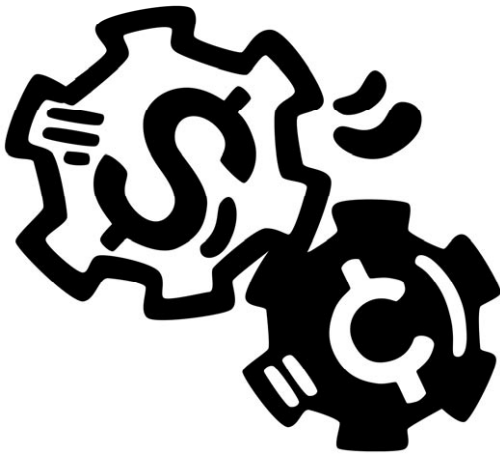


2002/03 Manitoba

Pre-Budget Submission



**Presented to:
Honourable Greg Selinger
Minister of Finance**

[News Release](#)

February 4, 2002

Victor Vrsnik
Provincial Director
Canadian Taxpayers Federation - Manitoba

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization.

The CTF's three-fold mission statement is:

- To act as a watchdog on government spending and to inform taxpayers of governments' impact on their economic well-being;
- To promote responsible fiscal and democratic reforms, and to advocate the common interest of taxpayers; and
- To mobilize taxpayers to exercise their democratic rights and responsibilities.

The CTF maintains a federal office in Ottawa and offices in the four provincial capitals of British Columbia, Alberta, Saskatchewan, and Manitoba. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

The CTF's official publication, *The Taxpayer*, is published six times a year. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets nationally as well as providing media comment on current events.

The CTF staff and Board of Directors are not permitted to hold memberships in any political party. The CTF is funded by free will, non-receiptable contributions and the CTF does not receive contributions from government.

For further information contact:

Victor Vrsnik,
Provincial Director
212-428 Portage Avenue
Winnipeg, Manitoba RC3-0E2
Tel: (204) 982-2150
Fax: (204) 982-2154
Email: vrsnik@videon.wave.ca
Web: www.taxpayer.com

Table of Contents

Part I.	Recommendations	3
Part II.	Principles of Taxation	5
Part III.	Framing the Debate:	6
	1. Competitive Taxation	6
	2. Tax Relief	7
	3. Bracket Creep	8
	4. Basic Personal Exemption and Spousal Deduction	9
	5. Single Tax and Rate Reductions	10
	6. Tax Credits	11
	7. Back Door Tax Increases	11
	8. Balanced Budget	11
Part IV.	Government Spending Restraint	12
	1. Business Subsidies	13
	2. Health	13
	3. Education and Property Taxes	15
	4. Targeted Savings	16
	5. Privatization	17
	6. Municipal and School Division Taxpayer Protection	18

Part I. Recommendations

Income Tax Relief:

- Eliminate bracket creep and fully index tax brackets and credits to inflation.
- Set 2002 individual income tax rates that surpass those in Saskatchewan. The middle rate should fall from 15.4% to 12.5% and the top rate should fall from 17.4% to 14.5%.
- Set the 2002 basic personal exemption and spousal deduction to at least Saskatchewan's level of \$8,000.
- Do not introduce any new tax credits to Manitoba's income tax system.

Spending:

- Freeze overall government spending with the possible exception of health care spending. Increases to health care spending should be funded by a redirection of existing budget envelopes.
- Phase out business subsidy programs and cut departmental funding by an equal amount.
- Do not raid the reserves of publicly owned utilities.
- Introduce competition, privatization and alternative service delivery to government departments and agencies.

Property Taxes:

- Eliminate or phase out the provincial education support levy.
- Eliminate or phase out the \$37 million of school division taxes levied on farmland.
- Conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms.
- To control rising expenditures and tax increases, extend the Manitoba Taxpayer Protection Act to municipal governments and school boards.
- Do not grant municipalities new taxing powers such as a hotel tax, a gas tax levy, a sales tax or an income tax.

Balanced Budget:

- Balance expenditures with revenues and continue to pay down the debt in accordance with the debt repayment schedule.
- Do not introduce amendments that would in any way weaken or water down the impact and intent of the Taxpayer Protection Act.

