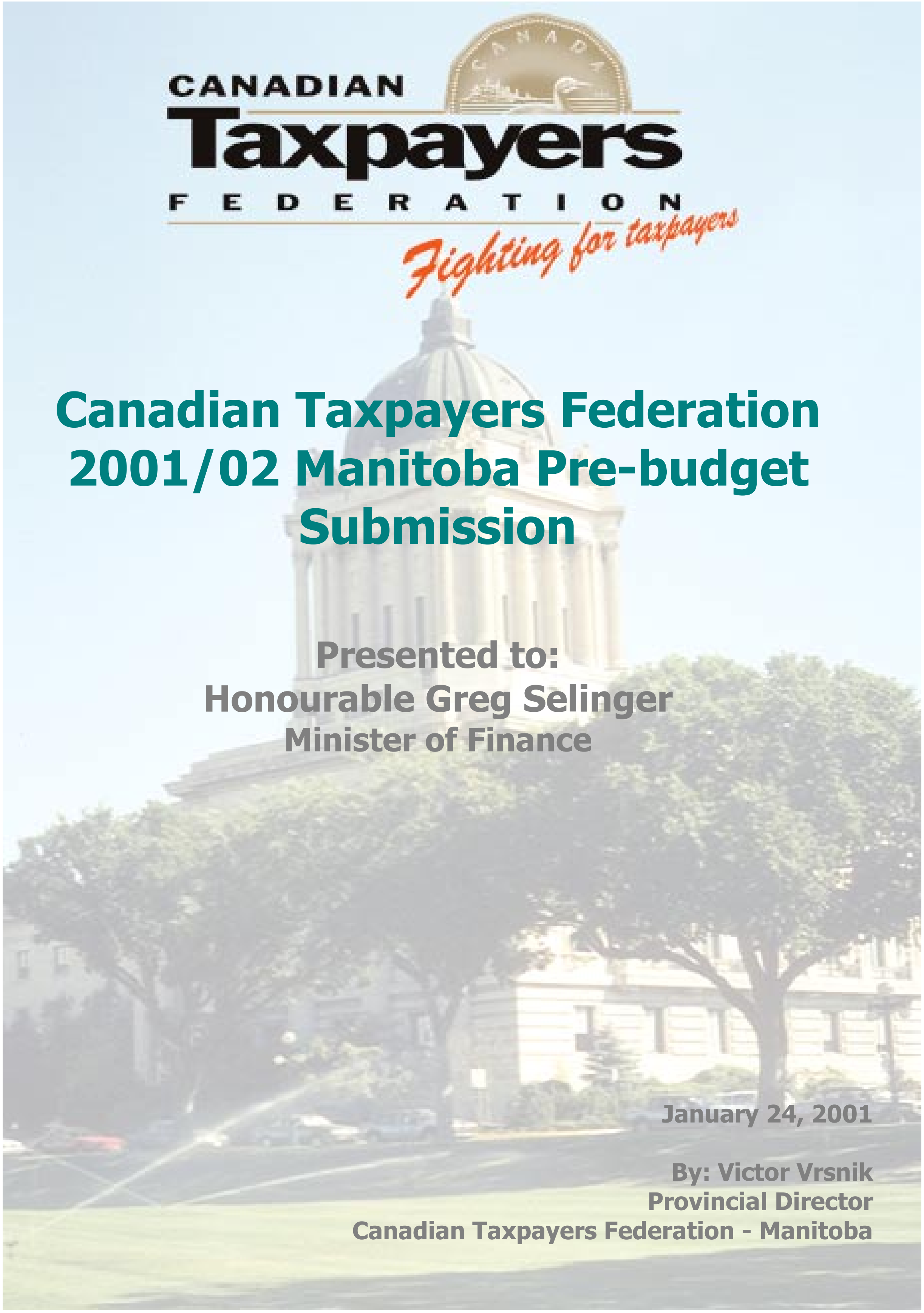

Canadian Taxpayers Federation 2001/02 Manitoba Pre-budget Submission

Presented to:
Honourable Greg Selinger
Minister of Finance

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By: Victor Vrsnik
Provincial Director
Canadian Taxpayers Federation - Manitoba

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization.

The CTF's three-fold mission statement is:

- To act as a watchdog on government spending and to inform taxpayers of governments' impact on their economic well-being;
- To promote responsible fiscal and democratic reforms, and to advocate the common interest of taxpayers; and
- To mobilize taxpayers to exercise their democratic rights and responsibilities.

