PROSPERITY FOR ALL CANADIANS

2004 PRE-BUDGET SUBMISSION BEFORE THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

October 2003

CTF Ottawa
Suite 512-130 Albert Street
Ottawa, ON
K1P 5G4
Phone: 613-234-6554
Fax: 613-234-7748

Web: www.taxpayer.com

<u>Contents</u>

List of Recommendations

1) The government's fiscal strategy must be built on three pillars: legislated debt reduction; continuing tax relief combined with fair and competitive taxation; and controlling the growth of spending by continually redefining the role of government and ensuring program initiatives are warranted and achieving positive public policy outcomes.

2) The Basic Personal Exemption should be: renamed as the Basic Standard of Living Credit (BSLC); and increased to $10,000 over two years and $15,000 within five years, and subsequently remain indexed for inflation each year after according to the following schedule … 2004 to $8,861; 2005 to $10,088; 2006 to $12,258; 2007 to $13,645; and 2008 to $15,000.

3) The Federal Government should end all Corporate Welfare programs including TPC and those delivered by all Regional Development Agencies. It should instead focus on reducing business taxes to promote economic competitiveness.

4) The Federal Government should limit expenditure growth to a maximum annual amount of inflation and population growth combined.

5) The Federal Government should institute a legislated debt retirement schedule with an annual payment of at least 5% of total revenues collected.

6) The Federal Government – through a joint effort of CCRA and HRDC – should take all necessary steps to eliminate employer overpayment of CPP and EI contributions.

7) The Federal Government should adopt the CTF's *Municipal Roadway Trust* as the most expedient way to plow gas tax revenues back into roads in Canadian cities, both large and small, thereby allowing municipalities to then reallocate existing roadway budgets to other infrastructure priorities.

Introduction

A variety of factors coalesce to make this year's pre-budget submission period historically unique due to:

- A leadership transition in the the Liberal Party of Canada with the Hon. Paul Martin poised to assume the Prime Ministership;
- A tenuous global economic climate with conflicting predictions and scenarios as to the pace and potetnial direction of economic growth; and
- Public confidence in the institutions of government at all levels – but most specifically concentrated at the federal level – at an all-time low according to an Ipsos-Reid report commissioned by the Department of Finance (***Ottawa Citizen,*** September 30, 2003).

The incoming Prime Minister will likely appoint a new Finance Minister to deliver a budget next February or March and shortly thereafter seek a national mandate by calling a federal election in the Spring of 2004.

This scenario has caused some observers to question the utility of this year's pre-budget deliberations. Nonetheless, the CTF believes that the effort expended by organizations into this process should not be discarded as such action would jeopardize the institutional credibility of the pre-budget process. Therefore, It is imperative for members of the House of Commons Finance committee to underscore the importance of their work and recommendations within the Martin administration.

The anticipated activist and "transformative" agenda to be undertaken by Mr. Martin is troubling given the cautiously optimistic economic environment that could turn downward in an instant given the ever present threat of international terrorism, public health crisis (i.e. SARS) or natural disasters (i.e. forest fires, hurricanes, floods, etc.).

The Canadian Taxpayers Federation (CTF) for seven years has consistently forwarded three key pillars upon which the federal government should build its fiscal framework and once again these pillars form the basis of our submission.

RECOMMENDATION #1

THE GOVERNMENT'S FISCAL STRATEGY MUST BE BUILT ON THREE PILLARS:

- **LEGISLATED DEBT REDUCTION;**
- **CONTINUING TAX RELIEF COMBINED WITH FAIR AND COMPETITIVE TAXATION; AND**
- **CONTROLLING THE GROWTH OF SPENDING BY CONTINUALLY REDEFINING THE ROLE OF GOVERNMENT AND ENSURING PROGRAM INITIATIVES ARE WARRANTED AND ACHIEVING POSITIVE PUBLIC POLICY OUTCOMES.**

The Canadian Taxpayers Federation (CTF) implores the government to heed the recommenadations in the pages that follow in the interest of Canada's short-term and long-term fiscal health.

