CANADIAN
Taxpayers
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Fighting for taxpayers

CTF's 2005-06 Pre-budget recommendations to Finance Minister Greg Selinger

Spending less and smaller government

Manitoba's Roadmap for Economic Prosperity

February 17, 2005

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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 Saskatchewan 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 over 61,000 supporters nation-wide.

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 in Calgary 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 flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. 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 to the CTF are not tax deductible.

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1. The province immediately move to Generally Accepted Accounting Principles (GAAP) which include the entire fiscal health of the province – everything from the operating budget to crown corporations would then be included.

2. Reduce costs of the public service. Re-examine salaries paid to the public service, as well as the number of employees currently on the government payroll. Public sector wages must be reviewed in all sectors.

3. Eliminate business subsidy programs which would result in $14 million in annual savings.

4. In conjunction with the next provincial election, hold a provincial referendum on the question of opening up Manitoba Public Insurance to competition and privatize Manitoba Liquor Control Commission and use the proceeds of the sale to pay down debt.

5. Introduce competitive tendering for services within the health system. The government should further consider public-private partnerships for all health services – including ownership and operation of hospitals.

6. Establish a long-term solution to increase the provincial share of education funding in order to curb school board taxes to fund education.

7. Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent, middle rate from 14 percent to 12.5 percent and third rate from 17.4 percent to 14.5 percent.

8. Raise the Basic Personal Exemption in the 2005 to $8,404.

9. Expand the scope of the Balanced Budget, Taxpayers Protection and Debt Retirement Act to school boards and municipalities.

10. Continue to eliminate school taxes on farmland.

11. Continue to phase out the Education Support Levy.

12. Fully index Manitoba's tax brackets to the rate of inflation and end bracket creep.

Part II: Introduction

The Manitoba government has a serious spending problem putting the economic well being of our province in jeopardy. The provincial auditor's latest report indicates that we are facing a $604 million deficit – this should serve as a wake up call that spending beyond our means is no longer an option.

The next provincial budget represents a crossroads for Manitoba taxpayers. With both the deficit and crown debt on the rise, we must determine what road to travel. The CTF recommends the government's fiscal strategy must be built on the pillars of debt reduction, tax relief and redefining the role of government.

The demand for tax relief is real and warranted. Tax cuts can be realized by sustained economic growth, improved and efficient delivery of government services, and through the divestiture of some crown corporations.

The provincial government does not have the same natural resources to draw on for royalty revenues, as do the three other Western provinces. Therefore, it is imperative that Manitoba government put its own affairs in order before it plans to increase spending.

These issues: debt reduction, tax relief and redefining the role of government, are central to determine what opportunities Manitobans will have in the future. If they are not resolved, or if the path is to increase spending, we will find ourselves falling behind other jurisdictions.

Prospects for the next few years are positive. However, Manitoba's government must play a role in creating economic dynamism. Table 1 illustrates projected economic indicators.

Table 1: Select Economic Indicators
Projections for 2004 to 2006 - Manitoba

Year	Real GDP	Nominal GDP	Consumer Price Index	Employment (increase)	Retail Sales
2004	2.9%	5.1%	1.6%	1.1%	6.3%
2005	2.9%	3.3%	1.6%	1.2%	5.0%
2006	2.9%	4.3%	1.7%	0.8%	6.3%

Source: TD Economics, Regional Outlook, BMO Regional Outlook,
RBC Regional Outlook, Scotiabank Regional Outlook,
Laurention Bank - Average of Most Recent Projections

Economic projections for Manitoba are neither good nor bad. Rather, overall economic growth is expected to be slightly lower than the national average. More troublesome is the anticipated flat growth in employment. Less robust growth points to lower prospects for increasing personal income tax and sales tax revenues. Weak employment growth reflects the relatively high levels of taxation experienced in Manitoba. Stronger employment growth is the key to economic prosperity, but this will only occur if the provincial government gets its spending in line and finds the room for meaningful tax relief.

Part III: The Balanced Budget Law – Spending Within our Means

During the tax-and-spend years of the 1980s and early 1990s, governments across the country overspent and debts ballooned to obscene levels. Thanks to taxpayers and a handful of responsible politicians, times changed. Canadians have balanced budget and taxpayer protection legislation in some provinces, but it appears that the bad old days of government spending and largesse are back, because the laws are toothless when it comes to protecting taxpayers.

Enacted in 1995, Manitoba's Balanced Budget law was widely considered the most effective and comprehensive taxpayer protection law in the country. It metes out stiff penalties to politicians who ran deficits, by docking the pay of provincial cabinet ministers 20 percent if a deficit is incurred in one year, and 40 percent if a deficit is carried over two or more years. But there's a catch: the Act only covers the government's operating fund. According to the Provincial Auditor of Manitoba this has allowed the province to post a deficit for the third consecutive year. Manitoba's deficit for 2004 is $604 million, the largest in a decade, yet the Department of Finance posted a $13 million surplus.

Since the government prepares two sets of financial statements, and only uses the one with a positive balance, the Provincial Auditor has condemned this practice as "misleading by omission." The Auditor's latest report clearly shows the need for the province to move to Generally Accepted Accounting Principles (GAAP) which includes the entire fiscal health of the province. Everything from the operating budget to crown corporations would then be included – and taxpayers would be able to hold the government to account for its mismanagement of public finances.

