

# Saskatchewan: Moving from have-not to go-to



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## Recommendations for the 2003 Saskatchewan Provincial Budget

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## **About the Canadian Taxpayers Federation**

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit, non-partisan, education and advocacy organization. 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. In twelve years it has grown to become a organization with more than 60,000 supporters nation-wide.

The CTF's three-fold mission statement is:

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

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues 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 and publications to advocate the common interest of taxpayers. The CTF's official publication, *The Taxpayer* magazine, is published six times a year. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions are not tax deductible.

The head office of the Canadian Taxpayers Federation is located in Regina at:

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## Recommendations for the 2003 Saskatchewan Provincial Budget

- 1) We recommend the Government conduct a comprehensive review of the property and school tax system to make it more flexible and fairer for all taxpayers.
- 2) We recommend that the government reduce school taxes by 40 per cent (\$260 million) over the next four years, beginning with a 10 per cent (\$65 million) reduction this year.
- 3) We recommend that the government increase the basic personal exemption to \$10,000 by 2005.
- 4) Reduce the budgets of all government departments (other than priority areas of Health, Education, Highways and Agriculture) by 7 per cent to achieve savings of at least \$92 million to offset proposed tax reductions. We recommend that the government direct each department to conduct a complete review of all their existing programs in order to prioritize and reduce expenditures and improve program delivery.
- 5) The government should sell the necessary Crown assets and open up ownership of the five commercial Crowns to private shareholders, in order to produce interest cost savings of at least 120 million over the next two years.
- 6) We recommend an end to direct investment by the Government of Saskatchewan in private business. Furthermore, a *Business Subsidy Elimination Act*, should be passed in order to prevent any further direct or indirect government financing of private enterprise.
- 7) We recommend a full review of government financial reporting practices, and the adoption of generally accepted accounting principles so that government finances are open and accessible to the general public, and that the public is updated on a quarterly basis on the status of all of government finances.

## Introduction: The need for change

In the fall of 2002 the province launched the Wide Open Future campaign – a multi-million dollar ad campaign aimed at selling the virtues of Saskatchewan to ex-patriates who have left for more fertile economic soil. Although it is too early to definitively deem the campaign a failure, it's possible the campaign did more to raise awareness of Saskatchewan's shortcomings than our strengths.

Despite the fact that the campaign focuses on people still living in Saskatchewan (most of the ads aren't shown outside the province) word of the campaign spread quickly. Our Premier was warmly received in Toronto, Calgary and Edmonton. Various media reported on the initiative.

### **The need for change: Results from a CTF supporter survey**

Based on your own experiences over the last few years, how do you currently feel about Saskatchewan's future?

Optimistic: 24%  
Pessimistic: 66%

The record suggests that some of our best and brightest have left for economic reasons – there simply are greater opportunities in other provinces. The tax system in Saskatchewan – the high income taxes, punitive property and school taxes, and capital tax on investment income – is likely a major underlying cause. The individuals who leave tend to be your small business owners, independent contractors and trades people.

According to the most recent census figures, 25,000 people left Saskatchewan between 1996 and 2001 for regions with more productive economies. With this disastrous trend in mind, we recommend that fundamental economic reform become the signature of the Saskatchewan government. It won't be easy. Reversal of out-migration requires the political will to affect change, the courage to admit shortcomings, and the integrity to be open and accountable to taxpayers.

We need more than an advertising campaign -- we need fundamental change. The recommendations in this report are aimed at changing Saskatchewan from a 'have-not' to a 'go-to' province. Implement some real economic reforms, and profound change will occur in our province. And we're not alone in this pursuit: similar changes have occurred in Ontario, Ireland and Denmark. The similarities are remarkable, and provide a beacon of hope for young people looking for a brighter future.

## School and property taxes

The biggest single issue for Saskatchewan taxpayers are property taxes (school and municipal). 8,852 Saskatchewan residents have signed a petition calling for reductions to school taxes and a full review of property taxes.

The reason for this groundswell of discontent is that tax on property is inherently unfair. As any farmer will tell you, ownership of property is not a measure of wealth. There are many who point out that people can be “house rich” while being “cash poor”, or vice versa. Moreover, what does property value or square footage of ones home have to do with use of municipal services?

### **CTF supporter survey says address property taxes**

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

Property/School tax: 46%  
Personal income tax: 19%  
Provincial sales tax: 14%  
Gasoline fuel tax: 11%

The bottom line is, if we want to keep farmers on the land, if we want to unshackle entrepreneurs and encourage wealth creation, if we want to put money back in the wallets of working families, then we must lower property and school taxes.