Moreover, to redefine the role of government and make it relevant for the needs of the 21st century, politicians must abandon their current paradigm. Short-term planning cannot be viewed as making tonight's evening news or tomorrow's headlines. Long-term planning must look further than the next election. A cross-generational focus must infect and permeate every aspect of the House of Commons Finance Committee's deliberations.

CTF Supporter Survey

Each summer, the CTF conducts a comprehensive national survey of its supporters. The CTF is a supporter-driven and supporter-financed organization; therefore, the recommendations contained in this pre-budget submission accurately reflect the priorities as outlined by our supporters and where appropriate, extracts of this survey have been reproduced in this submission to reinforce key recommendations.

The Government's Agenda – The Three I's

The Speech from the Throne – delivered on September 30, 2002 – focussed on three major themes: innovation, inclusion and investment. These themes – the three "I's" – are laudable objectives for any government policy agenda. Where the CTF differs with the government is in the choice of policy vehicles and instruments to implement this agenda.

Throughout this report, constructive alternatives to the current programming and big-government options presently envisaged will be forwarded as recommendations, with a specific focus on tax policy changes as the more effective and efficient avenue to foster innovation, inclusion and promote capital and social investments in Canada.

In short, **PROPSERITY FOR ALL CANADIANS.**

Canada's Economic Prospects

The uncertainty surrounding Canada's economic prospects that existed during the CTF's last appearance before the House of Commons Finance Committee in November 2002 has persisted.

A brief survey of recent reports and news stories over the past three months alone clearly illustrate the fluidity of economic forecasts and the divergent opinions when it comes to Canada's economic prospects.

- July 16, 2003 – ***CBC News*** reports ***The Economist*** Intelligence Unit predicts Canada "the best country in the world in which to do business over the next half decade."

- July 17, 2003 – The **Bank of Canada** trims its 2003 economic growth forecast to 2%. It also lowered this forecast from 3.0% to 2.5% in April.

- Augst 21, 2003 – **Finance Minister John Manley** expesses caution during the Liberal caucus meeting in North Bay. "We expect the second quarter GDP number to be very weak."

- September 18, 2003 – The **International Monetary Fund** releases its latest ***World Economic Outlook*** Report and pegs Canada's real GDP growth for 2004 at 3.4% placing Canada 9th out of 29 economies behind Korea (5.4%), Hong Kong SAR (4.5%), Ireland (4.2%), Taiwan (4.0%), Greece (3.9%), the United States (3.8%), Singapore (3.7%), and New Zealand (3.6%) respectively.

- September 24, 2003 – The ***Globe and Mail*** reports that the federal government is "$1-billion over budget" according to figures laid out in Estimates documents.

- September 24, 2003 – **Finance Canada** releases its latest ***The Economy in Brief*** and reports a "dip" in GDP growth of 0.3% (annualized rate) for Q2, "the first decrease since the third quarter of 2001." This document goes on to note 32,000 job losses in July and August 2003 resulting in an August unemployment rate of 8.0%.

- September 30, 2003 – **CIBC World Markets** reports Canada is suffering from a "growth hangover" and as such we are saddled to with excess capacity in jobs, inventory and productivity issues which will push our GDP growth below that of the United States. CIBC goes on to state (with respect to Canada's GDP growth): "Expect it to stay there through 2004."

- October 7, 2003 – The annual **Conference Board of Canada** economic outlook conference paints a somewhat more upbeat picture of the Canadian economy. Conference Board Chief Economist Paul Darby states: "The U.S. rebound will rescue Canadian exports, but a higher dollar will limit growth in 2004."

- October 8, 2003 – Finance Minister John Manley tells the House of Commons that the recent meteroic rise in the value of the Canadian dollar will have a "slowing effect … on the Canadian economy." Indeed **TD Bank** predicts a sustained and growing value of our dollar could negatively impact economic growth by 1.5% over two years.

  While economic forecasts – as evidence above – over the past few months have fluctuated, there now appears to be a growing consensus of cautious optimism moving forward into 2004.

The impact of SARS in Ontario, BSE (mad-cow disease) in the cattle industy, and natural disasters such as forest fires in British Columbia and hurricanes on the East Coast are now better known. In addition, most economic projections account for a sustained value of the Canadian dollar vis-à-vis the U.S. dollar in the 75 to 80 cent range.

