About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. In twelve years it has grown to become a organization with over 60,000 supporters nation-wide.

The CTF's three-fold mission statement is:

1. To act as a watchdog on government spending and to inform taxpayers of governments' impact on their economic well-being;

2. To promote responsible fiscal and democratic reforms, and to advocate the common interest of taxpayers; and

3. To mobilize taxpayers to exercise their democratic responsibilities.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's official publication, *The Taxpayer* magazine, is published six times a year. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions are not tax deductible.

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Part I. Recommendations

Income Tax Relief:

- Eliminate bracket creep and fully index tax brackets and credits to inflation.
- Set 2003 individual income tax rates that surpass those in Saskatchewan. The first rate should fall from 10.9% to 10%, 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 2003 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 departmental spending. Increases required in priority areas such as 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.
- The province should not raid the reserves of publicly owned utilities to meet spending costs and balanced budgets.
- Introduce competition, privatization and alternative service delivery to government departments and agencies.

Property Taxes:

- Continue to phase out the provincial education support levy.
- Eliminate or phase school division taxes that are levied on farmland.
- Conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms.
- 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:

- The 2003/2004 Budget should balance expenditures to ensure that if in the future federal transfers are reduced and interest rates rise, the province is still in the position to balance the budget
- Do not introduce amendments that would in any way weaken or water down the impact and intent of the Taxpayer Protection Act.
- The Government of Manitoba immediately adopt the Summary Budget process as outlined by the Auditor General.
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Part II. Principles of Taxation

- The tax system should be simple. The accountability of government is enhanced when citizens are able to understand their tax system. Complexity is an adversary of accountability.

- 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 programs 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 programs and services.

- The tax system should not discourage the incentive to work, save or invest.

- The tax system should promote economic prosperity for all Manitobans.

Part III. Paving the road to prosperity

The Manitoba division of the Canadian Taxpayers Federation appreciates the opportunity to present the findings and recommendations of our 2003/2004 Manitoba pre-budget submission.

The provincial government has remained committed to reducing personal and business tax burdens, and for this they have earned praise from many financial institutions. 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 2003/2004 Budget.

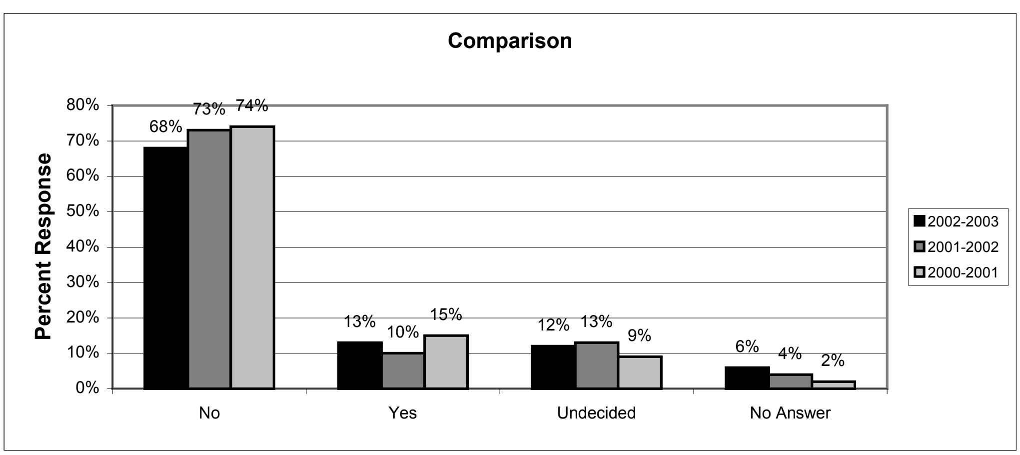
1. Competitive Taxation

Although taxpayers will enjoy a small reduction in personal income taxes this year, rates in Manitoba are still significantly higher than that of other provinces.

The *2002/03 CTF Supporter Survey* shows that taxpayers remain cautious about Manitoba's economic future and competitive standing with other provinces.
68 per cent of respondents believe that Manitoba's ability to compete with other provinces for new business development is still encumbered by current tax rates and taxation policies.

2002/03 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?



