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Journals

(Unrevised)

Legislative Assembly

Province of New Brunswick

Hon. Herménégilde Chiasson
Lieutenant-Governor

Speaker: Hon. Roy Boudreau

Friday, December 12, 2008

Third Session of the 56th Legislative Assembly
Fredericton, New Brunswick

Friday, December 12, 2008.

10 o'clock a.m.

Prayers.

Mr. MacIntyre from the Select Committee on Tax Review, presented the Final Report of the Committee, which was read and is as follows:

December 12, 2008.

To the Honourable
The Legislative Assembly of
The Province of New Brunswick

Mr. Speaker:

I have the pleasure to present herewith the Final Report of the Select Committee on Tax Review entitled "Building a Better Tax System." The report is the result of your Committee's deliberations on tax reform in the province. Your Committee was given the task of conducting public consultation on the New Brunswick tax system and reporting to the Legislative Assembly with recommendations.

On behalf of the Committee, I wish to thank the presenters who appeared at the public hearings and those individuals and groups who submitted written briefs. In addition, I would like to express my appreciation to the members of the Committee for their contribution in carrying out our mandate.

Respectfully submitted,

Roly MacIntyre, MLA.
Chair.

Ordered that the Report be received.

The full report of the Committee as presented follows:

Introduction

On June 4, 2008, the Minister of Finance, Hon. Victor Boudreau, tabled in the Legislative Assembly a document entitled "A Discussion Paper on New Brunswick's Tax System," which provided a variety of options to reform the tax system in the province. In order to seek the input of the public on the proposed options, the Legislative Assembly appointed a Select Committee on Tax Review to conduct public consultation. Input was sought from all New Brunswickers.

The options were proposed for the purpose of restructuring New Brunswick's tax system in order to leave more hard-earned dollars in the pockets of New Brunswickers, attract investment, and encourage job creation. Any changes to the tax system would be introduced gradually, in a fiscally neutral manner, over a five-year period.

Public hearings took place in nine locations touching all regions of the province (Edmundston, Campbellton, Bathurst, Caraquet, Miramichi, Moncton, Saint John, Fredericton (twice) and Woodstock) in June and July of 2008. The Committee made every effort to hear from as many New Brunswickers as possible, including conducting an additional public hearing in Fredericton, and extending the deadline for written submissions by several weeks. Some respondents, however, suggested that the process did not provide sufficient preparation time and questioned the appropriateness of conducting the public hearings during the summer months. The Committee heard 97 presentations during the public hearings and received 172 written submissions.

This process offered the public an opportunity to provide input to the Committee on a variety of tax-related issues. A number of areas of concern emerged from the public consultation, which are grouped under six main headings:

1. Reducing and Simplifying Personal Income Tax;
2. New Brunswick Families and Taxation;
3. Tax Structure for Business;
4. Carbon Tax;
5. Harmonized Sales Tax; and
6. Property Taxes.

This report limits itself to those issues that were presented in the discussion paper and most often raised during the public hearings and in the written submissions received by the Committee. The intent was to produce a final report that reflects the ideas and suggestions of New Brunswickers for reforming the tax system, based on the options presented in the discussion paper.

Goals for Restructuring the Tax System

As stated in the discussion paper, the options for a restructured tax system focus on achieving seven key policy goals:

1. Enhancing Economic Competitiveness: To achieve self-sufficiency, New Brunswick must have a preferred tax system within Canada and be more competitive internationally.

2. Income Growth: Reform of New Brunswick's tax system must enable New Brunswickers to keep more of their hard-earned money. This would put spending decisions back into taxpayers' hands and encourage them to earn, save, invest and generate wealth for themselves and their families.

3. Making New Brunswick a More Attractive Option for Workers and Families: Growing the economy and standard of living requires the population to grow well above current estimates within the next 20 years. Tax policies that support New Brunswick's Population Growth Strategy encourage economic growth with better-paying, high-skilled jobs, support families and the acquisition of new skills that will help keep the next generation of New Brunswickers at home to contribute their talents to the province's drive toward self-sufficiency.

4. Promoting Recruitment and Retention of Skilled Workers: New Brunswick needs to create thousands of new high-skill and high-wage jobs and attract the people to fill them. Workers in these fields are at a tax disadvantage under New Brunswick's current tax regime: a skilled worker earning $60,000 per year pays more personal income tax here than in all provinces except Québec. At higher levels, the tax gap is significant: a skilled worker making $100,000 per year in New Brunswick pays approximately $4,000 per year more in personal income taxes than a similarly paid worker in British Columbia and Alberta.

5. Promoting Entrepreneurship: Small businesses play an important role in New Brunswick's economy. A tax system that provides all businesses with an incentive to grow and create jobs would help move New Brunswick toward its self-sufficiency goals.

6. Promoting Environmentally Sustainable Choices: Protecting the planet from the impact of climate change is a global issue, but local actions can make a difference. New Brunswick's Climate Change Action Plan sets out the province's course for reducing greenhouse gas emissions. Tax policy can encourage individuals and businesses to make more environmentally friendly choices in their daily lives.

7. Ensuring Fiscally Responsible Budgeting: As New Brunswick's self-sufficiency plan unfolds, the province's population will grow and its economy will expand, generating more income for New Brunswickers and increased tax revenues for the province. New Brunswick will ensure that it continues to manage the province's finances in a prudent and fiscally responsible manner, meeting its obligations to balance budgets while maintaining important public services, including health care, education, social services and public infrastructure.

Executive Summary

The Select Committee on Tax Review, an all-party committee of the Legislative Assembly, was charged with examining and reporting to the House the results of its public consultation on taxation. Through the public consultation process, the benefits and disadvantages of the current tax system and proposed options for reform were addressed by individuals, organizations and stakeholders. Particular interest was paid to the concerns of individual New Brunswick residents; families; non-profit organizations; small and large businesses related to transportation, tourism, forestry, food and beverages, and film production; municipalities; local service districts; unions; property owners; landlords; tenants; and consumer and environmental groups. All positions and suggestions that emerged from the consultation process were considered.

Many respondents applauded the Committee's mandate and the bold opportunity for all New Brunswickers to make their voices heard. The hearings provided a forum to debate the merits of different types of taxation. As might be anticipated, there was broad support for tax reductions, less support for measures to raise new revenue via the Harmonized Sales Tax (HST) and the introduction of a carbon tax. However, some respondents did support the proposal to shift taxation from income to consumption as a practical way for people to earn more while taxing a small percentage of what they spend. There was a recognition that any changes to the tax system must be balanced to allow the government to operate in a fiscally responsible manner.

Some respondents expressed the opinion that a flat income tax was an appropriate departure from the status quo. Others said that a flat tax favoured higher-income individuals and was much less generous to those at the low and middle-income levels. There was a consensus that tax structures and administration should be simplified.

The majority of participants approved tax reforms supporting families, such as the $400 child tax credit and new universal child care benefit of $600 for children under the age of six, and encouraged further investment in day care programs and pay equity reforms.

The corporate business community was strongly supportive of corporate tax reductions, and several presenters called for much lower rates, even no rates, in order to take a leadership role on this strategy and attract business investment in a global marketplace. Many respondents also supported the reduction as a means to reduce or eliminate the gap between the general corporate tax rate and small business tax rate.

The carbon tax proposal was considered to be well-intentioned but poorly timed, requiring further analysis. It was strongly opposed by the transportation sector and people living in rural areas who depend on vehicles and have longer commutes. Some environmentalists questioned the effectiveness of a carbon tax, but they supported incentives for clean energy technology and sanctions against polluters.

Some business participants acknowledged that the HST was an established tax and suggested that it could be raised to offset reductions in income and corporate taxes without causing significant strain on the economy. Inversely, retailers and representatives of the tourism and restaurant industries suggested cross border shopping would escalate following increases in consumption taxes. Seniors and low-income earners warned that any increase in the HST on top of escalating food and energy prices, could compromise their quality of life.

