

The New Brunswick Tax Proposals of 2007-09

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Abstract: In June of 2008 the New Brunswick Department of Finance released **A Discussion Paper on New Brunswick's Tax System**. This paper attempts to put the **Discussion Paper** and subsequent documents including the final legislated changes to the provincial tax system, **The Plan for Lower Taxes in New Brunswick 2009-2012**, in context. It also highlights key failures in the research presented in the **Discussion Paper** which were echoed in later reports, perhaps because calls for research and new research were summarily ignored.

Introduction

This work reflects my exploration into the construction of *A Discussion Paper on New Brunswick's Tax System* (June 2008)¹, its subsequent reformulation into the Select Committee on Tax Review's final report, *Building a Better Tax System* (December 2008), and the government's legislated changes to our tax system, *The Plan for Lower Taxes in New Brunswick 2009-2012* (March 2009). It is not written so much as a paper, but rather as a series of observations, submissions, and presentations with an introduction and a conclusion. I focus primarily on my participation as a provincially-based academic with potentially expert-knowledge on the subject. As such, the vast majority of my comments are devoted to the *Discussion Paper* and my subsequent submissions.

Make no mistake, the provincial liberal government of New Brunswick knew very well what they were ordering when they asked that the *Discussion Paper* to be written. This is clearly spelled out in a series of stories beginning in mid-2007 in the provincial newspaper², the *Telegraph-Journal*. One must also be aware of the enormous number of changes and public consultations that took place during the period when the *Discussion Paper* was released. Finally, I deal with my researched submission which I believe was ignored in the Select Committee on Tax Review's final report and consequently the final tax legislation enacted as part of the March 2009 provincial budget.

¹ Hereafter I will refer to *A Discussion Paper on New Brunswick's Tax System* as simply the *Discussion Paper*.

² *FP Infomart* identifies the *Telegraph-Journal* as a New Brunswick newspaper while the *Times & Transcript* and the *Daily Gleaner* are identified as Moncton and Fredericton newspapers respectively.

Newspaper Reporting

To understand New Brunswick, one must first grasp the importance of the Irving family in the region and, more germane to this argument, their ownership of print media. Indeed, all three English language dailies are owned Brunswick News, Inc. which is owned by J D Irving³. The combination of a virtual media monopoly owned by the same family that runs largest conglomerate in the province generally implies that news and corporate agenda are often confused (see Steuter, 1999; Steuter & Martin, 2000; Tunney, 2008). In this section, I consider only articles published in the *Telegraph-Journal* that mention Jack Mintz in relation to the provincial tax system. I divide these articles according to year of publication. Tallies of the number of articles in a year include news items only; these tallies specifically exclude editorials, opinion pieces, and letters to the editor.

Through these three years we see Jack Mintz presented as a reasoned critic of the New Brunswick tax system, as an advisor to the government on tax issues, as the author of the *Discussion Paper*, and finally as a commentator and supporter of the tax legislation included in the March 2009 provincial budget. At first there seems to be a concerted effort to minimize or even disguise his authorship of the *Discussion Paper*, perhaps because reasonable people would question why he was hired to write a discussion paper when he had already detailed his tax prescriptions to the government as a tax advisor in late-2007.

Articles in 2007

There were 8 *Telegraph-Journal* articles in 2007 that directly linked Jack Mintz to provincial taxes. At first, Mintz's work at the C.D. Howe Institute was used to criticize the increases in taxes in the 2007 budget. The criticism was based upon the government's targeted tax cuts and the hike in the small business corporate tax rate (13 July 2007, A1). By mid-October, the province had Mintz openly advising them at a special tax forum held 18 October. Indeed, according to a *Telegraph-Journal* report, Mintz was recommending corporate tax cuts, moving to a flat income tax, and possibly hiking the HST. He also reversed his position on the small business corporate tax rate hike and supported the increase in this instance (18 October 2007, A1). In other words, reporters clearly delineated what would almost a year later be presented as a possible new tax system for the province in the *Discussion Paper*.

³ Brunswick News, Inc. is also identified as The Irving Group Of Print Media (see *Business Week* <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=4399552> accessed 13 Oct. 2009).

Articles in 2008

In 2008, there were 13 articles that linked Jack Mintz to provincial tax reform that appeared in the *Telegraph-Journal*. Of these 13 articles, 10 occurred before 4 June which was the release date of the *Discussion Paper*.

On 21 March, the *Telegraph-Journal* provided an outright endorsement of Mintz as the province's choice as tax advisor. In that editorial, we read that Mintz has advised the government on "lowering personal income and business taxes and simplifying the tax collection system" all of which is repeated in the *Discussion Paper* released on 4 June. In other words, Mintz was hired fully-knowing what he would produce, irrespective of the data.

For most of this year, the newspaper and the government maintained that Mintz was simply an "advisor" (e.g., 21 March 2008, A4; 14 April 2008, A1), a "consultant" (e.g., 14 April 2008, A1), and the "tax expert ... leading the review" (e.g., 6 May 2008, A8). In fact, the *Discussion Paper* was released with the Department of Finance as the author.

Even after the *Discussion Paper* was released and New Brunswickers awaited the Select Committee on Tax Review's final report, Mintz was identified as the "architect of [the] proposals" whose "ideas shaped the bulk of the discussion paper."⁴ He was cast as "one of the country's foremost tax experts" and commented, "If I was running the government I would be rather pleased, because there was pretty broad acceptance of the general principles of the package" (21 July 2008, A1). It must be nice to come across as an outside observer judging your own policy prescriptions.

New Brunswick economists, none of whom had been asked by the Department of Finance to review the *Discussion Paper*, were forced to use the *Telegraph-Journal* to communicate to the public. Craig Brett submitted an Opinion piece which raised significant questions about the tax proposals in the *Discussion Paper* (25 June 2008, A7). An Open Letter signed by 13 New Brunswick economists (see Appendix B) was published (2 August 2008, A9) and an Opinion piece of mine, based on the research I submitted to the government, was published (14 August 2008, A7).

⁴ Indeed, a quick read of the *Discussion Paper* reveals that the largest number of supporting citations used by Mintz were pieces Mintz authored or co-authored. It is interesting to note that none of the citations used in the *Discussion Paper* were from peer-reviewed sources. Equally disturbing, many of the supporting citations came from the C.D. Howe Institute – the same right-leaning Institute that Mintz directed – and think-tanks that are considered to be leaning further to the right (e.g., The Fraser Institute and The Heritage Foundation).

It was not until 26 December, after the Select Committee's final report was released 12 December and New Brunswickers awaited the government's response, that the *Telegraph-Journal* revealed that Mintz's role was singularly important in the production of the *Discussion Paper*, calling him the "report[']s author" and referring to the *Discussion Paper* as "Mintz's plan," "Mintz's initial document," and "Mintz's report" (26 December 2008, A1). In commenting on the Select Committee's final report – this MLA committee was charged with engaging the public in a discussion of the *Discussion Paper* and making recommendations to the government – the article reports that "Mintz insists his tax package was "do-able" and points to New Zealand and Australia as areas that followed a similar route. ... 'It's possible to do it,' he said. 'It just requires some fortitude on the part of the politicians'" (26 December 2008, A1).

Only long after the *Discussion Paper* is released and the public is concerned with the implementation of new provincial tax legislation is it revealed that the author of the *Discussion Paper* (26 December 2008) is the same person who recommended to the provincial government that we cut corporate taxes, move to a flat(ter) tax, and increase the HST to pay for the lost revenues (18 October 2007). One wonders what money our government could have saved had they listened to Mintz in the tax forum and had civil servants produce the report they obviously wanted.

Articles in 2009

Jack Mintz's final comment on the issues occurred after the release of *The Plan to Lower New Brunswick Taxes 2009-2012* in mid-March 2009. It was reported that Mintz was quite positive about the legislated changes: "Mintz, the architect of the Graham government's original tax reform blueprint, said the final changes will have a "very significant" impact on the province's ability to attract investment and new business" (23 March 2009, A1). The article continued, "The Liberals - who plan to run a \$741-million deficit in 2009-10 - borrowed many ideas from Mintz's initial tax blueprint, though they declined to implement some of the biggest elements." Specifically, the article notes that the *Discussion Paper* remarked that tax cuts alone would amount to up to lost revenues of \$500 million annually and that offsetting increases in HST and implementation of a carbon tax were recommended.

By the government's own admission the new system of taxes adopted by the government will cost \$143.5 million in government revenues in 2009-2010 (see *The Plan to Lower New Brunswick Taxes 2009-2012* http://www.gnb.ca/0160/budget/buddoc2009/Plan_for_lower_taxes-e.pdf accessed 13 Oct. 2009, p.6). In other words, in a time of economic and financial crisis, 19.4% of the government's projected deficit is directly attributable to changes in provincial tax legislation (mainly tax cuts).