There are those that correctly point out that circumstances may not allow a government to balance the books. They suggest that balanced budget laws restrict a government's ability to govern. But Manitoba's Act takes these concerns into consideration as there are three provisions that allow for deficits: natural disasters, war or the apprehension of war; and a reduction in revenue by 5 percent or more in the fiscal year that does not stem from a change in Manitoba's taxation laws.

Recommendation 1:
The province immediately move to Generally Accepted Accounting Principles (GAAP) which include the entire fiscal health of the province – everything from the operating budget to crown corporations would then be included.

Part IV: Spending

Size of Manitoba's Public Sector

2004 CTF Supporter Survey: Please identify the one top area where the provincial government should reduce its spending.

57%	Public sector wages/benefits
12%	Social Services
7%	Education
3%	Health care
3%	Grants/subsidies
3%	Misc.
1%	Do not support any reduction in spending
13%	Undecided

CTF supporters have expressed an overwhelming desire for reduced public payroll costs. In addition, we cannot discount finding efficiencies in areas such as health care and education, as these are the provinces two largest spending envelopes. But more than any other measure, the number of provincial government employees is a concern.

Apart from reviewing the performance of each individual ministry and department, the government has to take a look at the cost and performance of the public service as a whole. The Manitoba government has not given any indication that public sector salaries and benefits will be reviewed.

Table 2: Provincial Public Sector Employment 1989 to 2003

Year	Public Sector Employment	Total Wages - Public Sector (Millions)	Average Public Sector Wages	Public Sector as % of Total Employment	Public Sector Wages as % of Total Provincial Spending
1989	73,398	1,989	27,106	14.3%	41.4%
1990	74,734	2,141	28,646	14.5%	42.1%
1991	75,517	2,197	29,089	14.9%	41.9%
1992	76,021	2,303	30,299	15.1%	42.5%
1993	75,224	2,244	29,828	14.9%	41.9%
1994	73,176	2,215	30,269	14.4%	41.3%
1995	72,721	2,191	30,132	14.0%	40.1%
1996	72,758	2,157	29,653	14.0%	45.1%
1997	69,002	1,985	28,760	13.1%	37.4%
1998	70,086	2,061	29,412	13.1%	35.6%
1999	71,656	2,198	30,668	13.2%	34.1%
2000	72,373	2,379	32,876	13.1%	35.8%
2001	77,089	2,557	33,169	13.8%	40.3%
2002	80,416	2,662	33,097	14.2%	41.2%
2003	83,114	2,748	33,057	14.6%	37.2%
2004Q	82,895	n/a	n/a	14.4%	n/a

Source: Statistics Canada, Public Sector Employment
Q, Quarterly Average, denotes a projection for the year based on the most recent quarterly results and a projection of costs based on a modest increase in average public sector wages

When comparing the size of government employment over the last sixteen years (see Table 2), it is clear that it has ebbed and flowed over time. Two measures of the size of government stand out: public sector employment as a percentage of total provincial employment and public sector wages as a percentage of total spending. In 2003, public sector wages accounted for 37 percent of all government spending – not the highest level ever, and a drop from the previous level of 41 percent – this is a step in the right direction.

If average wages increase by the consumer price index of 1.6 percent, then next year public sector wages would remain at about 37 percent of all spending. It would be difficult to lower this ratio much in a short one or two year cycle. However, the number of public sector employees has steadily increased by approximately 10,000 employees since 1989. This has resulted in modest growth in average wages.

Table 3: Three Scenarios for Reducing Manitoba's Public Sector Employment

Year	Public Sector Employment	Total Wages - Public Sector (Millions)	Average Public Sector Wages	Public Sector as % of Total Employment	Public Sector Wages as % of Total Provincial Spending	Savings (Millions)
2005 CTF	75,011	2,480	33,057	13.2%	32.1%	268
2005 H	74,066	2,555	34,502	13.0%	33.1%	192
2005 HL	69,002	2,348	34,031	12.2%	30.4%	399

CTF reduces government employment to 15 year average and increases 2003 average wage with inflation.

H reduces government employment to 1990 levels with average wage indexed for inflation.

HL (Historical Low) Reduces government employment to 1997 levels and adjusts 2002 average wages for inflation.

Based on quarterly projections for 2004, Manitoba's public sector employment will decrease by a paltry 200 employees. The former government failed to make substantial reductions to the size of Manitoba's public sector. Therefore, the current government must set targets for reducing public sector employment in the province.

Rather than simply reducing wages, it is more appropriate to set targets for public sector employment based on previous levels. In Table 3, the CTF has prepared three target scenarios for reducing both the size and cost of public sector employment.

Depending on which of the three approaches are adopted, between $270 and $400 million could be saved on public sector employment costs alone. Opting to reduce employment to 1990 levels (with the average wage indexed to inflation) would produce a manageable target. Setting more ambitions targets by reducing public sector employment to 1997 levels would result in more substantial savings.

Recommendation 2:
Reduce costs of the public service. Re-examine salaries paid to the public service, as well as the number of employees currently on the government payroll. Public sector wages must be reviewed in all sectors.

Reduce Spending: Eliminating Corporate Welfare

According to 2004 budget estimates, the Provincial Government allocated $13.9 million for industry development programs, including Manitoba Industrial Opportunities, and Manitoba Business Development Fund.

