Canadian Taxpayers Federation

2016-17 Federal Pre Budget Submission

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has more than 89,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario, Québec and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like Twitter, Facebook, YouTube and our own blog and website, as well as issuing regular news releases and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* emails on current issues are sent to CTF supporters regularly. CTF offices also send out regular *Let's Talk Taxes* commentaries to more than 3000 media outlets and personalities nationwide.

CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect 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. Donations to the CTF are not deductible as a charitable contribution.

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Introduction

For the 2016-17 budget, Canada has a new federal government for the first time in a decade. We congratulate Prime Minister Trudeau and his team on their election victory and look forward to working with them in a constructive manner to ensure the views of CTF supporters are heard and considered as part of the policy development process.

The new government faces considerable policy challenges on the fiscal front. In particular, low oil prices and a cheap dollar are leading to predictions of sluggish economic growth and lower than expected revenues. The government has committed itself to a "pro-growth" economic agenda underpinned by deficit spending on infrastructure.

The new government, while rightly grappling with the new economic reality faced by many Canadians, must nonetheless resist the temptation to act imprudently. The historical record is clear, going back nearly half a century: plunging the federal budget into deficit has never been a short-term or inexpensive exercise. Small deficits have inevitably turned into larger ones, and debt and interest payments have risen. Since 1990 alone, Canadians have spent **$1.3 trillion** of their tax revenues servicing the federal debt. The opportunity cost of this money cannot be captured by reference to the debt-to-GDP ratio alone.

While it is true that government can be a force for good, it is equally true that well-intentioned governments can, with the wrong policies, end up doing more harm than good. The limitations of government must be respected. We believe our recommendations strike a balance between the government's need to act, while recognizing these limitations.

To prepare for this submission, the CTF surveyed its supporters – more than 3,000 people responded within 72 hours. Their comments and priorities are reflected in this submission. Many of our supporters' advice can be summed up by one particular comment: **"Please keep on the government to ensure they spend tax dollars wisely – and make them remember it's not their money, it's ours!"**

CTF RECOMMENDATIONS ACCEPTED BY GOVERNMENT

Over the years, several of the recommendations put forward by the CTF have been accepted by the federal government. These include:

- Reform MP pensions (Harper government)
- Introduce transparency for First Nations politicians (Harper government)
- Eliminate the long gun registry (Harper government)
- End income tax bracket creep (Chretien government)

In additional, dozens of other CTF recommendations have been adopted by provincial governments in whole or in part, or served as the catalyst for a broader discussion that eventually resulted to much-needed reform.

These successes are a testament to the CTF's constructive contribution to the public policy debate, and the willingness of governments of all political stripes to work with us.

CURRENT STATE

Finance Minister Bill Morneau's comment that "the challenge is greater than we expected[1]" is telling. The question of whether the previous government was on track for a balanced budget in fiscal 2015-16 is the subject of considerable debate[2]. But what is clear is that even on the fiscal trajectory of the previous government, the razor-thin surpluses projected in April 2015 for 2015-16 and beyond were at risk.

In its January 2016 Monetary Policy Report, the Bank of Canada observed that the steep drop in commodity prices has meant the Canadian economy is now undergoing "a complex and lengthy adjustment[3]" and made downward revisions for GDP growth through to the end of 2017. In its December 2015 assessment of the federal government's fiscal outlook, the Parliamentary Budget Office projected deficits (on the previous' government's fiscal plans) through to 2021[4].

The fiscal picture inherited by the new government is the culmination of a previous government's roller-coaster ride. The fiscal record of the Harper government can be broken down into three broad phases: an initial continuation of the surpluses which began under the Chretien/Martin government; the 2009 plunge into deficit followed by six years of working to return to balance; and finally a return to balance.

The CTF was one of the few voices which opposed the 2009 "stimulus" exercise as ill-advised and unnecessary. That said, we also recognize that, in contrast to many other provincial governments which also went into deficit during the same period, the Harper government was able to return the books to balance, and in so doing demonstrated considerable discipline (as did the Chretien/Martin government from 1994-2000).

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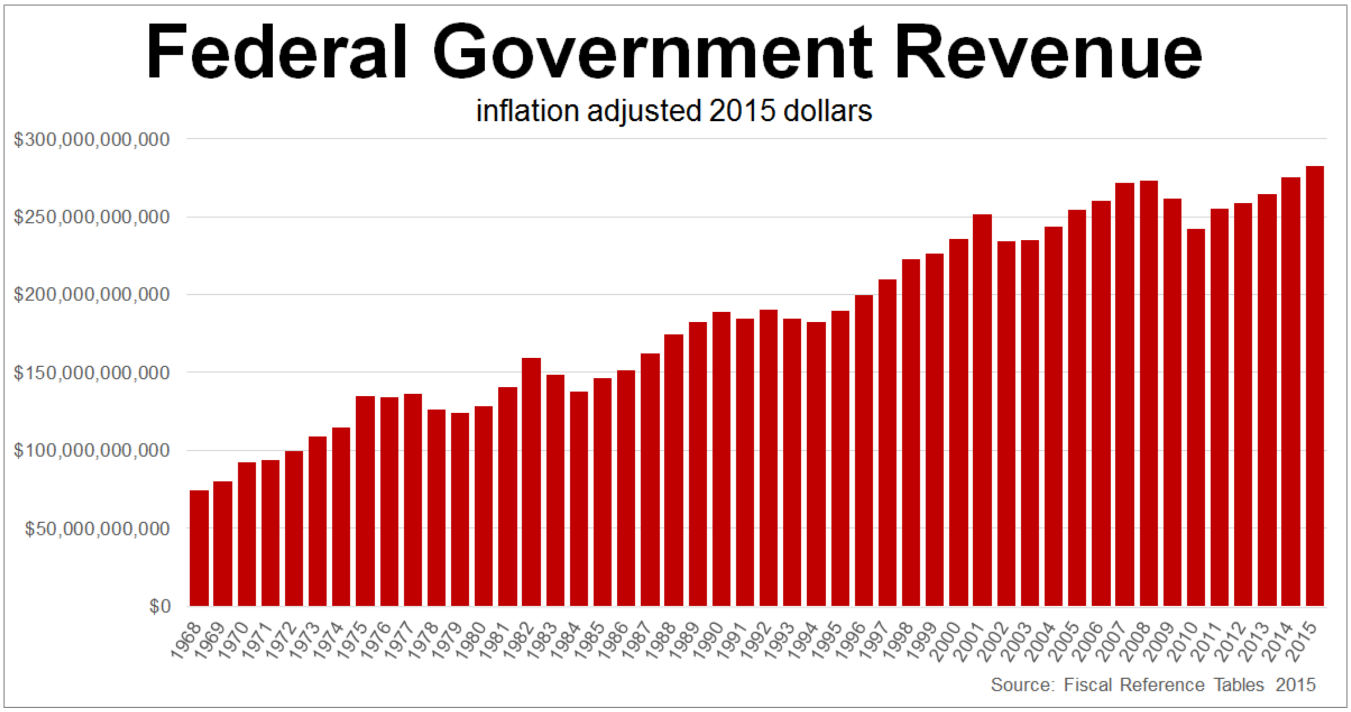
[1] http://www.cbc.ca/news/canada/nova-scotia/minister-bill-morneau-speech-1.3398582
[2] http://www.globalnews.ca/news/2202138/did-harper-really-run-eight-straight-deficits-like-the-ndp-liberals-claim/
[3] http://www.bankofcanada.ca/wp-content/uploads/2016/01/mpr-2016-01-20.pdf p11
[4] http://www.pbo-dpb.gc.ca/en/blog/news/EFOU_Dec2015

