MANITOBA PRE-BUDGET SUBMISSION

PRESENTED BY

THE CANADIAN TAXPAYERS FEDERATION

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INTRODUCTION

Manitoba faces many financial challenges. Each Manitobans' share of the [22-billion](#) provincial debt is more than $17,000. The operational deficit is projected to be [$911 million](#). Even with historically low interest rates, Manitobans will pay $874 million to cover the interest on the debt this year.

The Canadian Taxpayers Federation is offering three concrete and achievable recommendations for the upcoming budget:

1. **No new taxes**
2. **No increase to government spending**
3. **MLA pension reform**

Implementing these recommendations will drive progress toward restoring Manitoba's financial health.

NO NEW TAXES

Manitobans already carry a heavy tax burden and raising taxes would create risks of serious unintended consequences.

First, let's consider the tax burden carried by the average Manitoba family.

Manitoba's median household income is $74,790 per year, according to Statistics Canada. The 2016-17 budget provincial budget did not include the typical comparisons to tax burdens in other jurisdictions (an omission that will no doubt be rectified in the upcoming budget), but that information is available in the Saskatchewan budget. The comparison presents a stark contrast.

A family living in Regina with an annual income of $75,000 pays a total of $4,068 in provincial income tax, sales tax and fuel tax, according to the Saskatchewan budget. It would cost $7,383 for a Winnipeg family with the same income to pay those taxes in Manitoba.

The Saskatchewan budget notes a family in Winnipeg would pay about $549 less than its Saskatchewan counterpart for electricity. This does not offset the significant tax difference. Further, given imminent and repeated rate hikes expected from Manitoba Hydro, even that gap will shrink.

The situation is similar when comparing a Winnipeg family earning the median annual income to its neighbours in Ontario. A family earning $75,000 annually in Toronto would pay $5,917 in provincial taxes – $1,466 less than a family in Winnipeg.

Increasing the heavy income tax burden Manitobans already carry would also increase the incentive for them to move to a neighbouring province. This unintended consequence would have a negative impact on provincial revenues. Worse, it would have a very real human cost as Manitobans would feel increasing pressure to leave their home.

The risk of reduced revenues due to increased tax rates does not only apply to broad-based taxes such as personal income taxes.

For example, Manitoba's tobacco taxes are the highest among the provinces. Manitoba charges a provincial tax of $59 per carton of 200 cigarettes. Governments impose high tobacco taxes for two reasons: 1) to encourage people to quit smoking; and, 2) to raise revenue.

However, further increases to Manitoba's tobacco tax would increase risks of unintended consequences. Saskatchewan's tobacco tax is $50 per carton. Ontario's tobacco tax is $30.95 per carton. As it stands, smuggling tobacco from either provincial neighbour offers a significant profit on the black market. Increasing Manitoba's tobacco tax would increase the risk of expanding the black market.

Lastly, Manitoba should not impose a carbon tax.

Many Manitobans work in sectors that simply cannot pass the costs of a carbon tax on to the end customer. Farmers are a primary example. Manitoba farmers compete in global markets against farmers in the United States and Australia where carbon taxes are not in place. This will result in lower incomes for Manitobans without a positive environmental impact.

Most importantly, the Manitoba government is legally required to hold a referendum before imposing major tax increases. While the legislation did not contemplate the imposition of a carbon tax, it clearly references sales taxes, which are, in effect, consumption taxes. A carbon tax is a broad-based and significant consumption tax that will impact all Manitobans. Therefore, imposing a carbon tax without the required referendum would be a gross breach of trust.

Manitoba's high tax burden already represents a significant risk for the province's economic health. Raising taxes would compound that risk. Manitoba must not raise taxes in the next budget.

NO INCREASE TO GOVERNMENT SPENDING

Manitoba has fallen into an unsustainable pattern of increasing spending faster than revenues increase.

"The stabilization of Manitoba's debt burden will depend on the political willingness to rein in spending," wrote Moody's, a credit rating agency, on July 10, 2015.

Here's the good news. Manitoba's provincial revenues have been stable or rising. From 2013-14 to 2015-16, revenues rose by about 2% after adjusting for inflation.