Tempus Fugit: Events Surrounding the Discussion Paper

We have now documented the newspaper's account of the author of the *Discussion Paper* and his comments upon subsequent developments in what became new provincial tax legislation. It is hard to imagine this could not have influenced public perception. It is not at all clear however, that the public could focus on tax proposal changes given the many changes proposed all at the same time.

On 18 September 2006, Shawn Graham's Liberals were elected with a 29 to 26 majority over Bernard Lord's Progressive Conservatives. National Energy Board hearings into the routing of a pipeline connecting the LNG terminal outside of Saint John to the US natural gas network in were scheduled to start in early November 2006. Early in 2007, the government proposed a "self-sufficiency" agenda and asked for public input. This process ended in late-2007 with the government adopting an "action plan" for "self-sufficiency." In September of 2007, the government received a report on post-secondary education (the Miner/L'Écuyer report) that called for the closing of a number of university campuses and the development of polytechnics. This led to widespread protest in Saint John and elsewhere in the province, and eventually led to a revised "action plan" released in June 2008 that largely maintained the status quo. The government received a report on French-as-a-second-language instruction, the Croll/Lee report, in February 2008 and decided to scrap much of the existing French Immersion program. After significant protests and the threat of a lawsuit, the government engaged in public consultation and reversed a number of changes (August 2008). Numerous stages of environmental impact assessments were started between April 2007 and August 2009 including work on mega-projects like a new oil refinery in Saint John and the conversion of part of the Coleson Cove thermal generating station to burn petroleum coke. A "climate change action plan" was released in June of 2007.

These items are listed in the timeline presented in Figure 1 with specific dates and links attached in Appendix A. Notice how crowded the timeline is, and the public was expected to comment on many of these proposed changes. Indeed, key items missing include significant changes to regional health authorities, new proposals for Crown Land management, a report on rural and urban governance, and environmental impact assessments for new mines, mine expansions, and water pipelines to drain flooding mines. I am sure I am missing many more. Each and every one of these items demands public input and the input of local experts such as economists, environmental scientists, and political scientists.

Hidden in this morass of change was a proposal to significantly adjust the provincial tax system. While businesses could pay people to provided platitudes to the proposed changes, the public and academic

“experts” were expected to submit comments in their spare time. Worse yet, the *Discussion Paper* was release in early June 2008, just before children finished school and while many academics had departed for conferences and research leaves. Ten public consultation meetings – in front of a Select Committee comprised of six Liberals⁵ and three Progressive Conservatives – were scheduled to occur in late-June and early-July with a break for the Canada Day long weekend. Meetings generally occurred between Tuesday and Thursday with only one Monday meeting scheduled. Most meetings were held at either 10am or 1pm, the exceptions being 6pm meetings in Bathurst (25 June) and Miramichi (26 June). Worse still, in order to present at these public sessions, one had to register the intent to present by 20 June⁶. The public was invited to submit written comments by 1 August.

In total, 44 individuals and 54 groups took advantage of the public sessions while 147 individuals and 32 groups submitted electronic briefings. Unlike the electronic submissions from the consultation phases surrounding the Self-Sufficiency and Post-Secondary Education portfolios, electronic submissions regarding the tax proposals contained in the *Discussion Paper* were not made publicly available. It is clear from the Select Committee’s report, *Building a Better Tax System*, that the Open Letter (see Appendix B) was received.⁷ It is not clear that they accepted my research submission.

Examining the Proposal

The document below is my original researched submission to the government. As such please forgive tense and tone changes as the original document has been preserved.

Comments on A Discussion Paper on New Brunswick’s Taxes

Submitted by Rob Moir⁸

I would like to thank the Commission for this opportunity to respond to the tax proposal contained in *A Discussion Paper on New Brunswick’s Taxes* (hereafter referred to as the *Discussion Paper*). I will confine my comments to those areas where I have had the chance to conduct some research about the specific proposal, namely the introduction arguing for tax reform, changes to income tax, changes to

⁵ Both the Chair and Vice-Chair were Liberals (see http://www.gnb.ca/legis/Promos/Public_Hearings/Tax_Review/TaxSystem-FinalReport-e.pdf accessed 13 Oct. 2009).

⁶ Public presentations were limited to 20 minutes.

⁷ The Open letter was submitted on the last possible day in order to maximize the number of signatories. The summer is not the best time to reach academics.

⁸ I am an Economics professor at UNB in Saint John and the current President of the Atlantic Canada Economics Association. The comments contained herein are my own and do not necessarily reflect the opinions of my employer or any groups with which I am affiliated.

corporate taxation, new and increasing taxes, and general comments. These will be followed by some concluding comments.

Comments on Introductory Material

This tax proposal is certainly quite bold and sweeping, suggesting changes in almost all aspects of New Brunswick's taxation policy. However, in calling for such sweeping change, this proposal makes some rather convoluted statements and comparisons.

Consider the claim on page 7, "*This examination [on tax competitiveness in Appendix 2] 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.*" Tables A2.1 and A2.2 (p.57) indicate that the marginal effective tax rate on the cost of doing business in New Brunswick is in the top 3 provinces across Canada, placing behind Alberta and, if the Atlantic Investment Tax Credit does not apply, behind Saskatchewan. We are ahead of traditional economic powerhouses such as Ontario, Quebec, and British Columbia, and have the lowest rate in Atlantic Canada. Indeed, instead of New Brunswick being "*relatively competitive with some Canadian jurisdictions,*" we are in fact, **quite competitive with many Canadian jurisdictions**. If we are worried about GDP and business growth in the province, then a very reasonable conclusion is that one must also look at business conditions outside of taxes as potential impediments to growth.

Instead, the *Discussion Paper* suggests only lower taxes as a growth mechanism and raises other low-tax regions as exemplars for New Brunswick. Ireland, the "Celtic Tiger," is raised repeatedly: "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" (p.24). This passage, cited as coming from the Fraser Institute, is an assertion that comes without empirical analysis. It reads as if Ireland's business tax cuts alone led to strong GDP growth while ignoring the massive injection of European Union euros into the Irish economy as a backdoor method of getting the United Kingdom to enter into the European Union. The significant Irish investment in post-secondary education including free tuition is not only ignored in this *Discussion Paper*, but has been ignored by this Government's PSE Action Plan.

Alberta is also raised as an example, but there is little mention of the rich resource sector in Alberta (\$9.737 billion in resource royalties in 2007-08) and the fact that successive governments in New Brunswick (with just \$0.066 billion in resource royalties in 2007-08) have shown little interest in developing provincial natural resources (e.g., natural gas, oil shale) into value-added industry. Nor is it mentioned that Alberta collects 50% of its tax revenues from income taxes as compared to New Brunswick's 39%.⁹ Simply mentioning two places in the same sentence or paragraph does not necessarily mean that a direct comparison is valid.

Recommendation 1: *Ensure comparisons to other regions/countries are empirically valid.*

⁹ New Brunswick data calculated using the 2007-08 revised values from the *New Brunswick Government's Main Estimates* used to prepare the 2008-09 Budget (http://www.gnb.ca/0160/budget/buddoc2008/Main_Estimates_08-09.pdf) pages 202-204. Alberta values use the 2007-08 actual values from the *2007-08 Alberta Government's Annual Report: Backgrounder* (http://alberta.ca/acn/200806/23863Backgrounder_GOA-AnnRep_FINAL_june23.pdf) page 2.

The *Discussion Paper* is full of loaded phrases such as “tax burden” and “hard-earned money” which makes the document read like propaganda. Frank Luntz, communications advisor to the Republican party (see http://en.wikipedia.org/wiki/Frank_Luntz), has done a great deal to perfect this technique but it is nothing more than a political marketing tool and should not be used if this Government is serious about engaging the public in a discussion.

Recommendation 2: *Remove loaded/ideological language from the Discussion Paper.*

New Brunswick is a province blessed with both natural and human resources. In fact, we have a large number of “experts” already in the province. For instance, finance and tax expert, Dr. Joe Ruggeri (Director for the Policy Studies Centre (UNB – Fredericton (<http://www.unb.ca/econ/psc/>)), Vaughan Chair in Regional Economics, former employee in the Departments of Finance in New Brunswick and Alberta) resides in Fredericton and until very recently, taught at UNB Fredericton. Why then does the *Discussion Paper* rely so heavily on the advice of Dr. Jack Mintz in Alberta? Will Dr. Mintz and his extended family move to New Brunswick, earn their incomes in New Brunswick, pay taxes in New Brunswick, and receive services in New Brunswick while we test his tax system? If this Government is truly interested in self-sufficiency, why does it keep looking outside the province for expert advice?