LOWER TAX BURDEN BUT A MORE COMPLEX TAX CODE

There is no question that the federal tax burden was reduced under the Conservative government[5]. The main concern from the CTF's perspective is the manner in which this was done. Rather than reducing broad-based taxes, (such as income taxes) the previous government opted to implement a host of targeted 'boutique' tax credits, including the Textbook Tax Credit, the Children's Fitness Tax Credit and the Children's Arts Tax Credit. These types of measures are inefficient (by needlessly complicating the tax code) and distortionary (by favouring certain activities over other substitutes). We were therefore pleased to see that one of the new government's first acts was to cut the middle income tax bracket (though much less so to see a new bracket implemented on higher income earners!)

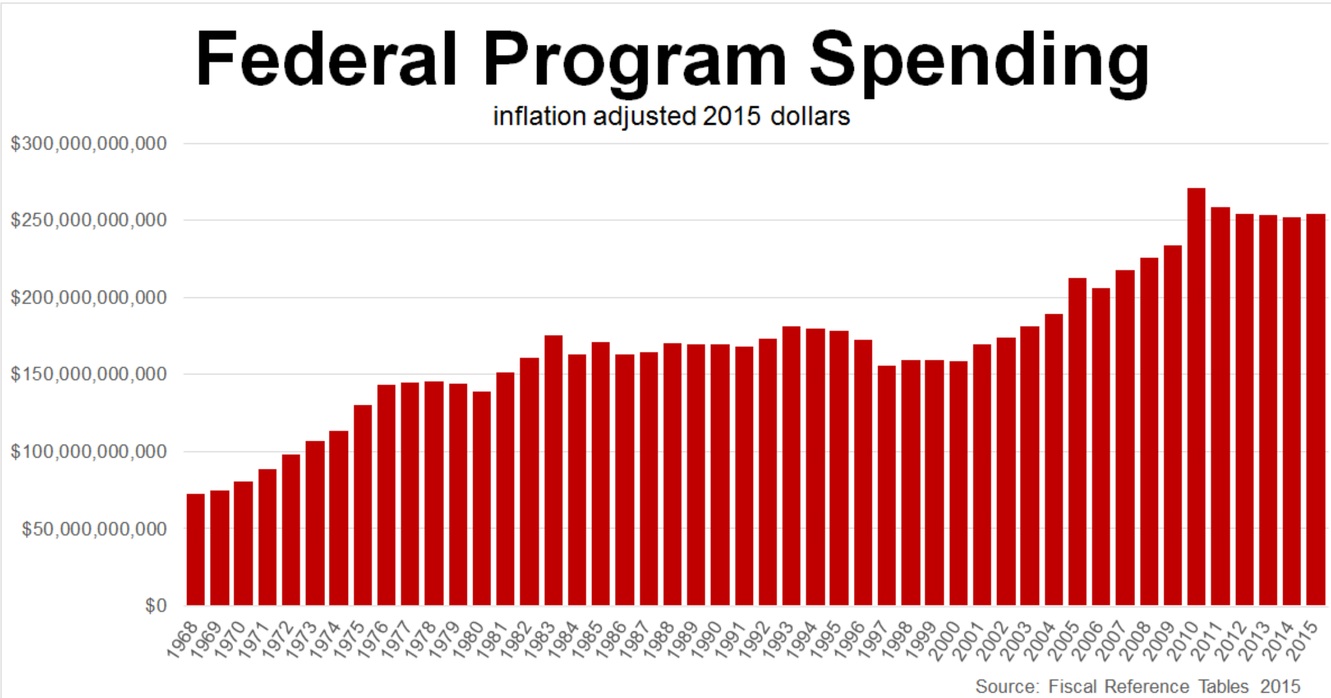


It is also worth noting that contrary to what some commentators have asserted, the federal government does not face a shortage of revenues; rather, revenues are at all-time highs.

Some commentators suggest that Canada's relatively low federal taxes are an invitation to raise them. We believe this would be foolish in such a fragile economic climate. Even Alberta's NDP Premier Rachel Notley recently noted that, with respect to royalty payments, now is "not the time to reach out and make a big money grab.[6]"

[5] http://business.financialpost.com/news/economy/stephen-harpers-cuts-help-canada-buck-global-post-recession-trend-toward-higher-taxes Unfortunately for most Canadians, provincial and municipal governments have raised taxes, eliminating or greatly reducing any tax savings.
[6] http://calgaryherald.com/news/local-news/the-royalty-review-what-they-said

Perhaps the biggest challenge for the new government is to **control spending**, and ensure the best value for tax dollars spent. Most Canadians would be justified in asking precisely what they have been getting for an additional $50 billion in annual federal spending since 2005-06. Clearly, there remain opportunities to seek out further savings, reallocate inefficient spending, and simplify the tax code.



