

Chapter 6

Tax Expenditures

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Tax Expenditures

What Are Tax Expenditures?

Tax expenditures defined

6.1 Tax expenditures are tax relief programs the Province offers to individuals and organizations in the form of tax exemptions, tax deferrals, tax deductions, tax rebates and tax credits.

Tax revenue is reduced by over \$1 billion

6.2 Tax expenditures reduce the amount of tax revenue the Province would otherwise have collected. The Province forgoes over \$1 billion in tax revenue each year because of tax expenditures.

Are Tax Expenditures Accounted for Properly in the Province?

Proper accounting treatment is to net tax expenditures against gross revenue

6.3 Public sector accounting standards require revenues to be disclosed on a gross basis. One exception to this relates to tax expenditures. The accounting standards require tax expenditures be netted against gross revenue.

Tax expenditures reduce reported revenue

6.4 The Province reports revenues in its financial statements net of tax expenditures. This means revenue is reduced for all tax expenditures approved by the Province.

Tax expenditures reported in accordance with accounting standards

6.5 The Province is properly following Public sector accounting standards in reducing revenue by the amount of tax expenditures.

How Are Tax Expenditures Reported to the Public?

No requirement to report tax expenditures

6.6 In New Brunswick, there are no legislative requirements or accounting standards which require the Province to disclose tax expenditures in its budget or financial statements.

Public reporting increases transparency

6.7 In our view, publicly reporting the nature and cost of tax expenditures improves the transparency of financial information which supports better decision making by the legislators. Publicly reporting tax expenditures provides a

better understanding of total government spending to achieve program objectives.

Informs taxpayers of tax benefits

6.8 Reporting tax expenditures publicly also informs taxpayers about the tax benefits available to them.

Many other provinces report tax expenditures

6.9 The provinces below publicly report tax expenditures in their annual budget or as a stand-alone tax expenditure report.

Provinces that report tax expenditures in annual budget:

- Newfoundland & Labrador
- Nova Scotia
- Manitoba
- Saskatchewan
- British Columbia
- Alberta

Provinces that report tax expenditures in a stand-alone report:

- Ontario – Taxation Transparency Report
- Quebec – Tax Expenditures Report

6.10 The comprehensiveness of tax expenditure reporting varies for each province. See Exhibit 6.4 at the end of this chapter for examples of tax expenditure reporting by other provinces.

Recommendation

6.11 We recommend the Department of Finance and Treasury Board publicly report each year the nature and amount of tax expenditures so that the Province is in line with most other Canadian provinces.

Information recently released publicly for the first time

6.12 In November 2019, at the time of writing this report, the Province released tax expenditure information publicly for the first time.

Most Canadian provinces publicly reported tax expenditures

6.13 Prior to this, the Province of New Brunswick was one of few provinces that did not publicly report tax expenditures in any of its public documents. As a result, we were concerned legislators and the public were unaware of the amount of foregone revenue resulting from tax expenditure programs.

Not subject to routine scrutiny

6.14 Unlike other expenditure programs, tax expenditures were not subject to any form of routine scrutiny through the annual budget process or by legislators.

Province presents its tax expenditures differently than this chapter does

6.15 We reviewed the information published by the Province and found it to be similar to the information included in this chapter. We did note, however, some differences relating to how the Province categorizes the information.

Does the Province Have a Tax Expenditures Policy?

A tax expenditure policy does not exist

6.16 The Province does not have a tax expenditure policy for the Department of Finance and Treasury Board when reviewing and approving tax expenditure programs. A policy would outline items such as:

- the timeline for public reporting tax expenditures; and
- the process, level of approval and documentation required for the annual review of tax expenditure programs.

Tax expenditures created by legislation

6.17 We found most of New Brunswick's tax expenditure programs are long-standing. A new tax expenditure program is created by passing legislation in the Legislative Assembly.

No formal documented review and approval of current tax expenditures

6.18 We also noted tax expenditures in New Brunswick are reviewed annually by the Department of Finance and Treasury and updated as required for any policy changes, recent developments and updated financial estimates. We examined this process and found no formal review and approval process exists for the annual review of tax expenditures.

