

Summary of New Brunswick Tax Expenditures – 2019

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Introduction

The primary purpose of taxation is to raise revenues to finance government expenditures. As with other jurisdictions, New Brunswick's tax system has many provisions that are designed to accomplish public policy objectives. They include tax credits, reductions, allowances, rate reductions, rebates, deferrals, and relief programs. Such features are intended to recognize: differences in ability-to-pay; different circumstances of taxpayers; and various other considerations relating to fairness and competitiveness. Provisions or features of the tax system that result in lower revenues than would otherwise be attainable are often referred to as tax expenditures. The term "tax expenditure" is used because many of these provisions have policy objectives that could alternatively be accomplished through direct government expenditures.

Defining a tax expenditure is not straightforward given that the policy objectives of some provisions could not feasibly be replicated by direct expenditure programs. Nevertheless, reports on tax expenditures often include a wide range of tax provisions.

The federal government uses a broad definition of tax expenditures and provides information on a wide range of tax measures¹. It includes provisions that are considered part of the "benchmark tax system" and thus are not considered to be tax expenditures. The benchmark tax system refers to the most fundamental aspects, such as the basic personal amount that serves to make the tax system more progressive and relieve tax burden on low-income tax filers. Although such features are considered to be part of the benchmark tax system, they are reported on in the interest of transparency.

As with the federal tax expenditure report, this document also adopts a broad definition of tax expenditures and includes a wide range of New Brunswick tax provisions, including ones that are not necessarily considered tax preferences. For example, a number of income tax provisions are included in this document that are similar to federal provisions that have been identified as being part of the "benchmark" tax system by the federal government. Another example, in the area of property taxation, is the residential property tax credit that is fundamentally a reflection of a legislated zero-provincial tax rate on owner-occupied residential housing.

Tax expenditures are not presented to the Legislative Assembly in the same way as a departmental spending program, and in many cases, there is little information publicly available on the cost of provincial tax expenditures. Where many of these tax expenditures are administered federally, data is lagged and may be subject to interactions with other elements of the tax system, compared to provincially-administered programs.

This document reports on New Brunswick tax expenditures, providing: a brief description of each measure's objective, implementation date, and the estimated cost.

It is important to note that there are interactions between various provisions of the tax system, particularly in the area of income taxation. The forgone revenue for each tax expenditure item has been estimated based on the assumption that other provisions of the tax system remain unchanged. Since there is interaction between personal income tax credits, for example, elimination of one would leave some tax filers more room to claim other unused credits or tax reductions. Such interactions are taken into account in the cost estimates provided. However, if changes to tax credits were to be considered, the impact on provincial revenue may differ when taking into account factors such as timing, what changes are occurring and potential implications on other revenue. For these reasons, the costs of each

¹ Department of Finance Canada, *Report on Federal Tax Expenditures – Concepts, Estimates, and Evaluations 2019*, p.9

individual item are not additive to provide an overall cost of New Brunswick's tax expenditures. Further work would be needed to estimate the total forgone revenue from any particular subset of tax items.

These broadly defined tax expenditures are presented as follows:

- New Brunswick's "individual" tax expenditures, including tax credits, rebates, exemptions, and relief programs provided to individuals;
- New Brunswick's "business" tax expenditures, including tax credits, rebates, and exemptions that benefit businesses; and
- New Brunswick's "other" tax expenditures, including exemptions, and rebates provided to non-profit organizations, institutions or municipalities.

Changes to Tax Expenditures Since the 2018 Edition

Personal Income Tax

Reinstatement of Tuition Tax Credit

The 2019-2020 provincial budget announced that legislation would be brought forth to reintroduce the New Brunswick tuition tax credit, which had previously been eliminated effective January 1, 2017. The necessary amendments to the *New Brunswick Income Tax Act* were introduced in the Legislative Assembly on May 7, 2019 and received Royal Assent on June 14, 2019.