Recommendation 3: *Where possible, engage local experts to enhance the discussion and provide expert feedback on proposals.*

Comments on Flat Taxes

The *Discussion Paper* proposes two options for restructuring provincial income taxes. In the flat tax option, the non-refundable basic personal amount is increased significantly and the marginal tax rate is set at a flat 10%.

In studying a flat tax, I think it is useful to read a 2006 IMF Working Paper “The “Flat Tax(es)”: Principles and Evidence” (Keen, Kim, and Varsano available at <http://www.imf.org/external/pubs/ft/wp/2006/wp06218.pdf>) which discusses the experience with flat taxes in Eastern European countries. Keen et al. clearly point out that the move to a flat tax is not necessarily regressive. However, a simple comparison of a flat tax versus a tax with increasing marginal rates can only be made when the tax revenues under both scenarios is constant. Obviously with a higher basic personal amount and a flat income tax rate (10%) that is set lower than our lowest marginal rate (10.12%), personal income taxes will fall for anyone who currently pays income tax; this fact is evident in Tables 2 and 3. Consequently, the government’s tax revenue from income taxes is predicted to decrease, but by how much is anyone’s guess. This makes judging the distributional properties of the proposed tax package extremely difficult.

The authors of the IMF Working Paper draw a number of important empirical conclusions (see pp.35-37). I will not mention them all, but for our sake, it is interesting to note that there is no evidence of a Laffer-effect,¹⁰ there is little evidence that flat income taxes influence incentives to work, and there is only

¹⁰ The Laffer-curve is a relatively simple model, drawn as an inverted parabola. It argues that since tax revenues will be zero when the tax rate is zero and likely to be zero when the tax rate is 100%, then somewhere in between these extremes is an optimal tax rate which gains the largest possible tax revenue.

limited evidence for base-broadening when a full political package (more than just income tax reform) is constructed to attract both business and labour.

Furthermore, these authors, in agreement with many others, conclude that “While flatness itself is certainly a simplification, eliminating some potential forms of tax arbitrage, the rate structure itself is commonly not the primary source of complexity in taxation. This comes more from exemptions and special treatment of various kinds. Thus the (limited) survey evidence for Russia for example, does not suggest that the system was widely seen as significantly less complex after adoption of the flat tax” (pp.36-37). Simply moving to a provincial flat income tax in New Brunswick will do nothing whatsoever to simplify the calculation of *total income*, *net income*, or *taxable income*, which form the bulk of our existing tax forms.

From the estimates provided in the *Discussion Paper*, the simplicity of the current tax system is exactly what contributed to the majority of the analysis contained in the section on income tax reform. It seems that the authors have performed their comparative analysis (see Tables 2 and 3 (p.15) and Tables 6 and 7 (p.19)) using an Excel spreadsheet. Had the authors conducted a more thorough analysis, their results would likely have been expressed over total income ranges (see, for instance, the predictions set out in the Federal Government’s document “The Budget Plan 2008” (<http://www.budget.gc.ca/2008/plan/table-eng.asp>) Table 3.3 (p.90)). The simple calculations used in the *Discussion Paper* may disguise some important dynamic and feedback effects, contributes to vague predictions about losses from income tax (and later corporate tax) revenues, and permits the authors to ignore the potentially regressive results of an increase in HST and new carbon taxes. Later in this commentary, in reference to the HST increase, I will point to state-of-the-art software that permits a more thorough analysis of the various tax proposals contained in the *Discussion Paper*.

Recommendation 4: *Do not argue that implementing a flat tax will simplify tax forms as this is extremely misleading if not patently false.*

In its abstract, the IMF Working Paper concludes, “the question is not so much whether more countries will adopt a flat tax as whether those that have will move away from it” (p.1). The IMF is not generally considered a progressive institution, yet researchers there question the argument for flat taxes basing their conclusions upon empirical evidence. It seems odd that the *Discussion Paper* makes no reference to this background material available from the IMF website. Then again, the IMF Working Paper contradicts many of the flat tax assertions made in New Brunswick’s *Discussion Paper*.

The two-rate income tax proposal is similar in structure to the flat tax. While it does not include an increase in the non-refundable basic personal amount, the proposed marginal income tax rates are set below existing levels. Distributional comparisons to either the flat income tax or the current income tax are again difficult because there is a significant revenue loss predicted as we shift from the current system to the two-rate income tax. Again, the regressivity of the proposed HST increase and the new carbon tax are not addressed (Tables 6 and 7 (p.19)).

Comments on Corporate Tax Rates

The tax proposal contained in the *Discussion Paper* advocates significant cuts to the corporate tax rate, elimination of the large corporation capital tax, and reduction or elimination of the financial corporation

capital tax. While this will lead to a loss in overall tax revenues, the *Discussion Paper* did not perform any analysis to suggest exactly how much would be lost specifically from various corporate tax rate cuts.

Supporting documentation for corporate tax cuts in this section make reference to papers produced by ideological “think-tanks” (e.g., The C.D. Howe Institute and the Fraser Institute) or in an introduction to a book, neither of which are peer-reviewed sources. As such, the arguments in this section are supported entirely by assertions rather than empirical evidence.¹¹

Consider the following facts. The *Discussion Paper* clearly indicates that the marginal effective tax rate on the cost of doing business in New Brunswick is either the second or third lowest in Canada (Tables A2.1 and A2.2 p.57). Looking simply at the corporate tax rates in comparison with the rest of Canada (<http://www.kpmg.ca/en/services/tax/taxrates.html>) New Brunswick compares favourably with other provinces, especially if one looks at 2006 before other provinces started to cut corporate rates, perhaps in response to New Brunswick’s own low rates. Strong economic growth in the business and manufacturing sectors has not been an immediate result of this tax policy; if strong business growth had been the result then there would be no need to propose lower corporate tax rates. This begs the question, if New Brunswick has low corporate tax rates yet still feels it needs to expand the business and manufacturing sectors of the economy, then what other issues might be impeding business growth?

- Perhaps a lower tax rate on small business enterprises will enhance entrepreneurialism.
- Perhaps there is a shortage of basic skills (e.g., literacy and numeracy) in the population and we need greater investment in human capital.
- Perhaps dominance in the labour market has led to low wages and a failure to attract skilled labourers to – or to keep skilled labourers in – New Brunswick.
- Perhaps a lack of competition in the general business environment has discouraged new business, especially in certain sectors.
- Perhaps there exists some government bureaucracy that impedes new business.
- Perhaps New Brunswick’s heavy reliance on exports to the United States limits growth opportunities, especially in times of economic turmoil in the United States.
- Perhaps New Brunswick lacks a large-enough “creative class” (see works by Richard Florida - http://en.wikipedia.org/wiki/Richard_Florida) to attract bigger businesses, and must invest in such a way to grow this segment of society.

Brian Lee Crowley, director of the Atlantic Institute for Market Studies (another ideological think-tank) suggests that New Brunswick go a step further than the *Discussion Paper*’s proposal and set a corporate tax rate of zero (<http://www.aims.ca/inthemedias.asp?typeID=4&id=2233&fd=0&p=1>). His comments identify the major weakness with this section of the proposal – if we lower taxes, so can others. Suppose all of Canada sets a 0% corporate tax rate. Past empirical results suggest we would just lose tax revenue with no compensatory increase in business – New Brunswick may not be competitive in attracting business in dimensions other than tax rates. Would this Government then propose setting a negative corporate tax rate?

¹¹ Most of the references in this section of the *Discussion Paper* refer to work authored or co-authored by Jack Mintz.

Recommendation 5: *Research reasons other than the corporate tax rate that may contribute to slow business growth in New Brunswick.*

There may be a good reason to cut the small business corporate tax rate. Small businesses are the engine of entrepreneurial growth and are quite likely to involve domestic investment and domestic labour.

Recommendation 6: *Consider cutting the small business corporate tax rate.*

Cutting the financial corporation capital tax seems both petty and ill-advised. It is a relatively small tax directed at an extremely profitable industry and thus has few distortionary effects. Moreover, even if we cut this tax, we are highly unlikely to attract financial corporations to New Brunswick as they prefer the “visibility” of larger urban centres with an international reputation. This tax cut seems to be designed as a gift to past-premier Frank McKenna who is now on the board of the TD Bank Financial Group.

