New Brunswick Pre-Budget Submission 2024-25

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Canadian Taxpayers Federation

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organisation. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organisers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organise petition drives, events and campaigns to mobilise citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2021-22, the CTF raised $5.1 million on the strength of 45,509 donations. Donations to the CTF are not deductible as a charitable contribution.

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Executive Summary

Near-record increases in the cost of living have hit New Brunswickers hard. Bills are now more expensive and families need relief.

Thanks to prudent fiscal management over the past several years, New Brunswick has a strong track record of balancing the books and reducing the debt. The province's tax burden has also recently decreased. The province announced a series of income tax cuts in the fall of 2022 and implemented them for the 2023 tax year. However, given New Brunswick's relatively stagnant economic growth and rising living costs, now is the time to further reduce the tax burden.

For the sixth straight year, the government of New Brunswick is anticipating a budget surplus. The province's debt has also been reduced by over $2 billion since the present government took office. Debt interest costs are $70 million lower than they were last year thanks to the province's lower overall debt burden. This strong fiscal position means the government is well-positioned to deliver meaningful sales tax relief. Lower taxes will help taxpayers deal with high living costs. If the government maintains its prudent approach to government spending, the provincial sales tax could be phased out entirely by 2032, saving the average family $4,100 a year.

The measures outlined in this report aim to lower the tax burden, stimulate the economy and maintain New Brunswick's surplus. They provide tax cuts to both individuals and businesses to save families money and help grow the economy. Reducing taxes and helping grow the economy means more money in the pockets of New Brunswickers who will be able to spend it as they see fit.

To finance the relief, this report relies on ending corporate welfare and finding additional efficiencies, including through reducing labour costs.

The measures proposed in this submission include:

1. **Cutting the provincial portion of the HST by two percentage points.**
2. **Replacing corporate welfare with corporate tax relief.**
3. **Bringing government compensation in line with New Brunswick's labour market.**
4. **Consolidating health networks.**

With these proposed measures we are confident that New Brunswick will be able to provide much-needed tax and inflation relief, while not negatively impacting its fiscal position.

This report includes two main sections: tax relief and spending reductions.

Costed Measures	Fiscal Stimulus/ Tax Relief	Budgetary Savings
Cutting the provincial portion of the HST by two percentage points	$384.4	
Replacing business subsidies with tax cuts	$127.2	$148.8
Bringing employee compensation to market levels		$412.1
Total per category	**$511.6**	**$560.9**
Net budget impact		**$49.3**

*Numbers in millions.

Tax Relief

New Brunswickers continue to deal with stubbornly high living costs as the result of two years of decades-high inflation. The government of New Brunswick has stepped up to help New Brunswickers deal with higher prices through income tax cuts that were introduced for the 2023 tax year. But additional action is needed and the government has the fiscal capacity to do so.

New Brunswick will be in a position to be able to completely eliminate its sales tax by 2032 while maintaining balanced budgets if the government remains prudent on spending, according to the Fraser Institute. That would save the average New Brunswick family $4,100 a year and it would make New Brunswick one only of two provinces without a provincial sales tax. Such a move would dramatically increase the province's competitiveness. The government's recent income tax cuts have already ensured that New Brunswickers have the lowest income tax burden in Atlantic Canada. Taking action on the sales tax would strengthen the emerging New Brunswick Advantage.

To provide relief to every taxpayer, including those who do not pay income taxes, the CTF is calling on the government to focus on sales tax relief. Over the next nine years, the government should move gradually to eliminate its provincial sales tax. The government could move forward by reducing the sales tax from 10 per cent to eight per cent next year and move gradually toward elimination by 2032.

Cutting the sales tax will also help New Brunswickers confront soaring living costs.

There exists a prosperity gap between New Brunswick and much of the rest of Canada. Out of 10 provinces, New Brunswick's GDP per capita was eighth in 2022, ahead of only Nova Scotia and Prince Edward Island. In 2022, New Brunswick's GDP per capita was $39,624 compared to $51,049 in Ontario and $73,742 in Alberta.

This translates to lower salaries for workers and lower profits for local businesses. As the government aims to grow the province's economy, addressing this gap through growing business investment should be at the top of New Brunswick's economic priorities.