Individuals will once again be able to claim this personal income tax credit for eligible tuition expenses when they file their annual personal income tax return in 2020. Furthermore, tuition amounts paid in 2017 and 2018 will be available to be claimed for tuition tax credit purposes in 2019 and subsequent years. As was the case prior to the reinstatement of the tuition tax credit, any previously accumulated and unused tuition amounts, including tuition amounts from prior to 2017, can also be claimed directly by the student in future years.

Key Terminology

Credit – non-refundable: An amount subtracted from tax payable. Non-refundable tax credits can only be used to reduce taxes payable, providing relief against taxes paid previously or currently owing. If tax credits are greater than taxes payable, there are no additional amounts returned to the taxpayer. With a non-refundable tax credit, the taxpayer must have tax payable in order to receive the credit; if there is no tax payable the taxpayer will not receive any portion of the non-refundable credit. Example: if a taxpayer has a \$2,000 non-refundable tax credit and their tax payable is \$1,500, then the value of the credit they will receive is \$1,500 (amount of taxes payable).

Credit – refundable: With a refundable tax credit, taxpayers receive the full value of the tax credit regardless of the amount of taxes payable. With a refundable tax credit, if the value of the tax credit is greater than the amount of tax payable, the balance is paid to the taxpayer. Example: if a taxpayer has a \$2,000 refundable tax credit and their income tax payable is \$1,500, then the value of the refundable credit they will receive is \$2,000 (\$1,500 subtracted from tax payable, and \$500 paid to the taxpayer). Under accounting rules, refundable tax credits are often reported as provincial spending programs given their nature.

Deduction: An amount subtracted from total income in determining net income, or from net income in determining taxable income. (Note: Under the Canada-New Brunswick Tax Collection Agreement, the federal government determines "taxable income", so New Brunswick does not have the ability to use deductions for income tax purposes).

Deferral: Refers to instances where a taxpayer can delay paying taxes (all or a portion) to some future period.

Exemption: The non-taxation of certain taxpayers, income, gains or goods and services. Note: Under the Canada-New Brunswick Tax Collection Agreement, the federal government determines “taxable income”, so New Brunswick does not have the ability to use exemptions for income tax purposes. The federal government also administers the province’s Harmonized Sales Tax (HST) and defines the common tax base.

Rebate and refund: An amount of tax paid that is refunded to the taxpayer.

New Brunswick Tax Expenditures: Individuals				
Property Tax Programs				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Property Tax Deferral Program for Seniors	2012	To provide property tax relief to senior homeowners and help them to stay in their own homes longer.	2019	\$25,137
Property Tax Allowance	1994	To provide property tax relief to low-income homeowners on their principal residence (owner-occupied residential property).	2019	\$6,095,255
Residential Property Tax Credit MEANS TO IMPLEMENT ZERO-RATE AS LEGISLATED	Between 1975 and 1978	To provide property tax relief to homeowners and encourage home ownership (this credit is the method to achieve the zero-provincial tax rate as legislated).	2019	\$385,243,587
Harmonized Sales Tax (HST) Programs				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Tax Rebate for Specially Equipped Vehicles for the Disabled	1997	To provide tax relief on vehicles specially equipped with devices that enable access by a wheelchair or scooter, or auxiliary driving controls that are used to facilitate the operation of the vehicle by the disabled individual.	2018-2019	\$62,420
HST Rebate on Books	1997	To support literacy and education in the province by providing tax relief on book purchases.	2019	\$5,172,000

