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*New Brunswick at a Crossroads:
Progressive Income Tax, a Clear Choice*

Jason Edwards with Roderick Hill

New Brunswick is at a crossroads. In the middle of the 2008 economic crisis, facing challenges due to the high Canadian dollar and the fall-out of the US economic situation, the Liberal government of the time chose to begin implementing a plan to significantly lower personal and corporate taxes in New Brunswick. This contributed to the province losing hundreds of millions of dollars, which wiped out its surplus and created a deficit (see Appendix 1, Figure 1).

Coming out of this deep recession, poverty and unemployment prevail, social and health inequities that existed prior to the recession have been exacerbated. The province is also dealing with the fact that federal transfer payments are dwindling as a portion of costs of health and social services. This is the wrong road to take; the province needs to change direction.

It is time for the province to take a more sustainable approach to fiscal and economic policy that makes life better for all New Brunswickers. It needs to generate the revenue necessary to make investments for the future.

Changing New Brunswick's personal income tax structure to make it fairer will move this province in the right direction. Progressive taxation could help alleviate the province's

problem with dwindling revenues; it would allow New Brunswick to afford essential health, education and social programs, and decrease the deficit, by ensuring that all citizens pay their fair share.

Public Spending

What is often missing from the taxation debate is a genuine understanding of the benefits derived from public spending. Decreasing revenue has a tangible impact on all our lives.

On average, a Canadian receives the equivalent of **\$17,000** in annual benefit from public services. We depend on these services, including education, health care, child care, public pensions, employment insurance, and family benefits, for our standard of living.¹ In fact, all Canadians benefit from public services, which represent an important part of their income (see Appendix 1, Figure 2).

New Brunswick's Regressive Tax Reforms

Studies from independent, non-partisan researchers have shown that New Brunswick has moved toward a system of taxation that benefits the few while burdening the many. What's more, the province's tax structure is limiting our revenue-generating capacity while failing to stimulate meaningful growth.

Consider the most recent changes to our income tax structure. The government's *2009 Plan for Lower Taxes in New Brunswick* set out an agenda for tax reform that would have seen revenue decrease by an annual total of more than \$325 million in 2011-12.² Losing revenue hurts all New Brunswickers by hampering our ability to provide adequate services. But who benefits from these changes?

The changes in New Brunswick's personal income tax structure begun in 2009 would have resulted in a \$395 total tax cut (2009-12) for a single person with an annual income of \$30,000. In contrast, a single person making \$150,000 in taxable earnings would have received a tax cut of \$5,922 (2009-12). This means the higher income earner would have benefitted **fifteen times more** than the one making \$35,000 (see Appendix 1, Table 1).³

Taxation and Income Inequality

Taxation on the top earners is reverting to levels not seen since the 1920s (see Appendix 1, Figure 3). This has contributed to unprecedented concentrations of wealth in the hands of a small percentage of people, both in this province and across the country. In fact, nationwide, 3.8% of households control more than 67% of the total financial wealth.⁴ In New Brunswick, the 2009 after-tax income share of the richest 20% of earners was 41.9%, while that of the lowest 20% was 5.4%.⁵

A study spanning the years 1990 to 2005 explained how the tax system has contributed to this inequality. It finds, “Not only do the top 1% pay a lower tax rate than they did in 1990, their rate is actually slightly lower than that paid by the poorest 10%...Tax cuts were the major factor behind the erosion of Canada’s tax fairness, with personal income tax cuts leading the reduction in the rates at the top.”⁶ For instance, over the period of study, most Canadians saw their income taxes drop by about 2% while those in the top 1% of earners saw their income taxes drop almost 4%.

Income Inequality: Bad for all

Inequality is bad for all Canadians. This fact was noted by the Conference Board of Canada, who, in two recent reports, found that, “High inequality can diminish economic growth if it means that the country is not fully using the skills and capabilities of all its citizens or if it undermines social cohesion, leading to increased social tensions.”⁷ Even the business establishment has recognized that growing inequality—much of which can be attributed to inadequate taxation—is harming the national economy.