Part II. Principles of Taxation

- The tax system should be simple. The accountability of government is enhanced when citizens understand their tax system. Complexity is an adversary of accountability.
- The tax burden should be low. Low is key since dollars multiply more rapidly in private hands than in government pockets.
- The tax system should be flatter. Flat is important because simplicity is enhanced with one rate of taxation. As long as the province retains a Basic Personal Exemption (BPE,) and preferably a generous one, the tax system will still be progressive, but without the disincentive to wealth creation that currently exists within Canada because of high marginal tax rates that discourage risk-taking, saving, and investment.
- The purpose of the tax system should be to calculate and collect taxes in the fairest, most efficient way possible for the operations of government.
- The tax system should not be used as an instrument of social policy, designed as a means to political or ideological ends. Taxes are a vehicle for raising revenues. Social policy issues should be addressed through government programmes and services, not through the tax system.
- The tax system should enhance Manitoba's competitive standing with other provinces and states south of the border.
- The tax system should not favour one economic group over another. It should provide a level playing field.
- The tax system should generate revenues necessary to cover the cost of essential government programmes and services, no more, no less.
- The tax system should not discourage the incentive to work, save or invest.
- The tax system should not be a factor contributing to falling disposable incomes and record high personal debt levels.
- The tax system should promote economic prosperity for all Manitobans.

Part III. Framing the Debate

The Manitoba chapter of the Canadian Taxpayers Federation is grateful for the opportunity to present the findings and recommendations of our 2002/03 Manitoba pre-budget submission.

The provincial government has earned praise by many financial institutions that paid tribute to the accomplishments of last year's budget: scheduled debt payments, lower debt servicing costs, a balanced budget, and individual and business tax cuts. In the context of our supporter survey results and inter-provincial comparisons, the Canadian Taxpayers Federation urges the provincial government to amplify these measures in the 2002/03 Budget.

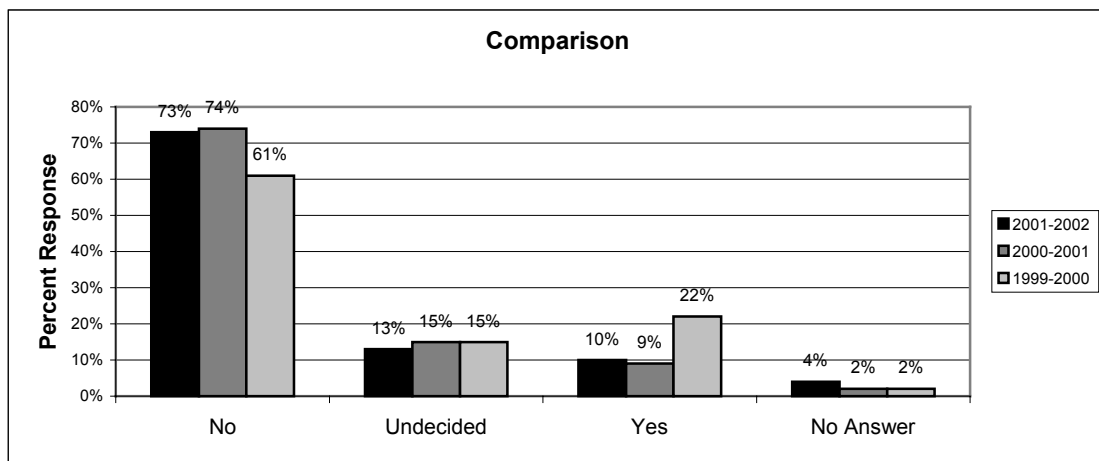
1. Competitive Taxation

Despite some positive indicators from last year's budget, CTF members remain cautious about the province's economic future.

The *2001/02 CTF Supporter Survey* shows that taxpayers are losing faith in Manitoba's competitive standing with other provinces. A plurality of 73 per cent of respondents believed that Manitoba's tax rates and taxation policies hindered Manitoba's ability to compete with other provinces for new business development, compared to 74 per cent last year, and 61 per cent in 1999/00. Only 10 per cent of respondents said Manitoba's taxes were competitive, compared to 9 per cent last year and 22 per cent in 1999/00.

2001/02 CTF Supporter Survey Question 1:

Do you feel current provincial tax rates and taxation policies allow Manitoba to successfully compete with other provinces for new business development?



The lack of faith in Manitoba's tax rates coincides with substantial tax cuts in other provinces, such as Alberta and Ontario, where income tax rates have fallen dramatically. Meanwhile Manitoba has been left in the lurch as other provinces create more competitive tax structures.

According to the 2001 budget document, a Manitoba family of four with a \$40,000 income will pay twice as much in income taxes than the same family in Alberta. Our fears of being lapped by Alberta tax cuts have come true.