CTF supporters have long supported elimination of business grants, loans and other special concessions to individual businesses. Better to provide lower taxes that apply to all businesses. Corporate welfare is dolled out at the expense of actual public goods and services.

Business subsides create a distorted playing field where the government selects winners and losers. In essence, government takes tax dollars from one business and gives these to another – most galling in some cases when the recipient is a competitor. There is little evidence to support the efficacy of corporate welfare, but there is a litany of failed ventures and wasted tax dollars.

Recommendation 3:
Eliminate business subsidy programs which would result in $14 million annual in savings.

Privatization

The province recently passed legislation that would ensure a referendum is held prior to opening up Manitoba Public Insurance to competition. The CTF suggests that in conjunction with the next provincial election, this question be put to Manitobans as revenues generated from potential crown privatizations could be used to pay down debt.

The CTF is pleased the province has embarked upon a strategy to sell its resorts and we encourage the same course of action for Manitoba Liquor Control Commission. Selling our publicly-owned liquor stores and allowing the free market to sell liquor in Manitoba would result in real economic growth in the province. Hundreds of new private businesses and jobs would be created. Consumers would have more choice, convenience and better prices than ever before.

Most importantly, more people would experience the satisfaction and freedom that comes with business ownership. It signals a new way of thinking – something the province desperately needs.

The age of government ownership and control of the economy has come to an end almost everywhere in North America, except in Manitoba and Saskatchewan. 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 4:
In conjunction with the next provincial election, hold a provincial referendum on the question of opening up Manitoba Public Insurance to competition and privatize Manitoba Liquor Control Commission and use the proceeds of the sale to pay down debt.

Controlling Spending on Health Care

In the area of health care, allowing a choice of private service delivery is not an option, but a necessity. Health care as currently funded is unsustainable. The portion of the provincial budget dedicated to health care spending (more than 40%) increases every year. These increases come without a noticeable long term improvement in the length of surgical waiting lists, the availability of advanced medical technology, the accessibility and affordability of pharmaceuticals, the length of the queue for long term care or assisted living spaces, and the number of services/practitioners covered by provincial health plans. It also doesn't take into consideration the amount of money set aside for future health care needs, which will be expensive as the Canadian population ages.

Table 4: Health Care Spending in Manitoba 1989 to 2005

Year	Total Health Care Spending in Canada	Total Health Care Spending in Manitoba	Manitoba Health Care Spending as % of Total Health Care Spending
1989-1990	4,802	1,524	31.7%
1990-1991	5,081	1,671	32.9%
1991-1992	5,241	1,760	33.6%
1992-1993	5,425	1,864	34.4%
1993-1994	5,359	1,859	34.7%
1994-1995	5,361	1,855	34.6%
1995-1996	5,458	1,849	33.9%
1996-1997	4,786	1,812	37.9%
1997-1998	5,301	1,826	34.4%
1998-1999	5,789	1,926	33.3%
1999-2000	6,438	2,301	35.7%
2000-2001	6,643	2,505	37.7%
2001-2002	6,338	2,686	42.4%
2002-2003	6,456	2,843	44.0%
2003-2004	7,391	3,045	41.2%
2004-2005^{P}	7,471	3,161	42.3%

Source: Manitoba Budget Documents 1989 - 2004

P, denotes projection

While the ultimate solution is to allow for a parallel private health sector to co-exist along side the public system, there are some steps that can be taken in the interim. Beginning with the 2005 budget, Manitoba must begin a long-term program of finding new efficiencies in the health care system. The first step should be to introduce competitive tendering for services within the health system. The government should further consider public-private partnerships for all health services – including the ownership and operation of hospitals.

It is interesting to note that the British Columbia government is now saving $66 million a year in the health care sector by outsourcing services such as food preparation, security and cleaning. In Manitoba, however, there have been suggestions of a government run laundry facility and sandwich services. This will add unnecessary costs to the taxpayers and the province must consider outsourcing these contracts to the private sector.

In both the health care and education sectors, spending is largely dictated by salaries to public sector employees. In health care alone, 68 percent of spending goes to salaries and benefits. Every time wages increase, taxpayers are paying more without receiving more services in return.

The largest single expense in the health system is the health care worker pay roll. At nearly a billion dollars annually, we can not address rising health costs without paying close attention to the payroll. However, we do not recommend reductions in salary or staffing levels for doctors, nurses, or technologists as this would only worsen the current shortage. All other expenditures however, must be intensely scrutinized.

Table 5: Labour Costs as a Percentage of Health Spending

	Average Payment Dollars	Average Number	Total Cost (Millions)
Family Medicine	191,520	641	123
Medical Specialists	206,251	462	95
Surgical Specialists	317,693	227	72
Total Fee for Service MDs	n/a	1,330	290
Health Care Workers	30,637	39,135	1,199
Total Payroll as Percentage of Health Care Budget:			67.7%

Based on 2002-2003 CIHI National Physician Database & Statistics Canada Public Sector Database

The provincial government is constrained by the 1984 Canada Health Act, but should look for ways to create efficiencies and direct resources to patient treatment and care. At some point in the near future, the province's failure to provide timely health services will cease being an economic issue and become a civil liberties issue. The province must not restrict an individual's ability to obtain medically necessary health services. The government must not stand in the way of the development of a parallel private health care system given that the province is unable provide timely services under the rationed government monopoly model.

