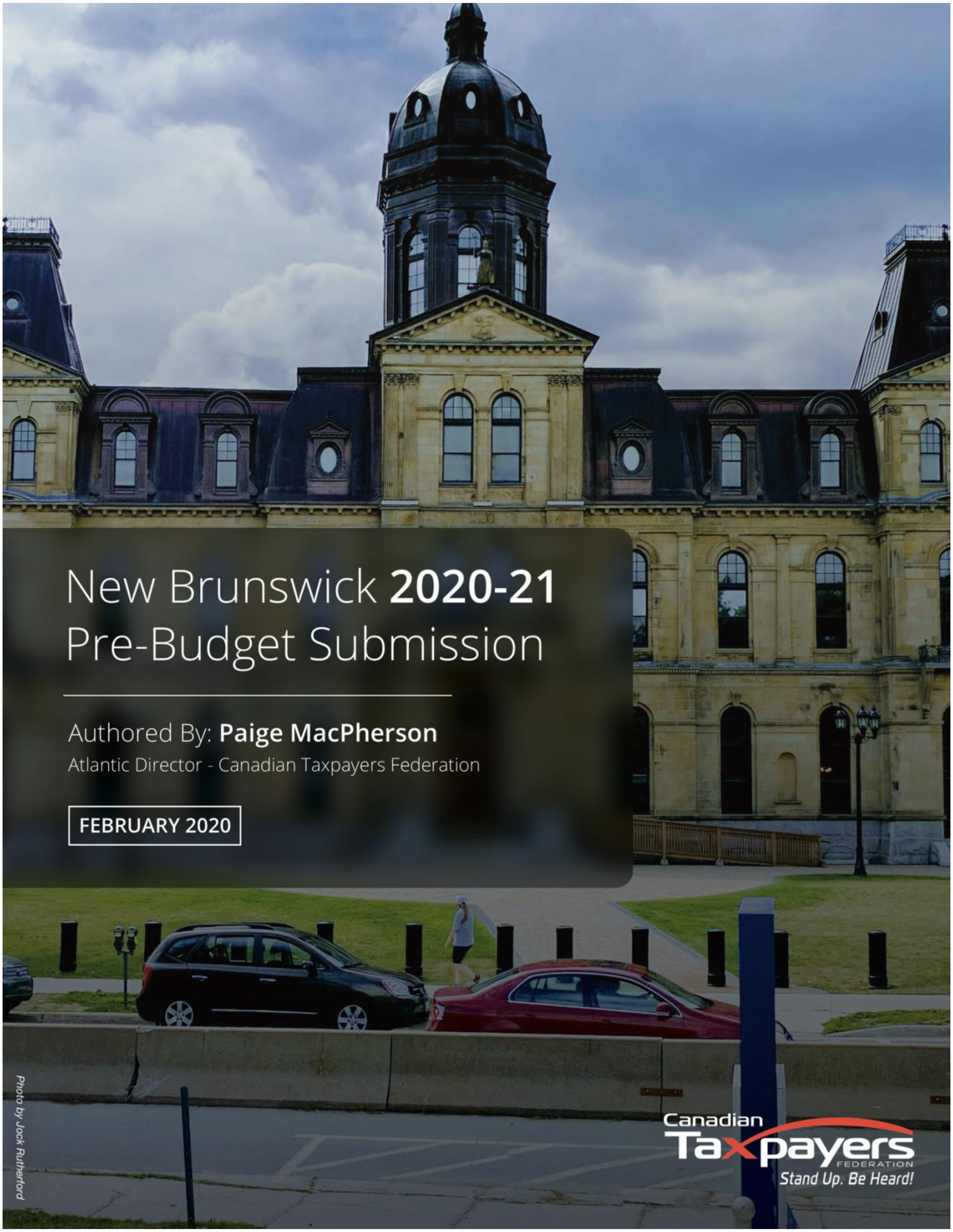

Photo by Jack Rutherford

New Brunswick **2020-21** Pre-Budget Submission

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Atlantic Director - Canadian Taxpayers Federation

FEBRUARY 2020

Stand Up. Be Heard!

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 organization. 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 organizers 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 organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

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 2018-19 the CTF raised $5.1 million on the strength of 30,517 donations. Donations to the CTF are not deductible as a charitable contribution.