In the realm of property taxes, solutions were supported for eliminating the differential tax treatment of residential and non-residential properties and for a balanced allocation of the 65¢ per $100 of assessment in local service districts (LSDs). This measure would address land-use taxation outside of incorporated municipalities. Representatives of municipalities submitted they often carry the burden of providing recreation and other services at a higher tax rate. Representatives of LSDs argued that they provide their own services such as water and sewerage, police and fire protection and face higher insurance rates.

Property owners and their representatives offered to work with government to ensure that savings from any tax reductions on non-owner occupied residential properties would be allocated to tenants or towards property renovations.

Respondents unanimously agreed that it was time to take a serious look at tax reform and take bold actions while ensuring fair and just treatment of all residents. Tax reform was seen as a means to an end – that of building a stronger economy that retains our young people and provides increased economic opportunity for our residents – and not an end in itself.

While there was opposition to aspects of the discussion paper, there was a general acceptance that the greater parts of the proposals are sound, if they will reduce reliance on income tax and raise offsetting revenue through an increase in consumption taxes. Respondents agreed that this offers New Brunswickers more freedom to decide how to spend or invest. It was also suggested that the current tax reform proposals be enhanced, actively promoted with all stakeholders, and evaluated on an ongoing basis. A summary of the findings and recommendations of the Committee follows.

I. Reducing and Simplifying Personal Income Tax

As stated in the discussion paper, the options to reduce personal income tax are designed to keep more money in the pockets of all New Brunswickers. These options can also make the province more attractive to investment, better paying jobs and to highly skilled labour. Replacing an existing four-rate, four-bracket structure with a simplified tax design would reduce tax at all income levels and ensure New Brunswickers can keep even more of their hard-earned dollars to save and invest. The options should create a simpler personal income tax system that is highly supportive of economic growth and job creation than the current system allows. Here are the options discussed with New Brunswickers:

Option 1: A flat tax option would reduce the number of brackets from four to one with one marginal tax rate of 10% for all taxable income levels. It would maintain a progressive tax structure, since tax paid as a percentage of income would increase as income increases. A 10% single tax rate would give New Brunswick one of the lowest overall personal income tax rates in Canada, on par with the rate levied in Alberta. This option would include an increased non-refundable basic personal amount of $12,000 for individuals with taxable incomes below $35,000. The tax benefit of the basic personal amount would be reduced by 3% of taxable income in excess of $35,000 and would be fully phased-out at $75,000. The spousal amount under this option would be increased to $12,000, and the tax benefit of the combined personal and spousal amounts would be fully phased-out at $115,000. The low income tax reduction would remain in place, but it would be phased out at 3% instead of 5% which would improve the marginal effective tax rate for low-income earners. A single-earner income family with two children earning $40,000 would pay $1,801 less in personal income taxes, a reduction of 72% under the flat tax option compared to the current tax structure.

Option 2: This option would replace the existing four-rate, four-bracket personal income tax structure with two rates and two brackets. Under this option, the two rates would be 9% and 12%, with the 12% rate starting at $35,000 of taxable income. The low-income tax reduction would remain in place, but it would be phased out at 3% instead of 5% which would improve the marginal effective tax rate for low income earners. A single-earner with taxable income of $25,000 would pay $326 less, a reduction of almost 22%, under the two-rate option compared to the current system.

Summary of Findings

Many respondents were of the opinion that New Brunswickers pay more taxes under the current tax system, compared with most other provinces in Canada, and welcomed the opportunity to provide input on the options presented in the discussion paper. The Committee heard that a flat tax, or two-rate system, represents a more effective tax structure than our current system. Given that both options would result in lower personal income taxes for many New Brunswickers, respondents were generally in favour of the options for a new tax structure. Some respondents, however, stated that a flat tax, or two-rate system, is moving New Brunswick away from a fair system and, combined with any increase to the HST, could worsen the inequality of after-tax incomes and result in significant net tax decreases for the most affluent.

Those in favour of the options were of the belief that these options would give individuals more control over their spending and investing and improve the economic status of the province. In addition, respondents suggested that lower personal income tax rates should be an incentive for people to remain in, or return to, New Brunswick. Some participants, however, suggested that higher wages, not tax incentives, would allow the province to retain more working people, such as doctors, nurses and teachers. One participant noted that if New Brunswick implements the tax changes proposed in the discussion paper, the province would have the most progressive tax regime in Canada, even better than Alberta, which would provide work, keep young people at home and may even bring new workers to New Brunswick.

The Committee heard from presenters who were in favour of a simplified tax system because each taxpayer should be able to complete their tax forms without having to hire an expert. An industry association strongly supported a simpler system targeted to attract skilled workers.

Some respondents supported the flat tax option in the belief that it is equitable and equal and still maintains a progressive tax structure. It was submitted that a single tax rate is a truly progressive tax as one pays more in absolute dollars as income increases, and it is truly equal as the percentage remitted to the government is the same for everyone. A point expressed during several public hearings was that a flat tax would offer everyone the same tax percentage, and this would discourage people from trying to find loopholes to save money. The Committee was also encouraged to create a true single personal income tax rate by removing what was described as the stealth high income surtax.

One economist suggested a "true" flat tax on all forms of personal income, not just employment, and supported a raise in the basic personal exemption. Another respondent suggested that setting the basic exemption at a rate that is close to representing a basic living income and then taxing all additional income at a flat rate would generate sufficient revenues to the province. This would be progressive and simple, and a rate of 10% was preferred; if not, then 12% was not unreasonable.

Some respondents questioned whether a flat tax was truly progressive as it seemed to favour higher-income earners over middle- and lower-income earners. It was submitted that a flat tax would be less beneficial to lower-income earners and, therefore, a two-rate personal income tax system and an increase in the low-income threshold were recommended. The Committee was advised that two-tier rates of 9% below $35,000, and 12% on income greater than $35,000 would make New Brunswick an attractive province to earn income, and be more palatable with low- and middle-income earners. Other respondents, however, supported a lower rate for the first tier.

Some respondents advocated going beyond what is proposed for the tax reduction. One submission suggested the Committee develop a strategy to attract people to New Brunswick who do not have to reside where they work, such as authors, consultants, freelance writers, and e-lance developers, by making New Brunswick the only province with no provincial income tax. This would additionally attract people of independent means and retired people looking to retain more of their pension income.

Representatives of the restaurant sector strongly supported a new tax structure. While a particular option was not specified, it was conveyed that every increase in savings for consumers benefits restaurant sales. Another business representative observed that other jurisdictions are watching New Brunswick's tax proposals and are contemplating similar moves. Therefore, it is important for the government to act quickly on tax reform.

Recommendations

The implementation of a flat tax provides the province with the opportunity to depart from the status quo and simplify the administration and structure of our tax system. It was the option favoured by most respondents and would give New Brunswick one of the lowest overall personal income tax rates in Canada. Special consideration for those living in poverty and low-income families must also be part of any new system of taxation. Tables 1 and 2 show the potential tax savings for New Brunswickers, according to the discussion paper.

The Committee therefore recommends that the Government of New Brunswick consider the following:

• implement a 10% single personal income tax rate;

• increase the non-refundable basic personal amount (and spousal amount) to $12,000 for taxable income below $35,000;

• continue to raise basic personal exemptions to assist in fighting poverty and increasing the incentive to work.

Table 1: Provincial Income Tax Payable

Flat Tax for Single Filer

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

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

Table 2: Provincial Income Tax Payable

Flat Tax for One-Earner Family with Two Children

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

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

II. New Brunswick Families and Taxation

The tax system can do much to promote a family-friendly New Brunswick by providing tax advantages to help offset the cost of raising and educating children. New Brunswick provides benefits to families primarily through three refundable tax credits: the New Brunswick Child Tax Benefit, the New Brunswick Working Income Supplement and the New Brunswick Low Income Seniors' Benefit. To make New Brunswick an even more family-friendly province, the discussion paper presents three further options to be considered.