New Brunswick Tax Expenditures: Individuals				
Personal Income Tax Programs				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
New Brunswick Dividend Tax Credit BENCHMARK TAX SYSTEM	2000	To overcome the double taxation of dividend income in the corporate and personal income tax system. New Brunswick's two-rate Dividend Tax Credit structure is designed to recognize that dividend income has been subject to corporate income tax at the general corporate income tax rate and/or the small business corporate income tax rate. This helps ensure that the tax system does not interfere with business structures or the decision to pay salaries versus dividends.	2019	\$95,336,230 ¹
Foreign Tax Credit BENCHMARK TAX SYSTEM	2000	Foreign tax credits, at both federal and provincial levels, are designed to avoid double taxation as the income to be taxed in Canada has been taxed outside Canada already.	2018	\$3,298,969
Low-Income Tax Reduction	2001	To reduce New Brunswick tax payable for low-income individuals and families. Assists in reducing the barriers to work.	2018	\$47,442,926 ²
New Brunswick Child Tax Benefit and Working Income Supplement	1997	To provide financial assistance to low-income families with children.	2018-2019	\$8,826,291
School Supplement Program	2011	To assist low-income families in New Brunswick with the cost of back-to-school supplies for their school aged children.	2019	\$1,422,650

New Brunswick Tax Expenditures: Individuals				
Personal Income Tax Programs				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Political Contributions Tax Credit (Personal)	2000	To encourage individuals or corporations to contribute to a registered provincial political party, riding association or independent candidate for election to the New Brunswick legislature.	2018	\$1,037,817 ³
Low-Income Seniors' Benefit	1997	To provide assistance to mitigate the impact of the HST on low-income seniors.	2018-2019	\$17,692,400
Seniors' Home Renovation Tax Credit	2015	Intended to provide tax breaks to allow seniors or their families to renovate their homes to stay independent longer.	2018	\$213,066
New Brunswick HST Credit	2016	To help protect low-to-middle-income New Brunswickers from the increase of the provincial portion of the HST rate by two percentage points.	2018-2019	\$99,863,670
Home Energy Assistance Program (HEAP)	2006	To help low-income New Brunswick families cope with high energy prices.	2019	\$4,452,500
Non-Refundable Personal Income Tax Credit Block				
Basic Personal Amount BENCHMARK TAX SYSTEM	2000	As defined by the federal government, this measure contributes to tax fairness by ensuring that no tax is paid on a basic amount of income.	2019	\$484,918,154
Age Amount	2000	As defined by the federal government, the objectives of this measure are: (1) To provide income support or tax relief for seniors. (2) To achieve a social objective.	2019	\$41,063,694

New Brunswick Tax Expenditures: Individuals				
Non-Refundable Personal Income Tax Credit Block				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Spouse or Common-Law Partner Amount	2000	As defined by the federal government, this measure recognizes that a taxpayer whose spouse or common-law partner has little or no income has a reduced ability to pay tax relative to a single taxpayer with the same income.	2019	\$13,813,943
Amount for Eligible Dependent	2000	As defined by the federal government, this measure recognizes that a taxpayer without a spouse or common-law partner who is supporting a dependent has a reduced ability to pay tax relative to a taxpayer with the same income and no such dependent.	2019	\$7,996,282
Amount for Infirm Dependents Age 18 or Older	2000	As defined by the federal government, this measure recognizes that a taxpayer supporting an adult dependent who is physically or mentally infirmed has a reduced ability to pay tax relative to a taxpayer with the same income with no such dependent.	2019	\$204,035
Credit for CPP Contribution BENCHMARK TAX SYSTEM	2000	As defined by the federal government, this measure ensures a consistent treatment of Canada Pension Plan contributions and benefits.	2019	\$58,241,031 ⁴
Credit for EI Premium BENCHMARK TAX SYSTEM	2000	As defined by the federal government, this measure ensures a consistent treatment of Employment Insurance premiums and benefits.	2019	\$19,168,272

