2004/05 Manitoba

Pre-Budget Submission

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. In thirteen years it has grown to become an organization with over 65,000 supporters nation-wide.

The CTF's three-fold mission statement is:

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

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

3. To mobilize taxpayers to exercise their democratic responsibilities.

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

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

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

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

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Table of Contents

Part I. Recommendations

Spending:

- Freeze departmental spending. Increases required in priority areas such as health care spending should be funded by a redirection of existing budget envelopes.
- Phase out business subsidy programs, $11 million, and cut departmental funding by an equal amount.
- Do not raid the reserves of publicly owned utilities to increase overall spending and achieve a balanced budget.
- Introduce competition, and privatization to government departments and agencies such as Manitoba Liquor Control Commission and Manitoba Public Insurance.

Income Tax Relief:

- Eliminate bracket creep and fully index tax brackets and credits to inflation.
- Set 2004 individual income tax rates that surpass those in Saskatchewan. The first rate should fall from 10.9% to 10%, the middle rate should fall to 12.5% and the top rate should fall to 14.5%.
- Set the 2004 basic personal exemption and spousal deduction to at least Saskatchewan's level of $8,000.

Property Taxes:

- Continue to phase out the provincial education support levy.
- Eliminate or phase out school division taxes that are levied on farmland.
- Conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms similar to Saskatchewan's Commission on financing K-12 education.
- Do not grant municipalities new taxing powers such as a hotel tax, a gas tax levy, a sales tax or an income tax.

Balanced Budget:

- A 2004/2005 balanced budget should account for future federal transfer reductions and interest rate increases.
- Do not introduce amendments that would in any way weaken or water down the impact and intent of the *Balanced Budget, Taxpayer Protection and Debt Retirement Act*.
- The Government of Manitoba immediately adopt the Summary Budget process as recommended by the Auditor General.

The Manitoba division of the Canadian Taxpayers Federation appreciates this opportunity to present its 2004 pre-budget recommendations. There are many challenges facing Manitoba over the next few years, but with focus and determination our province can build on strengths and lead the country.

Part II. Manitoba's Economy – A Snapshot

There is little question that Manitoba's economy has been underperforming for many years. Though not the worst economy in the country, Manitoba ranks 8th among the provinces, when measuring average economic growth between 1993 and projected 2005. In that same time frame, the national average for Gross Domestic Product (GDP) growth was 5.21 per cent, while Manitoba showed a meager 4.48 per cent annual growth rate. It is time to put Manitoba back on the economic map.

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

**Table 1: Select Economic Indicators –
Projections for 2003 to 2005 - Manitoba**

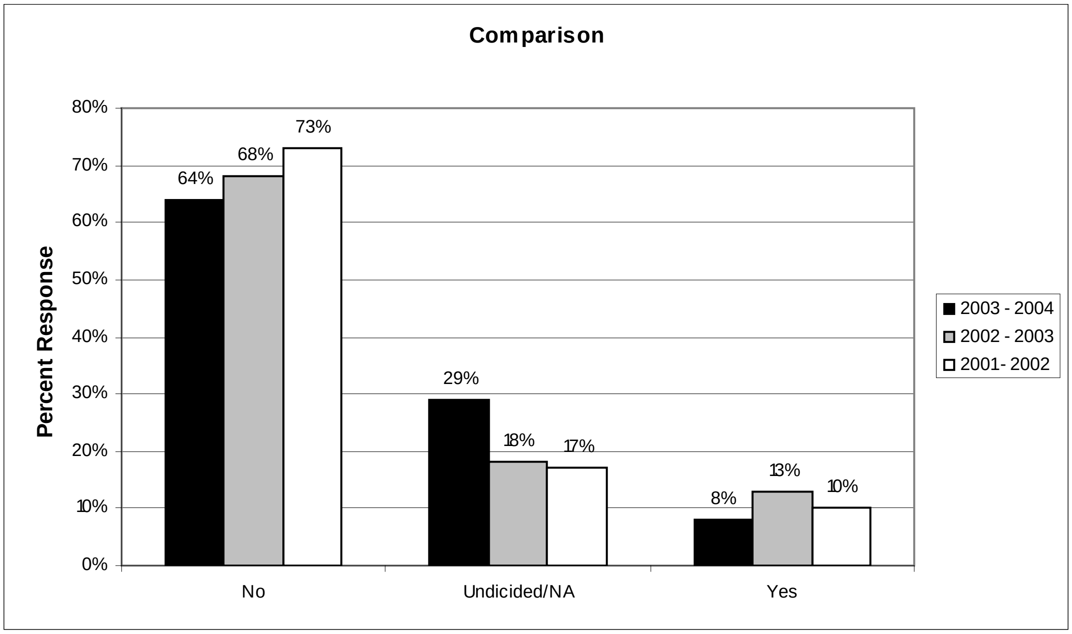
Year	Real GDP	Nominal GDP	Consumer Price Index	Employment (increase)	Retail Sales
2003	2.3%	5.3%	1.8%	0.6%	2.2%
2004	3.2%	5.5%	1.3%	1.1%	3.9%
2005	3.2%	5.6%	1.6%	1.0%	4.4%

Source: TD Economics, Regional Outlook, January 21, 2004.

In every case, Manitoba is set to grow slower than the rest of the country. In 2004 the national average for expected real GDP growth is 3.3 per cent, employment is 1.5 per cent and retail sales is 4.5 per cent. Despite low inflation and an unemployment rate that is the lowest in the country, (5.0 per cent in 2003) neither have contributed toward greater buoyancy in Manitoba's economy. That is a worrisome trend when one considers the fiscal pressures that will be exerted on the province over the next ten to fifteen years.