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Staying the Course

New Brunswick is facing significant budgetary and demographic challenges, and now is the time for the government to increase its efforts to ensure budget sustainability and debt-free prosperity for future generations. We applaud the New Brunswick government on its clear effort to reduce the debt and run **true** budget surpluses. There is more work to be done.

The government can retain workers and attract more people to the province by creating a better environment for job growth outside of government – by lowering taxes and keeping costs under control. New Brunswick job creators and workers are the force that will get the province moving again.

By controlling spending and bringing expenses down to previous levels, the government can run larger surpluses and more quickly pay off the debt, saving New Brunswick taxpayers hundreds of millions of dollars each year.

The New Brunswick government is on the right track. Boosting the efforts to reduce the cost of government and open the door to business growth will help ensure a brighter future for New Brunswickers.

Lower Taxes

New Brunswickers pay some of the highest taxes in Canada, with among the highest top marginal income tax rates, among the highest business taxes and the highest sales tax in the country. The rates are punishingly high for workers at all income levels, and every New Brunswick taxpayer needs relief.

A recent Conference Board of Canada report forecasting the coming decade stated, "the loudest sound of the 2020s may be the ticking of the demographic time bomb," with working Canadians feeling increased pressure to carry the costs of supporting the aging population. According to the report, this will put a squeeze on other taxpayer-funded services and large debt loads will only intensify the problem. Those challenges will be magnified across Atlantic Canada, as the growth in all four provinces is predicted to slow from last year. By lowering taxes, the government can attract more job creators and young people to the province.

Lower Income Taxes by 10 Per Cent to Attract Job Creators

At a 53.3 per cent, New Brunswick has one of the highest top marginal income tax rates in Canada when combined with federal income taxes (Nova Scotia is the highest at 54 per cent and Ontario is second highest at 53.5 per cent), affecting job creators, doctors and other professionals. Additionally, the top income tax bracket in New Brunswick starts at only $157,778 annual income – low relative to other provinces. New Brunswick's tax burden makes the province unattractive to new professionals versus other provinces.

Income tax hikes on this demographic are both ineffective and negative for middle and lower-income New Brunswickers, who end up paying higher taxes when professionals leave and pay taxes in their new provinces. The previous New Brunswick government's significant tax increase on high income earners was touted by the Liberals as a plan to raise tens of millions in additional revenue, but once imposed, it fell flat, raising almost nothing.

High taxes are also a disincentive for job creation outside of government. Empirical research from the Fraser Institute in 2018 showed that higher top marginal income tax rates have significant negative impacts on entrepreneurship in both the short- and long-term. Additionally, as the median age of a province increases, the rate of new business formation falls, and negatively impacts the business entry rate.

New Brunswick's Tax Rates

Among the highest top income tax rates in Canada (53.3%)

Among the highest business taxes in Canada (14%)

Highest sales tax in Canada (15%)

The solution is an income tax reduction. Reducing income taxes by 10 per cent would help attract and retain valued professionals and job creators to the province without new spending, by making New Brunswick a more affordable place to start a business and raise a family. Reducing income taxes by 10 per cent in New Brunswick would save taxpayers $185 million every year, but the impact on government revenues would be mitigated by the positive effects of tax reduction over the long term: more professionals and entrepreneurs settling in New Brunswick, creating jobs and paying taxes.

REDUCING INCOME TAXES BY 10 PER CENT WOULD SAVE NEW BRUNSWICKERS $185 MILLION PER YEAR

Lower income New Brunswick workers should also be given tax relief. New Brunswick's basic personal amount for 2019 is $10,264 – lower than the federal rates of $12,298 and $13,229. When looking to provide low-income workers with tax relief, the government could raise the basic personal exemption rate in the province.

With taxes, less can mean more. Securing new revenue through job creation over the long term will help the province pay for key services into the future.

Recommendation: Lower income taxes by 10 per cent, saving taxpayers $185 million, and raise the basic personal amount for all taxpayers.

Fight Ottawa's Carbon Tax

The CTF is strongly encouraging Premier Blaine Higgs to return to the position he campaigned on and keep his promise to fight the carbon tax. Carbon taxes are designed to hurt taxpayers by making life less affordable in an attempt to change their behaviour. However, driving and heating homes are necessities of life for New Brunswickers, who can't afford to change their lifestyles on a dime.