This report marks the third consecutive year the CTF has called on the province to launch a comprehensive review of property and school taxes similar to the recent examination of the province’s income tax system. We need to look at the way property and school taxes are calculated to make the system fairer and more sensitive to income or use of services. The future vitality of Saskatchewan depends on meaningful action on property taxes.

There are better ways. The government could consider replacing property and school taxes with some form of municipal income tax or a fee-for-service arrangement. Another possible approach would be a consumption tax on goods and services. A combination of these suggestions (always keeping in mind that a simple tax system is usually the most effective) might be the fairest way to fund municipalities and schools.

For years the provincial government has taken credit for reducing the provincial tax burden. However, provincial off-loading of costs and responsibilities to municipalities have sent property taxes soaring over the last 15 years. Property taxes have risen by 73 per cent over since 1985 – much faster growth than inflation.

Saskatchewan has the highest property taxes in the country relative to property value. The fact also remains that rural areas have been disproportionately affected in the midst of a farm income crisis.

School taxes on property in Saskatchewan account for 58 per cent of school funding. The next heaviest school tax burden is in Manitoba where 34 per cent of education is paid for by property taxes. Other tax revenues fund education in PEI, Newfoundland and New Brunswick.

Property taxes are not fair, they are not based on ability pay, and they present an unreasonable burden on struggling farmers and homeowners with fixed incomes. Unfortunately, there is still upward pressure on property taxes. Municipalities are calling on the province to reinstate \$15 million in funding for roads and infrastructure. The province should make every effort to accommodate this request, but not without first making future revenue sharing arrangements legally dedicated to schools, roads and infrastructure.

1. We recommend the Government conduct a comprehensive review of the property and school tax system to make it more flexible and fairer for all taxpayers.
2. We recommend that the government reduce school taxes by 40 per cent (\$260 million) over the next four years, beginning with a 10 per cent (\$65 million) reduction this year.

## Personal income tax

It's true that Saskatchewan is not Alberta. Another simple truth is that Alberta is our neighbour, and our biggest competitor for business and workers. With that mind, we feel it is important that Saskatchewan take immediate steps to reduce the disparity in tax burden between Saskatchewan and Alberta. Increasing the basic personal exemption (BPE) is a good place to start.

The BPE should be increased over three years from the current level of \$8,000 to \$10,000 and indexed to inflation. This would put our province in second place behind Alberta (\$13,525). This is a simple and easily understood tax reform that would remove as many as 25,000 low income and entry level workers from paying provincial income taxes all together. It would also leave an addition \$220 in the wallets of each and every taxpayer in the province – money that would be put back into the economy through increased consumption of goods and services.

Phasing in the BPE increase would save taxpayers \$126 million per year after the third and final year of implementation. Government savings would be achieved through a rollback in spending in all government departments (except for health, education, infrastructure and agriculture); the sale of commercial crown assets and a complete freeze on new business subsidies.

We also anticipate that increasing the BPE will be partially offset, in the long-term, by the stimulating effect of tax cuts. While it is hard to quantify and give the credit solely to tax reductions, the province's rising income tax revenue figures highlight the positive effects tax cuts have on the economy. The province's mid-year financial report forecasts personal income tax revenues to be \$236 million higher than forecast in budget 2002.

A similar effect has been documented in governments around the world as they pursue more competitive tax regimes.

<b>3. Increase the basic personal exemption to \$10,000</b>
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## Government spending

The 2002 Report from the Provincial Auditor indicates that provincial spending has increased by 30 per cent since 1997, while the population of Saskatchewan has declined. In each of the last three budgets, the CTF warned the provincial government's unfocused, undisciplined approach to spending was endangering its modest tax relief and debt reduction commitments. That is certainly now the case.

The provincial auditor confirmed in the summer of 2002 that the province's accumulated debt had increased by \$483 million. With the continuing farm crisis and an unchanged tax-and-spend agenda, it's very likely the province will see its debt grow by an even greater margin this year.

That means the cost of servicing the public debt will consume an even great portion of Saskatchewan revenue. In his Report the Provincial Auditor sent an ominous message:

*The government's accumulated deficit of \$8.7 billion is large for a population of one million people and recent experience shows that the Saskatchewan economy remains vulnerable to changes in commodity prices, interest rates, and the weather. Therefore, the Government must carefully manage its future revenues and expenditures. A continued downturn in Saskatchewan's economy would require the Government to make difficult decisions on revenue raising and spending.*

Even after reducing government spending by \$92 million to offset tax reductions, total spending is still higher than in 1999 when Saskatchewan had a larger population.

