



Choosing a new path

Canadian Taxpayers Federation's 2006-07 Pre-budget Submission
to the Government of Saskatchewan

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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: SUMMARY OF RECOMMENDATIONS

Recommendation 1

Reduce government spending and enact legislation that would limit spending to inflation and population growth.

Recommendation 2

Reduce health care spending by outsourcing services such as cleaning, laundry, food preparation, maintenance, security, landscaping, information technology, property management and human resources services.

Recommendation 3

Privatize Saskatchewan Transportation Corporation and abandon plans to construct an \$18 million bus depot in Regina.

Recommendation 4

Stop spending public money to support the Meadow Lake pulp mill.

Recommendation 5

Privatize liquor retail operations in order to save millions each year and help create hundreds of new businesses.

Recommendation 6

Establish a timetable for increasing the provincial share of education funding to 75 per cent in five years.

Recommendation 7

Increase the Basic Personal Exemption to \$15,000 over five years.

Recommendation 8

- 1) Phase out the corporate capital tax by July 1, 2008
- 2) Reduce the corporate income tax rate to 12 per cent by July 1, 2008
- 3) Increase the small business limit to \$500,000 by July 1, 2008.
- 4) Remove the PST from business inputs.

Recommendation 9

Adopt fixed election and budget dates.

Recommendation 10

Require approval from the electorate before raising taxes

Recommendation 11

Legislate financial penalties for Cabinet Ministers who exceed approved budgets.

Recommendation 12

Legislate an all-party committee to review and approve crown and agency heads

PART II: INTRODUCTION

Each year the Canadian Taxpayers Federation (CTF) makes submissions to government calling for more government accountability, lower taxes and less waste. 2006 is no different. However, there is a sense of urgency this year that is growing across the province.

With each passing year, signals that Saskatchewan is falling behind become more pronounced. In a time where the rest of western Canada is growing faster than could have been imagined a decade ago Saskatchewan lags. Our economy is among the slowest growing in Canada and, as a result, our best and brightest are leaving for Alberta and British Columbia.

The conditions are perfect this year for Saskatchewan to become an economic powerhouse. Resources like uranium, oil, natural gas and potash have reached historically high prices, yet private investment in Saskatchewan lags behind our closest neighbours to the east and west. This should be our time, but we are not realizing our potential.

It's clear that the province is not on a sustainable path. Government policies of high taxes and direct investment into the economy have failed. Now it is time to take a new path.

Fortunately, taxpayers are hearing signals from government that change may be coming. In 2005, the Business Tax Review Committee (BTRC) submitted its recommendations to government calling for dramatic business tax reforms. We believe those recommendations present an historic opportunity for Saskatchewan people. Adopting them would open our province up to new opportunities and undoubtedly create jobs.

In this report we call on the government to take a new path – one that leads to a stronger economy through lower taxes on working people and reforms to make government more transparent and accountable. We urge the government to take action in 2006 to ensure Saskatchewan is a strong province for generations to come.

PART III: SASKATCHEWAN'S ECONOMIC PROSPECTS

Saskatchewan's economy has preformed reasonably well over the last few years. A strong oil and gas sector has boosted the overall value of the province's economy – a trend that is expected to continue for the next few years. This increase in commodity prices has resulted in sky-rocketing government revenues.

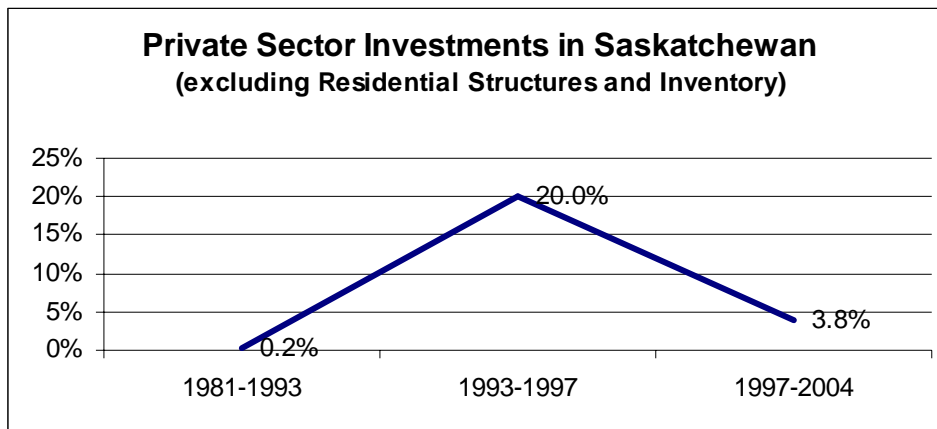
Table 1: Economic Indicators for 2000 through 2004

