Pig in a Poke
New Brunswick's Discussion Paper on Tax Reform

Presentation by Paul Moist, National President
Canadian Union of Public Employees

to the

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Prepared by Toby Sanger, Senior Economist
Canadian Union of Public Employees
www.cupe.ca

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Introduction

The proposals for tax reform outlined in New Brunswick Finance's June 2008 *Discussion Paper on New Brunswick's Tax System*[1] are possibly the most regressive proposals put forward by any government anywhere in Canada.

This brief shows in some detail how these proposals would significantly increase the overall tax burden on those who can least afford it – the poor, lower and middle income working families, the elderly and other vulnerable people – and provide tens and perhaps hundreds of millions of dollars in tax cuts to big businesses, the wealthy and those with high incomes.

As our analysis below shows, the overall impact of the major tax changes being proposed would lead to a loss – in terms of increased taxes and reduced services – averaging over $500 a year for over 175,000 New Brunswick households, representing more than half of the province's population. The lower the income, the more negative the impact in both relative and absolute terms. For the lowest income group, the impact of the tax increases and service cuts would add taxes and cuts equal to a loss of about 3% of their average income.

In contrast, the 20% highest income households would benefit handsomely, with an average benefit of over $5,300 per household, equivalent to a benefit of about 3.6% of their average income. The 1,000 highest income people in the province could gain an average benefit of over $60,000 a year from these changes.

It is interesting to note who has lavished praise on these proposals – and then consider what impact they will have on families of different income groups in New Brunswick:

> *"I am thinking of moving to New Brunswick. Or I will be if they go ahead with the bold changes outlined in a just-released green paper on taxation… (it includes) income taxes where everyone gets a break and where the focus is on the family and helping those who need help"*
>
> Ian Munro, research director for the Atlantic Institute for Market Studies
> *Globe and Mail, June 9, 2008*

> *The province is on the right track – smart tax reform is being considered along with tax relief. As such, it is a win for taxpayers.*
>
> John Williamson, Federal Director, Canadian Taxpayers Federation
> *Let's Talk Taxes, June 18, 2008*

> *Ontario Premier Dalton McGuinty could learn a thing or two from his colleague in New Brunswick.*
>
> Neils Veldhuis and Keith Godin, Fraser Institute
> *FP Comment, June 5, 2008*

And of course Jack Mintz, former President and CEO of the C.D. Howe Institute, was instrumental as an expert consultant for the government in developing these proposals.

However, all the supportive statements aside, not one of these people has shown how these "tax shifting" proposals would actually affect New Brunswick families. And, especially disappointingly, neither has the New Brunswick government through this discussion paper. There is a reason for this that becomes apparent when a true picture of the impacts is revealed, as is shown below.

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[1] Available at: http://www.gnb.ca/0162/New_Brunswick_Tax_System/Discussion_Paper-English.pdf

Unfortunately, the Finance Department's tax reform discussion paper is also highly biased and misleading.

For instance:

- The document provides pages of detail on how income tax cuts would benefit certain taxpayers; however even these figures are overstated and misleading for reasons outlined below.
- There is nothing on how increases in the province's sales tax and a new carbon tax would increase costs for New Brunswick families.
- A 25% increase in the provincial share of the sales tax is called "modest" when in fact it will add significant costs particularly for lowest income households.
- The justification for deep cuts to taxes for big businesses and high income groups is highly partial and misleading.
- There is no overall analysis of how this would affect New Brunswick's finances and the information that is presented appears to significantly underestimate the impacts.

This report critically examines the proposed tax changes, the rationale presented for them and provides calculations of what impact they will have on New Brunswick households in different income groups. In summary:

1. The guiding principles outlined in the discussion paper for restructuring the tax system are seriously deficient. They ignore the primary principles of modern tax systems, which are to: raise revenues to fund public services and improve overall economic and social wellbeing and to promote progressivity and greater equality in society.

2. The argument that cuts to high income tax and corporate taxes rates will boost economic growth, competitiveness and productivity is taken as a matter of faith. There is little real evidence for this in Canada or internationally.

3. In addition to being deficient and biased, the government's tax discussion paper doesn't even provide an accurate analysis of how all the different tax changes will affect different household groups in the province.

First Principles: Gone Missing

As is stated above, the guiding principles outlined in the discussion paper for restructuring the tax system are seriously deficient and ignore the primary principles of progressivity and the role of the tax system to raise revenues to fund public services and improve overall economic and social well-being.

Progressivity: a disappearing act

The principle of progressivity, which is fundamental in virtually all modern tax systems, is ignored in the principles outlined in this document. Instead, the paper advocates for a move towards a consumption-based tax system, which is inherently regressive.

While having a larger personal exemption would maintain some degree of nominal progressivity in the income tax system, the move to a flat or two-tier tax would seriously reduce the progressivity of New Brunswick's tax system. It is likely that any remaining progressivity in the income tax system would be erased by the regressive impact of the province's sales, property, carbon, and corporate income tax regimes.

Existing personal income tax loopholes that allow capital gains and stock options to be taxed at half the rate of wage income already provide enormous benefits to upper income levels.
In fact, Canada's overall tax system has already become so preferential to upper incomes that the top 1% income group now pays a lower rate of tax than the poorest 10%[2]. A major cause of this has been tax changes at the provincial level. These changes over the past two decades have made the overall tax system regressive for certain income levels, during a period in which Canada has experienced increasing inequalities of family incomes and wealth, as outlined in the brief prepared by Andrew Jackson, Chief Economist of the Canadian Labour Congress[3]. Statistics Canada has concluded that a major contributor to this increasing inequality has been changes to Canada's tax and social transfer system[4]. The proposed changes would make the tax system in New Brunswick even more regressive and a lot less fair, as is detailed below.

Public services, productivity and wellbeing: ignored

The principles stated in the discussion paper ignore the principal role of a tax system, which is to raise revenues for public services, and the benefits that these public services provide to society. Overall cuts to taxes will mean less funding available to support public services. If implemented these tax changes would mean a net revenue loss of at least $100 million a year and probably considerably more than this. This amount will grow over time and will inevitably mean reduced funding for investments in public services, such as for education, health, community services and public infrastructure. Public services are not just key tools for reducing poverty and inequality; they are also crucial for increasing economic productivity and overall social and economic wellbeing.

Statistics Canada has again recently confirmed their estimates that every dollar invested in public infrastructure reduces costs for business by an average of 17 per cent a year[5]. This rate of return doesn't even include broader public and social benefits and yet is still far above average private rates of return on investments. Public investments in education, health and other public services also demonstrate high economic and social rates of return. This indicates that cutting taxes and thereby reducing public investments in these areas would be negative for the economy, negative for business, and negative for society overall.

The overall aim of a tax system, as with our economic system, should be to improve overall economic and social wellbeing. A recent comprehensive study by tax expert Neil Brooks found that relatively higher tax Nordic countries scored better than lower tax Anglo-American countries on 42 of 50 different social and economic indicators[6].

Ideology over Evidence: embellishing the impact of tax cuts on the economy

The discussion paper repeatedly makes various claims about the positive economic benefits of lower taxes on business and on high income groups.

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[2] Marc Lee. *Eroding Tax Fairness: Tax Incidence in Canada 1990 to 2005.* Canadian Centre for Policy Alternatives. 2007. http://www.policyalternatives.ca/documents/National_Office_Pubs/2007/Eroding_Tax_Fairness_web.pdf

[3] See Andrew Jackson. *High Income Earners Will Be the Big Winners from Tax "Reform" in New Brunswick.* CLC July 2008; http://canadianlabour.ca/index.php/taxation/1409

[4] Andrew Heisz. *Income Inequality and Redistribution in Canada: 1976 to 2004.* Statistics Canada Cat 11F00119MIE-No. 298. 2007.

