# A Discussion Paper
## on New Brunswick's Tax System

**June 2008**

**Department of Finance**

New Nouveau Brunswick
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A Discussion Paper on
New Brunswick's Tax System

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# Executive Summary

This comprehensive review of New Brunswick's overall tax system is the first formal review of provincial taxation in nearly two decades.

There are two primary objectives behind the discussion paper on tax reform:

- To ensure New Brunswickers can keep even more of their hard-earned dollars to save and invest.
- To make the province more attractive for business, investment and people by establishing a tax structure that is more competitive globally, resulting in job creation, income generation, and a bright future for New Brunswickers.

New Brunswick has set a goal of becoming self-sufficient by 2026. The province must set a course to become increasingly reliant on its own revenues and in greater control of its economic future. To reduce its dependence on federal equalization payments and become more self-reliant by 2026, New Brunswick must undergo an economic transformation.

Restructuring New Brunswick's provincial tax system offers significant potential for creating the growth in income, investment, savings, jobs and population needed to achieve self-sufficiency. This discussion paper presents a series of options to New Brunswickers on how to restructure the tax system.

It is important to point out that this discussion paper is **not** government policy: it is a document designed to stimulate public discussion and to seek opinions and input from New Brunswickers.

In reviewing this paper, New Brunswickers are being asked to consider the nature of New Brunswick's tax system and how it should be structured to advance New Brunswick and every region, North, South, East and West, toward self-sufficiency.

The discussion paper sets out the principles and goals for a restructured provincial tax system. The guiding principle of this transformation is to reduce the province's reliance on income taxes and raise a larger share of revenue through consumption taxes.

The options outlined are intended to create a balanced approach to tax reform; an approach that would allow hard-working New Brunswickers to keep more of their earnings and maximize opportunities for economic growth, while allowing the Province to continue to provide quality services to New Brunswickers in a fiscally responsible manner.

There have been significant economic benefits from major tax reform in other jurisdictions, for example the Republic of Ireland. These benefits could have a similar impact for New Brunswick and its economy.

This paper describes the structure of New Brunswick's current tax system: personal income taxes, corporate income taxes, capital taxes, consumption taxes and property taxes. It provides information on existing tax credits and tax-based incentives available to New Brunswickers and examines the overall competitiveness of the current tax system in a regional, national and global context.

# Options for Restructuring the Tax System

The discussion paper presents a series of options as possible elements of a comprehensive restructuring of New Brunswick's tax system:

- A simplified **personal income tax** structure with a **flat tax of 10%** of taxable income for all New Brunswickers or **two tax rates of 9% and 12%**. Both of these options would allow New Brunswick taxpayers to keep more of their hard-earned money and make the province more attractive to better paid and highly skilled workers and the companies that employ them.

- Options to support New Brunswick families, so that the tax system helps parents deal with the cost of raising their children, including a **new non-refundable child tax credit** that reduces personal income tax payable by up to $400 per child, and a **universal child care benefit** of $600 annually for every child under six.

- Create a **growth-oriented business tax** environment by reducing the general corporate income tax rate from the current 13% to **10%, 7% or 5%**.

- Establish a carbon tax along the lines of the British Columbia model to encourage energy conservation, the use of cleaner fuels, and reduce New Brunswick's output of greenhouse gases.

- R**ebalance New Brunswick's tax system** to promote savings and increase income by reducing reliance on personal and corporate income taxes and raising a larger proportion of provincial tax revenues through consumption taxes.

The discussion paper also examines New Brunswick's property tax regime and presents ways to reform property taxes to ensure they are fair, efficient and support economic growth and job creation. Options include reducing the provincial property tax to stimulate business investment and job creation, and measures to improve accountability and fairness in financing public services. This will complement the work of the Commissioner on the Future of Local Governance.

Taken together, the options outlined in this paper would allow New Brunswickers to keep more of their hard-earned money, put spending decisions back into the hands of taxpayers, position New Brunswick to be more competitive globally, and make the province more attractive for business, investment, and people as it moves toward self-sufficiency. A multi-year tax reform plan would allow government to undertake tax reform in an innovative and fiscally responsible manner.

A select committee of the New Brunswick Legislative Assembly will consult with stakeholders on this discussion paper and present its report in the fall of 2008. During this review, the government will consider the options outlined in this paper and the views expressed to the Legislative committee.

# Introduction

New Brunswick is moving toward self-sufficiency.

A self-sufficient New Brunswick will generate more of its own wealth and be less dependent on equalization payments from the federal government.

Achieving the goal of self-sufficiency by 2026 requires that fundamental changes be made to the province:

- New Brunswickers must be allowed to keep more of their hard-earned money.
- Businesses must thrive and new jobs must be created: better paying and highly skilled positions that will enable New Brunswickers to make best use of their talents and learning.
- New Brunswick must retain and attract workers with the skills to fill these new jobs, and attract investment.
- The province must be positioned so that it is a leader within Canada and competitive on a global scale.

This will result in the economic growth and increased population needed to achieve the province's self-sufficiency objectives.

Over the past 20 years, New Brunswick's overall tax structure has improved and is comparable to some of the other Canadian jurisdictions. However, when competing globally for new jobs and investment and to create the economic and social climate for self-sufficiency, more must be done.[1] New Brunswick must be more than competitive; it must be a leader. Without making transformative changes to the tax structure, these desired results will not be achieved.

To find ways to make New Brunswick's tax system more competitive and to use it as a catalyst for growth, development and generating more income for New Brunswick, the government has produced this discussion paper on restructuring the province's tax system.

This discussion paper does **not** represent government policy. It is a consultation document, which sets out concepts, principles and potential courses of action on which government can consult with stakeholders and engage in a public discussion on important policy matters.

This discussion paper presents options to restructure New Brunswick's tax structure so hard-working New Brunswickers can keep more of their hard-earned money, encourage new investment, and support the creation of more jobs and wealth.

It proposes:

- New approaches to reduce the tax burden on families, workers and entrepreneurs, to make the province a prime destination for investment and job creation;
- New ways to support families and examine methods to encourage New Brunswickers to make environmentally friendly choices;
- Restructuring the tax system by reducing personal income taxes and taxes on business; and
- Raising a larger share of provincial tax revenue through a modest increase in consumption taxes, including the Harmonized Sales Tax.

The discussion paper also suggests ways to ensure the property tax system better supports economic growth and job creation, and that local governments are fully accountable and transparent in their spending decisions.

Restructuring New Brunswick's tax system is just one aspect of creating a self-sufficient New Brunswick. The journey towards self-sufficiency is already underway.

Economic growth in all regions of New Brunswick highlights the need for more skilled workers, particularly in the skilled trades and technical and medical professions. To be self-sufficient, the province must attract more people with these skills to live here and help build the provincial economy.

[1] Duanjie Chen, Jack Mintz and Andrey Tarasov. "Federal and Provincial Tax Reforms: Let's Get Back on Track." C.D. Howe Institute Backgrounder No. 102. (Toronto: C.D. Howe Institute, July 2007), 2-12.

To fund services to New Brunswickers and break the cycle of dependence on federal equalization payments, New Brunswick needs more investment, more people and more better-paying jobs. This will result in a growing tax base, greater provincial revenues and reduce the province's reliance on federal equalization. Tax reform is a key lever through which government can encourage economic growth and ensure that New Brunswickers keep even more of their hard-earned money.

Transforming New Brunswick's economy requires new approaches to taxation. New Brunswick's tax system has constantly evolved to meet the needs of its residents and to promote economic growth and job creation. There have been a number of significant reforms in the past decade, including the introduction of the Harmonized Sales Tax in 1997 and the adoption of the "tax on taxable income" system for provincial personal income taxes in 2000.

In the 2008-2009 provincial budget, Finance Minister Victor Boudreau announced the government would undertake a review of the New Brunswick tax system and outlined a process that would be followed – the first comprehensive, formal review of New Brunswick's overall tax system in nearly two decades.

The budget also announced that the government would table a Green Paper on tax reform that will be the subject of stakeholder consultations by a select committee of the New Brunswick Legislative Assembly. A report from this committee will be submitted to government by the fall of 2008.

As part of this review, the government has sought the input of leading Canadian and international tax experts on ways to refocus New Brunswick's tax structure to lower the tax burden for New Brunswickers and make it more effective in promoting economic growth.

In the fall of 2007, the provincial Department of Finance hosted a forum on the role of taxes in transforming the economy. The forum detailed the positive benefits that can be achieved from simplifying income taxes and reducing the tax burden on workers and corporations in promoting investment and growth. The forum also examined the experience of the Republic of Ireland, where general tax reductions similar to those being proposed in this discussion paper made a significant contribution to transforming the Irish economy into one of the strongest in the European Union.

Another component of this review was an examination of New Brunswick's current tax system. New Brunswickers pay taxes to the provincial government to support a wide range of important public services: health care, education, justice, social programs, economic development, and highway construction and maintenance. Provincial taxes paid by New Brunswickers provide about half of the revenue required to finance provincial public services ($3.2 billion in 2008-2009, or 48% of the province's gross ordinary revenue). A further 12% ($809 million in 2008-2009) comes from other provincial revenue sources such as licenses and permits, sales of goods and services and return on investments.

As illustrated in Table 1, *New Brunswick Own-Source Revenues*, New Brunswick's tax revenues are largely drawn from personal income taxes, which account for nearly one-third (31.4%) of the province's own-source revenues. Harmonized Sales Tax follows at 23.5%.

## TABLE 1: New Brunswick Own-Source Revenues

| Own Source Revenues | Revenue (2008-09 Estimate) | % of Total Own Source Revenue |
|---|---|---|
| Taxes | $ | % |
| Taxes on Income | | |
| Personal Income Tax | 1,266,000,000 | 31.4% |
| Corporate Income Tax | 183,000,000 | 4.5% |
| Metallic Minerals Tax | 100,000,000 | 2.5% |
| ***Sub-Total: Taxes on Income*** | ***1,549,000,000*** | ***38.4%*** |
| Taxes on Consumption | | |
| Harmonized Sales Tax | 950,000,000 | 23.5% |
| Gasoline and Motive Fuels Tax | 199,000,000 | 4.9% |
| Tobacco Tax | 80,000,000 | 2.0% |
| ***Sub-Total: Taxes on Consumption*** | ***1,229,000,000*** | ***30.4%*** |
| Other Taxes | | |
| Provincial Real Property Tax | 382,900,000 | 9.5% |
| Insurance Premium Tax | 40,200,000 | 1.0% |
| Real Property Transfer Tax | 6,400,000 | 0.2% |
| Large Corporation Capital Tax | 14,000,000 | 0.4% |
| Financial Corporation Capital Tax | 7,000,000 | 0.2% |
| Pari-Mutual Tax | 65,000 | 0.0% |
| ***Sub-Total: Other Taxes*** | ***450,565,000*** | ***11.2%*** |
| **Sub-Total: Taxes** | **3,228,565,000** | **80.0%** |
| **Other Own Source Revenues** | | |
| Return on Investment | 251,738,000 | 6.2% |
| Licenses and Permits | 101,256,000 | 2.5% |
| Sale of Goods and Services | 232,423,000 | 5.8% |
| Royalties | 70,950,000 | 1.8% |
| Lottery Revenues | 118,375,000 | 2.9% |
| Fines and Penalties | 7,943,000 | 0.2% |
| Miscellaneous | 26,748,000 | 0.7% |
| **Sub Total: Other Own Source Revenues** | **809,433,000** | **20.0%** |
| **Total Own Source Revenue** | **4,037,998,000** | **100.0%** |

Source: Department of Finance 2008-2009 Budget

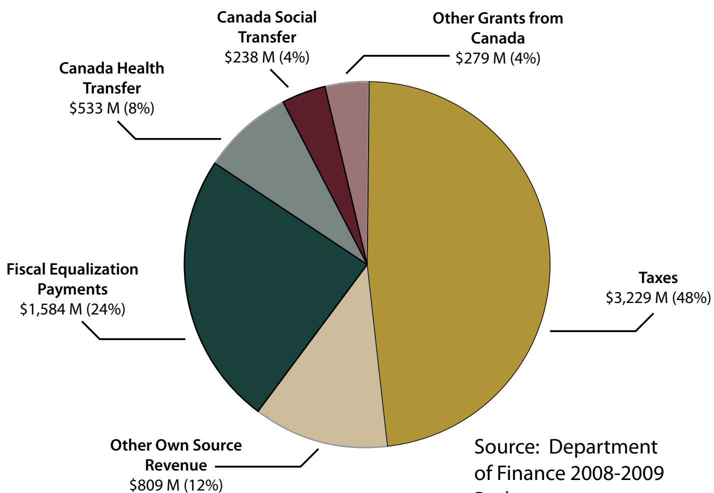
New Brunswick also receives significant transfers from the federal government. As with all provinces, the federal government provides transfers to support health care, post-secondary education and social programs through the Canada Health Transfer and Canada Social Transfer programs. In 2008-2009, New Brunswick will receive from the federal government $533 million to support health care services and $238 million for social services and post-secondary education.

New Brunswick is also one of six provinces to receive federal equalization payments. For the 2008-2009 fiscal year, New Brunswick is to receive $1.58 billion in federal equalization payments, which accounts for 24% of the province's gross ordinary revenue.

Chart 1, *Where the Money Comes From*, provides a breakdown of the various revenue sources for the province for 2008-2009.

## CHART 1: Where the Money Comes From

### 2008-2009 Total Gross Ordinary Revenue - $6,672 Million (M)




Source: Department of Finance 2008-2009 Budget

A brief description of New Brunswick's current tax system – personal income tax, corporate income tax, consumption taxes, property taxes and other taxes - is provided in **Appendix 1**. Appendix 1 also provides a description of New Brunswick's existing tax credits and tax-based incentives.

The Province has also examined the competitiveness of New Brunswick's current tax system. This examination included a review of several technical studies on tax competitiveness and was conducted with the aid of external consultants. A description of methods used to measure the competitiveness of New Brunswick's tax system can be found in **Appendix 2**.

This examination demonstrates that, while New Brunswick's tax system is relatively competitive with some Canadian jurisdictions, significant improvements are needed to meet the objectives of enhanced job creation and income growth.

To achieve self-sufficiency, New Brunswick's tax system must be more than just competitive with other Canadian provinces; it must be competitive internationally.

This discussion paper sets out principles upon which the restructuring of New Brunswick's tax system could be based, and the goals this new tax structure could achieve. The guiding principle of this transformation is to reduce the province's reliance on income taxes and raise a larger share of revenue through a modest increase in consumption taxes.

The paper outlines a series of options for restructuring the key taxes that bring revenue to the province – personal income tax, corporate income tax, property tax and consumption taxes – to ensure New Brunswickers can keep more of their own hard-earned money, promote investment and create new jobs throughout the province.

This discussion paper is one part of an overall tax review process. The restructuring of New Brunswick's tax system, which may incorporate options outlined on the pages that follow and the opinions of New Brunswickers heard by the Legislative Committee, would be phased in over five years.

To ease the transition for people and businesses, the proposed changes will also be implemented to be fiscally neutral[2] and interfere as little as possible in personal and business decisions that affect investment and economic growth during this period.

This will ensure the Province continues to receive the revenues it needs to provide the public services New Brunswickers want and need. The Province will also work with the Government of Canada to find ways to move forward on key aspects of restructuring the tax system as quickly as possible.

[2] Fiscally neutral means that the combined effect of tax changes put in place and careful management of expenditures will maintain the balanced budget position of the province.

# A. Goals for Restructuring the Tax System

Reforming New Brunswick's tax system is first and foremost about ensuring New Brunswickers can keep more of their hard-earned money, to save and invest for their future and making the province more attractive for business, investment and people, with a tax structure that is more competitive globally.

Options for a restructured tax system focus on achieving seven key policy goals:

1. **Enhancing Economic Competitiveness:** To achieve self-sufficency, New Brunswick must have a preferred tax system within Canada and be more competitive internationally. Taxes on personal income are higher for New Brunswick workers in highly skilled jobs than in other competing jurisdictions. Economists have noted that, all other factors being equal, investments and jobs migrate to those jurisdictions with the most advantageous corporate and personal tax structures.[3] To foster the economic transformation necessary to achieve self-sufficiency, New Brunswick must position itself to be more competitive globally.

2. **Income Growth:** New Brunswick's tax system must enable New Brunswickers to keep more of their hard-earned money, put spending decisions back into taxpayers' hands and encourage them to earn, save, invest, and generate wealth for themselves and their families. Income growth for New Brunswickers will lead to increased growth in the tax base and help achieve self-sufficiency for the province.

3. **Making New Brunswick a More Attractive Option for Workers and Families:** To achieve self-sufficiency, New Brunswick must grow. Growing the economy and standard of living requires the population to grow well above current estimates within the next 20 years. New Brunswick's Population Growth Strategy has four areas of focus: increasing and targeting immigration; increasing settlement and promoting multiculturalism; retaining youth and repatriating former New Brunswickers and adopting family-friendly policies. Tax policies that support this strategy encourage economic growth with better-paying, high-skilled jobs, support families and the acquisition of new skills that will help keep the next generation of New Brunswickers at home to contribute their talents to the province's drive toward self-sufficiency.

4. **Promoting Recruitment and Retention of Skilled Workers:** To achieve self-sufficiency, New Brunswick needs to create thousands of new high-skill and high-wage jobs and attract the people to fill them. To bring in new jobs and the skilled workers and tradespeople needed to expand the population and economy, New Brunswick's tax structure must ensure that the province is attractive to the high-wage economy. Workers in these fields are at a tax disadvantage under New Brunswick's current tax regime: a skilled worker earning $60,000 per year pays more personal income tax here than in all provinces except Québec.

   At higher levels, the tax gap is significant: a skilled worker making $100,000 a year in New Brunswick pays approximately $4,000 a year more in personal income taxes than a similarly-paid worker in British Columbia and Alberta. This tax disadvantage hampers New Brunswick's ability to recruit and retain high-wage earners and the corporations that employ them.

[3] Chen, Mintz and Tarasov, "Let's Get Back on Track", 3.

5. **Promoting Entrepreneurship:** Small businesses play an important role in New Brunswick's economy. A tax system that provides all businesses with an incentive to grow and create more jobs would help move New Brunswick toward its self-sufficiency goals. The tax environment should promote this entrepreneurial spirit, encouraging business owners to invest in their futures, take risks and expand their enterprises. Under the current system, small businesses that grow must pay a higher corporate income tax rate. This is a disincentive to enterprise and can hamper job growth. Also, many small businesses are owner-operated and income received becomes personal income that is taxed at much higher rates as income increases.

   In addition, the differential property tax rate charged on non-residential property falls disproportionately on the business sector. This can discourage investment in businesses, particularly for those that require substantial real property as an important component of their overall assets. Reducing the provincial non-residential property tax rate would help remove the tax penalty for investment in these sectors.

6. **Promoting Environmentally Sustainable Choices:** Protecting the planet from the impact of climate change is a global issue, but local actions can make a difference. New Brunswick's Climate Change Action Plan sets out the province's course for reducing greenhouse gas emissions. Tax policy can encourage individuals and businesses to make more environmentally friendly choices in their daily lives. A number of jurisdictions, including British Columbia and Québec, have recently introduced taxes on carbon-based energy sources. Such taxes have a potential for dual benefit: they can encourage consumers to make choices that are better for the planet, and provide revenue that will allow government to invest in new priorities, including support for "green" initiatives.