Comments on New and Increasing Taxes

As noted in the *Discussion Paper*, the cuts to personal income and corporate tax rates will lead to a decline of approximately \$500 million (a 16% decrease in all tax revenues).¹² This sharp decline in revenues is to be offset by an increase in HST and a new carbon tax, jointly raising an estimated \$350 million in revenues and reducing the tax revenue loss to \$150 million. These are interesting options, but both have the potential to increase the regressive nature of our tax system and this issue has not at all been explored in the *Discussion Paper*.

Let us first consider the HST as this is an existing tax and thus easier to study. It is well-known that sales taxes are regressive. It is for this reason that the federal government has instituted a GST rebate. We should also take careful note that there is no such thing as an HST rebate to offset any regressivity. As noted earlier, without greater study it is difficult to ascertain whether the proposed reduction in income tax rates (either variant) is actually progressive. That said, it is at the very least irresponsible, bordering on fraudulent, to promote tax changes while highlighting the tax cuts and ignoring tax increases. It is equivalent to a salesperson dropping the price of a car by \$1,000 but then raising the price of tires by \$300 each – the cost of the car increases by \$200 overall, unless you can do without tires.

The authors of the *Discussion Paper* flippantly point out that a 2% increase in HST 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” (p.32). Such statements disguise the cumulative effects of a sales tax increase. However, given the relatively simple analysis of the various proposals in the *Discussion Paper*, it is about the only statement the authors could make.

Fortunately, there exists state-of-the-art software that enables us to model policy changes of the type outlined in the *Discussion Paper*. Statistics Canada’s SPSPD/M (Social Policy Simulation Database and Model - <http://www.statcan.ca/english/spsd/spsdm.htm>) was specifically designed to look at the effects of various tax and transfer policy changes. It has been in existence for a number of years, and has been used

¹² Percentages are calculated using the 2007-08 revised values from the New Brunswick Government’s Main Estimates used to prepare the 2008-09 Budget (http://www.gnb.ca/0160/budget/buddoc2008/Main_Estimates_08-09.pdf see pages 202-204).

by a number of think-tanks including the C.D. Howe Institute (where Dr. Jack Mintz was Chair and CEO (1999-2006)) and the Fraser Institute.

Taking the income tax predictions as given in the *Discussion Paper*, I have simulated the effect of a 2% increase in the HST in New Brunswick using SPSP/M.¹³ Using a 2007 sample, HST spending was estimated for income groupings surrounding the taxable income values mentioned in the *Discussion Paper*.¹⁴ Tables 1 and 2 below predict the combined effect of an income tax cut and an HST increase on a single tax filer and a representative family for both a flat income tax and a two-part income tax (comparable to Tables 2, 3, 6, and 7 from the *Discussion Paper*).

Table 1 Estimated Net Tax Bill Considering Reduced Income Tax Rates and a 2% Increase in HST (Single Earner/Tax Filer)

Taxable Income	Flat Income Tax			Two-Part Income Tax		
	Income Tax Decrease (Table 2, p.15)	HST Increase	Net Tax Bill	Income Tax Decrease (Table 6, p.19)	HST Increase	Net Tax Bill
\$15,000	-\$20	+\$210	+\$190	-\$21	+\$210	+\$189
\$25,000	-\$359	+\$264	-\$95	-\$326	+\$264	-\$62
\$40,000	-\$522	+\$405	-\$117	-\$452	+\$405	-\$47
\$60,000	-\$1,018	+\$489	-\$529	-\$1,146	+\$489	-\$657
\$100,000	-\$3,160	+\$644	-\$2,516	-\$2,938	+\$644	-\$2,294
\$140,000	-\$6,188	+\$1,256	-\$4,932	-\$5,166	+\$1,256	-\$3,910

Table 2 Estimated Net Tax Bill Considering Reduced Income Tax Rates and a 2% Increase in HST (Census Family with 1 Earner/Representative Family)

Taxable Income	Flat Income Tax			Two-Part Income Tax		
	Income Tax Decrease (Table 3, p.15)	HST Increase	Net Tax Bill	Income Tax Decrease (Table 7, p.19)	HST Increase	Net Tax Bill
\$15,000	\$0	+\$307	+\$307	\$0	+\$307	+\$307
\$25,000	-\$219	+\$444	+\$225	-\$219	+\$444	+\$225
\$40,000	-\$1,801	+\$519	-\$1,282	-\$1,325	+\$519	-\$806
\$60,000	-\$2,296	+\$657	-\$1,639	-\$1,786	+\$657	-\$1,129
\$100,000	-\$3,689	+\$765	-\$2,924	-\$3,579	+\$765	-\$2,814
\$140,000	-\$6,266	*	*	-\$5,806	*	*

* Insufficient observations to calculate an estimate.

These are only first approximations. I have not attempted to conduct the analysis for the complete tax package under all variants described in the *Discussion Paper*. These are complex tasks, but the effort will no doubt provide a much more complete picture of decreases in tax revenues and the changing distribution of taxes paid.

¹³ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Rob Moir and the responsibility for the use and interpretation of these data is entirely that of the author.

¹⁴ I wish to thank Jennifer Jones for her assistance in using this complex software.

The results in Tables 1 and 2 above permit us to engage in serious discussion. First, why weren't the tax proposals subjected to this level of analysis already? Either the authors could not be bothered to do this level of analysis for the province of New Brunswick or the analysis has been conducted and leads to disturbing (read less marketable) results. Second, might this limited information on net tax bills – recall that the proposed carbon tax has not been analyzed – change our opinions, especially in light of the programme cuts that will likely result from the projected tax revenue decrease of \$150 million?

Let us consider Table 1 above. Under either income tax proposal, the annual decrease in overall taxes paid is quite modest for incomes less than \$40,000. Given the median total income for a single earner in New Brunswick is about \$21,000 (extrapolated from Statistics Canada 2006 measure) this means that the proposed tax policy shift leads to either a **very small decrease or perhaps an overall increase in many people's tax payments**. At the other end of the income spectrum, people earning \$100,000 will likely see an overall decline in their tax payments in excess of \$2,000. Those fortunate enough to earn income of \$140,000 might see their total tax bill fall between \$4,000 and \$5,000 dollars. As a whole, the tax changes outlined in the *Discussion Paper* imply a significant decrease in total tax payments for those with incomes of \$60,000 or greater, relatively small decreases and perhaps slight increases for people with smaller incomes, and an overall decline in tax revenue which will likely lead to spending cuts on programmes used mostly by people with lower incomes. On the whole, this is an extremely regressive package.

While it is wonderful to see any government attempt to deal with carbon emissions, provincial governments are constitutionally constrained to setting direct taxes (i.e., taxes on consumption). Thus, the carbon tax proposed in the *Discussion Paper* is to be placed on carbon emissions made in the consumption of gasoline/diesel, home heating oil, and electricity. Given energy consumption patterns, there is the potential for a carbon tax to be regressive, although the paper proposes credit-offset for low-income individuals.

The claim that the carbon tax will be fiscally neutral (p.29) is completely specious. This regressive carbon tax is designed to offset the large tax rate reductions for high income individuals and reductions in corporate tax rates. If this carbon tax proposal had any environmental merit, ministers of this Government would be able to predict the carbon reductions resulting from this tax. Instead they are simply able to say it will raise about \$100 million. Moreover, economic research suggests that revenues generated by carbon taxes are best spent investing in cleaner energy sources and enhanced energy efficiency.

Inasmuch as both the proposed HST increase and carbon tax are regressive and there are links between gender and income (e.g., women may earn less than men, lone-parent families are often headed by a female adult and tend to have lower incomes), we must carefully discuss the differential effects of these tax proposals upon gender. Likewise, wherever there is a correlation between a population group and income (e.g., aboriginals, recent immigrants) it would be beneficial to examine the potential effects of these tax proposals and determine if corrective action is warranted.

Recommendation 7: *Subject the entire tax proposal and all of its variants to a comparative analysis using Statistics Canada's SPSD/M software. Clearly identify potential tax revenue losses and tax revenue gains. Present data in such a way that meaningful distributional comparisons (by income class, family-type, age, gender, etc.) can be made by the lay reader (e.g., complete Tables 2, 3, 6, and 7 in the*

Discussion Paper with the complete effect from all tax changes). Release all of these results to the public and engage us once again in a public discussion.

In my limited experience with SPSD/M, I suspect that this analysis would take about 1 month.

Recommendation 8: *Consider directing revenues from a special carbon tax towards offsetting rebates for low-income residents and investments in energy efficiency and “clean” energy sources.*

I must temper my above comments regarding both the HST increase and the new carbon tax with the comment that I am generally supportive of such increases. My reasoning, however, likely differs significantly from current policy-makers. In my opinion, excessive growth in consumption has contributed to significant environmental and quality-of-life decline. Growth in consumption can fuel GDP growth while causing significant declines in other indicators of economic well-being (the Genuine Progress Index, the Genuine Progress Indicator, and the Canadian Index of Well-Being are examples). In other words, we need to slow economic growth as measured by GDP and redistribute wealth; this is antithetical to the intent of the tax proposals in the *Discussion Paper*. Both carbon and sales taxes can be used to achieve the ends outlined above, but this would involve significant increases in tax rates combined with large rebates contingent upon income and directed investments in “clean” energy and energy efficiency.