2003/2004 CTF Supporter Survey Question 1:

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



CTF supporters have been consistent in their concerns about Manitoba's inability to compete with other jurisdictions. Over the last three years, nearly two-thirds 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 1991, almost 55 thousand people have left our province, Table 2 shows net migration in each province.

Table 2: Net Migration by Province 1997 to 2002

Year	NFLD	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
1997-1998	-9,490	-416	-2,569	-3,192	-16,958	9,231	-5,276	-1,940	43,089	-10,029
1998-1999	-5,695	193	201	-1,244	-13,065	16,706	-2,113	-4,333	25,191	-14,484
1999-2000	-4,263	104	-270	-1,183	-12,146	22,369	-3,456	-7,947	22,191	-14,610
2000-2001	-4,493	165	-2,077	-1,530	-9,442	18,623	-4,323	-8,410	20,457	-8,286
2001-2002	-2,510	683	-1,266	-871	-8,432	7,266	-5,298	-8,635	26,740	-6,994
2002-2003 P	-43	559	61	-1,449	-588	-5,391	-1,589	-5,497	15,328	-1,697

Source: Statistics Canada, Demographic Data.

This does not imply that the population of the province is declining, but rather that a substantial number of people have decided to live elsewhere. In fact, Canada's two "have-provinces" Alberta and Ontario, are the only ones experiencing a net in migration. If Manitoba is going to stem the tide of out-migration it will have to become much more attractive – and that will require more focused and effective government, and lower taxes.

Part III. Focusing Government

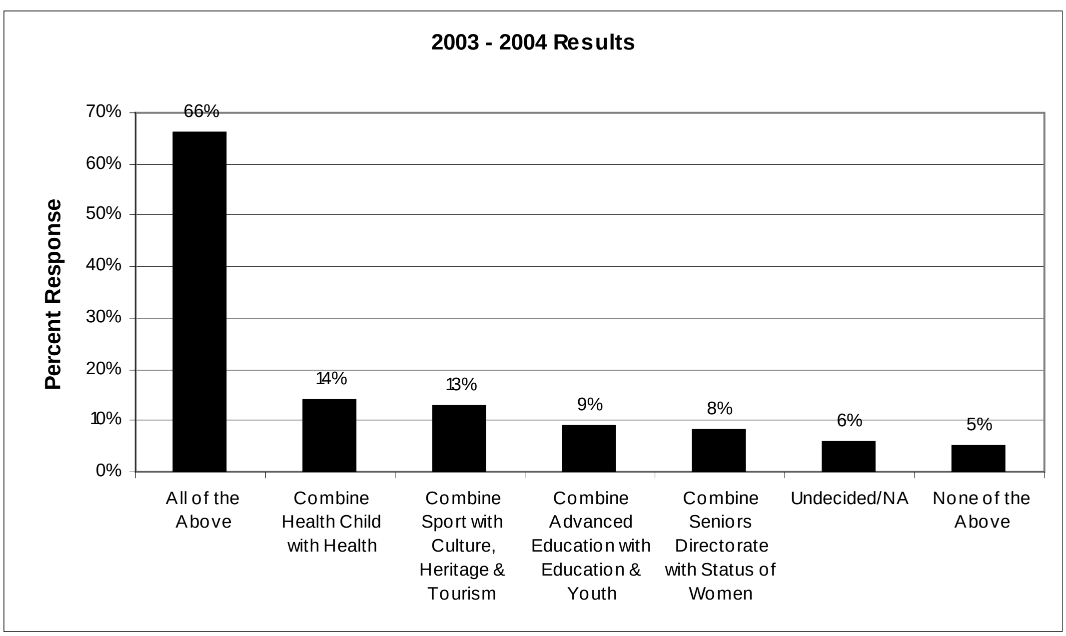
In each of the past two budgets, provincial spending has increased by more than 15%; in 2003 alone spending swelled by $885 million. Last year the Canadian Taxpayers Federation raised concerns about the growth in provincial government spending, rather than making gains, the situation has become worse. As a percentage of Manitoba's GDP, provincial government spending this year stands at 21% -- the highest proportion of the four western provinces – in stark contrast to ten years ago, when Manitoba had the lowest proportion in the west. As was previously noted, this ratio will not change based on prospects for economic growth, however a reduction in the overall size of the government sector would be welcome.

1. Targeted Savings

In each survey, the CTF has asked supporters where savings in government could be found. This year an emphasis was placed on which government departments could be combined or eliminated. In previous years, CTF supporters have identified business subsidies, cultural grants and tourism sponsorship programs for elimination. Certainly there is room for a targeted provincial government.

2003/04 CTF Supporter Survey Question 7:

If the province was to eliminate or amalgamate some government departments, which of the following would you support?



The Manitoba division of the CTF has prepared three scenarios for reducing Manitoba's government spending. In each case, there is targeted approach that actually increases education and health spending to match inflation, while reducing spending in other government departments. Each of the three proposed scenarios would result in a more focused and effective government. See Appendix I for a detailed breakdown of the three scenarios, contrasted with spending for the last two fiscal years.

Scenario 1 – Select 25 per cent Reductions:

This scenario, in addition to increasing spending in education and health adjusted for inflation also increases spending in the social services envelope to match inflation and keeps spending on justice and government services constant. The remainder of all other spending areas would be reduced by 25 per cent. This produces a total of $252 million in savings.

Scenario 2 – CTF's Recommended Reductions:

This scenario represents a major refocusing of government – reducing the number of ministries down to nine.