The New Brunswick government deserves praise for intervening in the court cases launched against Ottawa's carbon tax. Offsetting the carbon tax with a cut to the gas tax is better than no tax cut at all, but still increases the cost of gas – and Ottawa's carbon tax is designed to increase year after year.

A leaked federal briefing document indicated that the carbon tax would have to rise to $300/tonne by 2050 to meet Canada's emission reduction targets. That would add $33 to the price of gas for a 50-litre fill-up.

LEAKED FEDERAL BRIEFING DOCUMENT SHOWS THE CARBON TAX MUST RISE TO $300/TONNE TO MEET EMISSIONS REDUCTION TARGETS

A recent report from the carbon tax-promoting EcoFiscal Commission found that Ottawa would need to impose a $210-per-litre carbon tax in 10 years. That would increase the cost of gas by about 40 cents per litre or $20 more for every fill-up of a Honda Civic.

Research from the University of Ottawa showed that even a revenue neutral $100/tonne carbon tax would cause the economy to contract, leading to a 2.81 per cent GDP reduction by 2020 – a decline almost as big as Canada's worst recession in 50 years.

Carbon taxes raise the cost of other taxes as well, by driving up the price of government services such as the operation of hospitals, schools, busses and ambulances.

These are costs that New Brunswick taxpayers simply cannot afford. The cost of doing business in New Brunswick is already comparatively higher than most of the country and the U.S. (which has dramatically cut regulations and taxes), and New Brunswickers already pay some of the highest taxes in Canada.

It is ill-advised to make life more expensive and job creation less competitive in an already over-taxed province. Perhaps Ottawa doesn't understand this – but it is crucial that the New Brunswick government does.

Recommendation: Return to the government's original commitment to fight Ottawa's carbon tax and protect New Brunswickers from increasing costs.

Reduce Spending for Continued Balanced Budgets

Maintaining balanced budgets will be a two-fold exercise in New Brunswick: in the short term, the government must reduce spending, while creating a welcoming environment for job creation outside of government to drive up revenues over the long-term. In the 2019-20 budget, the government commendably shifted the province into debt reduction, but it also increased spending.

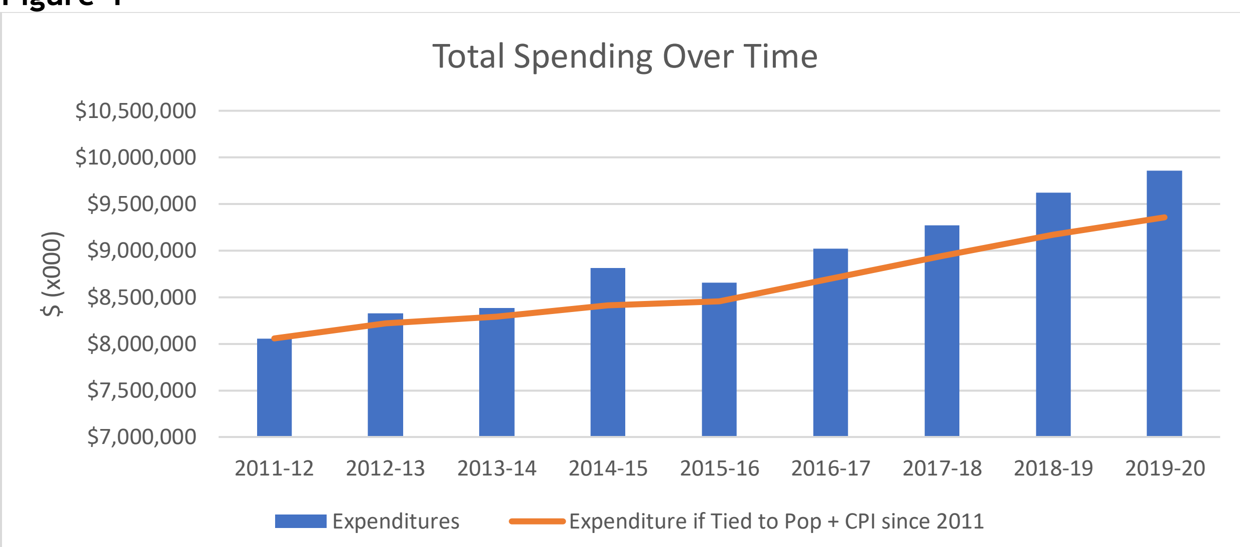
The government has taken some positive cost-saving measures, such as introducing Ability to Pay legislation as the CTF recommended last year, requiring arbitrators to consider government's (read: taxpayers') ability to pay during binding arbitration with unions. We applaud the government for this, as union deals can cost taxpayers dearly for years to come.