General Comments

While I have argued elsewhere that the analysis is threadbare, and have called for a more complete analysis of these tax proposals, let us for now accept the *Discussion Paper*'s assertion that there will be an overall decline of \$150 million in tax revenues. Clearly the authors of the *Discussion Paper* have accepted the notion of zero deficits,¹⁵ regularly referring to “fiscal responsibility” and “balanced budgets.” However, at no point does the *Discussion Paper* mention what spending cuts might be made when provincial revenues are decreased. Will New Brunswick privatize healthcare, reduce public support for post-secondary education, and/or increase user fees and licenses? Such expenditure cuts can increase the cost-of-living in New Brunswick potentially contributing to population decline, and may also decrease skills and increase healthcare costs which increase the cost of doing business in the province. Population decline and increased business costs can reduce the tax base in New Brunswick.

The above comments may be considered to be speculatively alarmist. However, consider the evolving language in the *Discussion Paper*. This document outlines *Goals for Restructuring the Tax System* (pp.8-9) and *Principles for Restructuring the Tax System* (p.10), many of which overlap. Under the **goal** of fiscal responsibility, there is reference to **public** services and infrastructure (*Goal 7*, p.9), but under the **principle** of fiscal responsibility, the word public no longer appears when discussing the provision of services and infrastructure (*Principle 8*, p.10).

¹⁵ “Zero deficits” is a political as opposed to an economic objective. Most Canadians enter a deficit position when they purchase a house or a car. Many will enter a deficit position when they obtain a college degree or a university diploma. Most people would agree that these are quite likely sound economic investments. When a province or nation enters into a deficit position, we should look to see whether the expected return from investment exceeds the costs of debt servicing. More worrying to economists is the idea of a structural deficit that continually feeds debt.

Understanding the potential consequences of this tax revenue decrease on the provision of services, the development of infrastructure, and the funding of programmes is extremely important if people are to judge the merits of the tax options identified in the *Discussion Paper*. If decreased tax revenues result in reduced funding for universities, how will we attract high wage earners who want their children to attend nationally-recognized institutions? If decreased tax revenues result in reduced environmental regulation and enforcement, will families want to move to this province? Given the *Discussion Paper*'s assertion that tax rate decreases will attract a larger population, it is imperative that we discuss potential expenditure cuts within a complete fiscal package.

Recommendation 9: *Clearly identify potential expenditure cuts.*

As noted above, the *Discussion Paper* asserts that the tax base will increase under the proposed tax regime. This assertion raises two issues.

First, is there empirical evidence that a simple tax cut will increase the tax base as is asserted in the *Discussion Paper*? As noted elsewhere, this entire document is remarkably devoid of peer-reviewed citations supporting its assertions. Suppose the tax base does not increase. In that case, New Brunswick has decreased tax revenues by \$150 million and built in a structural deficit. The only method to remove this structural deficit is to decrease expenditures, again leading to the questions, what will get cut and what will get privatized?

Recommendation 10: *Provide a complete fiscal package (including, if you will, tax cuts, and either recommendations for deficit-financing or expenditure cuts) supported by peer-reviewed evidence for a predicted increase in tax base.*

Second, suppose the tax base increases and the province of New Brunswick realizes an overall increase in tax revenues (this too is an unproven assertion addressed in **Recommendation 12** below). As we are well aware, there is already a lack of funding for many of our public institutions (e.g., healthcare system, education system, post-secondary education system, environmental monitors, children's services); existing per capita funding does not provide the level of service New Brunswickers would like. Will additional people, each paying less money than before, contribute to additional strain on the system, or are there economies of scale – service expansion that contributes to declining average costs of provision – that have yet gone unrealized? If no such economies of scale can be identified, then we again raise the question of cuts to service provision.

Recommendation 11: *Provide evidence of potential economies of scale in public service provision and concrete examples of how this Government proposes to take advantage of these economies of scale.*

There is a lot of mention of the catch-phrase “self-sufficiency” and the desire to reduce our dependence upon federal equalization payments, but there is no analysis of the relationship between the tax base and equalization payments during the transition phase. Let us assume the *Discussion Paper*'s assertion that the tax base will in fact increase. It is likely the case that an additional dollar in tax revenue from a larger tax base will be offset by a one dollar decrease in federal equalization. Again, the result is a structural deficit of \$150 million.

Recommendation 12: *Provide discussion, supported by legal/constitutional opinion, about the relationship between tax base and equalization payments.*

Concluding Comments

I have made 12 recommendations regarding the tax proposals described in *A Discussion Paper on New Brunswick's Taxes* which I repeat below.

Recommendation 1: *Ensure comparisons to other regions/countries are empirically valid.*

Recommendation 2: *Remove loaded/ideological language from the Discussion Paper.*

Recommendation 3: *Where possible, engage local experts to enhance the discussion and provide expert feedback on proposals.*

Recommendation 4: *Do not argue that implementing a flat tax will simplify tax forms as this is extremely misleading if not patently false.*

Recommendation 5: *Research reasons other than the corporate tax rate that may contribute to slow business growth in New Brunswick.*

Recommendation 6: *Consider cutting the small business corporate tax rate.*

Recommendation 7: *Subject the entire tax proposal and all of its variants to a comparative analysis using Statistics Canada's SPSD/M software. Clearly identify potential tax revenue losses and tax revenue gains. Present data in such a way that meaningful distributional comparisons (by income class, family-type, age, gender, etc.) can be made by the lay reader (e.g., complete Tables 2, 3, 6, and 7 in the Discussion Paper with the complete effect from all tax changes). Release all of these results to the public and engage us once again in a public discussion.*

Recommendation 8: *Consider directing revenues from a special carbon tax towards offsetting rebates for low-income residents and investments in energy efficiency and "clean" energy sources.*

Recommendation 9: *Clearly identify potential expenditure cuts.*

Recommendation 10: *Provide a complete fiscal package (including, if you will, tax cuts, and either recommendations for deficit-financing or expenditure cuts) supported by peer-reviewed evidence for a predicted increase in tax base.*

Recommendation 11: *Provide evidence of potential economies of scale in public service provision and concrete examples of how this Government proposes to take advantage of these economies of scale.*

Recommendation 12: *Provide discussion, supported by legal/constitutional opinion, about the relationship between tax base and equalization payments.*

I do not claim to have all the answers, and from the few submissions I have been sent and editorials raised, there are a large number of outstanding questions. I feel the process has been quite flawed – release of the *Discussion Paper* in late-May/early-June, public presentations to take place in a two-week period in late-June/early-July over the Canada Day holidays and coinciding with the end of school and a number of other Government-initiated discussions, written submissions held by the government and not made available to the general public, and a completion date of August 1 have all made this public

consultation difficult. I think it would be unfair to conclude that people do not care just because they have not been able to comment.

While completing this exercise, I wondered how I might propose changing our tax system to stimulate reasonably sustainable growth. So far these are just ideas that I have not fully fleshed out. I include them below in case they may be of use.

Suggestion A: *Maintain personal income tax and consumption taxes as is for the time being.*

Suggestion B: Alter corporate tax policy in the following ways:

- *Use tax credits and/or accelerated capital depreciation for new companies locating in New Brunswick, specifically in targeted sectors such as renewable energy*
- *Implement tax incentives to subsidize R&D costs for companies with a New Brunswick location doing R&D in New Brunswick.*
- *Lower the small business tax rate*
- *Create CEDIFs (community economic development investment funds - <http://www.gov.ns.ca/econ/cedif/background/>) to direct the investments made by citizens of the province into new investment within the province.*
- *Strike a committee to look at non-tax costs of doing business in New Brunswick.*

Suggestion C: Environmental Issues

- *Implement a cap-and-trade system for emissions in conjunction with Ontario and Quebec*
- *Consider entering a small deficit position in order to subsidize new “clean/renewable” energy generation and supporting industries in New Brunswick.*
- *Invest in energy efficiency improvements especially on an income-contingent basis.*

Respectfully Submitted,

Rob Moir

Comments to the Fair Tax Coalition

In advance of the release of the 2009 New Brunswick Budget and the government’s decision on tax reform, the Fair Tax Coalition hastily called a conference on 7 February 2009. While I mentioned the updated analysis of the more complete tax package (i.e., income tax cuts and the offsetting increase in HST), I made sure to emphasize that the claim that flat(ter) taxes are “simpler” is completely false (see Figure 2). Instead of choosing which **ONE** of four columns to fill in, the proposal suggested you would choose one of one or one of two. In any case, you would still fill in just **ONE** column. With or without the proposed tax reform, it still requires the completion of 5 forms, 4 schedules, and a number of references to the guide to calculate the

number you need to fill in that **ONE** column. There are still two pages of information that you must complete to calculate your taxable income. I have asked this question of the government in my submission, and have not yet received an answer.

