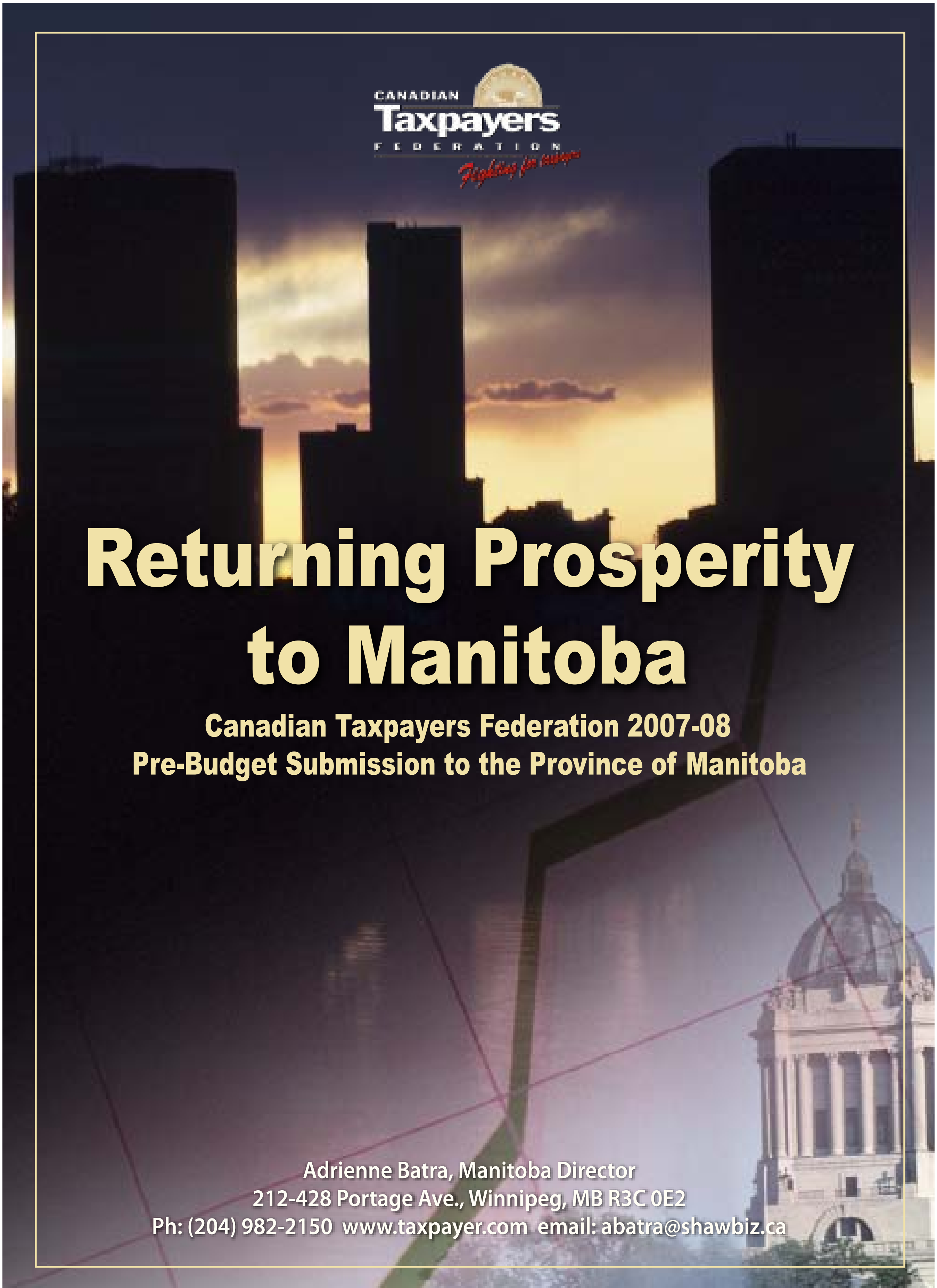

Returning Prosperity to Manitoba

Canadian Taxpayers Federation 2007-08 Pre-Budget Submission to the Province of Manitoba

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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 72,000 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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Part I: Recommendations

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

2. Eliminate business subsidy programs - $10 million in annual savings.

3. In conjunction with the next provincial election, hold a referendum on the question of opening up Manitoba Public Insurance to competition.

4. Privatize Manitoba Liquor Control Commission and use proceeds of the sale to pay down debt.

5. For the review of the 11 regional health authorities the CTF recommends annual audits, salary review, long-term plan for all health authorities, consideration of P3s and offering patients choice for health care delivery.

6. A full value-for-money audit of all school boards in Manitoba including a review of salaries paid to administrators and trustees.

7. Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent, middle rate from 13 percent to 12.5 percent and third rate from 17.4 percent to 17.0 percent.

8. Raise the Basic Personal Exemption in the 2007 tax year to $9,000.

9. Fully index Manitoba's tax brackets, BPE and spousal exemption to the rate of inflation and end bracket creep.

10. Eliminate the provincial payroll tax.

11. For this fiscal year, the provincial government should freeze school taxes.

12. Establish a long-term solution to increase the provincial share of education funding to 100 percent.

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

14. The CTF recommends the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

15. The provincial government rejects recommendations to amend the BBL to implement balancing the books on a four-year cycle and elimination of mandatory debt repayment.

Part II: Economic Prospects

The first decade of the new millennium is rapidly drawing to a close and Manitoba risks missing the next wave. A new equalization formula which will reach into the next decade, and is expected later this year, Canada's Kyoto targets will kick in over the next five years, and the baby boomer generation will begin its massive exit from their jobs, by 2020. Once far off events are now beginning to unfold. Now the question remains, what kind of fiscal foundation has been built?

The Canadian Taxpayers Federation (CTF) presents its for not only the present but the future of our province. Since taking office eight years ago, the current government has taken a number of positive steps to improve the province's fiscal foundation. Adopting Generally Accepted Accounting Principles (GAAP), reducing personal income taxes, phasing out the education support levy and school taxes on farmland, are all good steps. However, there are a number of fronts where the government of Manitoba has fallen well short of the right mix of fiscal policy.

Since 1999, the provincial public sector debt has increased by $3 billion (16,691 in 2006/07); per capita provincial spending has increased by 29 percent (inflation over the same time frame was 16 percent); and provincial GDP growth has lagged behind the rest of the country by 11percent.

The CTF's plan for Manitoba's fiscal foundation is built on the three pillars of debt reduction, tax relief and redefining the role of government. Taxpayers' demand for tax relief is real and warranted. Tax cuts are essential for sustained economic growth. In the immediate term, improved and efficient delivery of government services combined with the divestiture of some crown corporations can make lower taxes a reality.

Provincial economic growth since 1990 has consistently lagged behind the rest of Western Canada. The same trend is expected through 2008.

Fiscal consequences of the lagging economy:

- Less retail activity – costs the provincial government $12 million per year in lost sales tax revenues;
- Smaller rate of job creation – costs the province $6 million per year in lost personal income tax revenues; and
- Spending increased that outpace inflation results in $1.7 billion higher spending.

Table 1: Growth in Nominal Gross Domestic Product 1965 to 2008[1]

Year	MB	SK	AB	BC	Western Canada	Canada
1965 - 1969	32.8%	5.8%	36.1%	40.3%	29.7%	33.3%
1970 - 1974	69.1%	107.2%	119.6%	89.3%	91.8%	73.6%
1975 - 1979	49.2%	54.7%	85.2%	72.8%	64.7%	61.8%
1980 - 1984	46.2%	23.8%	39.3%	36.3%	38.1%	44.7%
1985 - 1989	30.8%	13.4%	4.4%	40.2%	25.1%	36.6%
1990 - 1994	9.4%	19.7%	22.7%	23.0%	18.0%	15.0%
1995 - 1999	19.1%	16.9%	27.8%	14.8%	20.1%	21.7%
2000 - 2004	16.6%	18.7%	31.4%	20.2%	21.4%	20.0%
2005	4.7%	7.2%	15.7%	7.2%	8.2%	6.2%
2006	5.1%	5.1%	9.6%	6.1%	6.2%	5.2%
2007	4.6%	4.7%	7.6%	5.2%	5.3%	4.4%
2008	4.8%	4.7%	6.1%	5.2%	5.2%	5.2%

It is not just a question of matching the oil-driven prosperity of Saskatchewan and Alberta, but also the more varied economic dynamism of British Columbia and Ontario. Ensuring future growth and prosperity is the role of provincial governments, and unfortunately, the current array of provincial policies since the early 1990s have not contributed to prosperity.

[1] Based on Statistics Canada GDP by expenditure, and Average of Bank forecasts.

Manitoba is now the only province in Western Canada with the "have-not" moniker with 35 percent of revenues coming into the province through various federal transfers. Unfortunately, like all welfare programs, equalization has a fatal flaw -- it takes away incentives to improve and become self-sufficient. Proponents of the program counter that equalization insures roughly comparable levels of services. Unfortunately, equalization punishes the regions that have the most to offer in terms of economic potential, job creation and wages. Tax burdens in the "have" provinces would also be higher than otherwise necessary.

