



July 30, 2008

Select Committee on Tax Review
P.O. Box 6000
Fredericton, NB E3B 5H1

Dear Members of the Select Committee:

On behalf of the members of the Saint John Board of Trade I respectfully submit this letter outlining our view on the Discussion Paper on New Brunswick's Tax System released in June 2008 as part of the public consultation on this matter. To fully examine the issue, the Board of Trade established an ad-hoc Taxation Task Force comprised predominately of accountants and tax professionals to provide their reaction and recommendations to the Executive Committee of the Board of Trade. As a result of their hard work and deliberations, the Board of Trade would like to share our views on this Discussion Paper.

General Observations:

The Board of Trade commends the Provincial Government for launching the Tax Review. Directionally the proposals are correct and focused on making New Brunswick more attractive for business, investment/saving and people. The proposals may help to attract more skilled labour to the Province. This review comes at a critical time for the New Brunswick economy. Export oriented industries are adjusting to competitive pressures associated with exchange rate parity with the United States. The economic slowdown in the United States and the resulting reduced demand for New Brunswick goods and services is a serious concern. The manufacturing/forestry sectors, in particular, are restructuring and downsizing to reflect these new competitive realities and will face relentless pressure to make productivity enhancing investments to remain competitive in this economic environment. A competitive tax regime will support these initiatives.

We would question whether income tax reform changes, by themselves, are sufficient to attract and repatriate investment and skilled workers from other provinces. Tax reform needs to go hand in hand with and we would encourage the Province to:

- Develop a strategy aimed at major improvement in New Brunswick's productivity growth performance, especially relative to the United States and the rest of Canada. With nearly 40% of Canada's GDP derived from exports, and over 80% of Canadian exports destined for the United States, Canada's productivity relative to the US is critical to our competitiveness and standard of living. Yet by recognized measures Canada's productivity is significantly below US levels;
- Promote the evolution and development of fair efficient capital markets in the Province;
- Support the building and maintenance of efficient and safe transportation system (air, rail, roads);

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- Support the continued development of comprehensive and efficient telecommunications network;
- Support the establishment and maintenance of effective education and healthcare;
- Promote the development of an attractive cultural environment;

The Board would suggest that the Province's stated objective of making the tax reform package fiscally neutral is ambitious. Is it realistic to expect that sufficient cost management efforts can be implemented to cover the forecasted \$150M difference between proposed tax reductions and additional tax revenue expected to be generated by the proposals? Failure at this would jeopardize the 2026 self sufficiency initiative. We would encourage the Province to also be prepared for additional fiscal management efforts in the event the gap is greater than \$150M.

While income and harmonized sales taxes (HST) represent a large portion of the tax burden, effective tax policy must examine the total tax contribution of businesses and the complexity of the tax regime to assess the true competitiveness of our tax system. Consideration should be given to a review of the structure/rates of New Brunswick's other taxes (metallic minerals tax, gasoline and motive fuels tax, insurance premium tax) and system of royalties, licenses and permits.

Specific Observations:

With respect to property tax initiatives, the Saint John Board of Trade feels it is prudent to wait for the recommendations of the report by Jean-Guy Finn, the Commissioner of Local Governance, to be released in September.

Corporate tax reduction has a limited impact on Provincial revenue and would be welcomed by the business community as a positive, bold move. The proposed cut to a corporate tax rate of 5% is certainly the most ambitious of the three options and would place New Brunswick ahead of the curve in competing for business investment. This cut has the added advantage of eliminating the disincentive that exists under the current tax regime for small business growth.

The two proposed changes with potentially the most controversial impact are the increase in the HST of 2% and the Carbon Tax. The report states the tax cuts will result in tax savings of \$500M and these two changes will recapture \$350M. The Board is concerned that these tax increases could potentially be at the expense of low wage earners and large energy using industry. Low wage earners could be most impacted by the implementation of a consumption based system so we would recommend a sensitivity analysis be completed to measure and then plan as necessary for any significant adverse impact. We would also have concern with the impact of the carbon tax on our new "Energy hub" plan for Saint John and the Province. There is little detail provided in the document for tax experts to quantify the changes, specifically on the creation and implementation of a Carbon Tax.

A Carbon Tax may be politically correct but unless there is a significant national and global initiative, such a tax would only increase New Brunswick's already high energy costs with little or no impact on greenhouse gas emission. New Brunswick is heavily dependant on energy and a Carbon Tax could be perceived as counter to the proposed "Energy Hub" plan. Higher energy costs will drive up the cost of doing business in the Province increasing business costs for virtually every product and service (travel, shipping, heating etc.). Businesses would not

necessarily be able to pass these costs along to the consumer. What impact would this tax have on manufacturers and producers who export their goods to the United States as they already struggle to compete?

Only two jurisdictions in Canada (British Columbia & Quebec) have some form of Carbon Tax with British Columbia now having the highest gas prices in Canada as a result. Outside of Canada, only few countries have implemented a Carbon tax with varying degrees of success. Sweden has been the most successful having implemented the tax back in 1991 but the tax is now \$150.00 per ton for business and a litre of gas has \$0.40 of taxes added. Denmark has also been successful in lowering its greenhouse emissions by 15% and most of the Carbon Tax has been earmarked to subsidize environmental innovation to expand wind power, tidal power, tree replanting, boiler upgrades etc. Both countries have been somewhat successful with their Carbon Tax plan however it was at the expense of the manufacturing sector. More details are required in order to have an informed discussion.

The increase in the HST would not be as problematic as the tax system's infrastructure is already in place. If the 2% HST is implemented we would recommend that essential items should be exempt. The positive aspect of the HST is that it places tax on the correct activity, consumption rather than earning and savings.

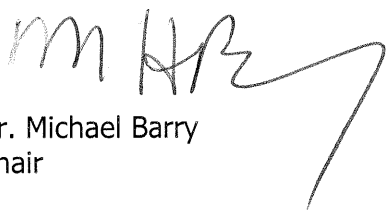
In summary, the overall premise of the tax reform is to increase the population, attract new business and industry and control government spending. In today's global economy, innovative ideas, skilled people and investment capital flow quickly to where they seem most welcome. A competitive tax environment in the Province provides the means to bring new workers and businesses to New Brunswick.

It still remains to be seen if these reforms can be accomplished however we encourage the Province to move forward with tax reform and not view it as an all or nothing option. If a Carbon Tax is not right for the Province at this time consider moving forward with the other measures.

The Saint John Board of Trade is dedicated to fostering an economic climate that enhances growth, prosperity, and an improved quality of life in the community. With more than 1,000 members, representing 600 small, medium, and large businesses and organizations and therefore, the interests of more than 30,000 citizens, the Board is a dynamic advocate and the principal voice for the business community of Greater Saint John. It offers a variety of programs, activities, services, and networking opportunities designed to enhance the business prospects of members and the overall business climate of the area.

We would welcome the opportunity to discuss this with you further.

Sincerely,



Dr. Michael Barry
Chair