Conclusion

A Discussion Paper on New Brunswick's Tax System was written by Jack Mintz. The provincial government under Premier Graham hired Mintz to write this report knowing exactly what he would write. Cheered on by corporate interests and the *Telegraph-Journal*, this government embarked on a campaign to market this tax proposal to New Brunswickers. In part this was done by championing Mintz while at the same time pretending that the *Discussion Paper* was produced by the Department of Finance.

The research in the report is rather shoddy. Mintz generally cites his own work and it is not clear that he uses any peer-reviewed sources to support his assertions. Worse still, the report fails to make use of state-of-the-art simulation software to analyze the complete effects of the entire tax proposal. As such, the report emphasizes the positive effects of income tax cuts (more money in people's pockets) while ignoring lost revenues, future spending cuts, and the distortionary and compounding effects of an increase in HST. Perhaps most aggravating is the repetition of the lie that simply reducing the number of tax brackets will in any way make tax-filing any simpler.

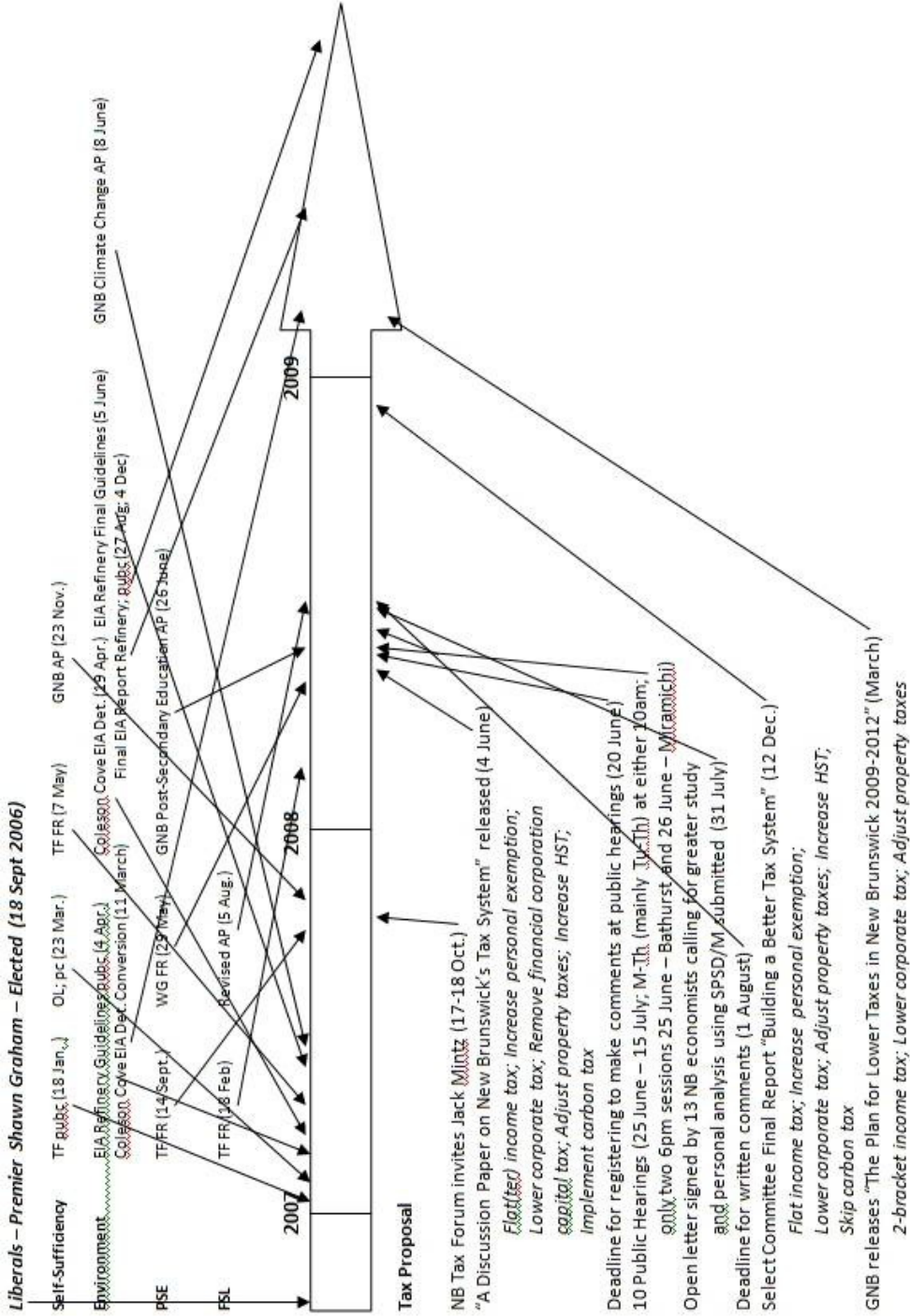
In releasing the *Discussion Paper* toward the end of the school year and scheduling public consultation over the summer, the government effectively limited public input. Worse still, they did not even ask qualified tax experts from New Brunswick to publicly address the proposal. Craig Brett at Mount Allison University holds a Canada Research Chair in Public Policy and studies optimal taxation. Joe Ruggeri at the University of New Brunswick held the Vaughn Chair in Regional Economics and was Director of the Policy Studies Centre at UNB. He once worked for the Departments of Finance in both Alberta and New Brunswick. Tony Myatt at the University of New Brunswick is well-known for his work in fiscal and budgetary policy. In fact, not one New Brunswick economist was asked by the government to comment on the *Discussion Paper*.

Finally, we should look at cost. As far back as 18 October 2007, the *Telegraph-Journal* reported that Mintz's prescription for New Brunswick involved flat(ter) income taxes, significant decreases to corporate tax rates, and an increase in HST. The New Brunswick government invited, and once can assume paid to have Mintz speak at a Tax Forum (see <http://www.gnb.ca/cnb/news/fin/2007e1343fn.htm> accessed 15 Oct. 2009) where he revealed his agenda while speaking to government officials, civil servants, and business leaders. Given all these people had access to his presentation, why did the government hire him produce a report that had the exact same agenda? Does this meet with any definition of self-sufficiency? How much did it cost?

A Discussion Paper on New Brunswick's Tax System was not at all an invitation to discuss. It was a marketing tool that reflected and promoted the agenda of a corporate-government partnership.¹⁶ Unfortunately, because this most recent attempt at provincial tax reform was disguised behind a thick veil of Orwellian-styled doublespeak, New Brunswickers will now experience a variant of Mintz's grand tax experiment.

¹⁶ Perhaps my favourite example of such marketing and self promotion comes from a 4 September 2009 Department of Finance press release that states that a "National think-tank recognizes [the] province's tax plan." The "national think-tank" is the C.D. Howe Institute, and nowhere is it mentioned that Jack Mintz (one-time director and CEO of the C.D. Howe Institute and currently a research fellow at the Institute) played a key role in developing the tax plan.

Figure 1: An Abbreviated Timeline of Events



TF = Task Force; OL = Open Letter signed by NB economists; pubc = public comments invited; FR = final report; GNB = government of New Brunswick; AP = Action Plan; pc = personal comments; WG = Working Group

Figure 2: The New and Simpler Tax Form

Step 2 – New Brunswick tax on taxable income (2007)

Enter your **taxable income** from line 260 of your return _____ 29

Use the amount on line 29 to determine which **ONE** of the following columns you have to complete.

	If line 29 is \$34,186 or less	If line 29 is more than \$34,186, but not more than \$68,374	If line 29 is more than \$68,374, but not more than \$111,161	If line 29 is more than \$111,161
Enter the amount from line 29 in the applicable column				
Line 30 minus line 31 (cannot be negative)	= 0 00	= 34,186 00	= 68,374 00	= 111,161 00
Multiply line 32 by line 33	x 10.12%	x 15.48%	x 16.80%	x 17.95%
	=	=	=	=
	+ 0 00	+ 3,460 00	+ 8,752 00	+ 15,940 00
New Brunswick tax on taxable income	=	=	=	=
Add lines 34 and 35				
	Go to Step 3	Go to Step 3	Go to Step 3	Go to Step 3

Step 2 – New Brunswick tax on taxable income (2012)

Enter your **taxable income** from line 260 of your return _____ 29

Use the amount on line 29 to determine which **ONE** of the following columns you have to complete.