7. **Ensuring Fiscally Responsible Budgeting:** As New Brunswick's self-sufficiency plan unfolds, the province's population will grow and its economy will expand, generating more income for New Brunswickers and increased tax revenues for the province. As the province's ability to pay its own way increases, payments under the federal equalization program will decrease as a percentage of overall government revenues. New Brunswick will ensure that it continues to manage the province's finances in a prudent and fiscally responsible manner, meeting its obligations to balance budgets while maintaining important public services including health care, education, social services and public infrastructure. Being fiscally prudent while reducing the tax burden for workers, families and business in New Brunswick is vital to making the province self-sufficient by 2026.

# B. Principles for Restructuring the Tax System

A restructured tax system should be guided by the following key principles:

1. **Competitiveness:** New Brunswick's tax system should promote economic development and growth to position the province as an attractive venue for investment in a regional, national and international context.

2. **Neutrality:** The tax system should interfere as little as possible in personal and business decisions that impact investment and economic growth. Taxes should be neutral and not interfere with personal and business decisions, except where there are clearly identifiable social costs associated with production and consumption.

3. **Simplicity:** The tax system should be easy to understand, transparent to the public and simple to apply, encouraging public compliance and discouraging tax avoidance.

4. **Balance:** New Brunswick should raise tax revenue from a variety of sources, with the mix of taxes based on maximizing opportunities for savings, investment, economic growth and job creation.

5. **Sustainable Development:** The tax system should take into account the need to protect the environment and secure it for future generations.

6. **Fairness:** New Brunswick's tax system should ensure that taxes are fair to all taxpayers.

7. **Social Development:** New Brunswick should ensure that there are programs to assist those New Brunswickers in greatest need. Fair treatment of taxpayers involves more than the tax system. Many government expenditures benefit all taxpayers and government must ensure that programs are in place to assist the less well-off.

8. **Fiscal Responsibility:** Taxes should be applied in a manner that ensures that New Brunswick has sufficient revenue to provide health care, education and social services to New Brunswickers and to invest in the infrastructure necessary to sustain and expand the economy.

# C. Restructuring New Brunswick's Tax System

New Brunswick has tremendous potential for growth and development. A restructured tax system will help unlock this potential for generating income and creating opportunity for New Brunswickers. In reviewing the province's tax system, the Province has set out principles and goals that use tax policy to move New Brunswick toward self-sufficiency.

This discussion paper presents a series of options to restructure the provincial tax system so that it moves New Brunswick toward self-sufficiency:

1. **Reduce and simplify New Brunswick's personal income tax by:**
   - Creating a flat tax or a two-rate personal income tax system that will provide tax reductions to all New Brunswick taxpayers.

2. **Support New Brunswick families with:**
   - A new non-refundable child tax credit that reduces personal income tax payable by up to $400 per child
   - A universal child care benefit of $600 annually for every child under six
   - Endorsement of the federal Tax-Free Savings Account plan for provincial tax purposes.

3. **Create an environment for unprecedented business growth and job creation through:**
   - Reductions in the general corporate income tax rate
   - Elimination of the large corporation capital tax
   - Modification or elimination of the financial corporation capital tax
   - Reduction in the provincial property tax on non-residential property.

4. **Promote a cleaner and greener environment by:**
   - Creating a carbon tax to encourage energy conservation, the use of cleaner fuels and reduce New Brunswick's output of greenhouse gases.

5. **Rebalance the tax system by:**
   - Reducing personal income taxes and taxes on business and raising a larger share of provincial tax revenue through consumption taxes.

To move New Brunswick toward self-sufficiency, the overall property tax system must be fair, efficient and support economic growth and job creation. This paper highlights issues concerning New Brunswick's property tax regime, particularly the non-residential property tax that can be a deterrent to business investment. The Commissioner on the Future of Local Governance in New Brunswick is currently reviewing a number of issues related to local governance and will present his report in the fall of 2008.

Taken together, the options outlined in this discussion paper provide more income for New Brunswickers, encourage savings and investment, support greater economic growth, promote the retention and recruitment of highly skilled workers to the province and accelerate New Brunswick's drive toward self-sufficiency.

# D. Reducing and Simplifying Personal Income Tax

To allow New Brunswickers to keep more of their hard-earned money and to provide greater support for economic growth, this paper proposes lower provincial personal income taxes for all income levels. This approach would improve the attractiveness of New Brunswick to new investment, better paying jobs and highly skilled workers.

While New Brunswick has made a series of changes to its personal income tax, other Canadian jurisdictions have made more significant reforms, including Saskatchewan, Alberta and British Columbia. In its 2007-2008 budget, Newfoundland and Labrador made substantial personal income tax reductions, moving in one leap from worst to first for income taxes in Atlantic Canada, especially at higher income levels.

New Brunswick remains competitive at lower income levels. For most income levels up to $40,000, personal income taxes on single-earners in New Brunswick compare reasonably well with other provinces. This is also true for families. In fact, for most income levels, one-earner families in New Brunswick with taxable incomes up to $40,000 pay less provincial income tax in New Brunswick than in other Atlantic Provinces.

However, New Brunswick has fallen behind most other provinces in the personal income taxes it imposes on taxpayers in the middle and upper income levels. This is significant because these are the income levels occupied by highly skilled and well-paid workers and tradespeople – the people and the jobs New Brunswick needs to transform its economy.

These workers, and the companies that employ them, are motivated to locate in jurisdictions where tax rates are most favourable.[4] The taxes imposed on higher income earners penalize the workers and employers needed to achieve self-sufficiency. This hurts New Brunswick's ability to expand its tax revenue base and raise the funds required to support valued public programs like health care and education. As shown in **Appendix 1**, the additional personal income tax paid by higher income individuals in New Brunswick, compared to what they would pay in some provinces, is substantial.

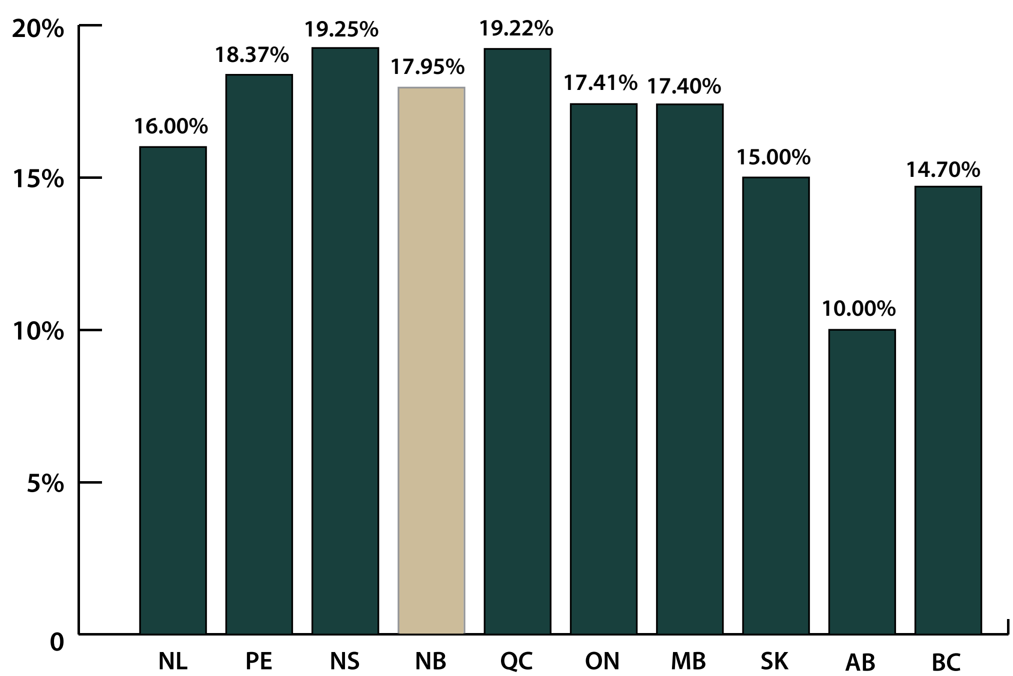
Chart 2, *Top Provincial Marginal Income Tax Rates*, shows the top marginal income tax rates by province. New Brunswick has the fourth highest top marginal income tax rate in Canada. This reduces New Brunswick's ability to attract business investment in activities with better paying jobs and its ability to attract and retain highly skilled workers.

***CHART 2: Top Provincial Marginal Personal Income Tax Rates***

2008 Taxation Year

Source: Department of Finance

Note: Québec's rate has been adjusted to account for the 16.5% federal abatement. The top marginal provincial tax rate in Québec is 24%.




[4] Mark Rider. *"The Effect of Personal Income Tax Rates on Individual and Business Decisions – A Review of the Evidence."* International Studies Program Working Paper 06-15. (Andrew Young School of Policy Studies, Georgia State University, April 2006).

For a more complete picture of the magnitude of New Brunswick's personal income tax disadvantage at higher income levels, see Tables A1.3 and A1.4 in Appendix 1. These tables show the total provincial income tax for each province at selected taxable income levels and the differences in tax at each income level. The total tax is calculated from the combination of each province's marginal rate structure, non-refundable credits, and other features.

The total tax as a percentage of taxable income is often referred to as the average tax rate. This rate can impact the attractiveness of a jurisdiction to better paying jobs, and highly skilled workers in particular, since average rates increase as income increases.

Marginal tax rates reflect the additional personal income tax that is paid on an additional dollar of taxable income and impact the incentive to earn additional income. The incentives to work are also affected by the claw-back of federal and provincial benefit programs targeted to lower income individuals and families.

For income levels where these benefits are being phased out, the effective marginal tax rates can be relatively high. As a result, it is important that effective marginal tax rates be lowered at all income levels so as not to interfere with incentives for people to work. [5]

Compared to other forms of taxation, personal income taxes can impede economic growth and interfere with the incentive to work, save, and create wealth for families. Unlike personal income tax, value added taxes such as the Harmonized Sales Tax create less interference with efficiency and economic growth than is the case with income taxes. They also have the advantage of not taxing savings. The potential for restructuring New Brunswick's tax system to reduce reliance on personal income taxes and lower top marginal tax rates is discussed at greater length later in this paper.

By reducing New Brunswick's personal income taxes and simplifying the tax system – reducing the number of income brackets and setting tax rates to promote income growth –a significant step will be taken toward transforming New Brunswick's economy and achieving self-sufficiency.

This approach has potential advantages: companies that rely on specialized and highly skilled workers and tradespeople can use this tax structure as a recruiting tool for new employees. In today's economy, labour and capital are both mobile – and, all other factors being equal, they tend to migrate to where the tax climate is most advantageous when making location decisions.[6]

[5] In a recently released paper, the Canadian Taxpayers Federation concluded that lowering taxes induces people to invest and work more and fuels economic expansion. See Mark Milke and John Williamson, *"Lower, Simpler & Flatter Towards a Single Tax Rate for Canada."* (Canadian Taxpayers Federation. January, 2008), 23.

[6] Chen, Mintz and Tarasov, "Let's Get Back on Track", 3.

## *Options to Reduce and Simplify Personal Income Tax*

Two options are proposed that would reduce New Brunswick's provincial personal income taxes at all income levels. These options would also simplify the provincial income tax system. In both cases, the changes would be phased in, and be fully implemented by 2012, in a fiscally neutral manner.

For both options, New Brunswick tax filers would continue to benefit from a single federal-provincial tax return with the federal government continuing to administer personal income taxes. The federal government would continue to determine taxable income for both federal and provincial income tax purposes. Indexation would continue to apply as it currently does to New Brunswick personal income taxes.

Both options provide very significant personal income tax reductions. The key difference from the existing structure is the reduced number of tax rates and tax brackets. The first option would reduce the number of rates and brackets from four to one. The second would reduce the number of rates and brackets to two. A reduction in the number of rates would help make the tax calculation simpler for most tax filers.

## *Option 1: A Flat Tax Structure*

The flat tax option would replace the four-rate, four-bracket structure with one marginal rate of 10% for all taxable income levels. This would allow New Brunswick taxpayers to keep more of their hard-earned money and return spending decisions to taxpayers, maximizing the opportunities for savings, investment and economic growth. This option would significantly improve New Brunswick's attractiveness to investment in activities with better paying jobs and provide a greater incentive for people to come to New Brunswick to work. It would also make the province more attractive to higher-income individuals and households, particularly as a taxpayer's income increases.

The flat tax option would maintain a progressive tax structure, since tax paid as a percentage of income would continue to increase as income increases. It would also substantially reduce taxes, as a percentage, at all income levels and help overcome the tax disincentives to earning additional income. In addition, it would also improve competitiveness and make the overall tax system much more supportive of economic growth and job creation. This would make New Brunswick more attractive to investment, better paying jobs and to highly skilled labour.

This flat tax option would include a significantly increased non-refundable basic personal amount of $12,000 for individuals with taxable incomes below $35,000. The tax benefit of the basic personal amount would be reduced by 3% of taxable income in excess of $35,000 and would be fully phased-out at $75,000. The spousal amount under this option would also be increased to $12,000 and the tax benefit of the combined personal and spousal amounts would be fully phased out at $115,000. The Low-Income Tax Reduction would remain in place, but it would be phased out at 3% instead of 5%, which would improve the marginal effective tax rate for low-income earners.

Tables 2 and 3, *New Brunswick Provincial Income Tax Payable under Option 1* – Flat Tax, show the benefit of the flat tax system for both a single-earner and a one-earner family with two children, respectively. Although the proposed changes would not be fully implemented until 2012, to illustrate their potential, both tables show the tax changes as if they were implemented in 2008. In both tables, the second column, NB-2008, shows what the personal income tax payable is at various taxable income levels under the current tax structure. The third column, Flat Tax, depicts what the personal income tax payable would be with the flat rate of 10%.

Table 2 shows that a single-earner with taxable income of $25,000 would pay $359 less, a reduction of nearly 24%, under the flat tax option compared to the current structure. A single-earner with taxable income of $100,000 would pay $3,160 less, a reduction of just over 24%, under the flat tax option.

## *TABLE 2: New Brunswick Provincial Income Tax Payable under Option 1 – Flat Tax for Single Tax Filer*

| Taxable Income | NB - 2008 | Flat Tax 10% 2008 | Difference | % |
|---|---|---|---|---|
| $15,000 | $65 | $45 | -$20 | -30.8% |
| $25,000 | $1,509 | $1,150 | -$359 | -23.8% |
| $40,000 | $3,222 | $2,700 | -$522 | -16.2% |
| $60,000 | $6,292 | $5,274 | -$1,018 | -16.2% |
| $100,000 | $12,884 | $9,724 | -$3,160 | -24.5% |
| $140,000 | $19,912 | $13,724 | -$6,188 | -31.1% |

Note: Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.

The benefits to families with children are even greater. Table 3 shows the tax savings to one-earner families with two children.

This shows that a one-earner family with two children earning $40,000 would pay $1,801 less in personal income taxes, a reduction of 72%, under the flat tax option compared to the current tax structure. A one-earner family with two children earning $100,000 would pay $3,689 less, a reduction of about 30%, under the flat tax option.

## *TABLE 3: New Brunswick Provincial Income Tax Payable under Option 1 – Flat Tax for One-Earner Family with Two Children*

| Taxable Income | NB - 2008 | Flat Tax 10% 2008 | Difference | % |
|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | 0.0% |
| $25,000 | $219 | $0 | -$219 | -100.0% |
| $40,000 | $2,501 | $700 | -$1,801 | -72.0% |
| $60,000 | $5,570 | $3,274 | -$2,296 | -41.2% |
| $100,000 | $12,163 | $8,474 | -$3,689 | -30.3% |
| $140,000 | $19,190 | $12,924 | -$6,266 | -32.7% |

Notes: Taxpayer is assumed to claim the personal, spousal, & child amounts, EI premium and CPP contribution. Children are assumed to be under the age of 18 but over the age of six.

A 10% single tax rate would give New Brunswick one of the lowest overall personal income tax rates in Canada, on par with the rate now levied in Alberta. It would provide a combined federal-provincial top rate of 39%, almost 7.5 percentage points lower than in Ontario.

The following tables illustrate how New Brunswick's provincial personal income taxes would compare with other provinces under the proposed flat tax rate structure.

Table 4, *Provincial Personal Income Tax Comparisons For Single Tax Filer – Option 1 Flat Tax*, shows the personal income tax payable at various income levels across provinces, and the differences from New Brunswick under the proposed flat tax structure. As revealed in the table, under the flat tax system, a New Brunswick single tax filer would pay less tax than a similar individual in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, Manitoba, and Saskatchewan at all income levels. New Brunswick would also have lower personal income taxes for most income levels than in Québec and Ontario under the flat tax system.

## *TABLE 4: Provincial Personal Income Tax Comparisons For Single Tax Filer – Option 1 Flat Tax 2008 Taxation Year*

| Taxable Income | NL | PE | NS | Option 1 - Flat Tax - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $439 | $383 | $266 | **$45** | $0 | $262 | $591 | $575 | $0 | $0 |
| $25,000 | $1,307 | $1,548 | $1,386 | **$1,150** | $1,239 | $1,197 | $1,686 | $1,601 | $1,262 | $1,016 |
| $40,000 | $2,954 | $3,240 | $3,258 | **$2,700** | $3,567 | $2,317 | $3,387 | $3,158 | $2,662 | $2,268 |
| $60,000 | $5,592 | $5,975 | $6,239 | **$5,274** | $6,848 | $4,281 | $5,908 | $5,730 | $4,636 | $3,850 |
| $100,000 | $11,981 | $12,544 | $13,262 | **$9,724** | $14,196 | $10,357 | $12,589 | $10,930 | $8,636 | $8,205 |
| $140,000 | $18,381 | $19,892 | $20,962 | **$13,724** | $21,997 | $17,321 | $19,549 | $16,693 | $12,636 | $14,085 |

## *$ Differences from NB*

| Taxable Income | NL | PE | NS | Option 1 - Flat Tax - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $394 | $338 | $221 | **$0** | **($45)** | $217 | $546 | $530 | **($45)** | **($45)** |
| $25,000 | $157 | $398 | $236 | **$0** | $89 | $47 | $536 | $451 | $112 | **($134)** |
| $40,000 | $254 | $540 | $558 | **$0** | $867 | **($383)** | $687 | $458 | **($38)** | **($432)** |
| $60,000 | $318 | $701 | $965 | **$0** | $1,574 | **($993)** | $634 | $456 | **($638)** | **($1,424)** |
| $100,000 | $2,257 | $2,820 | $3,538 | **$0** | $4,472 | $633 | $2,865 | $1,206 | **($1,088)** | **($1,519)** |
| $140,000 | $4,657 | $6,168 | $7,238 | **$0** | $8,273 | $3,597 | $5,825 | $2,969 | **($1,088)** | $361 |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.

Table 5, *Provincial Personal Income Tax Comparisons for One-Earner Family with Two Children – Option 1 Flat Tax*, shows the personal income tax payable at various income levels by province, and the differences from New Brunswick under the proposed flat tax structure. As revealed in the table, under the flat tax option, a one-earner family with two children in New Brunswick would pay less tax than similar families in all provinces, except for certain income levels in Alberta and British Columbia.