Research has linked economic inequality to negative social indicators. There are marked correlations between inequality and such phenomena as mental illness, drug use, obesity, teenage pregnancy, high school dropout rates, violent crime, youth crime, and imprisonment rates.⁸

In addition, a recent study on the *Cost of Poverty in New Brunswick* estimates that poverty costs the New Brunswick government an estimated \$500 million per year--6.5% of the 2009/10 provincial budget.⁹

Finding a Solution

In order for the economy to grow and New Brunswick communities to flourish, the province needs to move toward a progressive tax system. The goal should be a progressive tax structure that allows the province to afford its public programs. To lose tax revenue is to lose essential services, taking money out of our ailing economy. The Graham government's cuts hurt New Brunswick and are not sustainable.

A progressive tax structure has fair and equitable brackets that increase at even increments. Given the changes that have been made since the Graham government, a reversion back to pre-2008 tax rates and an additional bracket for earners over \$150,000/year would be a step in the right direction. This is especially true when we consider how much revenue the government could raise. Our estimate is that the government would see a revenue increase of about **\$260 million** under this formula (see Appendix 2 for details on how this was calculated).¹⁰ The calculations are done by applying these 2008 rates with inflation-adjusted brackets using 2009 Statistics Canada tax data to arrive at an estimate for 2012; see Appendix 2, Table 1 for a breakdown of the Estimated Change in Average Tax Rates and Average Tax Payments by income and see Appendix 2, Table 2 for current and proposed marginal personal income tax rates.

\$260 million is a significant amount of revenue that could be allocated toward the provision of other essential services including health, education, infrastructure, as well as for deficit reduction.

Concluding Remarks

New Brunswick is at a crossroads. Moving toward a more progressive income tax formula is a clear choice. By raising taxes in a progressive way, the government can maintain and expand spending beyond what it otherwise would be able to do, while also reducing the deficit. Compared with the alternative -cutting jobs and services to pay down the deficit - the result should be a net increase in spending and economic activity, as well as an improved quality of life.

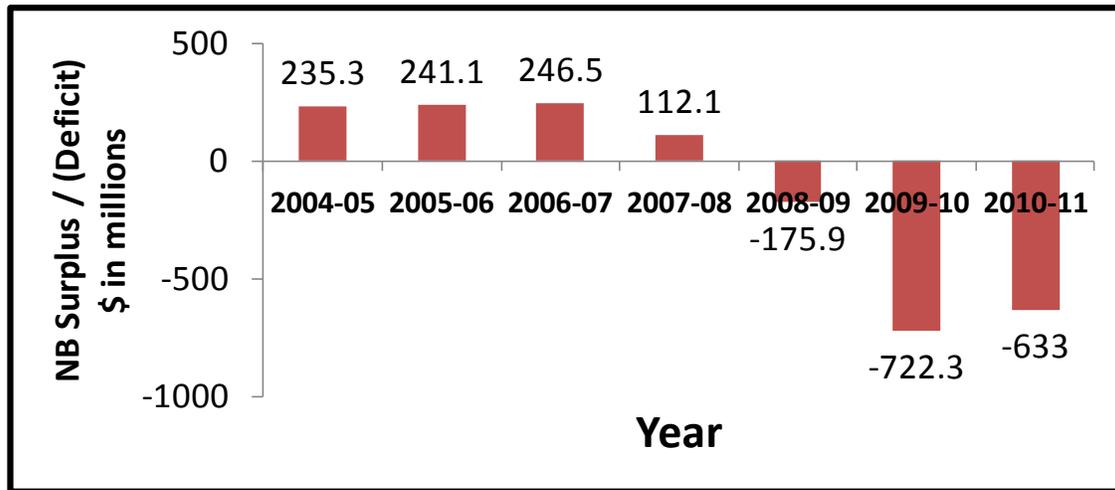
We also recommend that the government set up a Fair Tax Commission to look at how New Brunswickers pay for the services and infrastructure New Brunswick needs, and to make sure everyone contributes a fair share.