Premier Higgs indicated in the fall that there are spending programs that can be cut. In November, Finance Minister Ernie Steeves acknowledged that the government is not in a position to spend more. It is critical for the fiscal health of the province that the premier and finance ministers' sentiments match their actions on spending reforms.

SPENDING IS INCREASING FASTER THAN POPULATION GROWTH AND THE RATE OF INFLATION – THIS IS UNSUSTAINABLE

Spending is still increasing faster than population growth and the rate of inflation. Spending levels are unsustainable and the government needs to take a finer-toothed comb to the budget to ensure long-term sustainability. This is achievable. If spending was maintained at 2011 levels, adjusted for population and inflation, the government would have run a nearly $500 million surplus in 2019-20.

Figure 1



There are many ways that the government can reduce its overall spending on both operations and capital, including eliminating the duplication in service delivery and bureaucracy, ending all corporate welfare and finding efficiencies in health care and education.

Stop Paying Twice for Worse Services

New Brunswick's unique positioning as the country's only bilingual province is culturally significant, but the double bureaucracy is needlessly expensive. The focus for the New Brunswick government should be on actual service delivery. Every dollar spent on New Brunswick's double bureaucracy is a dollar not spent on frontline services.

For example, taxpayers fund two separate health bureaucracies – the English Horizon Health Network and the French Vitalité Health Network – which both perform exactly the same roles for different language groups. The health-care needs for New Brunswickers do not hinge on which language they speak. All New Brunswickers pay some of the highest taxes in Canada, and at least 35,000 people in the province do not have a family doctor.

Eliminating the duplicative costs of having two provincial health authorities is an obvious place for savings. One small example is the salaries of bureaucrats in each of these health authorities. Each top bureaucrat is paid between $275,000 to $299,999. Instead of paying for one top bureaucrat, New Brunswick taxpayers pay for several. At Horizon Health, 151 employees are paid over $100,000 and three bureaucrats make over $200,000. At Vitalité Health, 133 employees are paid over $100,000 and three bureaucrats make over $250,000 – on top of any additional expenses like travel.

NEW BRUNSWICK TAXPAYERS UNNECESSARILY PAY SEVERAL FOR TOP HEALTH BUREAUCRATS THANKS TO HAVING TWO HEALTH AUTHORITIES

Consolidating the two health authorities may not cut these numbers in half, but it would result in significant savings on bureaucratic costs. Reducing spending and prioritizing emergency room services and family doctors over double-bureaucracy just makes sense.

Recommendation: Eliminate the double language bureaucracy in New Brunswick by consolidating all provincial health services.

End All Corporate Welfare including Opportunities N.B.

If subsidies to corporations were the key to prosperity, every New Brunswicker would have a job. The reality is much different. It's time to put an end to this outdated practice of government taking money from all taxpayers and using it to pick winners and losers.

Corporate welfare, big and small, costs New Brunswickers dearly. In 2019, the government was right to reduce the budget of Opportunities New Brunswick, an agency dedicated to dishing out corporate welfare in the province, by $7 million. A welcoming environment, unencumbered by high taxes and costs, is what will attract job creators – not a government agency. Opportunities New Brunswick creates an unlevel playing field, favouring some businesses over others. The previous government staked the province's success on big spending and handouts, with lacklustre results. It's time for a shift.

Recommendation: End all corporate welfare in New Brunswick, including eliminating Opportunities New Brunswick.

Better Value for Health Care Dollars

Spending in the province not only needs to be reduced overall, it needs to be reprioritized where applicable. That will ensure the government is delivering the best value for taxpayer dollars while ensuring service delivery is efficient.