[5] Ryan Macdonald. *An examination of public capital's role in production*. Statistics Canada, April 2008. http://www.statcan.ca/english/research/11F0027MIE/11F0027MIE2008050.htm

[6] Neil Brooks and Thaddeus Hwong. *The Social Benefits and Economic Costs of Taxation: A Comparison of High- and Low-Tax Countries.* Canadian Centre for Policy Alternatives. 2006.

However, with perhaps one exception (discussed below) all the references for evidence to support these claims are to publications and reports by lobby groups that are heavily funded by large businesses, such as the Fraser Institute, the Canadian Taxpayers Federation, the C.D. Howe Institute and even the U.S. right-wing Heritage Foundation.
These organizations have a direct interest in advocating for lower taxes for large businesses and high income individuals and should hardly be relied on for objective analysis.

It is disturbing that this discussion paper by the New Brunswick Finance Department relies virtually exclusively on their reports for its proposals, with no critical analysis or balance from alternative or more objective sources.

Nevertheless the discussion paper makes the following main arguments in support of these tax reform proposals:

1. New Brunswickers can keep more of their hard-earned dollars.
2. Lower taxes will make the province more attractive for business, investment and people.
3. Progressive taxes, such as personal income and business taxes that charge higher rates for people and businesses with higher incomes, impede economic growth and interfere with incentives to work, save and create wealth.

Each of these claims is addressed in turn:

Claim #1: New Brunswickers will be able to keep more of their hard-earned dollars

Curiously, the government's discussion paper provides no evidence to show that New Brunswickers would actually be able to "keep more of their hard-earned dollars" as a result of all these tax reform proposals.

The only evidence provided are calculations of the impact of the proposed move to a flat 10% or a two tier income tax system. However, even these calculations turn out to be inaccurate and misleading about what the actual impacts would be.

In fact, our comprehensive analysis of the major tax proposals shows the opposite of what this discussion paper claims: *a majority of New Brunswick households would actually pay more in taxes and increased costs* as a direct result of these major tax reforms.

The impacts would be starkly regressive: the lowest income 60% of New Brunswick households would pay more in taxes and suffer higher overall costs, while the highest income 40% of households would pay considerably less in taxes. These results are presented in detail in the final section of this document and are illustrated in the table and charts provided at the end.

Claim #2: Lower taxes will make the province more attractive for business, investment and people

This argument involves two subsidiary claims:
a) New Brunswick's taxes on big businesses and higher income earners are too high.
b) Deep cuts to taxes are necessary to attract businesses, investment and people

The document actually shows that New Brunswick's taxes on business are lower than the Canadian average on most measures. The Finance Department actually issued a press release a year ago stating that: "New Brunswick is the least-taxed jurisdiction in Canada for business[7]"

[7] "National report shows N.B. has the lowest taxes on cost of doing business in Canada." Department of Finance press release July 7, 2007. http://www.gnb.ca/cnb/news/fin/2007e0903fn.htm

It is true that New Brunswick's top marginal personal income tax rate is higher than the Canadian average. However, it is not the highest in Canada and it is lower than all its provincial neighbours.

Income and business tax rates also need to be considered in relation to the cost of living and the cost of doing business. For instance, the discussion paper states that someone making $100,000 a year in New Brunswick would pay approximately $4,000 more in taxes than a similarly-paid worker in Alberta or British Columbia (p. 8).

However, New Brunswick has one of the lowest costs of living in Canada, which would compensate all but the very top incomes for higher tax rates. For instance:

- Statistics Canada's Intercity price index shows that average retail consumer prices in Saint John (the only N.B. city surveyed) were, together with Winnipeg, the lowest in Canada and were 8% below the national average. They were also 12% below prices in Vancouver and 5% below prices in Edmonton.[8]

- The latest statistics from the Canadian Real Estate Association show that the average price of a house in New Brunswick in May 2008 was $152,823. This is less than half the Canadian average price for a home, 68% lower than the average in British Columbia, and 58% lower than the average in Alberta[9].

These facts about the cost of living – together with good job opportunities and quality public services – are likely to do a lot more to attract skilled workers than any cuts to marginal income taxes. The situation is similar for businesses, for whom the overall costs of business and the quality of the public infrastructure, the skills of the workforce and other factors are much more important than tax rates.

The second part of this argument is that cuts to taxes are necessary to attract businesses, investment and people.

This issue has attracted considerable debate and discussion. Unfortunately, the government's discussion paper almost exclusively refers to only to references from sources that would be expected to be biased towards lower tax rates: lobby organizations that are heavily funded by big businesses.

Remarkably, upon examination, the only paper directly referenced as evidence on this issue that appears to come from a possibly objective source turns out to be misleading itself. We examined the paper by Mark Rider, entitled "The Effect of Personal Income Tax Rates on Individual and Business Decisions"[10]. This paper doesn't provide any substantial direct empirical evidence for its claims that income tax rates have a significant influence on individual mobility but instead bases them on reference to other research. A single random check of one of the statements made in this paper yielded the following.

Rider's paper states that: "He (Goolsbee, 2000) finds that those making over $1 million a year are particularly responsive to PIT (personal income tax) changes".

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8 Statistics Canada. Consumer Price Index, October 2007, Table 12. http://www.statcan.ca/english/freepub/62-001-XIE/2007010/tablesectionlist.htm (This table is only published in October of each year)
9 http://www.crea.ca/public/news_stats/statistics.htm
10 Mark Rider, 2006. "The Effect of Personal Income Tax Rates on Individual and Business Decisions". Georgia State University working paper 06-15.

In fact, the paper cited by Austan Goolsbee actually concludes that the opposite actually occurs over the longer term[11]:

> *This paper has used detailed data on the compensation of several thousand corporate executives to reexamine the issue in the 1990s. It shows that in this group of high income people, almost all of the responsiveness of taxable wage and salary income to marginal rates from 1991-1995 was the result of shifts in the timing of compensation, in the spirit of Slemrod (1995), not permanent shifts in the form of compensation.*
>
> *Their short-run elasticity of taxable income with respect to the net of tax share exceeds one, but taking out the temporary component yields longer-run elasticities between zero and .4. The biggest short-run responses are concentrated among very rich executives and those who have stock options. There is virtually no response of taxable income excluding the exercise of stock options, and the disaggregated data verify that the vast majority of the changes in taxable income come from variations in the timing of option exercises.*
>
> *The results show that using more detailed data on compensation can illuminate many features of individual responses that are difficult to detect from tax return data. They also suggest that taxing the rich can lead to dramatic shifting of taxable income in the years immediately surrounding a tax change. Such changes may allow many to avoid taxation for a short period of time and may wreak havoc on contemporaneous revenue estimates, but after the shifting is done, the total changes in taxable income may be more limited and the deadweight loss of progressivity more modest than previous work has suggested.*

In other words, the actual paper by Goolsbee (who has recently achieved prominence by being appointed Barack Obama's chief economic advisor) *concluded the exact opposite of what both Rider and the government's discussion paper claim*: even the rich are not very responsive to changes and differences in income tax rates over the longer term. The only significant impact is in the short-term and this impact is virtually all because of the exercise of stock options, (which are taxed at half the rate of normal wage income).

This is the result of a random check on a single reference. There are no doubt many more embellishments in the supposed "evidence" presented.

In fact, many economists have found that higher marginal tax rates on the affluent have very little impact on the work effort or savings.