The CTF maintains a federal office in Ottawa and offices in the four provincial capitals of British Columbia, Alberta, Saskatchewan, and Manitoba. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

The CTF's official publication, *The Taxpayer*, is published six times a year. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets nationally as well as providing media comment on current events.

The CTF staff and Board of Directors are not permitted to hold memberships in any political party. The CTF is funded by free will, non-receiptable contributions and the CTF does not receive contributions from government.

For further information contact:

Victor Vrsnik, Provincial Director
CTF - Manitoba
212-428 Portage Avenue
Winnipeg, Manitoba
RC3-0E2

Tel: (204) 982-2150
Fax: (204) 982-2154
Email: vrsnik@videon.wave.ca
Web: www.taxpayer.com

Pre-budget News Release

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- **Do not introduce new taxes such as a green tax.**

- **Replace the current tax brackets with a flatter single rate of provincial income tax calculated at a rate that would not anticipate greater income tax returns than at present. The new rate should be competitive with the 10% rate recently set by Alberta, and fully indexed to inflation.**

- **Raise the $7,361 basic personal exemption and the $6,251 spousal deduction to a level competitive with the $11,620 rate recently set by Alberta, and fully indexed to inflation.**

- **Do not introduce any new tax credits to Manitoba's income tax system.**

- **Balance expenditures with revenues and continue to pay down the debt in accordance with the debt repayment schedule.**

- **Freeze overall government spending for two years with the possible exception of health care spending. Increases to health care spending should be funded by a redirection of existing budget envelopes.**

- **Introduce competition, privatization and alternative service delivery to government departments and agencies.**

- **Do not skim profits from Manitoba crown corporations in order to raise government revenues.**

- **To control rising expenditures and tax grabs, extend the Manitoba Taxpayer Protection Act to municipal governments and school boards.**

Part II. Principles of Taxation

- The tax system should be simple. The 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 pockets.

- The tax system should be flatter. Flat is important because simplicity is enhanced with one rate of taxation. As long as the province retains a Basic Personal Exemption (BPE,) and preferably a generous one, the tax system will still be progressive, but without the disincentive to wealth creation that currently exists within Canada because of high marginal tax rates that discourage risk-taking, saving, and investment.

- 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 not be used as an instrument of social policy, designed as a means to political or ideological ends. Taxes are a vehicle for raising revenues. Social policy issues should be addressed through government programmes and services, not through the tax system.

- The tax system should enhance Manitoba's competitive standing with other provinces and states south of the border.

- 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 programmes 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.

- The tax system should promote economic prosperity for all Manitobans.

Part III. Framing the Debate

The first question in the *2000-01 CTF Supporter Survey* sets the tone for the new fiscal year. When asked to choose one major direction the CTF should advocate in the event of a budget surplus, **a plurality of 58 per cent selected the combination of tax cuts and debt relief, compared to 55 per cent in 1999/2000**.

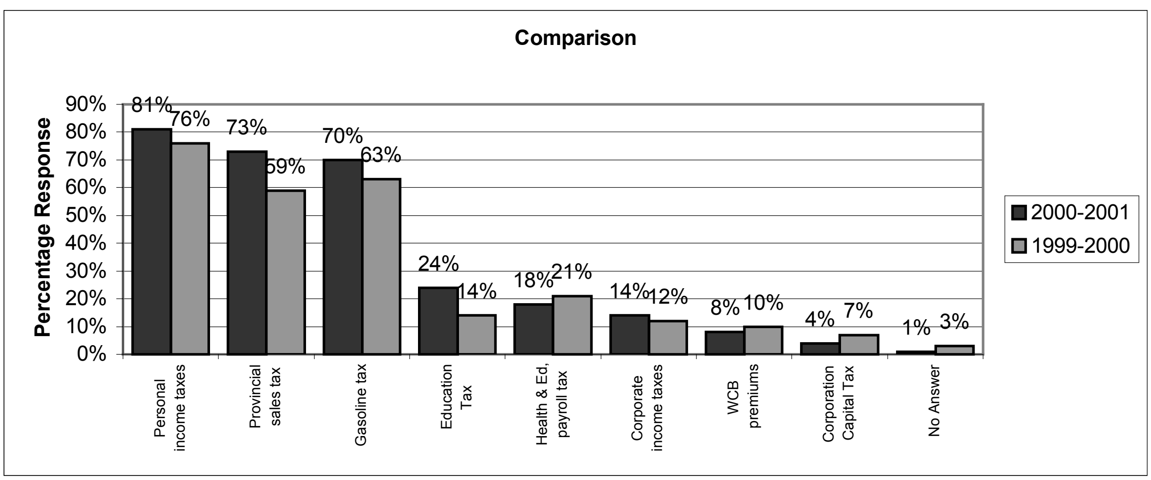
Advantages of Personal Income Tax Relief

Now that debt payments are on schedule and debt-servicing costs are falling, the preconditions for tax cuts are at hand. The provincial government seized on that opportunity by lowering individual income taxes over the past few years. Despite the cut, Manitoba's income tax rate trails behind other provinces.