Table 2: Select Economic Forecasts -Manitoba[2]

Year	Real GDP	CPI	Employment	Retail Sales	Housing Starts Per Capita	Housing Resale Price
2005	2.7%	2.4%	0.9%	6.6%	0.40%	12.3%
2006 F	3.1%	2.0%	1.2%	5.9%	0.42%	7.5%
2007 F	2.8%	1.7%	0.7%	5.5%	0.36%	5.5%
2008 F	2.8%	2.1%	0.6%	5.0%	0.33%	3.5%

Housing market lags

Resale housing prices are among the lowest in Canada (4th behind, PEI, New Brunswick and Saskatchewan) and are significantly lower than in British Columbia, Ontario and Alberta. Though low housing costs can be a plus, once again Manitoba has less in common with its peer jurisdictions and more in common with the equalization receiving jurisdictions.

Manitoba's housing market is an indicator of the province's slower growth, but in and of itself is a positive factor in encouraging business development. It is not the result of any deliberate government policy to keep housing prices low, but rather a reflection of a lack of investment or growth in jobs or business opportunities in Manitoba. Fortunately, this gap can be bridged with competitive tax policies.

Retail sales not a strong a regional peers

When it comes to retail sales, the news is neutral. Although the province is expected to lag the rest of the county by about 1 percent, between 2003 and 2005, the province's retail sales were stronger than the national average by almost the same margin as they are expected to lag over the next three years. Modest personal income tax cuts helped fuel stronger than average growth in retail sales. The trouble is that Alberta's boom fueled retail sales that were twice

2 Source: TD Economics, Regional Outlook, BMO Regional Outlook, RBC Regional Outlook, Scotiabank Regional Outlook, Laurentian Bank – Average of most recent projections

as high as Manitoba's, Alberta is expected to do the same over the next three years.

There is a direct benefit in Manitoba for greater retail sales. - in the 2007/08 fiscal year, a one percent increase in retail sales, results in $12 million in additional sales tax revenues and would contribute to a 0.4 percent increase in the province's GDP.

Job Creation

Table 3: Growth in Employment 1980 to 2008[3]

Year	MB	SK	AB	BC	Western Canada	Canada
1980 - 1984	3.5%	4.5%	3.5%	-1.2%	2.6%	2.9%
1985 - 1989	5.8%	1.0%	7.0%	18.5%	8.1%	11.8%
1990 - 1994	-1.1%	0.3%	4.2%	12.8%	4.0%	0.2%
1995 - 1999	4.6%	4.5%	13.4%	6.4%	7.2%	8.8%
2000 - 2004	3.9%	-1.0%	10.7%	5.7%	4.8%	7.0%
2005	0.9%	1.0%	1.8%	3.0%	1.7%	1.5%
2006	1.2%	0.6%	4.2%	3.1%	2.3%	1.9%
2007 F	0.7%	0.9%	2.4%	1.8%	1.4%	1.2%
2008 F	0.6%	0.5%	1.8%	1.6%	1.1%	1.1%

With the exception of the 1980 to 1984 period, Manitoba's economy has created fewer jobs than its three western neighbors, and indeed, the national average. Table 3 illustrates the forecasts for 2007 and 2008 Manitoba will once again be well below the national average.

Since Manitoba's job creation has not kept up with the national average, the province is forgoing income tax revenue. The long-term goal for the provincial government should be more taxpayers paying less tax.

[3] Statistics Canada Labour Force Survey, Bank economic forecasts.

Part III: Spending

Spending by the provincial government contributes is a key contributor to Manitoba's economic challenges. Since 2002, total per capita spending has increased faster than provincial Consumer Price Index (CPI). In fact, by the end of the 2006/07 fiscal year, spending had outpaced growth in CPI, by almost 20 percent. That's 4 percent more per year. Overall total government spending is $1.7 billion *higher* than would have been the case if it matched increases in the population and the CPI since 2002.

Table 4: Increase in Per Capita Spending/CPI

Year	Increase in Per Capita Spending	Annual CPI
2002	1.5%	1.5%
2003	13.9%	1.8%
2004	4.6%	2.0%
2005	6.6%	2.7%
2006	3.1%	2.0%

Reduce the size of government

Over the past four years, CTF-Manitoba supporters have expressed an overwhelming desire for reduced public payroll costs. Finding efficiencies in *all* areas of government spending is of utmost importance to taxpayers.

There are many different ways of comparing the size of provincial governments. One of the most commonly cited methods is to look at the size of government relative to economic output – spending per GDP. By this measure, Manitoba's government is the biggest spender in Western Canada.