New Brunswick Tax Expenditures: Individuals				
Non-Refundable Personal Income Tax Credit Block				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Pension Income Amount	2000	As defined by the federal government, the objectives of providing the pension income amount are: (1) To provide income support or tax relief. (2) To achieve a social objective.	2019	\$12,418,029
Caregiver Amount	2000	As defined by the federal government, this measure recognizes that individuals providing in-home care for elderly or infirm family members have reduced ability to pay tax compared to other taxpayers with similar income.	2019	\$1,692,205
Disability Amount	2000	As defined by the federal government, this measure improves tax fairness by recognizing the effect of a severe and prolonged disability on an individual's ability to pay tax.	2019	\$15,489,961
Credit for interest Paid on Student Loans	2000	As defined by the federal government, this measure helps individuals manage their student debt loads by providing tax relief for interest payments on student loans.	2019	\$1,481,212
Tuition Tax Credit	Reinstated for the 2019 Taxation Year	As defined by the federal government, this measure provides students with assistance by recognizing post-secondary education costs.	2019	\$18,054,000
Medical Expense Credit	2000	As defined by the federal government, this measure recognizes the effect of above-average medical and disability related expenses on the ability of an individual to pay income tax.	2019	\$27,460,904

New Brunswick Tax Expenditures: Individuals

Charitable Gifts Credit	2000	As defined by the federal government, to achieve a social objective.	2019	\$28,209,285
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New Brunswick Tax Expenditures: Businesses

Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Small Business Investor Tax Credit	2003	To help provide access to equity financing for small businesses and lessen the reliance on debt financing.	2018	\$16,719,482
Research and Development Tax Credit	1994	To encourage research and development activity in the province.	2018	\$11,565,926
Labour Sponsored Venture Capital Tax Credit	1993	To encourage the availability of venture capital financing for small and medium-sized New Brunswick companies.	2018	\$11,280
Farmland Identification Program (FLIP)	1979	To encourage the continued use of farmland for agricultural purposes.	2019	\$7,700,000
Property Tax Abatement Program for Heritage Properties	2006	To help encourage the restoration and utilization of designated heritage properties.	2019	\$0
Real Property Tax Exemptions: Crude Oil Storage Tanks and Pipelines	1981	To help ensure the competitiveness of infrastructure that is important for economic development.	2019	\$663,602
Real Property Tax Exemptions: Fishing Harbours	1999	To help protect employment in and support the provincial fishing industry.	2019	\$139,512

New Brunswick Tax Expenditures: Businesses				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Real Property Tax Exemptions: Rail Right-of-Way, Major Cargo Ports and Airports	1997	To help ensure the financial viability of transportation infrastructure that is important for economic development and the competitiveness of the New Brunswick economy.	2019	\$6,076,331
Fuel Tax Exemption Program	1932	To ensure off-road usage/activity is not subject to road-user taxes and to help ensure the tax competitiveness of primary sectors.	2018-2019	\$24,593,232
Political Contributions Tax Credit (Corporate)	2000	To encourage individuals or corporations to contribute to a registered provincial political party, riding association or independent candidate for election to the New Brunswick legislature.	2018	\$6,142
Financial Corporation Capital Tax Employment Tax Credit	2016	To help grow business service centers in the New Brunswick banking sector.	2018	\$4,408,129

New Brunswick Tax Expenditures: Other				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Assessment Reduction Program (ARP)	1998	To provide property tax relief to those qualifying charitable and non-profit organizations which provide significant social benefits to individuals and communities.	2019	\$5,156,115
Real Property Tax Exemptions: Agricultural Societies or Agricultural Fair Associations	1967	To provide property tax relief to agricultural societies and fair associations which promote and serve the agriculture industry.	2019	\$321,455
Real Property Tax Exemptions: Arenas	1998	To provide property tax relief to arenas since they provide social benefits to communities.	2019	\$6,193,463
Real Property Tax Exemptions: Churches	1967	To provide property tax relief to churches and church property that provides social benefits to the public.	2019	\$18,420,097
Real Property Tax Exemptions: Literary, Art, Science and Historical Societies	1967 (Historical societies added in 1970)	To provide property tax relief to literary, art, science and historical societies, institutions and associations, which provide tourism and educational benefits, as well as promote and preserve heritage and cultural diversity.	2019	\$1,152,896
Real Property Tax Exemptions: Not-For-Profit, Low Rental Housing Accommodations	2005	To provide property tax relief to qualifying not-for-profit low rental housing organizations and to encourage the provision of more affordable housing by the non-profit sector.	2019	\$2,972,494
Real Property Tax Exemptions: Parks	1994	To help ensure the financial viability of these parks and support benefits that are provided (e.g. recreation, preservation of natural landscape, etc.).	2019	\$30,640