In other places, the discussion paper cites references to state that "Economists have noted that, other factors being equal, investments and jobs migrate to those jurisdictions with the most advantageous corporate and personal tax structures" (p.8). This is only common sense. All economists know that the most overused term in economics is *ceteris paribus*, which is Latin for "other factors being equal." But all other factors are never equal. If taxes are cut then there is less revenue available for public services and investments. As U.S. Justice Oliver Wendell Holmes famously remarked, "Taxes are the price we pay for public services and for a civilized society." Deep cuts to taxes for big business and high incomes will only lead to increased inequality and probably provoke a vicious downward cycle of tax cut competition with neighbouring jurisdictions. Lower taxes might initially attract some people or businesses out for the cheapest location, but as soon as any cheaper and lower tax jurisdiction comes up, these companies and footloose individuals will move out.

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[11] Austan Goolsbee, 2000. "What Happens When you Tax the Rich?: Evidence from Executive Compensation", *Journal of Political Economy*, April 2000.

Already, business groups in Nova Scotia are advocating for business tax cuts to match those being proposed in New Brunswick. If further tax competition occurs, then any gains from attracting mobile investments would be neutralized.

Claim #3: Progressive taxes, such as personal income and business taxes that charge higher rates for people and businesses with higher incomes, impede economic growth and interfere with incentives to work, save and create wealth.

The final claim that is made in the document is that progressive and higher tax rates impede economic growth, particularly by reducing the incentives to work and to invest.

In fact, international business and competitiveness organizations have found the opposite: the most competitive and productive countries in the world tend to be those that have relatively higher tax rates.

According to the *World Economic Forum* international business organization, the countries that consistently ranked as the most competitive in the world are Scandinavian nations, where "high levels of government revenue have delivered world-class educational establishments, an extensive safety net and a highly motivated and skilled labour force". These countries also tend to rank high in terms of environment, education, health and social equity. A recent *Global Competitiveness Report* noted:

> *"There is no evidence that relatively high tax rates are preventing these countries from competing effectively in world markets, or from delivering to their respective populations some of the highest standards in the world."*[12]

Interestingly, global competitiveness reports rarely mention taxation as an important factor. Competitiveness rankings or productivity growth also show a positive correlation with government revenues. The point isn't that higher taxes directly increase competitiveness or productivity, but that adequate tax revenues are needed to provide quality public services, which then boost productivity and competitiveness.

In its latest report, the *U.S. Council on Competitiveness* only mentions taxes to say that "Competition is based on building clusters of regional assets, and not on attracting investment through large tax incentives." Instead, it focuses on the need to invest in basic skills, K-12 education and higher education; public investment in basic research; strengthening regional clusters of innovation, and *reduce income inequalities*.

The argument made in the discussion paper that a progressive corporate tax rate, with a lower rate for the first $400,000 in income, acts a disincentive for business to grow is also misleading. Many different jurisdictions provide businesses with a lower tax rate for their first share of income. There are a number of rationales for these lower rates including: proportionately heavier burdens in regulatory and administrative compliance costs for small businesses; greater difficulties and costs for small businesses to obtain financing; and economies of scale and relative market power tilted against small businesses[13]. The magnitude of these disadvantages for small businesses and start-up businesses may be difficult to determine, but they should at least be acknowledged. If the relative disadvantages of small business outweigh the advantages, then there is a justification for having a lower rate. In this case, a move towards a flat tax for all levels of corporate income *would create a competitive disadvantage against small business and entrepreneurs and in favour of larger businesses.*

[12] World Economic Forum 2005. *Global Competitiveness Report 2005-6.* Geneva, Switzerland, p. xv.
[13] See OECD, 1994. *Taxation and Small Business* for some discussion of this. http://www.oecd.org/document/46/0,3343,en_2649_201185_38007150_1_1_1_1,00.html

Ireland is frequently referred to as an example of the significant economic benefits that would come from major tax cuts. The fact is that Ireland cut its taxes at the same time that the European Union established its single market in 1993. Ireland used its relatively low wages and other costs, educated English speaking workforce and a devalued currency to attract tens of billions of mostly American investments looking for a place to invest within the new EU market. Over 17 billion Euros in Structural and Cohesion Funds from the EU and a defined social partnership also played a role in generating strong rates of growth. However, Ireland is now facing high inflation and large outflows of profits to the foreign-owned investments that are responsible for most of its exports. Despite the rise in *average* incomes, inequality and child poverty in Ireland are the 2nd worst in Europe[14].

Deep tax cuts like those introduced similar in Ireland could have a similar impact on New Brunswick – but only if the province joins the European Union, moves 4,300 kilometers east, creates its own currency, qualifies for tens of billions in aid from Brussels *and* sets the clock back 15 years to 1993 when the European single market was first established.

The discussion paper also often draws comparisons with Alberta. However, low tax rates in Alberta did not cause its economic growth; they are the result of its oil and gas boom and high commodity prices. Alberta has benefited from over $10 billion in non-renewable resource revenues a year for many years, equivalent to more than $3,000 per person. In 2005, the province's non-renewable resource revenues amounted to $4,360 per person. That's more than what New Brunswick raised per person in *total tax revenue*. In comparison, total resource royalties raised in New Brunswick were only $87 per person last year. There is no evidence demonstrating that lower tax rates will lead to the instant creation and discovery of underground oil and gas deposits in New Brunswick.

The argument that tax cuts to high income earners and businesses will stimulate the economy by providing more savings for investment also carries little water.

Canadian governments provided tens of billions through cuts to corporate and high income tax rates since 2000. This was ostensibly done to stimulate savings, investment and productivity in the economy. Since 2000, corporate profits and the wealth of the affluent have escalated to record levels. Despite this, private sector investment growth in Canada has been lackluster, growing at half the rate of corporate profits over the past decade, corporate surpluses have escalated, our productivity growth has been stagnant and wages for the great majority of Canadians have barely increased[15].

In fact, it may be that the hundreds of billions that have been provided in tax cuts since 2000 have *retarded* our economic development and productivity growth. Businesses have pushed for lower taxes as an easy route to achieving higher profits. This means less effort is needed to generate returns by making new investments, innovating and developing higher value added and higher productivity jobs.

The discussion paper suggests hopefully that significant tax cuts would generate increased economic growth resulting in more tax base growth over time. However, no evidence is provided for this wishful thinking. Nor is consideration paid to the negative economic impacts that would result from cuts or restraints to investments in public services.

[14] Interestingly, Ireland has recently been rocked by revelations that their government leader, Bertie Ahern, received a number of payments from different businessmen while he was Minister of Finance in the early 1990s. This led to his resignation in May 2008.

[15] See "New Frontiers for the Boomer Economy", *CUPE Economic Climate for Bargaining*, March 2008, p. 2. http://cupe.ca/updir/Economic_Climate_2008_March.pdf

Economic models based on real empirical data demonstrate that the economic multiplier benefits from investments in public spending generally always outweigh the economic activity generated by tax cuts.

Analysis by the United States Congressional Budget Office estimated that economic feedbacks associated with a 10% cut of U.S. federal income tax rates could lead to a recovery at most of 32% of the revenues lost, but it could also lead to an *additional further* loss of 5% of revenues on top of the original cut[16]. These results are for the U.S. federal government, which applies income tax rates of up to 35%. Consequently, the feedback impacts for a provincial jurisdiction with low tax rates would be proportionately lower. Calculations suggest that income tax cuts of $400 million could result in a feedback effect of $30 million of compensating revenues, for a net loss of $370 million. However, an increase of more than $350 million in sales and carbon consumption taxes would also have negative economic impact and consequently result in lower revenues. With the provincial share of the sales tax at 10%, the revenue losses associated with this would amount to $35 million or more. The overall impact of this economic feedback effect on provincial revenues is very likely to be negative.

Common sense and empirical evidence also suggests that higher incomes and cuts to high income tax rates can actually have a *negative* effect on the incentive to work within a family unit. Higher levels of after-tax disposable income allow high income earners or their spouses to *not* work: to choose leisure or other activities instead of work and/or to retire early.