Per the second quarter fiscal update, health care spending was overbudget by $23.3 million. A declining tax base is stressing the supply side of the health-care system, and an aging population is stressing the demand. Cost savings are necessary, but the province can also get more value for dollars spent by fostering innovation in the system.

In neighbouring Nova Scotia, the government has moved to close two underused, rural hospitals and consolidate emergency services in two nearby hospitals, building new clinics and long-term care facilities where needed.

An NDP government in Saskatchewan undertook a similar approach in the 1990's, closing 52 rural hospitals and replacing them with smaller clinics where needed. Facing fiscal challenges similar to those in New Brunswick, Saskatchewan was on the brink of bankruptcy. NDP Premier Roy Romanow tabled seven balanced budgets and repaid a significant portion of the province's debt. His spending reductions set Saskatchewan – once a have-not province – on a path to success. Today, Saskatchewan is a have province and a relocation destination for New Brunswickers looking for work. New Brunswick would be wise to follow this path.

In the fall of 2018, a private primary care clinic called Unified Health opened in Halifax. That company intends to open more clinics across the country and should be welcomed in New Brunswick. In fact, the government should actively seek to attract them and others. Fee-for-service clinics do nothing to draw resources away from the public health care system while filling a significant need for care in the province. The Alberta government is currently considering a range of cost savings in its health-care system, too, including having independent operators provide more services, such as some surgeries.

These innovations are not unprecedented in Canada. Partnering with independent job creators wherever possible can ensure New Brunswick tax dollars are spent efficiently, focusing on service delivery and quality care, and maximizing the value of health dollars.

Recommendation: Ensure the value of New Brunswick health-care dollars is maximized by finding efficiencies in health care services and welcome independent growth in health care as a partner and service provider.

Drive Innovation in Education and Introduce Charter Schools

New Brunswick's student population is declining, yet education spending in the province is increasing. Taxpayers cannot afford to keep paying more for fewer students. The government can find savings through reducing unnecessary expenditures, consolidating school facilities where possible, and introducing innovative models into the public system. School-aged student enrolment has been declining in the province since 1991. In fact, the declines in school enrolment in New Brunswick and neighbouring Nova Scotia are the largest in the country between 2012-13 and 2016-17. As noted by the CBC in 2017, school closures have not kept pace with enrolment declines. According to research from the Fraser Institute, New Brunswick would have reduced its deficit by 79 per cent in 2012-13 if education spending had been constrained to reflect inflation and enrolment.

In addition to consolidating schools where necessary, the New Brunswick government can save costs while improving results for students of all income levels by introducing legislation to allow for charter schools. Charter schools are non-profit, non-religious public schools which are independently operated, but publicly funded for operations, and charge parents no tuition. A 2018 Atlantic Institute for Market Studies report showed that per-student subsidies for charter schools in Alberta saved the government $4,284 per student, per year, versus traditional public school. As of 2017, New Brunswick's total school age population is 97,755. If even five per cent of those students shifted to charter schools, based on Alberta's numbers (to give a rough estimate as education spending varies from province to province), the government could save $20.9 million per year.