Ignoring skyrocketing health costs is irresponsible. The consequence of inaction on health spending is obvious. Within the next decade our health system will deteriorate further. Economic situations beyond our control (such as drought, trade disputes, and the cyclical nature of oil and gas prices) will negatively impact Manitoba's ability to finance the health system. Public confidence in the system will wane as a result of declining services and dangerous waiting times. Overworked and over-regulated health professionals will seek better career opportunities in other provinces or foreign countries.

Recommendation 5:
Introduce competitive tendering for services within the health system. The government should further consider public-private partnerships for all health services – including ownership and operation of hospitals.

Controlling Spending on Education

As with health care, the majority of education dollars are spent on salaries. If we are to ensure as many tax dollars as possible go toward education and help address rising school taxes on property, we must look closely at salaries. Between 1995 and 2002, the average salary rose by 24 percent, resulting in an increase in the overall cost of education. Our concern is that, as it stands, taxpayers are paying more each year for the exact same service as they had in previous years. The difference is that school board staff are getting paid more and enrollment is decreasing.

As the table below illustrates, salaries account for about 68 per cent of all spending by school boards. That means annual increases in spending often don't reflect new initiatives, but rather reflect increasing wages for those working in the sector.

Table 6: Wages as a Percent of Education Spending

	Employees	Total Wages (Millions)	Average Wages	Total Education Spending (Millions)	Wages as % of Spendin
1995	27,289	842	30,847	1,221	68.9%
1996	26,754	840	31,414	1,224	68.7%
1997	26,364	847	32,115	1,244	68.1%
1998	26,516	867	32,678	1,283	67.5%
1999	27,174	894	32,895	1,302	68.7%
2000	27,920	887	31,784	1,349	65.8%
2001	26,083	904	34,662	1,378	65.6%
2002	24,950	954	38,242	1,404	68.0%
2003	24,350	n/a	n/a	1,432	n/a
2004	25,175	n/a	n/a	n/a	n/a

Based on Statistics Canada Public Sector Database

Only five provinces raise revenues at the school board level – of these Manitoba is in the middle of the pack for reliance school board property taxes to fund education. The long-term solution to reverse this trend is to establish a measurable plan to increase the provincial share of education funding.

Table 7: Property Tax Revenues as a Percentage of School Board Spending

Year	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
2000-2001	0.00%	0.00%	0.00%	0.00%	12.68%	39.48%	33.50%	51.12%	4.56%	0.00%
2001-2002	0.00%	0.00%	0.00%	0.00%	12.64%	39.54%	33.40%	50.99%	4.58%	0.00%
2002-2003	0.00%	0.00%	0.00%	0.00%	12.67%	39.49%	33.40%	50.98%	4.60%	0.00%
2003-2004	0.00%	0.00%	0.00%	0.00%	12.66%	39.49%	33.41%	50.97%	4.61%	0.00%

Because taxpayers foot the bill, knowing what's being spent on each pupil is an important part of the accountability chain. Higher spending does not necessarily equal better results, but it does carry costs for each province's taxpayers. According to Statistics Canada, in 2003 Manitoba spent $7,290 per pupil, the highest per capita spending in the country.

Relatively small changes in real education spending reflect the reality that rising wages for school board employees are driving costs. From a taxpayer standpoint, cutting costs or striving to get more results from existing spending levels can only occur if the percentage of costs consumed by wages begins to decline.

Recommendation 6:
Establish a long-term solution to increase the provincial share of education funding in order to curb school board taxes to fund education.

Part V: Cutting Taxes

Competitive Taxation

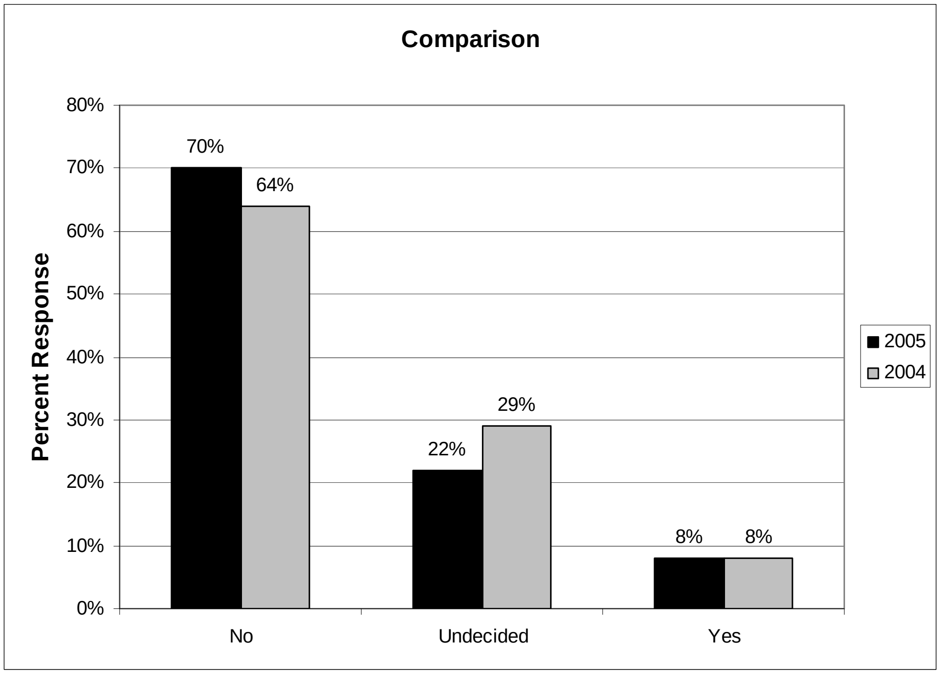
The provincial government has marginally reduced personal and business tax burdens over the past three budgets, and for this they have earned praise from many financial institutions. In the context of our supporter survey results and inter-provincial comparisons, the Canadian Taxpayers Federation urges the provincial government to amplify these measures in the 2005/2006 budget.