If the New Brunswick government really wanted to increase incentives for people to work – and especially for those with lower incomes – it would raise the province's minimum wage. New Brunswick can now boasts the lowest minimum wage in Canada at $7.75 an hour, together with Prince Edward Island. With PEI's minimum wage slated to increase to $8.00 in October, New Brunswick will soon have the absolute lowest minimum wage in Canada.

Over the past 30 years, the province's minimum wage has fallen far below the rate of inflation. New Brunswick's minimum wage of $2.80 in 1976 would be worth the equivalent of over $10 today. Increasing the minimum wage by just 25 cents an hour would put a badly needed $500 in the pocket of a full-time minimum wage worker. Restoring the real value of New Brunswick's minimum wage to $10 – what it should be – would mean a pay increase of $4,500 for the lowest paid workers.

As is outlined below, the tax changes proposed would provide those who work full-time full-year at New Brunswick's current minimum wage with a personal income tax cut of only 63 cents for the year – and that is only if they claim the basic credits. If they qualify for any more credits, then they would get no income tax benefit.

At the same time these minimum wage workers would face approximately $400 in higher costs each year from the proposed increase to the provincial sales tax and from the introduction of a carbon tax. In addition, cuts to public spending would amount to an estimated $300 in costs. This would add up to a combined negative impact of about $700 in tax increases and public service cutbacks for the lowest paid workers in New Brunswick.

Increasing taxes and costs by an estimated $700 a year (4.7% of their income) may increase incentives to work by forcing on the lowest paid workers in the province to work longer and harder just to survive. But it will do nothing to make sure New Brunswick is the "best place in Canada to raise a family, while making sure that the least fortunate are protected and have the opportunity to improve their lives" (p. 39).

[16] Congressional Budget Office, December 2005. *Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates.* http://www.cbo.gov/ftpdocs/69xx/doc6908/12-01-10PercentTaxCut.pdf

The only "bright future" that these proposed reforms would provide to the least fortunate New Brunswickers are the bright fluorescent lights from having to hold down another night shift job just to survive – or else the bright lights of the highway leading out of the province.

Information Withheld: Impact on New Brunswick Households

The impact of every one of the proposed sets of tax changes would be regressive for New Brunswick families. The overall impact of the whole package would be highly regressive. Large benefits would go to bigger business and to those with high incomes while the majority of low and middle-income earners will actually lose out from this "tax restructuring".

The government's discussion paper provides a number of pages of detail on how the move to a flat or two-tier tax system will reduce New Brunswick's personal tax rates for selected households as well as comparisons with other provinces of these selected taxes with existing rates in other provinces.

However, the discussion paper provides no analysis or estimates of how the other tax changes – including the increase in the sales tax, a new carbon tax, and cuts to big business tax rates would affect New Brunswick households on average. Other enthusiastic proponents of this package have been silent about this.

In addition, the income tax savings coming from moving to a flat tax or two tier tax system presented in the discussion paper are misleading and overstated. The tax levels are based on 2008 values for the existing system, while the proposed system wouldn't be in place until 2012. However, most applicable credits and thresholds in the existing income tax system are indexed to inflation. This means that with positive inflation, the tax payable under the existing system would be lower in future years at all income levels.

Since accurate information has not been provided to the public, CUPE has conducted its own analysis of the impact of these different measures on New Brunswick households, using largely publicly-available and official sources of data. These results are provided in accompanying tables and graphs.

This analysis shows the net tax impact by five different household income groups (quintiles) in New Brunswick. The household sizes, income groups and their incomes levels are not subjectively selected, but are directly representative. They are based exactly on survey numbers collected by Statistics Canada from New Brunswick through its *Survey of Household Spending*. Each category represents 20% of the households in New Brunswick scaled by household income. As such, they represent average households in each of these income groups.

The actual impact for any specific family or household will depend on a wide variety of factors: household size and demographics, number of children, income levels, type of income, spending levels and habits, investments, location and a wide range of other factors.

While the impacts for each household will inevitably be higher or lower, these figures represent the best estimates of the average impact for each household income group, based on the information we have that is publicly available. In most instances, the estimated impacts on the cautious side, as is explained in the technical and methodological appendix to this report.

This report also provides estimates to illustrate what the impact would be for some specific examples.

The overall tax package would lead to a net revenue loss for the New Brunswick government. The discussion paper suggests that the shortfall for four of the sets of tax proposals (not including the property tax proposals) would amount from $50-$150 million when fully implemented. However, no information is provided to substantiate this implication. It is likely that these estimates are low, based on the information we have calculated. In addition, we estimate that the proposed 33% cut to the provincial non-residential property tax rate will reduce the province's revenues by at about $59 million a year[17].

This shortfall in revenue will have what economists call an "opportunity cost" for the government and public. The discussion paper suggests that the revenue shortfall will be handled by efficiency gains and that it wouldn't affect the quality of public services provided to the people of New Brunswick. But efficiency gains don't fall out of the air: they are on-going within the public service as they are in most other organizations.

The revenue losses will invariably result in some reductions to public services provided below what would otherwise be available to New Brunswick households. This will have a cost for the public. The following tables and charts include as a separate item estimates of how much these future reductions to public services will affect these different income groups. This analysis uses detailed estimates that have recently been developed calculating the monetary value of the benefits of public services in Canada in a report that will be published shortly.

Impact of Proposed Tax Changes on New Brunswick Households

The following table and chart show what the average direct impact of the four main sets of tax proposals on these five different household income groups in New Brunswick. The impacts have been calculated for the year 2013, which is when these proposals are supposed to be fully implemented. Income and other measures have been adjusted to the 2013 year using appropriate index factors. Pertinent information on how these impacts were calculated is included in the attached appendix.

This analysis does not include the impact of proposed changes which would reduce the provincial property tax rate on non-residential properties. This would reduce provincial tax revenues by about $59 million a year at current assessment levels, which would likely lead to cuts in the grants provided to municipalities. This would either lead to further reductions to public services or increases to municipal property taxes, as the discussion paper suggests. Both of these consequences would have further regressive impacts on New Brunswick households. Analysis shows that low income households in New Brunswick pay two to four times as high a share of their income on property taxes as the highest income bracket does. This is almost the complete opposite of the incidence for personal income taxes.

The analysis of the income tax changes only includes the basic non-refundable tax credits of the basic personal amount and for CPP contributions and EI premiums. Most families would qualify for additional tax deductions and credits and on the tax cut benefits of the proposed tax changes would be less.

[17] According to New Brunswick Finance, the province is expected to raise $176.6 million from real property tax on non-residential properties in 2008 at the assessment rate of $2.25.

In summary, for the lowest and highest income quintiles of New Brunswick households:

Lowest Income Households

For the lowest income 20% of New Brunswick households with an average income of approximately $20,000 ($19,815, more precisely) in 2013 they would:

- Get an income tax cut averaging $170 from the shift to a 10% flat tax system compared to the present system. This represents less than 1% of their income.
- Lower income households would get less, and those making less than $15,000 would get no tax benefit. This $170 figure includes a share of the proposed non-refundable child tax benefit representing the average number of children in these households. Those in this income level without children would get a income tax cut averaging $54 a year. Those with more children would get a larger tax cut, but only up to the income tax they have payable as this would be a non-refundable credit.
- If they benefited from investment income from New Brunswick businesses, they would get an average $50 benefit as a result of a corporate tax cut to 7%
- Pay an estimated $293 more each year in sales taxes as a result of the proposed two percentage point increase in the HST (Harmonized sales Tax)
- Pay an estimated $238 more in direct and indirect costs if New Brunswick proceeds with a proposed B.C. style carbon tax, rising to a rate of $30 per tonne CO_2e by 2013.
- Get an extra net amount of $55 a year from the proposed Climate Change Tax Credit, if this is modeled on the B.C. credit and replaces the Home Energy Assistance Program (HEAP), as the discussion paper proposes.