A 2001 inter-provincial survey comparing the impact of provincial and federal income taxes at various income levels shows that Manitobans pay the eighth and ninth lowest income taxes among the ten provinces for incomes between \$20,000 to \$150,000.¹

Individual Income tax Table for 2001
Amount of Income Tax

Taxable Income	BC	AB	SK	MB	Rank	ON	PQ	NB	NS	PEI	NF
200,000	77,148	68,219	78,489	81,155	6	77,973	86,347	80,525	81,600	81,614	84,303
150,000	54,298	48,719	55,989	57,955	8	54,768	61,989	57,105	57,931	57,929	59,982
100,000	31,448	29,219	33,489	34,755	8	31,564	37,632	33,685	34,263	34,244	35,661
90,000	27,178	25,619	29,289	30,415	8	27,223	33,011	29,433	29,829	29,807	31,097
80,000	22,958	22,019	25,089	26,075	8	22,882	28,390	25,181	25,395	25,370	26,533
70,000	18,788	18,419	20,889	21,735	8	18,541	23,769	20,929	21,120	20,933	21,968
60,000	14,909	14,879	16,749	17,468	9	14,433	19,198	16,763	16,914	16,605	17,465
50,000	11,659	11,679	13,199	13,648	9	11,192	14,976	13,081	13,205	12,912	13,612
40,000	8,409	8,479	9,649	9,828	9	8,068	11,014	9,399	9,510	9,332	9,796
30,000	5,220	5,324	6,144	6,028	8	5,014	7,090	5,801	5,860	5,828	6,025
20,000	2,890	2,649	3,394	3,367	8	2,794	3,884	3,233	3,212	3,248	3,345

2. Tax Relief

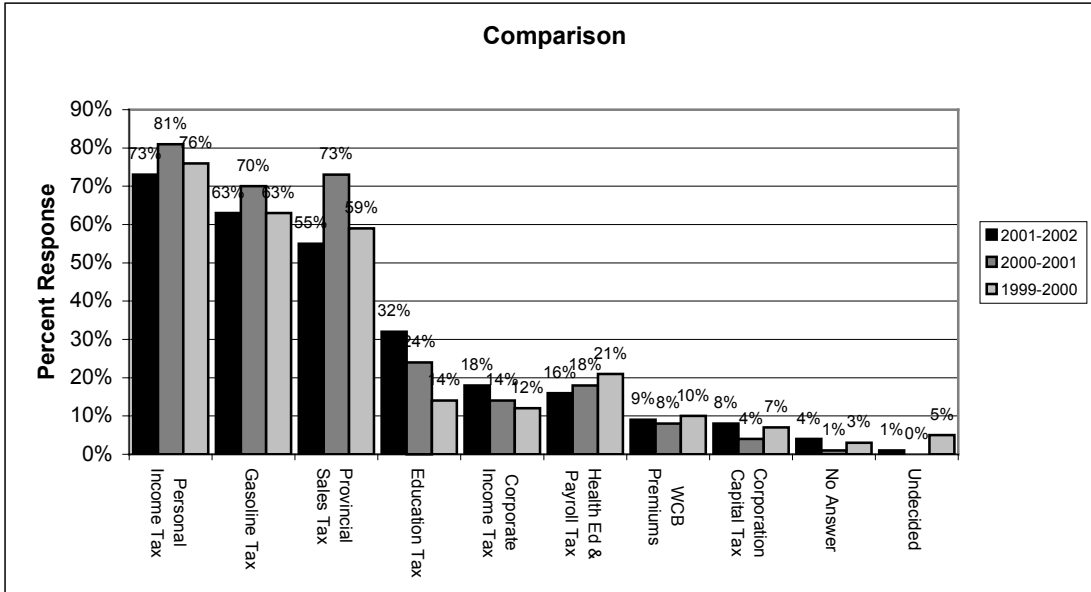
The *2001/02 CTF Supporter Survey* shows that members give highest priority to eliminating individual income taxes. **In the survey, 73 per cent of respondents selected personal income tax cuts as their first priority, down from to 81 per cent in 2000/01.**

The imperative over income and sales taxes lost ground to the growing concern with education taxes (up 8 per cent over last year and 18 per cent over 1999/2000) and corporate income taxes (up 4 per cent over last year and 6 per cent over 1999/2000).

¹ PriceWaterhouseCoppers, *Tax Facts and Figures: For Individuals and Corporations*, 2001.

2001/02 CTF Supporter Survey Question 2:

If provincial taxes were to be cut, which three taxes would you give the highest priority for reducing or eliminating?



3. Bracket Creep

The impact of bracket creep has steadily eroded disposable incomes for Manitoba families. As costs of goods increase, tax brackets must also increase as a way of combating the negative affect of inflation on purchasing power.

Last year's budget helped mitigate the problem for higher income earners by raising the top tax bracket from \$61,089 to \$65,000, or a 6% increase. However the first and second tax brackets were left untouched causing lower income earners to suffer a loss to their purchasing power. But all income earners should be treated even handedly in terms of indication of the tax brackets and credits.