	If line 29 is \$34,186 or less \$37,893	If line 29 is more than \$34,186, but not more than \$68,374 \$37,893	If line 29 is more than \$68,374, but not more than \$111,161	If line 29 is more than \$111,161
Enter the amount from line 29 in the applicable column				
Line 30 minus line 31 (cannot be negative)	= 0 00	= 34,186 00 37,893	= 68,374 00	= 111,161 00
Multiply line 32 by line 33	x 10.12% 9.00%	x 15.48% 12.00%	x 16.80%	x 17.95%
	=	=	=	=
	+ 0 00	+ 3,460 00 3,411	+ 8,752 00	+ 15,940 00
New Brunswick tax on taxable income	=	=	=	=
Add lines 34 and 35				
	Go to Step 3	Go to Step 3	Go to Step 3	Go to Step 3

APPENDIX A: An Abbreviated Timeline of Government of New Brunswick Events

Election

- 1) 18 Sept. 2006: NB Liberals are elected with Shawn Graham as Premier (29 – Liberals, 26 – Progressive Conservatives)

Environmental

- 1) 4 April 2007: GNB press release – Draft guidelines out for public comment (by May 5, 2007) on new Irving Oil Refinery Project (<http://www.gnb.ca/cnb/news/env/2007e0414ev.htm> accessed 12 Oct. 2009).
- 2) 5 June 2007: GNB releases final EIA guidelines for refinery project (<http://www.gnb.ca/cnb/news/env/2007e0712ev.htm> accessed 12 Oct. 2009)
- 3) 19 April 2007: GNB press release – EIA Determination issued for Coleson Cove Demonstration Project to test mixing pet coke with No. 6 fuel oil as a thermal generation energy source (<http://www.gnb.ca/cnb/news/env/2007e0489ev.htm> accessed on 12 Oct. 2009)
- 4) 8 June 2007: GNB releases “New Brunswick Climate Change Action Plan: 2007-2012” (<http://www.gnb.ca/0009/0369/0015/0002-e.pdf> accessed on 12 Oct. 2009) (from press release <http://www.gnb.ca/cnb/news/env/2007e0733ev.htm> accessed on 12 Oct. 2009)
- 5) 11 March 2009: GNB issues Certificate of Determination for pet coke conversion at Coleson Cove (<http://www.gnb.ca/0009/0377/0002/EIA.pdf> accessed 12 Oct. 2009)
- 6) 27 Aug. 2009: GNB press release for public comments on Final Refinery EIA Report (<http://www.gnb.ca/cnb/news/env/2009e1223ev.htm> accessed on 12 Oct. 2009). Public comments on the 1,600+ page full report (<http://www.gnb.ca/0009/0377/0002/0002/0001-e.asp> a 200+ page summary of which can be obtained at <http://www.gnb.ca/0009/0377/0002/0002/0000-e.pdf> accessed 12 Oct. 2009) are due by 4 Dec. 2009.

Self-Sufficiency Agenda

- 1) 18 Jan. 2007: GNB press release – Self-Sufficiency Task Force releases first of four “reality” report and calls for comments/submissions (<http://www.gnb.ca/cnb/news/sst/2007e0067tf.htm> accessed 11 Oct. 2009)
- 2) 23 March 2007: Open letter from 13 NB Economists requesting “full-cost accounting” to be included as a planning principle (<http://www.gnb.ca/2026/taskforce/BriefPDF/EnglishPDFBrief/RobertMoiretal.pdf> accessed 11 Oct. 2009) and personal comments

(<http://www.gnb.ca/2026/taskforce/BriefPDF/EnglishPDFBrief/RobMoir-EconomicsProfessor.pdf> accessed 12 Oct. 2009)

- 3) 7 May 2007: Self-Sufficiency Task Force releases final report “The Road to Self-Sufficiency: A Common Cause” (<http://www.gnb.ca/2026/Promo/Pdf/FinalReport-e.pdf> accessed 11 Oct. 2009)
- 4) 23 Nov. 2007: GNB releases “Our Action Plan To Be Self-Sufficient in New Brunswick” (<http://www.gnb.ca/2026/OSSPDF/report-E.pdf> accessed 11 Oct. 2009)

Post-Secondary Education

- 1) 14 Sept. 2007: Miner/L'Écuyer Report “Advantage New Brunswick: A Province Reaches to Fulfill Its Destiny” calls to close some university campuses (http://www.gnb.ca/cpse-ceps/EN/docs/CEPNB_cahier_ang_LR.pdf accessed 11 Oct. 2009)
- 2) 26 June 2008: “The Action Plan to Transform Post-Secondary Education in New Brunswick” released with no call for closing campuses (<http://www.gnb.ca/Promos/PSE/PETLActionPlan.pdf> accessed 11 Oct. 2009)
 - a. 29 May 2008: Working Group report “Recommendations of the Working Group on Post-Secondary Education” leaves open door for review of “all PSE Acts” (p.53) (<http://www.gnb.ca/Promos/PSE/RecommendationsWG-e.pdf> accessed on 11 Oct. 2009)

French-as-a-Second-Language

- 1) 18 February 2008: Croll/Lee Report “A Comprehensive Review of French Second Language Programs and Services Within the Anglophone Sector of the New Brunswick Department of Education” calls for radical restructure of French immersion (<http://www.gnb.ca/0000/publications/comm/FSL%20Report.pdf> accessed 11 Oct. 2009)
- 2) 5 August 2008: GNB press release partially re-instating early immersion (<http://www.gnb.ca/cnb/news/edu/2008e1124ed.htm> accessed 11 Oct. 2009)

Tax Proposal

- 1) 17 Oct. 2007: GNB officially invites Jack Mintz to speak to the Dept. of Finance at a Tax Forum (held Oct. 18) with government members and officials, business and academic leaders in attendance (<http://www.gnb.ca/cnb/news/fin/2007e1343fn.htm> accessed 13 Oct. 2009)
- 2) 4 June 2008: GNB releases “A Discussion Paper on New Brunswick’s Tax System” is released (http://www.gnb.ca/0162/New_Brunswick_Tax_System/Discussion_Paper-English.pdf accessed on 12 Oct 2009).
- 3) 20 June 2008: Deadline for registration for public hearings (http://www.gnb.ca/legis/Promos/Public_Hearings/Tax_Review/index-e.asp accessed on 12 Oct. 2009). Maximum presentation time is 20 minutes.

- 4) 24 June – 15 July, 2009: Public sessions held Tues.-Thurs. generally at either 10am or 1pm. Only 2 meetings (Bathurst – Wed. June 25 and Miramichi – Thurs. June 26) are held at 6pm. Two sessions in Fredericton (July 9 and 15)
(http://www.gnb.ca/legis/Promos/Public_Hearings/Tax_Review/schedule-e.asp accessed on 12 Oct. 2009)
- 5) 31 July 2008: written briefs submitted electronically (**A**) Joint Letter signed by 13 NB Economists, and (**B**) Personal comments including a breakdown of the combined effects of a GST increase using Statistics Canada’s *Social Policy Simulation Database and Model (SPSD/M)*. There is no direct history of the government having received these documents.
- 6) 1 August 2008: Deadline for written briefs
(http://www.gnb.ca/legis/Promos/Public_Hearings/Tax_Review/index-e.asp accessed on 12 Oct. 2009)
- 7) 12 Dec. 2008: The Select Committee on Tax Review releases its Final Report “Building a Better Tax System”
(http://www.gnb.ca/legis/Promos/Public_Hearings/Tax_Review/TaxSystem-FinalReport-e.pdf accessed 12 Oct. 2009).
- 8) March 2009: GNB releases “The Plan for Lower Taxes in New Brunswick 2009-2012”
(http://www.gnb.ca/0160/budget/buddoc2009/Plan_for_lower_taxes-e.pdf accessed 12 Oct. 2009)

APPENDIX B: An Open Letter on the *Discussion Paper*

31 July 2008

To the Hon. Shawn Graham (Premier of New Brunswick) and the Hon. Victor Boudreau (Minister of Finance);

The New Brunswick Government has proposed a new tax and transfer structure for the Province involving significant change from the current system.

We, the undersigned economists from New Brunswick Universities strongly urge the Government to complete the following tasks before further consideration of such sweeping changes in provincial tax policies.