The net direct impact of these tax proposals would be *higher overall taxes averaging $256 per year* for the lowest income 20% of New Brunswick households.

If the impacts of reduced public services from a $150 million shortfall in revenues are included, then these households would suffer an additional loss valued at an average of $309 per year.

The total impact of these major changes add up to ***a tax increase and loss of services averaging $565 per year for the lowest income fifth of New Brunswick households***. This represents an overall average loss of 2.9% of the annual income for this group.

Highest Income Households

In contrast, the highest income 20% of New Brunswick households (with an average household income of about $150,000 in 2013) would:

- Benefit from an average income tax cut of $6,778 a year from the shift to a 10% flat tax, including a portion for the proposed child tax benefit. This represents a cut in income taxes of 32% and is equivalent to 4.5% of this average income.
- Get an average benefit of $1,090 from the cut in the corporate income tax to 7%, and more if they own or have substantial income from New Brunswick businesses.

- Pay an estimated $1,110 extra per year in sales taxes as a result of the proposed two percentage point increase in the HST. This amount would be less if they spent less than the average or took advantage of shopping in other jurisdictions.

- Pay an estimated average of $889 more in direct and indirect costs if New Brunswick proceeds with a proposed B.C. style carbon tax.

The net direct impact of these tax proposals would be *average lower overall taxes averaging $5,870 per year* for this highest income 20% of New Brunswick households.

If the impacts of a $150 million revenue shortfall on reduced public services are included, ***the overall benefits for the highest income group add up to a substantial gain of $5,377 for the year.*** This represents an overall average benefit equivalent to 3.6% of the annual income for this group.

Middle Income Households

The average estimated impacts of the different major tax proposals middle income households are presented in the table and charts. The overall impacts are just summarized here:

This shows that on average the bottom three income quintiles – representing ***the lowest income 60% of New Brunswick households – would pay higher combined income, sales and carbon taxes under these proposals than under the current system***.

If the impact of reduced public services is taken into account, the average total loss in terms of higher taxes and reduced services for these bottom three quintiles amounts to ***a loss of over $500 per year per household***. The absolute and relative impacts are lower, the higher the income level, but for all these three groups they are negative: both in terms of the net tax impact and the overall impact. The average negative impact would be equivalent to 1% or more of average household income: -0.9% for the middle income group and -2.9% for the lowest income group.

The fourth income quintile with an average household income of approximately $80,000 per year would be likely to benefit overall from the shift to a flat income tax, cuts to corporate income taxes (if they have investment income), increase in the sales tax and the proposed carbon tax. However, this benefit would be reduced by cuts to public services. The overall impact for this group is estimated to be just slightly positive: a gain of $150 per year, equivalent to 0.2% of their annual income.

Other specific examples:

Low wage workers: In 2007, there were 70,000 workers in New Brunswick who were paid an average of less than $10 an hour, according to Statistics Canada's *Labour Force Survey*, equivalent to 24% of all workers employed in the province that that year. This included 38,000 adults who were paid less than $10 an hour, more than 70% of whom were women. Someone who worked full-time, full-year for $10 an hour or less would earn $20,000 or less per year. These tax reform proposals would make those in households with an income level of $20,000 worse off by an average of about $565 per year, including an increase in their tax burden of $256 a year.

Minimum wage workers: Someone working full time full year at New Brunswick's minimum wage of $7.75 an hour – which is now the lowest in Canada – would make about $15,000 for a full year of work. There are an estimated 30,000 people in New Brunswick who are paid this wage. New Brunswick has no plans to increase this minimum wage rate yet.

Our tax analysis shows that they would save a total of 0.63 cents from the shift to a flat tax system. Anyone with an income below this would receive no benefit. However, they would face increased costs of about $425 from the increase in the HST and the introduction of a new carbon tax. They would gain about $122 from a Climate Change Credit modeled on that of B.C., but then they would lose $100 if this credit replaced the HEAP program, as the government is proposing. Minimum wage workers would face, on average, an increase in their total tax burden of about $402 per year, equivalent to 3% of their total income for the year. The impact of reduced public spending from lower revenues would add another estimated $300 to their costs. Net overall impact: a loss of $700 a year, equivalent to 4.7% of their total annual income.

Cabinet Minister: A minister in the New Brunswick cabinet with a total income of about $138,000 a year would gain approximately $5,538 in annual tax savings from the move to a 10% flat tax. If they had a dependent spouse and two children, their income tax savings would increase to $6,742. The increase in the sales tax and carbon taxes would add an average of about $2,000 to their family's annual expenses (if they didn't avoid some of these increased costs with some cross-border shopping or by buying a hybrid car). A family in this top income bracket with investment income would also gain an estimated average of about $1,000 a year from cutting the big business corporate tax rate to 7%. In total, they would gain an average of from $4,600 to about $6,000 in tax savings, depending on their family situation. Reductions in public services, if they were shared equally, would reduce this gain by an estimated $500 a year. This would yield a total overall benefit of approximately $4,100 to $5,500 a year.

Average Income Household: The average income for a middle-income household in New Brunswick in 2005 was $44,000 a year. At an increase of 3% a year, this would rise to about $56,000 by 2013. Someone with this household income would get an income tax cut of $651 a year, if they only claimed the basic tax credits. If they had one child, their tax benefits would increase by the value of the proposed child tax benefit of $400 a year. If they had a dependent spouse, their tax savings would increase by about another $400. If both spouses worked and they had a 2/3 to 1/3 income split, their income tax savings would add up to $575 a year.

However, this average income family would face increased costs of about $1,200 from the increase in the sales tax and the carbon tax. The net impact from the proposed income, sales and carbon taxes would be higher overall taxes of $500 to $600 a year for a working couple or individual at this average income level. These higher taxes would be offset by savings from a child tax credit if they had an eligible child. An average middle-income household would face an increased tax burden of approximately $245 a year from the combined impact of the income, sales and carbon taxes. If they benefited from investment income from a New Brunswick corporation, the corporate tax cut would reduce their increased tax burden to approximately $52. However, reductions in public services would increase their estimated overall loss to about $501.

Highest Income Group: According to the Canada Revenue Agency statistics, there were 1,120 New Brunswick taxfilers who reported incomes of $250,000 or more in 2005. They represented just 0.2% of taxfilers that year and had an average income of $474,000 each. The tax savings for someone at this income from moving to the proposed flat tax would amount to $32,260 a year. If their income at 3% a year, they would make an average of $600,000 and the average income tax savings from moving to a flat tax system would be $42,270 a year. This would be equivalent to a 41% cut in their New Brunswick income taxes.

For this group of the highest income earners, assuming incomes grew by 3% a year to an average of $600,000, but the number of top income earners stayed the same, the personal income tax savings would add up to $47.3 million a year.[18]

[18] For other calculations, see Andrew Jackson. *High Income Earners Will Be the Big Winners from Tax "Reform" in New Brunswick.* June 2008.

Those with the highest incomes would get the biggest tax cuts: both in absolute dollar terms and as a share of their income. Someone with an income of $300,000 would benefit from a tax cut of $18,400 – 38% less than what they would pay under the current system. Someone making $1 million would benefit from a $74,000 cut in their income taxes, 43% less than they would pay under the existing system.

This highest income group would also face some losses from reductions in public services and higher costs from the increase in sales taxes and a new carbon tax. However, these costs would be relatively minor: perhaps two or three thousand dollars a year. They could avoid the increased sales and consumption taxes on any more expensive purchases by cross-border shopping.