To reverse this problem, the province should restore the policy full indexation, as adopted by the federal government and many provincial governments.

Outlawing bracket creep today would not restore the personal credits and tax brackets to their fully indexed values. But it would restore fairness, transparency and accountability to the tax system.

Unfortunately, Manitoba has not made any announcement to restore full indexation. With the exception of the Atlantic Provinces, all other provincial governments have either eliminated bracket creep or announced when indexation will be restored.

2002 Bracket Creep Status Chart		
Province	Indexation of Tax Brackets	Indexation of Non-Refundable Tax Credits
Federal Government	Yes	Yes
British Columbia	Yes	Yes
Alberta	No brackets to index	Yes
Saskatchewan	Yes in 2003	Yes in 2003
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes in 2003	Yes in 2003
New Brunswick	No Announcement	No Announcement
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 1:

The province should fully index the tax brackets and credits to inflation.

4. Basic Personal Exemption and Spousal Deduction

The province should opt to exempt more low-income taxpayers and income from taxation by setting a higher Basic Personal Exemption. While the province currently uses tax credits to eliminate provincial income taxes on the working poor, a BPE set significantly higher - and indexed for inflation - would accomplish much the same task and highlight the difference between a generous Manitoba personal exemption and the woefully inadequate federal personal exemption. With a generous BPE fully indexed to inflation, bracket creep would be the first casualty, thereby releasing more low-income earners from the tax roles.

The provincial government should gradually raise the \$7,412 basic personal exemption and the \$6,294 spousal deduction to a level competitive with the \$13,339 rate recently set by Alberta, and fully indexed to inflation.

Recommendation 2:

In the meantime, target the 2002 basic personal exemption and spousal deduction to at least Saskatchewan's level of \$8,000.

5. Single Tax and Rate Reductions

The purpose of the single tax bracket is to fashion a more fair system where all Manitobans pay the same rate of provincial income tax on their taxable income. The tax system would maintain progressivity in the sense that higher income earners will still pay more taxes than lower income earners.

The province should work toward replacing the current tax brackets with a flatter single rate of provincial income tax calculated at a rate that would not generate greater income tax returns than at present. The new rate should gradually become competitive with the 10% rate recently set by Alberta, and fully indexed to inflation.

In the meantime, Manitobans should satisfy themselves with an individual income tax structure that is competitive with Saskatchewan, a province comparable to Manitoba in many ways.

Manitoba's first income tax rate of 10.9% is an improvement over Saskatchewan's 11.25%. But Manitoba's middle (15.4%) and top rates (17.4%) fall short of Saskatchewan at 13.25% and 15.5%.

Recommendation 3:

The provincial government should set 2002 income tax rates that surpass Saskatchewan. The middle rate should fall from 15.4% to 12.5%; and the top rate should fall from 17.4% to 14.5%.

6. Tax credits

New tax credits lessen the ability of the province to set uniformly low income tax rates. Additional credits will also add paperwork to the income tax process thus working against the goal of simplicity.

Recommendation 4:

The province should not introduce any new tax credits to Manitoba's income tax system.

7. Backdoor Tax Increases

Publicly owned Crown Corporations like Manitoba Hydro were originally conceived to protect ratepayers from discriminatory rates and price gouging by privately owned utilities. Last year's \$52 million waterpower rental rate increase broke public trust by imposing an unjustifiable cost on Hydro ratepayers. The rate increase from \$1.628 per MW hour to \$3.341 per MW hour has no bearing on the cost of the utility. Hydro costs should be defrayed through utility rates and not by waterpower royalty fees.

Support for government control over crowns such as Manitoba Hydro will likely deteriorate if energy prices rise on account of government skimming of Hydro profits.

Recommendation 5:

As a rule, the Province should not raid the reserves of publicly owned utilities to defray spending and balance budgets.

8. Balanced Budget

Manitoba's balanced budget laws are regarded as model legislation for the country. It has successfully lead to balanced budgets for six years.

The last recorded deficit was \$196 million in 1994, one year before the passage of the balanced budget law. Public debt costs were \$597 million compared to \$458 million in 2001.

Manitobans should consider how a deficit would affect the province's credit rating, ability to attract business investment, and employment opportunities.

Recommendation 6:

The 2002/2003 Budget should balance expenditures with revenues and continue to pay down the debt in accordance with the debt repayment schedule.

Recommendation 7:

The Province should not introduce amendments that would in any way weaken or water down the impact and intent of the Taxpayer protection Act.

