

Report slams tax cuts as 'unsustainable'

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Finance: Centre for Policy Alternatives says rate reductions introduced by former Liberal government should be repealed

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Tax cuts introduced by the former Liberal government are "unsustainable, regressive and ineffective" and should be repealed, concludes a new report.

The highly critical report, released Tuesday by the Canadian Centre for Policy Alternatives, was co-authored by Joe Ruggeri, a recently retired economics professor and director of the Policy Studies Centre at the University of New Brunswick.

In the report, Ruggeri says the Grit tax cuts are completely unaffordable given the province's "precarious fiscal position" - which includes an \$820-million deficit that Ruggeri says will linger long after the economy rebounds.

He also argues the tax cuts wrongly favour rich New Brunswickers and predicts the cuts will further widen the "urban-rural economic gap".

"It aggravates a fiscal problem that was already bad, and we are going to get nothing out of it on the economic side. And a bunch of well-to-do New Brunswickers are going to smile all the way to Florida," Ruggeri said in an interview from Fredericton.

"So we're jeopardizing the fiscal stability and security of New Brunswick, and our ability to finance government programs in the future, in order to provide money to people who don't need it."

Two main points highlight the provincial tax reductions, launched in 2009 by Shawn Graham's Liberal government.

First, the plan calls for a shift from four to two personal income tax rates (nine per cent for taxable income up to \$37,892 and 12 per cent for taxable income above that level.) As well, the Liberals pledged to drop the general corporate income tax rate from 13 per cent to eight per cent by 2012. Currently, the province's corporate tax rate sits at 11 per cent, with a drop to 10 per cent scheduled for this July.

Ruggeri uses his 28-page report to torpedo the Liberals' "ideologically-motivated, pro-growth" rationale for implementing the tax cuts.

"The Liberal government claimed that lower corporate income tax rates will serve as a magnet for new businesses," he states in the report, entitled *The Fiscal and Economic Implications of Tax Reform in New Brunswick*. "There is no evidence to support this claim and the government did not produce any."

Ruggeri is calling on the current government to "undo the fiscal damage" inflicted by the tax cuts. He says David Alward's Conservative government should at least freeze the current reductions, or better yet, cancel the plan entirely and undo the previous cuts. Ruggeri is also calling for an independent study of New Brunswick's long-term fiscal prospects.

During last year's provincial election, Alward pledged to cancel future tax reductions for the 1,300 richest New Brunswickers (those with an average income of \$450,000.) Alward said the move would free up \$120 million.

The Tories also promised to freeze the corporate tax rate at 10 per cent - not eight per cent, as the Liberals pledged. Alward said the change would preserve \$25 million. "I believe in low taxes," Alward said during last year's campaign.

"The last thing I want to do is freeze taxes ... but in the middle of an economic crisis, against what every other province in Canada was doing, Shawn Graham cut taxes, and we are paying the price for it," he said. "This is not to say that tax reductions don't make sense. Right now, we don't believe we can afford it."

Former finance minister Greg Byrne countered Alward, saying the point of lowering the corporate rate to eight per cent was to place New Brunswick "ahead of the curve".

"Our philosophy is to make New Brunswick the most tax competitive region in the country. We want to be able to attract investment," Byrne said during the election campaign. "We're selling New Brunswick as the best place to do business in Canada."