References

- ¹ Hugh Mackenzie and Richard Shillington, *Canada's Quiet Bargain: The Benefits of Public Spending*, 2009, www.policyalternatives.ca/publications/reports/canadas-quiet-bargain
- ² New Brunswick Department of Finance, *The Plan for Lower Taxes in New Brunswick, 2009-2012*, www.gnb.ca/0160/budget/buddoc2009/Plan_for_lower_taxes-e.pdf
- ³ These tax changes were to be implemented in four phases. The first three were implemented, (with the exception of the third rate reduction for the top income bracket), but the last phase was not implemented by the Alward government. For a full analysis of the impact of this tax plan, see Joe Ruggeri and Jean-Philippe Bourgeois, *The Fiscal and Economic Implications of Tax Reform in New Brunswick*, 2011, www.policyalternatives.ca/publications/reports/fiscal-and-economic-implications-tax-reform-new-brunswick
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- ⁹ Angella MacEwen and Christine Saulnier, *The Cost of Poverty in New Brunswick 2009*, Halifax: CCPA, 2011. <http://www.policyalternatives.ca/publications/reports/cost-poverty-new-brunswick>
- ¹⁰ Data derived from Statistics Canada 2009 income tax reports: www.cra-arc.gc.ca/gncy/stts/gb09/pst/fnl/html/to2anb-eng.html

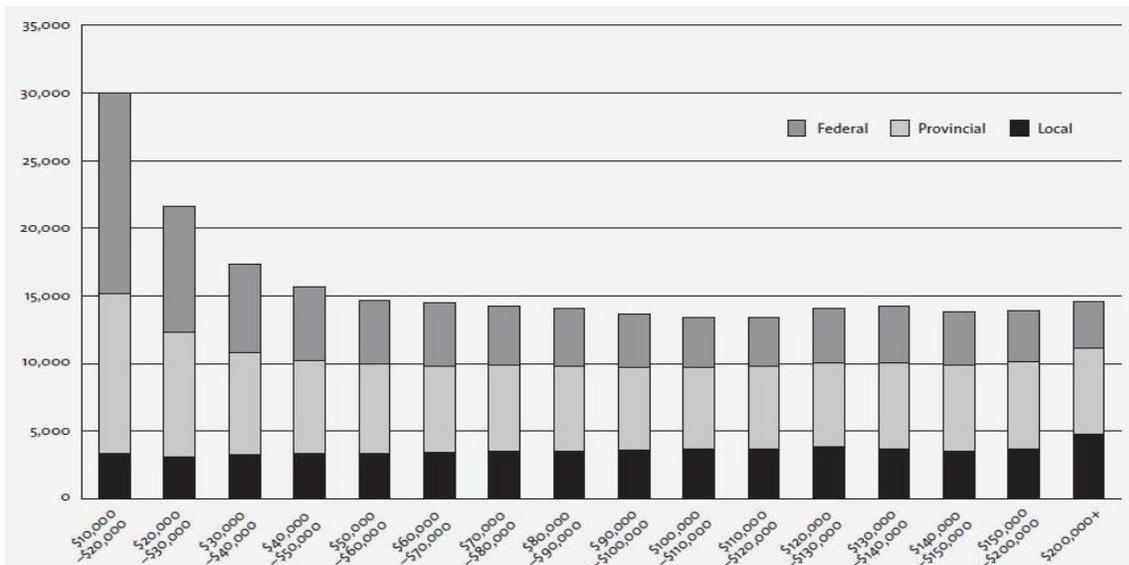
Appendix 1

Figure 1. NB Surplus – (Deficit) from 2004-05 to 2010-11 (\$ Millions)



Source: NB. Department of Finance. Finance Factsheet – Indicators of Financial Health, 2010-2011 Public Accounts.

Figure 2. Per capita benefit from public spending by household income – Canada, 2006, by level of government