This consensus is reflected in the similarities of predictions by economists (see table below) from the five major Canadian banks and the most recent information from Finance Canada.

Year	RBC	TD	BMO	CIBC	Scotiabank	Finance
Real GDP growth (2003)	2.10 %	1.80 %	2.00 %	2.00 %	1.90 %	1.15 %
Real GDP growth (2004)	3.50 %	3.00 %	3.50 %	2.70 %	2.70 %	N/A
Core Inflation (2003)	1.50 %	N/A	2.30 %	N/A	2.20 %	2.65 %
Core Inflation (2004)	1.70 %	N/A	1.50 %	N/A	1.80 %	N/A
CPI Inflation (2003)	2.80 %	2.60 %	2.80 %	2.70 %	2.80 %	3.65 %
CPI Inflation (2004)	1.50 %	1.60 %	1.40 %	1.50 %	2.70 %	N/A
Unemployment (2003)	7.70 %	7.70 %	7.60 %	7.70 %	7.80 %	7.55 %
Unemployment (2004)	7.70 %	7.50 %	7.40 %	7.90 %	8.00 %	N/A

The average of the bank forecasts for Real GDP growth is 1.96% for 2003 with a better outlook of of 3.08% forecast for 2004. With the Canadian economy poised to make gains over its 2003 performance, Ottawa's surplus projections should be met thus warranting the calls for tax relief and debt reduction made later in this submission.

The Tax Burden

The level of taxes paid by Canadians and the resulting dellivery of services – or lack thereof – continues to be an issue of great concern for CTF supporters. Indeed, it is this value for money proposition that continues to yield calls for greater tax relief especially in light of the spate of scandals that have plagued the government over the past 18 months from gun registry cost overruns to criminal investigations stemming from the sponsorhsip program to the blatant abuse of power in purchasing government jets on the last day of the fiscal year on March 31st, 2001.

2003 CTF Supporter Survey Questionnaire

Question: Do you feel that your federal tax burden over the past two years has increased, decreased or remained the same?

		2003	2002
Federal	• Increased	72 %	74 %
	• Decreased	6 %	7 %
	• Same	19 %	17 %
	• No answer	2 %	3 %
Provincial	• Increased	63 %	63 %
	• Decreased	15 %	15 %
	• Same	19 %	17 %
	• No answer	3 %	4 %
Municipal	• Increased	75 %	68 %
	• Decreased	3 %	4 %
	• Same	19 %	22 %
	• No answer	3 %	6 %

The CTF commends the federal government for embarking on a five-year tax reduction program beginning with the Febrary 2000 Budget and strengthened in the October 2000 Budget Update. However, both former Finance Minister Paul Martin and present Finance Minister John Manley continue to misrepresent and distort the actual size of this tax reduction plan as a $100.5 billion tax cut.

In actual fact, $20.7 billion of this amount includes ‘bracket creep” taxes foregone. Another $28 billion in CPP premium hikes are not included. Finally, almost $6 billion in Canada Child Tax Benefit (CCTB) payments are incorrectly identified as tax relief instead of proper classification as an expenditure. The real 5-year tax cut, once fully implemented by the end of 2004, amounts to $47 billion. While welcome, it is a far cry from the $100 billion “as advertised.”

Finally, this plan offered tax relief measures through to the end of 2004, further tax relief measures to sustain our economic growth and liberate the income of Canadians are long overdue. According to the Organization for Economic Cooperation and Development (OECD), our personal income tax burden remains the highest amongst G-7 nations: This has not changed in almost a decade. According to the Fraser Institute, taxation by Canadian governments (at all levels) accounts for 48.0% of total household income (Tax Freedom Day, 2003).

Our overall tax burden is still far too high, it saps productivity and deters wealth creation and remains a visible and noted source of competitive disadvantage for us vis-à-vis the United States. The question that logically follows is how do we rectify this situation?

Personal Income Taxes

2003 CTF Supporter Survey Questionnaire

Question: If federal taxes were to be cut, which ONE tax would you give the highest priority to reducing?