On the other hand, this top income group could benefit significantly from the reduction in the corporate income tax. Income tax statistics show that this top income group received 28% of the total capital gains declared. If their share of gains from the corporate income tax cut were similar, this top income group would share in a benefit worth approximately $27 million a year from a reduction of the corporate income tax rate to 7%. This would be equal to an average benefit of $24,000 each. The combined impact for this top income group of all these major tax measures could add up to an average annual tax cut and investment income benefit of $60,000 or more per person per year. This is equivalent to 10% of the average income for this top income group.

It is interesting to observe that this elite top income group would share in total *tax cuts and benefit gains* adding up to approximately $70 million a year. This is almost identical to the amount that the two bottom income groups would bear in *tax increases and benefit losses*: an estimated $72 million.

In effect, these proposals would result in a direct transfer through the provincial government of $70 million a year to the highest income 1,120 residents of the province – paid for in full by the 200,000 lowest income New Brunswickers[19].

During the middle ages, cunning travelling salesmen and other con men would pretend to sell suckling pigs in sacks to unsuspecting purchasers. When they got home, the villagers would find that the wriggling bags actually contained a cat or rats that would then plague them. This is where the expression "pig in a poke" comes from.

The government's discussion paper is a modern-day equivalent of this centuries-old con trick on a province-wide scale. It promises to deliver tax cuts, wealth, prosperity "and a bright future for New Brunswickers." But the paper is misleading about the impacts and keeps the public in the dark about what is really in the bag for them.

If these proposals go through, the government will collect millions of dollars from lower and middle income families; big businesses and the rich will get the suckling pigs and the people of New Brunswick will be left with a bag full of rats.

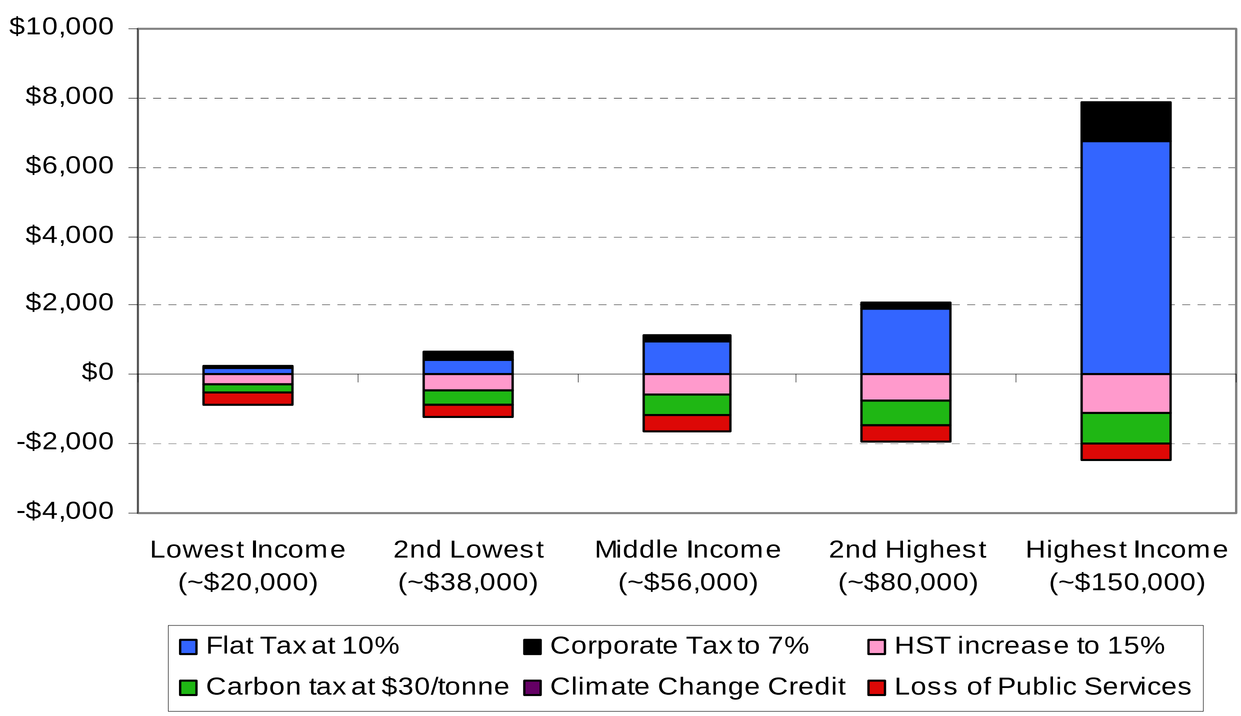
[19] These calculations of the total costs that would be borne by the lowest income groups are almost certainly an underestimate. This is because the government's revenue shortfall figures appear to be low and so the impacts on public service reductions would also be underestimated. Our calculations show a combined imbalance of over $200 million from the cumulative impacts over all household groups of all these measures. Some of this would be the result of the increase in sales taxes being paid by visitors and by non-profit organizations that wouldn't benefit from an input tax credit, and by carbon taxes being passed on through sales out of the province. However, this is likely to total $100 million at most. Calculations suggest that the revenue shortfall could add up to perhaps $300 million. In this case, the increase in taxes and loss in benefits for these two lowest income groups would add up to approximately $110 million a year.

Table 1: Estimated Impact of Major New Brunswick Tax Proposals by Household Income Group (in 2013)

Major Tax Reform Measure and Impact	*Lowest Income ~$20,000*	*2nd Lowest ~$38,000*	*Middle Income ~$56,000*	*2nd Highest ~$80,000*	*Highest Income ~$150,000*
Flat Tax 10%	$170	$450	$935	$1,893	$6,778
Corporate Tax 7%	$50	$141	$193	$202	$1,090
HST increase to 15%	-$293	-$429	-$555	-$735	-$1,110
Carbon tax at $30/tonne	-$238	-$413	-$625	-$720	-$889
Climate Change Credit	$55	$103	0	0	0
Loss of Public Services	-$309	-$374	-$449	-$489	-$493
Net Tax Impact	-$256	-$148	-$52	$640	$5,870
(% of income)	*-1.3%*	*-0.4%*	*-0.1%*	*0.8%*	*3.9%*
Total Impact	-$565	-$522	-$501	$150	$5,377
(% of income)	*-2.9%*	*-1.4%*	*-0.9%*	*0.2%*	*3.6%*

Impacts were calculated using tax models developed by CUPE. Technical details and methodology are summarized in the attached appendix. Average incomes were rounded to closest thousand with impacts rounded to the closest dollar.

Chart 1: Impact of Major New Brunswick Tax Proposals by Household Income Group (in 2013)