2016-17 CTF Budget Recommendations

CTF Top Priority

1. Balance the Budget

Debt Reduction

2. Create a legislated debt reduction schedule or budget line item

Taxation

3. End the tax-on-tax
4. Reduce the political party donation tax credit
5. Resist any demands for new sugar or fat taxes

Cost Control

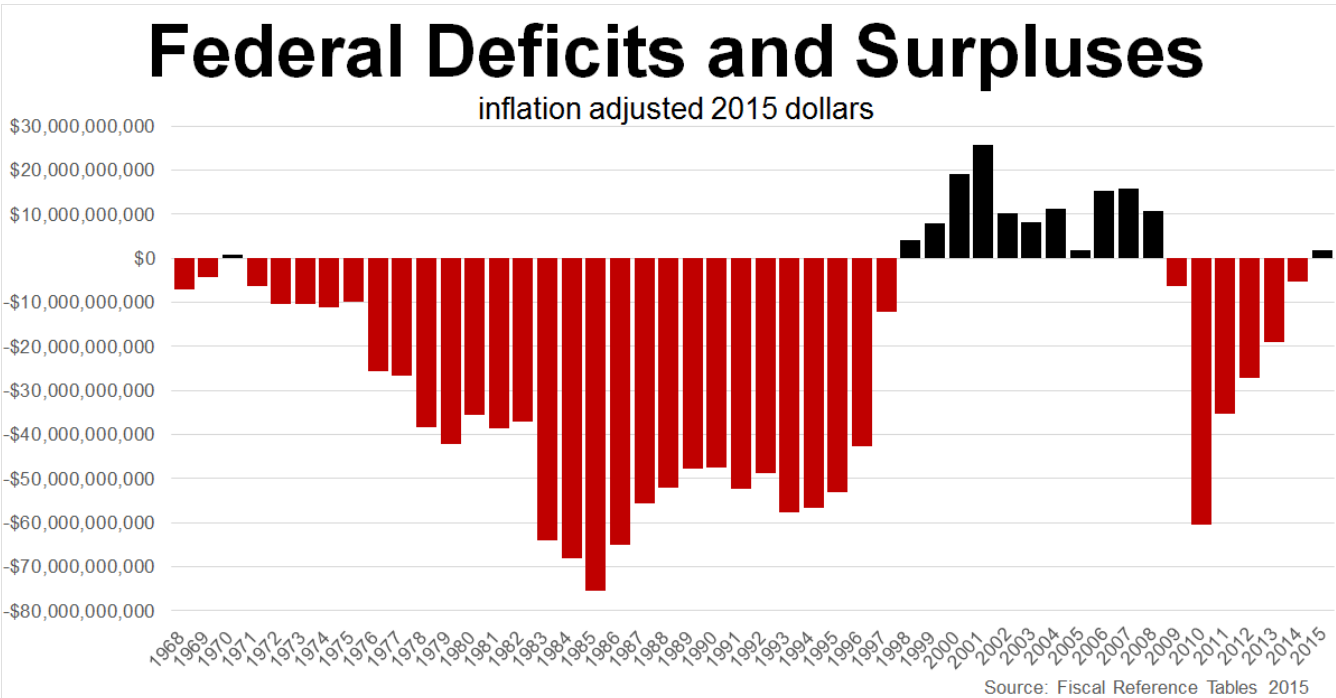
6. Pass a *Truth in Budgeting Act*
7. Core Review to identify $15 billion in waste by 2017-18 Budget
8. Put an end to corporate welfare and regional development
9. Control public sector pay and benefits

Employment Insurance

10. Rethinking Employment Insurance: a model for the future

Recommendation #1: Balance the Budget

Balanced budgets are rarely seen creatures at the federal level. Since 1968, the federal government has run a deficit in 35 out of 48 years. The empirical fact is that historically, deficits have tended to grow and persist, rather than represent short-term cyclical undertakings.



The last government, which inherited a string of surpluses, plunged the country into deficit in 2009, and spent the remainder of its time in office fighting to get back to balance.

The new government should not repeat – for almost identical reasons and in an identical way – the 2009 mistake of their immediate predecessors. Indeed, many current cabinet ministers were rightly critical of the Harper government's record on deficits and debt, and as recently as April 2015 argued that a Liberal government would balance the books[7].

The government has made major investments in infrastructure a central component of its policy program, but the context cannot be overlooked: even before taking the new government's infrastructure program into consideration, $65 billion had already been allocated towards infrastructure over the next 10 years by the previous government[8]. No one can deny the importance of infrastructure to Canada's long-term economic interest, but this truism cannot be used to wish away fiscal constraints. Projects must be prioritized and hard decisions must be made. Governments which succumb to the temptation to say "yes" to every request for

[7] Scott Brison, April 23, 2015 – Hansard
http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&Parl=41&Ses=2&DocId=7934159
[8] https://www.liberal.ca/files/2015/08/An-historic-investment-plan.pdf, p4

public dollars inevitably find themselves in a difficult position very quickly. In this respect we encourage the new government to take a page from their federal predecessors of the 1990s, and not their provincial brethren at Queen's Park.

Furthermore, it would be ill-advised to attempt to leverage this proposed deficit infrastructure spending as "stimulus" for reasons identified by Université de Laval economist Stephen Gordon, who observed that government spending (a demand response) cannot offset the effects of changes in oil prices (a supply shock)[9]. University of British Columbia economist Kevin Milligan also identified several reasons that attempts to stimulate the economy though increased government spending would be ineffective, in particular that the theoretical impact of stimulus spending is greatly reduced in small, open economies with flexible exchange rates, such as Canada's[10].

Indeed, a 2010 study by the Fraser Institute found that the 2009 Harper government stimulus package had next to no economic impact, and that the subsequent economic recovery was primarily driven by private sector business investment and increased exports[11].