The first option would be the introduction of a new non-refundable child tax credit. This would reduce personal income tax payable by up to $400 per child and would be available to all families, regardless of income level.

The second option would be a New Brunswick Universal Child Care Benefit of $50 per month ($600 annually) for each child under the age of six. The provincial benefit would be equal to half the current federal amount of $1,200, increasing the total contribution to $1,800. This amount would be provided on the same basis as the existing federal benefit, and would be provided to all families, regardless of their income level.

The third option involves supporting the federal government's introduction of a Tax-Free Savings Account (TFSA) and ensuring that income earned in a TFSA will not impact provincial income-tested tax benefits.

Summary of Findings

Participants who indicated they were familiar with the options presented in the discussion paper strongly approved the non-refundable child tax credit and Universal Child Care Benefit. One presenter considered the proposed child care benefit to be very positive for middle- and low-income families. In addition, a chamber of commerce supported the establishment of Tax-Free Saving Accounts, as well as other tax reductions that reduce the financial burden confronting families.

Some respondents, however, suggested using the funds for the proposed Universal Child Care Benefit to create publicly funded child care facilities in New Brunswick, which would be accessible preferentially to low-income families. It was submitted that New Brunswick needs more day care spaces, especially for children under the age of two, as there are long waiting lists. This was seen as a major obstacle in attracting and retaining younger parents in the province. One presenter recommended provincial support for tax reforms benefiting those who establish and operate day care services. Another presenter concurred, suggesting funding public day care would help the overall growth of the province.

One respondent submitted that recreation should be included in the tax reforms. Suggestions included paying more tax to support activities and sports for children and reduce time spent on computers and other non-recreational activities. It was submitted that children will be paying society's future taxes and will need to be healthy.

One respondent suggested that if the government wanted to help families, it would increase the minimum wage to correspond with the cost of living. In addition, it was suggested that social assistance payments should be increased to help low-income families in the province. One respondent urged the government to offer tax benefits that would assist a region where there had been loss of employment, such as plant closures.

The New Brunswick Coalition for Pay Equity stated that the proposed tax reforms must consider the wage gap between men and women. The presenter suggested the government form a commission on pay equity to eliminate the gap. The Committee was advised that pay equity would contribute more to the overall tax base and generate more spending by women and their families.

Several presenters stated that the review of the tax system should provide an opportunity to support the activities of voluntary and non-profit organizations in the province. A number of options to support volunteers were advanced, such as a tax credit for expenses incurred by volunteers in the course of their activities or a general tax credit for individuals who donate a minimum number of hours to community service.

Many seniors and their representatives appeared before the Committee and expressed the desire that, in addition to the Low Income Seniors' Benefit, the province should provide more tax benefits to seniors. This suggestion was echoed by the New Brunswick Senior Citizens' Federation, which recommended a credit for income tax reductions as seniors generally do not pay personal income tax once retired. The Federation also asked the Committee to consider increasing the low income threshold. It was also noted that seniors in rural areas would be impacted by any proposed increases in consumption taxes, and a senior presenter also emphasized that funeral services should not be taxed.

The New Brunswick Securities Commission submitted that a significant issue impeding the growth of the New Brunswick economy is that the majority of retirement investments made by New Brunswick families do not remain in this province. As a result, the Commission urged the government to take action through taxation policy and other programs to help reduce this flight of capital in order to stimulate economic growth.

Recommendations

One of the goals of restructuring the tax system is to make the province more attractive to families. The implementation of a non-refundable child tax credit and a New Brunswick Universal Child Care Benefit is a step in the right direction towards achieving this goal. Support should also be given towards the introduction of Tax Free Savings Accounts and consideration should be given towards increasing the number of day care spaces for children under the age of two.

The Committee therefore recommends that the Government of New Brunswick consider the following:

• implement a non-refundable child tax credit to reduce personal income tax payable by up to $400 per child;

• implement a New Brunswick Universal Child Care Benefit of $600 annually per child under the age of six;

• support the introduction of a Tax-Free Savings Account;

• increase the number of day care spaces, especially for children under the age of two.

III. Tax Structure for Business

Jurisdictions around the world have discovered that in designing business taxes, there needs to be a balance between the revenues generated and the need for the economic stimulus created by business investment and growth. Other things being equal, businesses will move to the location with the most advantageous tax regime. To encourage economic growth, direct taxes on business must also strive to be neutral with respect to all sectors of the economy and firm size.

Reducing the general corporate income tax rate from the current 13% rate to a rate that is closer to the small business rate of 5% would provide a greater incentive for businesses to grow and be successful, and would also simplify New Brunswick's corporate tax structure. As it phases in the general corporate income tax rate reductions, the province may consider phasing out existing tax credits targeted at specific industries or sectors of the economy, and potentially developing tax policies and incentives that are broad-based and general in application.

Currently, the province's 13% rate, when combined with the federal corporate income tax rate of 19.5%, gives a total corporate income tax rate in New Brunswick of 32.5%, one of the highest in Canada. The federal government has pledged to reduce its corporate tax rate to 15% over the coming four years. It has challenged the provinces to drop their general corporate rate to 10%. Here are the options discussed with New Brunswickers:

Option 1 would reduce the general corporate rate from 13% to 10%, thereby meeting the federal challenge. New Brunswick's combined rate (25%) would then equal Alberta's. However, other provinces may match this reduction, leaving New Brunswick without a competitive advantage. In addition, this rate, although reduced, still leaves a five percentage point gap between the general corporate income tax rate and the small business rate, which may be a disincentive to growth for small business.

Option 2 would reduce the general corporate rate to 7%, leaving only a two percentage point gap between the general and small business corporate income tax rates. This would surpass the federal government's challenge and would make New Brunswick more attractive for businesses to locate, invest and grow.

Option 3 would reduce the general corporate income tax rate to 5%, eliminating the tax differential between large and small businesses.

New Brunswick would be highly competitive on a global scale as a location for Canadian and international businesses to invest and grow.

Summary of Findings

The proposed corporate tax options were received very positively by corporate sector respondents, who submitted that the proposed reforms would send a strong message across the country that New Brunswick is open for business. Many presenters emphasized that New Brunswick needs to attract more skilled workers and better paying jobs, as labour and capital were observed to be very mobile. It was also submitted that the province's future depends on its ability to competitively attract entrepreneurs and existing businesses in Canada and on a global scale. Federal and provincial corporate income tax policies were seen as the two most crucial issues in the investment climate.

In contrast, some respondents suggested that tax rates have little effect in attracting business to a certain jurisdiction. One presenter stated that New Brunswick's low cost of living, combined with its quality services and strong work ethic, is what attracts people and businesses to New Brunswick, not lower taxes. Another presenter submitted that New Brunswick would be less competitive with the corporate tax proposals and questioned why profitable companies, such as those in the insurance industry, should receive a tax break at the expense of individual taxpayers.

A few participants cited Ireland as a leader in tax reform following its decision several years ago to decrease its business taxes from the highest in the European Union to one of the lowest, which generated new investment, growth, jobs and additional revenue. Some participants, however, viewed Ireland as the beneficiary of multiple economic successes, including membership in the European Union, and claimed corporate tax rates have had little effect on business relocation.

Most of the respondents who were in favour of the corporate tax reductions were of the belief that Option 1, a tax rate of 10%, was insufficient to make a real difference as most provinces would be inclined to do the same. Options 2 and 3 were characterized as more bold and were preferred by those in favour of the reductions, although one presenter recommended eliminating corporate income tax altogether, arguing the present need for corporate growth greatly outweighs the need for income tax.