Table 5: Provincial Spending as a Percentage of GDP[4]

Year	MB	SK	AB	BC	Canada
1995-1999	26.4%	23.8%	16.7%	25.0%	22.6%
2000-2004	26.2%	24.3%	15.9%	22.7%	21.5%
2005	26.5%	23.2%	14.9%	21.5%	21.5%

Another measure is to compare the size of government employment relative to overall employment. Comparing employment illustrates the size of the economic drag relative to employment in other sectors. Moreover, looking at employment, is perhaps more valuable in understanding the long-term

[4] Statistics Canada, Public Sector Spending and Gross Domestic Product

consequences of government spending relative to the workforce supporting it. Finally, if the objective is to reduce taxes, such as income taxes, it is worth understanding the impact of government on the lives of Manitoba's employed workers.

Table 6: Public Sector Employment as a Proportion of Employment[5]

Year	MB	SK	AB	BC	Western Canada	Canada
1990-1994	22.5%	22.7%	19.2%	17.0%	19.1%	19.2%
1995-1999	21.2%	21.5%	15.2%	16.4%	17.2%	17.2%
2000-2004	21.1%	22.7%	13.5%	16.0%	16.4%	15.7%
2005	21.2%	25.7%	13.3%	15.4%	16.3%	15.6%
2006	21.0%	26.4%	13.0%	15.1%	16.1%	15.5%

Unlike the comparison with GDP, Saskatchewan the worst. Nevertheless, Manitoba's public sector accounts for more than one-fifth of employment. By contrast, in the rest of Western Canada (including Saskatchewan) one-sixth of employment is from the government sector. And while the rest of Canada has seen a 19 percent decline in government employment as a percentage of total employment, Manitoba has only seen a 7 percent reduction. Manitoba has lagged the rest of the country by a margin of 60 percent. This is particularly troubling in light of other elements of the province's economic performance.

Table 7: Three Scenarios for Reducing Manitoba's Public Sector Employment

Year	Public Sector Employment	Total Wages – Public Sector ($ million)	Average Public Sector Wages	Public Sector as % of Total Employment	Public Sector Wages as % of Total Provincial Spending	Savings ($ million)
2007 CTF	75,636	3,274	43,282	12.9%	40.6%	223
2007 H	74,734	3,453	46,207	12.8%	42.8%	43
2007 HL	69,002	2,977	43,138	11.8%	36.9%	520

CTF reduces government employment to 15 year average and increases 2005 wages with inflation

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

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

Since 2003, public sector employment has declined by 1,000 employees. The former government failed to make substantial reductions to the size of Manitoba's public sector while, the current government has only achieved modest reductions.

5 Statistics Canada, Labour Survey & Public Sector Employment

Rather than simply trying to reduce wages, it is more appropriate to set targets for public sector employment based on previous levels. In Table 7, 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 $43 and $520 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. It is worth noting that under this scenario, wages would increase beyond current wage rates. By contrast, aiming for 1997 levels with more modest wage growth could save $520 million. But any combination of these scenarios would deliver substantial savings to Manitoba's taxpayers.

Recommendation 1:
Reduce the size and costs of the public service. Re-examine salaries paid to the public service, contractual relationships, as well as the total number of employees currently on the government payroll. Public sector wages must be reviewed in all sectors.

Reduce Spending: Eliminating Corporate Welfare

According to 2006 budget estimates, the provincial government allocated $10 million for industry development programs, including Manitoba Industrial Opportunities, Vision Capital and Manitoba Business Development Fund. The provincial government has reduced the amount of taxpayers' money being given to businesses. However CTF supporters have long supported elimination of business grants, loans and other special concessions to individual businesses outright. Better to provide lower taxes that apply to *all* businesses. Corporate welfare is dolled out at the expense of actual public goods and services.

The most obvious example where taxpayers and investors were the end losers was the Crocus Investment Fund. Over 30-million provincial tax dollars went to support the Fund since its inception in 1992, yet there is little to nothing to show for it. A full 69percent of CTF supporters believe the Manitoba government should call a public inquiry into the failed venture, further illustrating the point that particular consideration given to select businesses is not in the best interest of the public purse.

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 them 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. Recent examples where taxpayers lost millions was the $4.7 million provided to Ranchers Choice Beef Co-Op and $700,000 from Maple Leaf Distillers going into receivership.

Recommendation 2:
Eliminate business subsidy programs which would result in $10 million annual in savings.

Privatization

In recent years, CTF supporters have expressed their support for the provincial government to privatize crown corporations. In 2004, the province passed legislation requiring a referendum be 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 divestiture 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 opportunity and 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.

Above all, 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 – and tax paying - 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 3:
In conjunction with the next provincial election, hold a referendum on the question of opening up Manitoba Public Insurance to competition.

Recommendation 4:
Privatize the Manitoba Liquor Control Commission and use the proceeds of the sale to pay down debt.