Year	Real GDP Growth	Consumer Price Index	Employment (increase)
2000	5.5%	2.3%	1.0%
2001	1.5%	3.1%	0.9%
2002	3.0%	2.8%	0.8%
2003	2.4%	2.3%	1.1%
2004	3.3%	2.2%	0.7%

Source: Statistics Canada, National Accounts, Labour and Employment Tables (2004)

Unfortunately, the increase in the value of the economy has not translated into more jobs. In fact, Saskatchewan has the one of the worst job creation records in all of Canada. New private-sector investment has been in steady decline for a number of years.

Chart 1

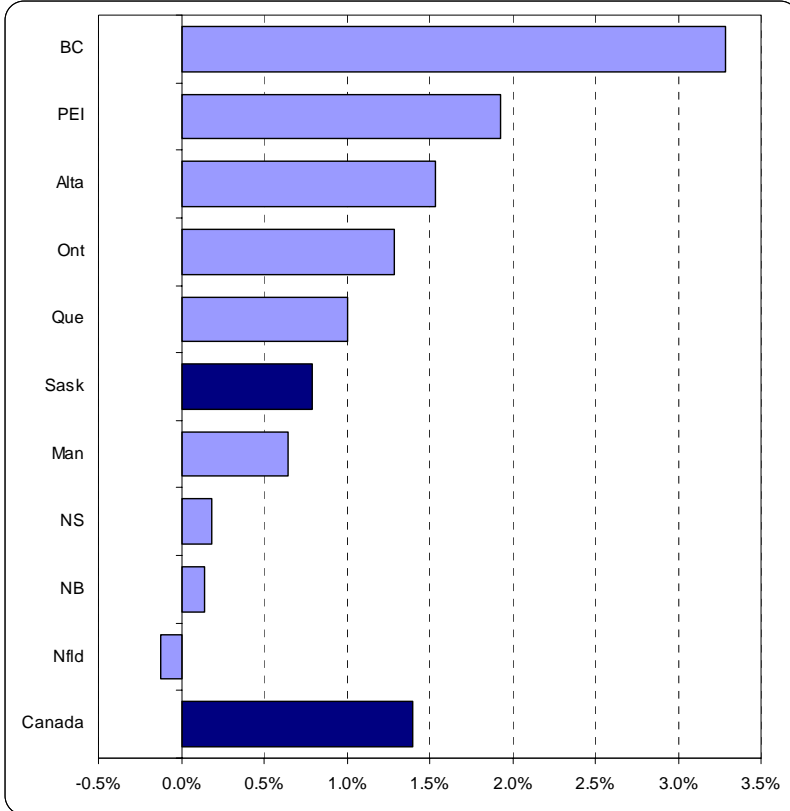


Source: *Business Tax Review Committee, Final Report*

Chart 1 reveals the overall capital investment trend for Saskatchewan. From 1981 to 1993 the increase of private capital investment averaged a very sluggish 0.2 per cent. From 1993 to 1997 Saskatchewan experience significant growth in private capital investment averaging 20 per cent. Since that time, however, the growth in private investment has been in steady decline.

These statistics indicate that, while resource prices are extremely high and the value of the economy has increased, corporate profits are not being re-invested in Saskatchewan. The lack of private sector investment in Saskatchewan has directly contributed to slow job growth.

Chart 2 – 2004-05 Employment Growth by Province



Source: Doug Elliott, Sask Trends Monitor

Chart 2 reveals that Saskatchewan's job growth lags far behind both Alberta and British Columbia.