Part IV. Government Spending Restraint

The province's fiscal challenges - over dependence on federal transfers, a \$14.5 billion net direct and guaranteed debt, high spending, and increasingly uncompetitive taxes - cannot be adequately resolved without a thorough re-examination of the role of and size government.

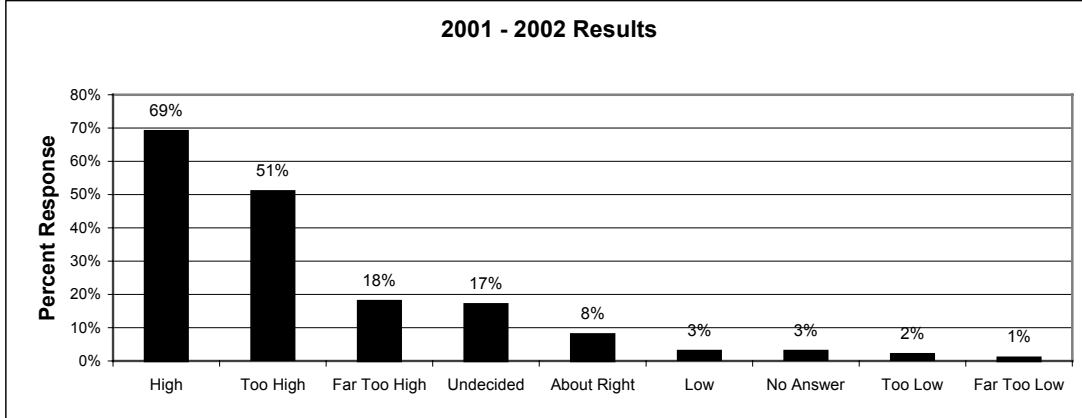
Government's size should be examined from the perspective of what is it that taxpayers expect government to do and what is it that they can afford. To not re-examine the activities of government is to allow government spending to continue to grow unchecked at the possible expense of balanced budgets and significant tax relief. As a result, Manitoba will have fewer long-term policy options on priority program spending and tax relief vis-a-vis other provinces.

One of the greatest challenges to balancing the books is to level out record high spending. Compared to the 2000 Budget, spending last year increased by \$359 million. Although public consensus may support increased health spending, the same cannot be said for every other department that was awarded a budget increase last year.

The *2001/02 CTF Supporter Survey* shows that provincial spending levels are too high.

2001/02 CTF Supporter Survey Question 3:

Overall, do you think the current level of spending by the Government of Manitoba is far too low, too low, about right, undecided, too high, or far too high?



1. Business Subsidies

The CTF membership has long supported the elimination of business grants, loans and other special concessions to individual businesses in order to pave the way for greater tax relief and debt repayment.

Business subsidies distort the market and confer privileges on select business. Manitoba's record of selecting winners and losers in the subsidy game leaves much to be desired.

Recommendation 8:

The provincial government should phase out business subsidy programs and cut departmental funding by an equal amount.

2. Health Care

The largest spending hike is registered in healthcare. It now gobbles up 38 cents on every tax dollar. At this rate of spending, health care in Manitoba will consume 50 percent of provincial expenditures by 2014, and 75 percent of expenditures by 2034 according to a new study from the Canadian Taxpayers Federation.

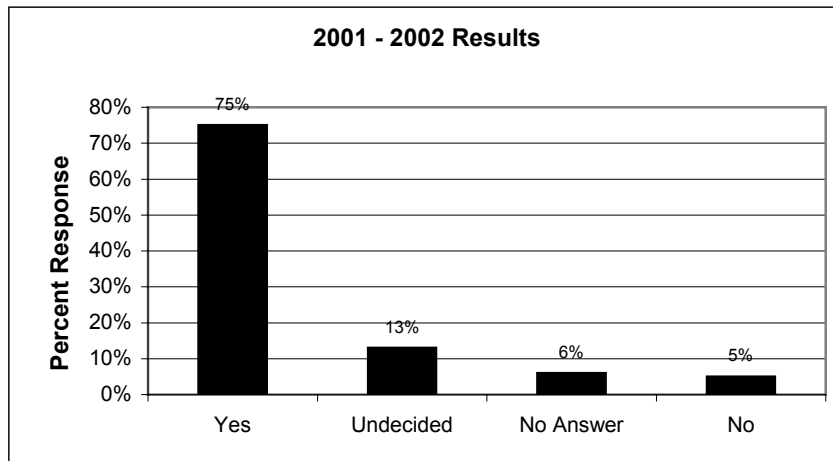
The report, *The Patient, the Condition, the Treatment: A CTF Research and Position Paper on Health Care*² forecasts the target dates based on an average of the last three years of increases in health care spending in each province.