The *CTF Supporter Survey* shows that Manitoba taxpayers give highest priority to eliminating individual income taxes. **In the 2000/01 survey, 81 per cent of respondents selected personal income tax cuts as their first priority, compared to 76 per cent in 1999/00.**

2000/01 CTF Supporter Survey Question #2:

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



The advantages of broad-based income tax cuts:

1. They improve our **competitive standing** with other provinces for economic development;

2. They spur consumer activity and lower personal debt levels by increasing **disposable income** for taxpayers; and,
3. They offset extra out-of-pocket costs from **bracket creep**.

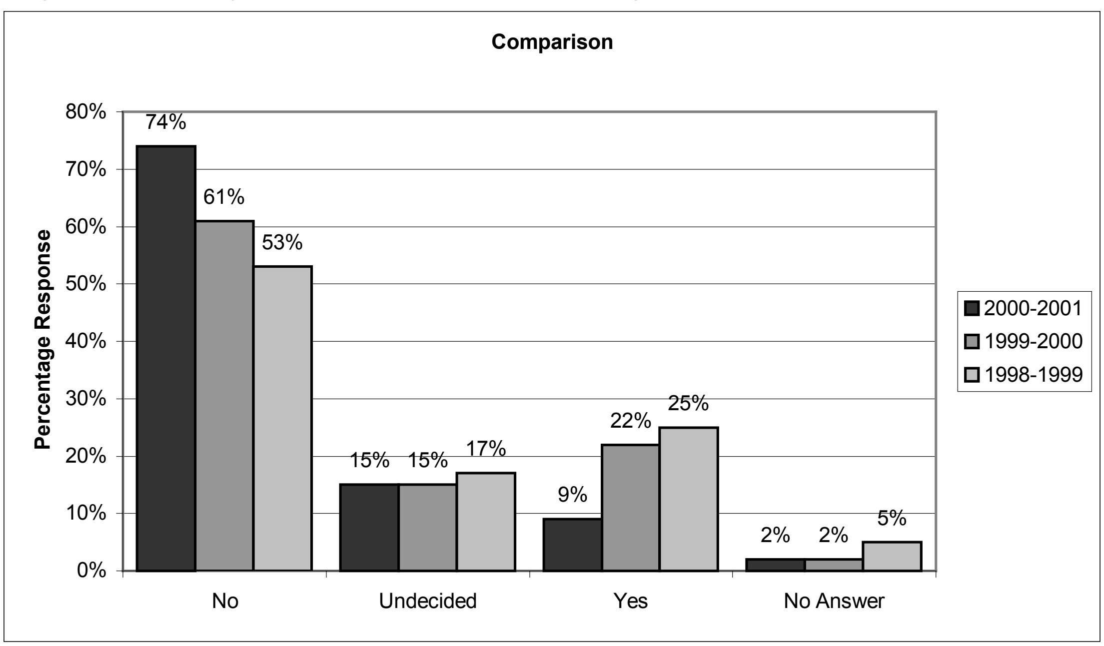
1. Competitive Taxation

The headlines in the papers in the past couple of years were upbeat about the province's economic performance and prospects for the future. Despite reductions to the personal income tax burden and signs of steady economic growth, taxpayers remain cautious about the province's economic future.

The *2000/01 CTF Supporter Survey* shows that taxpayers are losing faith in the Manitoba's competitive standing with other provinces. **A plurality of 74 per cent of respondents believed that Manitoba's tax rates and taxation policies hindered Manitoba's ability to compete with other provinces for new business development, compared to 61 per cent last year, and 53 per cent in 1998-99.** Only 9 per cent of respondents said Manitoba's taxes were competitive, compared to 22 per cent last year and 25 per cent in 1998/99. Confidence in Manitoba's tax structure has been shaken well before the media discussed the possibility of an economic recession.