The Population Challenge

Table 2: Net Provincial Migration by Province 1991- 2005

Year	NFLD	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
1991-1992	-1,669	-237	306	-253	-12,552	-11,045	-7,641	-8,481	2,983	38,004
1992-1993	-3,078	654	96	-1,402	-8,420	-14,189	-5,544	-6,348	-1,181	40,099
1993-1994	-4,952	622	-1,887	-671	-8,758	-9,420	-4,614	-5,431	-1,630	37,871
1994-1995	-6,974	349	-2,741	-813	-8,947	-2,841	-3,220	-3,652	-556	29,291
1995-1996	-7,436	638	-1,245	-369	-12,626	-2,822	-2,566	-2,161	7,656	22,025
1996-1997	-8,134	136	-1,648	-1,263	-17,436	1,977	-5,873	-2,794	26,282	9,880
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	-2,510	979	665	524	-16,343	19,818	-1,290	-6,298	11,793	-7,153
2000-2001	-2,452	137	-851	-753	-15,414	18,069	-4,455	-3,424	7,652	2,088
2001-2002	-2,510	683	-1,266	-871	-8,432	7,266	-5,298	-8,635	26,740	-6,994
2002-2003	-14	571	777	-628	-1,722	-1,814	-1,189	-4,223	12,081	-4,591
2003-2004	-1,980	299	-842	-691	-1,474	-8,793	-2,095	-2,091	10,902	7,333
2004-2005	-1,875	-222	-473	-1,650	-2,332	-8,375	-3,832	-4,583	16,615	7,456

Source: Statistics Canada Demographic data 2005

Table 2 illustrates Saskatchewan's alarming population loss. In total, Canada's population is increasing. Only the Atlantic provinces and Saskatchewan are experiencing a decline. Since 1991-92 Saskatchewan has lost 64,394 people. In 2004-05, the only provinces experiencing more population loss were Quebec and Ontario – the most populous provinces in the country.

While the province's population loss is a common topic of discussion in Saskatchewan, the implications are rarely discussed in detail. Fewer people mean there are fewer taxpayers to support the provincial debt, accumulated pension liabilities and steadily increasing per capita government expenditures.

In each year since 1991 Saskatchewan has experienced a net out-migration – the only other province where this has happened is Newfoundland and Labrador.

The good news is that people go where employment opportunities are. If we take the necessary steps to improve the economy, our population loss should decline and hopefully turn into net growth.

PART IV: REDUCING GOVERNMENT SPENDING

While the 2005/06 budget year will likely produce a surplus, the CTF is concerned this might be a temporary phenomenon. As mentioned previously, record high resource prices are providing a cushion in the provincial budget. But these conditions are subject to dramatic swings.

Relying on the recurrence of good fortune for future surpluses is foolhardy. To ensure we do not continue to run deficits, and to usher in needed economic reforms, government must reduce spending. Simply put, government must look for ways to save money. For this province, the best way to ensure long term sustainability is to reduce the size of government.

Table 3: Provincial Public Sector Employment in Saskatchewan 1989 to 2004

Year	Provincial Public Sector Employment	Total Cost (\$ million)	Average Wage	Total Provincial Employment (Thousands)	Provincial Public Sector as Percentage of Total	Public Sector Wages as Percentage Of Spending
1989	67,475	1,825	\$ 27,054	456.0	14.8%	42.8%
1990	71,283	1,879	\$ 26,365	454.3	15.7%	37.5%
1991	70,245	1,923	\$ 27,369	453.4	15.5%	40.1%
1992	68,858	1,897	\$ 27,544	448.5	15.4%	38.3%
1993	68,020	1,914	\$ 28,139	450.8	15.1%	38.8%
1994	65,586	1,907	\$ 29,073	455.7	14.4%	37.0%
1995	64,789	1,953	\$ 30,147	459.4	14.1%	38.0%
1996	66,882	1,990	\$ 29,749	457.5	14.6%	39.0%
1997	65,148	2,014	\$ 30,912	470.0	13.9%	39.3%
1998	67,103	2,099	\$ 31,279	476.3	14.1%	37.6%
1999	68,354	2,157	\$ 31,554	480.1	14.2%	37.4%
2000	69,262	2,346	\$ 33,872	485.0	14.3%	39.6%
2001	70,998	2,485	\$ 35,003	472.4	15.0%	39.2%
2002	72,273	2,504	\$ 34,651	481.4	15.0%	39.3%
2003	76,226	2,813	\$ 36,905	486.8	15.7%	42.1%
2004 ^q	77,700	3,011	\$ 38,756	483.5	15.7%	n/a

Statistics Canada, Labour Force Data

Table 3 provides a snapshot of public sector employment trends. This chart does **not** include doctors or education employees, but **does** include the crown sector. Table 3 clearly shows that past governments have restrained public sector spending, both in terms of the size of the public sector and overall wages. The current government has not been as vigilant. As a percentage of overall General Revenue Fund spending, the most significant increase has occurred since Roy Romanow left office.