Province	% of budget on health	% on health Rank	(Forecast) 50 % of spending	(Forecast) 75 % of spending	(Forecast) 100 % of spending
Alberta	29.06%	10	2012	2020	2025
B.C.	39.93%	2	2007	2016	2022
Manitoba	38.30%	3	2014	2034	2047
Nfld	41.70%	1	2007	2020	2030
New Brunswick	35.73%	5	2022	2046	2063
Nova Scotia	34.76%	8	2197	2415	2569
Ontario	37.44%	4	2030	2071	2099
P.E.I	35.50%	6	2025	2052	2072
Quebec	32.34%	9	2038	2072	2097
Saskatchewan	35.02%	7	2019	2038	2052

Even though health care ranks as the single most important public policy issue, CTF supporters believe tax relief - another important issue - can occur without negatively affecting health care and education in the province.

2001/02 CTF Supporter Survey Question 4:

Can Manitoba taxes be cut without negatively affecting health care or education?



² *The Patient, the Condition, the Treatment: A CTF Research and Position Paper on Health Care*, <http://www.taxpayer.com/studies/federal/CTFHealthReport.pdf>

3. Education and Property Taxes

As illustrated in Question 2 of the 2001/02 CTF Supporter Survey, education taxes have been identified as a growing concern with CTF members. In a recent study, *Bridging the Property tax Gap: Impact of School Division Taxes on Manitoba Farmland*³, the CTF explored the impact of school taxes on properties assessed as farmland and discovered a wide discrepancy from one RM to another in terms of the portion of school taxes generated from farmland and the impact of school taxes on individual farmers.

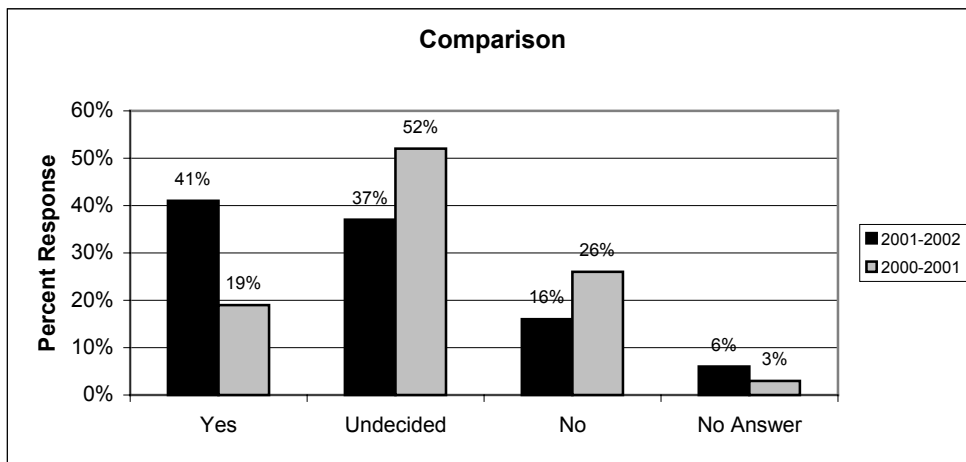
The province's latest attempt to alleviate the property tax burden by lowering the portioned assessment on farmland from 30% to 26% is commendable but falls short of effective tax relief.

The same can be said for property taxpayers at large. The \$400 property tax credit eases the tax bite but still leaves Manitoba property tax rates on the high side. The other draw back to the property tax credit is that it insulates municipalities and school boards from the obligation to control spending.

The CTF supports the provincial government's proposal to remove education taxes off property. Most surveyed members indicated that educational standards would improve by reforming the funding formula.

2001/02 CTF Supporter Survey Question 5:

Would the Manitoba school system benefit from higher educational standards if school tax funding were replaced by provincial funding from other revenue sources, such as income tax and/or sales tax?



³ *Bridging the Property tax Gap: Impact of School Division Taxes on Manitoba Farmland*, <http://www.taxpayer.com/studies/Manitoba/ManitobaSchoolTax.pdf>

Recommendation 9:

To remedy the burden of unaffordable and profit-insensitive school taxes, the provincial government should eliminate or phase out the provincial education support levy.

Recommendation 10:

The provincial government should also eliminate or phase out the \$37 million of school division taxes levied on farmland.

Recommendation 11:

The province should conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms.