Here's the bad news. Manitoba's provincial expenses are growing faster than revenues. From 2013-14 to 2015-16, expenses rose by about 4% after adjusting for inflation.

In other words, revenues have grown by $296 million, but expenses have grown by $608 million.

Obviously, this trend is unsustainable.

Saskatchewan's five-year budget projections show that province is taking a different approach. (The most recent Manitoba budget did not include standard projections – an omission that will no doubt be rectified in the upcoming budget). Saskatchewan projects $14.46 billion in expenditures for 2016-17 and $14.46 billion in expenditures for 2017-18, which is an absolute freeze on spending even before accounting for inflation. Meanwhile, revenues are projected to rise from $14.02 billion to $14.46 billion.

The Saskatchewan approach would significantly improve Manitoba's situation.

Manitoba's 2016-17 budget projects revenues of $15.23 billion and expenditures of $16.14 billion.

If modest economic growth and inflation combine to increase revenues by 3%, revenues for 2017-18 will be $15.69 billion. If the province freezes expenditures at $16.14 billion, the deficit will fall from $911 million in 2016-17 to $454 million in 2017-18.

While a $454-million deficit would still represent a threat to Manitoba's financial health, it would be a significant improvement. Further, this plan is clearly achievable as Saskatchewan is already implementing this strategy. Lastly, this government was clearly elected to control spending – at minimum it must not increase spending.

MLA PENSION REFORM

For the overwhelming majority of Manitobans, the amount they take out of retirement savings is directly related to the deposits they put into their savings. Not so for MLAs and other government employees. Most government pension plans provide generous payouts regardless of how much is actually in the account. This is irresponsible and unfair.

MLAs contribute 7% of their salary and are then eligible to receive set payments depending on their income and years of service. For example:

- NDP MLA Steve Ashton was elected in 1981, served in cabinet, and lost his seat. The CTF estimates he's eligible for $86,000 in pension per year for a total of $2.5 million to age 90.

- Progressive Conservative MLA Stuart Briese was elected in 2007 and did not run in the recent election. The CTF estimates he's eligible for $15,000 in pension per year for a total of $299,000 to age 90.

- NDP MLA Dave Chomiak was elected in 1990, served in cabinet, and lost his seat. The CTF estimates he's eligible for $64,000 in pension per year for a total of $1.7 million to age 90.

These are defined benefit plans that deliver generous payments regardless of how much is actually in the fund. If there is a shortfall in the fund, taxpayers are held liable to fill the gap.

The Manitoba government does not release details of the MLA pension fund. We continue to call on the government to provide this basic transparency.

However, there is an undeniable and growing problem with government employee pensions overall.

The Manitoba government currently estimates that its pension liabilities are $2.5 billion in excess of pension assets. That gap is growing and increased by $109 million from the 2014-15 fiscal year to the 2015-16 fiscal year. This growing burden of debt ultimately falls to taxpayers.

In fact, the province has provided massive taxpayer-funded bailouts to government employee pension plans in recent years. The government provided a $1.5-billion bailout to the Teachers' Retirement Allowance Fund in 2007 and another $100 million in 2015. The government provided a $1.1-billion bailout to the Civil Service Superannuation Fund in 2012.

This is unsustainable and taxpayers cannot be forced to repeatedly provide billions in bailouts. The private sector is moving to defined contribution plans that base pension payouts on the amount contributed. Saskatchewan has moved to defined contribution plans as well.

Pension reform is necessary, but it will take time.

However, the MLA pension plan is fully within the control of MLAs. While the dollar amounts associated with the MLA plan may be smaller than other pension plans, the symbolic importance is vital. MLAs need to show their commitment to overall pension reform by reforming their own pension plan first. This is a minimal and achievable step that can be implemented in the next budget.

CONCLUSION

While addressing Manitoba's financial challenges will take time, this must not be an excuse for inaction.

Manitobans need tax relief, but the government must at least keep taxes from rising. Spending needs to be trimmed, but government must at least keep spending from increasing. And public sector pensions need to be reformed, but MLAs have to at least reform their own pension plan.

These recommendations are concrete and achievable steps the Manitoba government can take to begin restoring the province's financial health.