MANITOBA PRE-BUDGET SUBMISSION

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ABOUT THE CANADIAN TAXPAYERS FEDERATION

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The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group 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 137,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic Canada. Regional offices conduct research and advocacy activities specific to their provinces 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, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates.Financial supporters can additionally receive the CTF's flagship publication The Taxpayer magazine published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2014-15 the CTF raised $4.7 million on the strength of 30,663 donations. Donations to the CTF are not deductible as a charitable contribution.

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INTRODUCTION

Manitoba's overall financial situation is challenging even though a few bright spots are starting to appear. Each Manitobans' share of the nearly $24-billion provincial debt is more than $18,000. Operational spending outstrips revenues by hundreds of millions. Interest charges on the debt are rising. But the shrinking deficit provides an important positive development.

Many groups will ask for many things in the budget. The proposals will range from wise to wasteful. The Canadian Taxpayers Federation is different. We're not asking for anything, but we are asking you to not to include three things in the budget:

1. No increase to government spending

2. No new taxes

3. No special pension for MLAs (make it a standard matching RRSP program)

The long-term challenge to control government spending means, at very least, stopping spending from going up. Manitoba must avoid harmful taxes such as a carbon tax or healthcare premium tax. Manitoba must also tackle tough problems such as government employee pension reform and that must start with the MLA pension plan.

NO INCREASE TO GOVERNMENT SPENDING

First, congratulations are in order. The 2016-17 deficit was $147 million less than expected. Higher revenues helped, but the government also kept spending underbudget. This is a significant accomplishment in a political environment when runaway expenses are often excused as inevitable or even spun as some sort of positive.

Fiscal discipline is a muscle. For too many years, that muscle atrophied in Manitoba. While more work is needed, it's good to see fiscal discipline gaining strength in this province.

However, challenges remain. The operational deficit is projected to be $840 million. Manitobans are projected to pay $991 million to cover the interest on the debt this year, but that number will almost certainly surpass one billion.

Bond rating agencies are raising these concerns.

"Although Manitoba is taking clear steps to improve its fiscal sustainability in the long term, it faces large projected budget deficits and further growth in its already-high debt burden over the next two years," stated S&P Global when it downgraded Manitoba's bond rating from AA- to A+ on July 21, 2017. "We could lower the ratings further if, in the next two years, revenue and expenditure targets were missed."

Here's the problem: spending continues to go up. The 2017 budget increased overall spending by another $520 million. The 2016 budget increased overall spending by $756 million. Manitoba simply cannot afford to increase spending by hundreds of millions of dollars for a third year in a row.

The reality is that Manitoba will get its spending under control, the only question is how. Either it will happen through difficult decisions made now. Or it will happen as the province is forced to redirect more and more money to cover ever-increasing interest costs on the existing debt.

The threat posed by interest costs are very real. Last year, the province spent $930 million on interest costs which is $19 million more than expected. This year, interest costs are projected at $991 million. Any combination of further credit rating downgrades and interest rate increases will cost Manitobans millions.

The reality is that Manitoba is already diverting funding from other worthy initiatives, including tax relief, to pay increasing interest costs.

The five-year projection in last year's budget showed spending going up by another $341 million. Manitoba must do better. The province needs to live within the already considerable means currently outlined in the budget and hold spending flat.

According to last year's projections, even holding spending flat will leave the province with an operational deficit of $357 million, but once again, that would demonstrate strengthening fiscal discipline.

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 $76,990 per year, according to Statics Canada. A family in Regina with an income of $75,000 pays $4,510 in provincial tax, according to the Saskatchewan budget. A family in Winnipeg with the same income pays $7,474 in provincial tax. Manitobans are already paying plenty of taxes. The situation is similar when comparing a Winnipeg family earning the median annual income to its neighbours in Ontario where family earning $75,000 annually in Toronto would pay $5,964 in provincial taxes – $1,510 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 Manitoba government has speculated about two new major taxes: a healthcare premium tax and a carbon tax. The Canadian Taxpayers Federation strongly recommend against implementing either of these taxes.

First, a healthcare premium tax would place an unfair burden on taxpayers while failing to strengthen the healthcare system.

It's worth restating: Manitobans already pay too much tax. Based on the experience in British Columbia and Ontario, a healthcare premium tax would likely cost taxpayers $900 per year. That's unacceptable when Manitobans already pay much higher taxes than their provincial neighbours.

If a healthcare premium tax is bad news for taxpayers, it would be an absolute nightmare for the government to implement and administer.

