BACK TO BASICS: ABCDEFG for Budget 2003

Pre-Budget Submission
Before the House of Commons
Standing Committee
on Finance

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CANADIAN Taxpayers FEDERATION
Fighting for taxpayers

News Release

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Introduction

The 2003 budget, to be tabled by Finance Minister John Manley next February, will define the direction of federal fiscal policy well into the middle of the present decade. The Throne Speech delivered on September 30, 2002 clearly signalled the federal government's intention to pursue an extremely activist agenda in the 2nd session of the 37th Parliament of Canada.

The potential for the federal government to embark on mega-projects and mega-programs to the ultimate detriment of taxpayers looms large as a backdrop to the 2003 budget deliberations. Consider the following risks:

- An activist Throne Speech signalling the government's intention to embark on no less than 16 major initiatives;
- A retiring Prime Minister in search of a legacy who will never have to face Canadian voters again; and
- Aspirants for the leadership of the Liberal Party – and potential Prime Ministers – will be permitted to maintain their cabinet portfolios, placing billions of public dollars at risk for abuse in a partisan contest.

In our 1998 pre-budget (October 1997) submission to this committee, the Canadian Taxpayers Federation (CTF) identified three key pillars upon which the federal government should build its fiscal framework. These principles merit repetition and elaboration as they once again form the basis of this 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 these suggestions in the interests of our nation's short-term and long-term fiscal health.

To redefine the role of government, 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.

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. In fairness, these themes, the three "I's" if you will, 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.

Canada's Economic Prospects

The prospects for the Canadian economy have changed dramatically since the CTF's last appearance before the House of Commons Finance Committee in December 2001. The tragic events of September 11, 2001 further exacerbated and accelerated the U.S. led global economic downturn which was already taking place. The impact on Canada was succinctly noted in Budget 2001:

> This is affecting the Canadian economy, which has slowed considerably in response to weaker export demand from out largest trading partner. The Canadian economy contracted in the thrid quarter, and most private sector forecasters expect further weakness in the fourth quarter. They expect positive but modest growth in the first half of 2002, with growth picking up in the second half of the year.

While caution is still warranted given the enduring threat of international terrorism and the potential for a U.N. or U.S. led coalition attack on Iraq, Canada is poised to lead the G-7 in growth for 2002 and 2003. The following chart depicts the changes in Canada's economic prospects using data in Budget 2001 and the Economic and Fiscal Update (October 30, 2002).

	Budget 2001	Economic Update 2002	Change
Real GDP Growth (2002)	1.1 %	3.4 %	2.3 %
Real GDP Growth (2003)	3.9 %	3.5 %	- 0.4 %
Unemployment Rate (2002)	7.8 %	7.6 %	0.2 %
Unemployment Rate (2003)	7.3 %	7.1 %	0.2 %

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.

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.

2002 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?

Federal	• Increased	74 %
	• Decreased	7 %
	• Same	17 %
	• No answer	3 %
Provincial	• Increased	63 %
	• Decreased	15 %
	• Same	17 %
	• No answer	4 %
Municipal	• Increased	68 %
	• Decreased	4 %
	• Same	22 %
	• No answer	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. Just last month, during his appearance before the Finance Committee in Halifax, Minister Manley continued this misrepresentation:

> Canadians told us to reduce their tax burden. In October 2000 we delivered a five-year, $100-billion tax cut package for both personal and corporate taxes.

In reality, $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, if fully implemented, amounts to $47 billion.

Canadians' 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.

- According to the OECD – and despite welcome federal and provincial income tax reductions – Canadians continue to languish under the fifth highest personal income tax burden in the OECD and the highest burden amongst G-7 nations.
- Canada's total tax burden ranks 13th out of 30 OECD nations, and 3rd highest compared to our G-7 partners.
- According to the Fraser Institute, taxation by Canadian governments (at all levels) accounts for 48.6% of total household income. (Tax Freedom Day, 2002)
- According to Statistics Canada, the single largest household expenditure is personal income taxes. In 2000, an average of 22 cents of every household went towards personal income taxes, followed by 19 cents for shelter, 14 cents for transportation and 11 cents for food. (***The Daily***, December 12, 2001)
- According to David Perry of the Canadian Tax Foundation, Canada's overall tax burden is still "appreciably higher than our closest neighbour and biggest trading partner, the United States." (***National Post,*** September 4, 2002)

The Corporate Capital Tax

Canada's corporate capital tax – officially called the Corporation Capital Tax – is a tax levied by the federal government on corporations based on the amount of capital (debt and equity) they employ.