- Unlike scenario 1, spending in the social services envelope would be streamlined so that a new Ministry of Social Services would cover the responsibilities of Ministries of Aboriginal and Northern Affairs; Labour and Immigration and the Senior's Directorate – services would be delivered at the 2003-2004 cost.
- The Ministry of Justice remains untouched – spending the same next year as this year.
- A new Ministry of Government Services would be created to take on the role various entities such as the civil service commission, intergovernmental affairs, legislative assembly and executive council fulfill. The ministry's spending would be targeted at $100 million, a ten per cent reduction in all areas except intergovernmental affairs which would be cut in half.
- The former Ministry of Transportation would spend according to fuel and gasoline taxes collected – one half allocated as block transfers to municipalities (Manitoba Municipal Roadway Trust) with the remainder spent on provincial transportation initiatives.
- The Ministries of Agriculture, Agri-food; Conservation; Energy, Science and Technology; and Industry, Mines and Resources would all be combined into one Ministry of Natural Resources. Spending for that new ministry would be targeted at one half of the combined spending of the former Ministries.
- Finally, The Ministries of Sport, Culture, Heritage and Tourism all be eliminated, resulting in $79 million in savings.

All other spending traditionally reported as three non-descript enabling appropriations would be reduced by one half. The net result of this scenario would be $562 million in savings.

Scenario 3 – 10 per cent Across the Board Reductions:

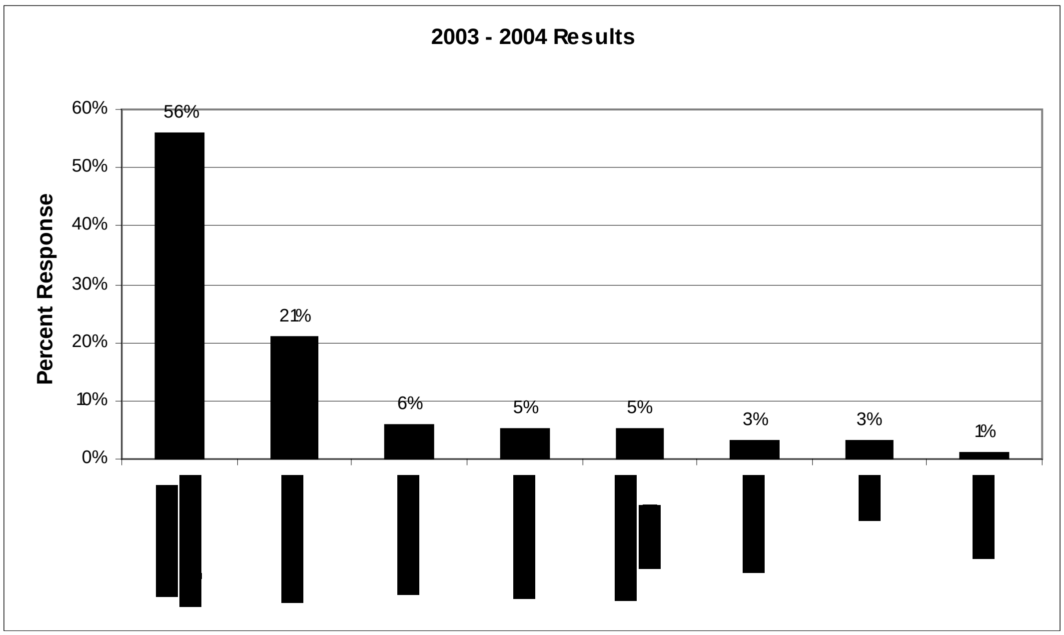
This scenario does not really attempt to refocus or redirect government efforts, but does retain increases for inflation in health and education. All other ministries spending will be reduced by 10 per cent. This results in $297 million in savings. Though less ambitious than the other two on a case by case basis, this scenario would prove more straightforward to implement as all ministries would be put under the same constraints.

Depending on which approach is adopted by the government a combination of staff and service reductions could accomplish many of the savings. However, a more fundamental analysis of ministerial activities would allow for greater leeway for retaining services and functions that are essential and valued while eliminating those that no longer serve a key function. Manitobans do not expect their provincial government to be all things to all people - they expect it to work. Simple litmus tests of each program and activity make it clear which would be subject to elimination, privatization or alternative service delivery. The remaining government services would be lean, effective and would enjoy wide support from Manitobans.

Size of Manitoba's Public Sector – Employment

2003/04 CTF Supporter Survey Question 6:

Please identify the one TOP area where the provincial government should reduce it's spending.



CTF supporters have expressed an overwhelming desire for reduced public sector employment. There is little appetite for reductions to health or education spending, but there is strong support for reducing social service spending. But more than any other measure, the number of provincial government employees is a concern.

Table 3: Provincial Public Sector Employment 1989 to 2002 - Manitoba

Year	Provincial Public Sector Employment	Total Cost ($ million)	Average Wage	Total Provincial Employment	Public Sector as Percentage of Total	Public Sector Wages as Percentage Of Spending
1989	73,398	1,989	$ 27,106	568.91	12.9%	41.43%
1990	74,734	2,141	$ 28,646	566.78	13.2%	42.13%
1991	75,517	2,197	$ 29,089	557.90	13.5%	41.91%
1992	76,021	2,303	$ 30,299	554.40	13.7%	42.46%
1993	75,224	2,244	$ 29,828	542.70	13.9%	41.87%
1994	73,176	2,215	$ 30,269	535.70	13.7%	41.31%
1995	72,721	2,191	$ 30,132	525.60	13.8%	40.15%
1996	72,758	2,157	$ 29,653	518.60	14.0%	45.08%
1997	69,002	1,985	$ 28,760	519.00	13.3%	37.43%
1998	70,086	2,061	$ 29,412	509.50	13.8%	35.61%
1999	71,656	2,198	$ 30,668	506.50	14.1%	34.13%
2000	72,373	2,379	$ 32,876	502.20	14.4%	35.82%
2001	77,089	2,557	$ 33,169	506.80	15.2%	40.34%
2002 P	80,416	2,662	$ 33,097	515.20	15.6%	41.23%