Recommendation

6.19 We recommend the Department of Finance and Treasury Board develop a policy for reviewing tax expenditure programs. This policy will help to formalize the process for reviewing, approving and reporting tax expenditure programs for the Province.

What Types of Tax Expenditures Exist?

Three types of tax programs: Tax expenditures, tax spending programs, and residential property tax credit

6.20 There are 48 different tax expenditure programs in New Brunswick. See Exhibit 6.5 at the end of this chapter for a detailed listing of these tax expenditure programs. In addition, there are six other tax credit programs, five of which are considered spending programs. The remaining tax credit relates to the residential property tax credit. This tax credit is neither a tax expenditure nor a spending program. It is a means to implement a provincial tax rate of zero on owner-occupied properties.

Only tax expenditures are in scope for this chapter

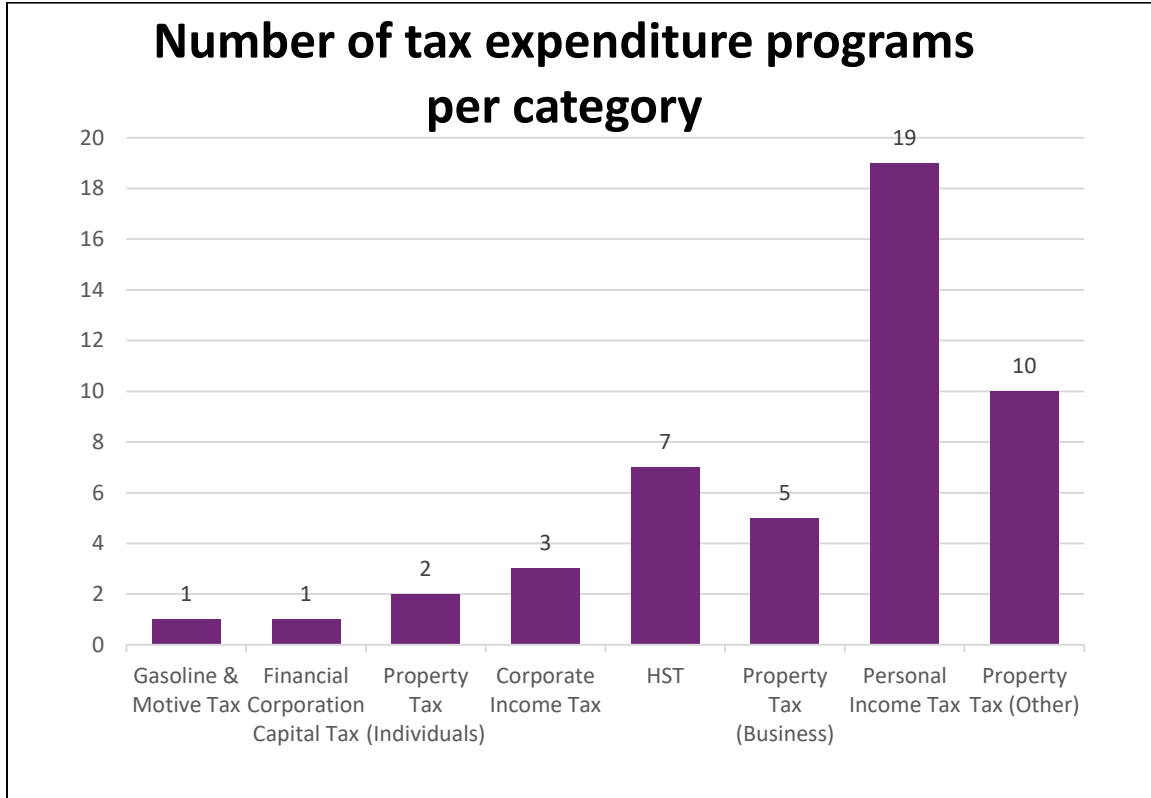
6.21 We have excluded the six tax credit programs as part of our work as they are not netted against gross revenue. See Exhibit 6.5 for more information on the excluded tax credits.