Control spending on Health Care

The latest report form the Canadian Institute for Health Information (CIHI) shows health care spending in Canada will reach $148 billion this year. Manitoba has the second highest per capita spending for health care at $4901, accounting for fourty-two cents of every tax dollar spent in the province. Manitoba's health care budget increased by 6.4 percent just last year, more than double the rate of inflation. If we continue to spend this way on a government monopolized system, we will break the bank by 2047 where health care costs will be 100 percent of the provincial budget.

In spite of the yearly increased funding, wait times continue to grow, doctors and nurses are still leaving the province and worse, Manitobans are not getting value for the high tax bills they pay.

The government's Throne Speech commitment to review the province's 11 regional health authorities was a welcome change in policy. However, given that to date, no details of the review have been announced, the CTF makes the following recommendations during for the review guidelines:

1. Annual audits.
Everything from hiring practices to increased administrative costs is on the minds of taxpayers. Annual audits of all spending lines for the health authorities will ensure taxpayers are getting the best bang for their buck. Annual audits would also deter incidents such as the Burntwood Health Authority where senior executives were over-paid, received interest free loans and boosted their expense payments by bringing their families on trips.

2. Review salaries of all regional health authority administrative staff.
At the Winnipeg Regional Health Authority, the top 10 bureaucrats are being paid nearly $2 million. Meanwhile, Manitoba patients wait 10 weeks to receive a CT scan. Clearly there is something wrong with this picture.

3. Charge the health authorities to come up with a long-term plan to contract out services.
Provinces all across Canada are contracting out services to the private sector. We acknowledge this is an anathema to the NDP government; however efficiencies can, and have been found as is evidence in BC which has saved over $60 million by contracting out laundry, food services, security, maintenance and the like.

4. Consider public-private partnerships (P3s)for construction and operation of hospitals.
The NDP government should introduce competitive tendering for services within the health system. This would include construction and operation of hospitals. An excellent example comes from Abbotsford, BC. The government is building the

province's first hospital in a generation using the highly successful public-private partnership (P3) model. The hospital and its medical services will be public but it will be built, operated and maintained by a private partner on contract with the government. Abbotsford is the first hospital of its kind in Canada.

5. Take off the ideological blinders for the purposes of an honest review.
In the area of health care, allowing a choice of private service delivery is not only an option, but a necessity. Annual funding 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. Moreover, what governments fail to do voluntarily, the courts may force them to do. Patients that need care cannot be confined to government wait list without alternatives for their well-being. The Supreme Court of Canada has found this to be a violation of the Quebec Charter of Rights and Freedoms; and may likely find the same applies to the Canadian Charter.

Recommendation 5:
For the review of the 11 regional health authorities the CTF recommends annual audits, salary review, long-term plan for all health authorities, consideration of P3s and offering patients choice for health care delivery.

Control Spending on Education

If we are to ensure as many tax dollars as possible go the classroom and help address rising school taxes on property, we must look closely at salaries. Between 1995 and 2002, the average salary for administrators and teachers rose by 24 percent, resulting in an increase in the overall cost of education. 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 Table 8 illustrates, salaries account for about 63 percent of all provincial spending on education. That means annual increases in spending often don't reflect new initiatives, but rather reflect increasing wages for those working in the sector.

Table 8: School Board Wages as a Percentage of Education Spending

Year	Employees	Total Wages	Average Wages	Total Education Spending (in millions)	Wages as % of Spending
1995	27,289	842	30,847	1,004	83.9%
1996	26,754	840	31,414	1,019	82.5%
1997	26,364	847	32,114	1,030	82.2%

1998	26,517	867	32,678	1,130	76.7%
1999	27,174	894	32,895	1,322	67.6%
2000	27,920	924	33,109	1,449	63.8%
2001	26,088	957	36,694	1,486	64.4%
2002	24,953	994	39,827	1,521	65.3%
2003	24,352	1,023	41,994	1,594	64.2%
2004	25,886	1,066	41,184	1,698	62.8%

***Source Statistics Canada, Public Sector data 2004

Only five provinces raise school revenues from the property tax base. The long-term solution to reverse this trend is to establish a measurable plan to increase the provincial share of education funding.

Table 9: 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%

*Source: Statistics Canada, Public Sector data 2004

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 2003/04 Manitoba spent $9,003 per student, the highest per pupil 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.

<u>**Recommendation 6:**</u>
A full value-for-money audit of all school boards in Manitoba including a review of salaries paid to administrators and trustees.

Part IV: Cutting taxes

Personal Income taxes

Over the past few years, the CTF has presented the results of supporter surveys that clearly outline a concern about Manitoba's high personal and business taxes and their impact on the province's economic fortunes and competitiveness. Year after year, reducing taxes and tax reform are the top issues among CTF supporters.