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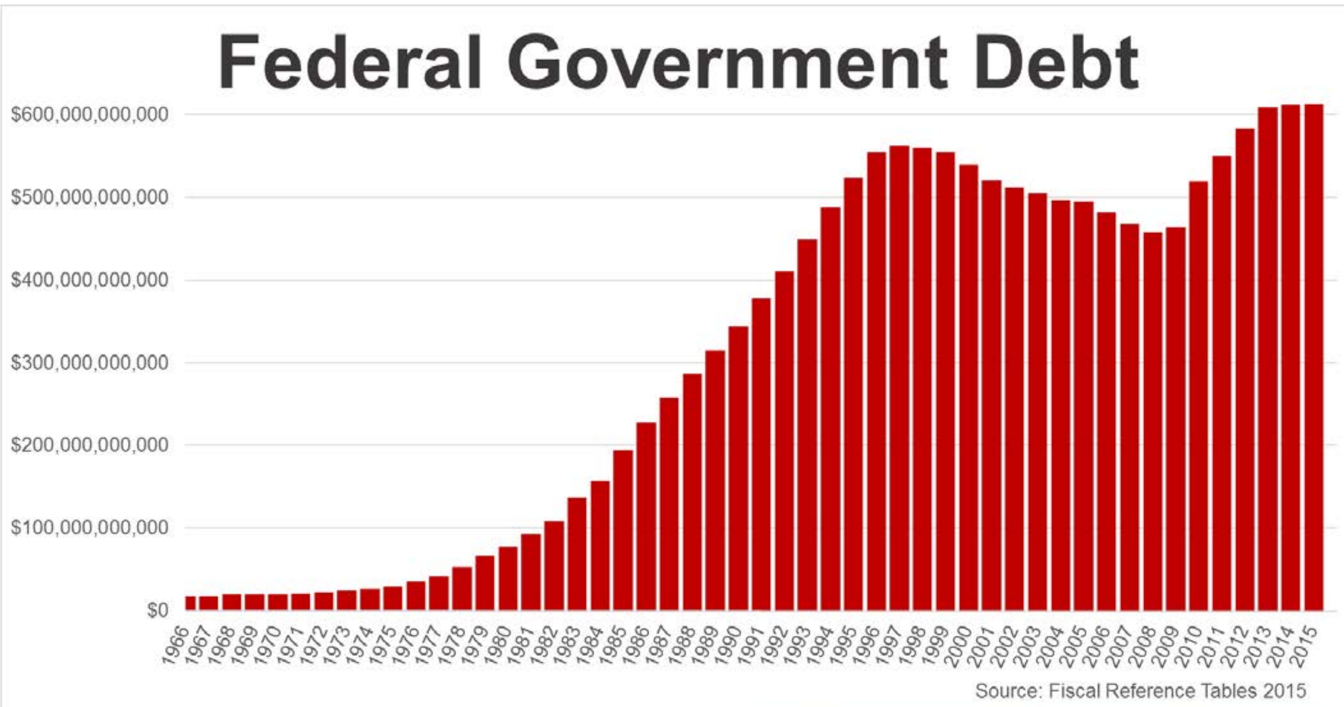
[9] http://www.nationalpost.com/m/search/blog.html?b=news.nationalpost.com/full-comment/stephen-gordon-the-government-stimulate-these-problems-away&q=Stephen%20gordon&o=8

[10] http://www.macleans.ca/economy/economicanalysis/why-a-big-stimulus-plan-isnt-the-fix-to-what-ails-canada/

[11] http://www.fraserinstitute.org/sites/default/files/did-government-stimulus-fuel-economic-growth.pdf

Recommendation #2: Create a legislated debt reduction schedule or a budget line item



While we believe the government should not run a deficit and add to our federal debt, if it does so, it is essential that a concrete plan be formulated to return to balance and begin to pay down our federal debt over the long term. Our federal debt is a perpetual fiscal hangover that continues to drain public dollars to this day.

Federal debt servicing will cost Canadians $26 billion in 2015-16: more than the government spent on National Defence. Much is made of the low debt-to-GDP ratio and there is no question Canada is relatively well placed compared to some of our G7 peers[12]; but focusing on the ratio alone masks the opportunity cost ($1.3 trillion since 1990[13]). Indeed, if the federal government were debt free, the entire 2015 Liberal platform could be implemented for 2016-17 with a $16 billion surplus to spare rather than a proposed $10 billion deficit[14].

Debt repayment must be treated as a priority, to be considered at the same stage as other spending priorities.

One effective example of debt reduction legislation was Alberta's *Balanced Budget and Debt Retirement Act*, enacted by Ralph Klein government in 1995. Klein's debt reduction legislation came in two steps: first, a

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[12] http://blog.euromonitor.com/2015/08/lessons-for-g7-economies-from-japans-super-high-public-debt-to-gdp-ratio.html
[13] http://www.taxpayer.com/media/DebtServicing1990to2015.png
[14] https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf

legislated mandatory payment toward debt every year; later, a second law mandated that 75 % of all budget surpluses go directly to debt repayment. In spite of a significant energy boom widely credited with generating additional revenue needed to pay down the debt, it still took significant fiscal discipline by Klein to ensure that surpluses went to primarly to pay down debt. Within 12 years, Alberta was out of debt.

By putting a *Debt Reduction Act* in place, special interest groups were warded off. During pre-budget consultations, the Standing Committee on Finance is inevitably deluged with tens of billions of dollars worth of funding requests. Virtually every stakeholder that appears before committee meetings asks for more money. If the government fulfilled even a fraction of these requests, it would undermine its own efforts to return to a balanced budget, and begin to pay down debt. Indeed, as surpluses grow, the pressure from those groups for that money will intensify. But debt reduction legislation sent a clear message: paying down debt is a priority. As that debt is reduced, the amount of servicing and interest being paid by taxpayers will fall. This will create a positive snowball effect: as debt servicing decreases, surpluses will grow even larger. More money will be available to pay down the debt even faster, and debt servicing will drop even further, causing even larger surpluses.

Federal debt reduction legislation should include legislated percentages for debt repayment and tax relief. If a future government wants to escape this commitment to debt reduction, it should be forced to go back to Parliament, stand up in front of the opposition, media and taxpayers and explain why it wants to repeal it.