	2003	2002
Personal income tax	42 %	37 %
GST & sales taxes	32 %	33 %
Gas taxes	8 %	14 %
Payroll taxes & levies	6 %	7 %
Business / corporate income tax	5 %	4 %
Customs & excise taxes	1 %	1 %
Undecided / no answer	7 %	4 %

Personal income tax relief has consistently remained a top priority for CTF supporters over the past five years. In response, a concerted focus was placed on advocacy efforts to pressure the government to re-index the tax system to inflation – thereby ending bracking creep – combined with an equal effort to call for lower rates of taxation across all income tax brackets.

While some progress has occurred in reducing income taxes, much work remains to be done. Reliance on federal income taxes as a percentage of total revenues remains too high. Moreover, the modesty of federal income tax relief becomes self-evident when federal income taxes are expressed as a percent of GDP.

Fiscal Year **	Personal Income Taxes (PIT)	Total Federal Taxes Collected	PIT as % of Federal Taxes	Annual GDP	Federal PIT as a % of GDP	Net National Debt
			($ billions)			
1993-1994	50.0	116.9	42.77 %	727.0	6.88 %	482.1
1994-1995	55.3	122.8	45.03 %	770.8	7.17 %	517.9
1995-1996	58.8	130.8	44.95 %	810.0	7.26 %	547.3
1996-1997	62.6	141.0	44.40 %	836.7	7.48 %	555.3
1997-1998	69.6	152.1	45.76 %	883.2	7.88 %	552.5
1998-1999	72.2	156.0	46.28 %	914.7	7.89 %	549.4
1999-2000	79.1	165.7	47.74 %	980.0	8.07 %	536.2
2000-2001	85.9	182.3	47.12 %	1,065.2	8.06 %	516.0
2001-2002	80.5	171.7	46.88 %	1,093.6	7.36 %	507.7
2002-2003 *	84.2	178.7	47.12 %	1,138.2	7.40 %	507.7
2003-2004 *	86.6	184.7	46.89 %	1,199.4	7.22 %	507.7
2004-2005 *	91.1	192.9	47.23 %	1,269.1	7.18 %	507.7

* Denotes Budget 2003 projection.
** All figures in chart from 1993/1994 to 2004/2005 restated to reflect change to accrual accounting.

The Basic Personal Exemption

Presently, the federal basic personal exemption (BPE) for the 2003 taxation year is $7,756 and this slated to rise to approximately $7,927 in 2004, although this is slightly lower than the Budget 2000 commitment to raise the BPE to a minimum level of $8,000.

This amount is then multiplied by the lowest tax rate of 16% to yield a non-refundable tax credit of $1,268.32. While the BPE has been indexed to inflation since 2000, it is far below the amount it would have been if it were indexed to inflation since 1986 and if the BPE were indexed for inflation since the imposition of the income tax in 1917, it would now exceed $20,000. Moreover, higher BPEs are provided for in the provincial tax regimes in Alberta, British Columbia and Saskatchewan.

An average minimum wage job in Canada assuming a $7.00/hour minimum wage (plus 4% vacation pay) and a 40 hour work week of 52 weeks yields a gross salary of $15,142.40. Ideally, minimum wage earners should not be taxed at all as the government merely recycles proceeds from its taxation of these individuals back to them in the form of Goods and Service (GST) refundable credits, Canada Child Tax Benefit (CCTB) payments and other income redistribution schemes.

RECOMMENDATION #2

THE BASIC PERSONAL EXEMPTION SHOULD BE:

- **RENAMED AS THE BASIC STANDARD OF LIVING CREDIT (BSLC); AND**
- **INCREASED TO $10,000 OVER TWO YEARS AND $15,000 WITHIN FIVE YEARS, AND SUBSEQUENTLY REMAIN INDEXED FOR INFLATION EACH YEAR AFTER ACCORDING TO THE FOLLOWING SCHEDULE;**

2004	**$ 8,861**
2005	**$ 10,088**
2006	**$ 12,258**
2007	**$ 13,645**
2008	**$ 15,000**

Adopting this schedule would be fair to all taxpayers by providing signficant tax relief across all income brackets. Efforts to combat child poverty would be achieved by providing sustained tax relief for low-income parents as opposed to dependency fostering income redistribution efforts. This CTF proposal has already received editorial acclaim in the ***Vancouver Sun, Montreal Gazette,*** and ***Calgary Sun***. With appropriate redesign of the GST and CCTB refund and benefit schemes, the net impact on federal revenues could be much less than the projected $3.14 billion for each $1,000 increase in the BPE.