Tax expenditures can be grouped into eight categories

6.22 Exhibit 6.1 breaks down the 48 different tax expenditure programs available in New Brunswick by category. The categories are:

- Personal income tax
- Corporate income tax
- Property tax (individuals)
- Property tax (businesses)
- Property tax (other)
- Sales tax (HST)
- Gasoline & motive tax
- Financial corporation capital tax

Exhibit 6.1 - Number of Tax Expenditure Programs by Category



Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited)

Example of a tax expenditure available in New Brunswick

6.23 The “Low-Income Property Tax Allowance” is an example of a tax expenditure program which provides property tax relief to low-income homeowners on their principal residence. This tax expenditure is grouped in the “Property Tax (Individuals)” category.

What is the Cost of Tax Expenditures for the Province?

How much has the Province recorded for tax expenditures?

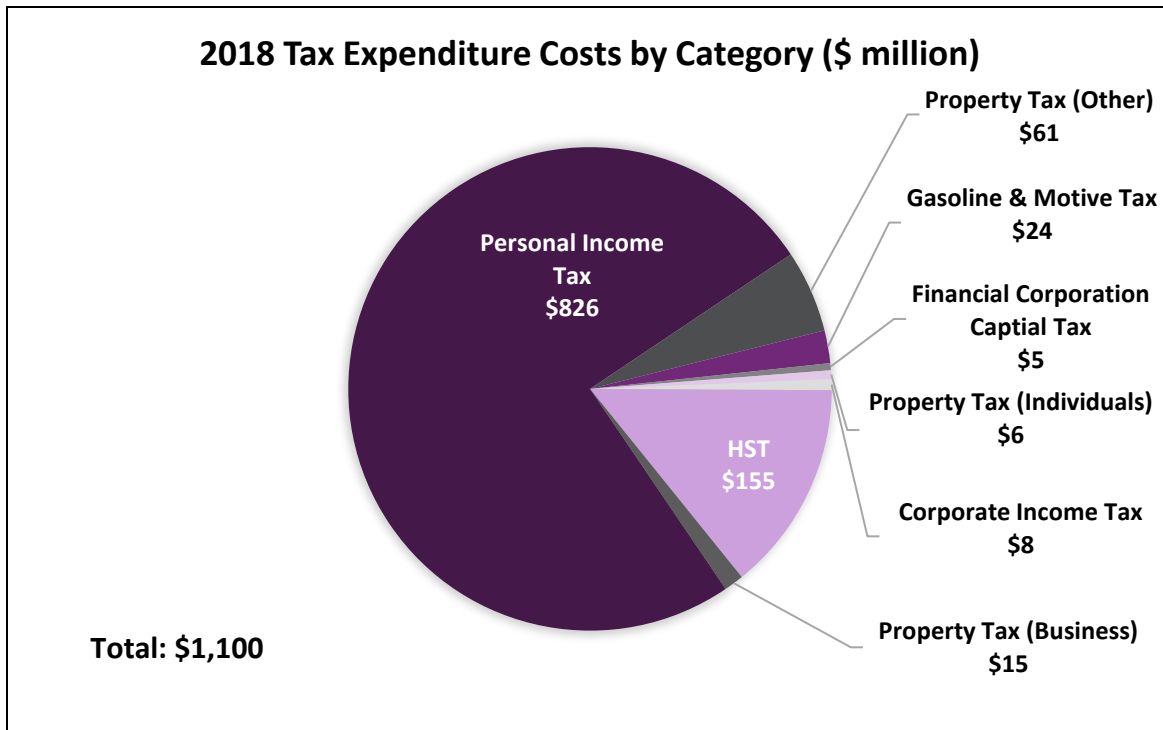
6.24 In recent years, the Province has recorded approximately \$1.1 billion in annual tax expenditures, which are netted against revenue.

What programs have the largest tax expenditure costs?