Recommendation 12:

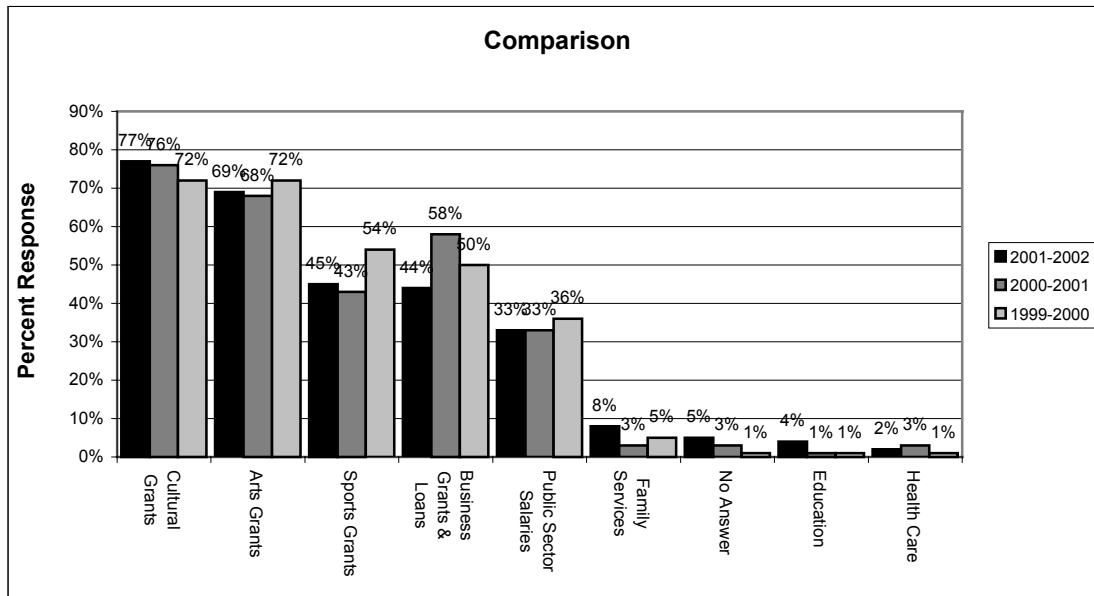
The Province should not grant municipalities new taxing powers such as a hotel tax, a gas tax levy, a sales tax or an income tax.

4. Targeted Savings

The following budgetary items were targeted by CTF supporters for possible budget savings: cultural and arts grants, business subsidies and sports grants.

2001/02 CTF Supporter Survey Question 6:

Please identify the top three areas where the provincial government should reduce spending.



Recommendation 13:

Freeze overall government spending for two years with the possible exception of health care spending. Increases to health care spending should be funded by a redirection of existing budget envelopes.

5. Privatization

Spending restraint could be augmented by potential crown privatizations, namely the Manitoba Liquor Control Commission, provincial resorts at Hecla Island and Falcon Lake, and Manitoba Public Insurance Corporation. Revenues from crown sales could be applied toward debt relief, which would ease the province's burden of debt servicing costs.

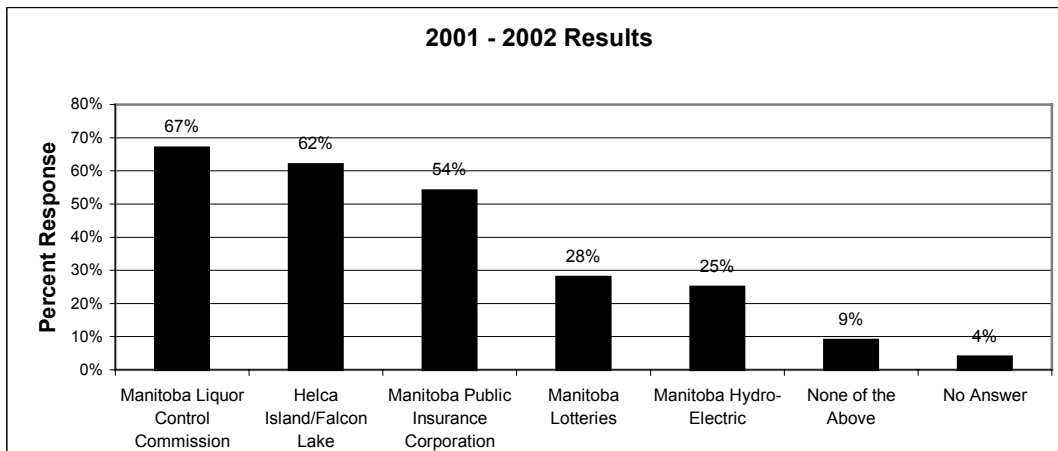
In the case of the above mentioned crown corporations, the provincial government should not expend its energies on services that could easily be delivered by a competitive private sector. The private sector would be equally capable of running tourist resorts, selling liquor and auto insurance as they do for any other industry where competition prevails.

Recommendation 14:

Introduce competition, privatization and alternative service delivery to government departments and agencies.