Principles of Taxation

In his appearance (October 30, 2002) before the House of Commons Finance Committee, Finance Minister Manley stated:

> I believe the Canada we want is fiscally healthy, so that we are free to choose our own path and to shape our own destiny … It is a Canada that embraces a fair and competitive tax system.

In the spirit of constructive advocacy, the CTF forwards its own "principles of taxation" to assist the Minister in building a fairer and more competitive tax system.

- The tax system should be simple. Accountability of government is enhanced when citizens understand their tax system; complexity is an adversary of accountability.
- The tax burden should be low. Low is key since dollars multiply more rapidly in private hands than in government coffers.
- The tax system should be flatter. Flat is important because simplicity is enhanced with one rate of taxation. As long as a generous Basic Personal Exemption (BPE) – come Basic Standard of Living Credit (BSLC) – is maintained, the tax system remains progressive.
- The purpose of the tax system should be to calculate and collect taxes in the fairest, most efficient way possible for the operations of government.
- The tax system should promote economic prosperity and enhance Canada's competitive position internationally.
- The tax system should not favour one economic group over another. It should provide a level playing field.
- The tax system should generate revenues necessary to cover the cost of essential government programs and services: no more, no less.
- The tax system should not discourage the incentive to work, save or invest.
- The tax system should not be a factor contributing to falling disposable incomes and record high personal debt levels.

Corporate Welfare – 19th Century Industrial Policy

Despite overwhelming international evidence pointing to the folly of industrial subsidies, the federal government continues its economically destructive policy of picking market winners and losers through a variety of direct industrial assistance and regional development schemes principally under the auspices of Industry Canada and Human Resources Development Canada.

In six successive reports analyzing over $50 billion in government assistance to industry – using data obtained through *Access to Information* – over the past six years the CTF has found:

- Some $2.15 billion distributed through the Defence Industry Productivity Program (DIPP) was distributed in grants, contributions and loans between 1970 and 1995 with less than 20% repaid;

- Almost 50% of $11.2 billion in assistance distributed by Industry Canada from 1982 to 1997 was earmarked for 75 of Canada's largest and most profitable corporations;

- The Atlantic Canada Opportunities Agency (ACOA) wrote-off a whopping 34% ($200 million) of its $591 million loan portfolio between 1990 and 1999;

- Western Economic Diversification (WED) recouped a paltry 3.4% of its $134 million conditionally repayable loan portfolio between 1987 and 2000; and

- Technology Partnerships Canada (TPC) – the government's flagship industrial assistance program – has collected less than 3% of $1.6 billion in loan agreements signed since 1996 and TPC officials have forecast their **best case** repayment scenario of less than one-third ($2.13 billion) of a planned $6.4 billion in loans through to the year 2020.

The CTF has consistently maintained that lowering personal and business taxation levels and fostering an internationally competitive regulatory framework – facilitated by adopting an aggressive anti-subsidy stance at the WTO and other multilateral organizations – are two of the key elements needed to promote economic growth and raising the real incomes of citizens.

RECOMMENDATION #3

THE FEDERAL GOVERNMENT SHOULD END ALL CORPORATE WELFARE PROGRAMS INCLUDING TPC AND THOSE DEVELIVERED BY ALL REGIONAL DEVELOPMENT AGENCIES. IT SHOULD INSTEAD FOCUS ON REDUCING BUSINESS TAXES TO PROMOTE ECONOMIC COMPETITIVENESS.

Growth in Federal Expenditures

While expenditures were trimmed in the 1995 budget to address Canada's fiscal crisis, the growth of program spending since balancing the federal books has continued unabated as the chart below demonstrates.