There are a number of theoretical approaches that have been used to estimate the growth impact of tax cuts. However, the best starting point comes from looking at real-life examples. In November 2000, the federal government introduced the most substantial tax cuts in Canadian history. At the time, the federal surplus was projected to continue increasing, with revenues slated to reach $201 billion in 2005/06.

In an effort to keep a political plan of devoting ½ of any surplus revenues to tax cuts, the governing Liberal party implemented broadly based tax cuts that impacted on three taxes. First, $24 billion in personal income tax cuts, which included the elimination of high income surtaxes, as well as a reduction in the bottom and middle bracket. Second, another $15 billion in reductions in Employment Insurance taxes, which benefited workers and businesses equally, and which have continued since, with EI rates at $1.80 per $100 of earnings, down from $2.40. Finally, a $6 billion reduction in corporate taxes, a general rate reduction from 27 percent to 21percent, as well as an enrichment in research and development tax credits. In total, the federal government was slated to forego $45 billion in tax revenues. But that's not quite what happened.

Table 10: Federal Tax Cuts: 2000 Economic Update[6]

Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
2000 Economic Update pre-tax cut projection	175,200	181,000	187,200	192,400	193,100	201,200
Fiscal Reference Tables	182,748	171,688	177,832	186,207	198,420	222,203
2000 Tax cuts (Estimated costs)	3,000	8,600	11,000	11,900	10,500	0
Actual lost revenue Based on actual versus projection	8,000	- 9,000	- 9,000	- 6,000	5,000	21,000

Based on the information in Table 10, the federal government's revenue was reduced by $12 billion, between 2000 and 2005. However, by 2004/05, federal revenues had increased to more than $5 billion more than what had been predicted five years early. A small gain, but considering that was the final year

[6] Finance Canada, Budget and Economic Update 2000 & fiscal Reference Tables 2006

of a $45 billion tax cut, it is actually an increase of $50 billion in revenues over the time period. For those keeping count, by the third year of the tax cuts, the spread between foregone and actual reduced revenue had declined by $2 billion, the following year it had declined by $6 billion and in year five, the lost revenue had been offset by $15 billion more federal tax revenues. Last year, federal revenues were $21 billion higher than what was predicted at the end of 2000.

Some will argue that a strong economy and not tax cuts were the cause of these substantial gains in federal government revenue. Certainly, nothing happens in a vacuum. But the fact remains, additional tax cuts, particularly reductions in EI taxes, as well as additional personal income tax reductions were enacted between 2000 and 2005 and after the 2005 Economic Update.

When the provincial government began minor annual reductions to the middle income tax rate, revenues have increased. In the past two years , provincial income tax revenues have grown by $127 million.

From the taxpayer perspective, reducing personal income taxes should be the government's first priority. Personal income taxes account for 35 percent of provincial own source revenues. And in the context of fostering economic growth, opting to tax less from a larger number of taxpayers is always a good policy.

Reducing high marginal rates will free up more money for both spending and investment, given the fact that wealthier taxpayers will be more likely to have enough financial leeway to invest. Similarly, reducing high marginal rates will remove disincentives for working harder and earning more, which also encourages more spending and investment. Finally, reducing high marginal tax rates will also help Manitoba's business in attracting highly skilled (and well paid) employees. Allowing more substantial investments in human capital, which has similar effects as investing in capital.

The following table illustrates the timetable and impact in terms of reduced revenue. It is worth noting that reduced revenue is the one measure of a tax cut impact, albeit an important consideration when setting budgets. Previous experience in other jurisdictions with broad based tax cuts indicates that over time government revenues, through increasing economic activity, tend to increase offsetting reduced revenues. However for purposes of meeting budget requirements, the proposed 2007 tax reductions can be met by for instance adopting the CTF's proposal for lowering the size of government employment (see Table 7). Subsequent year's reductions can be gained through further economic growth.

Table 11: Four-year plan for tax reductions.

	2007/08	2008/09	2009/10	2010/11	Cumulative
BPE	$9,000	$9,500	$10,000	$11,000	
Impact $million:	$75.7	$28.0	$28.0	$56.0	$187.7
First rate	10.0%	n/a	n/a	n/a	
Impact $million:	$33.7	n/a	n/a	n/a	$33.7
Second rate	12.5%	n/a	n/a	n/a	
Impact $million:	$29.6	n/a	n/a	n/a	$29.6
Third Rate	17.0%	16.0%	15.0%	14.5%	
Impact $million:	$20.1	$51.5	$54.7	$29.194	$155.4
Total $ million:	**$159.0**	**$79.5**	**$82.7**	**$85.2**	**$406.4**

When contrasted with current and planned reductions in other provinces, this proposal would put Manitoba on par with Ontario and British Columbia. Benefit to Manitoba's lower and middle income earners would be even greater.

