3.5   Basis of Accounting for Federal Revenues

Government currently records Government of Canada revenues on a modified accrual basis. The modified accrual basis of accounting involves recording revenues based upon regular entitlements for the current year. As regular entitlements are subject to future revisions, the revisions are reported in those future years when the adjustments become known. These revenues include tax equalization, Canada Health and Social Transfers, personal income taxes, corporate income taxes, and Harmonized Sales Tax (HST). Government does not attempt to provide a reasonable estimate for these future revisions in the periods to which these revisions relate. Government's financial reporting would be improved if all revenues were recorded on a full accrual basis.

Recommendation

Government should consider recording Government of Canada revenues on a full accrual basis.

3.6   Tax Expenditures

The Province has tax expenditure programs which provide special exemptions, deductions, rate reductions, rebates, credits, and deferrals that reduce the amount of tax revenue otherwise due to the Province and relate to such tax categories as personal income tax, corporation income tax, gasoline tax, health and post-secondary education tax, provincial sales tax and tobacco tax. In 2003-04, we identified approximately $215.5 million of foregone revenue resulting from tax expenditure programs.

Prior to the 2005-06 budget, such tax expenditures were not included as part of the budget provided to Members of the House of Assembly. Although these tax expenditures are now part of the budgetary process, the actual expenditures related to such tax expenditures are not disclosed as part of the Province's financial statements. Therefore, Members of the House of Assembly are not able to compare actual results with amounts included in the budget. Including tax expenditures in the Province's financial statements would provide Members of the House of Assembly with information to assist in holding Government accountable.