonated with me was the lack, or the perceived lack, of consultation.

Would you not consider it reasonable and appropriate to consult with the industry - those artists, those Nova Scotians who are going to be affected by this - when your department makes such a change to a program? Would you agree that that would be reasonable and appropriate to do that consultation?

MR. BYRON RAFUSE: During the development of Laurel Broten's report the author did meet with the industry and talked about the industry and the tax credit associated with it. As well, during the minister's consultation sessions the industry was able to attend those sessions and, as well, they could and they did make submissions to both those processes - and also they were available to come to speak to the minister.

We generally do not run by a tax change with those implicated with the tax change. That's kind of not a process that we could facilitate because of the nature of taxes. They were aware through those conversations that there was ongoing discussion around the tax credit.

MR. DAVID WILSON: Thank you for that. The reason I bring that up is we've been hearing a lot from the industry that they weren't consulted and, yes, there was a broad look at the tax system for the province, but I don't think the industry and those artists thought the government would go after, in such a way, their piece of legislation.

I say that because, interesting enough, there is legislation on the books, Bill No. 1 - which has no association with the Bill No. 1 that was just introduced by the Liberal Government - that was introduced and that was the Status of the Artist Act, which I had the honour to introduce and table in this House and it passed.

In that legislation it indicates that "The Government undertakes, so far as it considers reasonable and appropriate, to ... work with the artists and artists associations to guide and inform the Government on matters relating to arts and culture." I think the film

and TV industry definitely relates to the arts and culture of our province. I think the minister needs to recognize that and needs to ensure that we live up to legislation that has already passed through the House, that proper consultation does take place.

Quickly on Film and Creative Industries Nova Scotia, it was indicated earlier that they had been consulted over the last year trying to streamline and trying to make sure that there's not duplication of roles and jobs. Do you feel confident now that the department going into the future will be able to utilize - I believe only three people moved over to NSBI and nine were fired. Do you feel that NSBI and those three people will be able to pick up and ensure that government into the future will have experts who can advise the department on potential future changes? Does that concern you or are you going to look externally now at all consultation in the future?

It's important to have experts within the government system and I'm a bit concerned that the government chose to cut it so dramatically. As I said, nine people were fired and I believe three moved over to NSBI - do you have any comment on that maybe to relieve my concerns? I don't know if you'll be able to do that, but I'll leave it with you for comment.

MR. BYRON RAFUSE: Certainly the domain of tax policy remains with the Department of Finance and Treasury Board and we did use Film and Creative Industries as a source of insight into things. I'm still confident of the fact that we'll be able to do so with NSBI. Their lens will be from more of a - rather than sector specific it will be more of a business as a whole type of perspective, but I believe that we'll be able to have ongoing conversations, and the fact that also we'll have a relationship with those in the tourism, culture, and heritage side of the House as well.

MR. DAVID WILSON: Okay, thank you. I know I have only a few minutes. The Broten report had given some indication to the government on a number of changes and we know that many of them the government chose not to implement. One of the ones that concerns me - not only from my critic role now but from my previous role as Minister of Health - was the elimination of the Healthy Living Tax Credit. Could you provide us with the analysis that you used to cut a program that I believe is so important and I think is an incentive for families to register their children in another activity? Having young kids myself, I know how expensive it is.

So what kind of analysis was done to bring that recommendation forward for the government to say, here's a tax credit that's not working well in the province? I think you have two minutes; can you tell me why going after the Healthy Living Tax Credit was a direction that the government went?

MR. BYRON RAFUSE: I don't have the analysis with me but we can certainly table this. Generally speaking when we look at that tax credit and the original intention was to help those people in the lower income levels with registration fees associated with those

eligible programs, and when you do analyses of those who are benefiting from that, it was not those individuals that were benefiting from that tax credit, it was more of middle- or upper-income individuals. So it was determined that it wasn't reaching its objective and consideration was given to it for its elimination.

MR. DAVID WILSON: I look forward to going through that. I think I'm . . .

MR. CHAIRMAN: You have just over a minute.

MR. DAVID WILSON: Okay, a minute. One of the things that Finance and Treasury Board is using, I believe, is data that was available through the Culture Satellite Account. Is that still a process that you utilize, to use information from that satellite account?

MS. KUMARANAYAKE: Finance and Treasury Board is a member of the Interdepartmental Committee for Arts and Culture and we work closely with Communities, Culture and Heritage on that kind of satellite accounting, so we're part of that process within government.

MR. DAVID WILSON: Okay, I appreciate that. Thanks.