A second best option would be the establishment of a debt repayment line item included in the budget. Obviously, in deficit years this line would be a zero – but by merely being present it would serve as a reminder that our federal debt burden is a live concern, and not merely an afterthought.

Recommendation #3: End “tax-on-tax”

Some taxation is generally accepted by the public as a necessary evil. But the notion of charging a tax *on top* of another tax strikes many as double-dipping and a stealth attempt by governments to bilk taxpayers. The CTF has long called for an end to this practice.

Gasoline is a classic example of this dubious practice: GST or HST is applied to the full pump price, after federal and provincial per-litre taxes. Consequently, in addition to the actual market value of gasoline, government taxes the tax added onto its price. In 2015, federal and provincial governments collected $1.3 billion in GST on gasoline and diesel sales taxes just from this tax-on-tax[15].

Gas Tax-On-Tax

Province/City	Tax-On-Tax Per Litre		Tax-on-Tax Collected		
	Federal	Provincial	Federal	Provincial	Total
Newfoundland	$0.01	$0.02	$9,381,140	$15,009,823	$24,390,963
PEI	$0.01	$0.02	$2,192,060	$3,945,708	$6,137,768
Nova Scotia	$0.01	$0.03	$14,759,572	$29,519,144	$44,278,716
New Brunswick	$0.01	$0.02	$14,077,458	$22,523,933	$36,601,391
Quebec outside of Montreal	$0.01	$0.03	$61,523,155	$116,893,994	$178,417,149
Montreal	$0.02	$0.03	$70,068,900	$133,130,911	$203,199,811
Ontario	$0.01	$0.02	$228,800,320	$366,080,512	$594,880,832
Manitoba	$0.01	$0.00	$19,852,008	$0	$19,852,008
Saskatchewan	$0.01	$0.00	$25,032,106	$0	$25,032,106
Alberta	$0.01	$0.00	$76,785,378	$0	$76,785,378
BC outside of Vancouver and Victoria	$0.02	$0.00	$25,002,780	$0	$25,002,780
Vancouver	$0.02	$0.00	$47,297,833	$0	$47,297,833
Victoria	$0.02	$0.00	$5,583,847	$0	$5,583,847
Canada	$0.01	$0.02	**$600,356,556**	**$687,104,024**	**$1,287,460,581**

Alcohol, tobacco and aviation fuel are just a few other examples of this taxation-by-stealth. Canadians deserve better: if governments are going to be impose taxes, they must be open about it, and not rely on hidden mechanisms to gouge Canadians.

[15] http://www.taxpayer.com/media/GTHD-Report-2015.pdf p12

Recommendation #4: Reduce the political party donation tax credit

Canada's federal political party donation tax credit is extremely generous – much more so than charitable donations, including such worthy organizations such as the Canadian Cancer Society, the Salvation Army and the Canadian Red Cross.

While donating to political parties is an act of civic engagement and should be encouraged, it should not be at the expense of charitable donations and other causes less favoured; political parties should be required to compete for donations on a level playing field with charities. The CTF recommends that the government harmonize the tax-deductibility of political parties downward to match the deductibility for charities.

Tax Credits from Donations

Donation	Federal Political Party		Registered Charity	
$200	$150	75%	$30	15%
$500	$350	70%	$117	23%
$1,000	$558	56%	$262	26%
$1,500	$650	43%	$407	27%

Recommendation #5: Resist any demands for new sugar or fat taxes

In recent years, well-meaning groups such as health advocacy organizations have been pressing governments worldwide to implement new "sugar" or "fat" taxes on the premise that taxing them will reduce their consumption and improve public health. The track record of these taxes in the jurisdictions which have implemented them suggest they don't achieve this objective.

A prominent example is Denmark, which in 2011 was the one of the first countries in the world to bring in a fat tax, and the first to abolish it thirteen months later.[16] No wonder: it was a fiscal disaster, driving hundreds of thousands of Danes across the German border for cheaper groceries and costing hundreds of jobs, according to Jens Klarskov, CEO of *Dansk Erhverv* (the Danish Chamber of Commerce).

It got so bad during Denmark's fat tax era that German stores sent flyers to Danish homes, translated into Danish, bragging: **"No fat tax here!"**

The ads worked; more Danes began to shop in Germany.[17] The Danish Chamber released a poll showing that before the fat tax, one in three Danes shopped in Germany. During the fat tax era, that number grew to one out of every two. When asked about why they shopped outside Denmark, one in three named the fat tax as the primary reason. Long known as the place where Danes shop for booze, cigarettes and sweets, Germany, largely thanks to the fat tax, became a place where Danes also shopped for food.

Canadians are also cross-border shoppers: for decades, Canadians have flocked over the US border in search of everything from cheaper gas to cheaper flights, cheaper alcohol, cheaper clothing, cheaper consumer goods, cheaper milk and cheaper cheese.

As the Fraser Institute has pointed out, Canadian customs tariffs already add $3.6 billion in consumer costs to nearly everything we buy here.[18] Throwing on another tax would just further grow that price gap.

The argument for fat and sugar taxes revolves around higher prices limiting consumption and thus curbing obesity. But reducing sales is not the same as reducing caloric intake; one conundrum is that obesity rates continue to rise even through sugar consumption has dropped in Australia, Canada, and the United Kingdom[19].

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[16] http://translate.google.com/translate?sl=auto&tl=en&js=n&prev=_t&hl=en&ie=UTF-8&layout=2&eotf=1&u=http%3A%2F%2Fwww.skm.dk%2Fpublic%2Fdokumenter%2Fpresse%2FFaktaark_afgiftsogkonkurrencepakke.pdf&act=url
[17] http://cphpost.dk/commentary/opinion/opinion-tax-everyone-wants-see-cut
[18] http://www.huffingtonpost.ca/mark-milke/canada-tariff-imported-goods_b_2707650.html
[19] http://www.theglobeandmail.com/report-on-business/rob-commentary/what-canada-can-learn-from-mexicos-sugar-tax-its-no-panacea-for-obesity/article28233833/

Recommendation #6: Pass a *Truth in Budgeting Act*

There is currently no publicly-available, consistent cost analysis for proposed legislation. Essentially, MPs order from a menu without knowing the cost of the bill to taxpayers.