Some representatives from small businesses suggested they should receive the tax reductions, as the lower corporate tax rates will not assist small businesses grow to the size where they will pay corporate income tax. The Committee often heard that the economy is driven by the vast amount of small businesses in existence, not the few large companies. As such, it was suggested that small businesses should receive the tax reduction, perhaps even to a rate as low as 0%, as the cost to the province would not be substantial. Another suggestion to assist small businesses was a review of fees associated with licences and permits. Other presenters suggested both corporate and small business tax rates should be reduced.

The Committee heard several presenters speak on the idea of phasing out existing tax credits that are targeted at specific industries or sectors of the economy and potentially developing tax policies and incentives that are broad-based and general in application. Specifically, the New Brunswick Securities Commission submitted that tax incentives to assist young companies develop and bring their product or service to market are more vital then decreased corporate tax rates. Reductions in corporate income tax rates are important for established, profitable companies, but they play a secondary role to the founder or investor in an early-stage growth company. The Commission recommended focusing and enhancing the tax based incentive programs for early-stage companies in order to enhance New Brunswick's competitiveness, grow income and foster entrepreneurship. Two important examples of tax incentive programs discussed in this submission were the Small Business Investor Tax Credit and the Scientific Research and Experimental Development Investment Tax Credit. The Commission believed the programs are crucial to start-up and early-stage companies that rely on innovation as their path to success.

Some respondents recommended special incentives toward literacy, labour, skill upgrading and apprentice programs. One incentive suggestion was a tax credit for developing businesses outside of the triangle of Saint John, Moncton and Fredericton. Another submission suggested that New Brunswick's dividend tax credit for earnings for small businesses is so low that it is worth moving to another province.

A few specific industries commented on the tax credits that most affect their businesses. One group of presenters encouraged local venture capital investment in order to further investment in the province. They suggested the government make changes to the Labour Sponsored Venture Capital Program by increasing the provincial tax credit from 15% to 20% and increasing eligible annual investment limits from $5,000 to $10,000. It was submitted that this would attract more investment and the availability of venture capital for New Brunswick companies. Tax credits were seen as effective in attracting investors at the start-up phase.

Other presenters requested a commitment to enhance the New Brunswick Film Tax Credit by removing the cap at 50% of the total production cost, as previously recommended by Business New Brunswick. The credit effectively covers 20% of project budgets; however, up to 35% of costs are covered in other provinces such as British Columbia, Quebec, Ontario and Nova Scotia. Increasing coverage from 20% to 35% would offer New Brunswick a significant advantage and would attract the workforce described in the province's population growth strategy. The Committee was told reinvestment from the tax credit is often spent locally and is used to hire crew and acquire products and materials, noting that spin-off from a film in Fredericton was estimated at $4 million and led to other productions. One presenter stated the tax credit was competitive when it started in 1996, especially when combined with an equity investment program and an innovative training program; however, during a six-month freeze in 2003, production dropped off 55% that year.

Representatives of the trucking industry requested tax reductions and expressed that their industry currently receives little or no government support despite its strong presence in the province. The Committee was advised that equipment costs are rising and environmental requirements include surcharges for green trucks. New technology actually consumes more fuel (low sulphur), and aerodynamic accessories for vehicles are costly. In 2010 trucks will face tighter regulations. The presenter suggested the existing tire levee tax only benefits government and pointed out that all-terrain and other recreational vehicles are not taxed the same as trucking companies. The presenter urged the Committee to focus on retention of businesses rather than attracting new ones.

Countering the above opinions, a presenter submitted that lowering taxes for some sectors and raising them for others is not efficient or equitable and agreed with developing tax policies and incentives that are broad-based and general in application.

Recommendations

A corporate income tax reduction provides direct assistance to companies and sends the message to investors that New Brunswick is open for business. Reducing the current general corporate tax rate by three percentage points (13% to 10%) would meet the federal government's challenge and give New Brunswick a rate equal to Alberta's, which currently has the lowest provincial general corporate income tax rate in Canada. However, as noted by many respondents, this initiative may soon be matched by other provinces, eliminating any advantage to New Brunswick. This modest reduction also leaves a five percentage point gap between the general corporate income tax rate and small business corporate income tax rate.

The Committee therefore recommends that the Government of New Brunswick consider the following:

- **exceed the 10% target and, if fiscally possible, introduce a 5% general corporate income tax rate, equal to the small business rate.**

The Committee also wishes to address the issues surrounding the New Brunswick Film Tax Credit Program. The New Brunswick Film Tax Credit does not appear to be competitive with other provinces. The growing film and animation industry employs well paid, highly skilled individuals in New Brunswick, and the tax credit is crucial to the viability of the industry in the province. In addition, the renewal of the program on a year-to-year basis is having a negative impact on the predictability of funding for the industry. The program expires December 31, 2008.

The Committee therefore recommends that the Government of New Brunswick consider the following:

- **make a long term decision on supporting the film and animation industry and remove the 50% cap.**

IV. Carbon Tax

The provincial Climate Change Action Plan committed significant reductions in greenhouse gas emissions. This will require changes in the way New Brunswickers live, moving away from the fuels that contribute to global warming. One potential method of changing consumer and corporate behaviour and encouraging more environmentally friendly choices is through taxation, by taxing the carbon content of fuels that contribute to global warming. The funds raised from this tax could help support environmental initiatives and help finance reductions in personal and corporate income taxes.

A carbon tax – imposing a fee on each unit of carbon equivalent emissions from a fuel or energy source, such as heating oil, gasoline, diesel, propane, natural gas or coal – would be a new direction for this province. New Brunswick could consider implementing a carbon tax based on the British Columbia or Québec models. The British Columbia model places a tax on all forms of carbon or carbon-equivalent emissions, phased in gradually over several years, with a reimbursement credit to offset the impact of this tax on low-income New Brunswickers.

Like the British Columbia credit, a New Brunswick Climate Change Tax Credit would be paid to those receiving the existing federal GST credit and be included with the quarterly federal credit payment.

By introducing an automatic credit, the province would ensure that all low-income New Brunswickers receive financial assistance with respect to fuel costs. New Brunswick's carbon tax would support Climate Change Action Plan initiatives and help fund reductions to personal and corporate income taxes, allowing the overall tax changes to be fiscally neutral.

Summary of Findings

A number of industry representatives submitted input to the Committee on the implications of a carbon tax. The New Brunswick Business Council stated at the hearings that the proposed carbon tax may be a good idea, but at the wrong time. The Council presented the generally held opinion that a carbon tax would leave the province in a non-competitive position and submitted that manufacturers have already been adversely affected by energy prices and a rising Canadian dollar that weakens export sales. The proposal was widely criticized by other industry representatives as a potential death-blow for industries reliant on heavy fossil fuel consumption.

Many industry representatives suggested that NB Power would need to pass on carbon tax costs to customers as the provincial electricity utility generates approximately 5.7 million tonnes of greenhouse gases - the highest emissions of any single corporation in New Brunswick. A theme from corporate participants was the fact that escalating energy costs were affecting local businesses. A representative from the restaurant sector estimated that restaurants use five times the amount of energy compared with average retail space, and would be greatly affected by a carbon tax.

Representatives from the trucking industry submitted the introduction of a carbon tax could place trucking companies at a distinct disadvantage and be detrimental to their survival. It was submitted that fuel costs have risen substantially, making it the single largest expense, even exceeding labour. The Committee was advised that New Brunswick is home to three of Canada's ten largest trucking firms. Carleton and Victoria counties have the largest number of trucking companies per capita in North America. It was submitted that the implementation of a carbon tax would increase the cost of transportation on an industry operating on a 3% profit margin.

One participant submitted that a carbon tax would negatively impact the forestry sector, as the need to decrease emissions may result in the closure of more mills.

A number of non-industry representatives also criticized the carbon tax proposal, characterizing it as a tax grab. The Conservation Council of New Brunswick described the carbon tax as a tax designed to generate revenues and not change environmental habits. One respondent was concerned about the already rising costs of energy, its effect on consumers as well as production and distribution methods.