MR. CHAIRMAN: Thank you, Mr. Wilson. We'll now move to the Liberal caucus and Ms. Miller.

MS. MILLER: Thank you so much for being here today to answer all these questions. Coming into this, I didn't realize that the Opposition members would be focusing primarily on the Film Tax Credit, although we expected a few of those kinds of questions considering the timing but there are so many important things in the report and so many important things going on in Nova Scotia so I want to focus on something different.

About education - in our first budget we embarked on a commitment to rebuild our education system after the \$65 million cut in education previously and we're putting \$20.4 million in this year. Can you tell me how that aligns with the Broten report and what measures you find are the most noteworthy in that?

MR. BYRON RAFUSE: Certainly in the Broten report it spoke to being able to have the flexibility for governments to address the priorities of government, so that's where the notion of holding the line on spending would allow you that kind of flexibility from a tax measure perspective, and otherwise. That is played, as well, into the government's commitment to put the \$65 million back into the education sector, and by addressing spending on a whole government perspective, it allows government to do that without having what I would call a major detrimental impact on spending. Spending, overall, is essentially flat for the upcoming year.

MS. MILLER: I'll pass on my next point. Colleagues have questions, too, and we only have a few minutes left.

MR. CHAIRMAN: Ms. Arab.

MS. PATRICIA ARAB: Thank you. Thanks for being here today. My first question - I have a few - is just a general question about the consultation process. Once the report was presented, the minister and a number of MLAs had consultations around the province and I'm wondering what was done with the feedback and what the general themes in the feedback were that you received?

MR. BYRON RAFUSE: For the benefit of those who don't know, during the public consultation sessions, a series of questions were asked of the participants, and there was no attempt to try to provide consensus at the tables where those hypotheticals were asked. There was a facilitator at the sessions and he took all the comments back and has provided some feedback.

That is now available for the public. I will ask Lilani to talk further about where we're at, but I think it's posted as well.

MS. KUMARANAYAKE: The report itself, the feedback on the consultations that were held between January and March is actually on the department's website. It's prepared by Thinkwell and there are a number of themes that came out of it in response to the questions. One was around government spending and the feedback we got was around taking a balanced approach. Folks wanted us to take account of the impact on the most vulnerable, a kind of balance between looking and ensuring we have careful government spending versus increasing taxes. That was the main theme that came out.

We had other themes related to things like questions around the pollution tax. Again, while Nova Scotians are willing to look at change, they want to think through what that would mean. They'd like to have government do a little bit more analysis, understand the impact and what would be a tax that would work in Nova Scotia.

Those were some of the themes that came through around the different types of questions and the report itself and the report is on the department website for folks to download.

MS. ARAB: The budgeting changes to the Dividend Tax Credit, we haven't really discussed it that much today. Can you explain what eligible and non-eligible dividends are?

MS. KUMARANAYAKE: This is related to our personal income tax. Folks will receive dividends. If you receive dividends from Canadian public corporations, that's called eligible. If you receive dividends from other types of Canadian corporations - like small businesses - that's called non-eligible dividend tax credits. That's the difference.

MS. ARAB: Okay. Why was this change made and what's the impact going to be?

MS. KUMARANAYAKE: When folks get dividends, to report in terms of taxable income, the dividend income is not just the dividends but also the pre-tax corporate income associated with that business. So essentially, in that dividend if you're being taxed, you're also taxed on what the corporation may pay. To overcome that, the tax system has a tax credit so against the dividend tax you also get a tax credit.

Because we've lowered our small business tax rate over the last few years from 5 per cent to 3 per cent, what hadn't happened was the tax credit which works against the taxable paid, that tax credit rate had not been adjusted. While our small business rate was 3.0 per cent, our tax credit rate was 5.87 per cent so what we've done now is lowered our tax credit rate to 3.5 per cent on non-eligible dividend tax credits. It's to keep everything in lockstep.

MS. ARAB: Please bear with me, I'm trying to figure this all out and I have a lot of small businesses that are in my constituency. Is this something that's going to be harmful to the small businesses?

MS. KUMARANAYAKE: First of all, it's for personal income taxes so it's not related to the small business tax rate per se, it's not about the taxes that small business pays. It's around the personal income taxes.

What it speaks to is, folks can decide whether to get their income through wages and salaries or through dividends. From a tax system perspective, we want to make sure that when people are paying tax it doesn't matter whether they get it through wages, salaries and dividends but because we hadn't adjusted the non-eligible Dividend Tax Credit there was almost a little bit of a loophole where they were getting more benefit if they chose to have their income through dividends rather than salaries. What we've done is just made them comparable.