Major political parties have all but accepted that in order for their election platforms to be credible, they must first be costed by an independent third party. This gives voters' confidence that their promises will actually cost what the parties claim they will. Once a reliable price is attached to a promise, voters can better judge whether the proposed investment of money is worthwhile.

Yet, once elected, governments do not provide costing for the legislation they introduce. Further, governments generate thousands of pages in analysis and projections at budget time, but don't always provide a clear cost for legislation introduced throughout the year. The CTF thinks this needs to change.

The CTF recommends the government pass a *Truth in Budgeting Act,* which would require MPs and ministers to cost-out the bills they introduce in the House. Any piece of new legislation would legally require a cost estimate, compliant with government accounting standards. Both the implementation (year one) and ongoing (annual) cost would be calculated, added to the legislation's preamble, and made public.

By including the price tag for legislation, debate could be expanded to include the costs of putting these new laws into effect. Are they good value? How should they be funded? MPs would no longer be able to order from a legislative menu without understanding there is a bill attached. Taxpayers, along with advocacy groups, the media and other MPs, could assess the financial implications of legislation. This costing element would be necessary before a bill could proceed to second reading.

We are encouraged by the new governments' commitment to these principles as part of their election platform[20].

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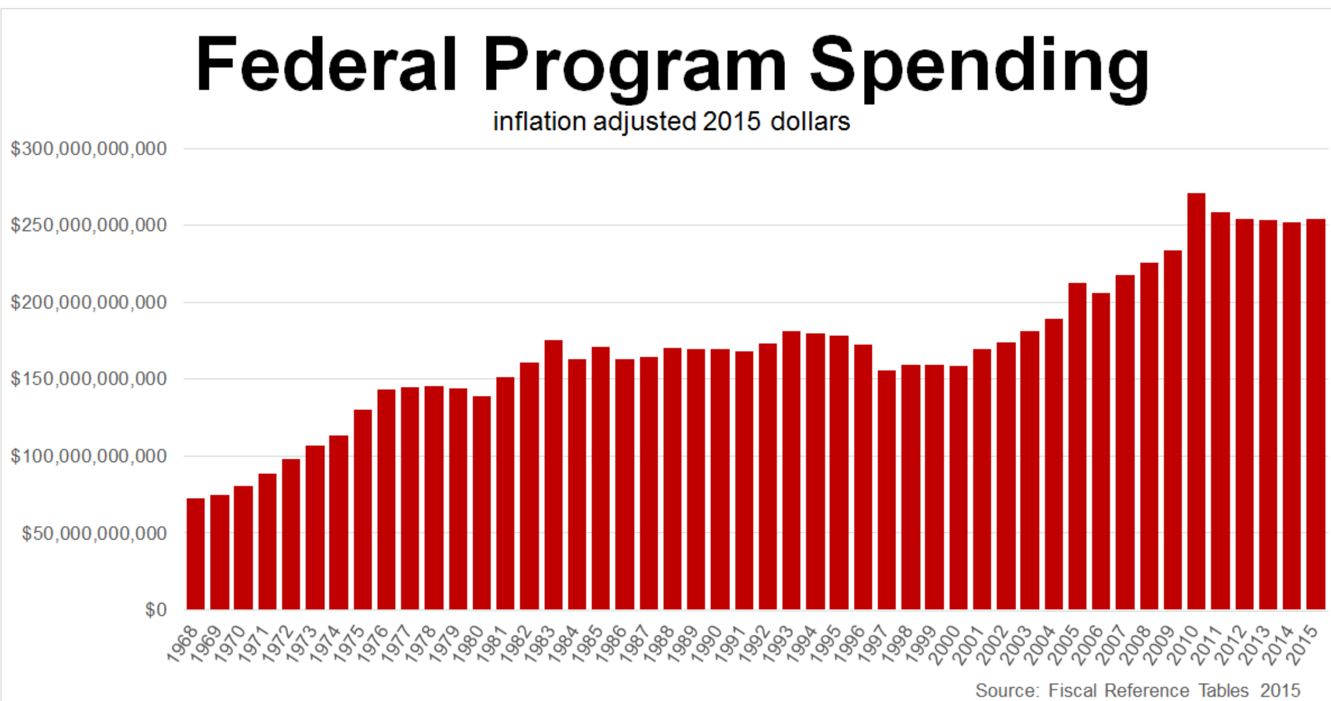
[20] https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf p31

Recommendation #7: A core review to identify $15 billion in waste by 2017-18

A core review is a helpful undertaking for any government, normally undertaken every few years, to help assess the effectiveness and efficiency of government programs and expenditures. It is a critical exercise that allows governments to identify best practices and reallocate scarce dollars towards more effective and efficient uses.