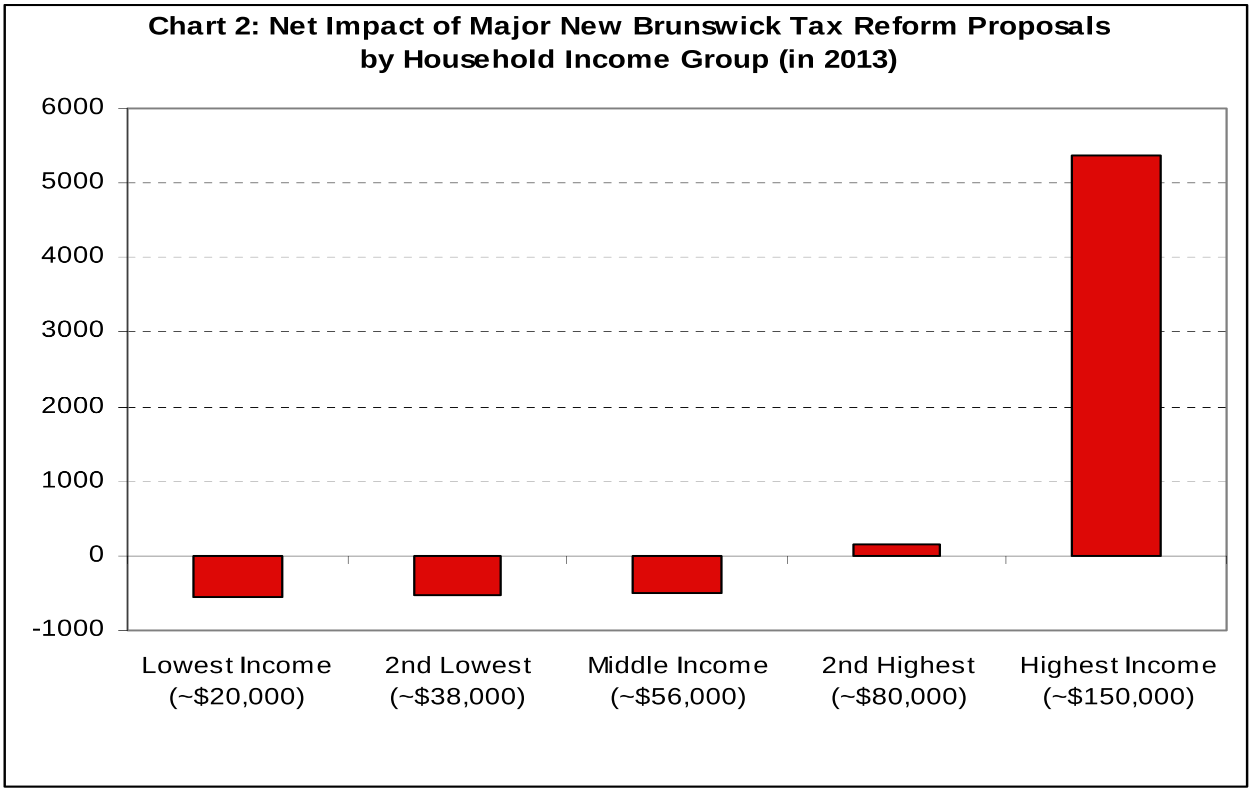


Chart 2: Net Impact of Major New Brunswick Tax Reform Proposals by Household Income Group (in 2013)
6000
5000
4000
3000
2000
1000
0
-1000
Lowest Income (~$20,000)
2nd Lowest (~$38,000)
Middle Income (~$56,000)
2nd Highest (~$80,000)
Highest Income (~$150,000)

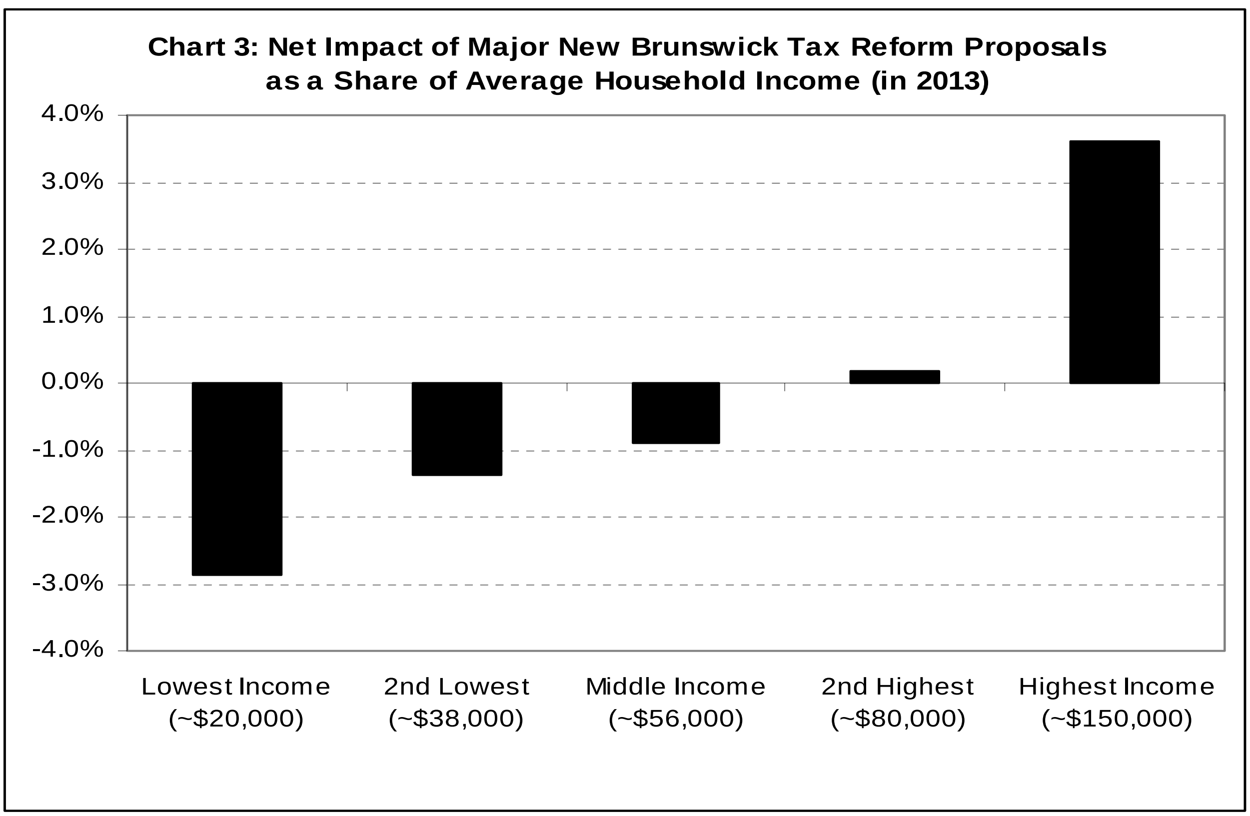


Chart 3: Net Impact of Major New Brunswick Tax Reform Proposals as a Share of Average Household Income (in 2013)
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
Lowest Income (~$20,000)
2nd Lowest (~$38,000)
Middle Income (~$56,000)
2nd Highest (~$80,000)
Highest Income (~$150,000)

Appendix 1: Technical Notes and Methodology on the Calculations

Average household incomes groups and their rates of spending for New Brunswick (which was also used to develop estimates of the impact of a carbon tax) were derived from Statistics Canada's Survey of Household Spending for 2005. These income and spending levels have been adjusted to projected levels for 2013, using an annual average increase of 3% per year.

Personal Income Taxes: A spreadsheet model was developed to calculate the impact of the proposed income tax changes. This provided similar results to the tables published in the discussion paper for the year 2008. *However*, the Finance Department's discussion paper is inaccurate and misleading about the savings that taxpayers would gain because the proposed changes wouldn't be fully implemented until 2012. At that time, as a result of automatic indexation of tax credits and thresholds in the tax system to inflation, the taxes paid under the existing system would be lower, particularly for lower and middle-income earners as a share of their income. The discussion paper doesn't say anything about increases to the proposed $12,000 basic personal amount before 2012. Our model increases the applicable tax credits and income thresholds by 2% a year to the 2013 year. This model also indexes the proposed $12,000 basic personal amount to inflation after 2012. CPP and EI maximum contributions are likely to increase, but these are based on a variety of factors and are hard to predict in advance. In any event, they would affect both proposals.

Since personal income taxes are largely levied on an individual, rather than household or family basis, the analysis presented in the table includes the impact for the average number of children for each household. Most of the households in the lowest income group are individuals, as a result no spousal deduction is included. For middle and higher income households, it is assumed that both adults in two adult households work so no spousal deduction is included. However, income taxes for household are calculated at the higher rate (e.g. all is attributed to one taxpayer), otherwise arbitrary assumptions would have to be made about splitting this income. Since higher income levels tend to gain more both proportionately and absolutely from these tax cuts proposals, this assumption likely overstates the income tax benefits especially for middle income working families. This analysis just shows the impact of the proposed Option 1: a flat tax of 10%. Further analysis will examine the impact of Option 2: the two tier tax proposal.