2000/01 CTF Supporter Survey Question #3:

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



The dramatic loss of faith in Manitoba's tax rates coincides with substantial tax cuts in other provinces, such as Alberta and Ontario, where income tax rates have fallen dramatically. Meanwhile Manitoba has been left in the lurch as other provinces create more competitive tax structures.

A 2000 inter-provincial survey comparing the impact of provincial and federal income taxes at various income levels shows that Manitobans pay the eighth highest income taxes among the ten provinces for incomes between $20,000 to $60,000.[1]

Individual Tax Table for 2000 Amount of Income Tax											
Taxable Income	B.C.	Alberta	Sask.	Man.	Rank	Ontario	Quebec	N.B.	N.S.	P.E.I.	Nfld.
150,000	62,537	55,805	63,113	61,752	6	58,681	66,378	61,385	61,491	61,748	64,797
100,000	36,908	33,950	38,251	37,712	7	34,751	41,045	37,001	37,098	37,352	39,144
90,000	31,782	29,579	33,278	32,904	7	29,965	35,979	32,249	32,219	32,473	34,013
80,000	26,684	25,208	28,306	28,096	7	25,179	30,912	27,508	27,340	27,594	28,882
70,000	21,835	20,899	23,395	23,349	7	20,455	25,907	22,828	22,682	22,776	23,813
60,000	17,070	16,673	18,568	18,687	8	15,862	20,986	18,233	18,115	18,042	18,828
50,000	13,238	13,023	14,380	14,553	8	12,245	16,449	14,197	14,106	13,971	14,685
40,000	9,498	9,373	10,244	10,431	8	8,783	12,111	10,176	10,111	10,033	10,542
30,000	5,758	5,724	6,259	6,310	8	5,321	7,774	6,156	6,116	6,096	6,400
20,000	3,218	3,226	3,513	3,562	8	2,984	4,315	3,440	3,368	3,419	3,582

2. Increase Disposable Income

High income taxes erode family incomes and limit personal savings for the future. A *Statistics Canada* survey on family expenditures from 1999 found that 19 per cent of the average family's income in Manitoba was spent on personal income taxes. Income taxes make up, by far, the largest single expenditure for the average household ($9,665), followed by shelter ($8,601), transportation ($6,832) and food ($5,718)[2].

Provincial income tax cuts will increase disposable incomes for Manitoba families, who in turn are presented with the option of lowering personal debt, saving for the future, or increasing consumer spending.

3. Bracket Creep

The impact of bracket creep has steadily eroded disposable incomes for Manitoba families. To reverse this problem, the province should reform the personal

[1] PriceWaterhouseCoppers, *Tax Facts and Figures: For Individuals and Corporations*, 2000.
[2]Statistics Canada, Canadian Statistics, *Average household expenditures, Canada, provinces and territories*, December 3, 2000. (www.statcan.ca/english/Pgdb/People/Families/famil16d.htm).

income tax system to eliminate the impact of bracket creep on provincial finances.

Calculations derived from Finn Poschmann of the C.D. Howe Institute show that in 2000 Manitoba taxpayers paid an extra $113 million to the province in extra personal income taxes owing to the impact of partial indexation on the income tax system.

Now that Manitoba has de-linked for the federal income tax structure, the province is well positioned to take control of its tax structure and restore full indexation, as did Paul Martin in his last federal budget.

Outlawing bracket creep today would not restore the personal credits and tax brackets to their fully indexed values. But it would restore fairness, transparency and accountability to the tax system.

Unfortunately, Manitoba has not made any announcement to restore full indexation. With the exception of the Atlantic provinces, all other provincial governments have either eliminated bracket creep or announced when indexation will be restored.

2000/2001 Bracket Creep Status Chart		
Province	Indexation of Tax Brackets	Indexation of Non -Refundable Tax Credits
Federal Government	Yes	Yes
British Columbia	Yes	Yes
Alberta	No brackets to index	Yes
Saskatchewan	Yes in 2003	Yes in 2003
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes in 2003	Yes in 2003
New Brunswick	No Announcement	No Announcement
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 1: The province should fully index the tax brackets and credits to inflation.

In 2000, the province collected approximately $113 million in extra income tax revenues on account of bracket creep. Those out-of-pocket costs should be returned to Manitoba taxpayers as a way of combating the negative affect of inflation on their purchasing power.

Recommendation 2: The province should not introduce new taxes such as a green tax.

The tax system should not be used as an instrument of social policy, designed as a means to political or ideological ends. Taxes are a vehicle for raising revenues. Social policy issues should be addressed through government programmes and services, not through the tax system.