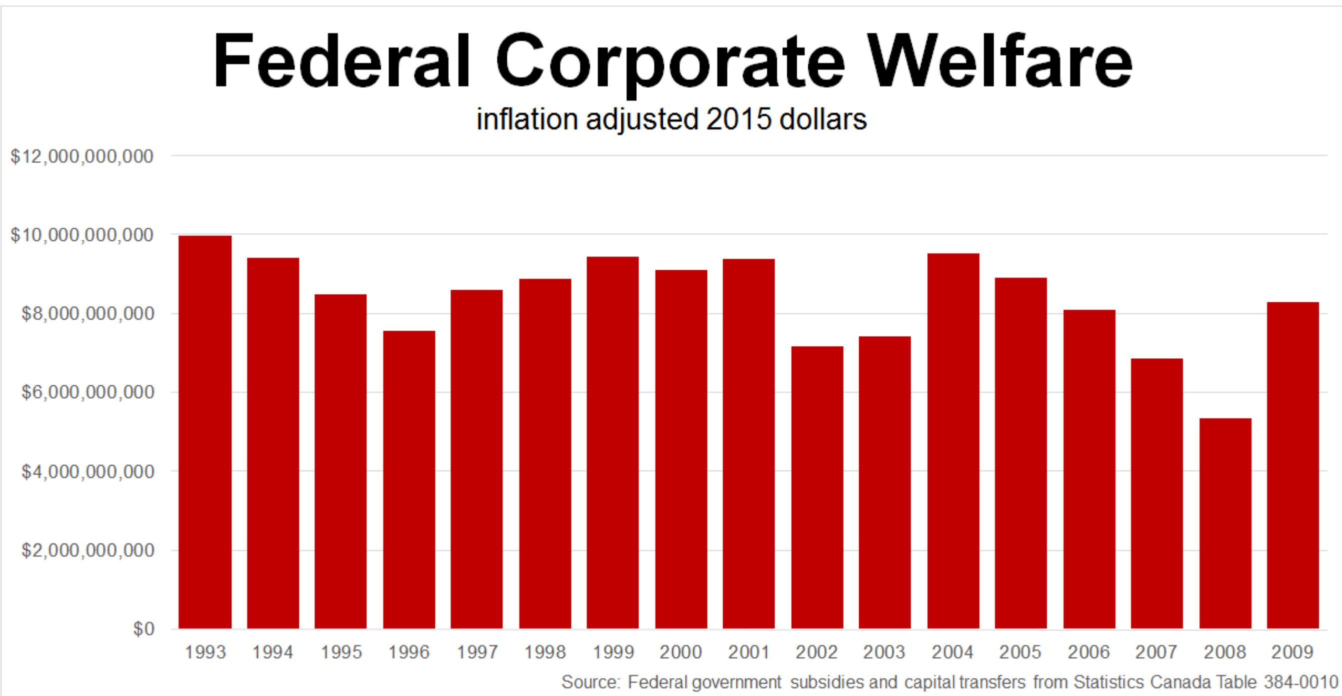
The CTF proposes that the government commit to a core review over the next 12 months, with the results made public in advance of the 2017-18 budget. A target should be to identify the least efficient/most wasteful 5% (or $15 billion) of all program expenditures.

Program spending is currently near all-time real dollar highs, having ballooned by more than 23% since 2005-06, the final year of the last Liberal government, when spending was $205.6 billion; under the Conservatives, program spending had risen to $253.8 billion by 2014-15. Canadians need confidence that this money is being used efficiently; if not, it should be reallocated and/or returned to Canadians in the form of tax relief.



Recommendation #8: Put an end to corporate welfare and regional development

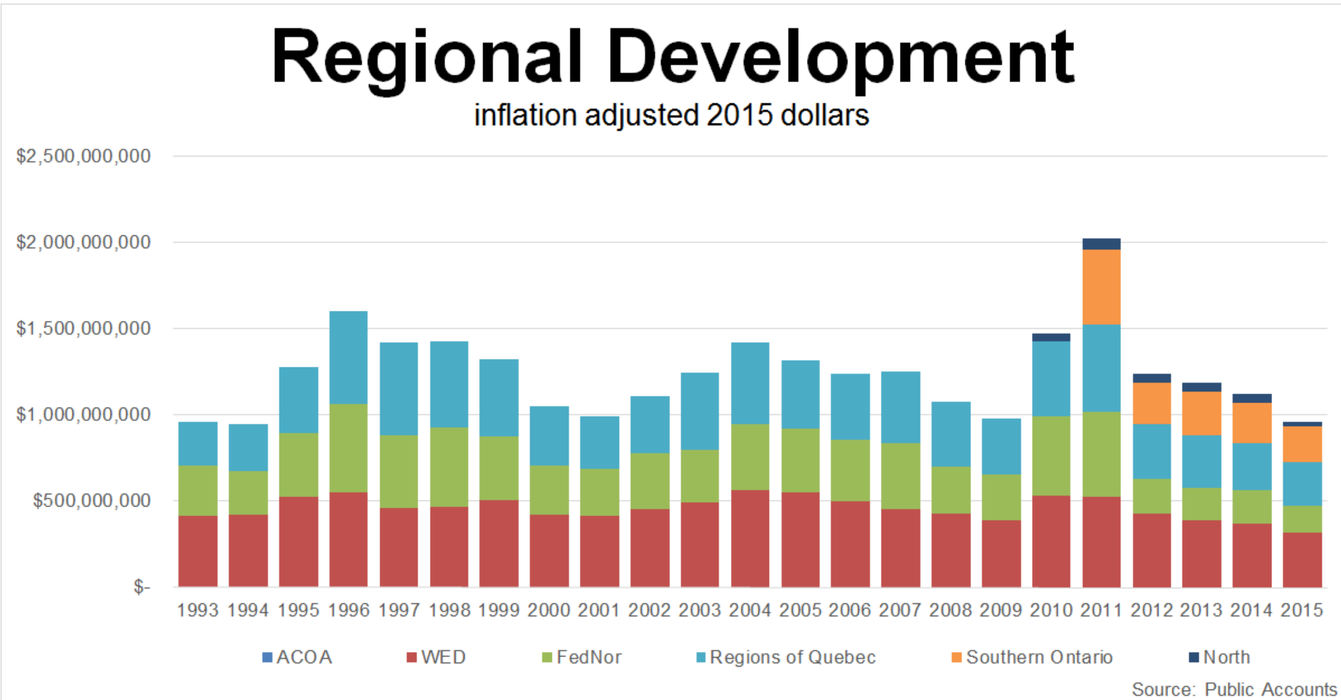
There is no getting around it: corporate welfare is bad. It is politically-driven and flies in the face of generally accepted economic theory and sound business practices. It creates perverse incentives for private sector businesses both to take inappropriate risks (on the assumption the government will come to their rescue) and attempt to squeeze more public dollars from governments (by threatening to move their operations elsewhere).



In some cases, major corporations such as Pratt & Whitney, Bombardier, General Motors and Chrysler have pocketed billions of taxpayer dollars – while still reducing their workforces. Indeed, one bailout inevitable sets the stage for the next, as we are seeing with Bombardier's current request for money, which Quebec has justified on the grounds that General Motors and Chrysler were previously bailed out.

Canadians who have lost jobs or businesses, but not received special bailouts from government rightly ask: why should these companies get special treatment?