## TABLE 5: Provincial Personal Income Tax Comparisons for One-Earner Family with Two Children – Option 1 Flat Tax
## 2008 Taxation Year

| Taxable Income | NL | PE | NS | Option 1 - Flat Tax - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $800 | $506 | $379 | **$0** | $0 | $300 | $6 | $3 | $0 | $992 |
| $40,000 | $2,447 | $2,599 | $2,681 | **$700** | $1,607 | $1,410 | $1,853 | $1,560 | $1,574 | $2,504 |
| $60,000 | $5,085 | $5,333 | $5,662 | **$3,274** | $5,143 | $3,835 | $4,571 | $4,131 | $3,548 | $4,086 |
| $100,000 | $11,474 | $11,898 | $12,627 | **$8,474** | $12,491 | $9,661 | $11,645 | $9,331 | $7,548 | $8,441 |
| $140,000 | $17,874 | $19,186 | $20,327 | **$12,924** | $20,292 | $16,625 | $18,674 | $15,095 | $11,548 | $14,321 |

## $ Differences from NB

| Taxable Income | NL | PE | NS | Option 1 - Flat Tax - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $800 | $506 | $379 | **$0** | $0 | $300 | $6 | $3 | $0 | $992 |
| $40,000 | $1,747 | $1,899 | $1,981 | **$0** | $907 | $710 | $1,153 | $860 | $874 | $1,804 |
| $60,000 | $1,811 | $2,059 | $2,388 | **$0** | $1,869 | $561 | $1,297 | $857 | $274 | $812 |
| $100,000 | $3,000 | $3,424 | $4,153 | **$0** | $4,017 | $1,187 | $3,171 | $857 | **($926)** | **($33)** |
| $140,000 | $4,950 | $6,262 | $7,403 | **$0** | $7,368 | $3,701 | $5,750 | $2,171 | **($1,376)** | $1,397 |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal, equivalent to spouse, and child amounts, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.
7 Children are assumed to be under the age of 18 but over the age of six.

## *Option 2: A Two-Rate Structure*

This option would replace the existing four-rate, four-bracket structure with two rates and two brackets. It would reduce tax at all income levels, and allow New Brunswickers to keep and use more of their own income. The two-rate personal income tax system would also significantly improve the attractiveness of New Brunswick to households with middle and higher income levels, and would make the overall tax system more supportive of income growth and job creation.

This option would replace the existing personal income tax structure with two rates of 9% and 12%, with the 12% rate starting at $35,000 of taxable income. This two-rate option would be phased in over time and would be fully in place by 2012. This option maintains a Low-Income Tax Reduction and all current non-refundable credit amounts. The Low-Income Tax Reduction, while still in place, would be phased out at 3% instead of 5%, which would improve the marginal effective tax rate for low-income earners. This would help to attract highly skilled workers to New Brunswick, while also lowering the marginal effective tax rate on low-income earners.

Tables 6 and 7, *New Brunswick Provincial Income Tax Payable under Option 2 – Two-Rate* show the benefit of a two-rate structure, 9% and 12%, for both single-earners and one-earner families with two children, respectively. Although the proposed changes would not be fully implemented in a single year, to illustrate their potential, both tables show the tax changes as if they were implemented in 2008. In both tables, the second column, NB-2008, depicts what the personal income tax payable is under the current system. The third column, Two-Rate 2008, shows what the personal income tax payable would be with the two-rate option of 9% and 12%.

For example, as illustrated in Table 6, a single-earner with taxable income of $25,000 would pay $326 less, a reduction of almost 22%, under the two-rate option compared to the existing tax structure. A single earner with taxable income of $100,000 would pay $2,938 less, a reduction of nearly 23%, under the proposed two-rate option compared to the current system.

## TABLE 6: New Brunswick Provincial Income Tax Payable under Option 2 – Two-rate for Single Tax Filer

| Taxable Income | NB - 2008 | Two-rate - 2008 | Difference | % |
|---|---|---|---|---|
| $15,000 | $65 | $44 | -$21 | -32.3% |
| $25,000 | $1,509 | $1,183 | -$326 | -21.6% |
| $40,000 | $3,222 | $2,770 | -$452 | -14.0% |
| $60,000 | $6,292 | $5,146 | -$1,146 | -18.2% |
| $100,000 | $12,884 | $9,946 | -$2,938 | -22.8% |
| $140,000 | $19,912 | $14,746 | -$5,166 | -25.9% |

Note: Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.

As illustrated in Table 7, a one-earner family with two children earning $40,000 would pay $1,325 less in personal income taxes, a reduction of 53%, under the proposed two-rate option compared to the current tax structure. A one-earner family with two children earning $100,000 would pay $3,579 less, a reduction of over 29%, under the two-rate option.

## TABLE 7: New Brunswick Provincial Income Tax Payable under Option 2 – Two-rate for One-Earner Family with Two Children

| Taxable Income | NB - 2008 | Two-rate - 2008 | Difference | % |
|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | 0.0% |
| $25,000 | $219 | $0 | -$219 | -100.0% |
| $40,000 | $2,501 | $1,176 | -$1,325 | -53.0% |
| $60,000 | $5,570 | $3,784 | -$1,786 | -32.1% |
| $100,000 | $12,163 | $8,584 | -$3,579 | -29.4% |
| $140,000 | $19,190 | $13,384 | -$5,806 | -30.3% |

Notes: Taxpayer is assumed to claim the personal, spousal, & child amounts, EI premium and CPP contribution. Children are assumed to be under the age of 18 but over the age of six.

Table 8, *Provincial Personal Income Tax Comparisons for Single Tax Filer – Option 2 Two-Rate*, shows the personal income tax payable at various income levels across provinces, and the differences from New Brunswick under the proposed two-rate tax structure. As revealed in the table, under the two-rate system, a New Brunswick single tax filer would pay less tax than a similar individual in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, Manitoba, and Saskatchewan at all income levels. New Brunswick would also have lower personal income taxes for most income levels than in Québec and Ontario under the two-rate system.

## *TABLE 8: Provincial Personal Income Tax Comparisons for Single Tax Filer – Option 2 Two-Rate 2008 Taxation Year*

| Taxable Income | NL | PE | NS | Option 2 - Two-rate - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $439 | $383 | $266 | **$44** | $0 | $262 | $591 | $575 | $0 | $0 |
| $25,000 | $1,307 | $1,548 | $1,386 | **$1,183** | $1,239 | $1,197 | $1,686 | $1,601 | $1,262 | $1,016 |
| $40,000 | $2,954 | $3,240 | $3,258 | **$2,770** | $3,567 | $2,317 | $3,387 | $3,158 | $2,662 | $2,268 |
| $60,000 | $5,592 | $5,975 | $6,239 | **$5,146** | $6,848 | $4,281 | $5,908 | $5,730 | $4,636 | $3,850 |
| $100,000 | $11,981 | $12,544 | $13,262 | **$9,946** | $14,196 | $10,357 | $12,589 | $10,930 | $8,636 | $8,205 |
| $140,000 | $18,381 | $19,892 | $20,962 | **$14,746** | $21,997 | $17,321 | $19,549 | $16,693 | $12,636 | $14,085 |

## *$ Differences from NB*

| Taxable Income | NL | PE | NS | Option 1 - Flat Tax - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $395 | $339 | $222 | **$0** | **($44)** | $218 | $547 | $531 | **($44)** | **($44)** |
| $25,000 | $124 | $365 | $203 | **$0** | $56 | $14 | $503 | $418 | $79 | **($167)** |
| $40,000 | $184 | $470 | $488 | **$0** | $797 | **($453)** | $617 | $388 | **($108)** | **($502)** |
| $60,000 | $446 | $829 | $1,093 | **$0** | $1,702 | **($865)** | $762 | $584 | **($510)** | **($1,296)** |
| $100,000 | $2,035 | $2,598 | $3,316 | **$0** | $4,250 | $411 | $2,643 | $984 | **($1,310)** | **($1,741)** |
| $140,000 | $3,635 | $5,146 | $6,216 | **$0** | $7,251 | $2,575 | $4,803 | $1,947 | **($2,110)** | **($661)** |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.

Table 9, *Provincial Personal Income Tax Comparisons for One-Earner Family with Two Children – Option 2 Two-Rate*, shows the personal income tax payable at various income levels by province and the differences from New Brunswick under the proposed two-rate tax structure. As revealed in the table, under the two-rate option, a one-earner family with two children in New Brunswick would pay less tax than similar families in all provinces, except for certain income levels in Alberta and British Columbia.

## TABLE 9: Provincial Personal Income Tax Comparisons for One-Earner Family with Two Children - Option 2 Two-Rate
## 2008 Taxation Year

| Taxable Income | NL | PE | NS | Option 2 - Two-rate - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $800 | $506 | $379 | **$0** | $0 | $300 | $6 | $3 | $0 | $992 |
| $40,000 | $2,447 | $2,599 | $2,681 | **$1,176** | $1,607 | $1,410 | $1,853 | $1,560 | $1,574 | $2,504 |
| $60,000 | $5,085 | $5,333 | $5,662 | **$3,784** | $5,143 | $3,835 | $4,571 | $4,131 | $3,548 | $4,086 |
| $100,000 | $11,474 | $11,898 | $12,627 | **$8,584** | $12,491 | $9,661 | $11,645 | $9,331 | $7,548 | $8,441 |
| $140,000 | $17,874 | $19,186 | $20,327 | **$13,384** | $20,292 | $16,625 | $18,674 | $15,095 | $11,548 | $14,321 |

## $ Differences from NB

| Taxable Income | NL | PE | NS | Option 2 - Two-rate - NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $800 | $506 | $379 | **$0** | $0 | $300 | $6 | $3 | $0 | $992 |
| $40,000 | $1,271 | $1,423 | $1,505 | **$0** | $431 | $234 | $677 | $384 | $398 | $1,328 |
| $60,000 | $1,301 | $1,549 | $1,878 | **$0** | $1,359 | $51 | $787 | $347 | **($236)** | $302 |
| $100,000 | $2,890 | $3,314 | $4,043 | **$0** | $3,907 | $1,077 | $3,061 | $747 | **($1,036)** | **($143)** |
| $140,000 | $4,490 | $5,802 | $6,943 | **$0** | $6,908 | $3,241 | $5,290 | $1,711 | **($1,836)** | $937 |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal, equivalent to spouse, and child amounts, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.
7 Children are assumed to be under the age of 18 but over the age of six.

As illustrated by Tables 4, 5, 8 and 9, the two-rate option does not improve the tax treatment of higher income levels as much as the flat tax option. However, the two-rate option does give slightly more tax relief at lower income levels.

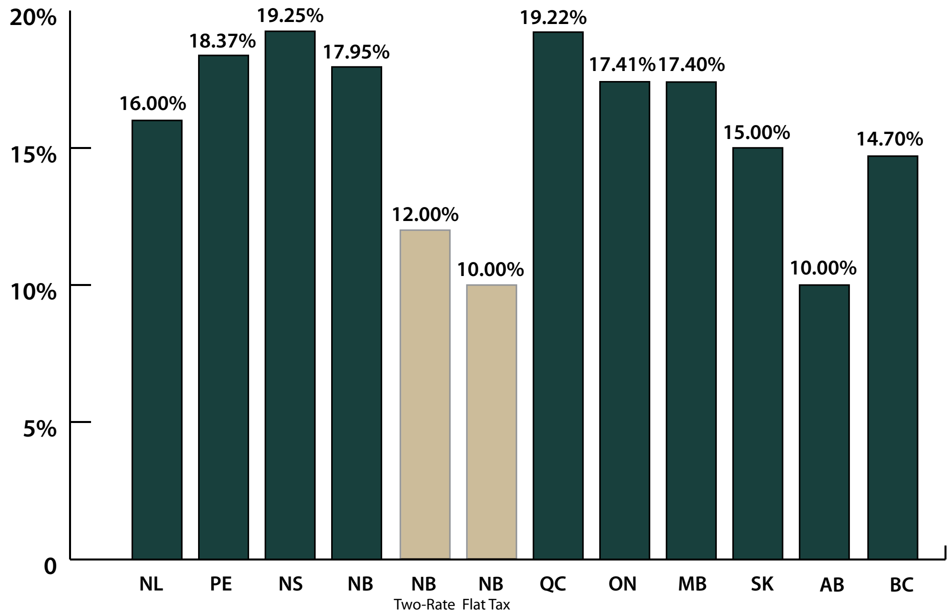
Chart 3, *Top Provincial Marginal Income Tax Rates – Options 1 & 2*, shows the top marginal income tax rates by province, incorporating both the flat tax option of 10% and the two-rate option of 9% and 12%. This chart shows that both options would improve New Brunswick's attractiveness to better-paying jobs and highly-skilled workers. With the flat tax option, New Brunswick would be tied with Alberta for the lowest top marginal income tax rate. Under the two-rate system, New Brunswick would have the second lowest top marginal income tax rate at 12%.

## *CHART 3: Top Provincial Marginal Income Tax Rates –Options 1 & 2*

2008 Taxation Year

Source: Department of Finance

Note: Québec's rate has been adjusted to account for the 16.5% federal abatement. The top marginal provincial tax rate in Québec is 24%.




**Benefits of Reducing Personal Income Tax:**

- Both options reduce provincial personal income tax payable at all income levels and leave more hard-earned money in the hands of New Brunswickers.

- Option 1, the 10% flat tax, would reduce tax more at higher income levels and has the advantage of a single rate. This option is very bold and would be most effective in making the province more attractive to investment in better paying jobs and skilled labour.

- Option 2, the two-rate structure, provides greater benefits to some income levels compared to Option 1, but still significantly reduces marginal tax rates at higher income levels. This option would also significantly improve the province's ability to attract better-paying jobs and highly skilled labour.

- Both options would improve the attractiveness of New Brunswick as a location for businesses with better paying jobs, and for better paid workers and tradespeople. This would enable all working New Brunswickers to keep significantly more of their hard-earned dollars than the current system allows.

- Both options would significantly reduce reliance on personal income taxes and would make the overall tax system much more supportive of economic growth and job creation.

These proposals for transforming New Brunswick's tax system would create a simpler personal income tax system for New Brunswickers that would reward savings and investment and promote risk-taking and economic growth.

More income would be left in the pockets of all New Brunswickers and taxpayers would have control over their own spending, helping to generate the income and the jobs needed to achieve self-sufficiency.

# E. Supporting New Brunswick Families

To grow New Brunswick's economy, the population must also grow. To meet its population growth targets, the province must become an even more attractive place for workers and their families. Policies that encourage the best and brightest to plan their futures here and that attract new residents to New Brunswick by allowing workers and tradespeople to keep more of their hard-earned money would help achieve these goals.

The tax system can play an important role in promoting a family-friendly New Brunswick, by providing tax advantages to support families in dealing with the cost of raising and educating their children. The proposed options for redesigning personal income tax outlined above would have a significant benefit for families. But to enhance the province's position as a family-friendly jurisdiction, further measures to support families should be considered.

New Brunswick currently provides benefits to families primarily through three refundable tax credits: the New Brunswick Child Tax Benefit, the New Brunswick Working Income Supplement and the New Brunswick Low Income Seniors' Benefit. **Appendix 1** provides a description of these tax credits.

In addition to meeting their current needs, New Brunswick families must also have the ability to save money in order to invest in their own and their children's futures. The new federal Tax-Free Savings Account (TSFA), described below, will make income earned in these savings accounts free from both federal and provincial income tax. The Province supports this important federal initiative to promote personal savings and encourages New Brunswickers to take advantage of this new incentive to save and generate income and wealth for their families.

Through existing policies and proposed enhancements to the provincial tax system, combined with lower personal income taxes and corporate taxes that promote investment and economic growth, New Brunswick will be the best place in Canada to raise a family.

The following are three key options for tax reform and program measures to help make New Brunswick an even more family-friendly province:

**1. Non-Refundable Child Tax Credit**

Both of the personal income tax options outlined in the previous section include a new non-refundable child tax credit. This would reduce personal income tax payable by up to $400 per child and would be available to all families, regardless of income level. New Brunswick's new non-refundable child tax credit would be phased in over four years.

**2. New Brunswick Universal Child Care Benefit**

New Brunswick could provide a benefit to assist families with the cost of raising a child by mirroring the current federal Universal Child Care Benefit. The provincial benefit would be equal to half of the federal amount. The province could consider providing families with $50 per month ($600 annually) for each child under the age of six. This would provide a 50% addition to the value of the current federal Universal Child Care Benefit (from $1,200 to $1,800 per child annually). This amount would be provided on the same basis as the existing federal benefit, and would be provided to all families, regardless of their income level.

**3. Encouraging Savings**

Encouraging New Brunswickers to save for their own and their children's future is an important element in generating wealth for the province.

As noted above, the federal government has introduced a new Tax-Free Savings Account (TFSA) in its February 26, 2008 budget. Beginning in 2009, Canadians can save up to $5,000 annually in a TFSA. The TFSA is different from a Registered Retirement Savings Program (RRSP) in that TFSA contributions are not tax deductible like RRSPs. However, unlike RRSPs, withdrawals and interest growth within a TFSA will not be taxed. In addition, income earned in a TFSA and withdrawals made from a TFSA will not affect eligibility for federal income-tested benefits, such as the Guaranteed Income Supplement (GIS), and the Canada Child Tax Benefit (CCTB). New Brunswick will ensure that income earned in a TFSA will not impact provincial income-tested tax benefits.

The government supports the introduction of a Tax-Free Savings Account (TFSA) as it is consistent with the Province's objective of generating income and wealth for New Brunswickers by encouraging greater savings.

# F. A Growth-Oriented Tax Structure for Business

The personal income tax reduction options outlined in the previous section would substantially improve the attractiveness of New Brunswick to business investment, particularly those with better paying jobs. As noted, personal income tax reductions would improve incentives to work and make the province more attractive to highly-skilled workers.

To meet its self-sufficiency goals, New Brunswick must attract more investment by both existing and new businesses. Increased investment in physical and human capital will improve productivity and worker incomes. Reduced personal income taxes will significantly benefit owners of existing New Brunswick businesses, encourage entrepreneurship and growth, and help provide a welcome and competitive environment for all businesses. This is particularly important to small businesses where the return to investment in many cases is received directly as personal income, or becomes personal income through dividends received as owner-operators. A flatter personal income tax system with reduced taxes will also help make the tax system more neutral and encourage growth in all sectors.

To encourage economic growth, direct taxes on business must also strive to be neutral with respect to all sectors of the economy and firm size. Reducing the general corporate income tax rate from the current 13% rate to a rate that is closer to the small business rate of 5% would provide a greater incentive for businesses to grow and be successful.

Jurisdictions around the world have discovered that in designing business taxes, one important method for generating economic growth is to have lower taxes.[7] Other things being equal, businesses will move to the location with the most advantageous tax regime.

Since lower business taxes encourage new investment and growth, the potential exists to use corporate tax reductions to promote development and reap higher revenues at the same time. Ireland, for example, cut its business taxes from the highest in the European Union to one of the lowest, and reaped new investment, growth, jobs and additional revenue as a result.[8]

To meet its self-sufficiency goals, New Brunswick must attract more business and investment. In reflecting on the experience of Ireland and other jurisdictions, one way to achieve this result is by lowering provincial business taxes.

New Brunswick's current general corporate income tax rate does not provide the incentive for economic growth that is required to achieve self-sufficiency. The province's 13% rate, when combined with the federal corporate income tax of 19.5%, gives a total corporate income tax in New Brunswick of 32.5%; well above the level that economists estimate is required to maximize revenue. [9]

A rate lower than the revenue-maximizing rate would be necessary to support the economic growth required to achieve self-sufficiency.

The federal government has announced it will reduce its corporate income tax rate to 15% by 2012. Federal Finance Minister Jim Flaherty has publicly challenged his provincial counterparts to reduce their corporate tax rates to 10% over the next four years. This would give Canada a combined corporate tax rate of 25%, the lowest among the G-8 nations. However, to drive business growth and position New Brunswick to achieve self-sufficiency, the province must reduce corporate income taxes beyond the federal government's suggested rate so that New Brunswick is competitive on a national and global scale.