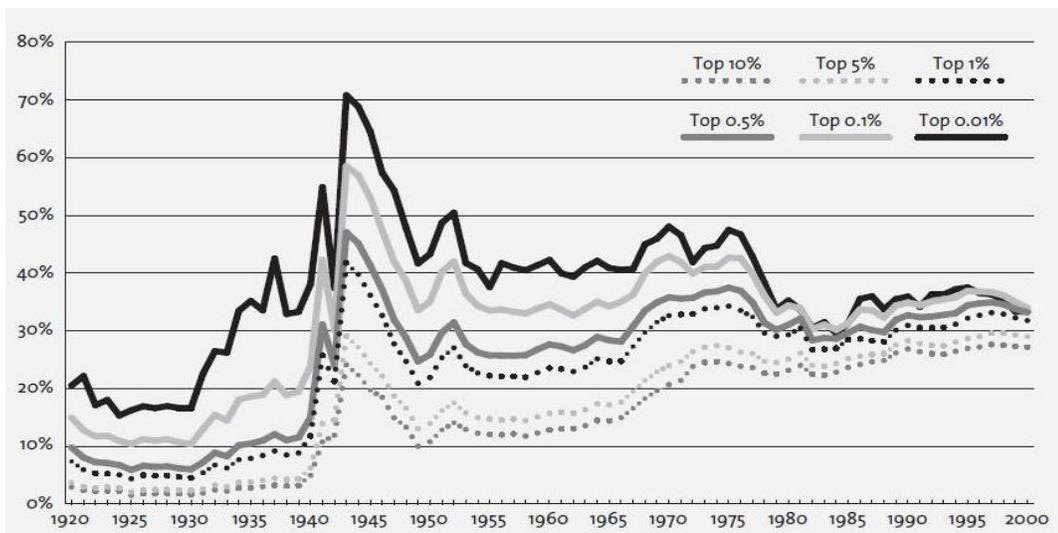
Source: Hugh Mackenzie and Richard Shillington. 2009. *Canada's Quiet Bargain: The Benefits of Public Spending*. Ottawa: CCPA.

Table 1. Anticipated amounts of annual personal tax savings for a single person and a one-earner family, according to taxable income level (2008 versus 2012).

Taxable Income	Single person	One-earner family
\$15,000	\$65	\$0
\$30,000	\$395	\$583
\$60,000	\$1,307	\$1,283
\$90,000	\$2,619	\$2,596
\$150,000	\$5,922	\$5,898

Source : NB Department of Finance. 2009, March. *The Plan for Lower Taxes in New Brunswick, 2009-2012*. p. 19-20.

Figure 3. Average tax rates on high-income earners, Canada, 1920-2000.



Source: Armine Yalnizyan, 2010, *The Rise of Canada's Richest 1%*, Ottawa: CCPA.

Appendix 2: Background notes and methodology on the calculations

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This appendix explains how the net revenue effects of reverting to 2008 tax rates and adding an extra top bracket at \$150,000 (2009\$) was calculated. The estimate is based on the 2009 tax year data (the most recent available) as summarized by Statistics Canada. The calculation was done in two stages, beginning with the actual 2009 data.

Stage 1

First, I calculated for each income group shown in Table 1 the average taxable income in that group. Then, for that level of taxable income, I calculated the gross New Brunswick personal income tax (PIT) using the actual 2009 rates. Comparing this with the net N.B. PIT revenue gives the total value of the tax credits that were used by that income group. I then estimated the value of the deductions that generate those credits by dividing the value of the tax credits by the 2009 marginal tax rate for the lowest income bracket.

In the next step, I calculate how much gross tax would have been collected from each income group using 2008 rates plus the new proposed bracket. This is the amount from the average person in the group multiplied by the number of persons in that income group. I convert this into an estimate of net PIT revenue by subtracting an estimate of the total tax credits at the 2008 marginal tax rates.

Stage 2

I used the results from the first part of Stage 1 to calculate the expected revenues using the 2009 data, but supposing that current tax rates were used. For each income group, I calculated the expected gross tax and then subtracted the estimate of the tax credits using the current marginal rate (0.091) for the first bracket. That gives the estimate of the net tax revenues using current rates. The difference between those values and the actual 2009 net tax revenues shows the effect of the further reductions that took place after 2009 and thus the revenue effects of reversing those changes.

Then, adding the results for Stage 1 and Stage 2 gives the total change in net tax revenue from moving from current rates to 2008 rates with the extra bracket.

Summarizing the results for individual income groups

These estimates of the increase in net tax revenue can then be made more meaningful by dividing them by the number of people in the income group and then by the average income in that group, to express the increase as a percentage of total incomes. By comparing these values across income groups (see Appendix 2, Table 1), the progressive nature of the tax rate change being suggested is clear.