Source: Statistics Canada, Public Sector Employment

P denotes a projection

When comparing the size of government employment over the last ten years (see Table 3), 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 the 2002 year, public sector wages accounted for 40 percent of all government spending – not the highest level ever, but up from a previous low of 35 percent. If average wages increase by the consumer price index of 1.8 per cent, then next year public sector wages would reach a level of about 35 per cent 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 as a percentage of all workers in the province has steadily increased from about 13 per cent to almost 15 per cent. This has resulted in more modest growth in average wages – but contributes to an overall sense that our provincial government is not well focused.

Table 4: Three Scenarios for Reducing Manitoba's Public Sector Employment

Year	Provincial Public Sector Employment	Total Cost ($ million)	Average Wage	Total Provincial Employment	Public Sector as Percentage of Total	Public Sector Wages as Percentage Of Spending
2004 CTF	72,698	2,493	$ 34,299	519.35	14.0%	71
2004 H	67,004	2,462	$ 36,742	519.35	12.9%	103
2004 LCD	67,004	2,298	$ 34,299	519.35	12.9%	195

CTF reduces government employment to 15 year average and increases 2002 average wage with inflation.

H reduces government employment to 1989 levels with average wage indexed for inflation.

LCD (Lowest Common Denominator) Reduces government employment to 1989 levels and adjusts 2002 average wages for inflation.

Rather than simply reducing wages, it is more appropriate to set targets for public sector employment based on previous levels. In Table 4, 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 $70 and $195 million could be saved on public sector employment alone. In one case, setting a target of average public sector employment and wages as a percentage of provincial employment and spending would produce the least gains, but would prove more manageable. Setting more ambitious targets of matching 1989 public sector employment levels and wages – adjusted for inflation, or matching 1989 public sector employment with 2002 wages adjusted for inflation would result in more substantial savings. Though arguably less important than refocusing, these targets set achievable standards for reducing the size of Manitoba's government.

Other means for finding savings:

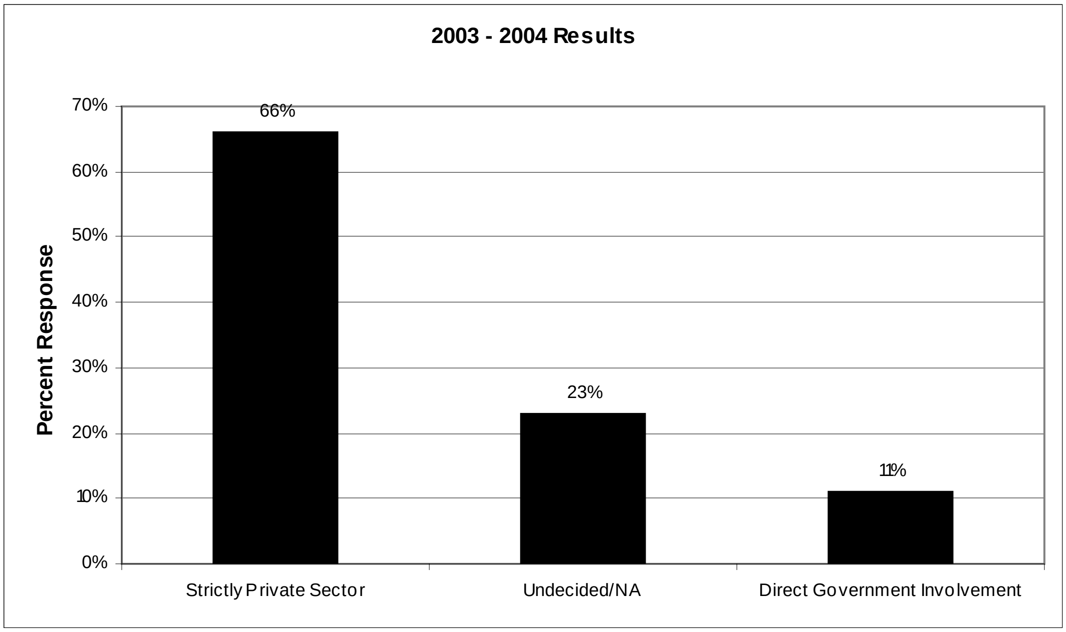
Eliminating all Business Subsidies -- Corporate Welfare

CTF supporters have long supported elimination of business grants, loans and other special concessions to individual businesses in order to pave the way for greater tax relief and debt repayment. These are dolled out at the expense of real 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 support the efficacy of corporate welfare, but there is a litany of failed ventures and wasted tax dollars.

2003/04 CTF Supporter Survey Question 3:

The provincial government plans to spend $48 million over the next two years to subsidize ethanol production in Manitoba. Which option do you support?



When it comes to the specific case of subsidizing an ethanol factory, CTF supporters are loud and clear in their opposition to corporate welfare. This echoes the preference for an end to all business subsidies found in previous supporters surveys.

Recommendation 1:
The provincial government should phase out business subsidy programs, $11 million and cut departmental funding by an equal amount.

2. Privatization

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

Most of the services provided by the crowns could easily be delivered by a competitive private sector. The private sector would be equally capable of running tourist resorts, selling liquor and auto insurance as they do for any other industry where competition prevails.