Fiscal Year	Program Spending	Year over Year Percentage Change	Spending Percentage Change Since 1996-1997	Spending Percentage Change Since 2000-2001	Spending Increase Since 1996-1997
	($billions)				($billions)
1993-1994	115.9	---	---	---	---
1994-1995	115.1	- 1.00 %	---	---	---
1995-1996	111.8	- 2.86 %	---	---	---
1996-1997	102.6	- 8.22 %	---	---	---
1997-1998	106.9	4.19 %	4.19 %	---	4.3
1998-1999	110.0	2.90 %	7.21 %	---	7.4
1999-2000	109.4	---	6.63 %	---	6.8
2000-2001	118.5	8.32 %	15.50 %	---	15.9
2001-2002	124.3	4.89 %	21.15 %	4.89 %	21.7
2002-2003	138.6	11.5 %	35.09 %	17.85 %	36.0
2003-2004	143.0	3.17 %	39.38 %	20.68 %	40.4
2004-2005	149.6	4.62 %	45.81 %	26.24 %	47.0

From 1997-1998 through to 2004-2005, federal spending is projected to increase by $47.0 billion, which represents a 45.81% spending increase over eight years which is **almost double** the combined rate of inflation and population growth over this same period. As a consequence, the number of federal public servants on the public payroll is also increasing and the welcome reduction trends of the mid-1990s are now a distant memory.

Year *	Total Employees	Wages and Salaries ($ billions)	Average Wage bill
1995	506,816	20,806	$ 41,052.03
1996	456,460	18,295	40,080.92
1997	429,850	17,890	41,618.38
1998	422,173	17,939	42,492.43
1999	421,519	19,472	46,194.52
2000	429,019	22,822	53,195.25
2001	437,822	22,201	50,708.47
2002 **	447,743	23,265	51,961.16
2003 ***	457,040	N/A	N/A

* Statistics Canada figures denote all employees (full-time, part-time and seasonal)
** Projection
*** Summary data for first two quarters of calendar year

RECOMMENDATION #4

THE FEDERAL GOVERNMENT SHOULD LIMIT EXPENDITURE GROWTH TO A MAXIMUM ANNUAL AMOUNT OF INLATION AND POPULATION GROWTH COMBINED.

The National Debt

The federal government continues to boast about its economic performance over the past decade and indeed, modest progress has been made on reducing taxes and debt. This progress is somewhat impressive given the economic challenges faced by some of our G-7 partners in that Canada is the only G-7 nation in Fiscal 2002/2003 to post both a fiscal and trade surplus.

However, a study by noted academic Thomas Courchesne for the Institute for Research on Public Policy (IRPP) released in July 2002 (***Policy Matters,*** Vol. 3, No. 8) places the so-called "Maple Leaf Miracle" in its proper historical context – especially as it relates to Canada's debt levels.

> From a ratio in excess of 100 percent of GDP in 1946, the federal debt-to-GDP ratio fell steadily to under 20 percent in the early 1970s, only to register equally dramatic increases until the mid-1990s when it peaked at just over 70 percent.

Courchesne also notes the foundation of many fiscal policy gains were laid by the former PC administration – despite its inability to rein in spending – tax policy overhaul, low-inflation targets and free-trade.

When one combines these structural changes with Paul Martin's good fortune of being Finance Minister during the largest U.S. economic boom in history … then our national fiscal successes seem less Herculean.

It should also be noted that the government's record of six consecutive balanced/surplus budgets combined with $52.7 billion in debt repayments is largely the result of robust economic growth in Canada's two "have" provinces – Ontario and Alberta – and from the continued over-taxation of Canadian workers and employers through the Employment Insurance (EI) surplus which now estimated at $45.0 billion given the notional surplus which exists in the EI Account.

While the government's strategy of reducing the debt-to-GDP ratio is laudable, it has "lucked" into debt repayment through good fortune and deliberate underestimation of annual revenue projections. A more sustainable and responsible approach to debt reduction would be to implement a legislated schedule of annual debt reduction payments each fiscal year as first advocated by the CTF back in 1997 during the 1998 pre-budget deliberations.