In no uncertain terms, total provincial public sector employment has skyrocketed since hitting a low in 1995. Government employment grew by 7 per cent during the last half of Roy Romanow's tenure, which grew the civil service by almost 5,000. In the first four years of the Calvert

government, the civil service grew by an additional 8.4 per cent. Over that time the average wage increased by 14 per cent while inflation over that period was 11.9 per cent.

It's important to note that Saskatchewan's declining population means more civil servants have been hired to service fewer people. In addition, improvements in technology and business practices should lead to an overall reduction in the civil service, but that has not been the case. As a percentage of total employment, Saskatchewan has the highest proportion of public sector workers in Canada.

If growing the civil service is part of a government strategy to increase employment in Saskatchewan, it isn't working. As mentioned earlier, Saskatchewan's average job growth over the past decade ranks last among all provinces. The growth of the civil service has significantly increased the percentage of tax dollars going toward salaries, and has done nothing to improve Saskatchewan's labour market.

According to Volume 2 of the Report of the Provincial Auditor, government spending has increased by 26 per cent since 2001 – more than double the rate of inflation. The 2005-06 third quarter update from Saskatchewan Finance shows a \$562 million increase in spending over the budget set last spring. If spending was rolled back to 2001 levels, Saskatchewan would have experienced a \$1.74 billion surplus in 2005.

Spending Control Legislation

In order to create a sustainable government, efforts must be made to control spending and the size of the civil service. One proven technique is to enact legislation that would limit spending growth. Idaho, Arizona, Michigan, Missouri and North Carolina limit theirs to a set percentage of the income earned by the state's taxpayers.

Alaska, Colorado, Nevada, Washington and Utah limit growth in government spending to growth of the population and inflation.

A 2003 Fraser Institute (www.fraserinstitute.ca) study called "Tax and Expenditure Limitations – The Next Step in Fiscal Discipline" cites many studies revealing that American states that have adopted legislated spending limits have had better success in controlling spending than those who haven't. If our province had held spending increases to inflation, Saskatchewan would have reported a \$1 billion surplus in 2005.

A strong majority of Saskatchewan CTF supporters support enacting legislation that would limit government spending to inflation and population growth.

Would you support legislation that would limit spending to inflation and population growth?

Yes	71%	Undecided	16%
No	5%	No Answer	7%

2006 CTF Supporter Survey

Recommendation 1

Reduce government spending and enact legislation that would limit spending to inflation and population growth.

Unsustainable Health Care Spending

There is no larger provincial budget item than health care. Spending in this area has steadily increased over the last five years and is now poised to account for 40 per cent of all spending. Certainly Saskatchewan taxpayers have expressed a preference for more health care spending, and our government has obliged by increasing spending every year.

Table 4: Saskatchewan Health Spending 1989 – 2005
(\$ million)

Year	Health Spending	Health as % of Total Program Spending
1989-1990	\$1,541.4	31.3%
1990-1991	1,668.0	34.1%
1991-1992	1,654.9	26.7%
1992-1993	1,629.6	34.1%
1993-1994	1,509.3	29.4%
1994-1995	1,577.6	32.8%
1995-1996	1,601.6	33.9%
1996-1997	1,649.4	36.0%
1997-1998	1,782.5	37.2%
1998-1999	1,879.4	35.8%
1999-2000	2,034.0	34.6%
2000-2001	2,112.6	36.1%
2001-2002	2,317.7	34.5%
2002-2003	2,416.5	32.4%
2003-2004	2,565.6	36.5%
2004-2005 f	2,737.2	37.2%
2005-2006 f	2,907.7	n/a

Source: Canadian Institute for Health Information Provincial/Territorial Government Health

The health care system is Saskatchewan's biggest challenge. Given recent comments by the government on issues such as private health alternatives, the CTF is not confident this government is prepared to meet this challenge. While the current government has policies in place preventing private delivery of publicly-funded health care, there is much that can be done "outside the margins" to control costs.

In the CTF's 2005 submission to the government, we noted that British Columbia is saving \$66 million in the health sector annually by outsourcing services such as food preparation, security and cleaning. Countries around the world (particularly in Europe) have universal health systems but have greater involvement of the private sector. Canada has one of the most expensive health systems in the world yet patients must endure long wait times and poor service.

The efficiencies that may come from competitive bidding ought to be embraced. Saving money on the "support" components can free up money for primary health services.