Recommendation 2:
Introduce competition and privatization to government departments and agencies such as Manitoba Liquor Control Commission and Manitoba Public Insurance.

Controlling spending on Health Care

Restraining growth in health spending is a must. For the last few years, the most significant spending increases have been in health care. Slated to consume more than 39 per cent of all spending this year, it has steadily grown from 32 per cent of all spending in 1989. If the CTF's recommendations for reductions are adopted, next year spending on health will consume 44 per cent of Manitoba's budget. Although the province's room for action is limited by the Canada Health Act, opportunities for effective reforms must be pursued.

Table 5: Health Care Spending in Manitoba 1989 - 2004

Year	Total Spending	Health Spending	Health as % of Total
1989-1990	$ 4,802	$ 1,524	31.73%
1990-1991	5,081	1,671	32.89%
1991-1992	5,241	1,760	33.57%
1992-1993	5,425	1,864	34.36%
1993-1994	5,359	1,859	34.68%
1994-1995	5,361	1,855	34.60%
1995-1996	5,458	1,849	33.87%
1996-1997	4,786	1,812	37.86%
1997-1998	5,301	1,826	34.44%
1998-1999	5,789	1,926	33.26%
1999-2000	6,438	2,301	35.74%
2000-2001	6,643	2,505	37.71%
2001-2002	6,338	2,686	42.38%
2002-2003	6,456	2,843	44.03%
2003-2004 [P]	7,341	2,913	39.67%
2004-2005 [CTF]	7,088	3,081	43.46%

Source: Manitoba Budget Documents 1989 - 2003

P denotes a projection & CTF denotes where spending will be if CTF recommendations are adopted.

A word of caution concerning the viability of seeking more federal transfers must be heeded. Despite having three orders of government, there is only one taxpayer in Manitoba. Any enhanced federal funding comes directly from Manitobans, so at some point all must be aware of the potential to increase health spending beyond what is affordable. If current spending and revenue trends continue, health care will consume 50 per cent of Manitoba's budget within eight to ten years (See: Appendix II). Simply put, if health spending remains unchecked it will crowd out all other provincial government functions.

Debt Reduction

There is no greater loss to Manitoba's taxpayers than $330 million in public debt servicing costs. These do not add to services for Manitobans, and are the result of previous government's irresponsible spending patterns which exceeded revenues. The current government has worked hard to keep Manitoba's budget balanced. Retaining balanced budgets is 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 $14 billion debt.

Adopting a dedicated line item devoted to debt repayment is essential to accomplishing real debt reduction. Setting a target of 5 per cent of own source revenues (excluding federal transfers) would put the province on a thirty five year trajectory toward no debt. The value of debt repayments would rise or fall along with revenues. Therefore, next year debt repayments would be $250 million – a substantial real debt reduction (See: Appendix III). In adopting this approach, the government could reasonably expect to pay off our debt within the next 35 years. This is no different than the standard we all apply in our own lives when buying a home.

3. Competitive Taxation

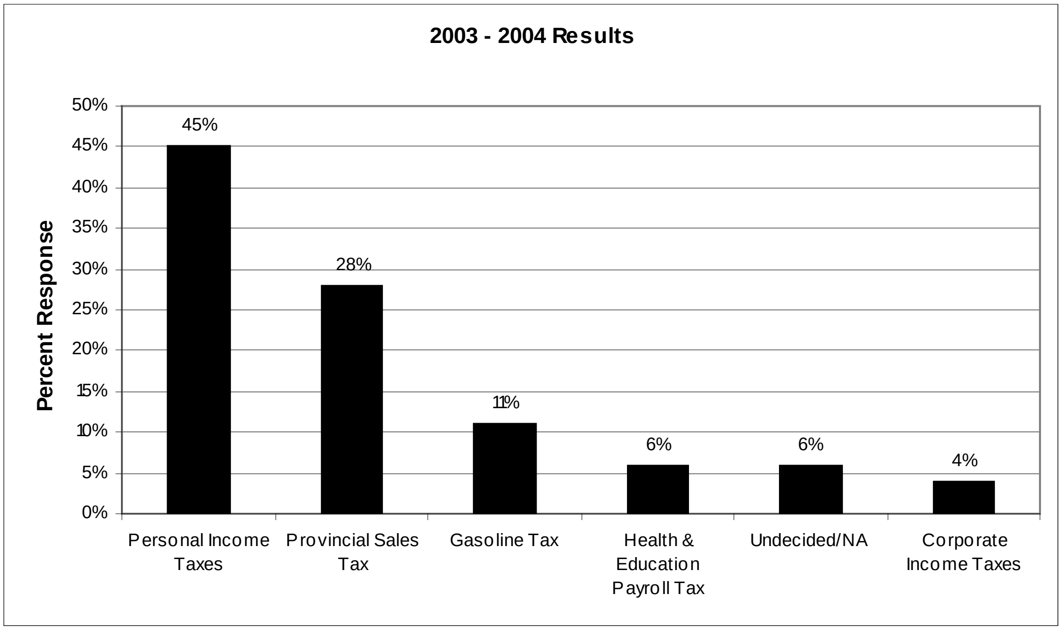
The provincial government has remained committed to reducing personal and business tax burdens, and for this they have earned praise from many financial institutions. In the context of our supporter survey results and inter-provincial comparisons, the Canadian Taxpayers Federation urges the provincial government to amplify these measures in the 2004/2005 Budget.

Although taxpayers will enjoy a small reduction in personal income taxes this year, rates in Manitoba are still significantly higher than that of other provinces. 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 2003/04 CTF Supporter Survey shows that taxpayers remain cautious about Manitoba's economic future and competitive standing with other provinces.
68 per cent of respondents believe that Manitoba's ability to compete with other provinces for new business development is still encumbered by current tax rates and taxation policies.