The Committee was asked to consider the tax implications for citizens in predominantly rural areas, particularly on fuel costs. Extensive commute time and expenses are incurred in these regions and it was suggested that reforms should offer tax relief in these circumstances.

Some presenters submitted a carbon tax would be another incentive for American tourists to stay home and increase the number of New Brunswickers who purchase gas on the American side of the border. Another respondent suggested that driving a vehicle is now a luxury, which has drastically reduced the ability to market and promote a business.

Seniors were particularly concerned about the impact of a carbon tax. One presenter advised the Committee of an elderly parent who pays $305 for home heating oil every month and any new taxes on top of that may prevent the parent from remaining in the home. It should be noted that only a few presenters commented on the New Brunswick Climate Change Tax Credit as a way to defray the cost of a carbon tax measure on lower-income New Brunswickers.

Several respondents were concerned that the revenue from a carbon tax would not be specifically used for environmental issues, and when combined with HST on energy consumption, would be too onerous for people to afford. Similar respondents questioned the validity of the revenue-neutral model, suspecting that revenue neutrality is from the government's standpoint while expense is from the citizens' perspective. One submission stated that any serious proposal for a carbon tax should require a detailed analysis prior to implementation.

Instead of a carbon tax, many respondents encouraged stronger incentives for solar, geothermal and wind energy projects. Several businesses also encouraged the Committee to increase tax credits and incentives for alternative energy such as the use of biofuels, solar panels, retrofit projects and decreased greenhouse gas emissions.

Another respondent stated the imposition of a carbon tax is not the correct direction and demonstrates the government's inability to confront or control multinational corporations, suggesting it was easier to convince the electorate that there is a problem and appeal to its environmental sensitivity, rather than change the practices of powerful multinational companies. The respondent noted that companies that extract oil and refine the same are enjoying huge profits. The presenter urged the government to redirect its tax revenue in order to finance tidal power and other clean methods of energy production. These energy forms could be perfected and constructed on a massive scale, allowing New Brunswick to become a leader in this area.

It should be noted that one presentation to the Committee supported a controversial view that there is simply no climate crisis. It was submitted that carbon dioxide (CO_2) has a negligible effect on the climate or climate program, thus a carbon tax would not accomplish anything other than having an adverse effect on the economy.

While the Committee received many negative comments on the carbon tax proposal, there were presenters who welcomed the initiative. Some stated a carbon tax would help make the economy more efficient and innovative, and should be treated differently from other taxes as it represents an opportunity to transform the economy rather than simply be a mechanism for government to collect revenue. Others also admired the carbon tax as innovative but suggested that it required further analysis to ensure its implementation benefited the environment more than it punished sectors of the economy.

Some respondents stated that Sweden introduced a carbon tax in 1991 and is now the richest country in Europe per inhabitant. One presenter advised the Committee that New Brunswick needs a better regime than the British Columbia model of carbon tax, which they perceived as a significant cost for municipalities and residents. Another presenter recommended joining Québec and Ontario in a program resembling a cap-and-trade initiative and asked that carbon taxes be imposed at the federal level as well. Another respondent recommended integrating the carbon tax with HST and stated that gasoline is an essential product that people will continue to consume regardless of price increases.

One presenter suggested the carbon tax be linked to a fund for homeowners who are adjusting their structures and businesses to be more energy efficient through solar and geothermal technologies. The presenter also questioned whether by-products from clear cuts were being used for biomass effectively. Similarly, a submission suggested carbon tax revenue should go directly to alternative energy initiatives such as tidal or wind power. It was suggested that biofuel is not a good long-term solution because of the upward pressure it is already having on food costs.

It was suggested that if carbon is taxed in New Brunswick, it should be on large emitters only and all revenue should be directly applied to carbon reducing initiatives. Similarly, another presenter supported the carbon tax and submitted that the richest Canadians have an ecological footprint 2.5 times greater than the poorest of Canadians, so it would be more reasonable to tax this group 2.5 times more. Income retained from upper income earners should be earmarked for immediate use in implementing climate-improvement initiatives. The presenter added that no tax system, however favourable, will compensate for the negative image created by focusing the economy on deforestation, resource exploitation, and dirty energy projects.

Another respondent proposed shifting to a tax system known as Ecological Fiscal Reform (EFR). This system has been used in Europe on such things as packaging and fuel, or even in Canada on cigarettes. EFR encourages the payment of taxes for negative activities, such as those which cause pollution, and subsidies for positive activities, so that economic choices reflect the true cost on both people and the environment.

New Brunswick's Climate Change Action Plan was recognized by a few presenters, but considered by some to be behind other jurisdictions in developing an effective plan for environmental innovation. One presenter noted that electric utilities still operate under a residential rate design in which the more consumed, the cheaper the cost per-kilowatt-hour, which does not appear to encourage energy efficiency.

When discussing the carbon tax proposal, the Committee was also asked to decrease the tax on diesel so the transportation of goods may take place at a competitive cost. Trains were seen as potentially making a resurgence, and many respondents encouraged local production rather than importing at high fuel costs. Other participants suggested increasing licensing fees for leisure crafts, cars and foreign travel. A municipality, which was in favour of the carbon tax, requested that any negative impact on transit users be avoided.

Recommendations

The proposed carbon tax for New Brunswick created the most discussion during the Committee hearings. The consensus was that implementing such a tax could put New Brunswick at a serious competitive disadvantage. New Brunswick needs to be distinguished from provinces that recently introduced a carbon tax (British Columbia and Québec) because of our heavy reliance on fossil fuels for electric power generation. In New Brunswick, 58% of sources of electricity generation would be subject to the carbon tax, while 10% and 1% of electricity sources in British Columbia and Québec, respectively, would be subject to the tax because of their significant hydro generation. In addition, in New Brunswick, at minimum, 75% of foreign exports are produced by energy intensive industries, such as forestry and refining.

That being stated, many presenters agreed that the Government of New Brunswick needs to promote energy conservation and the greater use of renewable energy sources.

The Committee therefore recommends that the Government of New Brunswick consider the following:

• not implement a carbon tax as described in the discussion paper;

• undertake further study on fiscal initiatives to support the provincial Climate Change Action Plan;

• consider measures to support energy conservation and the development of clean technologies, both for consumers and as a new economic sector.

V. Harmonized Sales Tax

The discussion paper proposes that changes to the HST will help achieve a balance so that the tax system actively promotes personal savings, business investment, economic growth and job creation, while putting in place a structure that remains fiscally neutral. The provincial tax system is currently weighted too heavily toward personal and corporate taxes. Rebalancing the tax system toward consumption taxes would be more equitable and reward those who consume less and save more. A low consumption tax benefits those who consume more. The taxpayer would gain more power in their hands to decide how to spend, invest and save.

In order to be able to deliver lower personal and corporate taxes, the discussion paper proposes increasing the provincial portion of the HST by two percentage points from the current 8% to 10%. This would bring the combined HST rate in New Brunswick to the 15% rate that was in effect two years ago.

Summary of Findings

The Committee heard from many respondents on the issue of a two percentage point increase in the HST. Some respondents supported the increase, while others were opposed. Those who were in favour of the proposal submitted that paying the additional tax would not be too onerous given the corresponding reductions in personal income tax and economic growth resulting from the other options presented in the discussion paper.

Several presenters supported the increase in the HST as a means to pay for vital services such as health care and education. It was acknowledged that there would be relatively no cost to set up and administer the marginal increase. One presenter noted that Ireland pays 20-25% for its VAT (Value Added Tax) as part of a taxation mix that includes lower personal and corporate income taxes, thus, a 15% HST should be acceptable. HST was viewed as an efficient and predictable way to generate revenue.