This analysis only includes the basic non-refundable tax credits of the basic personal amount and for CPP and EI premiums: most families would qualify for additional tax deductions and credits and so the tax cut benefits of the proposed tax changes would be less.

Corporate income taxes: The direct benefits of lower big business corporate income taxes will go primarily to those who derive income from corporations: the people who gain investment income from these companies. To develop estimates of this impact by household income group, we have used Statistics Canada's calculations of investment income by income group for Canada as provided by Marc Lee in his analysis of tax incidence in Canada. These numbers show that 65% of investment income went to the upper 20% of households, while 3% went to the lowest income 20% of households.

These calculations no doubt underestimate the inequity of the impact in New Brunswick and overstate the benefits to middle and low income households for a few reasons: 1) New Brunswick has a few large privately-owned corporations (such as the Irvings and McCains) whose owners will gain large private benefits from the proposed corporate tax cuts; 2) many of the benefits will leak out to out-of-province owners of companies, 3) lower and middle income New Brunswickers won't gain if they have investment income coming from elsewhere.

The calculations are based on pre-tax corporate profits at the same rate that they have been in the province for the last two years: $2.7 billion a year. Calculations suggest that approximately 40% of New Brunswick's corporate income is taxed at the small business rate, with about 60% taxed at the 13% rate. The calculations of the impact are based on the mid-point Option 2 (cutting corporate taxes to 7%), which would involve an estimated annual revenue loss of $97 million in corporate income tax revenues at current rates of corporate profits. This again is a low estimate: if corporate profits in New Brunswick increase at the same rate that they have over the past decade (+8.6% a year), they would be 64% higher in 2013. These revenue losses – and the inequity of their impact – would also be at least 64% higher, other factors remaining the same. If the big business income tax rate were cut to 5% (Option 3), the cost and the benefits would be about 33% higher. If the tax rate were cut to 10% (Option 1) then the impact would be approximately half this.

Carbon taxes: CUPE has analyzed the impact of proposed carbon taxes and credit schemes for different household income groups at both the national level for the *Alternative Federal Budget* and at the provincial level for British Columbia. We've extended this analysis using B.C.'s model to New Brunswick, using household spending, energy use, and fuel price information for New Brunswick. The carbon tax would be based on consumption quantities, so these have not been adjusted for inflation. A summary of this analysis is being published in a separate document. These impacts include both the cost of direct fuel use and an estimate of the additional indirect price increases that would result from a carbon tax on domestic goods, based on calculations from Statistics Canada. These additional indirect costs do not include the impact of internationally imported goods and have been reduced by 20% to account for interprovincial imports, which account for 20% of New Brunswick's domestic demand. As is suggested in the government's discussion paper, it is assumed that the proposed *New Brunswick Climate Change Credit* would replace the existing Home Energy Assistance Program (HEAP). As is planned in B.C., it is assumed that the amounts for this credit would increase in value by 5% a year and that the threshold would increase by the rate of inflation (or an estimated average of 2% a year).
The results are presented for a carbon tax of $30 per tonne CO_2e, which would occur in 2013 when the government proposed tax changes would be fully implemented. These calculations do not include the cascading additional impact of sales taxes (or increases in sales taxes) on top of the higher costs for fuels, goods and services.

The government's discussion paper provides no analysis of what impact the proposed carbon taxes would have on the province's greenhouse gas emissions. This does not appear to be a primary consideration, as no mention is made of using some of the revenues raised through the tax for environmental purposes. In fact, to the degree that households with higher incomes emit more greenhouse gas emissions and leave a larger environmental footprint than low income households, the overall impact of these proposals could very well be negative for the environment, increasing New Brunswick's greenhouse gas emissions. In economic terminology, while the average elasticity of demand for motor fuel in relation to its price is about -0.25 in the short-term and -0.64 in the long-term, the elasticity of demand in relation to income is 0.39 in the short-term and 1.08 in the long-term[20]. Using these elasticity figures and emission factors for gasoline, the price impact would only reduce New Brunswick's GHG emissions, which have grown by about 2% a year, by about 0.04 megatonnes GHG in the short-term and about 0.1 megatonnes in the long-term. This amounts to 0.2% to 0.5% of the province's annual GHG emissions. This could be counter-balanced by increased emissions as a result of the income effect.

[20] Goodwin et al. 2004. *Elasticities of Road Traffic and Fuel Consumption with Respect to Price and Income: A Review*. Transport Reviews, *Vol. 24, No. 3, 275–292, May 2004*. http://www2.cege.ucl.ac.uk/cts/tsu/papers/transprev243.pdf

Sales Tax: It is especially disturbing that the government has not provided information about the impact of the proposed sales tax increase from its citizens (and then described a 25% hike in the provincial sales tax that will increase taxes by an estimated $250 million a year as "modest"), particularly since estimates of this are readily available in the 2008 Federal Budget in their calculations of the impact of the 2% cut in the GST by income. Table 3.3 on page 90 of the federal Budget Plan 2008 shows these impacts by family income level. Since the GST cut is the sales tax that the discussion paper says the government is proposing to "restore", these calculations are directly applicable to New Brunswick's proposals. These impacts are also consistent with estimates derived using spending levels from the *Survey of Household Spending*. The tax savings are calibrated to different income levels using averages between these ranges. A portion of the HST increase would fall on out-of-province visitors and so would provide increased revenues but would not have a direct impact on New Brunswick families. Another portion would be paid by non-profit and public organizations, such as municipal governments, hospitals and schools that wouldn't be able to gain input tax credits from all the increased HST they have to pay. This would lead to increased costs and cutbacks in other areas. These calculations assume that about $200 million of the impact falls directly on households, 20% less than the $250 million extra revenue the government that they would raise from this sales tax increase.

Property Taxes: The impacts of the property tax options being considered are not straightforward as they could lead to reduced provincial services, reduced local government services, and /or increases in municipal property taxes. The impacts are bound to be regressive, but it is not clear what the actual indirect consequences will be. The effect of these have not been included in the table and charts, but they would add to the magnitude and regressivity of the impacts.

Revenue Losses – Impact on Public Services: Tax cuts will lead to revenue losses which will subsequently mean less funding for public services. The discussion paper estimates that the personal and corporate income tax cuts would mean a revenue loss of $400 - $500 million when fully phased in and that the HST and carbon taxes would raise about $350 million. This would mean an overall revenue loss of $50 - $150 million from these measures alone. However, analysis of the impact of these measures suggests that the overall revenue loss is likely to be considerably more and could be closer to $250 million. In addition, our analysis suggests that the proposed reduction to provincial non-residential property taxes would lead to a further revenue loss of about $60 million. The discussion paper says this revenue shortfall could be achieved by finding greater efficiencies in the delivery of public services. Public sector workers continually work to increase their efficiency and so it is misleading to suggest that this loss of revenue could be achieved without reducing the level of what public services would otherwise be. A groundbreaking new study is estimating the benefits that public spending programs provide to Canadians in different income groups at the federal, provincial and local government level. The estimates from this analysis (to be published by the Canadian Centre for Policy Alternatives) have been used to estimate the monetary value of the benefits that New Brunswick households of different income groups would lose from a $150 million cut (upper end of the government's estimates) to public services in the province. New Brunswick's provincial public spending per person was 6% higher than the national average in 2004 and so the value of the provincial benefits are also likely to be higher; nevertheless the national average figures were used. The per capita benefits of this public spending are expected to increase in line with the level of public spending.

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