Growing business investment involves making sure individuals and businesses have the funds available to make investments and grow local markets. An effective way for the government to do this is to take less cash out of citizens' and local businesses' pockets by reducing their taxes.

Recent periods of low levels of business investment has led Atlantic Canada as a region to struggle in generating economic growth, according to the Fraser Institute.

To help further stimulate investment, the government should replace corporate welfare with corporate tax cuts. Tax cuts attract investment and job creators. Studies from the OECD and elsewhere show that tax cuts, not subsidies, have a clear relationship with stimulating economic growth.

New Brunswick's taxes remain comparatively high. Thanks to the government's strong fiscal position, there is room to reduce the tax burden to stimulate the province's economy and provide relief.

These recommendations will help New Brunswickers better afford their living costs and increase the competitiveness of New Brunswick's economy.

Cutting the provincial portion of the HST by two percentage points

Tax relief: $384.4 million | $818 per household[1]

Inflation has hit New Brunswickers hard over the past two years. The cost of living now 10 per cent higher than it was in early 2022.

To help families and businesses directly deal with the issue of high prices, the government should lower the provincial portion of the HST.

Sales taxes exacerbate issues caused by inflation. Since the tax is applied at the end of transactions, higher prices means higher taxes. This problem hits low-income taxpayers the hardest, as sales taxes are regressive.

The government can help families afford their higher bills by charging them less when they go to buy things they need.

New Brunswick is tied with the other Atlantic provinces for the highest sales taxes in Canada. Reducing the total tax to 13 per cent would see New Brunswick with the lowest sales tax in the region.

Lowering the HST would not only help New Brunswickers better afford their bills, but it would also increase competitiveness and attract consumers looking to save on their tax bills. Sales tax revenue was $304.9 million higher in the previous fiscal year than originally projected. This windfall should be passed back to New Brunswickers in the form of tax relief.

New Brunswick has the third-lowest level of GDP per capita in the country at $39,624 per person. The fact that New Brunswick households have an after-tax disposable income level that is $8,400 below the national average is another factor behind the province's poor economic performance. This means that after New Brunswickers have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy. This only becomes worse after considering the near-record levels of inflation over the past two years.

There is a clear relationship between household disposable income and household consumption, and between consumer spending and GDP growth. Economic research studies from the Brookings Institute, the Tax Policy Centre and the Tax Foundation are all clear about the link between tax relief measures and economic growth.

Lowering the HST by two percentage points would free up $384.4 million to be invested into the local economy and help families ease the burden of inflation and high living costs.

1. Based on an average household income of $100,000. See: https://pubsaskdev.blob.core.windows.net/pubsask-prod/139357/2023-24%252BBudget.pdf

Finding Savings in Government Expenditure

Introduction

New Brunswick has reduced the debt and balanced the books in recent years. But further fiscal restraint is needed to deliver comprehensive tax relief to New Brunswickers. The section below will provide recommendations of various areas to find savings to help the government balance the budget while still providing tax relief to families and stimulate the economy.

Replacing business subsidies with business tax relief

Savings: $148.8 million
Tax relief: $127.2 million

High inflation has made life more difficult for businesses and consumers alike, while the province's economy has continued to stagnate. The government should improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.

Growing the economy and finding employment for out-of-work New Brunswickers is not a matter of helping a handful of sectors. It depends on creating a good business environment for all sectors.

Other factors, such as regulatory burdens, tax regimes, workforce education, and availability of transportation infrastructure, have a much bigger impact on decisions to locate in one jurisdiction rather than one-off financial aid packages at taxpayers' expense. Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels. What is clear is that the level of corporate taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.

In other words, competitive tax rates attract job creators and direct investment. Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.

Provincial general corporate tax rates

Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	**14%**
Canadian Provincial Average	**12.7%**
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Source: Provincial government websites

Compared with other provinces, New Brunswick's corporate tax rate puts the province at a disadvantage, at 14 per cent versus the 12.7 per cent national average.

In 2023, the government of New Brunswick will spend $148.8 million sending direct and indirect subsidies for specific economic sectors through a variety of government funds and programs. This is equivalent to 23.3 per cent of what the province expects to collect through corporate income taxes over the same period.

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion. New Brunswick's economic strength should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth approach.