A few presenters commented that paying the same HST rate as two years ago should not be a major budgetary challenge for most people given the short period of time that has elapsed. Some viewed the federal GST reduction as creating tax room for an HST increase. The Committee also heard that even a three percentage point increase to the HST may be acceptable if the reductions to personal income tax take place and tighter controls are placed on government spending.

One presenter, in favour of the increase, suggested the additional HST revenue should be redirected to municipal governments to assist with the provision of services. The need in Saint John for funds to replace wooden water pipes was cited as an example. The presenter concluded that such investments in infrastructure would be strengthened through HST increases.

Some respondents supported the increase but requested certain exemptions. One presenter requested exemptions on the sale of all products grown or manufactured in New Brunswick, accommodations paid for and used by visitors to New Brunswick, and on tangible goods purchased in New Brunswick and exported by visitors. Many other exemptions were requested by presenters and special interest groups.

Those opposed to the tax increase suggested it was merely a tax grab by government. Some respondents submitted that less money is already being spent in the province as consumers are shopping across the border for luxury items and an increase to consumption taxes would intensify this activity.

Many respondents questioned whether the reductions in personal income tax and increases in consumption taxes would be truly revenue neutral. It was suggested that the additional taxes on such things as telephone, heating oil, cable television and everyday household items would outweigh any savings in personal income tax.

Representatives of the restaurant sector expressed the concern that their industry would be at a greater disadvantage compared to the corporate grocery stores, if the corporate income tax reduction and HST increase take effect. Since grocery store items are tax-free, and the same goods in a restaurant would now be taxed at 15%, people may be less inclined to spend their money at a restaurant. In addition, it was submitted that an increase to the HST would reduce disposable income and, as a result, possibly reduce restaurant employment province-wide.

A tourism sector presenter submitted that tourism relies on disposable income spending. Tourists decide where to stay and pay taxes, thus an HST increase would not be competitive with other provinces and would be a deterrent to staying in New Brunswick. It was noted that some provinces have a visitor levee that allows them to develop more products and promotions. It was also predicted by some respondents that an HST increase would put the campground sector in a precarious state.

Municipality representatives noted that a two percentage point increase would in turn increase municipality net HST costs. It was submitted that this transfer of costs from the province to the municipal taxpayer would warrant an HST rebate paid to municipalities.

Some respondents suggested that the combined impact of raising the HST and introducing a carbon tax would be difficult for low-income earners. Others suggested tax credits for low income earners be applied to balance the weight of a consumption tax increase. The Committee often heard that seniors need exemptions from consumption taxes to stay above the poverty line. It was suggested that there should be absolutely no tax for seniors using heating oil.

Several respondents identified other options instead of an HST increase. Government was encouraged to reduce duplication and expenses. Some suggested a further increase on tobacco tax. Other presenters encouraged the Committee to examine tolls on the highway to generate revenue and enhance roads. The respondents cited examples of effective and accepted tolls in other provinces and states. Another presenter submitted that working with other Atlantic provinces in a harmonization of tax and regional efficiencies would be better than increasing the HST. One respondent suggested taxing two percentage points more on products harmful to a person's health. It was submitted that people are aware of the harmful effects of certain foods and products and should have to pay for the burden they place on our health care system.

Recommendations

The options for restructuring our tax system are very limited without another source of revenue. The issue is whether consumption taxes are a better alternative to income taxes, as increasing consumption taxes is part of the strategy to offset, at least somewhat, the lost revenues as a result of the proposed reductions to personal income tax rates and corporate tax rates.

Consumption taxes apply more broadly to the population and allow more discretion in spending on the part of taxpayers. An increase in the harmonized sales tax can be done in New Brunswick with no additional compliance costs. However, there needs to be sufficient protection for low-income earners and seniors as they spend a higher percentage of their earnings on taxable goods.

The Committee therefore recommends that the Government of New Brunswick consider the following:

- **increase the HST in order to help offset the recommended reductions in personal and corporate income tax rates;**
- **implement an HST rebate program similar to the Federal GST rebate program to refund the increase in the HST for people with low or fixed incomes.**

VI. Property Taxes

In New Brunswick, there are two levels of property taxation (provincial and municipal/local), and two classifications of property (residential and non-residential). Residential property is further sub-classified as either owner-occupied or non-owner occupied, which includes property such as cottages and apartments. The current provincial residential property tax rate is $1.50 per $100 of assessment. Owner-occupied residential properties receive a tax credit against the provincial tax that results in a provincial property tax rate of zero. However, owner-occupied properties located outside a municipality, i.e. local service districts (LSDs) and rural communities, are subject to a special rate of 65¢ per $100 of assessment. All residential property is also subject to municipal/local property tax rates. Municipal/local property tax rates are established to finance the provision of local services. Non-residential property is currently taxed at a provincial rate of $2.25 per $100 of assessment. Municipal/local non-residential property tax rates are fixed at 1.5 times the corresponding residential rate.

In examining New Brunswick's property tax system, key challenges have been identified. These are: differential tax treatment of residential and non-residential property; differential tax treatment of owner-occupied and non-owner occupied residential property; uneven application of the 65¢ per $100 tax in LSDs; and assessment spikes and escalating assessments that increase property taxes over time. The discussion paper presented possible solutions to these issues.

One solution involves reducing the provincial non-residential rate from $2.25 to $1.50 per $100 of assessed property value. This would eliminate the current tax differential between non-residential and residential property in the province. A second solution involves eliminating the $1.50 provincial residential rate. This option would remove the tax differential between owner-occupied and non-owner occupied residential property and would address the high level of taxation within the apartment industry. A third solution proposes to extend the 65¢ tax to all property types in LSDs.

Possible solutions to address concerns with rising property assessments would include the introduction of a three-year average assessment value and an adjustment mechanism that would result in greater government accountability and transparency in public expenditures.

Summary of Findings

During the public consultation process, highly polarized opinions were displayed in presentations by representatives of municipalities and rural areas. Many of the opinions were in relation to the property tax system in New Brunswick for municipalities and unincorporated areas, specifically how local communities are financed, and how the costs of providing local services in unincorporated areas are determined. The Committee wishes to note that these issues are currently being reviewed by the Commissioner on the Future of Local Governance and are not within the Committee's mandate. In addition, many respondents declined to comment on the property tax issues until the release of the Commissioner's report. That being stated, these opinions are summarized below.

The Committee heard from many city and town representatives. A municipality respondent noted that municipal governments rely on property taxes to pay for services and any change to the current taxation system should be made in consultation with all municipalities. A municipal union supported many ideas in the discussion paper, but it suggested that if costs are simply moved from the province to municipalities, the same taxpayers would likely pay the bill, although, not necessarily on an equitable basis.

One municipality submitted that the proposed reforms would not result in cities becoming self-sufficient. The Committee was advised that any modifications to the property tax rates may adversely affect the revenue stream of municipalities.

Some presenters offered suggestions to increase the revenue stream for municipalities. One submission proposed a special tax on all residents within a 50-kilometre radius of a city that would then be transferred to the city. It was suggested that this would better balance the cost of services being borne by the citizens who use those services. For example, it was submitted that Rothesay enjoys a tax rate of $1.25 per $100 of assessed value, while Saint John residents pay $1.80 per $100. However, Rothesay residents often travel to the city and utilize its services and infrastructure, such as streets, theatres, and sports venues, the cost of which is borne solely by the city residents. Thus, the surrounding areas of a city must be factored into supporting the infrastructure of that city. The Committee heard from some rural residents who were open to paying a surcharge on the cost of building certain municipal facilities.

One presenter suggested the province is currently subsidizing the LSDs and strongly endorsed charging LSDs the same tax rate as municipalities. Another participant submitted there is no direct link between the 65¢ tax and the cost of the services provided. It was submitted that rural residents should pay less tax because they require fewer services. One respondent claimed police service was basically non-existent in rural areas. It was also observed that most rural area fire departments rely on volunteers and do not have full-time staff as municipalities have.