Recommendation 2

Reduce health care spending by outsourcing services such as cleaning, laundry, food preparation, maintenance, security, landscaping, information technology, property management and human resources services

PART V: PRIVATIZATION

Saskatchewan Transportation Corporation

Often times the front pages of our newspapers are the best places to find ways to reduce spending. Every year, news of the government's subsidy to Saskatchewan Transportation Corporation is greeted with surprise and dismay by concerned taxpayers. Since 1999, STC has lost more than \$20 million dollars and they are expected to lose millions more in the coming years. In 2005, STC announced plans to construct an \$18 million dollar bus depot in Regina.

A large percentage of CTF supporters live in areas outside the main centers of Regina and Saskatoon and therefore are the most affected by changes to STC. We surveyed our supporters and found a solid majority (66 percent) would support privatizing STC.

Would you support the privatization of Saskatchewan Transportation Corporation?

Yes	66%	Undecided	17%
No	15%	No Answer	3%

2006 CTF Supporter Survey

Recommendation 3

Privatize Saskatchewan Transportation Corporation and abandon plans to construct an \$18 million bus depot in Regina.

Meadow Lake pulp mill

Taxpayers were shocked in 2005 to learn that taxpayers have a lost a total of \$800 million on the Meadow Lake pulp mill. Established under then-Premier Grant Devine, the mill has failed to make money and has required injections from Saskatchewan taxpayers and concessions from publicly-owned utilities to remain operating. In 2005, the Saskatchewan Cabinet authorized a \$52 million purchase of the mill's distressed debt. In December of that same year, the mill announced it was seeking court protection from its creditors – the taxpayers of Saskatchewan chief among them. At the same time it was revealed that Investment Saskatchewan, a government-owned investment agency, had extended another \$15 million loan to help the mill pay its debt to the government-owned power utility.

The implications of the Meadow Lake Pulp Mill and the government's dealings with it are far-reaching. There is no doubt the favourable treatment afforded to the mill by government is politically motivated. Geo-political realities must not be a factor in spending millions of tax dollars.

Recommendation 4

Stop spending public money to support the Meadow Lake pulp mill.

Liquor stores

In 2004, the CTF published a research paper showing how privatization could lead to higher revenues for government, increased economic development and lower prices for consumers. Selling our government-owned liquor stores and allowing the free market to sell and market liquor would result in real economic growth. Based on 2003-04 figures, privatizing liquor stores would save the public treasury \$8 million annually.

In an effort to measure public opinion on liquor store privatization the CTF commissioned Sigma Analytics to conduct a poll. The survey showed that 72 percent thought the government should have no role whatsoever in the liquor business or that it should be limited to wholesaling.

Recommendation 5

Privatize liquor retail operations in order to save millions each year and help create hundreds of new businesses.

PART VI: CUTTING INCOME AND PROPERTY TAXES

School taxes

In recent years, concerns about high property taxes have eclipsed calls for income tax reductions. Although still of concern to CTF supporters, calls for personal income tax reductions represent nowhere near the support for reductions in school taxes by more than two to one.

If provincial taxes were to be cut which ONE tax would you give the highest priority?

School taxes	37%	Municipal	9%
Personal Income Tax	18%	Business Tax	2%
Gasoline or Fuel Taxes	14%	Undecided	9%
Provincial Sales Tax	10%	Do not support cutting taxes at this time	1%

2006 CTF Supporter Survey

It is well documented Saskatchewan has the highest reliance on property tax revenues to fund schools of any province. School boards in Newfoundland, Nova Scotia, PEI, New Brunswick and British Columbia receive almost no funding from property taxpayers. Alberta and Ontario have shifted an increasing amount of school board funding off their local property tax base.

Table 5: Property Tax Revenues as a Percentage of School Board Spending

Year	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
1994-1995	0.00%	0.00%	0.00%	0.00%	9.67%	58.10%	29.01%	47.23%	10.42%	0.00%
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: Calculations based on Statistics Canada, Public Sector Finance Data 2004

Since 1998-1999, reliance on school taxes on property in other provinces has remained stable while Saskatchewan's has skyrocketed. The "root cause" of high school taxes on property is a lack of government funding for education, forcing school boards to turn to property taxpayers to meet their operating costs. According to Volume 2 of the 2005 Report of the Auditor General, government spending on education (including post secondary education) has risen by 18 per cent since 2001 while government spending on all programs combined has increased by 26 per cent. The end result has been a dramatic increase in property taxes.