2001/02 CTF Supporter Survey Question 7:

Which of these crown corporations, agencies, etc., if any, do you feel should be privatized?



6. Municipal and School Division Taxpayer Protection

The overall purpose of tax cuts and debt relief is to create a competitive economic environment and to improve the quality of life for all Manitobans. Provincial efforts to lower taxes and increase disposable incomes are often derailed by other layers of government in Manitoba that are not committed to the same goal.

Many municipalities in the province are bedeviled by local governments and school boards that increase taxes to cover rising expenditures. Savings from provincial tax cuts can be stripped away by a commensurate increase in school taxes or realty taxes.

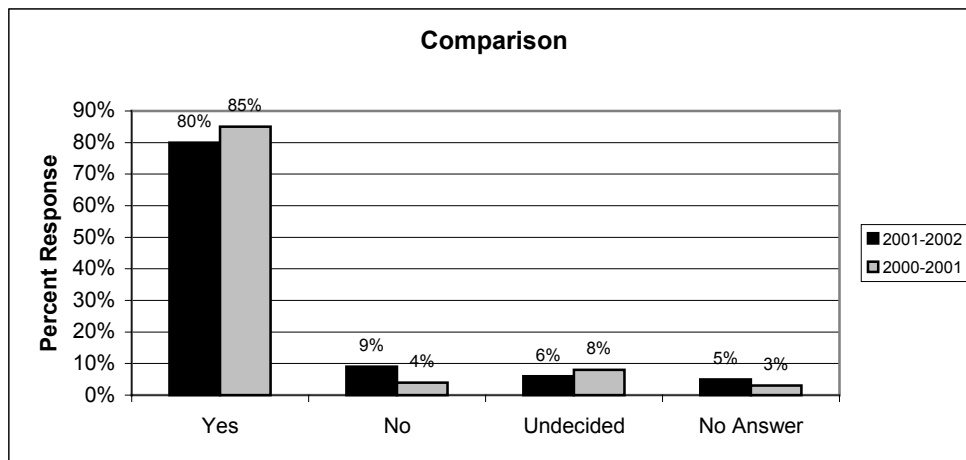
While spending by the provincial government is disciplined by the Balanced Budget Law and Taxpayer Protection Act, other levels of government are not governed by the same spending restraint mechanism.

Past reforms to the Manitoba Labour Laws, that stripped the provision of "taxpayer ability to pay" from public education arbitration disputes, opens the door to higher education spending and consequently higher education taxes.

Not unlike the provincial government, local municipal governments and school boards should hold referendums before an education tax or a realty tax can be approved.

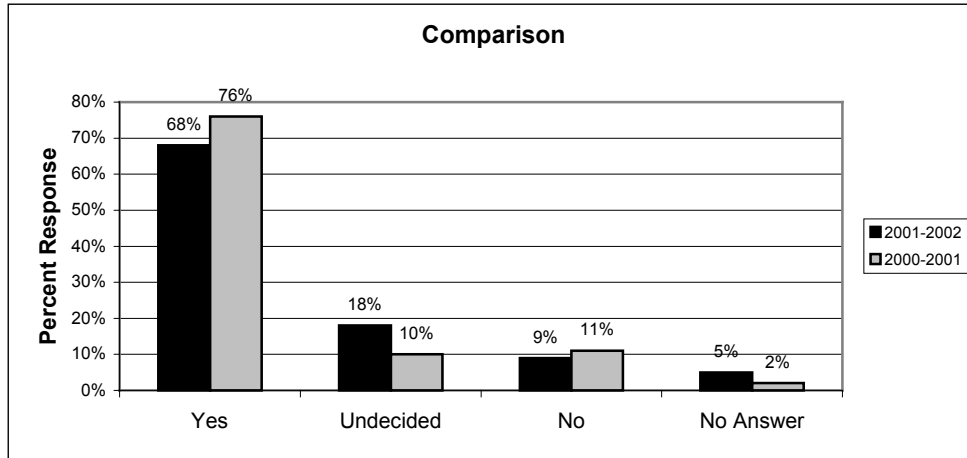
2001/02 CTF Supporter Survey Question 8:

The Manitoba Taxpayer Protection Act forces the government to hold referendums on provincial tax increases. Should school bards be forced to hold referendums on education tax increases as well?



2001/02 CTF Supporter Survey Question 9:

Should municipal governments be forced to hold referendums for property tax increases?



Recommendation 15:

To control rising expenditures and tax hikes, the provincial government should extend the Manitoba Taxpayer Protection Act to municipal governments and school boards so that all tax increases must first be passed by voter approval through referendum.