Progress made to date in lowering Manitoba's income taxes has been encouraging, but more work needs to be done. In order for our province to grow and prosper, it should be the government's first priority to put more money back into the hands of families, workers, entrepreneurs and investors.

According to the provincial government document the *Manitoba Advantage*, in 2002 a single income family of four in Manitoba earning $40,000 will pay $2,291 provincial income tax, in Alberta that same family will pay $1,079. That equates to a 53% higher tax burden in our province.

A 2002 inter-provincial survey comparing the impact of provincial and federal income taxes at various income levels shows that Manitobans pay the eighth lowest income taxes among the ten provinces for incomes between $20,000 to $150,000.[1]

Individual Income tax Table for 2002
Amount of Income Tax

Taxable Income	BC	AB	SK	MB	Rank	ON	PQ	NB	NS	PEI	NF
200,000	73,310	67,920	77,404	**80,547**	**6**	77,395	84,711	80,130	81,345	81,359	84,048
150,000	51,460	48,420	55,154	**57,347**	**6**	54,190	60,603	56,710	57,676	57,674	59,727
100,000	29,700	29,010	32,994	**34,237**	**8**	31,075	36,571	33,420	34,098	34,079	35,496
90,000	25,630	25,410	28,844	**29,897**	**8**	26,734	32,000	29,168	29,664	29,642	30,932
80,000	21,628	21,810	24,694	**25,557**	**8**	22,393	27,429	24,916	25,231	25,205	26,368
70,000	17,687	18,210	20,544	**21,217**	**8**	18,052	22,858	20,664	20,956	20,768	21,804
60,000	14,109	14,744	16,528	**17,111**	**8**	14,185	18,399	16,603	16,823	16,514	17,374
50,000	10,994	11,544	13,003	**13,371**	**8**	10,999	14,298	12,921	13,114	12,821	13,521
40,000	7,879	8,344	9,478	**9,631**	**8**	7,884	10,461	9,239	9,419	9,421	9,705
30,000	4,899	5,245	6,054	**6,016**	**8**	4,929	6,708	5,744	5,824	5,792	5,989
20,000	2,694	2,548	3,329	**3,301**	**7**	2,724	3,640	3,176	3,176	3,212	3,309

2. Tax Relief

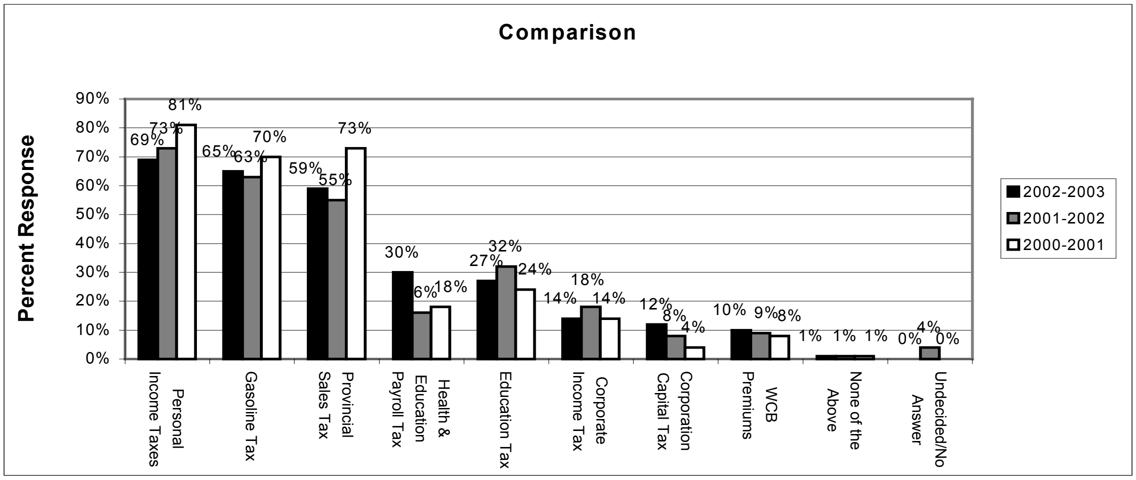
The *2002/03 CTF Supporter Survey* shows that members give highest priority to eliminating individual income taxes. **In the survey, 69 per cent of respondents selected personal income tax cuts as their first priority, only marginally down from 73 per cent in 2001/02.**

The importance over income and sales taxes lost ground to the growing concern with health and education payroll tax (up 24 per cent over last year and 12 per cent over 2000/2001) and corporate capital taxes (up 4 per cent over last year and 8 per cent over 2000/2001).