To alleviate this strain on property taxpayers, the CTF recommended to the Boughen Commission that a 75/25 General Revenue Fund (GRF) to property tax ratio be adopted.

The establishment of the Boughen Commission was a positive first step toward reducing school taxes. We're pleased that the province adopted our proposal to create the Commission, but remain disappointed in how the recommendations have been implemented.

The \$55 million school tax rebate for this year and last inch us closer to the CTF goal of a 75/25 ratio, but the province needs a long term plan for reductions. The government must make good on its repeated promises to reduce school taxes.

Over the years, the CTF has delivered more than 55,000 signatures calling for school tax relief.

Recommendation 6

Establish a timetable for increasing the provincial share of education funding to 75 per cent in five years.

Basic Personal Exemption

Table 6 reveals that, when compared to other provinces, Saskatchewan's personal income tax regime is in the middle of the pack. However, lower and mid income earners face a heavier burden than is the case in most other provinces. This is particularly evident in the case of wage earners below \$35,000 and for families with two earners with combined incomes below \$80,000.

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. Increasing the basic personal exemption to \$15,000 would save \$705 per year for a \$35,000 per year worker. It would also take 40,000 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.

In terms of the tax comparison in Table 6, implementing this proposal would move Saskatchewan from having the fourth-highest tax rate on low-income earners to having the second-lowest behind Ontario in the under-\$35,000 category and behind British Columbia for those earning less than \$15,000.

Recommendation 7

Increase the Basic Personal Exemption to \$15,000 over five years.

Table 6: Personal Income Tax Paid

	NL	MB	PEI	SK	NB	NS	PQ	ON	AB	BC
\$15,000	2,456	2,453	2,405	2,355	2,335	2,284	2,145	2,102	2,062	1,712
	10	9	8	7	6	5	4	3	2	1
	PQ	NL	MB	SK	PEI	NS	NB	AB	BC	ON
\$35,000	9,322	8,885	8,780	8,561	8,559	8,413	8,376	8,229	8,045	7,695
	10	9	8	7	6	5	4	3	2	1
	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
\$45,000	12,793	12,233	12,204	12,152	13,300	11,063	12,471	12,101	11,522	11,263
	9	7	6	5	10	1	8	4	3	2
	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
\$60,000	18,532	17,688	17,761	17,674	19,212	15,885	17,870	17,350	16,321	15,935
	9	5	7	6	10	1	8	4	3	2
	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
\$80,000	27,146	26,004	25,784	25,551	27,928	23,521	25,870	24,640	23,011	22,823
	9	8	6	5	10	3	7	4	2	1
	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
Family \$80,000	19,397	18,510	18,336	18,246	19,277	16,476	18,969	18,381	17,469	17,026
2 earners, 2 children	10	7	5	4	9	1	8	6	3	2
	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
Family \$80,000	23,191	22,071	21,929	21,587	22,251	19,785	21,848	20,400	18,771	19,706
1 earner, 2 children	10	8	7	5	9	3	6	4	1	2

PART VII: CUTTING BUSINESS TAXES

On March 29, 2005 the Minister of Finance appointed a Business Tax Review Committee to examine the impact of Saskatchewan's business taxes on the province's economic and business climate and on the province's interprovincial and international competitiveness.

The first question assigned to the committee asked how Saskatchewan's business tax rates and levels compare with other jurisdictions. The answer was very clear. Our tax system is NOT competitive, despite the advantage of not levying employment taxes. Our lack of competitiveness hurts our economy and job growth.

“...[T]his situation encourages businesses to reduce investment in a high-tax jurisdiction, since capital is highly mobile and will generally flow to where it can earn the highest rate of return. In turn, since capital investment is generally required to create employment, high tax rates also discourage job creation.

~Final Report of the Saskatchewan Business Tax Review Committee,
page 15

Table 7 shows that Saskatchewan has the highest corporate tax rate west of Quebec as well as the highest corporate income tax rate and the highest fuel tax.