Although taxpayers have enjoyed a small reduction in personal income taxes in the middle tax bracket, rates in Manitoba are still significantly higher than those in other provinces. By all measures, Manitoba's personal income taxes are among the highest in the country. Manitobans see the need for further reductions in personal income taxes.

The 2004/2005 CTF supporter survey shows that taxpayers remain cautious about Manitoba's economic future and competitive standing with other provinces. 70 percent 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.

2004/2005 CTF Supporter Survey Question:

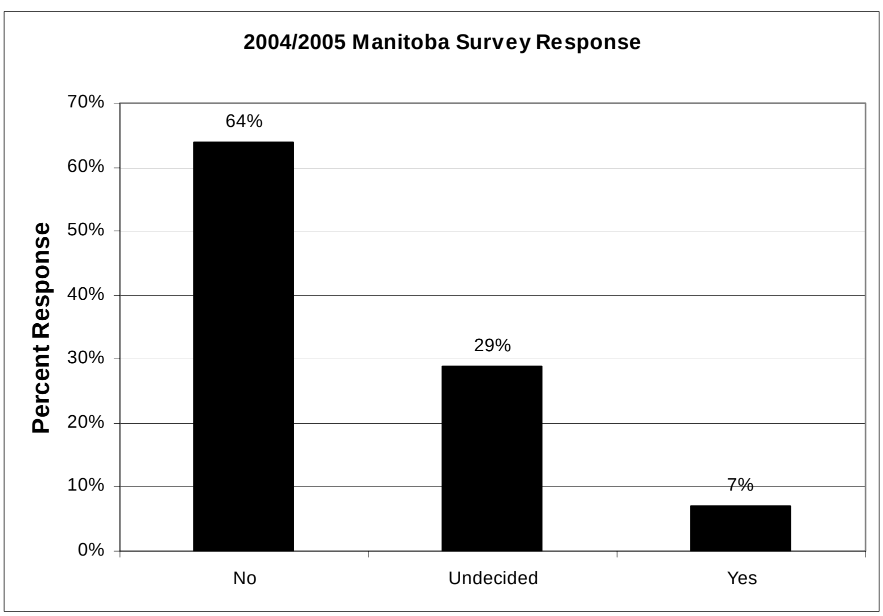
Do you feel current provincial tax rates and taxation policies allow Manitoba to successfully compete with other provinces for new business development?



Not only are a majority of CTF supporters concerned with Manitoba competing with other jurisdictions, over 64 percent feel that Manitoba's current business tax rates are not conducive to attracting new business ventures to the province.

2004/2005 CTF Supporter Survey Question:

Do you believe current business tax rates allow Manitoba to attract new business ventures to the province?



CTF supporters have been consistent in their concerns about Manitoba's inability to compete with other jurisdictions. Over the last couple of years, a majority of CTF supporters felt Manitoba did not have competitive tax policies. But it is not just CTF supporters who are concerned. Many have voted with their feet, leaving the province resulting in consistent net out migration from Manitoba. Since 1998, almost 16 thousand people have left our province, Table 6 shows net migration in each province.

Table 8: Net Migration by Province 1998

Year	NFL	PE	NS	N	PO	O	MB	SK	AB	BC	YK	NW	NT
1998-1999	-5,695	193	201	-1,244	-13,065	16,706	-2,113	-4,333	25,191	-14,484	-747	-555	-55
1999-2000	-2,510	979	665	524	-16,343	19,818	-1,290	-6,298	11,793	-7,153	-642	351	106
2000-2001	-2,452	137	-851	-753	-15,414	18,069	-4,455	-3,424	7,652	2,088	-304	-260	-33
2001-2002	-2,510	683	-1,266	-871	-8,432	7,266	-5,298	-8,635	26,740	-6,994	-395	-311	23
2002-2003 P	-14	571	777	-628	-1,722	-1,814	-1,189	-4,223	12,081	-4,591	686	10	56
2003-2004 P	-1,980	299	-842	-691	-1,474	-8,793	-2,095	-2,091	10,902	7,333	400	-31	-127

Source: Statistics Canada, Annual Demographic Statistics, 2004
Year runs from July 1st to June 30th
P, denotes a projection

The CTF has consistently praised the provincial government for embarking upon an aggressive immigration strategy. However, measures must be taken to curb the net out-migration that Manitoba continues to experience. Last year, Manitoba ranked 12th out of 13 provinces and territories for net out-migration and we cannot continue to lose our tax base because many of the people that are leaving are productive citizens entering their prime earning years.