4. Reduce the budgets of all government departments (other than priority areas of Health, Education, Highways and Agriculture) by 7 per cent to achieve savings of at least \$92 million to offset proposed tax reductions. We recommend that the government direct each department to conduct a complete review of all their existing programs in order to prioritize and reduce expenditures and improve program delivery.



### Finding \$92 million to offset tax reductions

Department	Current spending (thousands)	7 percent reduction (thousands)
Centenary Fund	\$24,500	\$1,715
Corrections	\$116,292	\$8,140
Culture, Youth and Recreation	\$42,358	\$2,965
Environment	\$180,482	\$12,633
Industry and Resources	\$93,062	\$6,514
Justice	\$185,216	\$12,965
Labour	\$13,817	\$967
Sask water/Property Management Corporation	\$24,483	\$1714
Social Services	\$606,718	\$42,470
Legislative Assembly	\$27,318	\$1912
<b>Total</b>	<b>\$1,314,246</b>	<b>\$91,988</b>

## **Crown corporations**

The provincial government must find a way to cut property and school taxes in the upcoming budget, while preserving and enhancing funding for quality education. Fortunately, Saskatchewan has a potential source of school funding. We believe to pay increased operating costs for the K-12 school system, boost revenue sharing with municipalities, increase the basic personal exemption, and reduce school and property taxes, the government should open up crowns to private shareholders (even as minority shareholders), and use the proceeds to reduce the province's debt.

Money that would have gone to interest payments would instead go to into a legislated fund that would support tax reductions.

The Saskatchewan government still owns \$6-7 billion in assets. The value of the five major commercial Crowns (Saskatchewan Government Insurance, Sasktel, SaskEnergy, Saskatchewan Transportation Company, and SaskPower) alone is estimated to be between \$2 to \$3 billion after their debts are considered. Enough Crown assets should be sold and shares issued to private partners and shareholders to produce \$120 million in interest cost savings to help offset increases in the basic personal exemption and a decrease in school taxes.

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| <p>5. The government should sell the necessary Crown assets and open up ownership of the five commercial Crowns to private shareholders, in order to produce interest cost savings of at least 120 million over the next two years.</p> |
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## Business subsidies

The market should make market decisions, not politicians and bureaucrats. The function of the private capital market is to direct investments to projects, industries or firms that offer the best and most secure rate of return. To try and mimic this judgment through government intervention is fundamentally flawed. Government employees are insulated from negative economic repercussions of bad investments, and therefore are more likely to take unnecessary risks. Time and again provincial governments across Canada have waded into the business of being in business, and have lost countless billions in taxpayer dollars. It's time for this practice to end in Saskatchewan, and we should never look back.

Alberta and British Columbia already have such legislation. In Alberta's case, this initiative has contributed to an increasingly diverse economy and internationally competitive tax system.

<p>6. We recommend an end to direct investment by the Government of Saskatchewan in private business. Furthermore, a <i>Business Subsidy Elimination Act</i>, should be passed in order to prevent any further direct or indirect government financing of private enterprise.</p>
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## Budgets and reporting

Each year the Provincial Auditor calls on the province to improve public accountability, yet Saskatchewan continues to lag behind other provinces in this regard. As such a large share of government expenditures occur in Crown corporations, the government should immediately adopt reporting practices that show all of government finances, not just the General Revenue Fund. The current quarterly financial updates serve to obscure the true spending and revenue situation, rather than giving the public insight into government operations.

The need for reformed public reporting process is best illustrated by the 2001 budget year. The province claimed publicly a “balanced budget,” but when the Provincial Auditor released his report last summer, he revealed a \$483 million deficit.

Most provincial governments long ago moved to budgeting and reporting models that include all of government. Until a legitimate reporting model is adopted in Saskatchewan, public confidence in their government will continue to decline. The only Canadian provinces currently operating without overall financial plans and complete reporting practices are Saskatchewan, Prince Edward Island and Newfoundland and Labrador.

Perhaps the best reason to adopt new reporting practices is that the added accountability and transparency creates incentive for better management of public resources. The time has come for Saskatchewan to join the rest of Canada in being open and honest with taxpayers.

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| <p>7. We recommend a full review of government financial reporting practices, and the adoption of generally accepted accounting principles so government finances are open and accessible to the general public, and that the public is updated on a quarterly basis on the status of all of government finances.</p> |
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