MS. ARAB: Excellent. I'll let my colleague ask some questions, thank you.

MR. CHAIRMAN: Mr. Jessome.

MR. BEN JESSOME: One of the most challenging pieces of this whole look at regulations here in Nova Scotia for me - I hosted a meeting in my riding with business and the public and it's really challenging to harvest specific carrots or specific regulations when you're talking to people in general and to business owners. Frankly, I would suggest the report focuses more on a review of regulation and a plan for review. There is nothing, at least to me, that pops out as highlighted regulations that cause chaos for businesses. Do you have a list of specific regulations that were recommended to be reviewed?

MR. BYRON RAFUSE: Certainly. During the process that Ms. Broten undertook in writing her report, one of the things we were asking every time we met with people was, give us a specific regulation that is creating this burden for you. A lot didn't come forward. The perception she was getting was it was just the layering effect or kind of the piling-on of regulations and where there may be a lack of a coordinated approach between departments.

Therefore, there were no specific recommendations - just to say, get rid of this one. Her approach was that you need to look at the burden overall and you need to have some kind of centralized gatekeeper on regulations so that that pile-on effect doesn't occur.

MR. JESSOME: Thank you. So, there would in fact be a pool of recommended regulations to review?

MR. BYRON RAFUSE: There were some that were put forward for that group. We would have kept track of all of those. I could certainly provide that to you.

MR. JESSOME: Yes, please.

MR. BYRON RAFUSE: One of them - I remember the tire one as one that comes to mind. Yes, there would have been some.

MR. JESSOME: Okay, thank you. I'm just curious, what evidence do you have to support - I mean, you can suggest that economies just work that way, but what evidence was there that influenced the recommendation in the report to remove the top tax bracket?

MR. BYRON RAFUSE: Certainly, what she was hearing during the review was two things. The top bracket stood out as the highest tax bracket in Canada - the highest rate. Therefore, when NSBI and others were encouraging companies to come here, that kind of stood out as a bit of an outlier from that perspective. A lot of individuals were looking at it from - well, if I move to Nova Scotia, I'm in that top bracket. That was related during the review.

As well, when that was brought in, it was viewed as being a bit of a more temporary measure. As you recall, the surcharge was eliminated at the same time. The notion would be that if it's temporary, then one should get rid of that. That's what her view is. Also, it lessens the amount of brackets. Going back to the four principles given to her about making it more simplistic - the less brackets, the more simple.

MR. JESSOME: Thank you. It also recommends a full inventory of assets, tangible and nontangible. Has that process been commenced?

MR. BYRON RAFUSE: I do know that there has been some work done on certain assets that the province has. That work would have been through another department, but yes, there is a beginning of an inventory around those, if one chose to go in that direction.

MR. JESSOME: Thank you. Finally, when it comes to establishing the list of stakeholders for this type of activity, what goes into the decision of who gets to sit at the table?

MR. BYRON RAFUSE: During this consultation, Ms. Broten chose not to do public consultation. She wanted to meet with others. For the academics, we arranged through our academic connections with various universities. For the economists, we went through our network that we have with various economists in the banking system. When she met with businesses, we used local chambers, to the extent possible, to get in front of them, as well as our connections to the regional offices at the then-ERDT and their suggestions as to who would be individuals whom she should meet with.

MR. JESSOME: Okay, thank you. I'm all set.

MR. CHAIRMAN: Thank you, Mr. Jessome. If there are no further questions, Mr. Rafuse, we'll allow you an opportunity to provide closing comments.

MR. BYRON RAFUSE: My only closing comment is to thank the Chair and the committee for the opportunity to come speak to the report.

MR. CHAIRMAN: Thank you for your time. You've been very informative for us all this morning, thank you. Mr. Houston?

MR. HOUSTON: Mr. Chairman, just to make sure - the information requests on those numbers?

MR. CHAIRMAN: Yes, there were a number of mentions by Mr. Rafuse and requests by committee members, as is regular practice. Our Clerk will review the transcript and ensure that there is follow-up on all those requests.

We do have a briefing from the Auditor General's Office on the in-student school information system. I recommend that we try to start that before 11:00, if we can, in the interests of time. If everyone is ready here, we will start that immediately after the meeting.

Our next meeting is on April 22nd. We have the Department of Natural Resources coming in to speak about mineral resources management.

With that, we will adjourn for the Auditor General. Thank you.

[The committee recessed at 10:46 a.m.]