IF FIVE PER CENT OF STUDENTS MOVED TO CHARTER SCHOOLS, NEW BRUNSWICK COULD SAVE TENS OF MILLIONS OF DOLLARS ANNUALLY

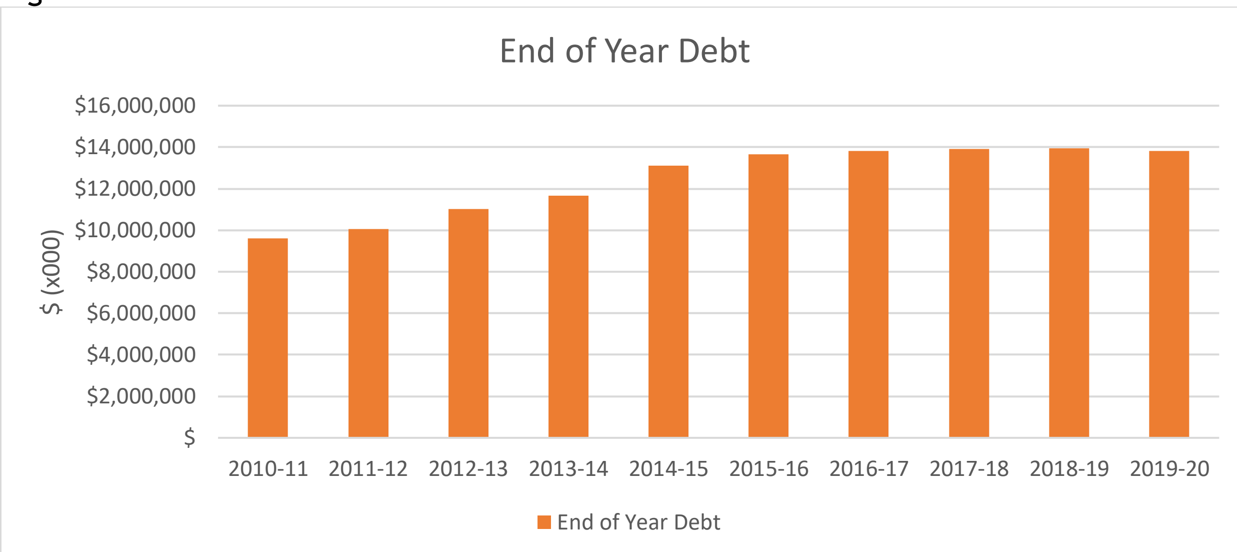
The AIMS study found that charter schools in Alberta, on average, outperformed every school type, including private schools which charge tuition. Charter schools each operate with a specific focus area, such as music, science, or students with mental health struggles. In one case, a charter school was opened by community members in a rural area, focusing on rural community stewardship – offering an innovative idea to provide quality education to students in rural New Brunswick, while saving tax dollars.

Recommendation: Reduce education spending to keep pace with enrolment, consolidate schools where possible and introduce charter schools to improve student outcomes and save tax dollars.

Continue Reducing the Debt

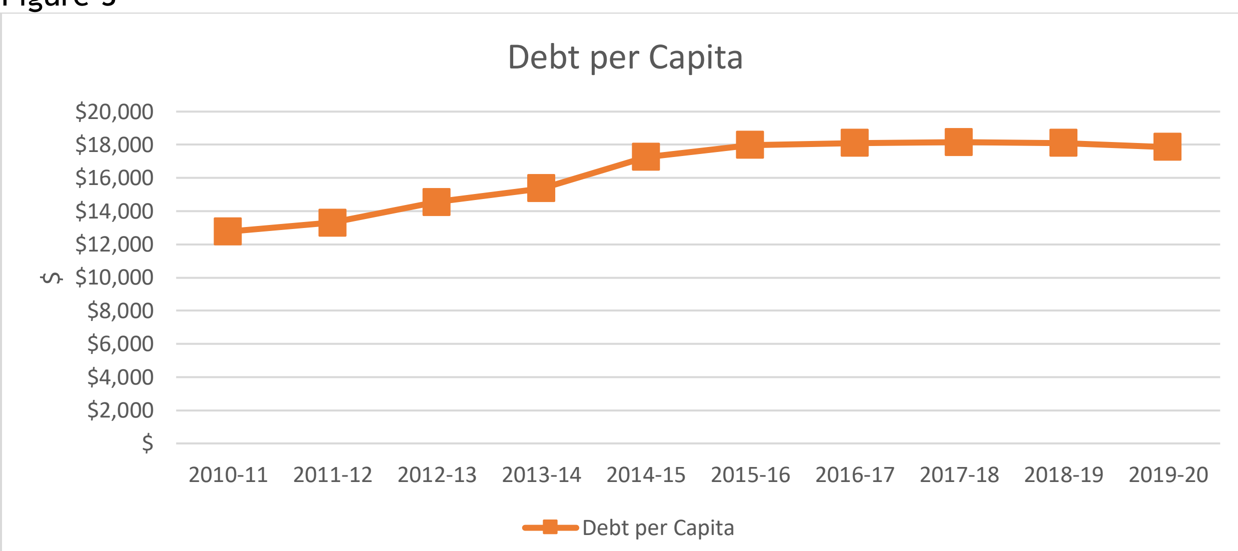
New Brunswick's debt is $13.8 billion, a notable reduction from last year. We applaud the New Brunswick government for reducing the debt and taking this step toward budget sustainability. The government should stay the course on debt reduction by aggressively paying it down, with the goal of eliminating the provincial debt and kissing debt interest payments goodbye.