Recommendation 3: The province should replace the current tax brackets with a flatter single rate of provincial income tax calculated at a rate that would not anticipate greater income tax returns than at present. The new rate should be competitive with the 10% rate recently set by Alberta, and fully indexed to inflation.

Another benchmark is Ontario. In 2001, Ontario's personal income tax rates fell to 6.2%, 9.24% and 11.16% compared to Manitoba's tax rates of 10.9%, 16.2% and 17.5%.

The purpose of the single tax bracket is to fashion a more fair system where all Manitobans pay the same rate of provincial income tax on their taxable income. The tax system would maintain progressivity in the sense that higher income earners will still pay more taxes than lower income earners.

Falling disposable incomes and record high personal debt levels make it imperative that provincial government lower personal income taxes and continue to encourage Ottawa to address its income tax rates.

High tax rates diminish productivity in the province and encourage young Manitobans educated and trained on provincial tax dollars to find employment elsewhere. Our high rates do little to attract Canadians from other provinces to relocate here as well.

Recommendation 4: Raise the $7,361 basic personal exemption and the $6,251 spousal deduction to a level competitive with the $11,620 rate recently set by Alberta, and fully indexed to inflation.

The province should opt to exempt more low-income taxpayers and income from taxation by setting a higher Basic Personal Exemption. While the province currently uses tax credits to eliminate provincial income taxes on the working poor, a BPE set significantly higher - and indexed for inflation – would accomplish much the same task and highlight the difference between a generous

Manitoba personal exemption and the woefully inadequate federal personal exemption. With a generous BPE fully indexed to inflation, bracket creep would be the first casualty, thereby liberating low-income earners from the tax roles.

Recommendation 5: The province should not introduce any new tax credits to Manitoba's income tax system.

Many of the possible advantages of calculating the provincial tax on income, even where there is one rate of taxation and a generous Basic Personal Exemption, will disappear should the province choose to introduce a myriad of credits. Any such credits or additional surtaxes will lessen the ability of the province to set a uniformly low rate. Additional credits will also add paperwork to the income tax process thus working against the goal of simplicity.

Recommendation 6: The 2001/2002 budget should balance expenditures with revenues and continue to pay down the debt in accordance with the debt repayment schedule.

Manitoba prides itself on its balanced budget law. It worked for five years on account of stiff pay penalties for politicians who ended the year in the red. Other provinces modeled their BBL on Manitoba.

The last recorded deficit was $196 million in 1994, one year before the passage of the balanced budget law. Public debt costs were $597 million compared to $474 million today. That's $123 million that otherwise would not have been available for tax relief and spending.

Manitobans should consider how a deficit would affect the province's credit rating, ability to attract business investment, and employment opportunities.

Part IV. Government Spending Restraint

The province's fiscal problems - over dependence on federal transfers, a $13.5 billion net direct and guaranteed debt, and increasingly uncompetitive taxes - cannot be adequately resolved without a thorough re-examination of the role of and size government.

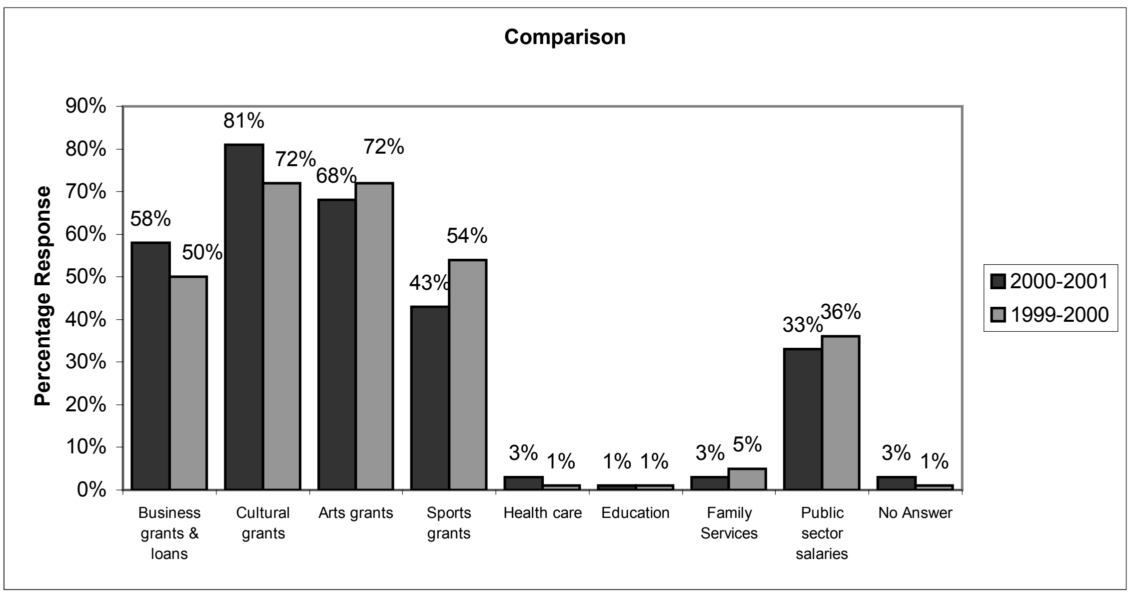
Government's size should be examined from the perspective of what is it that taxpayers expect government to do and what is it that they can afford. To not re-examine the activities of government at this critical stage is to allow government spending to continue to grow unchecked at the possible expense of balanced budgets and significant tax relief. As a result, Manitoba will have fewer long-term policy options on priority program spending and tax relief vis-a-vis other provinces.