Table 7 – Interprovincial Comparison of Provincial Business Tax Rates, Effective July 1, 2005

	BC	AB	SK	MB	ON
Corporate Capital Tax Exemption*	\$10M	-	\$20M	\$5M	\$5M
General Rate	-	-	0.6%	0.5%	0.3%
Corporate Income Tax					
General	12%	11.5%	17%	15%	14%
M & P	12%	11.5%	10%	15%	12%
Small Business	4.5%	3%	5%	5%	5.5%
Provincial Sales Tax	7%	-	5%	7%	8%
Labour-Based Taxes	Yes	Yes	No	Yes	Yes
Fuel Tax	14.5 cents	9 cents	15 cents	11.5 cents	14.7 cents
Insurance Taxes	2 – 4.4%	2 – 3%	3 – 4%	2 – 3%	2 – 3%

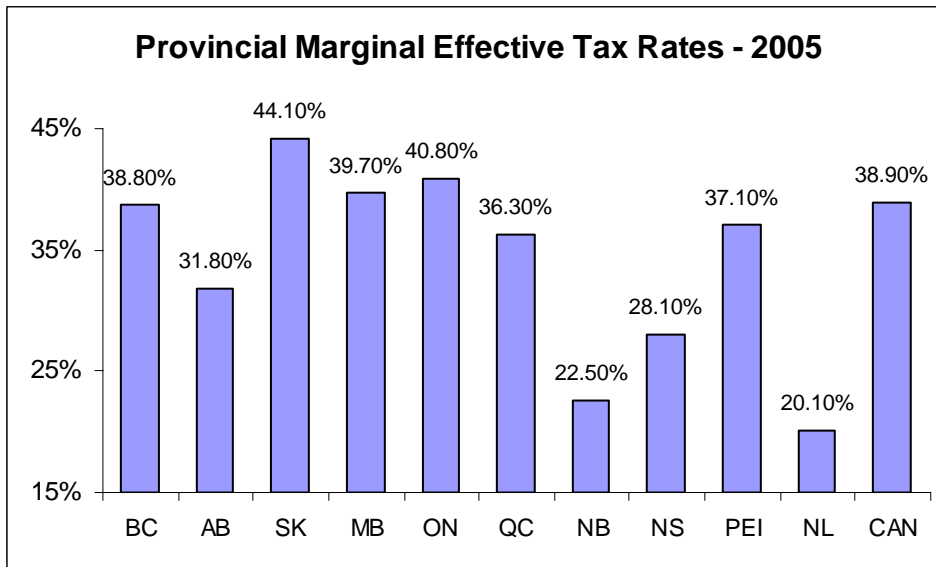
Source: Business Tax Review Committee from Department of Finance data

*Saskatchewan's maximum CCT exemption

It's often said that government's need to tax less and, perhaps more importantly, tax smarter. The committee examined the marginal cost of investment in Saskatchewan using a technique called Marginal Effective Tax Rate (METR) analysis. This technique is a commonly-used approach in business for tax planning and in academia for research. It compares the relative impact of taxation on decisions to invest in a particular jurisdiction.

Using figures from C.D. Howe, the committee found Saskatchewan has the highest marginal effective tax rate in the country (Chart 3).

Chart 3



Source: Business Tax Review Committee calculations from C.D. Howe Institute and Finance Canada.

The committee's report is a scathing indictment of the government's economic record of the past 20 years. This record is the result of economic policies that can be effectively summarized as high taxes and direct government planning and investment. Saskatchewan's economy has been consistently out-performed by provinces that have rejected the central planning approach. The Canadian Taxpayers Federation urgently recommends swift adoption of new business tax rates and policies.

The decision to reject past policies relies on a fundamental paradigm shift for this government. No longer should a business be viewed as a revenue source for government, a source of work for organized labour, and a threat to "social justice." Instead, entrepreneurship should be viewed as a vital form of human expression and initiative, one that is essential for the long term sustainability of the province.

The province must also acknowledge what most of us have known for decades: businesses don't pay taxes, people do. Higher taxes on businesses are passed on to consumers in the form of higher prices, to employees in lower wages and to investors in the form of reduced returns. For societies the consequence of high taxes on businesses are

lower employment levels and limited economic growth – both of which are realities of modern-day Saskatchewan.

Recommendation 8

- 5) Phase out the corporate capital tax by July 1, 2008
- 6) Reduce the corporate income tax rate to 12 per cent by July 1, 2008
- 7) Increase the small business limit to \$500,000 by July 1, 2008.
- 8) Remove the PST from business inputs.

PART VIII: ACCOUNTABILITY REFORM

Fixed election and budget dates

Which is the ONE most important democratic reform that needs to be implemented in Saskatchewan?