Personal Income Taxes

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.

It is essential that Manitoba adopt a more competitive personal income tax regime. Table 7 illustrates how Manitobans fare compared to residents of other provinces. When compared to western provinces, Manitoba ranks at the bottom of the four. It should be noted that Table 7 takes into account modest tax reductions introduced last year.

The CTF recommends the following personal income tax rate reductions for the 2005 tax year:

- First rate – reduce from current 10.9 percent to 10 percent;
- Second rate – reduce from current 14 percent to 12.5 percent; and
- Third Rate – reduce from the current 17.4 percent to 14.5 percent.

When contrasted with current and planned reductions in other provinces, this would put Manitoba on par with Ontario and British Columbia – though greater benefit would accrue to Manitoba's middle income earners, and would close the gap with Alberta's very low income tax regime.

Although the CTF estimates these measures would reduce personal income tax revenues by $213 million, experience in other jurisdictions shows that tax cuts produce growth in overall government revenues. Further, the objective is to encourage prosperity for all Manitobans – which in turn grows the tax base.

When compared to other provinces, Manitoba's personal income tax regime is at the bottom of the pack. Lower and mid-income earners suffer under a heavier burden than is the case in most other provinces. This is particularly evident in the case of wage earners below $15,000 and for families with two earners with combined incomes below $60,000.

The CTF calls on the government to implement a five-year tax cut in the form of raising the basic personal and spousal exemption to $15,000. This would take 61,950 people off the tax rolls while encouraging many marginal wage earners to earn more as low marginal tax rates would take effect at a higher level of income. It's likely that this modest tax reform might result in fewer claims for social services. We believe government should no longer tax the working poor.

The provincial government should gradually raise the $7,634 basic personal exemption and the $6,482 spousal deduction with an eye to increasing these both to $15,000. That is equivalent to a minimum wage job. For the 2005 budget, both these rates should be raised to at least Saskatchewan's level of $8,404.

Recommendation 7:
Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent, middle rate from 14 percent to 12.5 percent and third rate from 17.4 percent to 14.5 percent.

Recommendation 8:
Raise the Basic Personal Exemption in the 2005 to $8,404.

Table 9: Personal Income Tax Rates

$15,000 Income Per Year - No Dependants

	BC	AB	ON	PQ	NS	NB	SK	PEI	MB	NL
2004	2,323	2,336	2,356	3,054	2,512	2,592	2,631	2,633	2,681	2,684
2005	2,285	2,292	2,314	2,315	2,486	2,554	2,577	2,607	2,655	2,658
Rank:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$35,000 Per Year - No Dependants

	ON	BC	AB	NS	NB	PEI	SK	MB	NL	PQ
2004	7,914	8,546	8,707	8,784	8,903	8,991	9,043	9,212	9,318	10,198
2005	8,130	8,479	8,658	8,815	8,831	8,961	8,984	9,182	9,287	9,662
Rank:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$45,000 Per Year - No Dependants

	ON	BC	AB	SK	NS	NB	PEI	MB	NL	PQ
2004	11,168	11,800	12,039	12,660	12,464	12,717	12,703	12,942	13,265	14,161
2005	11,521	11,719	11,975	12,563	12,630	12,631	12,658	12,897	13,219	13,648
Rank:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$60,000 per Year - No Dependants

	ON	BC	AB	SK	PEI	NB	NS	MB	NL	PQ
2004	15,842	16,472	16,839	17,910	18,160	18,240	17,789	18,342	19,004	20,103
2005	16,343	16,392	16,775	17,813	18,115	18,154	18,186	18,297	18,958	19,561
Rank:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$80,000 per Year – No dependants

	BC	AB	ON	SK	NB	NS	MB	PEI	NL	PQ
2004	23,613	23,639	24,088	25,310	26,270	25,589	26,452	26,586	27,729	28,911
2005	23,410	23,528	24,202	25,166	26,118	26,273	26,359	26,493	27,636	28,329
Rank:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$80,000 per Year - Family with Two Children, Two Incomes

	ON	BC	AB	NS	NB	SK	PEI	MB	PQ	NL
2004	16,955	18,218	18,619	19,121	19,493	19,576	19,567	20,027	22,232	20,455
2005	17,378	17,925	18,360	19,171	19,189	19,274	19,346	19,805	19,973	20,233
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

$80,000 per Year - Family of Four, One Income

	AB	BC	ON	SK	NB	PQ	NS	MB	PEI	NL
2004	19,521	20,609	20,468	21,202	22,404	24,684	21,837	22,533	22,756	23,877
2005	19,502	19,504	19,648	20,612	21,564	21,649	21,719	21,805	21,939	23,082
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**

Calculations:

Note, federal taxes are included in provincial totals.

Payroll taxes (CPP and EI) are included in the total personal income tax burden.

Tax calculations assume only a basic personal exemption. Family Tax calculations include Canada Child Tax Benefit Only
Projections for 2005 are based on known tax changes announced in previous budgets and use September 2004 CPI as an indexation factor.

Alberta, British Columbia and Ontario Health Taxes are included in the provincial tax burdens calculations for these three provinces.