The Committee also heard from many rural and local service district representatives who requested a full assessment of all municipal and LSD tax rates to determine what services are provided at specific rates. It was suggested that comparisons of property tax rates among municipalities, or between a municipality and LSD, be performed on a service-by-service basis. It was submitted that a one-size-fits-all solution to unincorporated areas is not fair as rural New Brunswick is unique from region to region.

On the issue of reducing the provincial non-residential rate from $2.25 to $1.50 per $100 of assessed property value, many respondents submitted that it is unfair for the province and municipalities to charge 50% more in tax for non-residential property. It was suggested that this practice arbitrarily increases the assessment base and is not transparent. Many presenters recommended that all property owners pay their fair share based on services provided, claiming that business property tax is subsidizing residential properties. Properties of equal value should be charged the same rate. It should be noted that one presenter suggested that property taxes are not a major factor in attracting business; thus, the reduction would not be of assistance in this regard.

Many presenters also expressed the opinion that municipalities require more revenue to provide the necessary services to their residents, and any changes to the residential and non-residential tax rates would affect the bottom line for municipalities.

On the issue of eliminating the $1.50 provincial residential rate, thus removing the tax differential between owner-occupied and non-owner occupied residential property, the Committee heard from many property owners who own and manage apartment buildings in the province. It was submitted that apartment owners are unfairly taxed under the current system, which results in higher rent for apartment tenants. Presenters submitted that New Brunswick has the second-highest provincial property tax in Canada. The Committee was advised that taxes are 50% of all overhead costs, which includes other items such as heating and maintenance.

A presenter estimated that tenants pay one month extra in rent per year compared to other provinces and agreed with eliminating the differential tax rate for rental property. It was stated that apartments are taxed another $600-$900 per year on top of municipal taxes. The Committee was advised that tenants account for one-third of the population in the province (250,000) and the additional tax lowers their standard of living. Affordable housing was seen as too expensive for many New Brunswickers. One presenter suggested that eliminating the additional tax on rental property could result in the construction of more multi-unit properties, addressing to some extent the issue of urban sprawl and the high service costs associated with that sprawl.

Representatives of apartment owners and landlords submitted that they would work with government to ensure that any savings from tax reductions would go back to tenants, either through a reduction in rent or improvements to the property. Several participants agreed that strong incentives need to be introduced to reward those who improve their apartment buildings and properties in general. Another presenter, who asked that the government ensure any savings through property tax reform be passed on to tenants, suggested that the Office of the Rentalsman be responsible for enforcement.

The Committee also heard from respondents who occupy their residential property only part of the year. One submission suggested that government focus on attracting more people to purchase summer homes in the province. It was noted that St. Andrews has relied heavily on non-permanent residents since the late 1800s to restore, buy, and build homes, which injects money into all aspects of the local and provincial economy. The submission stated that current taxes are punitive to the summer residents who do not use the school system or the same level of local services as do permanent residents.

Another respondent concurred that people who use the province for summer and second homes are likely to be full-time residents in the long-term. In the short-term, they bring friends and families to the province. This contributes to tourism, taxes and general knowledge of the province and attracts more people to live in New Brunswick. The Committee also heard from respondents who opposed any tax reductions for owners of luxury items such as cottages.

On the issue of extending the 65¢ tax to all property types in LSDs, the Committee heard from many respondents who supported the proposal. A union organization supported the proposal to extend the LSD tax rate to both non-owner occupied and non-residential property. The Committee was advised there is no reason that those living outside municipalities should benefit from a different and lesser provincial tax structure than those within.

On the issue of rising property assessments and the proposed introduction of a three-year average assessment value, several participants stated a three-year average is a reasonable solution as it lessens the possibility of significant tax increases on a yearly basis. Property tax and assessments were a concern for seniors with paid mortgages and fixed incomes.

Many seniors stated that they struggle with increasing tax assessments on their homes and some suggested they would move to apartments if assessments continue to rise at the current levels. The Committee was also asked to consider the option of a capped residential tax credit on total property assessment.

The Committee was advised that property taxes should not be based on the value of the property, but on the value of the services. A presenter suggested calculating how much it costs to provide the services per residence, and then factoring that into the taxes with some allowance as a form of insurance against unforeseen expenses. It was submitted that it costs just as much, presumably, to plough or pave a street with low-cost housing as it does for one with expensive houses.

Some respondents submitted that property taxes are not created to foster development or improvement of properties and actually penalize improvements. One presenter advised that it costs $600,000 annually to develop and maintain a golf course, and the more money spent on the course, the higher the property tax assessment goes up. A value based system was recommended. Developers also criticized the current property tax system as it penalizes adding value to property. They encouraged tax reforms which foster efficient use of land where farming and woodlots would be charged a lower rate. Another objective would be to maximize vegetation by taxing covered land. For example, if a parking garage were developed, taxes could be reduced if enough vegetation were placed around the site.

Some respondents asked the Committee to consider allowing more charitable and non-profit organizations that own and operate their buildings to qualify for property tax exemptions. It was submitted that certain animal shelters benefit from such an exemption.

Recommendations

Property taxes were described by many as being regressive and often inequitably imposed. The Commissioner on the Future of Local Governance will address many of the issues concerning property tax that were of concern to respondents. The Committee will limit its recommendations to the following: differential tax treatment of residential and non-residential property; differential tax treatment of owner-occupied and non-owner occupied residential property; uneven application of the 65¢ per $100 tax in LSDs; assessment spikes and escalating assessments that increase property taxes over time; and the treatment of property owned by non-profit organization.

The Committee finds that the provincial non-residential rate is inequitable and should be reduced from $2.25 to $1.50 per $100 of assessed property value. This would reduce the tax burden on non-residential property in municipalities. The reduction of the non-residential rate would also create a tax room transfer for municipalities. The province would, however, need to amend legislation to permit municipalities to increase rates of taxation.

The Committee finds that it is inequitable that only non-owner occupied residential properties, such as apartment buildings, are subject to the full provincial $1.50 tax rate per $100 of assessment, while owner-occupied residential properties receive a credit for this amount. Thus, the $1.50 per $100 on non-owner occupied properties should be reduced. This would lower the existing tax differential between owner-occupied properties and apartment buildings and recreational type properties.

The Committee finds that the 65¢ tax rate should be extended to all types of properties in LSDs. Non-owner occupied residential properties and commercial properties are currently excluded.

The Committee finds that unexpected and escalating assessments are placing an unreasonable financial burden on many New Brunswickers. To address this problem, the Committee finds that a three-year average assessment value would minimize the likelihood of property owners experiencing single-year assessment spikes. The Committee concluded that the capping of assessments was not in the best interest of the province. Municipalities need to meet inflationary costs and only have two options available: increase property tax rates or allow assessments to increase at fair market value.

While there is an existing provincial program that can provide a reduction in property assessments from 35% to 100% for properties owned by non-profit organizations, the Assessment Reduction Program (ARP) is not well-known among eligible organizations. Before implementing any new program to reduce property taxes for these organizations, the government should ensure that the existing program is fully publicized and utilized.

The Committee therefore recommends that the Government of New Brunswick consider the following:

• reduce the non-residential rate from $2.25 to $1.50 per $100 of assessed property value;

• reduce the $1.50 per $100 of assessed property value on non-owner occupied residential property;

• extend the 65¢ tax rate to all types of properties in LSDs;

• implement a three-year average assessment value on property;

• promote the full utilization of the Assessment Reduction Program for properties owned by non-profit organizations.

Conclusion

The Committee gave serious consideration to the advice and input received through the public consultation process. The Committee believes that the findings and recommendations found in this report will assist in reforming the tax system in the province.

Taxation was considered by one presenter to be the most important of all government responsibilities, and rebalancing the tax system can never be achieved without criticism. The most common practice to resolve differing opinions is to implement a balanced approach. All views must be considered in order to determine the best path forward. The recommendations, to a large extent, achieve this goal.