1. Conduct a comprehensive comparative examination (baseline versus variants) of the effect of the tax proposals on household disposable income using Statistics Canada's *Social Policy Simulation Database and Model* which is specifically designed to test policy proposals of this nature, and to make public the results of these simulations.
2. Publish a revised version of *A Discussion Paper on New Brunswick's Tax System* in such a way as to convey the combined effects of all proposed tax changes on the distribution of household income. For example, Tables 2 and 3 (p.15) and Tables 6 and 7 (p.19) discuss only personal income taxes but mention neither the HST increase, the proposed new carbon tax, nor any potential effects from changes to corporate tax rates.
3. Provide an analysis and empirical evidence from peer-reviewed sources discussing the predicted increase in the provincial tax base and provincial tax revenues resulting from the proposed tax policy changes.
4. Provide an analysis of the effect of the projected increase in the tax base upon equalization. For instance, does a \$1 increase in tax revenues lead to a \$1 decrease in equalization funding?
5. If analysis indicates a revenue decline, indicate how the Government proposes to deal with revenue shortfalls.

We believe that the above research will provide a clearer picture of the tax proposal and address some of the questions raised in recent public submissions.

Sincerely,

Dr. Rob Moir (Economics, UNB in Saint John; President of the Atlantic Canada Economics Association)

Dr. Rod Hill (Economics, UNB in Saint John)

Dr. Joan McFarland (Economics, Saint Thomas University)

Dr. Joe Ruggeri (Economics, UNB in Fredericton; Vaughan Chair in Regional Economics)

Professor Ron LeBlanc (Economics, Université de Moncton; Chair)

Dr. Michel Deslieries (Economics, Université de Moncton)

Dr. Stephen Law (Economics, Mount Allison University)

Dr. Andrew Secord (Economics, Saint Thomas University)

Dr. Ted McDonald (Economics, UNB in Fredericton)

Dr. Mike Farnworth (Economics, UNB in Fredericton)

Dr. Dev Gupta (Economics, Saint Thomas University)

Dr. Weiqiu Yu (Economics, UNB in Fredericton)

Dr. Tony Myatt (Economics, UNB in Fredericton)

CC : Mr. Jeannot Volpé (Leader of the Opposition), Mr. Roger Duguay (Leader of the NB NDP), Mr. Mike Milligan (Leader of the NB Green Party), Media Outlets

Appendix C: Speaking Notes for the Fair Tax Coalition Tax Forum (7 February 2009)

Intro

- Thank you to the Fair Tax Coalition for organizing this workshop and for inviting me to speak
- Economist (behavioural) at UNB Saint John
 - This is not my traditional area of research
 - I do not believe that continual increase in GDP is a clear indication of progress
- Husband and father of 3
 - This workshop is crucial because they are important
 - My neighbours are important
 - This province is important
- Submitted a 13-page commentary on the Mintz proposal
 - 12 recommendations
 - 3-part suggestion for possible tax reform

An Overview of Taxes

- A **progressive tax** is a [tax](#) by which the [tax rate](#) increases as the taxable amount increases (average tax rate < marginal tax rate).
 - In *theory* our income tax system is progressive
 - Sales taxes are regressive as we all consume a similar amount of basic products
- Flat taxes are not inherently more regressive
- People argue against progressive taxes because they are somehow unfair (why should I pay more than anyone else, I work harder?) and they might reduce work effort (Laffer-effect)
 - People with higher incomes receive more benefits
 - Little empirical evidence for Laffer-effect

Comments on Proposal's Justification of Tax Reform

- This is a neo-liberal tax agenda (corporatist)
- Regional comparisons with Ireland and Alberta
 - Ireland – flat tax but also massive EU injection and free post-secondary education

- Feb 5, 2009 *Economist* “[Ireland’s] GDP is expected to contract by 5% and the unemployment rate to rise to over 9% this year. And Ireland is bracing itself for a credit downgrade on its sovereign debt.”
- Feb 6, 2009 *Irish Times* – Irish PM “warned that the standard of living was likely to drop by 10-12 per cent in the coming years.”
- Alberta – very different province with a government that uses natural resources for the province
- Loaded language like “tax burden,” “tax relief,” and “hard-earned money” straight out of Frank Luntz handbook
 - Luntz coached the Republican Party on vocabulary and framing
 - Read “Don’t Think of an Elephant” by George Lakoff
- From away “experts” like Jack Mintz

Comments on Flat Taxes

- Greater basic personal amount and rate lower than lowest marginal tax rate
- We all pay less income tax
- **But also lower revenues ... what does that mean?**
- Justified as simple
 - Calculating taxable income requires up to 5 forms, 4 schedules, and a whole lot of references to the guide (2 full pages)
 - It is in these calculations and in the non-refundable tax credits that our income tax becomes less progressive
 - See handout
 - Now presented with one (or two) column(s) instead of 4
 - But even with 4 columns, we only had to fill in one
- 2006 IMF Working paper “*the question is not so much whether more countries will adopt a flat tax as whether those that have will move away from it.*”

Comments on Corporate Tax Rate Cuts

- Always a neo-liberal favourite → if Business does well, so do we all
 - AIMS wants it to be 0%, but then where do we go?
- Proposal itself says we already have one of the lowest marginal effective tax rates on business in Canada
- KPMG notes that in 2008 we have the lowest tax on corporate income in Atlantic Canada and lower than Ontario
- Can we think of other reasons companies won’t “set up shop” in NB?
 - Lack of competition / market dominance

- Low productivity because of low literacy / numeracy skills
- Low “creative class” size (Richard Florida)
- Perhaps there is reason to cut corporate taxes on manufacturing and small/medium size businesses

COMBINED → cuts amount to a \$500m decrease in tax revenue

- Need to regain some of the lost revenue

Comments on Hike in HST by 2%

- sales taxes are regressive (GST rebate)
- if we are to counter the regressivity, we’d need to refund some of the additional revenue on an income-contingent basis
- unlike the flat tax, which was tested using “state of the art, Excel analysis,” the HST change requires simulation
- SPSD/M (Social Policy and Simulation Database and Model) available from Statistics Canada
 - Mention my history with the software
- Jack Mintz has used it in reports with CD Howe (just chose not to here)
 - Notice package talks of income tax savings, but not of total tax changes
 - Drop car price by \$1,000, but charge \$300/tire (still out \$200 unless you don’t need tires)
- As handout shows, the gains under either income tax proposal go mainly to those with incomes of \$40,000 or greater (median income in NB is about \$21,000) and become significant after \$60,000
 - I personally gain under this proposal but MOST don’t!
 - If gender, family status, immigrant status, race, etc., are correlated with income, then there will likely be group-specific effects
 - **(Rosella will talk about this I expect)**
- Predicted to increase tax revenue by \$250m
- But if this is the case, then how can we create income-contingent transfers (zero deficits)

Comments on Carbon Tax

- Only recently studied by Ruggeri (Vaughan Chair in Regional Economics) and Bourgeois
- Suggest it is regressive to up to about \$70,000
- Proposal talks about revenue neutrality and income-contingent transfers

- BUT, the carbon tax is to raise \$100m in revenue (so can't be revenue neutral)
- Government has NO prediction about carbon reduction
 - This is not an environmental measure
 - There is no suggestion that there will be an increase in funding for "green energy" R&D or infrastructure or for a Feed-in-Tariff program (which have been shown to be successful strategies)

→ Tax revenue $-\$500m + (250m+100m) = -\$150m$

Overall Comments

- We're now in the hole \$150m
- Given pledge for zero deficits ("fiscal responsibility" and "balanced budgets") this will necessitate:
 - Program cuts Feb 3, 2009 *TJ* – page A1-A2 (as yet undefined)
 - Service fee increases page A3 (by \$15m) which is regressive
 - Just to rub salt in the wound, consider Feb 4, 2009 "Millions for mills"; low-interest loans for JDI to purchase and upgrade some mills
 - Combined with recent Crown land forestry management announcement, this is "crony capitalism" at its finest
- NOTE: neither option is listed in the proposal, and despite my call for disclosure in Aug of 2008, nothing was revealed until Feb 2009 shortly before the budget
- Will tax reduction of this sort increase the tax base?
 - Not necessarily – need empirical evidence
 - **(Michel will talk about this I expect)**
 - However, we may see an increase, independent of tax proposal, as the maritime economies of NB and NS are expected to grow a little
- Suppose it does lead to an increase in tax base
 - Already underfunded programs will have to support more people; need to find economies of scale otherwise costs of provision will rise faster than tax base
 - What is the relationship between tax base and equalization?
 - If there is 1:1 clawback, then until we are a "have" province, there will always be a structural deficit

Parting note: Read Naomi Klein's *Shock Doctrine* – I think you will recognize New Brunswick in there; we're history on the verge of repeating itself

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