Recommendation 7: Freeze overall government spending for two years with the possible exception of health care spending. Increases to health care spending should be funded by a redirection of existing budget envelopes.

The following budgetary items were targeted by CTF supporters for possible savings: cultural grants, arts grants, business subsidies and sports grants.

2000/01 CTF Supporter Survey Question #4:

Please identify the top three areas where the provincial government should reduce spending.



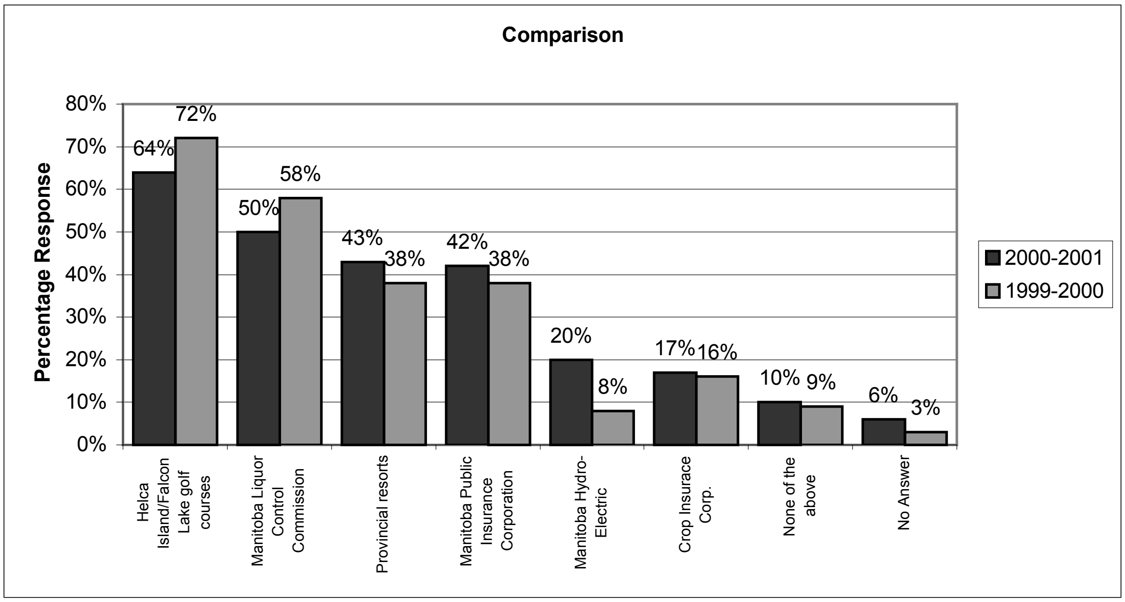
Recommendation 8: Introduce competition, privatization and alternative service delivery to government departments and agencies.

Spending restraint could be augmented by potential crown privatizations, namely provincial resorts at Hecla Island and Falcon Lake, Manitoba Liquor Control Commission, and Manitoba Public Insurance Corporation. Revenues from crown sales could be applied toward debt relief, which would ease the province's burden of debt servicing costs.

In the case of the above mentioned crown corporations, the provincial government should not expend its energies on services that could easily be delivered by a competitive private sector. The private sector would be equally as capable of running tourist resorts, selling liquor and auto insurance as they do for any other industry where competition prevails.