- 6.25** The largest tax expenditure program costs are:
- Basic Personal Amount (\$477 million)
 - New Brunswick HST Credit (\$100 million)
 - Dividend Tax Credit (\$68 million)
 - CPP Contributions (\$57 million)
 - Low-Income Tax Reduction (\$45 million)

6.26 Exhibit 6.2 shows the tax expenditure costs by the eight categories. For example, tax expenditure programs in the Personal Income Tax category represent 75% (\$826 million) of total tax expenditure costs in 2018.

Exhibit 6.2 - 2018 Tax Expenditure Costs by Category



Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited). See Exhibit 6.5 for details.

***Caution should be used when totalling tax expenditures due to interaction between programs (elimination of one program could increase or decrease the cost of other programs).*

Who Benefits from Tax Expenditures?

Individuals, businesses, and other entities benefit

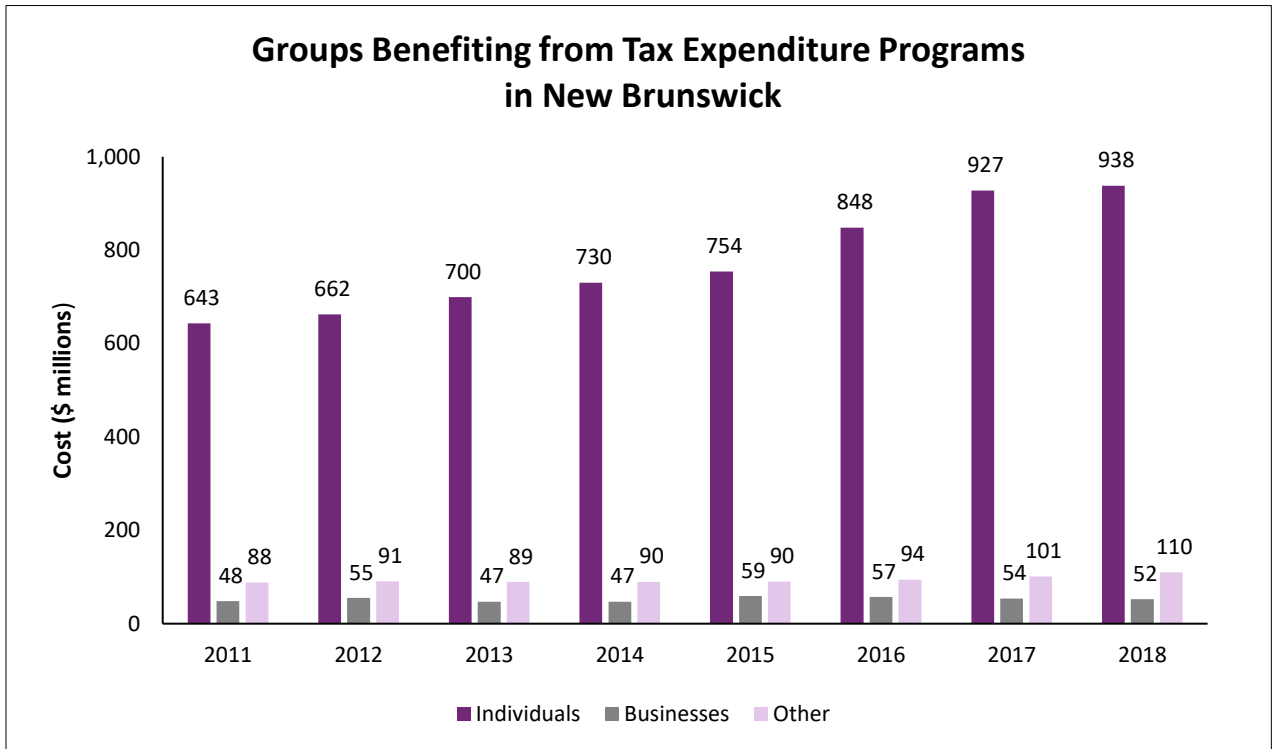
6.27 Tax expenditure programs in New Brunswick provide tax relief benefits to individuals, businesses, and other entities.

6.28 The other entities benefiting from tax expenditures include municipalities, universities, charities and not-for-profit organizations, churches and other.