A gradual reduction in the general corporate income tax rate, combined with gradual reductions in personal income taxes and other measures, will help grow the provincial economy and permit reforms to New Brunswick's tax system to be implemented in a fiscally neutral manner.[10]

New Brunswick's small business corporate income tax rate is currently competitive compared to other provinces, with only five provinces having a lower rate. The options presented for reforming corporate income taxes do not include reducing the small business corporate income tax rate.

[7] Jack Mintz, *"A Call for Comprehensive Tax Reform"*, C.D. Howe Institute Backgrounder No. 254. (Toronto: C.D. Howe Institute, September 2007), 7-15.
[8] Brendan Walsh, "Taxation and foreign direct investment in Ireland", *Tax Reform in Canada: Our Path to Greater Prosperity* (The Fraser Institute 2003), 227.
[9] Mintz, *"A Call for Comprehensive Tax Reform"*, 13.
[10] For information on the impact of corporate income taxes on investment and goverment revenues, see Jack Mintz, and Michael Smart, *"Income Shifting, investment and tax competition: Theory and Evidence from provincial taxation in Canada"*, (University of Toronto, April 2003), 1-2.

A growth-oriented tax structure for business cannot create a disincentive for small businesses in New Brunswick to grow. Reducing the small business corporate income tax would maintain a gap between it and the general corporate income tax rate, and discourage small businesses from expanding, since growth would result in a higher tax rate. As described previously, the options to reduce personal income taxes would provide significant benefits to entrepreneurs and small business owners throughout New Brunswick. Also, the increased economic activity generated as a result of reductions in personal income taxes and the general corporate income tax rate would benefit all New Brunswick businesses, including small businesses.

The following three options are designed to make New Brunswick's business tax structure more competitive and support business growth and expansion. In each case, the proposed reduction would be phased in over four years, being fully implemented in 2012.

## *Option 1: Reduce the General Corporate Income Tax Rate to 10%*

Reducing the current general corporate income tax rate by three percentage points would meet the federal government's challenge of an overall federal-provincial corporate income tax rate of 25% (15% federal, 10% provincial). This would give New Brunswick a general corporate income tax rate equal to the rate levied in Alberta, which currently has the lowest provincial corporate income tax rate in Canada. Given the trend toward lower business taxes and the federal government's challenge, it is quite possible that other provinces may move to meet this rate by 2012. This option still leaves a gap of five percentage points between the general corporate income tax rate and the small business corporate income tax rate. This would mean there would still be a disincentive to growth for small businesses, but this disincentive would be reduced compared to the current system.

## *Option 2: Reduce the General Corporate Income Tax Rate to 7%*

Reducing the general corporate income tax rate to 7% from the existing rate of 13% would significantly reduce the penalty on growth, leaving a gap of only two percentage points between the general corporate income tax rate and the small business corporate income tax rate. A New Brunswick general corporate income tax rate of 7% would result in a combined federal-provincial general corporate income tax rate of 22%, surpassing the federal government's challenge. This would make New Brunswick much more attractive for businesses to locate, invest and grow.

## *Option 3: Reduce the General Corporate Income Tax Rate to 5%*

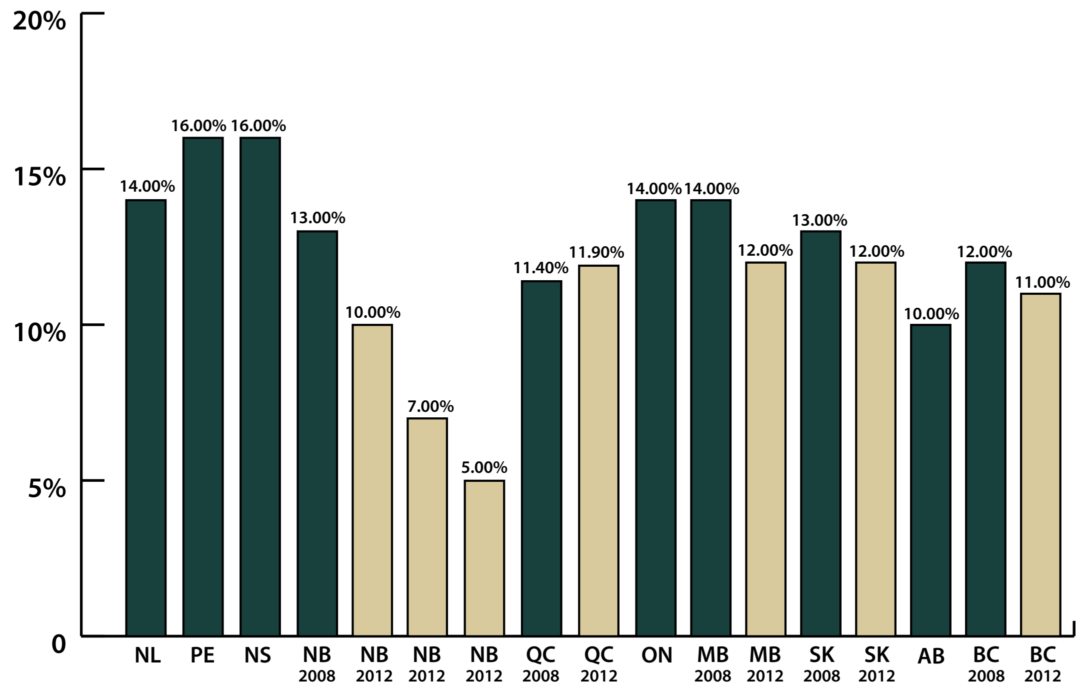
This is the boldest option and the deepest reduction in corporate income taxation. A rate of 5% would eliminate the tax penalty on growth, as the general corporate income tax rate would be equal to the small business rate. It would also give New Brunswick a combined federal-provincial general corporate income tax rate of 20%, far surpassing the federal government's challenge. At a 5% general corporate income tax rate, New Brunswick would be highly competitive on a global scale as a location for Canadian and international businesses to invest and grow.

Chart 4, *Provincial General Corporate Income Tax Rates - Options 1, 2 & 3*, illustrates the three proposed general corporate income tax options. The 10% general corporate income tax option would make New Brunswick tied for the lowest rate with Alberta, and the 7% and 5% general corporate income tax rate options would give New Brunswick the lowest rate of all provinces. The 7% and 5% general corporate income tax options would also make New Brunswick competitive internationally.

*CHART 4: Provincial General Corporate Income Tax Rates - Options 1, 2 & 3*

as of May 1, 2008

Source: Department of Finance

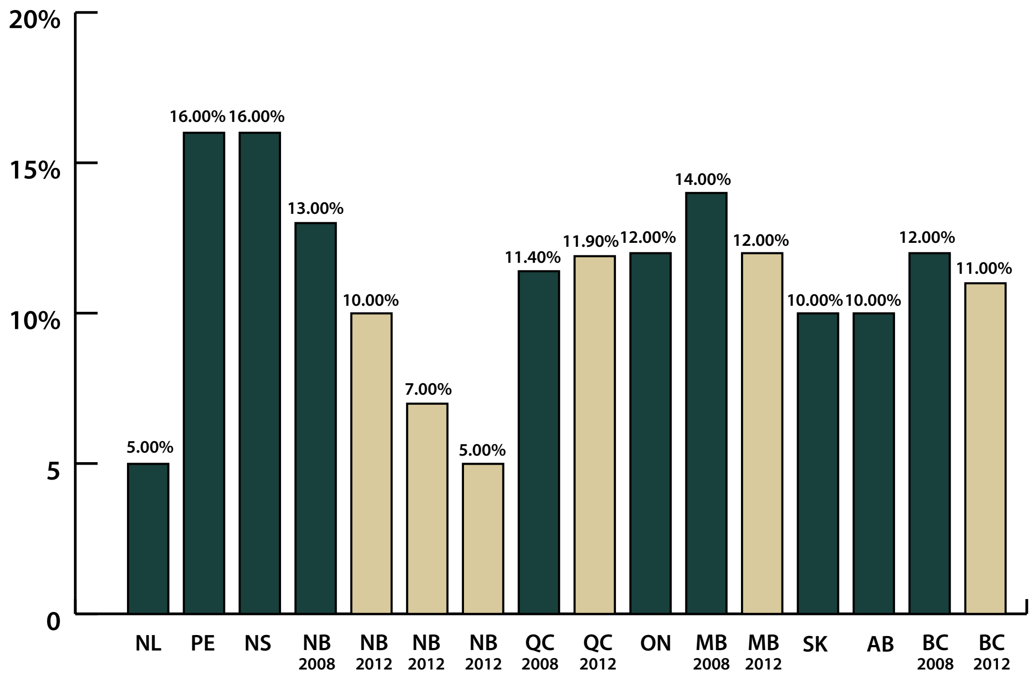



New Brunswick does not apply a separate corporate income tax rate for manufacturing and processing, as is the case in some other provinces. Chart 5, *Provincial Manufacturing and Processing Corporate Income Tax Rates, Options 1, 2 & 3*, shows the three proposed general corporate income tax options as compared to other province's manufacturing and processing rates. This demonstrates that reducing the general corporate income tax rate to 10%, 7%, or 5% would make New Brunswick the second lowest, or tied for lowest, jurisdiction in the country for manufacturing and processing.

*CHART 5: Provincial Manufacturing and Processing Corporate Income Tax Rates - Options 1, 2 & 3*

as of May 1, 2008

Source: Department of Finance




## *Sector-Specific Tax Credits*

Reducing the general corporate income tax rate would simplify New Brunswick's corporate tax structure. A tax rate that is nationally and internationally competitive could draw new enterprises to the province and reduce the need for special tax incentives that have been provided to specific industries.

As it phases in the general corporate income tax rate reductions, the Province may wish to consider phasing out existing tax credits targeted at specific industries or sectors of the economy, and potentially developing tax policies and incentives that are broad-based and general in application.

## *Taxes on Capital*

Over the last three years, New Brunswick has made great strides by moving closer to phasing out its Large Corporation Capital Tax, and it will be completely eliminated by the end of the current calendar year. This meets an objective set by the federal government of removing federal-provincial corporate capital taxes to improve the overall business climate in Canada.

One option would be for New Brunswick to replace the existing 3% financial corporation capital tax with a capital tax designed as a minimum tax. That is, the financial corporation capital tax would only be payable to the extent that it was greater than corporate income tax payable. Another option is to reduce or eliminate the existing financial corporation capital tax. Either of these options would simplify and reduce taxes on business growth and improve the attractiveness of New Brunswick to this growing business sector.

# G. Carbon Tax: Reduced Emissions, Cleaner Environment

To achieve the goal of self-sufficiency, New Brunswick needs a healthy environment as well as a healthy economy. Wherever they live, New Brunswickers value their environment, and they want to be good stewards of the province's land, air and water. Strong economic growth can and must co-exist with strong environmental stewardship.

In 2007, the provincial government released its Climate Change Action Plan, committing the province to significant reductions in greenhouse gas emissions. This will require changes in the way New Brunswickers live, moving away from the fuels that contribute to global warming.

One potential method of changing consumer and corporate behaviour and encouraging more environmentally friendly choices is through taxation – by taxing the carbon content of fuels that contribute to global warming. The funds raised from this tax could help support environmental initiatives and help finance reductions in personal and corporate income taxes. As part of a restructured provincial tax system, a carbon tax could play a role in New Brunswick's environmental and fiscal strategy for achieving self-sufficiency.

New Brunswick has long been a leader in using taxes and levies to meet environmental objectives. The Beverage Container program, launched in 1990, has diverted millions of tonnes of glass and plastic bottles from the province's landfills by providing a refund for every returned bottle. The Tire Stewardship Program pays a fee for the return of used car and truck tires, keeping them out of the waste stream. The province also charges a $500 annual fee to service stations for the disposal of used oil.

A carbon tax – imposing a fee on each unit of carbon-equivalent emissions from a fuel or energy source, such as heating oil, gasoline, diesel, propane, natural gas or coal – would be a new direction for this province. In considering a carbon tax for New Brunswick, it is important to examine the models recently introduced by British Columbia and Québec.

**British Columbia** will introduce a provincial carbon tax on July 1, 2008, starting at a rate of $10 per tonne of associated carbon or carbon-equivalent emissions. This tax will be phased in over four years, with the rate reaching $30 a tonne by 2012. The 2008 carbon tax rate works out to 2.41 cents per litre for gasoline and 2.76 cents per litre for home heating oil, rising to 7.24 cents and 8.27 cents per litre respectively by 2012.

To offset the impact of the new carbon tax, low-income British Columbians will receive an annual Carbon Action Credit of $100 per adult and $30 per child. This credit will be paid quarterly to low-income earners along with the federal Goods and Services Tax Credit. To further encourage British Columbians to make lifestyle changes, each British Columbia resident will receive a one-time payment of $100 as a "Climate Action Dividend."

British Columbia also announced reductions in personal and corporate income taxes in its 2008 budget, which will reduce the impact of the new carbon tax on personal spending choices and keep the province competitive for jobs and investment.

**Québec** enacted a carbon tax in October 2007. The tax is a direct levy on non-renewable fossil fuels (oil, gasoline, natural gas and coal) and is imposed at the wholesale-distributor level. The tax rate is 0.8 cents per litre on gasoline and 0.9 cents on diesel fuel. The Québec government has asked distributors not to pass the tax cost on to consumers.

## *Carbon Tax: Pros and Cons*

- It has been shown that taxation is an effective method of changing consumer and corporate behaviour - if you want to encourage reduced consumption of something, increase its price by applying a tax. By changing the price of carbon-based fuels, consumers and businesses will be encouraged to use less of the fuels that contribute to greenhouse gas emissions and switch to cleaner sources of energy.
- By making a carbon tax one feature of a restructured tax system – as part of a series of tax options that includes significant reductions in personal and corporate tax rates – the province could introduce this new environmental tax without adversely impacting its ability to compete for jobs, investment and economic growth.
- A carbon tax could impact decision-making on major industry projects for the province. However, concurrent reductions in corporate and personal tax rates would

keep New Brunswick economically competitive in these determinations.
- A carbon tax for New Brunswick would be applied in addition to the existing federal-provincial Harmonized Sales Tax. Carbon-based fuels are currently subject to sales tax in New Brunswick (HST), which is not the case in British Columbia, or other provinces with provincial retail sales taxes.
- A carbon tax would have an impact on the cost of generating electricity, as NB Power uses fossil fuels for a portion of its generating mix. This would provide an incentive to bring additional generating capacity from cleaner sources, such as nuclear, wind, hydro and tidal power, into the system.

## A Carbon Tax For New Brunswick

New Brunswick could consider implementing a carbon tax based on the British Columbia model – a tax on all forms of carbon or carbon-equivalent emissions, phased in gradually over several years, with a reimbursement credit to offset the impact of this tax on low-income New Brunswickers.

Like the British Columbia credit, a **New Brunswick Climate Change Tax Credit** would be paid to those receiving the existing federal GST credit and be included with the quarterly federal credit payment. This credit could replace the existing Home Energy Assistance Program (HEAP).

By replacing an application-based program with an automatic credit, the province would ensure that all low-income New Brunswickers receive financial assistance with respect to fuel costs.

The New Brunswick Carbon Tax would support the government's *Climate Change Action Plan* initiatives and help fund reductions to personal and corporate income taxes, allowing the overall tax changes to be fiscally neutral.

To further the goals of its Climate Change Action Plan, government may consider other options for reducing greenhouse gas emissions and encouraging New Brunswickers to make environmentally friendly choices.

## Incentives for Production of Biofuels

The federal government is moving toward new regulations to promote the use of ethanol and other biofuels by requiring a percentage of renewable fuels to be used in the production of gasoline, diesel fuel and heating oil.

Biofuel production has the potential to spur growth and development for New Brunswick's agriculture and forestry sectors, by creating a new market for farm and forest-based products that can be converted to fuel for cars, trucks and homes.

New Brunswick will continue to work with the federal government, provinces and territories, farmers, forestry sector, and researchers to explore the possibilities for developing and maintaining a biofuels industry in the province.

# H. Harmonized Sales Tax

Restructuring the tax system to achieve self-sufficiency requires an examination of the full scope of the New Brunswick tax system. This exercise is about far more than reducing some taxes and imposing new ones. It is about achieving a balance so that the tax system actively promotes personal savings, business investment, economic growth and job creation while putting in place a structure that remains fiscally neutral.

Government raises tax revenue through a variety of sources: personal and corporate income taxes, consumption taxes, excise taxes and property taxes. However, when it comes to their impact on generating wealth and creating jobs, all taxes are not created equal.

To achieve the goal of self-sufficiency, New Brunswick's tax system must be restructured and rebalanced to ensure it does not overly tax what is most urgently needed – increased incomes, savings and business investment. The tax system should be designed so that New Brunswickers pay less tax on what they *contribute* to the province's economy (work effort and investment), and more tax on what they *remove* from the economy (economic resources and output).

**The fact is:** New Brunswick's current tax system is weighted too heavily toward personal and corporate taxes to achieve this goal. That is why this discussion paper proposes the province reduce its reliance on income taxes and raise a larger share of revenue through consumption taxes.

Taxes on personal and business income can discourage improvements in productivity and business growth. They reduce workers' take-home pay and disposable income for savings – particularly for those in higher-income brackets – and reduce the after-tax return on investment, limiting growth and new jobs. These factors can discourage highly skilled, better paid workers and tradespeople and the businesses that employ them from establishing themselves in New Brunswick. To achieve self-sufficiency, New Brunswick needs the ability to recruit and retain businesses that employ highly skilled and better paid workforces.

Making New Brunswick more attractive to investment, growth, and jobs would require a fundamental rebalancing of the provincial tax system: reducing reliance on taxes that impact what residents *contribute* to the economy and moving to a greater reliance on taxes that apply to what *is removed* from the economy. This would suggest that a greater share of New Brunswick's future tax revenues should come from consumption taxes: sales taxes, excise taxes or other revenue sources.

There are a number of advantages to this approach that would support New Brunswick's self-sufficiency objectives:

- Lower personal income taxes encourage greater work effort and productivity. This encourages workers in highly skilled professions and trades – and the companies that require these workers – to invest and settle in the province.
- Consumption taxes have less impact on investment and income growth. Moving the relative reliance of the tax system from income taxes to consumption taxes provides an incentive for individuals and businesses to save and invest their hard-earned money.
- Some specific consumption taxes are designed to reflect a user-pay principle. This ensures that taxes are applied more directly to those who use a service: i.e., gasoline taxes are paid by road users to support highway construction and maintenance costs.
- Consumption taxes apply more broadly to the population, and are not borne solely by those who earn income through work and investment.
- Higher consumption taxes and lower personal income taxes impact those who consume more while rewarding those who consume less and invest more.
- A rebalanced tax system puts the power back in the hands of the taxpayer to decide how to spend, invest and save their own money.

By rebalancing the tax system toward consumption taxes and reducing the reliance on personal and corporate income taxes, the tax system would become more neutral: reducing to a greater extent the impact of taxes on decisions that result in savings, investment, economic growth and job creation. [11]

[11] Mintz, *"A Call for Comprehensive Tax Reform"*, 20-22.

## *Option*

In order to be able to deliver the lower personal and corporate income taxes outlined earlier, the Province could consider increasing the provincial portion of the HST by two percentage points: from the current 8% to 10%. A two-percentage-point increase would bring the combined HST rate in New Brunswick to 15%, which would restore the rate that was in place two years ago.