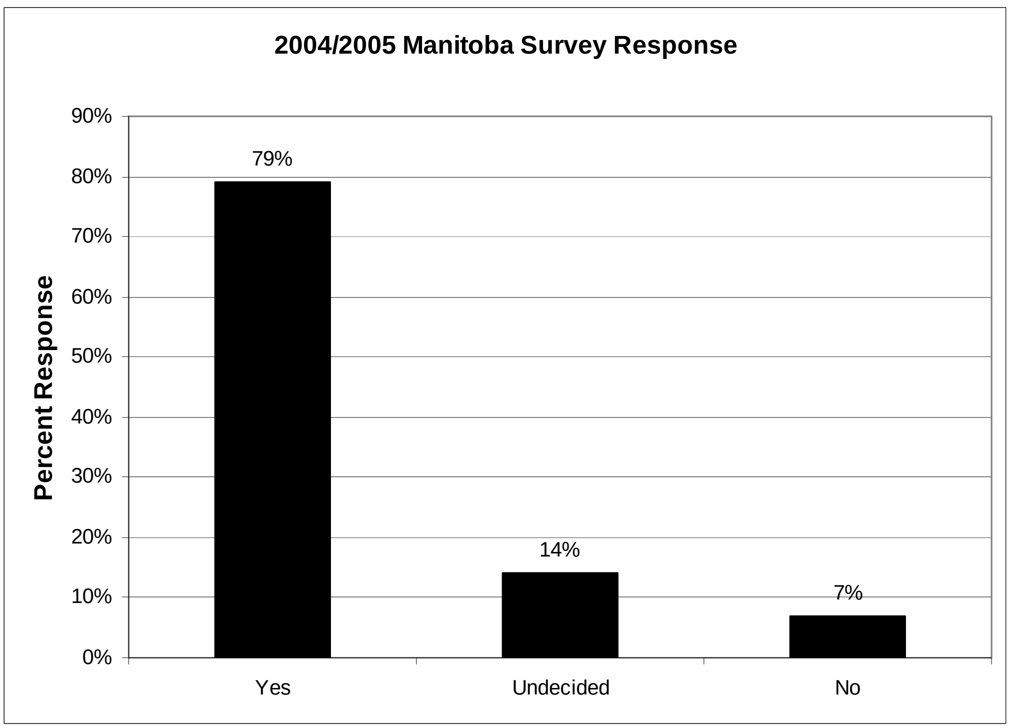
Property Tax

Small reductions that the province has made in past budgets to ease the property tax burden is laudable. However, 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.

2004/2005 CTF Supporter Survey Question:

Do you support the Province of Manitoba extending the Balanced Budget, Taxpayer Protection and Debt Retirement Act to municipalities and new school boards?



79 percent of CTF supporters favor spending restraints for both municipalities and school boards via the Balanced Budget, Taxpayer Protection and Debt Retirement Act. In a recent report by the CTF, findings highlighted that school taxes have increased on average 7.1 percent (three times the rate of inflation) between 1993 and 2002 (See: Appendix 1). Although it is encouraging that the province will continue to phase out the Education Support Levy and an additional 17 percent reduction of school taxes on farmland, Manitoba farmers continue to shoulder the burden of school taxes on their farmland.

Recommendation 9:
Expand the scope of the Balanced Budget, Taxpayers Protection and Debt Retirement Act to school boards and municipalities.

Recommendation 10:
Continue to eliminate school taxes on farmland.

Recommendation 11:
Continue to phase out the Education Support Levy.

Bracket Creep

Failure to index Manitoba's tax thresholds puts our province amongst the bottom tier of the provinces. Only four other jurisdictions have failed to re-index their income tax system for inflation. In fact, federal tax savings are being eroded by Manitoba's failure to index the income tax system. For instance, after the latest round of federal income tax adjustments, an individual earning $45,000 in Manitoba will save $46; the same income earner in Saskatchewan will save $97.

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.