Two classes of capital taxes exist in Canada: capital taxes on financial institutions (and similar entities) and capital taxes levied on other corporate enterprises. This tax is neither efficient nor fair nor simple.

According to the Department of Finance, captial taxes cost the Canadian economy $7.00 for each dollar raisied. This is not efficient and extremely distortionary to the economy.

The delineation between financial and non-financial instutitions for the application of capital taxes fails the test of "horizontal fairness." As well, federal capital taxes "fail the test of fairness by placing a higher burden on industries whose activities are more capital intensive than others. Growth enhancing and innovative industries like software, biotechnology and communications are penalized by this tax more than other industries." (***Public Policy Sources***, No. 56, July 2002). This is patently unfair.

The Mintz technical committee on business taxation (1997) found that "captial taxes are becoming increasingly complex." Indeed, sophisticated calculations are required to determine the actual amount of net taxable capital. This is hardly simple.

Last year the House of Commons Finance Committee (Securing our Future, November 2001) presciently agreed with this analysis:

> Taxes on capital or the returns from capital tend to reduce the returns from investment and hence reduce the amount of investment that is undertaken. This means a smaller stock of capital as well as an older stock of capital. Both of these factors will lead to lower productivity and hence lower real wages. Canadians told us to reduce their tax burden. In October 2000 we delivered a five-year, $100-billion tax cut package for both personal and corporate taxes.

The federal government imposes a rate of 0.225% on a corporation's taxable capital over $10 million. With respect to financial institutions, firms with taxable capital between $200 million and $300 million pay a rate of 1%. For firms with $300 million or more pay a rate of 1.25%.

The political rhetoric that surrounded the imposition of the corporate capital tax in 1985 was couched in terms of fighting the deficit. Of course the deficit has been vanquished, yet this tax remains … increasing and expanding since its inception 17 years ago. Back in 1966, the Carter Commission on taxation noted that business taxes ultimately are passed onto consumers: the same also holds true for the corporate capital tax.

The federal capital tax yields $1.4 billion annualy for the federal government. Canada is one of only three OECD nations to apply a federal capital tax. A recent study by Ernst and Young (***National Post***, November 5, 2002) found that Canada's capital tax is equivalent to a sales tax of between 2% and 5% of investments. Satya Poddar, director of tax policy services for Ernst & Young stated:

> Canada remains an anomaly among industrialized countries for its application of a direct tax on investment – namely, specific taxes on capital used in this country by Canadian corporations.

RECOMMENDATION #2

THE CORPORATE CAPITAL TAX SHOULD BE COMPLETELY ELIMINATED IN THE NEXT FEDERAL BUDGET AS ITS CONTINUED EXISTENCE ACTS AS A DRAG ON PRODUCTIVITY, RETARDS INVESTMENT AND STIFLES GROWTH IN THOSE SECTORS THAT ARE:

- **CRUCIAL TO THE GOVERNMENT'S "INNOVATION AGENDA"; AND**
- **ESSENTIAL FOR CANADA'S LONG-TERM ECONOMIC PROSPERITY.**

Personal Income Taxes

2002 CTF Supporter Survey Questionnaire

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

Personal income tax	37 %
GST & sales taxes	33 %
Gas taxes	14 %
Payroll taxes & levies	7 %
Business / corporate income tax	4 %
Customs & excise taxes	1 %
Undecided / no answer	4 %

Personal income tax relief has consistently remained a top priority for CTF supporters over the past five years. In response, a consistent 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. The 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	Federal Personal Income Tax (FPIT) Revenues	Total Federal Revenues	FPIT as % of Federal Revenues	FPIT as a % of GDP
	($ millions)			
1993-1994	51,427	115,194	44.64 %	7.1 %
1994-1995	56,329	123,323	45.68 %	7.3 %
1995-1996	60,167	130,301	46.17 %	7.4 %
1996-1997	63,282	140,896	44.91 %	7.6 %
1997-1998	71,126	153,501	46.33 %	8.1 %
1998-1999	72,716	155,899	46.64 %	7.9 %
1999-2000	79,793	166,123	48.03 %	8.1 %
2000-2001	83,305	179,590	46.38 %	7.8 %
2001-2002	83,790	173,315	48.35 %	7.7 %
2002-2003	82,300	173,941	47.31 %	7.2 %
2003-2004	88,156	184,119	47.88 %	7.3 %
2004-2005	92,365	191,875	48.14 %	7.2 %
2005-2006	97,987	201,535	48.62 %	7.3 %
2006-2007	103,260	211,175	48.90 %	7.4 %
2007-2008	108,788	221,012	49.22 %	7.4 %

* All figures from 1993-1994 to 2001-2002 adapted from the ***Fiscal Reference Tables*** (October 2002). Values for 2002-2003 forward are taken from ***The Economic and Fiscal Update*** (October 30, 2002).