[1] PriceWaterhouseCoppers, *Tax Facts and Figures: For Individuals and Corporations*, 2002.

2002/03 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

Bracket creep is still rearing its ugly head in our province and continues to drain disposable income 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. This stealth form of taxation, which is virtually undetectable on the public radar, allows for income taxes to increase without a rate hike.

To reverse this problem, the province should restore the policy full indexation, as adopted by 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.

To date, Manitoba has not made any announcement to restore full indexation which is rather disconcerting, as even Saskatchewan has been more progressive in this area. With the exception of Nova Scotia, PEI and Newfoundland, all other provincial governments have either eliminated bracket creep or announced when indexation will be restored.

2003 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 2004	Yes in 2004
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes in 2003	Yes in 2003
New Brunswick	Yes	Yes
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 government should be commended for the work done in last year's budget to raise the basic personal exemption (BPE) and the spousal deduction. According to budget documents by raising the BPE, 5,400 low-income earners were removed from the province's tax rolls. The province should continue on this path to exempt more low-income taxpayers and income from taxation by setting a higher Basic 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 $7,634 basic personal exemption and the $6,482 spousal deduction to a level competitive with the $13,525 rate set by Alberta, and fully indexed to inflation. In the interim, every effort should be made to at least put Manitoba on a level playing field with Saskatchewan which is $8,000 for both the BPE and spousal deduction.

Recommendation 2:
Target the 2003 basic personal exemption and spousal deduction to at least Saskatchewan's level of $8,000.

5. Single Tax and Rate Reductions

The provincial government should create a tax system that is fairer and simpler than the one that exists now. This proposal would reduce taxes for all taxpayers, drop thousands of low income Manitobans from the tax rolls and increase the purchasing power of Manitobans, all the while maintaining the principle of progressivity (where the more money people make, the higher taxes they pay as a percentage of their income).

The province should replace the current tax brackets with a flatter single rate of provincial income tax calculated at a rate that would not anticipate greater income tax returns than at present. The new rate should be competitive with the 10% rate set by Alberta, and fully indexed to inflation.

At all three rates, Manitoba has the third highest income tax burden in Canada. Not too long ago we did enjoy a slight advantage over Saskatchewan at the first rate, but they have since narrowed the gap and are still head and shoulders above us at the second and third rates. The provincial government should take the necessary steps to lower all of Manitoba’s tax rates to put us in a competitive position with the rest of Western Canada. Currently our high rates do little to encourage Canadians from other provinces to relocate to Manitoba.

Recommendation 3:
The provincial government should set 2003 income tax rates that surpass Saskatchewan. The first rate should fall from 10.9% to 10%, 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

As a general rule, the CTF does not favour tax credits as a means to provide relief to taxpayers. The multitude of tax credits already in effect and annual additions to this tally only serve to further complicate the tax system

Recommendation 4:
The province should not introduce any new tax credits to Manitoba's income tax system.

7. Raiding the Crowns

Last year the province took $288 million out of Manitoba Hydro's reserves to help balance the books. Then in November of 2002, Manitoba Hydro increased its Primary Gas rate from 17.95 cents per cubic metre to 18.76 cents per cubic metre, a 2.1% increase or $25 annually for a typical residential customer. The $288 million taken earlier in the year should have gone to offset any increases that ratepayers would have had to incur.

Recommendation 5:
The province should not raid the reserves of publicly owned utilities to meet spending costs 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. There should be no compromising this legislation for any reason at all.

With that in mind, even though the General Purpose Debt has been reduced, the province's overall debt burden has increased. Debt servicing costs have also dropped but this is mostly due to lower interest rates. Furthermore, federal transfers have also increased in each year since 1999. It is, therefore, imperative to strike a balance between expenditures with revenues to ensure that if in the future federal transfers are reduced and interest rates rise, the province is still in the position to balance the budget.

Recommendation 6:
The 2003/2004 Budget should balance expenditures with revenues to ensure that if in the future federal transfers are reduced and interest rates rise, the province is still in the position to balance the budget.