It is the intention of the Committee that the recommended tax reforms will result in millions of dollars in tax savings through the introduction of a flat tax rate for personal income taxes, the implementation of a child tax credit and child care benefit, and the reduction of the tax burden on corporate businesses. These initiatives should significantly benefit New Brunswickers and accomplish many of the goals for restructuring the tax system of the province.

To ensure that the provincial government has sufficient resources to pay for programs such as health care and education, millions of dollars in additional revenue must be generated through other means, such as the recommended increase to the HST. Any implementation of a carbon tax requires further study on the possible impact to New Brunswick industries and consumers.

The property tax system was a major concern for many New Brunswickers. The recommended reforms are designed to alleviate many of the inequalities in the system. These reforms should reduce the tax burden on non-residential property; reduce the differential tax treatment of owner-occupied and non-owner occupied residential property; and eliminate the uneven application of the 65¢ tax in LSDs and unreasonable assessment spikes on all property values.

> These recommended changes to the tax system should be introduced over a five-year period. A five-year plan would ensure that major changes to the tax system would be fiscally neutral over this period through a combination of: (1) tax reductions; (2) tax adjustments; and (3) management of expenditure growth. The plan would ease the transition for people and businesses, respect balanced budget provisions, and interfere as little as possible in personal and business decisions that affect investment and economic growth during this period.
>
> These reforms are designed to put more money in the pockets of New Brunswickers and stimulate greater opportunity in our economy. By adopting these changes, New Brunswick will stand a greater chance of retaining its young people and the skilled workers who are necessary for a healthy economy and society. Properly implemented, these reforms should provide significant incentive for former New Brunswickers to return to their province, as workers, investors or both.

The Honourable the Premier laid upon the table of the House a document entitled *Status Report #1, December 2008, Responses to Date on the Recommendations from the Disability Action Plan Strategy, The Path to Self-Sufficiency and Inclusion for Persons with Disabilities in New Brunswick, December 2007.*

Hon. Mr. Murphy rose on a point of order and claimed that there had been three instances during question period where Opposition Members had used unparliamentary language and made accusations of unavowed motives. Firstly, Hon. Mr. Murphy submitted that Mr. Alward described the Premier's conduct if not illegal, as immoral. Secondly, he claimed that Mr. Volpé had alleged the conduct of the Minister of Energy was dishonest. Thirdly, he claimed that Mr. Williams alleged that certain Ministers were in a conflict of interest. Mr. Robichaud spoke on the point of order.

Mr. Speaker ruled the points well taken and stated that Members are not permitted to question the honesty or integrity of their fellow Members, and any allegation of immoral, illegal or dishonest conduct is out of order.

The following Bill was introduced and read a first time.

By Hon. Mr. Burke,
Bill 25, *Court Security Act.*

Mr. MacDonald gave Notice of Motion 26 that on Thursday, December 18, 2008, he would move the following resolution, seconded by Mr. Northrup:

WHEREAS New Brunswick's forest industry is undergoing unprecedented changes and hardships; and

WHEREAS these hardships are being felt by thousands of New Brunswickers including the 40,000 woodlot-owning families; and;

WHEREAS the seven regional woodlot marketing boards and the Federation of Woodlot Owners are also being negatively impacted by the economic crisis facing the industry; and

WHEREAS these eight organizations provide considerable support and services to the industry, including silviculture, certification, education and training, market development, forest management, administration of government programs, non-timber forest products, woodlot owner rights, and day-to-day inquiries; and

WHEREAS in 2007, the Self-Sufficiency Task Force recommended that the government should "*support private woodlot marketing boards in strengthening their role with respect to silviculture, certification, education and market development,*" and that said recommendation should be acted upon within one year; and

WHEREAS in January 2008, the government of Canada provided the government of New Brunswick with $30 million through the Community Development Trust; and

WHEREAS the province and the forestry industry would benefit from having strong private woodlot marketing boards and a strong federation; therefore

BE IT RESOLVED that this Legislative Assembly call upon the government to provide a one cent per acre tax sharing on the private woodlot land base to the Federation of Woodlot Owners and another one cent per acre tax sharing on the private woodlot land base to the regional marketing boards as a source of sustainable funding;

BE IT FURTHER RESOLVED that said tax sharing shall remain in place for a period of three years.

Hon. Mr. Murphy, Government House Leader, noted that on Tuesday, December 16, 2008, it was the intention of the government that Bill 25 be called for second reading.

Hon. Mr. Murphy, Government House Leader, announced that it was the intention of government that following third and second reading, the House would resolve itself into a Committee of Supply to consider the Capital Estimates of the Department of Post-Secondary Education, Training and Labour and the Department of Health, following which the House would resolve itself into a Committee of the Whole to consider Bills 15, 13 and 14.

It was agreed by unanimous consent to continue sitting through the noon recess, and to adjourn at 3 o'clock p.m.

The following Bill was read a third time.

Bill 16, *An Act to Amend the Municipal Assistance Act*.

Ordered that the said Bill does pass.

The Order being read for second reading of Bill 19, *An Act to Amend the Workplace Health, Safety and Compensation Commission Act,* a debate arose thereon.

And the debate being ended, and the question being put that Bill 19 be now read a second time, it was resolved in the affirmative.

Accordingly, Bill 19, *An Act to Amend the Workplace Health, Safety and Compensation Commission Act,* was read a second time and ordered referred to the Committee of the Whole House.

The Order being read for second reading of Bill 20, *An Act to Amend the Workers' Compensation Act,* a debate arose thereon.

And after some time, due to the unavoidable absence of Mr. Speaker, Mr. Fraser, the Deputy Speaker, took the chair as Acting Speaker.

And after some further time, the debate being ended, and the question being put that Bill 20 be now read a second time, it was resolved in the affirmative.

Accordingly, Bill 20, *An Act to Amend the Workers' Compensation Act,* was read a second time and ordered referred to the Committee of the Whole House.

The Order being read for second reading of Bill 21, *An Act to Amend the Assessment Act,* a debate arose thereon.

And the debate being ended, and the question being put that Bill 21 be now read a second time, it was resolved in the affirmative.

Accordingly, Bill 21, *An Act to Amend the Assessment Act,* was read a second time and ordered referred to the Committee of the Whole House.

The Order being read for second reading of Bill 22, *An Act to Amend the Liquor Control Act,* a debate arose thereon.

And the debate being ended, and the question being put that Bill 22 be now read a second time, it was resolved in the affirmative.

Accordingly, Bill 22, *An Act to Amend the Liquor Control Act,* was read a second time and ordered referred to the Committee of the Whole House.

The House, according to Order, resolved itself into a Committee of Supply with Ms. Robichaud in the chair.

And after some time, Mr. Fraser took the chair.

And after some further time, Mr. Speaker resumed the chair and Mr. Fraser, the Chairman, after requesting that Mr. Speaker revert to Presentations of Committee Reports, reported that the Committee had had under consideration the matters referred to them, had made some progress therein, had passed several items, and asked leave to sit again.

Pursuant to Standing Rule 78.1, Mr. Speaker then put the question on the motion deemed to be before the House, that the report be concurred in, and it was resolved in the affirmative.

The following are the items reported:

CAPITAL ESTIMATES 2009-2010 Voted

MARITIME PROVINCES HIGHER EDUCATION COMMISSION
Resolved, That there be granted to Her Majesty a sum not exceeding $30,000,000 to defray the expenses of the following program:

Deferred Maintenance Program	30,000,000

DEPARTMENT OF HEALTH
Resolved, That there be granted to Her Majesty a sum not exceeding $10,000,000 to defray the expenses of the following program:

Public Hospitals - Capital Equipment	10,000,000

The said items were concurred in by the House.

And then, 2.56 o'clock p.m., the House adjourned.