Individuals received over \$900 million in benefits in 2018

6.29 Individuals in the province receive the largest benefit from tax expenditures. As noted in Exhibit 6.3, individuals received over \$900 million in benefits from tax expenditures in 2018.

Exhibit 6.3 - Groups Benefiting from Tax Expenditure Programs in NB



Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited)

Exhibit 6.4 - Examples of Tax Expenditure Reporting by Other Provinces

Examples of Tax Expenditure Reporting by Other Provinces

Province	Categories of Tax Expenditures Reported	What Periods are Reported?	Other Information Provided
Nova Scotia	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Harmonized Sales Tax 	<ul style="list-style-type: none"> - 2018-2019 Estimate - 2018-2019 Forecast - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Information regarding changes from 2018-2019 regarding the Basic Personal Amount - New tax credits that have been introduced or will soon be introduced, and credits that will be phased out
Newfoundland & Labrador	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Sales Tax - Fuel Tax - Carbon Tax - Tobacco Tax 	<ul style="list-style-type: none"> - 2018-2019 Budget - 2018-2019 Revised - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Definition of tax expenditures
Quebec	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Consumption Tax 	<ul style="list-style-type: none"> - 2013-2019 Estimate 	<ul style="list-style-type: none"> - Detailed and comprehensive report - Analyzes year over year cost variances for each category - Detailed explanation of methodology used to calculate tax expenditure estimates
Ontario	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Sales Tax - Education Property Tax - Employer Health Tax - Mining Tax - Estate Administration Tax - Gross Revenue Charge 	<ul style="list-style-type: none"> - 2018 Estimate 	<ul style="list-style-type: none"> - Describes legislated requirement to publicly disclose tax expenditures - Outlines the scope and methods used to determine the tax expenditure estimates - No reporting for estimates less than \$1 million
Manitoba	<ul style="list-style-type: none"> - Retail Sales Tax - Business Tax - Business Tax Credit Extensions - On-going Personal Tax Measures 	<ul style="list-style-type: none"> - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Only tax expenditures that are new for 2019-2020 or have changed from previous year are reported
Saskatchewan	<ul style="list-style-type: none"> - Personal Income Tax - Corporation Income Tax - Provincial Sales Tax - Fuel Tax 	<ul style="list-style-type: none"> - 2016, 2017, 2018 Revised - 2019 Estimate 	<ul style="list-style-type: none"> - Comprehensive explanation and rationale for tax expenditures - Brief explanation of how tax expenditures are estimated
Alberta	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Fuel Tax - Transfers Through the Tax System 	<ul style="list-style-type: none"> - 2018 Estimate 	<ul style="list-style-type: none"> - No additional information provided
British Columbia	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Property Tax - Consumption Tax 	<ul style="list-style-type: none"> - 2018-2019 Estimate 	<ul style="list-style-type: none"> - Detailed explanation of province's tax expenditures - Only includes programs that are close equivalents to spending programs - Does not include tax expenditures less than \$2 million annually

Source: Prepared by AGNB with publicly available information

Exhibit 6.5 - New Brunswick Tax Expenditure Programs and Costs

Tax Expenditure Programs and Costs (\$ millions)

Tax Expenditure	Year	
	2018	2017
Personal Income Tax		
Low-Income Tax Reduction	44.6	45.3
Foreign Tax Credit*	4.7	4.7
Political Contributions Tax Credit (Individual)*	0.4	0.4
Small Business Investor Tax Credit (Individuals)* **	17.9	17.9
Labour Sponsored Venture Capital*	0.0	0.0
Dividend Tax Credit	67.6	65.8
Basic Personal Amount	477.0	467.1
Age Amount	37.7	38.5
Spouse or Common-Law Partner Amount	11.1	12.3
Amount for Eligible Dependent	8.7	8.2
Amount for Infirm Dependents Age 18 or Older	0.2	0.1
CPP Contributions	56.8	54.3
EI Premiums	19.7	18.7
Pension Income Amount	12.5	12.0
Caregiver Amount	1.2	1.5
Disability Amount	15.5	13.4
Interest Paid on Student Loans	1.2	1.3
Medical Expenses	26.5	23.6
Donations and Gifts	23.2	30.7
Total Personal Income Tax	826.5	815.8
Corporate Income Tax		
Small Business Investor Tax Credit (Corporations)*	0.1	0.1
Research and Development Tax Credit*	8.1	8.1
Political Contributions Tax Credit (Corporation)*	0.0	0.0
Total Corporate Income Tax	8.2	8.2
Financial Corporation Capital Tax		
Financial Corporation Capital Tax Employment Tax Credit*	5.2	5.2