Recommendation 7:
The Province should not introduce amendments that would in any way weaken the impact and intent of the Taxpayer protection Act.

Part IV. Government Spending Restraint

In each of the past three budgets, provincial spending has increased by a total of 7%, in 2002 alone spending swelled by $176 million. Because of the province's fiscal challenges- continual dependence on federal transfers, a $14.6 billion net direct and guaranteed debt and high tax burden – a freeze on departmental spending should be implemented. Any increased spending required in priority areas such as health care can be funded by a redirection of existing budget envelopes.

The size of government should be reviewed to ensure that spending does not continue to grow unchecked and compromise any future tax relief or debt repayment.

Recommendation 8:
Freeze departmental spending. Increased spending required in priority areas such as health care can be funded by a redirection of existing budget envelopes.

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 subsides create a distorted playing field where the government is selecting winners and losers. Recent decisions for additional funding to the True North Centre proves the point that business practices should be left to Manitoba's business community, not the government.

Recommendation 9:
The provincial government should phase out business subsidy programs and cut departmental funding by an equal amount.

2. Health Care

Once again the most significant spending increase is in healthcare. It is still consuming 38 cents on every tax dollar and with the release of the Romanow report, that number could change dramatically over a short period of time - by 2005/2006, Mr. Romanow's suggestions will cost (nationally) an extra $6.5 billion annually. If the current rate of spending is maintained, health care in Manitoba will consume 50 percent of provincial expenditures by 2014, and 75 percent of expenditures by 2034 according to a 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

3. Education and Property Taxes

The small reductions that the province has made in the past budgets to ease the property tax burden is certainly laudable, but discrepancies still exist from one RM to another regarding the portion of school taxes generated from farmland and the impact of school taxes on individual farmers.

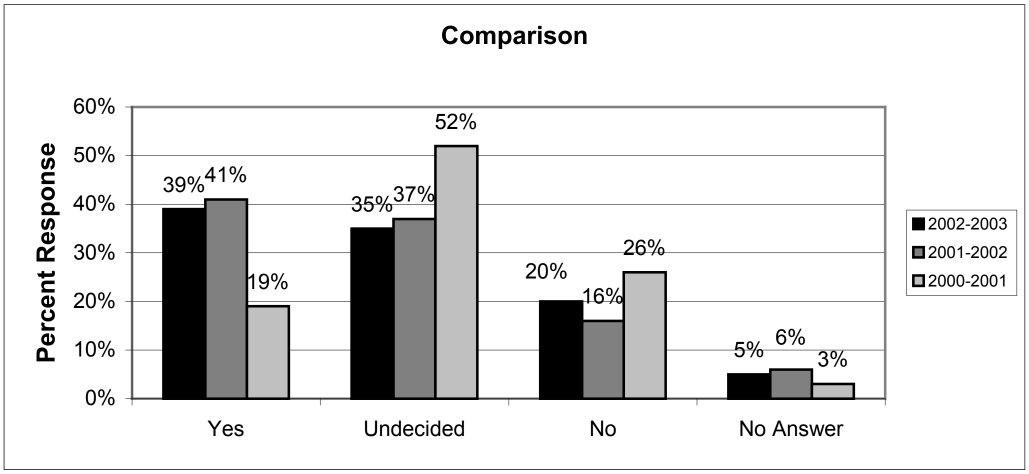
The same can be said for property taxpayers at large. Previously announced property tax credits ease the burden slightly but still leaves Manitoba with some of the highest property taxes in Canada. The other draw back to the property tax credit is that it insolates municipalities and school boards from the obligation to control spending.

CTF members surveyed indicated that educational standards would improve by reforming the funding formula.

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

2002/03 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?



Recommendation 10:
The provincial government should continue to phase out the provincial education support levy.

Recommendation 11:
The provincial government should also eliminate or phase out the school division taxes levied on farmland.

Recommendation 12:
The province should conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms.