New Brunswick Tax Expenditures: Other				
Tax Expenditure	Implementation Year	Objective	Data Year	Program Cost
Real Property Tax Exemptions: Universities	1967	To provide property tax relief to the four publicly funded universities to help prevent the creation of additional barriers to quality post-secondary education and help ensure that New Brunswick universities are competitive with similar institutions in other jurisdictions.	2019	\$27,265,764
Real Property Tax Exemptions: Voluntary Fire Associations	1971	To provide property tax relief to voluntary fire associations that provide social and security benefits to the public.	2019	\$947,906 ⁵
Real Property Tax Exemptions: Public Libraries	2013	To provide property tax relief to public libraries in recognition of the important public service they perform.	2019	\$1,004,319
HST Rebate for Charitable Organizations	1997	To provide some measure of sales tax relief for charitable organizations in recognition of benefits provided to the public.	2019	\$10,472,000
HST Rebate for Municipalities	1997	To mitigate some of the impact of the HST on municipalities.	2019	\$31,590,000
HST Rebate for Qualifying Non-Profit Organizations	1997	To provide tax relief for, and mitigate the impact of, the HST on qualifying non-profit organizations in recognition of benefits provided to the public.	2019	\$2,168,000
Research and Development Tax Credit for Universities	1997	To help encourage research and development activity at New Brunswick universities.	2018-2019	\$479,281

Endnotes

1. New Brunswick Dividend Tax Credit: Estimated using the latest version of SPSPD/M (V.28)
The following may have contributed to recent increases in dividend income and the resulting increases to the dividend tax credit costs:
 - Effective April 1, 2016 the general corporate income tax rate increased from 12% to 14%. This resulted in a corresponding increase to the dividend tax credit rate for eligible dividends from 12% to 14%.
 - Potential behavioral impacts from:
 - 2017 federal government consultations. Regarding tax planning strategies involving the use of private corporations. More specifically, discussions included holding a passive investment portfolio inside a private corporation to take advantage of lower corporate income tax rates. This may have expedited the distribution of dividends.
 - 2017 US tax reforms. These reforms contained a mandatory deemed repatriation tax which may have forced American citizens living in Canada, who are shareholders of non-US corporations, to expedite the distribution of earnings from the company earlier than planned to reduce their exposure to significant double taxation.
2. Low Income Tax Reduction: The data source was changed from an estimate using the latest version of SPSPD/M to Finance Canada data which is lagged by one year. The following may have contributed to recent changes in the LITR program cost. The tuition tax credit was eliminated in 2017 and then reinstated in 2019. This would have impacted taxpayer's ability to use the LITR. An elimination of the tuition tax credit could increase the usage of LITR and vice versa.
3. Political Contribution Tax Credit (Personal): the cost for this program fluctuates from year to year depending on the timing of elections. The increased cost to this program in 2018 reflects the 2018 provincial election.
4. Credit for CPP Contribution: Beginning in 2019, the Canada Pension Plan (CPP) will be gradually enhanced and contributions under the enhanced portion will be deductible from total income. The costing reflects the total program cost which includes the enhanced CPP cost and the CPP core contributions cost.
5. Real Property Tax Exemptions: Voluntary Fire Associations: Beginning for the 2019 taxation year, SNB's internal Tax Class Guideline (Policy AS-040-007) has been updated to ensure a consistent application of this exemption. Over time, many voluntary fire associations have been established in small to medium sized municipalities that service surrounding municipalities, local service districts and rural communities. Prior to the SNB guideline change, these small municipal volunteer fire associations were not included in this exemption. With the change, this exemption will now be applied to all rural voluntary fire associations in New Brunswick, regardless if they are located within a LSD, village or town, provided that they are fully voluntary, and they service areas outside of the municipal limits.