Fixed election dates	35%
Citizen-initiated referendums	17%
Recall legislation	12%
Voting reform	10%
Fixed budget dates	5%
Undecided/no answer	21%

2006 CTF Supporter Survey

Establishing fixed election and budget dates would begin to establish a basic contract with the electorate. For far too long governments have had the ability to manipulate election and budget dates for political advantage. The mandate given to politicians to govern deserves more respect from those elected. Politicians should be given a four year period to accomplish their goals and then go back to the electorate for a new mandate, as is now the case in British Columbia and Ontario.

Budget dates should also be fixed in order to ensure “special warrants” are not used to fund government programs and to provide certainty to both taxpayers and organizations that depend on government to determine their own budgets, such as municipalities. Special Warrants are used to approve the spending of tax dollars without debate in the legislature. Political oversight should be pre-requisite for spending public funds.

The next general election should be held on November 5, 2007. Budgets should be tabled before the end of February each year.

Recommendation 9

Adopt fixed election and budget dates.

Taxpayer protection legislation

Would you agree with legislation requiring a province-wide referendum in advance of raising taxes?

Yes	73%	Undecided	10%
No	10%	No Answer	6%

2006 CTF Supporter Survey

The government of Saskatchewan betrayed the electorate in their 2004 budget. The New Democratic Party promised in their 2003 election platform to “continue lowering taxes.” More specifically, they committed to lowering school taxes by “receiving the recommendations of the Boughen Commission on Funding K-12 Education.”

In the first budget after being re-elected both of these commitments were ignored. The PST was increased while nothing was done to reduce school taxes. Since that time, school taxes have steadily increased.

The provincial government must be honest and accountable to the electorate. If taxes are to be increased, the government must seek consent from the electorate in the form of a formal policy announcement before a general election or a stand-alone referendum.

The onus should not be on taxpayers to justify why they should keep their own money. Instead, the onus should be on MLAs to justify why they need to take more money from taxpayers and get consent from them.

Similar legislation exists in Alberta but it only applies to school boards. Prior to 2004 a referendum for tax increases was required in Ontario but was scrapped by Premier Dalton McGuinty when he broke his vow to the electorate to not raise taxes by introducing a health care tax. Manitoba law requires a formal referendum before raising major taxes and that law has been honoured by the NDP government in that province.

Recommendation 10

Require, in law, approval from the electorate before raising taxes

Financial penalties for cabinet ministers

It has become a matter of course that government departments exceed their budgeted allotments. The 2005 Third Quarter Financial Update prepared by Saskatchewan Finance reported that 20 of 24 government departments had exceeded their budgets. As was mentioned earlier, the government as a whole is \$562 million over budget for the 2005-06 budget year.

Budgets are important documents that explain to taxpayers what the plan is for the coming year. With this government’s penchant for ignoring their own budgets or using

them primarily as “guidelines” the value of the provincial budgets as tools to understand and predict the behaviour of government has been dramatically reduced.

British Columbia’s *Balanced Budget and Ministerial Accountability Act* promotes accountability by penalizing cabinet ministers if their ministry – or the government as a whole – fails to adhere to budgetary targets. This *Act* withholds 20 percent of the ministerial salary while exempting the MLA portion. If the minister meets budget targets half of the amount will be returned. The remainder is returned if the government as a whole remains within budget targets.

Do you believe there should be financial penalties for cabinet ministers who exceed their budgets?

Yes	91%	Undecided	4%
No	2%	No Answer	3%

2006 CTF Supporter Survey

Recommendation 11

Legislate financial penalties for Cabinet Ministers who exceed approved budgets.

Approving crown heads and Officers of the Legislature

Crown corporations are an integral part of the Saskatchewan economy and as such deserve the very best executives available. As it stands, the heads of crown corporations are appointed by the premier and are often based on partisan loyalty. The heads of our crown corporations and legislative officers such as the Provincial Auditor and the Information and Privacy Commissioner should be chosen based on their relative merits, and not who they know in government. Candidates for executive positions at all crown corporations must be interviewed and approved publicly by an all-party committee of the legislature.

During the 2005 federal election the Conservative Party campaigned on a pledge to appoint a commission to ensure that competitions for government posts are widely publicized and fairly conducted. The CTF supports this proposal and we support similar provisions for all provinces. An all-party legislative committee would serve a similar function, albeit less formally.

Recommendation 12

Legislate an all-party committee to review and approve crown and agency heads