Aggregate tax revenue changes

Summing the estimated change in net tax revenue across all income groups gives the total change in 2009 dollars for the 2009 income levels. This is \$238 million annually.

The estimate of \$238 million remains an underestimate of the revenues that these tax rates would generate in 2012 because of the growth of the personal income tax base since 2009. With real income growth, real PIT revenues can be expected to grow just as quickly. In the 2011 N.B. budget, the *2011-2012 Economic Outlook* document (p.9) forecasts growth in nominal aggregate personal incomes in N.B. of 3.7% (2010), 3.1% (2011) and 3.0% (2012). These would have to be adjusted for inflation to get real growth (because the PIT is indexed).

Using consumer price index data from the Bank of Canada website, inflation in 2010 was 2.35%, 2.3% in 2011 and let's assume it will be 2% in 2012. That would give real aggregate personal income growth of 1.35%, 0.8% and 1% for the years 2010-2012.

If PIT revenues grew as quickly, that would imply that the proposed tax reform would produce in 2012 additional revenues of: $\$238 \times 1.0135 \times 1.008 \times 1.01 = \245.6 million in 2009 dollars.

Then if this is expressed in 2012 dollars, then we can put the inflation rates back in:

$\$245.6 \text{ m.} \times 1.0235$ [2010 inflation] $\times 1.023$ [2011 inflation] $\times 1.02$ [assumed 2012 inflation]
= \$263 million in 2012 dollars.

The personal income tax rates that we propose would generate about \$260 million in new revenues annually for the province, a substantial fraction of the current fiscal deficit, while at the same time improving the equity of the overall tax system.

Appendix 2, Table 1

Estimated Change in Average Tax Rates and Average Tax Payments in 2009, by Pre-Tax Income Categories

<u>Income group</u> (2009 dollars)	<u>Average N.B. net</u> <u>PIT rate, at 2011</u> <u>marginal tax</u> <u>rates (percent)</u>	<u>Increase in average</u> <u>individual tax</u> <u>payments in 2009</u> <u>for filers with</u> <u>taxable returns, 2009</u> <u>dollars</u>	<u>Increase in PIT in</u> <u>2009, as percentage</u> <u>of average income in</u> <u>this income group</u>	<u>Additional</u> <u>revenues in 2009</u> <u>tax year</u> <u>(thousands of</u> <u>2009 dollars)</u>
\$0-5,000	1.0%	\$4	0.1%	\$3
5-10,000	0.5	\$5	0.1	\$19
10-15,000	1.1	\$16	0.1	\$304
15-20,000	2.2	\$44	0.2	\$1,436
20-25,000	3.3	\$84	0.4	\$3,663
25-30,000	4.2	\$129	0.5	\$5,753
30-35,000	4.7	\$172	0.5	\$7,318
35-40,000	5.2	\$218	0.6	\$8,169
40-45,000	5.7	\$338	0.8	\$10,168
45-50,000	6.0	\$470	1.0	\$11,149
50-55,000	6.4	\$607	1.2	\$11,705
55-60,000	6.7	\$749	1.3	\$11,778
60-70,000	7.0	\$960	1.5	\$24,637
70-80,000	7.5	\$1,249	1.7	\$24,155
80-90,000	7.8	\$1,567	1.9	\$17,569
90-100,000	7.9	\$1,929	2.0	\$13,757
100-150,000	8.0	\$2,721	2.3	\$35,234
150-250,000	8.6	\$4,919	2.7	\$19,331
250,000+	9.6	\$19,162	4.4	\$31,809
Total				\$237,956

Source: authors' calculations from 2009 Statistics Canada data. <http://www.cra-arc.gc.ca/gncy/stts/gbo9/pst/fnl/html/to2anb-eng.html>

Table 2. Current and proposed marginal personal income tax rates

<u>Taxable Income (2009 dollars)</u>	<u>Current Marginal Tax Rate (2011)</u>	<u>Proposed Marginal Tax Rates (2012)</u>
\$0 - \$35,707	9.1%	10.12%
\$35,708 - \$71,415	12.1%	15.48%
\$71,416 - \$116,105	12.4%	16.8%
\$116,106 - \$149,999	14.3%	17.95%
\$150,000 + *	14.3%	21.0%

* Proposed new bracket

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