Figure 2



The reduction in debt means the per-person debt for each New Brunswicker is now about $17,800 – down from over $18,000 last year, as shown in Figure 3, below.

Figure 3



With debt comes debt interest payments – taxpayer money that is handed over to the big banks and will never be spent on textbooks or hospital beds. In 2019-20, debt servicing costs will cost $658 million, according to the second quarter fiscal update. That number is lower than last year, which is great news, but it's still an enormous waste of money and relies on the hope that interest rates will stay low – a significant risk for taxpayers. To put that in perspective, that's one third of the equalization payment that New Brunswick received from Ottawa this year, gone, with no benefit to New Brunswickers.

Debt Interest Payments

In 2018-19 New Brunswick is wasting $658 million on debt interest payments. That's one third of the province's equalization cheque.

As the province faces the challenges associated with an aging population, it is crucial that the government keeps a laser focus on debt reduction now.

Recommendation: Remain focused on debt reduction by finding savings in government and dedicating the money to reducing the provincial debt.

Shift Toward Financial Independence

We praised Premier Higgs for his call for equalization reform at the first ministers' meeting in December 2018. Premier Higgs' suggestion that the federal government should cut equalization payments to force provinces to develop their resources represented a significant shift. Higgs rightly suggested that by feeling a little pain, provincial governments reliant on equalization would be forced to implement economic reforms to become more self-sufficient.

In December 2019, Finance Minister Steeves repeated the government's position that the government wants New Brunswick to be a have province. But times are tough. This year, New Brunswick will be Canada's poorest province, receiving a larger share of equalization dollars.

University of Calgary research has shown that the federal equalization grant formula creates an incentive for recipient provinces to impose higher tax rates and to reduce spending on productivity-enhancing infrastructure. Similarly, empirical studies by found that recipient provinces impose higher business taxes and spend less on infrastructure than non-recipient provinces.

In 2019-20, per the second quarter update, the government of New Brunswick received $3.48 billion in various federal transfers and grants. With a total budget of $9.5 billion, federal transfers and grants comprise 37 per cent of New Brunswick's budget. New Brunswick received $2 billion in 2018-19 equalization payments, representing 21 per cent of the province's budget.

The reliance on federal transfers is too high. More than one third of New Brunswick's budget is dependent on the outcomes of other provincial economies which are influenced by politicians over whom New Brunswickers have no electoral control. This puts New Brunswickers at risk and disincentivizes economic activity which would lead to a better quality of life in the province.

Steadily weaning the province off equalization is better for New Brunswick taxpayers. New Brunswickers pay for equalization too, through their tax dollars paid to Ottawa, so reforming the program could mean lower taxes.

To foster greater financial independence, the New Brunswick government can do two things:

1) Strengthen the premier's call for equalization reform by continuing to push for this on the national stage
2) Pave the way for economic growth in the province by creating a more business-friendly environment in New Brunswick.

Equalization = 21% Of N.B. budget

Federal Transfers = 37% Of N.B. budget

Recommendation: Strengthen calls for equalization reform while welcoming investment to achieve financial independence as a province.

Create a Business-Friendly Province

While this government has commendably kept expenditures from spiking, for long-term budget sustainability and growth the province must attract and retain job creators. That means saying yes to development and giving job creators a reason to say yes to the province, too.

Lower the Business Tax to Five Per Cent

New Brunswick needs to send a message to job creators that it is the best place to start a business. A University of Calgary study in 2019 showed that a reduction in New Brunswick's general business income tax rate would actually increase total tax revenues in the long run, with the optimal business tax rate being 5.7 per cent.

Other jurisdictions have experienced financial hardship like New Brunswick and business income tax cuts have helped a great deal. In the 2006-07 budget, the Saskatchewan NDP government announced the reduction of the business income tax by five points, from 17 to 12 per cent.

"These business tax cuts will help build a better future, by making our economy more competitive, and by encouraging business to invest more and create new jobs here at home," then-finance minister Andrew Thomson said. And he was right. The subsequent Saskatchewan Party government continued to reduce taxes.