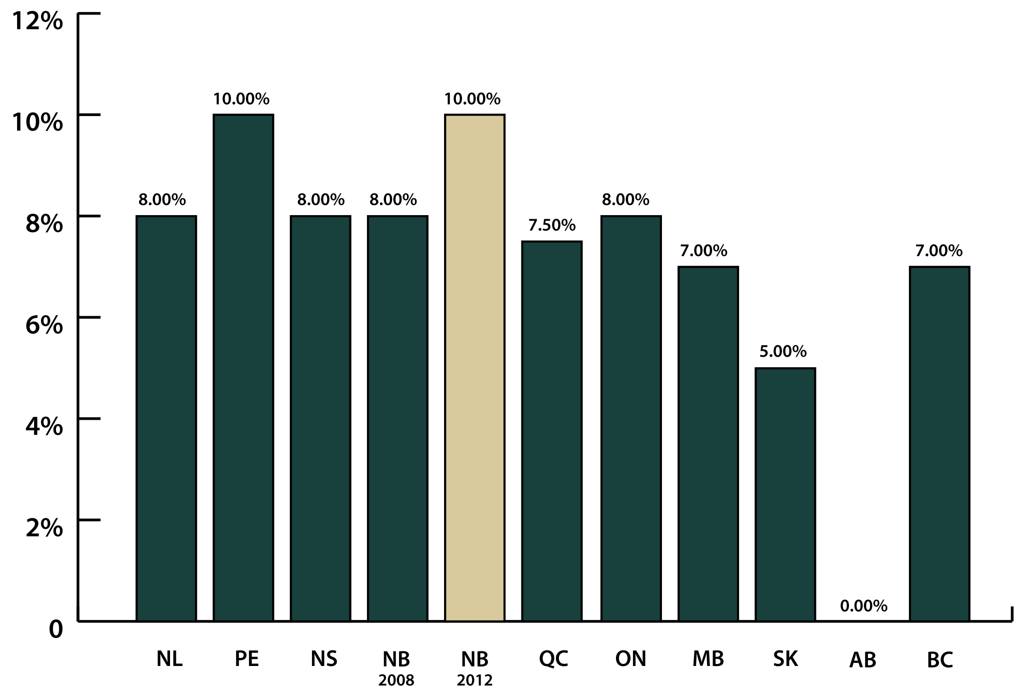
For such an increase to be put in place, discussions with the federal government would be necessary to change the existing harmonized sales tax agreement. For further details on the existing agreement, see the Harmonized Sales Tax section of **Appendix 1**.

Chart 6, *Sales Tax Rates by Province – NB HST Option*, provides a provincial sales tax rate comparison with the option to increase the provincial component of the Harmonized Sales Tax to 10% (resulting in a 15% HST rate in New Brunswick that would be the same as it was two years ago).

### *CHART 6: Sales Tax Rates by Province – NB HST Option*

as of May 1, 2008

Source: Department of Finance




While Chart 6 illustrates statutory sales tax rates for provinces, it is important to recognize that these rates do not apply to the same goods and services. The five provinces with retail sales taxes have narrower tax bases that do not apply to as many goods and services and apply tax to many business inputs. As such, they are not as neutral and investment friendly as the value added taxes used by New Brunswick, Nova Scotia, Newfoundland and Labrador and Québec. Alberta has no general provincial sales tax.

## *Effects of an HST Adjustment*

A modest increase in the provincial portion of the HST could help provide revenue to support the proposed reduction of personal and corporate income taxes. More importantly, it would move the focus of the New Brunswick tax system toward the savings, investment, income generation, economic growth, and job creation required to achieve self-sufficiency.

An increase in the HST would increase the cost of taxable goods and services to consumers. For example, a two percentage point increase in the HST rate would represent an increase of 3¢ on a $1.50 cup of coffee, an additional $10 on a $500 television, and $400 on the purchase of a $20,000 automobile.

This means that consumers would pay the same HST rate as they did two years ago.

The net impact on taxpayers of reducing personal income taxes and increasing the HST will depend on an individual's and family's specific circumstances, including income levels and consumption of taxable goods and services.

**The fact is:** Restructuring and rebalancing the tax system to reduce reliance on income taxes and raise more revenue through a modest increase in consumption taxes will provide New Brunswick taxpayers with lower taxes overall. Most importantly, a restructured tax system will allow New Brunswickers to keep more of their hard-earned money to save, invest and use as they see fit.

# I. Property Taxes: Issues and Options for Consideration

In developing options for a restructured provincial tax system, it is important to consider the impact property taxes have on economic competitiveness, investment and job creation.

Property taxes, along with corporate and personal taxes, consumption taxes and other levies, are part of the overall tax burden borne by New Brunswick businesses and individuals. Property taxes can influence where businesses are established and homes are built, and they play a role in the investment decisions that influence the growth of the economy. Property taxes are of particular concern for businesses, as they represent a tax on capital, investment and growth.

Any review of New Brunswick's tax system should consider issues related to property tax.

The property tax system in New Brunswick for municipalities and unincorporated areas is currently being reviewed by the Commissioner on the Future of Local Governance. In September 2007, the government appointed the Commissioner to a one-year mandate to examine how local communities in New Brunswick are governed and financed. The Commissioner has a mandate to examine provincial and local funding arrangements, including grants, revenue generation alternatives, spending reduction initiatives and the potential for inter-municipal tax sharing agreements. In this review of the property tax regime, the Commissioner is also examining the cost of providing local services in unincorporated areas.

The Commissioner will present a report on local governance and financing to government in the fall of 2008. In examining the province's overall tax system, there are a number of property tax issues that should be considered to ensure that the overall tax system encourages income generation, job creation, sustainable growth and moves the province towards self-sufficiency.

**Current Property Tax Structure:**

In New Brunswick, there are two levels of property taxation (provincial and municipal/local), and two classifications of property (residential and non-residential). Residential property is further sub-classified as either owner-occupied (i.e. principal residence) or non-owner occupied, which includes property such as cottages and apartments.

The current provincial residential property tax rate is $1.50 per $100 of assessment. Owner-occupied residential properties receive a tax credit against the provincial tax, known as the Provincial Residential Property Tax Credit; this in effect results in a provincial property tax rate of zero for owner-occupied properties.

However, owner-occupied properties located outside a municipality, i.e. local service districts (LSDs) and rural communities, are subject to a special rate of $0.65 per $100 of assessment. This rate is applied to help cover the cost of municipal-type services such as policing and transportation that are provided by the province in these communities.

Residential property (both owner-occupied and non-owner occupied) is also subject to municipal/local property tax rates. Municipal/local property tax rates are established to finance the provision of local services.

Non-residential property is currently taxed at a provincial rate of $2.25 per $100 of assessment. Municipal/local non-residential property tax rates are fixed at 1.5 times the corresponding residential rate.

Further details on the current property tax system are provided in **Appendix 1**.

## *Identification of Property Tax Issues*

In examining New Brunswick's property tax system, three key issues have been identified:

**1. Differential Property Tax Treatment**

There are two classifications of property in New Brunswick: residential and non-residential property. Under the current property tax system, there exists a differential in the property tax treatment of non-residential property compared to residential property, as well as a differential between the two sub-classifications of residential property. These differentials create an imbalance in the overall property tax system and affect competitiveness and investment in the province.

*Non-Residential*

New Brunswick businesses are subject to non-residential property tax rates, which are significantly higher than residential property tax rates. Businesses in New Brunswick are subject to the provincial non-residential rate of $2.25 per $100 of assessed property value (compared to the provincial residential rate of $1.50), as well as municipal/local non-residential property tax rates that are 1.5 times the residential rate.

One of the key principles guiding this process of restructuring the tax system is neutrality. The tax system must interfere as little as possible in personal and business decisions that impact investment and economic growth. The differential property tax charged on non-residential property falls disproportionately on the business sector. As a result, it can discourage investment in businesses that require substantial real property as an important component of their overall assets.

Although the province is phasing out the Large Corporation Capital Tax (this tax will be eliminated by 2009), it must be recognized that the provincial property tax is effectively an additional tax on capital. As a result, the provincial property tax on business and the differential between residential and non-residential rates represents a significant disincentive to new investment and improving existing properties.

*Residential*

The existing differential property tax treatment of owner-occupied residential and non-owner occupied residential properties also creates an imbalance in the overall property tax system. Owner-occupied residences effectively pay no provincial property tax, while non-owner occupied residential properties pay both provincial and municipal/local property taxes.

This creates particular concerns with respect to investment in the rental accommodations sector and seasonal or secondary homes. This property tax differential creates a significant barrier to investment in and development of these properties in the province.

In 2005, the Department of Finance conducted an analysis of the overall provincial tax burden facing New Brunswick's apartment industry in comparison with other provinces. The results of the analysis indicated that, for the rental accommodations sector, New Brunswick ranked second highest in total tax burden among all provinces. This ranking was due to the application of the provincial property tax rate to apartment buildings.

**2. Local Service Districts and the 65¢ Issue**

In Local Service Districts (LSDs), a special provincial property tax of $0.65 per $100 of assessment is imposed on owner-occupied residential property to help fund "municipal-like" local services provided by the province (policing, transportation, dog control, and general administration). This tax does not apply to either non-owner-occupied residential properties, or non-residential properties.

There is no direct link between the $0.65 special provincial property tax and the cost of the services provided. In 2002, the Department of Finance requested that the Office of the Comptroller examine the costs of provincially provided local services in unincorporated areas. Based on the estimated costs of the provincially provided local services and the existing property tax recovery, the Office of the Comptroller determined that a funding shortfall exists in LSDs. The Commissioner on the Future of Local Governance will be updating this costing analysis with more recent information.

Municipalities have also argued that taxes in the LSDs should be applied to all properties and in accordance to the services provided, as is the case with municipal taxes within municipal boundaries.

**3. Property Assessments**
Two key issues regarding property assessment and its impact on property taxes can be identified: assessment spikes, and escalating assessments that increase property taxes over time.

Assessment spikes, or sharp increases in assessed values in a single year, create unexpected increases in property tax bills for businesses and homeowners. In these situations, households and businesses are not able to properly budget for such sharp and sudden increases and can experience significant financial hardship as a result.

As with many areas of the country in recent years, New Brunswick real estate values have been rising. With increased assessment values over time, property tax revenues can increase beyond the cost of providing local services. During periods of assessment growth, local governments that hold property tax rates constant can receive windfall revenues from the increases in property values. This is most pronounced in areas of strongest economic growth, where the market value of properties can far exceed increases in the cost of providing local services. This escalation also occurs with provincial property taxes, placing an increased property tax burden on all taxpayers, and particularly on those with fixed incomes.

## *Property Tax Options for Consideration:*

To address these property tax issues, consideration could be given to the four options described below:

**1. Reduce the Provincial Non-Residential Rate and Extend the 65¢ LSD Rate**
Under this option, the provincial non-residential rate would be reduced from $2.25 to $1.50 per $100 of assessed property value. This would eliminate the current tax differential between non-residential and residential property in the province. In addition, the 65¢ rate in the LSDs would be extended to all property types. These changes to the property tax system would be phased in over five years.

Reducing the provincial non-residential rate from $2.25 to $1.50 would significantly lower the property tax rate applied to businesses. This would stimulate investment, economic growth and job creation, while also encouraging improvements and upgrades to existing businesses.

Under this option, an additional 65¢ would be added to non-owner occupied residential property and 97.5¢ would be applied to non-residential property in the LSDs. With this option, both non-owner occupied residential and non-residential properties in the LSDs would experience an increase in their overall property tax, although the magnitude of the increase for non-residential property would be lessened by the corresponding reduction in the provincial non-residential rate. This would ensure that these properties would be contributing to the cost of provincially provided local services, which would make the financing of these services similar to that in municipalities.

At this stage, prior to the completion of the updated LSD costing analysis, it has been assumed that the existing 65¢ rate would be the rate to extend to all property in the LSDs not currently subject to the tax. However, this rate may change (increase or decrease), depending on the results of the updated costing analysis.

As a result of reducing the provincial non-residential property tax rate from $2.25 to $1.50, municipalities will have additional tax room. To make use of this additional tax room, under the current structure, municipalities would have to increase the residential rate since the non-residential rate is fixed at 1.5 times the residential rate. The Province could consider amending its legislation to permit municipalities more flexibility in establishing rates for non-residential property. This could improve fiscal accountability, since the level of government providing the services would also be establishing the tax rates to finance these services.

Reducing the provincial non-residential rate and giving additional tax room to municipalities could allow the Province to consider reducing the existing unconditional grant funding to municipalities. To the extent that municipalities move into the non-residential property tax room, there would be a need to establish equalization grants for municipalities. The Province could consider replacing the existing unconditional grant program with an equalization grant designed to help municipalities provide reasonably comparable local services at reasonably comparable rates of taxation.

While this option would lower the property tax burden on businesses located in municipalities, it would not address the existing differential between owner-occupied and non-owner occupied residential property. In fact, since the 65¢ rate is being extended, the differential would actually widen between these two types of residential property in the LSDs (the existing 85¢ differential in LSDs would be increased to $1.50, the same as in municipalities). Also, under this option, non-owner occupied residential properties located in the LSDs experience a significant property tax increase since they would not receive the offsetting reduction in the provincial rate like non-residential properties.

**2. Eliminate the Provincial Residential Rate, Reduce the Provincial Non-Residential Rate and Extend the 65¢ LSD Rate**

Under this option, the $1.50 provincial residential rate would be fully eliminated. The provincial non-residential rate would continue to be reduced from $2.25 to $1.50, and the 65¢ rate in the LSDs would also be extended to all property types. Like the previous option, these changes would be phased in over five years.

This option would remove the tax differential that currently exists between the two types of residential property – owner-occupied and non-owner occupied residential. This would address a number of concerns with the current property tax system, including the high level of taxation within the New Brunswick apartment industry and for seasonal properties/second homes. This change in tax treatment would remove the existing tax differential and encourage more investment in these properties, supporting economic growth throughout the province.

It should also be noted that with this option, despite the additional 65¢ being applied in LSDs, all non-owner occupied residential properties would see a reduction in their overall tax due to the elimination of the $1.50 provincial rate. Non-residential property in LSDs would experience an increase in overall tax.

However, as with the previous option, the amount of increase is lessened by the corresponding reduction in the provincial non-residential rate. Non-residential properties in municipalities would see their overall property taxes reduced.

To address concerns about property assessments and the level of government accountability to taxpayers, the following are two additional property tax options:

**3. Three-Year Average Assessment Value**

Under this approach, annual assessment values would be equal to the three-year average assessment (average of current taxation year and the last two taxation years). This approach would minimize the likelihood of property owners experiencing single-year assessment spikes, without the negative consequences associated with other assessment-limit options such as an assessment cap. Under this approach, property assessments would continue to be based on actual market values. With an assessment cap, assessments are capped at an arbitrary percentage and the gap between market value and assessed value can grow over time. This approach would not result in inequities among property owners, since all properties would be assessed in the same manner.

This approach would reduce assessment spikes and does not deviate from the principle of market value assessment. The sole purpose of market value assessment is to determine relative property taxes, or how much tax is paid by one property owner compared to another. Using a three-year average based on actual market values would respect this principle.

**4. Accountability Mechanism**

Under this approach, an adjustment factor would be applied to the property tax rate each year to limit the annual property tax revenue increase resulting from rising assessment bases. This option would address the issue of escalating property taxes over time, and would ensure that governments making decisions on financing public expenditures are more accountable to the taxpayers who pay for these services.

The property assessment base changes annually as a result of two main factors: real estate market adjustments and new construction. Under this approach, the proposed adjustment factor would automatically adjust property tax rates to limit the revenue increases from assessment base growth to include only the new construction component and a set inflationary index to reflect rising costs.

This adjustment factor would apply to both provincial and municipal property tax rates. If governments wish to increase the tax rate above this adjusted rate, a vote by municipal councils or the provincial Legislature would be required.

Table 10 provides a simple illustration of how this accountability mechanism would function.

## *Table 10: Simple Illustration of Accountability Mechanism*

| | |
|---|---|
| **Base Year Property Tax Rate** | **$1.42** |
| **Assessment Base of New Year (Unadjusted)** | **$110,000** |
| *Assessment Base of Prior Year* | *$100,000* |
| *New Construction component* | *$4,000* |
| *Market Adjustment component* | *$6,000* |
| **Limited Assessment Base of New Year** | **$107,000** |
| *Assessment Base of Prior Year* | *$100,000* |
| *New Construction component* | *$4,000* |
| *Inflation Index (e.g. 3%)* | *$3,000* |

**Adjustment Factor**
= Limited Assessment Base of New Year / Assessment Base of New Year (Unadjusted)
= $107,000/$110,000
= **0.9727**

New Year Property Tax Rate
= Adjustment Factor * Base Year Property Tax Rate
= (0.9727) * ($1.42)
= **$1.38**

As illustrated in Table 10 above, the accountability mechanism results in an automatic property tax rate reduction from $1.42 to $1.38. If a municipality or the provincial government wanted to increase the rate back to $1.42, a vote by the municipal council, or provincial Legislature, would be necessary. In the event that there was an assessment base decrease, this mechanism would work in the opposite direction, and result in an automatic increase in the property tax rate.

With the proposed accountability mechanism, municipalities and the province could continue to experience growth in annual property tax revenues. However, this revenue growth would be a result of the new construction component of annual assessment base growth and the inflationary increase to reflect the rising cost of providing services. This proposed mechanism would result in greater government accountability and transparency in public expenditures and would help ease escalating property taxes over time.

In considering the report to be presented by the Commissioner on the Future of Local Governance, the government will be guided by the principles outlined in this discussion paper and the overall goals of ensuring that New Brunswickers can keep more of their hard-earned money, and making the province more attractive for business, investment and people.

# J. A Five-Year Plan for a Restructured Tax System

Restructuring the tax system is essential if New Brunswick is to achieve self-sufficiency by 2026.

While a restructured tax structure would significantly reduce taxes paid by individuals, families and businesses, it would also reduce government revenues in the short- to medium-term. The overall net reduction in provincial revenues will depend on the options chosen and how those options are put into practice. The personal and corporate income tax reductions outlined in the discussion paper would result in an annual reduction of approximately $400 million to $500 million in revenues once fully phased in.

To implement a restructured tax system following consultations by the Select Committee of the Legislature, a **five-year plan** would be developed. This plan would see new tax measures begin to be put in place in 2009-2010, with full implementation by the 2013-2014 fiscal year.

This five-year plan would ensure that major changes to the tax system would be fiscally neutral over this period through a combination of: (1) tax reductions; (2) tax adjustments; and (3) management of expenditure growth. The plan would ease the transition for people and businesses, allow the changes to be fiscally neutral and interfere as little as possible in personal and business decisions that affect investment and economic growth during this period.

Reducing personal and corporate income taxes would reduce the province's reliance on the taxes that most hinder economic growth and increase the relative reliance on consumption taxes. To help make up for lost revenue from such significant income tax reductions, other tax measures would be required.

Options to rebalance the tax system presented in this discussion paper include a modest increase in consumption taxes by increasing the HST to the level it was two years ago and/or introducing a new carbon tax to encourage conservation and use of cleaner energy sources.

For example, increasing the provincial portion of the HST by two percentage points would generate approximately $250 million annually once fully implemented.

A New Brunswick carbon tax, taking into account a New Brunswick Climate Change Tax Credit, would generate approximately $100 million annually once fully implemented.