Exhibit 6.5 – New Brunswick Tax Expenditure Programs and Costs (Continued)

Tax Expenditure	Year	
	2018	2017
Sales Tax		
Research and Development Credit for Universities	0.4	0.4
HST Rebate for Specially Equipped Vehicles for the Disabled	0.1	0.1
HST Rebate for Municipalities	36.5	29.9
HST Rebate for Charitable Organizations	11.3	9.7
HST Rebate for Qualifying Non-Profit Organizations	1.9	1.9
HST Rebate on Books	5.1	4.8
New Brunswick HST Credit	99.9	100.1
Total Sales Tax	155.2	146.9
Fuel Tax		
Fuel Tax Exemption Program	24.1	24.8
Property Tax (Individuals)		
Low-Income Property Tax Allowance	6.3	6.5
Property Tax Deferral for Seniors	0.0	0.0
Total Property Tax (Individuals)	6.3	6.5
Property Tax (Business)		
Farmland Identification Program	7.5	7.4
Heritage Property Tax Abatement Program	0.0	0.0
Real Property Tax Exemptions: Fishing Harbours	0.1	0.1
Real Property Tax Exemptions: Crude Oil Storage Tanks and Pipelines	0.7	0.7
Real Property Tax Exemptions: Rail Right-of-Way, Major Cargo Ports and Airport	6.3	6.9
Total Property Tax (Business)	14.6	15.1
Property Tax (Other)		
Assessment Reduction Program	5.0	4.8
Real Property Tax Exemptions: Churches	18.2	18.7
Real Property Tax Exemptions: Universities	26.6	26.3
Real Property Tax Exemptions: Arenas	5.0	4.4
Real Property Tax Exemptions: Not-for-Profit, Low Rental Housing Accommodations	2.9	2.9
Real Property Tax Exemptions: Literary, Art, Science and Historical Societies	1.2	1.1
Real Property Tax Exemptions: Voluntary Fire Associations	0.4	0.3
Property Tax Exemptions: Parks	0.0	0.0

Exhibit 6.5 – New Brunswick Tax Expenditure Programs and Costs (Continued)

Tax Expenditure	Year	
	2018	2017
Real Property Tax Exemptions: Agricultural Societies or Agricultural Fair Associations	0.3	0.2
Real Property Tax Exemptions: Public Libraries	1.0	1.0
Total Property Tax (Other)	60.6	59.7
Total Tax Expenditures	1,100.7	1,082.2
Tax Spending Programs and Other	Year	
	2018	2017
Residential Property Tax Credit***	377.2	375.1
New Brunswick Child Tax Benefit and Working Income Supplement	9.0	9.2
School Supplement Program	1.4	1.5
Low-Income Seniors' Benefit	17.3	17.3
Seniors' Home Renovation Tax Credit*	0.2	0.2
Home Energy Assistance Program (HEAP)	4.3	5.1
Total Tax Spending Programs and Other	409.4	408.4
Grand Total Tax Expenditures and Other Tax Programs	1,510.1	1,490.6

Source: Prepared by AGNB based on information provided by the Department of Finance and Treasury Board (unaudited)

* 2018 costs were not available, 2017 costs have been used.

** The Province publicly reports this item as a tax expenditure for businesses. The Province's rationale is: Even though the original benefit is given to individuals, businesses are the ones who ultimately benefit.

*** The residential property tax credit is a means to implement a provincial tax rate of zero on owner occupied residential properties, as specified in legislation. It is not considered a tax expenditure. We are referring to it as an other tax amount.