2000/01 CTF Supporter Survey Question #5:

Which of these Crown corporations, agencies, etc., if any do you feel should be privatized?



Recommendation 9: In light of the survey responses, which clearly signal a preference for spending restraint, the provincial government should abandon any plans to skim profits from Manitoba crown corporations in order to raise government revenues.

Support for government control over crowns such as Manitoba Hydro will likely deteriorate if energy prices rise on account of government skimming of Hydro profits.

Municipal Taxpayer Protection

The overall purpose of tax cuts and debt relief is to create a competitive economic environment and to improve the quality of life for all Manitobans. Provincial efforts to lower taxes and increase disposable incomes are often derailed by other layers of government in Manitoba that are not committed to the same goal.

Many municipalities in the province are bedeviled by local governments and school boards that increase taxes to cover rising expenditures. Savings from provincial tax cuts can be stripped away by a commensurate increase in school taxes or realty taxes.

While spending by the provincial government is disciplined by the Balanced Budget Law and Taxpayer Protection Act, other levels of government are not governed by the same spending restraint mechanism.

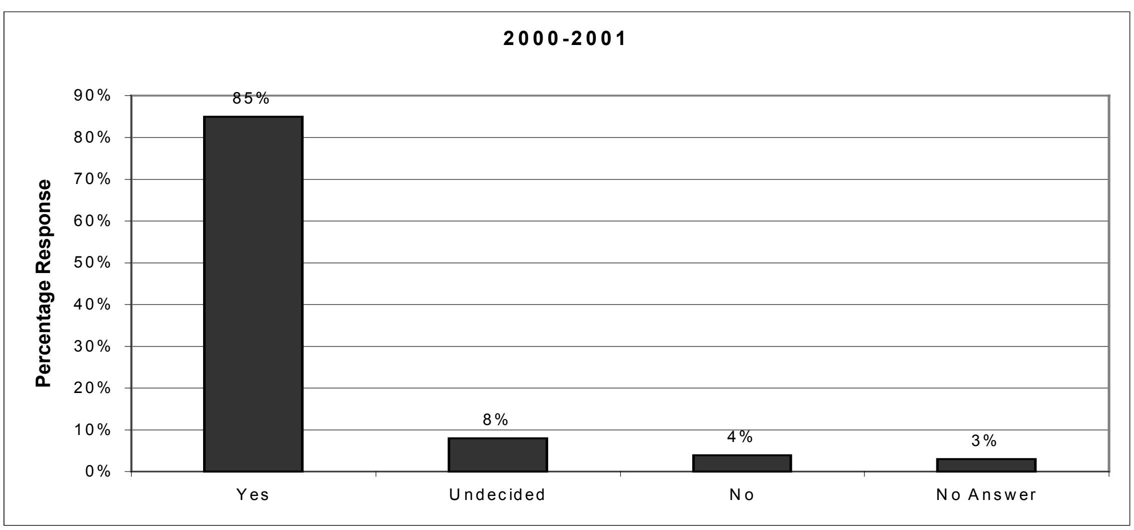
The latest reforms to the Manitoba Labour Laws, that stripped the provision of "taxpayer ability to pay" from public education arbitration disputes, opens the door to higher education spending and consequently higher education taxes.

Not unlike the provincial government, local municipal governments and school boards should hold referendums before an education tax or a realty tax can be approved.

Recommendation 10: To control rising expenditures and tax grabs, the provincial government should extend the Manitoba Taxpayer Protection Act to municipal governments and school boards.