Managing expenditure growth, including finding greater efficiencies within the current program and departmental structure of government, would also play an important role in ensuring fiscal neutrality over the five-year implementation period. Expenditure priorities would need to be set to ensure they are well within estimated revenues, and all spending decisions would need to be made within this framework. At the same time, new efficiencies in the delivery of public services would ensure New Brunswickers receive high quality public services at competitive tax rates.

**The fact is:** Significantly lower taxes would generate increased economic growth in New Brunswick, resulting in more tax base growth over time. However, the additional revenue generated by a restructured tax system would be modest in the short-term, with the full benefits only being achieved in the longer-term once the new tax system is fully implemented.

A five-year plan would help ensure the New Brunswick tax system is restructured so that it is fiscally neutral, respects balanced budget provisions, and interferes as little as possible in the personal and business decisions that would affect investment and economic growth during this period.

# Conclusion

In proposing a restructured tax system for New Brunswick, this discussion paper has outlined for New Brunswickers the actions needed to move the province further along the path to self-sufficiency.

To reduce its dependence on federal equalization payments and become self-sufficient by 2026, New Brunswick must undergo an economic transformation. Simply put, the province's self-sufficiency goals will not be achieved if this transformation is not made.

To make this transformation, New Brunswickers must be allowed to keep more of their hard-earned money and gain greater control of their own spending decisions. Businesses must thrive and new jobs must be created: better paying and highly skilled positions that will enable New Brunswickers to make best use of their talents and learning. New Brunswick must retain and attract workers with the skills to fill these new jobs, and recruit and retain the businesses that will employ them. The province must be positioned so that it is a leader within Canada and competitive on a global scale. This will result in the economic growth and increased population needed to achieve self-sufficiency.

In bringing about this transformation, it must also be ensured that the Province can continue to provide health care, education and other public services New Brunswickers want and need. New Brunswick must be the best place in Canada to raise a family, while making sure that the least fortunate are protected and have the opportunity to improve their lives. This transformation must also be fiscally neutral, so that future generations of New Brunswickers are not burdened with a heavy debt load.

Tax policy is one of the most important tools available to governments to create economic change. This is why a restructured tax system is central to the vision of self-sufficiency: it is one of the most effective means by which New Brunswick can signal to the world its determination to be stronger and more self-reliant.

The options proposed in this discussion paper are designed to create the conditions by which this economic transformation can take place, while meeting the obligations to serve the people of this province.

- By **lowering personal income taxes**, New Brunswick would become significantly more attractive to workers in better paying and highly skilled jobs. By allowing New Brunswickers to keep more of their hard-earned money, new economic opportunities would be created and more new residents would be attracted to the province and to every region of New Brunswick

- By offering **tax relief and new incentives for families**, the cost of raising children would be more fully recognized by the tax system and help make New Brunswick an even more family-friendly province.

- By **reducing corporate income taxes**, New Brunswick would become more attractive for business, investment, and people, and encourage economic growth and job creation.

- By creating a **provincial carbon tax**, steps would be made toward improving New Brunswick's environment, reducing consumption of carbon-based fuels and supporting new "green" ventures.

- By **rebalancing the tax system** to collect a greater share of provincial tax revenue through consumption rather than income taxes, New Brunswick's tax system would be restructured to more fully support investment, income growth and job creation in all regions of the province.

- By **addressing the imbalance in the property tax system**, growth and investment would be encouraged, conditions would be more equitable between municipalities and rural areas, and greater political accountability for property tax increases and spending decisions would be ensured.

As mentioned previously, this discussion paper does not represent government policy. It is a consultation document that lays out options for restructuring the tax system.

The options outlined in this discussion paper would represent a fundamental shift in New Brunswick's taxation and economic policies. There is a need for an open and transparent public debate on these proposed options.

New Brunswickers must consider how to best move the province forward, while maintaining fiscal responsibility and a strong social conscience, to create the jobs and growth needed to achieve the goal of self-sufficiency.

In the coming weeks, a select committee of the New Brunswick Legislature will conduct consultations with residents and stakeholders on the proposals outlined in this discussion paper. These consultations will provide all New Brunswickers with an opportunity to present their views on these proposals and put forth other suggestions. This will be an important step forward as New Brunswick moves toward self-sufficiency.

Restructuring the tax system could help bring a level of economic growth to the province which has never been seen before. New Brunswick can become a leader nationally and more competitive globally in attracting the investment and people that are needed to grow the economy. This will help create new jobs, increased incomes and provide a stronger, self-sufficient New Brunswick for future generations.

# Appendices

**Appendix 1: New Brunswick's Current Tax System**

**Appendix 2: Competitiveness of New Brunswick's Current Tax System**

# Appendix 1: New Brunswick's Current Tax System

## *Personal Income Tax*

The Canada/New Brunswick Tax Collection Agreement provides an institutional framework for both Canada and New Brunswick to exercise their respective Constitutional rights to levy income taxes through a single administration and collection agency.

The Tax Collection Agreement, which applies to nine provinces for personal income taxes and eight provinces for corporate income taxes, eliminates the need for duplicate collection and administrative structures (Québec collects its own personal and corporate income taxes, while Alberta collects its own corporate income taxes). For taxpayers and employers, the single administrative process provides a simpler system, significantly reducing compliance costs. In entering a Tax Collection Agreement, the Province accepts some limitations over its flexibility to independently set taxation policies in return for the economic and administrative benefits of having the federal government collect the Province's income taxes essentially free of charge.

As party to the Tax Collection Agreement, under which the federal government administers and collects provincial income tax on the Province's behalf, the Province agrees to accept the federal definition of the tax base. This means that the federal government defines taxable income for the purposes of calculating provincial income tax.

Currently, New Brunswickers pay personal income tax based on their annual taxable income (total income, minus deductions). This "tax on taxable income" approach was adopted in 2000. It gives New Brunswick greater tax policy flexibility, including the ability to direct tax reductions to specific income brackets and enhances the transparency of the provincial income tax system.

For the 2008 taxation year, there are four tax rates that apply to corresponding income levels. The 2008 rates and brackets are:

- 10.12% on the first $34,836 of taxable income
- 15.48% on income above the first bracket, up to $69,673
- 16.80% on income above the second bracket, up to $113,273
- 17.95% on all taxable income above $113,273

Personal income tax payable is reduced by a number of tax credits. Tax filers may qualify for personal non-refundable tax credits provided by the Province of New Brunswick, which reduce provincial income tax payable, but cannot reduce the tax payable to below zero. Also, the low-income tax reduction eliminates provincial personal income tax for persons with incomes below an established threshold and reduces provincial income tax for other low-income taxpayers. Income tax brackets and most personal income tax credits, including the low-income tax reduction, are indexed annually to the national Consumer Price Index (CPI).

A list of non-refundable tax credits and the corresponding amounts are presented Table A1.1.

## Table A1.1: 2008 New Brunswick Non-Refundable Tax Credits

| Non-Refundable Tax Credits | 2008 |
|---|---|
| Basic Personal Amount | $8,395 |
| Spousal/Common-law Partner Amount | $7,129 |
| *Income Threshold* | *$713* |
| Amount for Eligible Dependant | $7,129 |
| *Income Threshold* | *$713* |
| Age Amount | $4,099 |
| *Net Income Threshold* | *$30,517* |
| Disability Amount | $6,797 |
| Disability Supplement Amount | $3,965 |
| Caregiver Amount | $3,965 |
| *Net Income Threshold* | *$13,540* |
| Amount for Infirm Dependants age 18 or older | $3,965 |
| *Net Income Threshold* | *$5,625* |
| Medical Expense Credit | $1,900 |
| *3% of Net Income Ceiling* | |
| Pension Income Amount | $1,000 |
| Education Amounts (part-time/full-time) | $120/$400 |
| Charitable Donations & Gifts | Up to $200 (10.12%)<br>Above $200 (17.95%) |
| Canada Pension Plan Contributions | actual amount capped at $2,049.30 |
| Employment Insurance Premiums | actual amount capped at $711.03 |
| Tuition Fees | actual amount |
| Student Loan Interest | actual amount |
| Tuition & Education Amounts Transferred | actual amount up to a maximum of $5,000 |
| **Low-Income Tax Reduction Threshold** | **$14,011** |

Notes: The non-refundable tax credits mentioned above provide a tax reduction of the amount multiplied by the first rate of 10.12%. The only exception is the Charitable Donations & Gifts which receive a credit of 17.95% for donations above $200.
The Low-Income Tax Reduction is a tax reduction that ensures that individuals with incomes up to the threshold are not required to pay New Brunswick personal income taxes.

The New Brunswick Political Contributions Tax Credit is another non-refundable income tax credit available to tax filers. An individual or corporation that contributes to a registered provincial political party, riding association or independent candidate for election to the New Brunswick legislature may claim this credit against provincial income taxes owing. Table A1.2 illustrates the tax credit available by contribution level.

## Table A1.2: 2008 New Brunswick Political Contributions Tax Credit

| Amount of Contribution | Tax Credit |
|---|---|
| \$200 or less | 75% of contribution |
| More than \$200 up to \$550 | \$150 plus 50% of contribution exceeding \$200 |
| More than \$550 up to \$1, 075 | \$325 plus 33.33% of contribution exceeding \$550 |
| | Maximum credit of \$500 |

Tables A1.3 and A1.4, *Provincial Personal Income Tax Comparisons*, present a comparison of provincial personal income tax by province for selected taxable income levels. These comparisons are presented for a single tax filer and for a one-earner family with two children. The provincial tax in each province is shown in the top portion of the tables and the differences between New Brunswick and other provinces are shown in the bottom portion of the tables.

These tables show that, for lower income levels, New Brunswick's personal income taxes compare reasonably well with those in most other provinces.

As shown in Table A1.3, for most income levels up to $40,000, personal income taxes on single-earners in New Brunswick compare reasonably well with other provinces. This is also true for families. In fact, for most income levels below $40,000 shown in Table A1.4, one-earner families pay less provincial income tax in New Brunswick than in other Atlantic Provinces.

While New Brunswick is competitive at lower income levels, for higher income levels, the tables show that New Brunswick does not compare as well. This is true for both single taxpayers and families.

## *TABLE A1.3: Provincial Personal Income Tax Comparisons for Single Tax Filer*

### *2008 Taxation Year*

| Taxable Income | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $439 | $383 | $266 | **$65** | $0 | $262 | $591 | $575 | $0 | $0 |
| $25,000 | $1,307 | $1,548 | $1,386 | **$1,509** | $1,239 | $1,197 | $1,686 | $1,601 | $1,262 | $1,016 |
| $40,000 | $2,954 | $3,240 | $3,258 | **$3,222** | $3,567 | $2,317 | $3,387 | $3,158 | $2,662 | $2,268 |
| $60,000 | $5,592 | $5,975 | $6,239 | **$6,292** | $6,848 | $4,281 | $5,908 | $5,730 | $4,636 | $3,850 |
| $100,000 | $11,981 | $12,544 | $13,262 | **$12,884** | $14,196 | $10,357 | $12,589 | $10,930 | $8,636 | $8,205 |
| $140,000 | $18,381 | $19,892 | $20,962 | **$19,912** | $21,997 | $17,321 | $19,549 | $16,693 | $12,636 | $14,085 |

### *$ Differences from NB*

| Taxable Income | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $374 | $318 | $201 | **$0** | **($65)** | $197 | $526 | $510 | **($65)** | **($65)** |
| $25,000 | **($202)** | $39 | **($123)** | **$0** | **($270)** | **($312)** | $177 | $92 | **($247)** | **($493)** |
| $40,000 | **($268)** | $18 | $36 | **$0** | $345 | **($905)** | $165 | **($64)** | **($560)** | **($954)** |
| $60,000 | **($700)** | **($317)** | **($53)** | **$0** | $556 | **($2,011)** | **($384)** | **($562)** | **($1,656)** | **($2,442)** |
| $100,000 | **($903)** | **($340)** | $378 | **$0** | $1,312 | **($2,527)** | **($295)** | **($1,954)** | **($4,248)** | **($4,679)** |
| $140,000 | **($1,531)** | **($20)** | $1,050 | **$0** | $2,085 | **($2,591)** | **($363)** | **($3,219)** | **($7,276)** | **($5,827)** |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal amount, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.

## *TABLE A1.4: Provincial Personal Income Tax Comparisons for One-Earner Family with Two Children*

### *2008 Taxation Year*

| Taxable Income | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $800 | $506 | $379 | **$219** | $0 | $300 | $6 | $3 | $0 | $992 |
| $40,000 | $2,447 | $2,599 | $2,681 | **$2,501** | $1,607 | $1,410 | $1,853 | $1,560 | $1,574 | $2,504 |
| $60,000 | $5,085 | $5,333 | $5,662 | **$5,570** | $5,143 | $3,835 | $4,571 | $4,131 | $3,548 | $4,086 |
| $100,000 | $11,474 | $11,898 | $12,627 | **$12,163** | $12,491 | $9,661 | $11,645 | $9,331 | $7,548 | $8,441 |
| $140,000 | $17,874 | $19,186 | $20,327 | **$19,190** | $20,292 | $16,625 | $18,674 | $15,095 | $11,548 | $14,321 |

### *$ Differences from NB*

| Taxable Income | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC |
|---|---|---|---|---|---|---|---|---|---|---|
| $15,000 | $0 | $0 | $0 | **$0** | $0 | $0 | $0 | $0 | $0 | $0 |
| $25,000 | $581 | $287 | $160 | **$0** | **($219)** | $81 | **($213)** | **($216)** | **($219)** | $773 |
| $40,000 | **($54)** | $98 | $180 | **$0** | **($894)** | **($1,091)** | **($648)** | **($941)** | **($927)** | $3 |
| $60,000 | **($485)** | **($237)** | $92 | **$0** | **($427)** | **($1,735)** | **($999)** | **($1,439)** | **($2,022)** | **($1,484)** |
| $100,000 | **($689)** | **($265)** | $464 | **$0** | $328 | **($2,502)** | **($518)** | **($2,832)** | **($4,615)** | **($3,722)** |
| $140,000 | **($1,316)** | **($4)** | $1,137 | **$0** | $1,102 | **($2,565)** | **($516)** | **($4,095)** | **($7,642)** | **($4,869)** |

Notes: 1 Brackets ( ) represent lower taxes in the other provinces.
2 Taxpayer is assumed to claim the personal, equivalent to spouse, and child amounts, EI premium and CPP contribution.
3 Québec taxpayer is assumed to claim the personal amount, and the flat amount in lieu of EI & QPP.
4 For comparison purposes, Québec taxes have been adjusted downward to account for the federal 16.5% tax abatement.
5 Calculations above include the Canada Employment Amount and the Québec Deduction for Workers.
6 Calculations include Health Premiums for ON, AB & BC.
7 Children are assumed to be under the age of 18 but over the age of six.

## *Corporate Taxes*

**Corporate Income Tax:** As with the personal income tax, the federal government administers New Brunswick's corporate income taxes under the Canada-New Brunswick Tax Collection Agreement. Under this agreement, the federal government defines corporate "taxable income" for both federal and provincial corporate income tax purposes and is solely responsible for determining exemptions, deductions, and capital cost allowances. For corporations operating in more than one province or outside the country, but having a permanent establishment in the province, the federal government uses an allocation formula to determine the corporate taxable income allocated to each province. Generally, this allocation is based on wages and salaries and gross revenue in a jurisdiction as a percentage of the corporation's total gross revenues.

Although provinces within the tax collection agreements are not permitted to introduce measures that alter a corporation's taxable income, they establish their own corporate income tax rates and are permitted to use various tax credits that impact the amount of tax payable.

New Brunswick currently applies two corporate income tax rates: a general corporate income tax rate and a special rate for small businesses.

The small business corporate income tax rate is 5% and applies to small Canadian-controlled private corporations on the first $400,000 of active business income. The benefit of this rate is reduced for businesses with capital of more than $10 million and does not apply to those with taxable capital in excess of $15 million. The general corporate income tax rate of 13% applies to all corporate taxable income of Canadian-controlled corporations with capital greater than $15 million. The 13% rate also applies to all corporate taxable income of corporations that are not Canadian-controlled.

Chart A1.1, *Provincial General Corporate Income Tax Rates*, shows each province's general corporate income tax rates. Only three provinces currently have a lower general corporate income tax rate than New Brunswick: Québec, Alberta and British Columbia.

## *CHART A1.1: Provincial General Corporate Income Tax Rates*

as of May 1, 2008

Source: Department of Finance

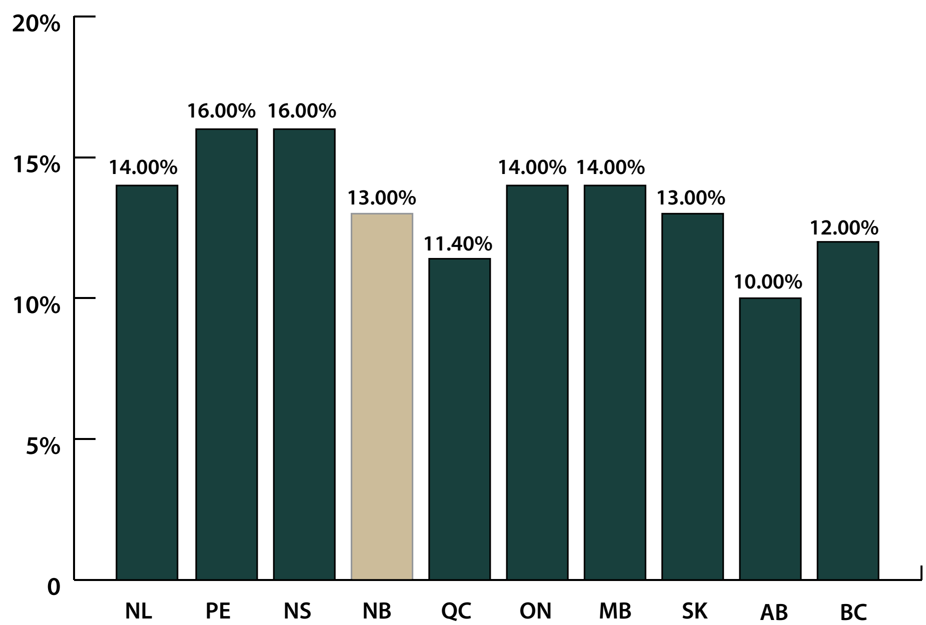


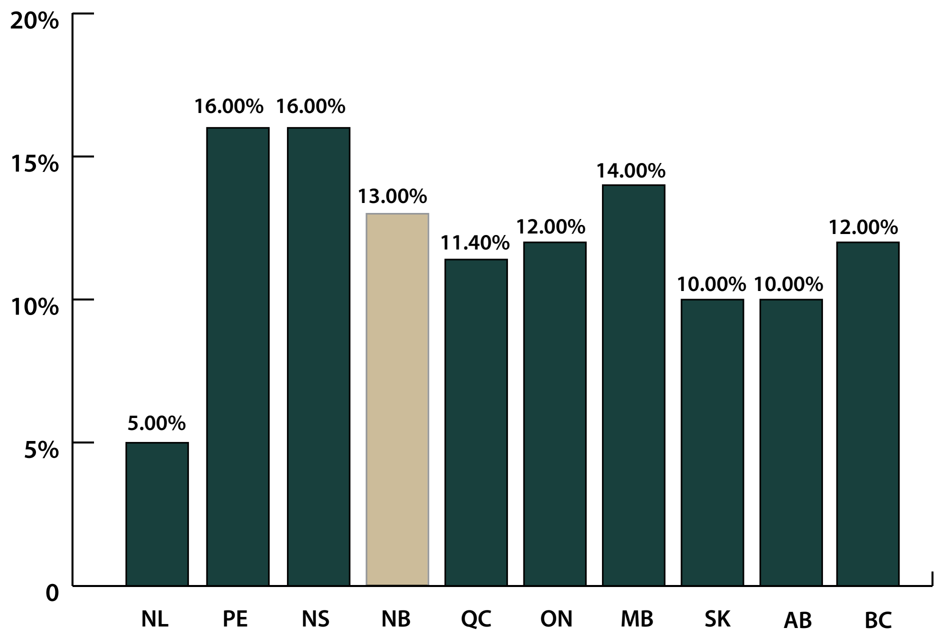

Chart A1.2, *Provincial Manufacturing and Processing Corporate Income Tax Rates*, shows each province's manufacturing and processing corporate income tax rates.