With debt interest payments still consuming $37.6 billion or almost 21 cents of each tax dollar – the federal government's single largest expenditure – debt retirement must remain a top priority. To abdicate responsibility for reducing Canada's $507 billion debt is to shamefully continue to perpetuate the fiscal crime of intergenerational tax evasion against future generations of taxpayers.

RECOMMENDATION #5

THE FEDERAL GOVERNMENT SHOULD INSTITUTE A LEGISLATED DEBT RETIRMEMENT SCHEDULE WITH AN ANNUAL PAYMENT OF AT LEAST 5% OF TOTAL REVENUES COLLECTED.

Payroll Taxes

Despite government claims to the contrary, the total payroll tax burden faced by Canadian workers and employers continues to rise as indicated below.

Payroll Taxes Paid by a $41,000 Employee (1993-2003)

Calendar Year	EI Rate per $100 of Earnings	Total EI Taxes Paid	CPP Rate per $100 of Earnings	Total CPP Taxes Paid	Total Payroll Taxes Paid
1993	3.00 %	$ 1,162.20	2.50 %	$ 752.50	**$ 1,914.70**
1994	3.07 %	1,197.30	2.60 %	806.00	**2,003.30**
1995	3.00 %	1.170.00	2.70 %	850.50	**2,020.50**
1996	2.95 %	1,150.50	2.80 %	893.20	**2,043.70**
1997	2.90 %	1,131.00	3.00 %	969.00	**2,100.00**
1998	2.70 %	1,053.00	3.20 %	1,068.80	**2,121.80**
1999	2.55 %	994.50	3.50 %	1,186.50	**2,181.00**
2000	2.40 %	936.00	3.90 %	1,329.90	**2,265.90**
2001	2.25 %	877.50	4.30 %	1,496.40	**2,373.90**
2002	2.20 %	858.00	4.70 %	1,673.20	**2,532.20**
2003	2.10 %	819.00	4.95 %	1,801.80	**2,620.80**

Compared to 11 years ago, Canadian workers now pay $817.20 more in combined payroll taxes while their employers have been burdened with an extra $701.76 during this same period.

As infuriating as high payroll taxes are, the most insidious aspect of the payroll tax burden is the estimated $750 million (2001) in overpayments of CPP and EI premiums now paid by employers to the federal government.

As Canadian Press (January 26, 2001) reported:

> The overpayments occur because the government collects the contributions on the first $39,000 of income and, for many people, that amount is reached in less than a full year. It is not uncommon, for instance, for an employee to notice their paycheque has suddenly increased in June or July when the maximum is reached. If an employee changes jobs after they have contributed the maximum, or if their company is merged or sold to become a new legal entity, they must start paying the premiums all over again. So must the employers, who are required to match their employees' contributions to CPP on a dollar per dollar basis and pay $1.40 for every dollar contributed to EI.

RECOMMENDATION #6

THE FEDERAL GOVERNMENT – THROUGH A JOINT EFFORT OF CCRA AND HRDC – SHOULD TAKE ALL NECESSARY STEPS TO ELIMINATE EMPLOYER OVERPAYMENT OF CPP AND EI CONTRIBUTIONS.

Gas Taxes for Cities – The *Municipal Roadway Trust*

The future of Canada's urban regions has become a topical public policy issue for all orders of government; federal, provincial and municipal. According to Statistics Canada, 80% of Canadians live in cities of 10,000 people or more and over 60% of Canadians live in Canada's six-largest census metropolitan areas.

Current economic competitiveness literature points to cities as the generators of economic growth in the 21st century and Canadian municipal leaders have raised valid concerns with respect to their ability to compete on the world stage vis-à-vis their American, European and Asian counterparts. One key area where Canadian cities fall behind their competitor urban regions is in the construction and maintenance of modern public infrastructure (roads, transit, airports, etc.).

Last year the federal government collected over $4.76 billion in gas and excise tax revenues but only returned a paltry 2.5% or $119 million in the form of transfers for provincial roadway development.