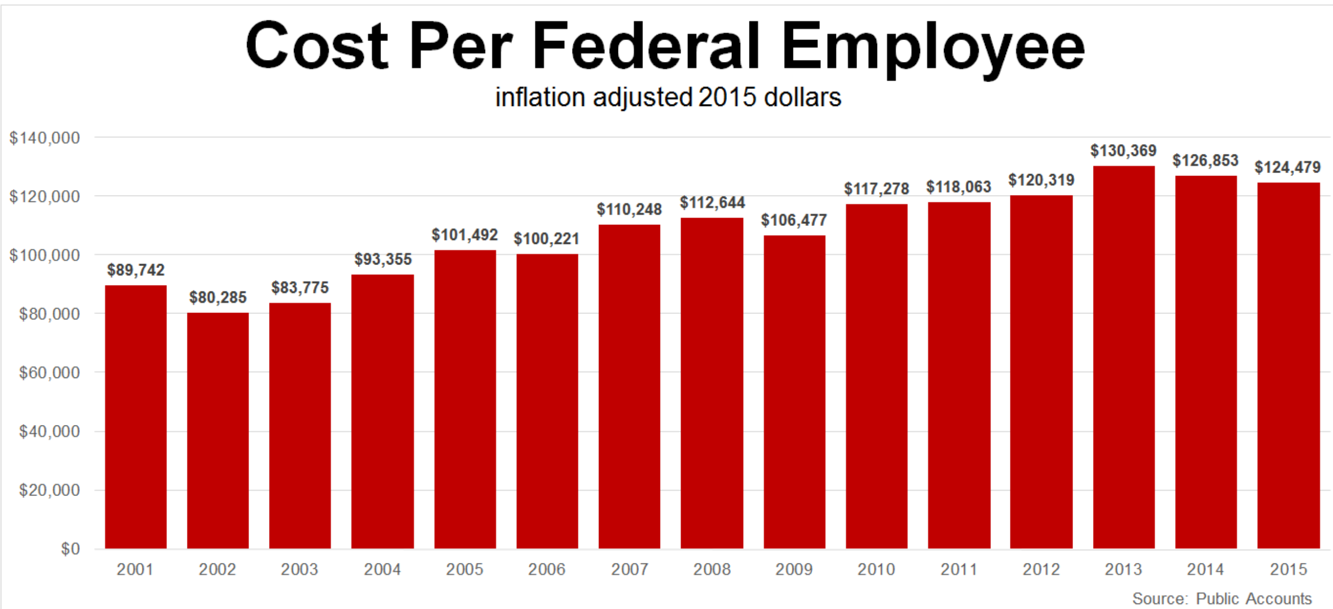
Regional development shares similar features to corporate welfare, in that is creates perverse incentives, with outcomes that do not match policy objectives. Governments have a role in assisting economically disadvantages regions of the country, but pouring in billions of dollars in dubious project funding is simply wasteful.



The CTF recommends that the government should begin phasing out these wasteful practices by:

- reducing total spending each year
- moving away from unconditional grants and towards loans
- creating tougher conditions for the acceptance of any public funds. In the case of corporate welfare, this should include waiving any rights to confidentiality of repayment terms
- broadening Access to Information laws to allow third parties to better scrutinize subsidy recipients
- for corporate welfare, negotiating provisions in any new trade agreements that bind our trading partners to similar restrictions on subsidizing private business

Recommendation #9: Control public sector pay and benefits



There is a natural tension between the interests of public sector unions and the interests of Canadian taxpayers at large: the former group wants to get as much as possible for its members; the latter group is the one paying for it, and needs confidence they are getting value for money. Public sector workers deserve fair treatment – but fair doesn't mean the government should be overly generous. It is important that the government be as hard-nosed an advocate for taxpayers at the bargaining table as union leaders are for their membership.

Public sector salaries are just one piece of the puzzle. Pensions are another. While direct comparisons are difficult to make for the federal public sector[21], the vast majority of federal government employees with pensions have generous defined-benefit plans, which are increasingly rare in the private sector, precisely because they are far more expensive to employers.

The CTF recommends that the government:

- use private sector benchmarks in negotiating with public sector unions
- increase the transparency surrounding the total compensation to public sector workers, in order to facilitate comparisons with private sector compensation levels

[21] https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada.pdf see Appendix B

Recommendation #10: Rethinking Employment Insurance: A Model for the Future

Canada's Employment Insurance system is a major pillar of Canada's social safety net. Yet upon closer inspection it is in effect a patchwork of complex rules that apply unevenly across the country, treating workers dramatically differently depending on their occupation or where they live.

The CTF believes that it is time to rethink the entire Employment Insurance model, and published a 2013 report[22] making suggestions for a revamped EI system that will help end chronic unemployment, reduce perverse incentives and treat all workers fairly.

The current EI system effectively functions as a massive regional wealth transfer, and stands in stark contrast to its original intention of being a way to temporarily assist Canada's most vulnerable.

Consider just one example scenario, of two factory workers who live in Newfoundland and Labrador. One lives in St. John's where the factory is also located. The second commutes to work from outside the city where EI rules differ. They do identical jobs for the same employers. If they were both laid off after 26 weeks of work where they both earned $16,200, the worker who lives in the city would qualify for no EI benefits, while the worker from outside the city would receive up to $16,830 over 34 weeks.

Reforms instituted by the previous government in 2012 took some steps towards cracking down on frequent EI claimants, but did little to address the more pressing issue of regional unfairness, which has created a perverse incentive for workers to walk away from productive jobs where their skills are needed, sometimes after working as few as 14 weeks. Canada is the only country in the world that has different rules for unemployment insurance benefits for each region of the country.

The CTF proposes a revised system built around a new concept: the Employment Insurance Savings Account (EISA). Working Canadians would continue to pay EI premiums – only into a personal EISA account, which could be drawn on if they (or their spouse or other family member) loses a job. Remaining funds could then be invested in a Registered Retirement Savings Plan (RRSP)-eligible investment vehicle. Upon retirement, any outstanding EISA balance could be transferred into an RRSP, and rolled into a Retirement Income Fund (RIF), Tax-Free Savings Account (TFSA) or Pooled Registered Pension Plan (PRPP) – significantly increasing retirement savings, another key benefit.

[22] http://www.taxpayer.com/media/EI%20ReportCTFNov2013.pdf