Newfoundland and Labrador, Ontario, and Saskatchewan have established rates for the manufacturing and processing sectors that are different from their general corporate income tax rates. Six provinces have a lower corporate income tax rate for manufacturing and processing than New Brunswick: Newfoundland and Labrador, Québec, Ontario, Saskatchewan, Alberta and British Columbia.

## *CHART A1.2: Provincial Manufacturing and Processing Corporate Income Tax Rates*

as of May 1, 2008

Source: Department of Finance




## *CHART A1.3: Provincial Small Business Corporate Income Tax Rates*

as of May 1, 2008

Source: Department of Finance

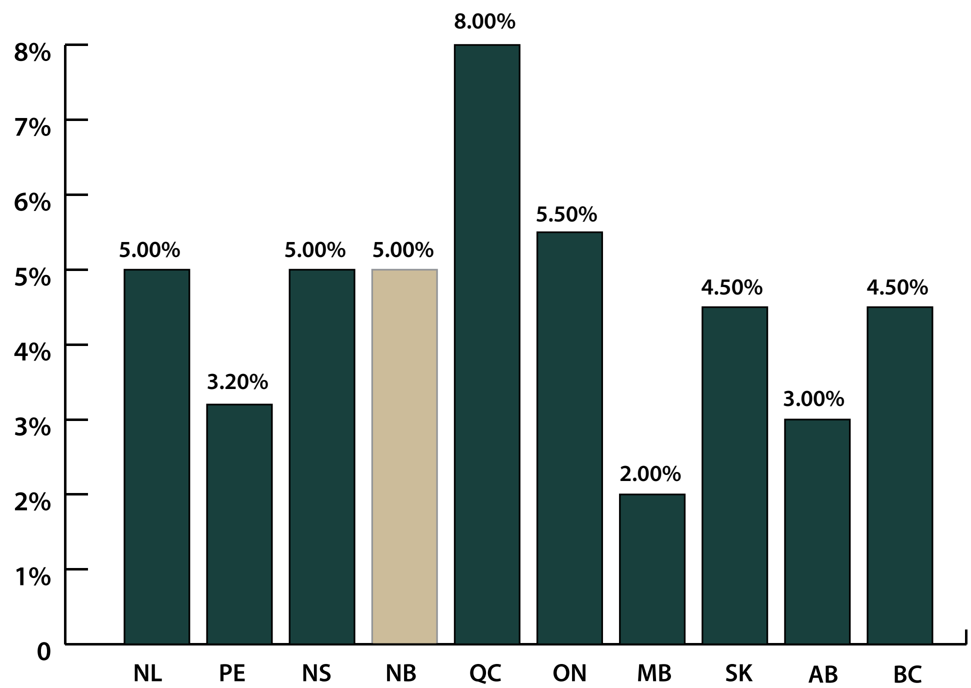



Chart A1.3, *Provincial Small Business Corporate Income Tax rates*, shows a comparison of provincial small business corporate income tax rates. Five provinces currently have a lower small business corporate income tax rate than New Brunswick. The small business rate in New Brunswick is applied to the first $400,000 of active business income of small Canadian-controlled private corporations. Three provinces currently have a higher small business limit than New Brunswick: Ontario, where the threshold is $500,000, Saskatchewan, $450,000, and Alberta, $460,000.

Charts A1.1, A1.2 and A1.3 only show corporate income tax rate comparisons. The actual corporate income tax payable is also impacted by the various tax credits and incentives offered in various jurisdictions. The various New Brunswick tax-based incentives are discussed later in this Appendix.

**Capital Tax:** Corporations are also taxed on their capital assets. In 1997, when New Brunswick adopted the Harmonized Sales Tax, the federal government agreed to administer a new provincial capital tax applied to taxable capital as defined for purposes of the federal Large Corporation Tax. On April 1, 1997, New Brunswick introduced a general capital tax, the Large Corporation Capital Tax (LCCT), to recover a portion of the revenue given up to large businesses by providing input tax credits on business inputs under the HST. The LCCT was applied to the federal capital tax base. This tax was not applied to certain financial sector corporations since New Brunswick already had a Financial Corporation Capital Tax, which had been in place for 10 years and applied to large deposit accepting institutions. The adoption of the LCCT gave the province two separate capital taxes.

Currently, the Large Corporation Capital Tax is levied on taxable capital above $5 million, at a rate of 0.1%. The federal government has now phased-out its capital tax and New Brunswick's LCCT will be phased out by the end of 2008.

New Brunswick's Financial Corporation Capital Tax (FCCT) was introduced in 1987. Unlike the LCCT, the FCCT is administered by the New Brunswick Department of Finance. It currently applies at a tax rate of 3% of taxable capital in excess of $10 million for financial institutions.

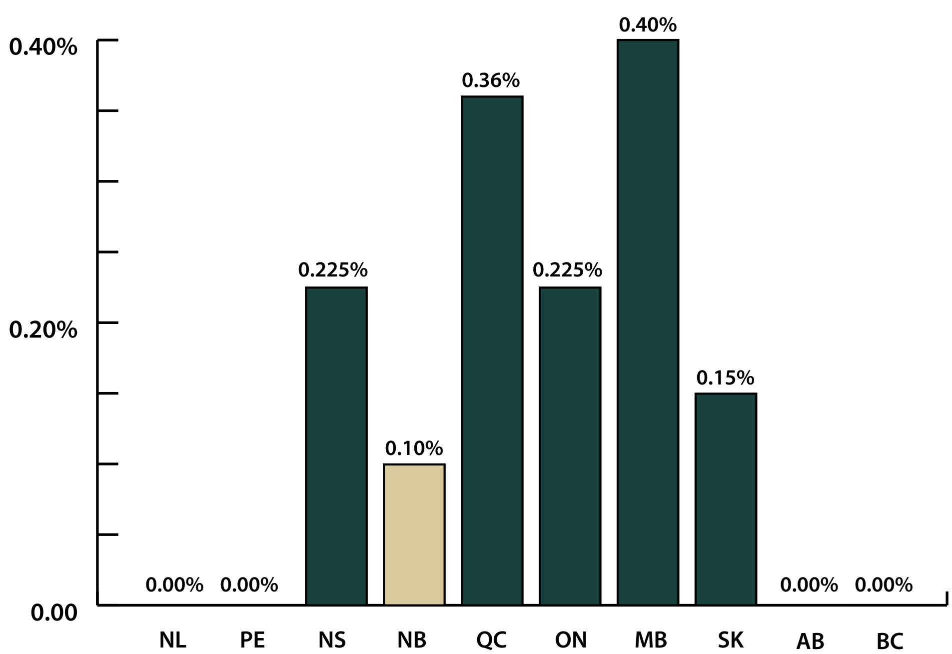
Chart A1.4, *Provincial Large Corporation Capital Tax Rates*, shows a comparison of provincial large corporation capital taxes.

## *CHART A1.4: Provincial Large Corporation Capital Tax Rates*

as of May 1, 2008

Source: Department of Finance

Notes: Rates apply to taxable capital above any deduction thresholds.

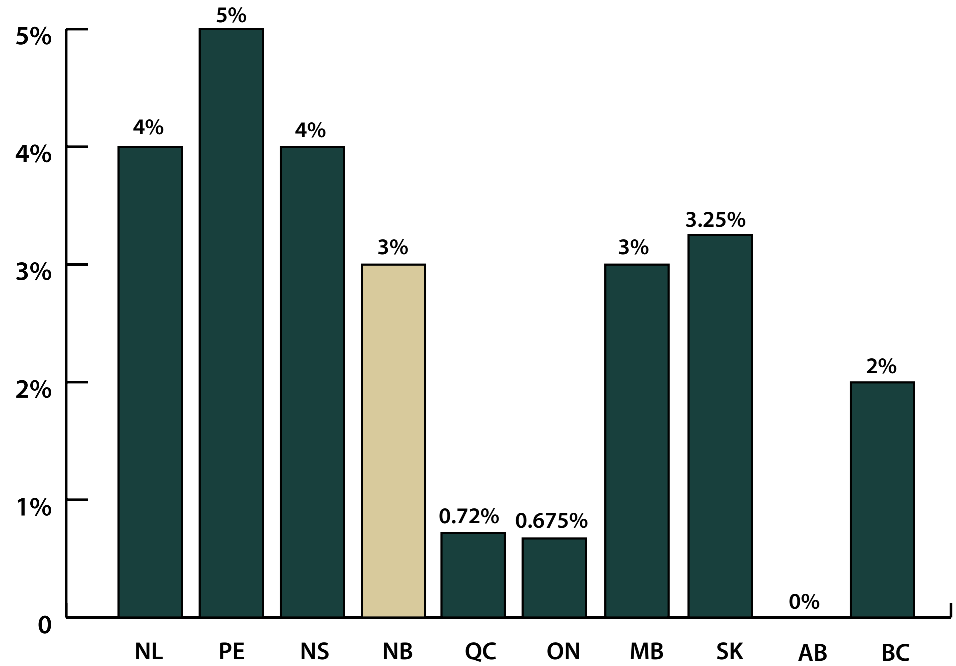



Both New Brunswick and Saskatchewan are eliminating their general capital taxes by the end of 2008, joining four other provinces with no large corporation capital tax at present.

Chart A1.5, *Provincial Financial Corporation Capital Tax Rates*, shows the capital tax rates levied on the taxable capital of deposit-accepting financial institutions. Four provinces currently have higher capital tax rates on financial institutions: Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and Saskatchewan.

### *CHART A1.5: Provincial Financial Corporation Capital Tax Rates*

as of May 1, 2008
Source: Department of Finance
Notes: Rates apply to taxable capital above any deduction thresholds.




**Metallic Minerals Tax:** New Brunswick taxes the mining industry to compensate the province for the removal of its natural resources. The current rates are 2% of net mine revenue and 16% of net mine profits in excess of $100,000. Both components of this tax effectively serve as a royalty or payment for the province's metallic minerals.

## *Consumption Taxes*

New Brunswick currently levies several consumption taxes including the Harmonized Sales Tax (HST), gasoline and motive fuel taxes, and tobacco taxes. Brief descriptions of each of these consumption taxes are presented below.

**Harmonized Sales Tax (HST):** From the 1950s until 1997, New Brunswick applied a retail sales tax on the sale of various goods and some services. The retail sales tax base was similar to that still used in five provinces and applied to many business inputs. Starting in 1997, New Brunswick, along with Nova Scotia, and Newfoundland and Labrador, harmonized its sales tax with the federal Goods and Services Tax (GST) and applied tax to the same goods and services as the federal GST. The current Harmonized Sales Tax rate is 13% and is made up of the federal GST component, 5%, and the provincial component, 8%.

The HST is a "value-added" tax: business inputs are eligible for input tax credits to ensure that value added is taxed only once. Basic groceries, prescription drugs and medical devices are not taxed under the HST. New Brunswick also provides a point-of-sale rebate on the provincial portion of the HST for books.

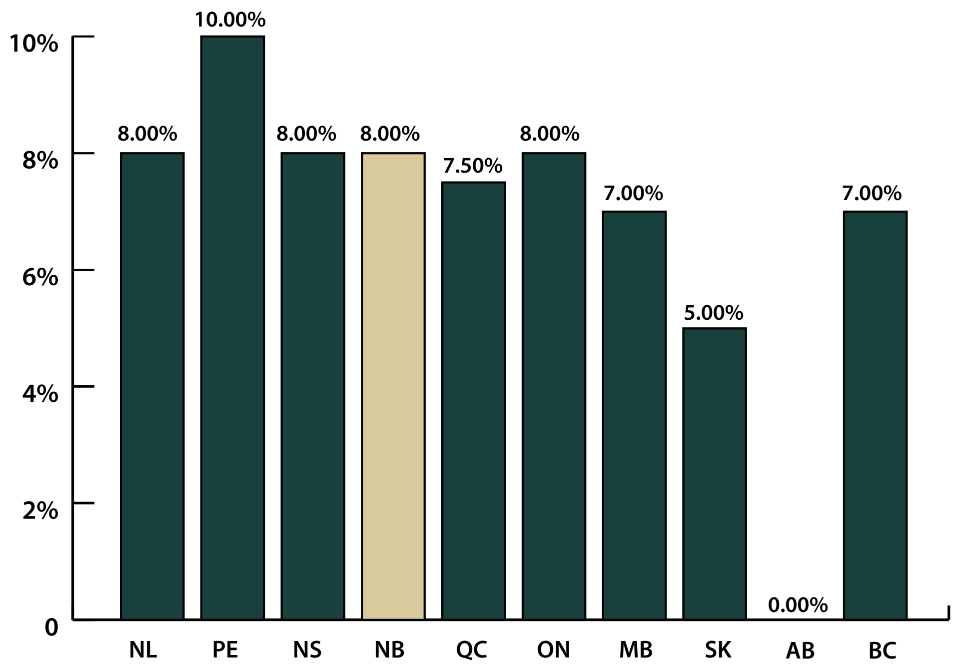
In addition, New Brunswick provides a rebate of 50% of the provincial portion of the HST for charities and qualifying not-for-profit organizations, as well as a rebate of 57.14% of the provincial portion of the HST to municipalities. Provincial government departments and other provincial government entities receive a 100% rebate on purchases. These rebates are provided by the federal government as part of its administration of the HST.

New Brunswick is one of only four provinces with a value-added tax, which means that business inputs are exempt from the provincial sales tax. Newfoundland and Labrador, Nova Scotia, and Québec are the others.

Chart A1.6, *Sales Tax Rates by Province*, shows only one province, Prince Edward Island, with a higher provincial sales tax rate than New Brunswick. The other two HST provinces, Nova Scotia and Newfoundland and Labrador, share the same tax rate as New Brunswick. Ontario's provincial sales tax is also 8%. The four western provinces have lower rates; Alberta does not levy a provincial sales tax.

### *Chart A1.6: Sales Tax Rates by Province*

as of May 1, 2008
Source: Department of Finance




The federal government administers the collection of the HST at no cost to the three participating provinces. The HST is administered under the Comprehensive Integrated Tax Coordination Agreement (CITCA). This agreement binds New Brunswick to maintain the same tax base as the federal government, and to maintain a common rate for the provincial component of the tax.

The common sales tax base among participating jurisdictions and the federal government has important efficiency advantages. By accepting the federal GST base, provinces are giving up some policy flexibility in exchange for a more neutral sales tax that is more investment friendly. A common tax base also has the advantage of simplicity for businesses operating in more than one province.

The requirements in the agreement for a common rate for all three participating provinces, and the restrictions on changing this rate, are as follows. Increasing the provincial component of the HST requires the agreement of two of the three participating provinces. Decreasing the rate requires unanimous agreement of all three harmonized provinces. The lack of rate flexibility can impede a province's ability to meet its individual needs and policy objectives.

**Gasoline and Motive Fuel Tax:** New Brunswick levies a tax on gasoline and other transportation fuels, which are also subject to federal excise taxes and the Harmonized Sales Tax. The New Brunswick gasoline and motive fuel tax does not apply to heating fuels such as home heating oil and natural gas. Fuel products are currently taxed by the province at the following rates:

- Gasoline tax: 10.7 cents per litre
- Motive fuel (diesel) tax: 16.9 cents per litre
- Propane tax: 6.7 cents per litre
- Aviation fuel tax: 2.5 cents per litre
- Locomotive fuel tax: 4.3 cents per litre

The province provides point-of-sale fuel tax exemptions to farmers, fishermen, aquaculturalists, silviculturalists, wood producers and the manufacturing and mining industries.

New Brunswick's gasoline tax is lower than those charged in the other Atlantic Provinces.

**Tobacco Tax:** New Brunswick regulates the sale of cigarettes and other tobacco products and levies a specific tax on their purchase. New Brunswick's current tobacco tax is 11.75 cents per cigarette ($23.50 per carton).

The province also levies specific taxes on tobacco sticks (9.45 cents per stick), cigars (50% of the normal retail price) and other tobacco products (8.49 cents per gram). New Brunswick also applies its sales tax to tobacco products, as does the federal government and four other provinces (Newfoundland and Labrador, Nova Scotia, Manitoba, and Saskatchewan).

New Brunswick's tobacco tax rate is lower than in any province except Québec.

## Property Taxes

**Property Tax:** In New Brunswick, there are two levels of property taxation (provincial and municipal/local), and two classifications of property (residential and non-residential). Residential property is further sub-classified as either owner-occupied (i.e. principal residence) or non-owner occupied, which includes property such as cottages and apartments.

The current provincial residential property tax rate is $1.50 per $100 of assessment. Owner-occupied residential properties receive a tax credit against the provincial tax, known as the Provincial Residential Property Tax Credit; this in effect results in a provincial property tax rate of zero for owner-occupied properties.

However, owner-occupied properties located outside a municipality, i.e. local service districts (LSDs) and rural communities, are subject to a special rate of $0.65 per $100 of assessment. This rate is applied to help cover the cost of municipal-type services such as policing and transportation that are provided by the province in these communities.

Residential property (both owner-occupied and non-owner occupied) is also subject to municipal/local property tax rates. Municipal/local property tax rates are established to finance the provision of local services. In municipalities, the average municipal tax rate in 2008 is $1.51 per $100 of assessment. In LSDs, the average local residential property tax rate for 2008 is $0.28 per $100 of assessment.

Non-residential property is currently taxed at a provincial rate of $2.25 per $100 of assessment. Municipal/local non-residential property tax rates are fixed at 1.5 times the corresponding residential rate. In 2008, non-residential properties are taxed at an average rate of $2.27 per $100 of assessment in municipalities, and $0.42 per $100 of assessment in LSDs.

The above rates are summarized in Table A1.5, *New Brunswick Property Tax Rates 2008*, which presents average rates by property type for both the municipalities and LSDs for 2008. Unlike the provincial rates, which are established in legislation, the local LSD and municipal rates change from year to year and are provided for illustrative purposes only.

## TABLE A1.5: New Brunswick Property Tax Rates 2008*

| | Municipalities | | | Local Service Districts | | | |
|---|---|---|---|---|---|---|---|
| PROPERTY TYPE | Provincial | Average Local | **Total** | Provincial | Provincial/ Local | Average Local | **Total** |
| Residential Owner-Occupied | $0.00 | $1.51 | **$1.51** | $0.00 | $0.65 | $0.28 | **$0.93** |
| Residential Non Owner-Occupied | $1.50 | $1.51 | **$3.01** | $1.50 | N/A | $0.28 | **$1.78** |
| Non-Residential | $2.25 | $2.27 | **$4.52** | $2.25 | N/A | $0.42 | **$2.67** |

* In addition to the property tax rates indicated, all properties face a $0.02 per $100 of assessment levy (to help cover provincial share of assessment cost). Also, on behalf of the Office of the Rentalsman, there is a fee of $0.05 per $100 of assessed value imposed on residential property that is not owner-occupied and is not exempt from taxation. In general, cottages, vacation homes and boarding and rooming houses are not subject to this fee.