2003/04 CTF Supporter Survey Question 5:

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



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.

Table 6 illustrates where Manitoba stacks up on personal income taxes, at a number of income levels.

Table 6: Personal Income Tax Rates

$15,000 of income – no dependants

Year	**Federal**	**BC**	**AB**	**ON**	**NS**	**NB**	**SK**	**PEI**	**MB**	**NL**	**PQ**
2003	2,047	2,388	2,472	2,422	2,703	2,646	2,701	2,687	2,735	2,738	3,121
2004	1,991	2,323	2,336	2,356	2,512	2,592	2,631	2,633	2,681	2,684	3,054
Rank:		1	2	3	4	5	6	7	8	9	10

$35,000 of income – no dependants

Year	**Federal**	**ON**	**BC**	**AB**	**NS**	**NB**	**PEI**	**SK**	**MB**	**NL**	**PQ**
2003	6,601	8,187	8,818	9,030	9,374	9,144	9,232	9,299	9,493	9,559	10,445
2004	6,356	7,914	8,546	8,707	8,784	8,903	8,991	9,043	9,212	9,318	10,198
Rank:		1	2	3	4	5	6	7	8	9	10

$45,000 of income – no dependants

Year	**Federal**	**ON**	**BC**	**AB**	**NS**	**SK**	**PEI**	**NB**	**MB**	**NL**	**PQ**
2003	8,930	11,422	12,053	12,343	13,183	12,911	12,926	12,940	13,295	13,487	14,390
2004	8,705	11,168	11,800	12,039	12,464	12,660	12,703	12,717	12,942	13,265	14,161
Rank:		1	2	3	4	5	6	7	8	9	10

$60,000 of income – no dependants

Year	**Federal**	**ON**	**BC**	**AB**	**NS**	**SK**	**PEI**	**NB**	**MB**	**NL**	**PQ**
2003	12,230	16,118	16,725	17,143	18,733	18,161	18,383	18,463	18,830	19,226	20,375
2004	12,005	15,842	16,472	16,839	17,789	17,910	18,160	18,240	18,342	19,004	20,103
Rank:	1	2	3	4	5	6	7	8	9	10	

$80,000 of income – family of four One income

Year	**Federal**	**AB**	**BC**	**ON**	**SK**	**NS**	**NB**	**MB**	**PEI**	**NL**	**PQ**
2,003	15,725	20,758	21,544	22,517	23,376	24,962	24,550	24,974	24,887	26,007	26,847
2,004	14,656	19,528	20,377	21,532	22,265	22,901	23,468	23,597	23,820	24,940	25,748
Rank:		1	2	3	4	5	6	7	8	9	10

$80,000 of income – family of four Two incomes

Year	**Federal**	**BC**	**ON**	**AB**	**NS**	**NB**	**PEI**	**SK**	**MB**	**NL**	**PQ**
2,003	15,054	18,622	18,656	19,364	21,604	21,131	21,206	21,258	21,835	22,093	23,882
2,004	13,997	16,922	16,955	17,563	19,121	19,493	19,567	19,576	20,027	20,455	22,232
Rank:		1	2	3	4	5	6	7	8	9	10

4. Tax Relief

It is essential that Manitoba adopt a more competitive personal income tax regime. Table 6 illustrates how Manitobans fare compared to residents of other provinces. When compared to western provinces, Manitoba ranks at the bottom of the four. Saskatchewan, a province similar to Manitoba in many ways, boasts personal income taxes that are in most cases much lower. It should be noted that Table 6 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 per cent to 10 per cent;
- Second rate – reduce from current 14 per cent to 12.5 per cent; and
- Third Rate – reduce from the current 17.4 per cent to 14.5 per cent.
- Total lost revenue – without offsetting growth -- $213 million.

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 has estimated these measures would reduce personal income tax revenues, experience in other jurisdictions shows that tax cuts produce growth in overall government revenues that offset lost personal income tax revenues. Further, the objective is to encourage prosperity for all Manitobans – which in turn grows the tax base. Unfortunately, evidence from 2001 Tax Statistics on Individuals points to a modest decline in the number of taxpayers since the 2000 tax year. If this trend continues, the Manitoba government will be taxing less people for more money.

5. Bracket Creep

Failure to index Manitoba's tax thresholds puts our province amongst the bottom tier of the provinces. Only three 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 an individual earning $15,000 can expect $56 in federal income tax savings in 2003 versus 2004 but in Manitoba that same taxpayer will only save $54 overall. That means the non-indexation of has resulted in a net $2 increase in income tax. The amount is not significant, but it illustrates that tax increases by stealth continue in Manitoba.

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 7: 2004 Bracket Creep Status Chart

Province	Indexation of Tax Brackets	Indexation of Non-Refundable Tax Credits
Federal Government	Yes	Yes
British Columbia	Yes	Yes
Alberta	No brackets to index	Yes
Saskatchewan	Yes in 2004	Yes in 2004
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes	Yes
New Brunswick	Yes	Yes
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 3:
The province should fully index its tax brackets and credits to inflation.

6. Basic Personal Exemption and Spousal Deduction

The government should be commended for the work done in the 2002 budget, which raised the basic personal exemption (BPE), and the spousal deduction and the 2003 budget which reduced the middle tax bracket. The province should continue on this path to exempt more low-income taxpayers and income from taxation by setting a higher Basic Personal Exemption. With a generous BPE fully indexed to inflation, bracket creep would be the first casualty, thereby releasing more low-income earners from the tax roles.