When compared to BC, Alberta, Saskatchewan and Ontario, Manitoba's personal income tax regime is at the bottom of the pack. Lower and mid-income earners in particular suffer under a heavier burden than is the case in these other provinces.

It is essential that Manitoba adopt a more competitive personal income tax regime. Table 12 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 12 takes into account modest tax reductions introduced last year.

Table 12: Provincial Tax Comparisons 2006

Provinces / Territories	Rate(s)
Ontario	6.05% on the first $35,453 or less 9.15% on the next $35,454 to $70,907 11.16% on the amount $70,908 and over Basic Personal Exemption $8,545
Manitoba	10.9% on the first $30,544 or less 13% on the next $30,545 to $65,000 17.4% on the amount $65,001 and over Basic Personal Exemption $7,834
Saskatchewan	11% on the first $38,405 or less 13% on the next $38,406 to $109,729 15% on the amount $$109,730 and over Basic Personal Exemption $8,778
Alberta	10% of taxable income Basic Personal Exemption $15,435
British Columbia	6.05% on the first $34,397 or less 9.15% on the next $34,398 to $68,794 11.7% on the next $68,795 to $78,795 13.7% on the next $78,795 to $95,909 14.7% on the amount $95,910 and over Basic Personal Exemption $9,027

*Source Revenue Canada, 2006 Income tax statistics

In addition to the personal income tax reductions, the CTF recommends the government continue to increase the basic personal and spousal exemption to $11,000. This would take 58,000 Manitobans off the tax rolls while allowing many marginal wage earners to earn more. It's likely that this modest tax reform would result in fewer claims for social services. We believe government should no longer tax the working poor. Moreover, the impact for low income Manitobans will be substantial, while also encouraging greater labour participation among this group.

Recommendation 7:

Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent in 2007/08, middle rate from 13 percent to 12.5 percent in 2007/08, third rate from 17.4 percent to 17.0 percent for 2007/08 and phase in to 14.5 percent by 2010/11.

Recommendation 8:

Raise the Basic Personal Exemption in the 2007/08 budget to $9,000 as part of a 4-year plan to move it to $11,000.

Bracket Creep

Only four jurisdictions in Canada have refused to 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 $103; the same income earner in Saskatchewan will save $139.

To reverse this problem, the province should institute full indexation. 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 13: 2006 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	Yes	Yes
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 9:
Fully index Manitoba's tax brackets, BPE and spousal exemption to the rate of inflation and end bracket creep.

Payroll Taxes

Manitoba is the only province in Western Canada that charges employers a 2.15 percent payroll tax in addition to the corporate taxes they already pay. Nearly 90 percent of CTF supporters have noted the payroll tax as a disincentive to create jobs and should be eliminated.

2006 CTF Supporter Survey Question

Manitoba imposes a payroll tax on businesses with income of $1-million or more. Do you believe this is:

A necessary cost of doing business	0.0
A disincentive to create jobs and should be eliminated	89.9
None of the above/undecided/DNA	10.1

High taxes on business profits discourage firms from locating in the province. Increasingly, investments in physical locations tend to be less important than the overall business climate. Though capital investment remains important, investments in technology and new processes is of greater importance. These assets can be easily moved to other jurisdictions.

To support the case for elimination of the payroll tax, one need only look at the modest tax relief offered up by the Doer government. From 2000 to 2005, the provincial small business tax rate fell from 9 percent to 4.5 percent and marginal reductions were made to business and personal income tax rates. The result? Over the six year period, Manitoba's sales and income tax revenues increased by nearly $500 million. During the same period, unemployment dropped from 5.6 to 4.8 percent.

Recommendation 10:
Eliminate the provincial payroll tax.

School Taxes

The CTF commends the Manitoba government for following through on its commitment to eliminate the Education Support Levy (ESL). Unfortunately, every cent the ESL was reduced has been made up in local school taxes as Manitoba taxpayers will have to once again brace themselves for a significant increase in school taxes. As most Manitoba municipalities have done a decent job in keeping their mill rates frozen, the same cannot be said for Manitoba's school divisions. Raising school taxes has become a dreaded annual tradition and the time has come for a serious discussion on about how we fund our schools.

Nearly 70 percent of CTF supporters have expressed that a majority of school funding should be coming from the general revenue fund:

2006 CTF Supporter Survey Question	
Do you believe education funding should be:	
100 percent from the general revenue fund (GRF)	69.6
80 percent GRF and 20 percent school property taxes	12.7
60 percent GRF and 40 percent school property taxes	7.6
None of the above/undecided/DNA	10.1

School division taxes have increased by over 80 percent since 1990, last year alone a number of divisions had double-digit increases, but what has made this situation worse was a pay hike for school division trustees. Over the past few years, a majority of CTF supporters have said they would like the provincial government to expand the *Balanced Budget/Taxpayer Protection/Debt Retirement Act* to school boards so that all school tax increases must first be passed by voter approval through referendum.