Even if all infrastructure funding mechanisms are added in, the federal government has returned less than 10% of its tax haul from Canadian motorists at the pumps since 1994 back to Canada's urban regions.

2003 CTF Supporter Survey Questionnaire

Question: As governments look to ways to pay for transportation infrastructure (highways, ports, rail, airports) in the years ahead, which of these options do you generally prefer?

Commit a % of $$ from gas taxes to fund infrastructure	92 %
Develop a system of road tolls or other user-fees	3 %
Write in answer	3 %
Undecided	2 %

In its 5th annual Gas Tax Honesty Day report (May 15, 2003), the CTF again proposed a ***Municipal Roadway Trust*** program (first advocated in 2002) that would devote $2.2 billion of gas tax revenues (50% of total collections) annually for three years (renewable by Parliament) for urban regions to draw upon for roadway expenditures. This would allow municipalities to redirect portions of their current "works" budgets to other priorities such as transit and waterworks initiatives.

Accountability would be maintained with annual reports from municipalities, verifiable by the federal Auditor General. This model, endorsed by the ***National Post,*** provides immediate cash for urban regions and provides federal accountability for federal tax dollars. Annual oversight, and penalties if appropriate, ensures that municipal governments would build real infrastructure instead of the recent abuses experienced in tri-partite infrastructure programs – bocce ball courts, canoe museums and riverfront fountains.

Year 1 -- Gas Tax distributions to Major Municipalities

City	Halifax	MTL.	Ottawa	T.O.	WPG.	Regina	CAL.	EDM.	VAN.	VIC.
($ millions)										
% of Federal GDP	0.9%	8.9%	3.2%	15.6%	1.9%	0.6%	3.6%	3.2%	5.5%	0.8%
Portion of 50% of Fuel Tax	**19.9**	**191.6**	**68.6**	**335.2**	**40.5**	**12.0**	**78.0**	**68.7**	**118.6**	**16.6**

RECOMMENDATION #7

THE FEDERAL GOVERNMENT SHOULD ADOPT THE CTF'S *MUNICIPAL ROADWAY TRUST* AS THE MOST EXPEDIENT WAY TO PLOW GAS TAX REVENUES BACK INTO ROADS IN CANADIAN CITIES, BOTH LARGE AND SMALL, THEREBY ALLOWING MUNICIPALITIES TO THEN REALLOCATE EXISTING ROADWAY BUDGETS TO OTHER INFRASTRUCTURE PRIORITIES.

Conclusion – Fiscal Impacts

Implementing the aforementioned seven recommendations would ensure that the government pursues a responsible and sustainable fiscal strategy. The fiscal impacts of the recommendations contained herein are as follows:

Tax relief, debt and expenditure measures:

• Rec. #2 – Raising the BPE	$ 2.10 billion
• Rec. #5 – 5% Legislated Debt Reduction Schedule	9.23 billion
• Rec. #6 – Elimination of EI / CPP employer overpayments	0.75 billion
• Rec. #7 – CTF Municipal Roadway Trust	2.20 billion
Total:	**$14.28 B**

Expenditure reductions:

• Rec. #4 – Elimination of industrial subsidy schemes	$ 4.0 billion
Balance:	**$10.28 B**

The CTF 2000-pre budget submission (***Toward the Millennium: A Taxpayers' Budget,*** p. 16) identified a minimum of $12.5 billion in savings to be generated through activities such as further program reviews, accelerated alternate service delivery efforts (ASD), tax system reform, disposal of Crown and DND assets, departmental expenditure reductions, simplification of EI benefit administration.

Accounting for inflation (which is lower than the overall growth of program spending) over the past three years, this amount now tallies $14 billion. It is axiomatic that with strong fiscal leadership, all recommendations contained in this submission can be implemented within the current fiscal framework and the government can continually plan for an annual $3 billion contingency reserve.

Budget 2004 represents yet another crossroads for Canada. The new government must choose the path that leads to economic freedom, prosperity and a higher standard of living for all Canadians. The recommendations outlined in this submission offer the roadmap to successfully traverse this crossroad.

The incoming Martin government is well advised to heed the century-old words of Sir Winston Churchill:

> We contend that for a nation to try and tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.