The provincial government should gradually raise the $7,634 basic personal exemption and the $6,482 spousal deduction with an eye to increasing these both to $15,000. That is equivalent to a minimum wage job. For the 2004 budget, both these rates should be raised to at least $8,000.

Recommendation 4:
Target the 2004 basic personal exemption and spousal deduction to at least $8,000.

Recommendation 5:
The provincial government should set 2005 income tax rates that surpass Saskatchewan. The first rate should fall from 10.9% to 10%, the middle rate should fall to 12.5%; and the top rate should fall to 14.5%.

7. Raiding the Crowns

Last year the province took $54 million out of Manitoba Hydro's reserves to help balance the books. Recent announcements have indicated that Manitoba Hydro will incur a $350 million deficit and rates will be increased by 25 per cent in the next 10 years. The $54 million taken last year should have gone to offset any increases that ratepayers would have to incur.

Recommendation 7:
Do not raid the reserves of publicly owned utilities to increase overall spending and achieve a balanced budget

8. Balanced Budget

Manitoba's balanced budget laws are regarded as model legislation for the country. It has successfully lead to balanced budgets for six years. There should be no compromising this legislation for any reason at all.

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

Recommendation 8:
A 2004/2005 balanced budget should account for future federal transfer reductions and interest rate increases.

Recommendation 9:
The Province should not introduce amendments that would in any way weaken the impact and intent of the *Balanced Budget, Taxpayer Protection and Debt Retirement Act*.

9. Education and Property Taxes

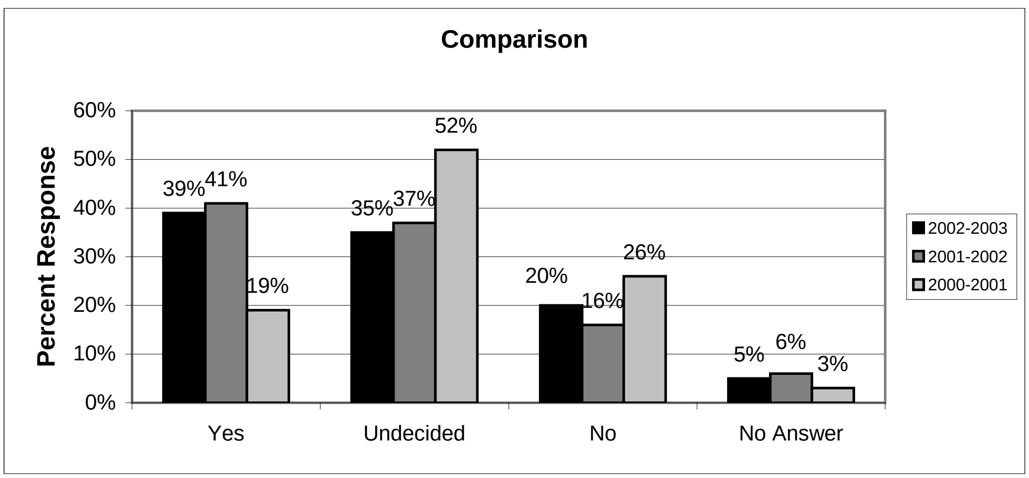
The small reductions that the province has made in past budgets to ease the property tax burden is laudable, but discrepancies still exist from one RM to another regarding the portion of school taxes generated from farmland and the impact of school taxes on individual farmers.

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

CTF supporters surveyed indicate that education standards would improve by reforming the funding formula.

2002/03 CTF Supporter Survey Question 5:

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



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

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

Recommendation 12:
The province should conduct a comprehensive review of the school tax system to explore alternative education funding mechanisms similar to Saskatchewan's Commission on financing K-12 education.

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

10. Generally Accepted Accounting Principles

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

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

Recommendation 14:
The Government of Manitoba immediately adopt the Summary Budget process as outlined by the Auditor General.

Appendix I: Reallocation Scenarios

	Forecast 2002-2003	Forecast 2003-2004	Reallocation 25% Targeted *	Realocation According to CTF Recommendations	Realocation 10% Across the Board *
Health	2,842.8	3,004.2	3,068.5	3,068.5	3,068.5
Healthy Child Manitoba	19.6	21.9	n/a	n/a	n/a
				Education	
Advanced Education and Training	503.4	524.8	1,613.7	1,613.7	1,613.7
Education and Youth	1,018.1	1,066.6	n/a	n/a	n/a
Debt Servicing	335.0	331.0	331.0	331.0	331.0
				Social Services	
Family Services and Housing	822.8	869.4	925.8	869.4	782.5
Aboriginal and Northern Affairs	26.8	28.7	n/a	-	25.8
Labour and Immigration	26.0	27.0	n/a	-	24.3
Senior's Directorate	0.7	0.7	n/a	-	0.7
Justice	242.5	254.1	254.1	254.1	228.7
				Government Services	
Legislative Assembly	23.0	23.4	23.4	100.8	21.0
Executive Council	3.4	3.4	3.4	n/a	3.1
Civil Service Commission	3.9	4.3	4.3	n/a	3.8
Employee Pension and Other Costs	60.0	65.4	66.3	66.3	66.3
Intergovernmental Affiars	141.6	145.8	109.3	n/a	131.2
				Transportation	
Transportation and Government Services	321.9	341.1	255.8	113.7	307.0
Manitoba Municpal Roadway Trust	n/a	n/a	n/a	113.7	n/a
Finance	242.5	254.1	190.6	177.9	228.7
				Natural Resources	
Agriculture and Agri-Food	122.8	126.6	95.0	164.9	-
Conservation	123.1	128.0	96.0	n/a	115.2
Energy, Science and Technology	42.1	44.0	33.0	n/a	39.6
Industry Trade and Mines	31.1	31.1	23.3	n/a	28.0
Culture Heritage and Tourism	64.2	66.8	50.1	-	60.2
Sport	10.7	10.7	8.0	-	9.6
Status of Women	1.1	1.1	0.8	-	1.0
Enabling Appropriations 1	51.1	59.0	44.3	61.3	53.1
Enabling Appropriations 2	19.0	37.8	28.3	n/a	34.0
Other Appropriations	37.7	25.8	19.3	n/a	23.2
Sub Total:	**107.8**	**122.6**	**91.9**	n/a	**110.3**
Grand Total	7,136.8	7,496.8	7,244.4	6,935.2	7,200.1
Savings:	n/a	n/a	252.4	561.7	296.7