Clearly school divisions in Manitoba have shown no willingness or the ability to keep spending under control as evidence with the $16 million increase in salaries for division managers and supervisors, $8 million increase for secretaries and clerical staff and $21 million for staff development, communications and travel.

Recommendation 11:
For this fiscal year, the provincial government should freeze school taxes.

Recommendation 12:
Establish a long-term solution to increase the provincial share of education funding to 100 percent.

Recommendation 13:
Expand the scope of the Balanced Budget, Taxpayers Protection and Debt Retirement Act to school boards and municipalities.

Part V: Fiscal Management

<u>Debt Reduction</u>

Taxpayers have long advocated for a reduction in Manitoba's provincial debt. As already noted, the current government has added to the province's debt load since taking office. Last year alone, Manitoba's debt (including crowns) totaled $16.7 billion. Under the existing balanced budget law, $110 million was paid down last year and debt servicing costs increased from the previous two years to $282 million.

There is no greater loss to Manitoba's taxpayers than $282 million in public debt servicing costs. Every day Manitoba's debt costs taxpayers $772,602 or $32,191 an hour. 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.

The CTF urges the government to be more aggressive in its debt elimination efforts, and to that end proposes the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

The cumulative interest savings that would result from this approach to debt retirement would be around $1.6 billion, which assumes an average interest rate of 5.3 percent. These are modest calculations, depending on growth in own source revenues, the province's debt could be paid down much sooner. This in turn frees up more money for further tax cuts or holding the line in the face of growing spending pressures from the baby boom generation.

Table 14: Debt Retirement schedule

Year	Debt	CTF Scenario 2.5% of Own Source Revenue
2007-2008	16,691	141
2008-2009	16,550	143
2009-2010	16,407	147
2010-2011	16,260	151
	Paid in Full 2057-2058	

The long-term solution to cutting *all* government sector debt is to begin divesting from a number of crown agencies. Taxpayers have long advocated for this, and the CTF continues to call for the divestiture of MPI and MLCC. Moving forward, the province should commit itself to reviewing the status of the remaining crowns every five years. Any crowns that continue to amass unwarranted debt, or that can be provided by the private sector, should be subject to divestiture. As government backed agencies are sold off, their assets are also removed from the books, so it is crucial that this is done in conjunction with other debt reductions.

Recommendation 14:

The CTF recommends the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

Balanced Budget Legislation (BBL)

As the provincial government's commitment to fully implement Generally Accepted Accounting Principles (GAAP) comes into affect March 31, 2008 – a move the CTF supports – there are serious concerns with the implementation plan that has been recommended to the government.

Since being adopted in 1995, Manitoba's BBL is widely considered to be the most effective and comprehensive taxpayer protection law in the country on account of its wide scope and stiff penalties to politicians who violate it. This legislation requires the Operating Budget to be balanced and mandatory debt payments be made each year. The BBL also includes a real enforcement mechanism that docks the pay of provincial cabinet ministers by 20 percent if a deficit is incurred in one year, and 40 percent if a deficit is carried over two or more years.

The recommendations to the government include no longer using the Fiscal Stabilization Fund to balance the books, balancing the books on a four-year cycle (as opposed to each fiscal year) and elimination of mandatory debt repayment.

Over 60 percent of CTF supporters have expressed their objection to the provincial government adopting these changes.

2006 CTF Supporter Survey Question

The Province of Manitoba is considering amending the Balanced Budget Act in response to adopting Generally Accepted Accounting Principles (GAAP). It has been suggested the province adopt a four-year cycle to balance its books, as opposed to every year, and debt re-payment be considered. Do you believe your CTF should:

Support these changes until the province fully implements GAAP	12.7
Oppose these changes outright	60.8
None of the above/undecided/DNA	26.6

At a time when revenues are at an all-time high, $8.6 billion, and the debt has soared to $16.7 billion, the last thing the province should be doing is spending more and adding to the debt. Further, it is a hard sell to suggest that if a deficit is incurred for three years, that the government will be able to balance the books in year four. It is over-spending by the current and previous governments that has contributed to Manitoba's "have-not" status, abandoning two measures that have helped keep the provinces finances from completely collapsing is misguided.

There may be required changes to the BBL to incorporate GAAP, but they should not be amendments that water down the legislation. It is one of our most important pieces of legislation, the province must move towards strengthening it for current and future generations of taxpayers.

Recommendation 15:

The provincial government rejects recommendations to amend the BBL to implement balancing the books on a four-year cycle and elimination of mandatory debt repayment.