## Other Taxes

**Insurance Premium Tax:** Insurance companies are required to pay a tax based on their gross premiums, minus dividends paid or credited to policyholders. Current tax rates are 2% for life insurance and 3% for property and casualty insurance. New Brunswick's rates are on par with those charged in Ontario, Manitoba and Alberta and lower than in all other provinces.

**Real Property Transfer Tax:** A tax to the province is paid whenever a property is transferred from one owner to another. This tax is calculated at 0.25% of the value of the transaction, or 0.25% of the assessed value of the property, whichever is greater. Exemptions from this tax have been put in place to improve administrative efficiency and to encourage charitable donations.

**Pari-Mutuel Tax:** This tax is applied to wagers in harness racing. The current rate is 11% of each registered pari-mutuel bet; for example, the tax on a $2 bet is 22 cents.

**Payroll Taxes:** Unlike Newfoundland and Labrador, Québec, Ontario, and Manitoba, New Brunswick does not impose payroll taxes.

**Health Premiums:** Unlike Ontario, Alberta and British Columbia, New Brunswick does not levy a separate health insurance premium in addition to provincial taxes.

## *Tax-Based Incentives*

New Brunswick provides a number of tax-based incentives that support important public policy objectives, such as supporting economic development, attracting investment to the province, encouraging people to seek a higher education and assisting low-income families to enter and stay in the provincial workforce. A description of several of New Brunswick's existing tax-based incentives is provided below.

The **New Brunswick Research and Development Credit** provides an incentive for corporate investment in research and development to enhance productivity and economic growth. The NB R&D tax credit is a fully refundable 15% tax credit applied to eligible expenditures. The NB R&D tax credit is applied to the Scientific Research and Experimental Development (SR&ED) expenditures as defined by the federal *Income Tax Act*.

The **New Brunswick Small Business Investor Tax Credit** was put in place to help make equity financing available to small private corporations and to reduce reliance on debt financing. The New Brunswick Small Business Investor Tax Credit provides a 30 per cent non-refundable personal income tax credit of up to $24,000 per year (for investments of up to $80,000 per investor) to eligible investors who invest in eligible small businesses in the province. In the event that an investor cannot use the entire Small Business Investor Tax Credit amount in a given year, the tax credit can be carried forward seven years or back three years.

The **New Brunswick Film Tax Credit** provides an incentive to bring film production projects to New Brunswick, to employ New Brunswick workers and support the province's film and television production industry. To encourage the training and hiring of New Brunswick workers for the film industry, the province provides a Film Tax Credit equal to a maximum of 40% of eligible salaries paid to New Brunswick residents. Wages in excess of 50% of the total costs of production are not eligible for consideration. The value of this credit may also be included as part of the calculation of a production company's equity in a production. Since this credit was introduced in 1996, approximately 148 film projects have been issued tax certificates. This program is extended on a year-to-year basis.

The **New Brunswick Labour Sponsored Venture Capital Tax Credit (LSVC)** is designed to increase venture capital financing for New Brunswick's small and medium- sized firms. This is a non-refundable personal income tax credit provided for purchases of approved shares in prescribed LSVC corporations. The credit can only be used to reduce provincial income tax owing. New Brunswick taxpayers who purchase approved shares of prescribed NB LSVC corporations are eligible for a 15% non-refundable tax credit up to a maximum credit value of $750 per year. These shares must be held for up to eight years otherwise the tax credit amount must be re-paid.

The **New Brunswick Dividend Tax Credit** is a non-refundable personal income tax credit that is provided to recognize that dividend income is taxed twice – once at the corporate level, when income is earned by the corporation, and again at the personal income tax level when investors receive the dividends. To help address this double taxation, the federal and provincial governments provide dividend tax credits at the personal level in recognition that taxes have already been paid at the corporate level.

On November 30, 2006, New Brunswick announced that it would parallel the federal changes to the taxation of dividend income by introducing a two-rate structure.

The current New Brunswick Dividend Tax Credit structure is as follows:

- Dividends received on or after January 1, 2007 and paid from income taxed at the small business rate receive a 5.3% New Brunswick Dividend Tax Credit.
- Eligible dividends received on or after January 1, 2006 and paid from corporate income taxed at the general corporate income tax rate receive a New Brunswick Dividend Tax Credit of 12%.

The **Forestry Investment Tax Credit**, announced in the 2006-2007 provincial budget and effective for investments made after March 31, 2006, was a targeted investment tax credit for qualifying forestry industries to invest in New Brunswick. Forestry companies qualify for a rebate of 50% of investments in manufacturing and processing equipment up to a maximum of 50% of the provincial property tax paid for that year. This credit was in effect for the 2006 and 2007 taxation years. Companies had until March 31, 2008 to claim for investments made against their 2007 property taxes.

The **High Energy Use Tax Rebate**, announced on July 6, 2007, will be provided to New Brunswick pulp and paper mills over two years to offset financial and market pressures in this industry. This assistance is being provided through a rebate against provincial property taxes. To be eligible for the rebate, the mills must be operating as of March 31, 2008, they must be producing at least 85% of their previous year's output at a minimum, and they must not have any outstanding property taxes. To receive the rebate in the second year, the mills must be operating as of March 31, 2009 and meet the same production criteria.

The **New Brunswick Tuition Rebate** program makes post-secondary education more affordable and encourages graduates (highly skilled labour) to stay or move to New Brunswick, consistent with the objectives of the Population Growth Strategy. Under the New Brunswick Tuition Rebate program, anyone, from anywhere in the world, who on or after January 1, 2005, pays tuition, graduates from an eligible post-secondary institution, lives and works in New Brunswick and pays New Brunswick personal income tax, will be eligible for a non-taxable rebate of 50% of their tuition costs with a maximum lifetime rebate of $10,000.

The rebate can be claimed once personal income tax returns are filed for the previous taxation year, and a Notice of Assessment is received from the Canada Revenue Agency.

The tuition rebate may be claimed any time up to 20 years from the first year that credit is earned, and the maximum rebate that may be claimed in any given year is $2,000. Unused balances may be carried forward and claimed against future New Brunswick personal income tax, until the lifetime maximum of $10,000 is reached.

The **New Brunswick $2,000 Benefit for First Time University Students** is provided to help ensure that post-secondary education is accessible and affordable for New Brunswick students. New Brunswick students enrolled for the first time at a university and who are attending a provincially funded New Brunswick university on a full time basis may be eligible for a one-time benefit of $2,000. The benefit does not affect the student's loan or bursary amounts.

The **New Brunswick Child Tax Benefit** is a non-taxable fully refundable tax credit paid monthly to qualifying families with children under the age of 18. The federal government administers the provincial benefit as part of its National Child Benefit.

The New Brunswick program provides a payment equal to:
a) $250 annually for each dependent child; less
b) 2.5% of family net income in excess of $20,000 for one-child families; or
c) 5% of family net income in excess of $20,000 for families with more than one child.

This credit is intended to provide financial assistance to low-income families with children. This credit is consistent with the objectives of the Population Growth Secretariat in making New Brunswick an even more family-friendly place to live.

The **New Brunswick Working Income Supplement** is an additional benefit paid to families with earned income who have children under the age of 18. The federal government administers this supplement as part of its National Child Benefit.

The supplement is equal to the lesser of:
a) $250 annually per family; or
b) 4% of family earned income in excess of $3,750 minus 5% of family net income in excess of $20,921.

The working income supplement is intended to provide assistance to the "working poor" families with children and reduce barriers to work, so that more New Brunswickers are able to enter or stay in the provincial workforce.

The **New Brunswick Low Income Seniors' Benefit** offers an annual $200 benefit to qualifying seniors. The senior must have been a resident of New Brunswick on December 31 of the preceding year and a recipient of one of these federal benefits:
a) Guaranteed Income Supplement (GIS) (65 years or older); or
b) Allowance for Survivor (between 60-64 years old); or
c) Federal Allowance (between 60-64 years old).

This credit is intended to provide financial assistance to low-income seniors. Approximately 33,000 low-income New Brunswick seniors receive the benefit annually.

# Appendix 2: Competitiveness of New Brunswick's Current Tax System

New Brunswick has taken significant strides to improve the competitiveness of its tax system and the climate for business investment and job growth in the province over the past 20 years. This has put the province in a comparable position in relation to its Atlantic neighbours and some of the other Canadian jurisdictions.

Several technical studies have shown that New Brunswick currently has a competitive tax environment for business investment, compared other provinces. These studies evaluate the competitiveness of tax systems by an analysis of the jurisdiction's Marginal Effective Tax Rates (METRs).

The Marginal Effective Tax Rate is a measure of additional tax paid as a percentage of the return earned on new investments.

In 2006, the federal government released *Advantage Canada*, an economic plan that included a comparison of the marginal effective tax rates on capital by province. These calculations included the corporate income tax, provincial capital tax and retail sales taxes. Under this analysis, New Brunswick's marginal effective tax rate ranked the lowest among all the provinces. New Brunswick's favourable ranking was due in large part to its harmonized sales tax (no tax on business inputs), the phasing-out of its Large Corporation Capital Tax and its relatively low corporate income tax rate. Another major factor was the impact of the federal government's Atlantic Investment Tax Credit that is targeted to resource and manufacturing companies, which accounts for a larger share of investment in New Brunswick compared to Canada as a whole. The model assumed that firms making new investments have sufficient taxable income in Canada to make full use of this federal tax credit in the first year.

In 2007, the C.D. Howe Institute's Tax Competitiveness Report, *Federal and Provincial Tax Reforms: Let's Get Back on Track* also explored the tax competitiveness of provinces by examining marginal effective tax rates. Along with an analysis of marginal effective tax rates on capital, this study also included an analysis of the impact of taxes on labour, to provide a more complete analysis of the cost of doing business across Canada. As with the federal analysis, this report showed New Brunswick's marginal effective tax rate on capital as the lowest in Canada.

This report's analysis of taxes on labour, however, showed a less favourable position for New Brunswick. The analysis of marginal effective tax rates for labour includes personal income taxes, employer and employee federal and provincial payroll taxes and sales tax on income spent on goods and services. New Brunswick had the fourth-lowest marginal effective tax rate on labour. The fact that New Brunswick does not have a payroll tax favourably affects the calculation of marginal effective tax rates on labour, and New Brunswick's relatively low incomes (not low tax rates) compared to some other provinces also contributed to its ranking of fourth-lowest marginal effective tax rate on labour.

The C.D. Howe Institute's analysis of the province's overall marginal effective tax rate (capital and labour combined) showed that New Brunswick had the lowest fiscal burden on the cost of doing business, compared with other provinces. The reason for this result was the model's assumption that the Atlantic Investment Tax Credit could be fully utilized in the first year of the new investment. Clearly, for Canadian firms with sufficient taxable income to utilize the Atlantic Investment Tax Credit in the first year, New Brunswick currently has an advantage in terms of the overall marginal effective tax rate. However, many firms do not have sufficient taxable income to make use of the federal Atlantic Investment Tax Credit for an extended period of time and certainly not in the first year of the investment. Many do not have sufficient taxable income for a significant period of time after making the new investment. Also, firms that wish to take greater advantage of the federal Atlantic Investment Tax Credit may declare more current taxable income by delaying discretionary depreciation and other deductions for federal and provincial tax purposes. This may increase their provincial tax payments instead and could more than offset the benefit of greater use of the Atlantic Investment Tax Credit.

Given the limitations of these studies, it was necessary to do a more thorough analysis of the competitiveness of New Brunswick's tax treatment on new investment.

The New Brunswick Department of Finance undertook a more comprehensive analysis that included an examination of situations where the Atlantic Investment Tax Credit could not be utilized. The information in Tables A2.1 and A2.2 contains the results of a more complete analysis. As shown in Table A2.1, with the Atlantic Investment Tax Credit, New Brunswick once again has the lowest marginal effective tax rate on capital of all provinces. However, the overall cost of doing business, shown in the third row of Table A2.1, ranks New Brunswick second lowest when the Atlantic Investment Tax Credit is included.

### Table A2.1: Marginal Effective Tax Rate (%) on Cost of Doing Business for 2008 with the Atlantic Investment Tax Credit

| | NF | PE | NS | New Brunswick | QC | ON | MB | SK | AB | BC | Aggregate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| METR on capital | 10.8 | 31.8 | 18.9 | **1.9** | 23.7 | 33.7 | 29.0 | 25.9 | 20.8 | 29.9 | 28.2 |
| METR on labor | 47.1 | 45.5 | 45.6 | **45.4** | 48.0 | 47.0 | 45.7 | 42.3 | 38.6 | 42.8 | 45.1 |
| **METR on cost** | **37.0** | **40.8** | **37.5** | **33.8** | **40.5** | **42.4** | **40.1** | **36.8** | **32.6** | **38.3** | **39.50** |

Table A2.2 below is a more appropriate illustration of the marginal effective tax rate on the cost of doing business for firms that cannot use the Atlantic Investment Tax Credit. Without the benefit of the federal tax credit, the province's marginal effective tax rate on the overall cost of doing business is less advantageous, but still competitive with some of the other provinces.

### Table A2.2: Marginal Effective Tax Rate (%) on Cost of Doing Business for 2008 without the Atlantic Investment Tax Credit

| | NF | PE | NS | New Brunswick | QC | ON | MB | SK | AB | BC | Aggregate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| METR on capital | 21.8 | 37.2 | 28.0 | **22.5** | 23.7 | 33.7 | 29.0 | 25.9 | 20.8 | 29.9 | 28.8 |
| METR on labor | 47.1 | 45.5 | 45.6 | **45.4** | 48.0 | 47.0 | 45.7 | 42.3 | 38.6 | 42.8 | 45.1 |
| **METR on cost** | **39.4** | **42.5** | **39.8** | **38.2** | **40.5** | **42.4** | **40.1** | **36.8** | **32.6** | **38.3** | **39.67** |

From the above two tables, it is clear that the marginal effective tax rates on labour in New Brunswick are much higher than those on capital. Also, when the Atlantic Investment Tax Credit is excluded, New Brunswick's marginal effective tax rate on capital increases from 1.9% to 22.5%. Even with this exclusion, New Brunswick ranks better than average: only two provinces have lower marginal effective tax rates on the overall cost of doing business.

The studies described above have evaluated the competitiveness of the Canadian tax system by province. However, it is also important to evaluate Canada's tax competitiveness within an international context. Table A2.3 below is taken from the 2007 *Tax Competitiveness Report: A Call for Comprehensive Tax Reform* by Jack Mintz, and provides a comparison of both statutory corporate income tax rates and marginal effective tax rates on capital by OECD country for 2007.

As shown in Table A2.3, Canada's 2007 marginal effective tax rate on capital was 30.9%. Canada's marginal effective tax rate on capital of 30.9% was lower than the United States' marginal effective tax rate on capital of 37.8%. However, Canada's marginal effective tax rate on capital was still significantly higher than most of the 30 OECD countries, with Canada ranking the sixth highest. Specifically, Canada's marginal effective tax rate on capital for 2007 was higher than the United Kingdom's marginal effective tax rate on capital of 28.8%, Australia's at 26.7% and Ireland's at 12%, to name a few globally competing countries. Canada's marginal effective tax rate on capital at 30.9% was also much higher than the simple average of the marginal effective tax rates on capital for all 30 OECD countries, at 20.8%.

## *Table A2.3: Statutory Corporate Income Tax Rates and Marginal Effective Tax Rates on Capital by OECD Country, 2007*

| | | **Marginal Effective Tax Rates on Capital (in percentages)** | | |
|---|---|---|---|---|
| | Statutory Corporate Income Tax Rate (in percentages) | Manufacturing | Services | Average |
| US | 38.5 | 34.7 | 40.1 | 37.8 |
| Germany | 37 | 36.9 | 35.3 | 35.7 |
| France | 34.4 | 33 | 31.7 | 31.9 |
| Korea | 27.5 | 32.8 | 31 | 31.5 |
| Japan | 41.9 | 35.2 | 30.4 | 31.3 |
| **Canada** | **34.2 (34.4)** | **23.1** | **36.4** | **30.9** |
| UK | 30 | 24.4 | 29.8 | 28.8 |
| New Zealand | 33 | 29.9 | 28.2 | 28.5 |
| Spain | 32.5 (35.0) | 29.5 | 27.4 | 27.7 |
| Australia | 30 | 27.7 | 26.6 | 26.7 |
| Norway | 28 | 25.8 | 23.2 | 23.5 |
| Italy | 37.3 | 21.8 | 23.4 | 23.1 |
| Finland | 26 | 22.4 | 22.9 | 22.8 |
| Turkey | 20 | 22.7 | 20.2 | 20.8 |
| Luxembourg | 29.6 | 24.1 | 20.3 | 20.6 |
| Austria | 25 | 21.6 | 19.5 | 19.9 |
| Iceland | 18 | 19.5 | 17.6 | 17.9 |
| Sweden | 28 | 19.3 | 17.5 | 17.8 |
| Switzerland | 21.3 | 16.6 | 16.8 | 16.7 |
| Portugal | 26.5 (27.5) | 14.8 | 16.1 | 15.9 |
| Netherlands | 25.5 (29.6) | 18.2 | 15 | 15.5 |
| Poland | 19 | 14.4 | 15 | 14.9 |
| Greece | 25.0 (29.0) | 18 | 13.2 | 13.8 |
| Denmark | 25 | 16.5 | 12.7 | 13.4 |
| Mexico | 28 | 17.1 | 12.1 | 13.1 |
| Hungary | 16 | 12.9 | 12 | 12.2 |
| Slovak Republic | 19 | 13.3 | 11.7 | 12 |
| Ireland | 12.5 | 12.7 | 11.7 | 12 |
| Czech Republic | 24 | 13.2 | 10.4 | 11.2 |
| Belgium | 34 | -6 | -4.1 | -4.5 |
| **Weighted Average *** | **36.3** | **30.9** | **32.3** | **31.5** |
| **Simple Average** | **27.6** | **21.5** | **20.8** | **20.8** |

Source: *2007 Tax Competitiveness Report: A Call for Comprehensive Tax Reform*. Jack M. Mintz. C.D. Howe Institute Commentary. September 2007.

Notes: Marginal effective tax rates on capital investments incorporate corporate income taxes, sales taxes on capital purchases and other capital-related taxes including asset and net worth taxes, stamp duties on securities, taxes on contributions to equity. Special tax holiday regimes operating in some countries are not included in the analysis. Property taxes are not included due to lack of data.

Countries with a CIT rate reduction for 2007 are highlighted and their 2006 CIT rates are shown in the brackets. The above figures do not include any tax changes announced after the report's publication.

*Weighted by GDP in constant 2000 US dollar for the period of 2000-2005.

While New Brunswick's current tax system has some advantages, it is apparent from this analysis that there is significant room for improvement if New Brunswick is to meet the goals set out for achieving self-sufficiency, particularly in the context of the global economy.

As currently designed, New Brunswick's tax system does not provide maximum advantage for attracting better paying jobs and skilled labour, attracting and retaining businesses and investment, and ultimately growing the provincial economy.

To achieve self-sufficiency, New Brunswick's tax system must not only be competitive with other provinces, but it must also be competitive internationally.

## *List of Tables*

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