The Basic Personal Exemption

Presently the federal basic personal exemption (BPE) for the 2002 taxation year is $7,634. This amount is then multiplied by the lowest tax rate of 16% to yield a non-refundable tax credit of $1,221.44. 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. 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 $6.75/hour wage (plus 4% vacation pay) and a 40 hour work week of 52 weeks yields a gross salary of $14,601.60. Canadian tax policy – courtesy of the arbitrary and punitive BPE – starts to tax this minimum wage individual at 52% of annual income earned. Both the United States and United Kingdom allow their low-wage employees to earn more before taxes are applied.

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 GST credits, CCTB payments and other income redistribution schemes.

Recommendation #3

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;**

2003	**$ 8,861**
2004	**$ 10,088**
2005	**$ 12,258**
2006	**$ 13,645**
2007	**$ 15,000**

Adopting this schedule would be fair to all taxpayers by providing signficant tax relief (potentially $4.2 billion in 2003) across all income brackets. In addition, the government's Throne Speech initiative to further combat child poverty would be achieved by providing sustained tax relief for low-income parents as opposed to dependency fostering income redistribution efforts and increased program expenditures.

Principles of Taxation

In his recent appearance (October 30, 2002) before the House of Commons Finance Committee, John 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. 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 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 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 programs and services, not through the tax system.
- 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 five 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 #4

THE FEDERAL GOVERNMENT SHOULD END ALL CORPORATE WELFARE PROGRAMS INCLUDING TPC AND ALL REGIONAL DEVELOPMENT AGENCIES. IT SHOULD INSTEAD FOCUS ON EXTENDING ITS FIVE YEAR BUSINESS TAX REDUCTION PLAN FOR A FURTHER THREE YEARS TO LOWER THE GENERAL CORPORATE TAX RATE FROM 21% IN 2004 TO 18% IN 2007.

The National Debt

The federal government continues to boast of its economic performance over the past half-decade and indeed, 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.

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 – including bracket creep (not ended until Budget 2000), tax policy overhaul, low-inflation targets and free-trade. In fact, the Government of Canada started running operating surpluses – where tax revenue collections exceeded program spending – in fiscal 1986-1987.

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

It should also be noted that the government's record of five consecutive balanced/surplus budgets combined with $46.7 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 stands at $40.2 billion (***Public Accounts 2002***).

While the government's strategy of reducing the debt-to-GDP ratio is laudable, it has basically "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 22 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 $536.5 billion debt – still $28 billion higher than when the federal Liberals took office in 1993 – is to shamefully continue to perpetuate the fiscal crime of intergenerational tax evasion against future generations of taxpayers.

The following table depicts the government's actual debt reduction results versus a what-if scenario assuming a "legislated 5%" of all federal revenues being applied to annual debt retirement payments.

Fiscal Year	Federal Debt Payment	Net Federal Debt	Debt to GDP ratio	What-if 5% Debt Payment	What-if Federal Debt **	What-if Debt to GDP ratio
($ millions)						
1993-1994	0	508,210	69.9	5,799	502,411	69.1
1994-1995	0	545,672	70.8	6,166	533,707	69.2
1995-1996	0	574,289	70.9	6,515	555,809	68.6
1996-1997	0	583,186	69.7	7,045	557,661	66.6
1997-1998	3,817	579,369	65.6	7,675	546,169	61.8
1998-1999	3,112	576,257	63.0	7,794	538,375	58.9
1999-2000	12,713	563,544	57.5	8,306	530,069	54.1
2000-2001	18,148	545,396	51.2	8,980	521,089	48.9
2001-2002	8,907	536,489	49.1	8,666	512,423	46.9
Total:	46,697			66,946		

* All figures from 1993-1994 to 2001-2002 adapted from the ***Fiscal Reference Tables*** (October 2002).
** What-if scenario only accounts for 5% revenue debt retirement and does not even include surpluses achieved from 1997-1998 forward.

The analysis above shows that applying a fixed minimum amount to debt reduction each year is a more beneficial strategy to reduce our net federal debt in a faster manner along with the added benefit of more quickly reducing annual debt interest payments. If the federal government were to mandate a minimum 5% annual debt retirement (based on total budgetary revenues forecast) schedule, a further $59.183 billion could be chopped off the national debt over the coming seven years.