Consider the BC experience. Freedom-of-information requests filed by the Canadian Taxpayers Federation showed it cost the government $77 million just to collect the tax in 2015. Worse, even with millions spent on tax collection, the BC government still had to write off $340 million in uncollected healthcare premium taxes from 2010 to 2015.

It's difficult to get political parties to agree on anything, but the healthcare premium tax in BC proved to be such a bad policy that all three parties in that province campaigned on getting rid of it. Alberta removed its healthcare premium tax in 2009. Even Quebec has dramatically narrowed its healthcare premium tax so that only high-income individuals pay it.

Perhaps worst of all, a healthcare premium tax won't strengthen Manitoba's healthcare system. Manitoba spends $7,120 per person on healthcare, according the Canadian Institute for Health Information. That's second highest in the country. There's no reason to believe more money is the solution to challenges facing Manitoban's healthcare system.

The Manitoba government must reject a healthcare premium tax that Manitobans can't afford and won't strengthen the healthcare system.

The Manitoba government must also reject a carbon tax.

Some argue the federal government will implement a carbon tax if Manitoba doesn't pre-emptively capitulate with a self-imposed carbon tax. This logic is flawed.

First, it's the Manitoba government's job to oppose federal policy that's bad for the province. In fact, Premier Brian Pallister deserves credit for opposing proposed changes to federal business taxes when he stated: "These proposed changes will take millions of dollars out of the hands of Manitobans and deliver them straight to Ottawa." Manitoba must oppose a carbon tax for the same reason it's opposing proposed business tax changes: Manitoban's oppose a carbon tax. Comments on the province's own carbon tax consultation show that 59% of Manitobans oppose the tax.

Secondly, bad federal policy is not an inevitability with which the province must pre-emptively comply. In fact, reversing policy is becoming a federal specialty as we've seen with: electoral reform; so-called moderate deficits; taxes on employee discounts; and, in all probability, proposed changes to business taxes. It's laughable to assume that, in the wake of all of these policy wrecks, a federal carbon tax will sail along smoothly. The Manitoba government must stand with Manitobans and do its part to add carbon taxes to the list of federal policy reversals.

Thirdly, and most importantly, Manitoba must reject a carbon tax because it hurts taxpayers without helping the environment. Some argue that carbon taxes are fine if revenue neutral, but BC's carbon tax cost taxpayers hundreds of millions and, now that the new BC government has raised the carbon tax and abandoned any pretext of revenue neutrality, taxpayers are paying an even higher price. Worse, there's no clear evidence to show that BC's emissions have been reduced by a carbon tax. The Manitoba government's credibility will be gravely threatened if a carbon tax results in taxes going up while emissions don't go down.

Lastly, the Canadian Taxpayers Federation would like to remind the Manitoba government of a promise it made: "A new Progressive Conservative government will bring in legislation in the first legislative session restoring Manitobans' right to vote on any proposed major tax increases."

If the Manitoba government is going to honour this promise, it must be applied to a carbon tax, healthcare premium tax; and, any other major tax the government may propose.

NO SPECIAL PENSION FOR MLAS

Manitoba MLAs deserve credit for freezing their wages. Fixing Manitoba's financial situation requires tough decisions and it's important for decisionmakers to lead by example. A voluntary salary freeze shows leadership.

But there's an even more important reform that needs to be implemented.

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, the CTF estimates MLA Steve Ashton left the Legislature with an estimated $86,000 in pension per year for a total of $2.5 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.

Happily, after years of calling for the Legislative Assembly Pension Plan Annual Report to be made public, the CTF has obtained the document and it shows the fund is fully funded. This is an important step forward for accountability and transparency and the government again deserves credit for releasing the MLA pension report.

However, the report also contains some bad news for taxpayers. Last year, MLAs contributed $404,351 while taxpayers contributed $1,129,874. That means taxpayers contribute $2.79 for every dollar contributed by an MLA. This is obviously unfair – taxpayers should not have to pay for a pension plan that much richer than those available for most Manitobans.

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

The Manitoba government currently estimates that its pension liabilities are $2.8 billion in excess of pension assets. That gap is growing and projected to be $412 million higher than it was in 2015-16. 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.

Even if it takes time, pension reform must begin.

MLAs need to reform their own pension to make it a matching RRSP plan. MLAs can continue to deposit 7% of their salaries and receive a matching contribution from taxpayers. This would remain a good benefit that's more generous than most Manitobans receive. However, it would be dramatic improvement.

More importantly, MLA pension reform would send an important signal. 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.

MLA pension reform 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 government employee pensions need to be reformed, but MLAs have to reform their own pension plan first.

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