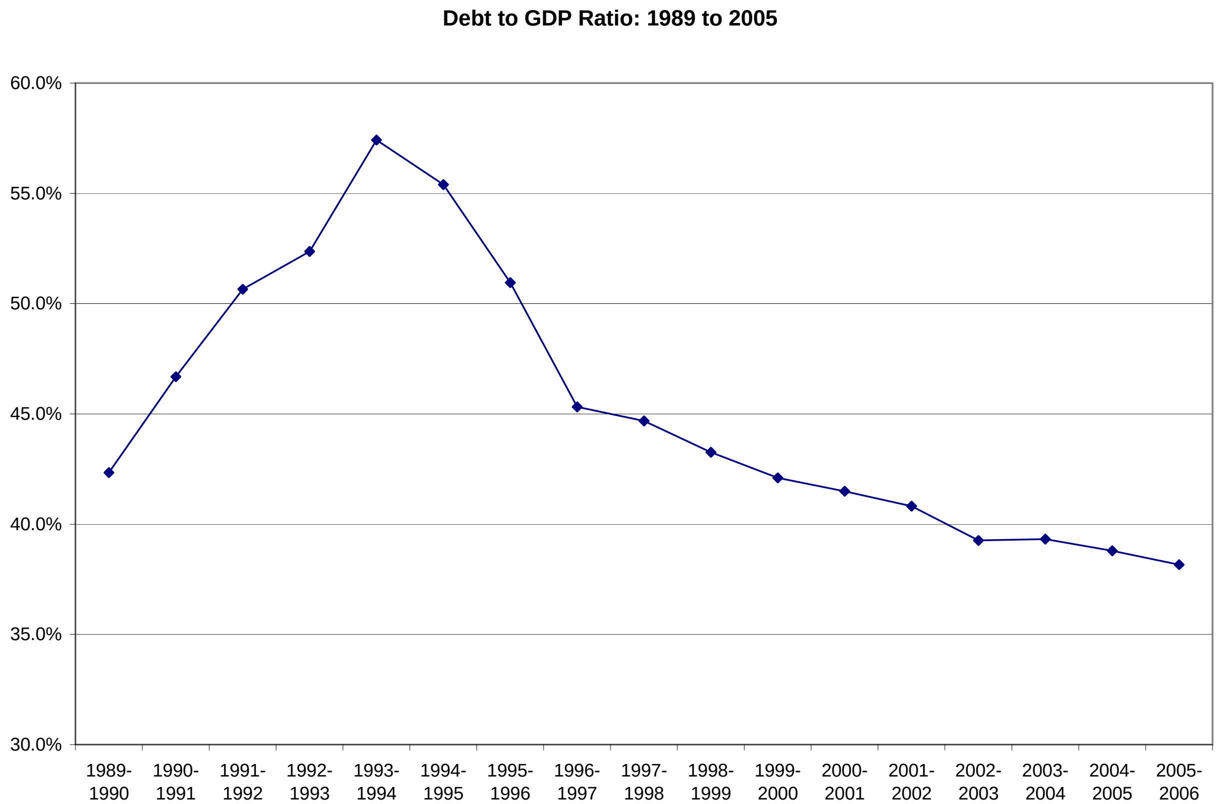
Table 10: 2005 Bracket Creep Status Chart

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	Yes
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes	Yes
New Brunswick	Reversed policy	Reversed policy
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 12:
Fully index Manitoba's tax brackets to the rate of inflation and end bracket creep.

Part VI: Debt Reduction

While Manitoba's debt situation has improved marginally over the past few years thanks to modest debt repayment, the Provincial Auditor's recent report should serve as an alarm bell that increasing the provincial deficit will harm any economic advantage our province may potentially hold.



There is no greater loss to Manitoba's taxpayers than $239 million in public debt servicing costs. These do not add to services for Manitobans, and are the result of irresponsible spending patterns which exceeded revenues. The current government should be working hard to keep Manitoba's budget balanced as a key first step, but real debt reduction will be essential for finding medium and long-term savings above and beyond any exercise in reducing and reallocating spending. In addition to pursuing a downward debt to GDP ratio, the government must look to reduced Manitoba's $16.2 billion debt.

Running deficits and keeping debt on the books has two pernicious effects on Manitoba's budget. First, it increases the cost of servicing the debt, which at present is the government's third largest spending envelope eating up 16.2 per cent of total spending. Second, it saddles future generations of Manitoba taxpayers with obligations that can only be paid with hard-earned tax dollars. As a result, money that could go to valuable programs is wasted while services, such as chiropractic care, eye exams and physiotherapy, are cut.

Although the debt to GDP ratio is declining, during the last four years it has remained stuck. In the four years prior to the NDP government of Premier Doer, actual debt was reduced by an average of 1.6 per cent per year. At the same time, Manitoba's GDP increased at an average rate of 4.6 per cent. This resulted in an 8 per cent reduction in the debt to GDP ratio. But in the last four years, Manitoba's debt has increased by an average of 3 per cent per year.

However, thanks to economic growth of 4.7 per cent on average each year, the debt to GDP ratio declined by about 2 per cent. This is a perfect example of why debt to GDP ratios don't tell us the whole story when it comes to public sector debt. Failure to control spending, and failure to balance the books has contributed to a $2 billion increase in public debt since the Doer government took office.

Appendix 1

Ten Year School and Municipal Tax Comparisson: 1993 - 2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Avereage Annual Increase	Percent Increase: 1998 - 2002
School Taxes[1]	$87,032,521	89,931,466	95,338,302	101,540,287	115,097,218	126,788,999	135,138,679	143,233,007	153,015,935	160,958,365	-	84.94%
Annual Increase	-	3.33%	6.01%	6.51%	13.35%	10.16%	6.59%	5.99%	6.83%	5.19%	7.11%	-
Municipal Taxes[2]	$68,660,385	72,487,735	74,319,574	79,572,788	90,457,643	95,980,113	99,755,012	104,144,695	108,997,383	114,892,260	-	67.33%
Annual Increase	-	5.57%	2.53%	7.07%	13.68%	6.11%	3.93%	4.40%	4.66%	5.41%	5.93%	-
Annual Rate of Inflation	1.80%	0.20%	2.40%	1.50%	1.60%	1.00%	1.70%	2.70%	2.50%	2.30%	-	-

Notes:

[1]School taxes include the school division special levy and the provincial education support levy.

[2]Municipal taxes includes general municipal tax, special areal levies, debt charges and other government levies.

Source:

Statistical Information: Municipalities of the Province of Manitoba, Years 1993 - 2002, Manitoba Intergovernmental Affairs

Consumer Price Index, Statistics Canada, Years 1993 - 2002