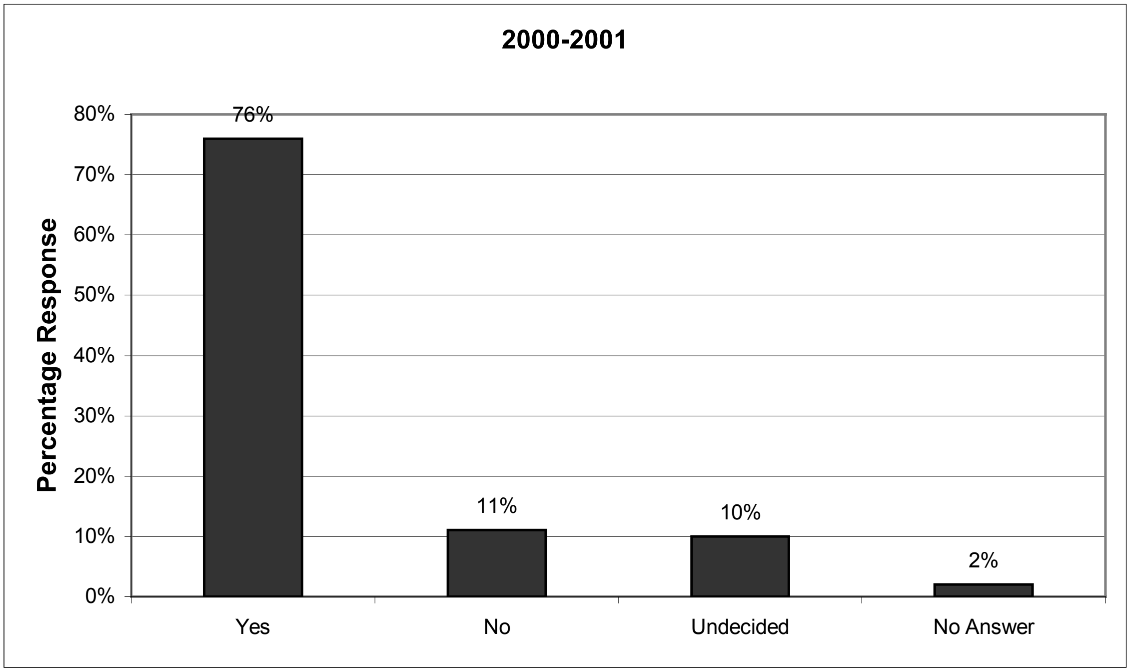
2000/01 CTF Supporter Survey Question #6:

The Manitoba Taxpayer Protection Act forces the government to hold referendums on provincial tax increases. Should school boards be forced to hold referendums on educational tax increases as well?



2000/01 CTF Supporter Survey Question #7:

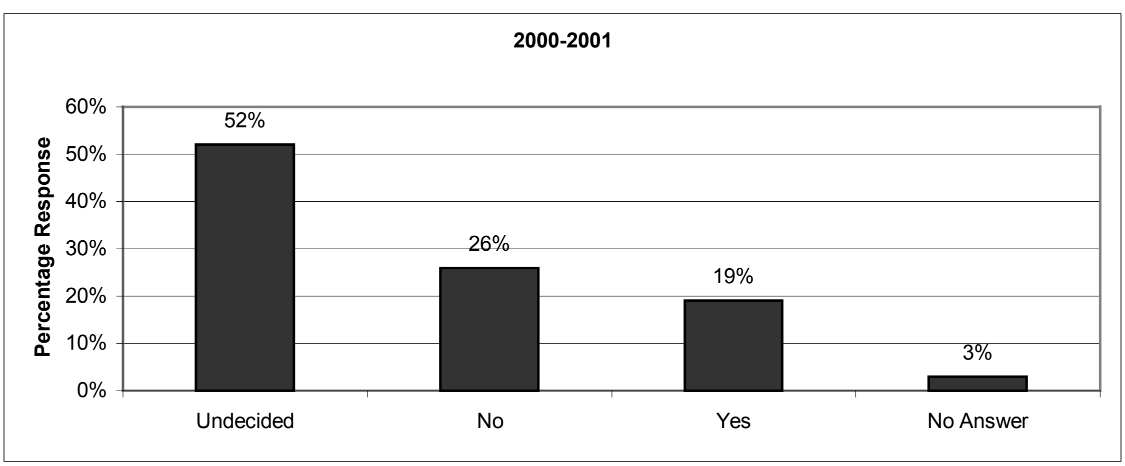
Should municipal governments be forced to hold referendums for property tax increases?



Alternatively, the province should study the benefits of eliminating the school tax based on property and finance education from existing revenue streams.

2000/01 CTF Supporter Survey Question #8:

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



Part VI. Conclusion

Manitoba is currently experiencing buoyant economic growth. One of the keys to sustained growth, long-term diversification, job creation, a more diffused tax burden, debt reduction, and the necessary tax revenues to fund growing unfunded liabilities in sectors such as health care, education, and pensions, is simpler, lower, and flatter taxation.

In our view, any move to simpler and flatter taxation must include lower taxation (with the understanding that debt reduction remains the priority for the province.) No individual taxpayer should pay more under any reforms since no taxpayer is currently under-taxed, especially in comparison with our major export market and closest competitors.

To ensure that any reforms do not increase taxes for any Manitobans, the overall rate of taxation must be lowered. This is not only fair; it is in the long-term interest of Manitoba taxpayers.