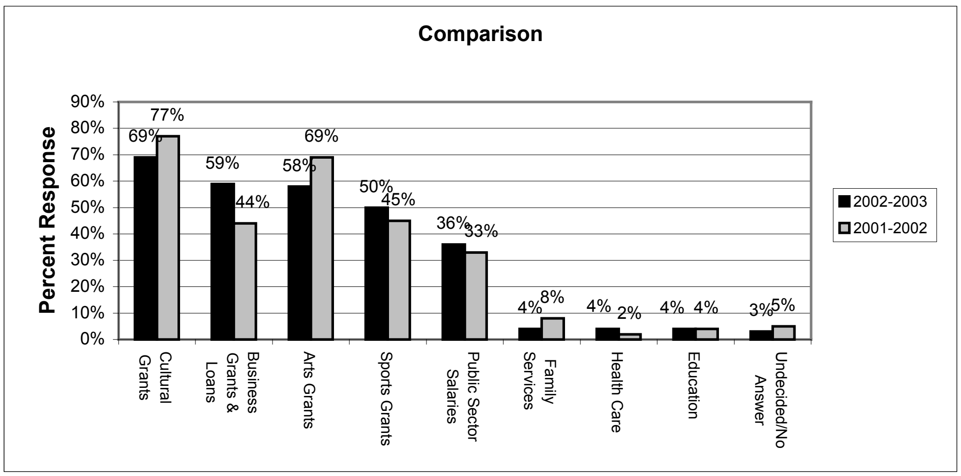
Recommendation 13:
The Province should not grant municipalities new taxing powers such as a hotel tax, a gas tax levy, a sales tax or an income tax.

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.

2002/03 CTF Supporter Survey Question 6:

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



5. Privatization

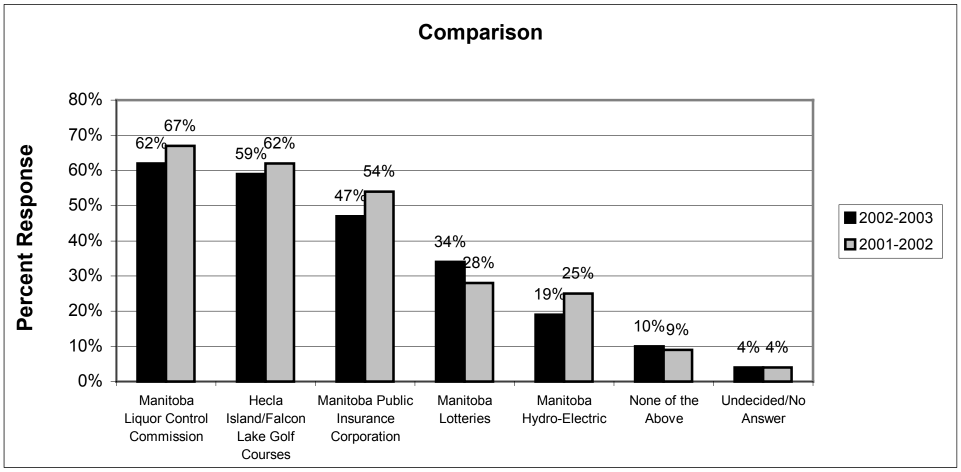
The age of government ownership and control of the economy has come to an end almost everywhere in North America, except Manitoba. Potential crown privatizations, namely the Manitoba Liquor Control Commission, provincial resorts at Hecla Island and Falcon Lake, and Manitoba Public Insurance Corporation, would generate revenues that could be applied toward debt relief. This would ease the province's burden of debt servicing costs.

Most of the services provided by the crowns 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.

2002/03 CTF Supporter Survey Question 7:

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



6. Generally Accepted Accounting Principles

At the beginning of 2003, Manitoba's Auditor General called on the provincial government to use normal accounting rules when communicating the province's finances with citizens. Mr. Singleton stated that "as long as the government continues to focus on a budget prepared on a basis different than most other governments in Canada, the Legislature and the citizens of Manitoba will be hindered in their ability to hold the government of the day accountable for its management of public monies."

This is an important issue that must be adopted immediately. Recommendations to the province to implement the Summary Budget as the primary budget for Manitoba will put us in line with many other governments across Canada. The Summary Budget would assist the Legislature and the public understand what the government's financial plans are for publicly funded crowns, for example.

Recommendation 15:
The Government of Manitoba immediately adopt the Summary Budget process as outlined by the Auditor General.