The province should replace these subsidies with a tax cut in the general and small business tax rates by 20 per cent. Lowering the small business tax rate from its current 2.5 percentage points to two percentage points, and the general corporate tax rate from its current 14 percentage points to 11.2 percentage points, would put New Brunswick's corporate tax rate under the national average and amount to $127.2 million in savings for New Brunswick businesses.

Bringing government compensation in line with New Brunswick's labour market

Estimated Savings: $412.1 million

Salaries and wages have represented the largest line item in the government of New Brunswick's budget over the past five years.

Last year, the province spent about $4.9 billion in employee compensation, representing over 76 per cent of what it collected via taxes.

In the interest of fairness, and to free up resources for much-needed inflation relief, the government must make sure its employee compensation costs are in line with that of non-government workers in New Brunswickers.

After adjusting for 12 different individual characteristics, it has been found that the average government employee in Canada earns an 8.5 per cent wage premium over their private sector counterparts.

Government employees are also more likely to be enrolled in a pension plan than a private sector employee. Only 22.9 per cent of private employees are covered by a pension plan compared to 86.6 per cent of those that work for the government.

The type of pension plan given to government employees is also typically much more generous than those of the private sector. Of those who have a pension in the government sector, 97.9 per cent of them are defined benefit plans, compared to only 24.2 per cent of plans for those covered in the private sector. A defined benefit plan offers the employee a guaranteed benefit during retirement. This guarantee is often on the back of taxpayers who would be saddled with the cost of a bailout if pension funds do not perform well.

Those who work for the government in New Brunswick also retire earlier and have higher levels of job security than those who work in the private sector.

To bring government employee wages in line with private sector practices, the government of New Brunswick must implement an 8.5 per cent reduction in compensation costs. Much of this can be achieved through attrition and offering lower salaries for any new employees.

This will reduce the estimated cost for government salaries and benefits from $4.85 billion to $4.44 billion, saving New Brunswick taxpayers an estimated $412.1 million by the end of the next fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing New Brunswick's fiscal sustainability.

Consolidating health networks

Estimated savings: Unknown

New Brunswick's taxpayers continue to fund two separate health bureaucracies – the English Horizon Health Network and the French Vitalité Health Network – which perform the same roles, but for different language groups at an expensive cost.

Former Vitalité Health Network's CEO Gilles Lanteigne, correctly diagnosed the province's health-care budget woes by recognizing that New Brunswick had "too many programs in the province for the population we have." Health services will cost taxpayers more than $3.4 billion this year alone. Ending health network duplication could generate significant savings.

As the government rightly recognized via its amalgamation of laboratory services, there is efficiency to be found in reducing the number of structures in charge of the same task. Patient experience can be improved thanks to faster service delivery and savings can be realized on the administrative costs.

While efficiency savings could be found in all areas of operations by amalgamating the two health bureaucracies, one key element where taxpayers could get better value for money is in administrative costs. Last year, taxpayers spent $33 million on administrative services at Horizon and $28 million on administrative services at Vitalité, suggesting room for significant savings.

Consolidating the two regional health authorities would result in significant savings in administration costs and would help better utilize resources at health authorities.

Conclusion

Higher living costs have hit families hard. The government of New Brunswick should take bold action to reduce both spending and taxes to provide families with much-needed relief while improving the province's fiscal position.

The province should deliver universal tax relief to help all taxpayers weather the storm of inflation. Doing so will increase household incomes and enhance New Brunswickers' ability to spend and invest in local businesses. Lowering the HST by two percentage points would put $384.4 million back into the pockets of families. The average family stands to save $818 from such tax relief.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

To further help the province's economy grow, the government should also take steps to make the province more attractive to investment in all industries by replacing its subsidies with corporate tax cuts. Reducing the corporate income tax by 20 per cent and eliminating subsidies would see the government save $148.8 million and put $127.2 million directly back into the hands of New Brunswick businesses.

Given the wage and benefit premium enjoyed by government employees over those in the private sector and the impact of rising compensation on the government's bottom line, it is necessary to make fundamental changes and reduce the cost of government employee compensation. Eliminating the compensation gap between private sector employees and those working for government promotes fairness and would save taxpayers $412.1 million next year alone.

Overall, the measures recommended in this report will put $511.6 million back in New Brunswicker's pockets and help save at least $560.9 million in government operations. This will have a net positive budgetary impact of $49.3 million.