Saskatchewan began to lead the country in economic growth, with the province's GDP growing by about 60 per cent from 2006 to 2011. The business tax cuts didn't just relieve the burden on businesses and families, they also increased the revenue flowing to the government's coffers. Saskatchewan collected $382 million in business taxes in 2005-06 before the rate fell. By 2008-09, Saskatchewan's business tax rate was down to 12 per cent, and the government's business income tax take had increased to $593.5 million. In the next two years, business income tax revenue soared to $880.2 million, then $1.15 billion, The business income tax revenue increased by nearly 168 per cent (adjusted) during that period, going from 0.98 per cent to 1.63 per cent as a share of GDP.

A recent Fraser Institute report noted that prior to the economic reforms undertaken in Ireland beginning in the mid-1990s, it was an economic laggard in Europe. Ireland dramatically reduced its general business tax rate, first from 40 per cent to 26 per cent in one year, then eventually to 12.5 per cent – about half the rate of comparable small European countries. Ireland also reduced its top marginal income tax rate by 14 points.

Ireland's per-person GDP was two-thirds of Canada's in 1990 and was equal to Canada's just ten years later. Today, it has shot up to one-and-a-half times Canada's per-person GDP. Ireland's tax reforms were bold and caught the attention of investors.

There's further evidence supporting this. Research from the Montreal Economic Institute showed that federal cuts to business taxes between 2001 to 2012 – first instigated by Prime Minister Jean Chretien – were successful, with no negative impacts on revenue generation. The general business tax rate was cut nearly in half, yet revenues have held up. In 2017, business tax revenues brought in $45 billion – slightly more than the $43.4 billion generated in 2000 (adjusted in 2017 dollars), the year before the business tax reductions were made. Business tax revenues also remained a constant share of GDP.

RESEARCH SHOWS THAT REDUCING NEW BRUNSWICK'S BUSINESS TAXES WOULD ACTUALLY BRING IN MORE TAX REVENUE

Further, research from the University of Calgary in 2017 showed that "a significant part of the burden of corporate taxes falls on workers in the form of wage reductions." High business taxes not only hurt workers by disincentivizing businesses from creating jobs – they mean lower wages and less government revenue.

Even if New Brunswick experienced a temporary decline in revenue as the result of a business tax cut, the province could fund the shortfall with the elimination of corporate subsidies, loans and credits.

Currently, the Alberta government is reducing its general business tax rate from 12 per cent to eight per cent over four years. The Nova Scotia government is reducing its business tax rate from 16 per cent to 14 per cent. New Brunswick would not be alone in introducing these reforms. The demographic challenges facing New Brunswick means the province needs to be even bolder. New Brunswick should reduce its general business tax rate to five per cent to send a signal to job creators at home and away.

Recommendation: Lower the general business tax rate in New Brunswick to five per cent to attract investment and generate more government revenue.

Say Yes to Well-Paying Resource Jobs

The government partially lifting the ban on hydraulic fracturing in New Brunswick is a positive step, but investor uncertainty remains. Every New Brunswicker knows many others who have left for resource jobs. Let's bring those New Brunswickers back home.

Canada is the world's fifth largest producer of natural gas, according to the Canadian Association of Petroleum Producers. Embracing the development of new projects in New Brunswick means more jobs and more revenue for government, which can be used to fuel important services. The New Brunswick government can encourage investment by lifting the moratorium on hydraulic fracturing completely, in all areas, and cutting red tape holding resource projects back.

Recommendation: Lift the moratorium on hydraulic fracturing in every area of the province and reduce regulation where applicable to welcome resource exploration jobs.

Conclusion

The New Brunswick government's last budget charted a positive course of debt reduction and fiscal sustainability. It is crucial that the government continues its work in this regard and intensifies the efforts to pay down the provincial debt and find cost savings in government. The government must make the challenging decisions today to ensure a brighter future for New Brunswickers tomorrow.

Lowering personal taxes will make life easier for New Brunswickers and attract more people to the province. Creating a welcoming environment for job creators through tax reduction, following the examples of other jurisdictions, will increase New Brunswick's investment prospects and help secure a more prosperous province into the future. Introducing innovation in health-care and education can save taxpayer dollars while improving service delivery. Forward-looking governance with vision will help improve the quality of life for all taxpayers in the province.