Fiscal Year	Forecast Revenues	5% Debt Payment
($ millions)		
2002-2003	173,941	8,697
2003-2004	184,119	9,206
2004-2005	191,875	9,594
2005-2006	201,535	10,077
2006-2007	211,175	10,559
2007-2008	221,012	11,050
	Total:	59,183

RECOMMENDATION #5

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

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**

* 2003 CPP rate of 4.5% is known, EI rate of 2.10% is projected based on government target to bring EI rate to 2.00% by 2004.

As of January 1, 2003, Canadians will pay (projected) $89.60 in new payroll taxes. While EI rates will likely drop by 10 cents per $100 of insurable earnings, CPP premiums will jump by 25. As compared to 11 years ago, Canadian workers will be paying $817.20 more in combined payroll taxes while their employers will 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.

The Carter Commission on Taxation – Putting Family First

The 1966 Carter Commission on Taxation was the last Royal Commission devoted solely to examining and recommending improvements to the Canadian tax system. One of its key recommendations was to make the "family" the base unit of taxation.

Over the past few years Canadian families – specifically those with single income earners and the other partner choosing to stay home and raise children – have raised empirically valid observations about the personal income tax system discriminating against single income families in favour of dual income earners.

RECOMMENDATION #7

THE FEDERAL GOVERNMENT SHOULD WORK TOWARD CHANGING THE INCOME TAX SYSTEM TO ENSURE THAT IT IS NEUTRAL IN ITS TREATMENT OF SINGLE INCOME EARNER FAMILIES AS OPPOSED TO DUAL INCOME EARNER FAMILIES.

Gas Taxes for Cities – The *Municipal Roadway Trust*

The future of Canada's urban regions has become a topical public policy issues at all levels 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 of the key areas 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 $4.8 billion in gas and excise tax revenues but only returned a paltry 2.4% or $113 million in the form of transfers for provincial roadway development. Even if all infrastructure funding mechanisms are added, the federal government still returns less than 20% of its tax haul from Canadian motorists at the pumps.

2002 CTF Supporter Survey Questionnaire	
Question: new infrastructure should be financed through tolls rather than general government revenues.	
Agree	25 %
Disagree	57 %
Undecided / no answer	18 %

In its 4th annual Gas Tax Honesty Day report (May 16, 2002), the CTF proposed a ***Municipal Roadway Trust*** program 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.

2002 CTF Supporter Survey Questionnaire	
Question: Cities should be granted new taxing authority.	
Agree	19 %
Disagree	57 %
Undecided / no answer	24 %

Accountability would be maintained with annual reports from municipalities, verifiable by the federal Auditor General. This model 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	**19.8**	**191.4**	**68.5**	**334.9**	**40.5**	**12.0**	**77.9**	**68.7**	**118.5**	**16.6**

RECOMMENDATION #8

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.

Conclusion – Fiscal Impacts

Implementing the aforementioned eight 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 – Elimination of the Corporate Capital tax	$ 1.4 billion
• Rec. #3 – Raising the BPE	4.2 billion
• Rec. #5 – 5% Legislated Debt Reduction Schedule	8.7 billion
• Rec. #6 – Elimination of EI / CPP employer overpayments	0.75 billion
• Rec. #8 – CTF Municipal Roadway Trust	2.2 billion
Total:	**$17.25 B**

Expenditure reductions:

• Rec. #4 – Elimination of industrial subsidy schemes	$ 4.0 billion
Balance:	**$13.25 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 $13.26 billion. Combined with the planning surplus of $3 billion projected for 2002-2003, it is evident that with strong fiscal leadership, all recommendations contained in this submission can be implemented within the current fiscal framework.

Budget 2003 represents yet another crossroads for Canada. The 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.

Finally, the government should not embark on ambitious and activist schemes which would necessitate higer taxes. Instead, it should 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.

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 Corporate Capital Tax should be completely eliminated in the next federal budget as its continued existence acts as a drag on productivity, retards investment and stifles growth in those sectors that are: crucial to the government's "Innovation Agenda"; and essential for Canada's long-term economic prosperity.

3) 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 … 2003 to $8,861; 2004 to $10,088; 2005 to $12,258; 2006 to $13,645; and 2008 to $15,000.

4) The Federal Government should end all Corporate Welfare programs including TPC and all Regional Development Agencies. It should instead focus on extending its five year business tax reduction plan for a further three years to lower the general corporate tax rate from 21% in 2004 to 18% in 2007.

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

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 work toward changing the income tax system to ensure that it is neutral in its treatment of single income earner families as opposed to dual income earner families.

8) 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.