Appendix II:
Projected Health Expenditures as Percentage of Total Spending

Average growth rates since 1989

Year	Total Spending	Health Spending	Health as % of Total
2004-2005 [CTF]	7,088	3,068	43.29%
2005-2006	7,306	3,220	44.07%
2006-2007	7,306	3,220	44.07%
2007-2008	7,532	3,379	44.86%
2008-2009	7,757	3,537	45.60%
2009-2010	7,990	3,704	46.36%
2010-2011	8,229	3,878	47.13%
2011-2012	8,476	4,061	47.91%
2012-2013	8,729	4,252	48.71%
2013-2014	8,991	4,452	49.52%
2014-2015	9,260	4,662	50.34%
2015-2016	9,546	4,892	51.24%
2016-2017	9,546	4,892	51.24%
2017-2018	9,841	5,133	52.16%
2018-2019	10,135	5,374	53.02%
2019-2020	10,439	5,627	53.91%
2020-2021	10,752	5,892	54.80%
2021-2022	11,074	6,170	55.71%
2022-2023	11,406	6,460	56.64%
2023-2024	11,747	6,764	57.58%
2024-2025	12,099	7,083	58.54%
2025-2026	12,473	7,432	59.59%
2026-2027	12,473	7,432	59.59%
2027-2028	12,857	7,798	60.65%
2028-2029	13,242	8,165	61.66%
2029-2030	13,639	8,549	62.68%
2030-2031	14,048	8,952	63.72%
2031-2032	14,469	9,373	64.78%
2032-2033	14,902	9,815	65.86%
2034-2035	15,348	10,277	66.96%
2035-2036	15,808	10,761	68.07%

Average growth rate since 2000

Year	Total Spending	Health Spending	Health as % of Total
2004-2005 [CTF]	7,088	3,068	43.29%
2005-2006	7,291	3,254	44.63%
2006-2007	7,291	3,254	44.63%
2007-2008	7,499	3,450	46.00%
2008-2009	7,708	3,646	47.30%
2009-2010	7,923	3,854	48.64%
2010-2011	8,144	4,074	50.02%
2011-2012	8,371	4,306	51.45%
2012-2013	8,604	4,552	52.91%
2013-2014	8,844	4,812	54.41%
2014-2015	9,090	5,086	55.95%
2015-2016	9,351	5,393	57.68%
2016-2017	9,351	5,393	57.68%
2017-2018	9,618	5,718	59.45%
2018-2019	9,886	6,044	61.13%
2019-2020	10,162	6,389	62.87%
2020-2021	10,445	6,753	64.65%
2021-2022	10,736	7,138	66.49%
2022-2023	11,035	7,546	68.38%
2023-2024	11,343	7,976	70.32%
2024-2025	11,659	8,431	72.32%
2025-2026	11,993	8,940	74.54%
2026-2027	11,993	8,940	74.54%
2027-2028	12,336	9,479	76.84%
2028-2029	12,680	10,018	79.01%
2029-2030	13,033	10,590	81.25%
2030-2031	13,396	11,194	83.56%
2031-2032	13,769	11,832	85.93%
2032-2033	14,153	12,507	88.37%
2034-2035	14,547	13,221	90.88%
2035-2036	14,953	13,975	93.46%

Appendix III: Debt Repayment Scedule

Year	Debt	Own Source Revenue	Debt Repayment of 5%
2003-2004 [P]	14,387	4,847	242
2005-2006	14,145	4,992	250
2006-2007	13,895	5,142	257
2007-2008	13,638	5,296	265
2009-2009	13,373	5,455	273
2009-2010	13,100	5,619	281
2010-2011	12,819	5,787	289
2011-2012	12,530	5,961	298
2012-2013	12,232	6,139	307
2013-2014	11,925	6,324	316
2014-2015	11,609	6,513	326
2015-2016	11,283	6,709	335
2016-2017	10,948	6,910	346
2017-2018	10,602	7,117	356
2018-2019	10,246	7,331	367
2019-2020	9,880	7,551	378
2020-2021	9,502	7,777	389
2021-2022	9,114	8,011	401
2022-2023	8,713	8,251	413
2023-2024	8,300	8,498	425
2024-2025	7,876	8,753	438
2025-2026	7,438	9,016	451
2026-2027	6,987	9,287	464
2027-2028	6,523	9,565	478
2028-2029	6,044	9,852	493
2029-2030	5,552	10,148	507
2030-2031	5,044	10,452	523
2031-2032	4,522	10,766	538
2032-2033	3,984	11,089	554
2033-2034	3,429	11,421	571
2034-2035	2,858	11,764	588
2035-2036	2,270	12,117	606
2036-2037	1,664	12,480	624
2037-2038	1,040	12,855	643
2038-2039	397	13,240	662
2039-2040	- 265	13,638	682
2040-2041	Paid in Full		
2041-2042			
2042-2043			
2043-2044			
2044-2045			