2013 PRE-BUDGET SUBMISSION

Submission by the Canadian Taxpayers Federation

To the House of Commons Standing Finance Committee

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Canadian Taxpayers Federation

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded 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 more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, Facebook, YouTube and the CTF blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* e-mails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationwide.

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.

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 to the CTF are not tax deductible.

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Summary of Recommendations

- The new debt added since 2007-08 will cost $80 billion in interest payments by 2018-19. The government must balance the budget a year early in 2014-15 as promised in the 2011 election and save on these wasteful interest payments.
- Allow Canadians to build a retirement savings fund by keeping their and their employers' Employment Insurance contributions in a personal EI Savings Account.
- There is a 12 per cent wage gap between government employees and the private sector. The feds must move to bring government pay and benefits down to private sector levels.
- The government should stop spending billions on corporate welfare by cancelling departmental pork-barrelling programs. Ottawa must also permanently close down all the regional development agencies.
- Equalization payments should be phased out over five years. Disincentives in place in Equalization for provinces to develop their natural resources should be adopted immediately.
- The federal government should get out of provincial jurisdiction by cancelling the Canada Health Transfer and transfer the tax points to the provinces.
- The government should continue to work towards implementing income splitting and doubling the maximum allowable contributions for TFSAs as promised in the 2011 election. The feds must also avoid the temptation to create new government programs or implement risky tax schemes ahead of the 2015 election.

Introduction

Federal Debt added since 2008 to Cost Taxpayers $80 billion by 2018-19

> "We will reduce the cost of government through finding efficiencies through a thorough strategic and operating expense review. This will allow us to eliminate the deficit in 2014, a full year ahead of schedule."
>
> -Stephen Harper
> April 8th 2011 Campaign Rally

After five years of profligate spending, the Conservative government of Stephen Harper did a decent job keeping a lid on spending in 2012-13. However, more will need to be done if the government is going to keep the promise they made in the 2011 election. While the media seem to forget about this promise, instead focusing on Finance Jim Flaherty's promise of a balanced budget in 2015, we at the Canadian Taxpayers Federation have not.

We expect the budget to be balanced by the end of the next fiscal year (2013-14) with a surplus in 2014-15, and we know that it can easily be done.

Why is it so imperative to balance the budget? The growing annual interest payments on the debt are one very easy to understand reason.

What is the cost of all the debt added between 2007-08 and 2015-16? CTF calculations show that interest payments on this new debt will cost taxpayers $80 billion by 2018-19.[1] This number will be far higher by the time the federal debt is projected to be retired in 2038.[2]

While the government has kept a lid on program spending in this past year, there are other areas of concern. The CTF has laid out a roadmap of six key reforms that will help the government reach budgetary balance by 2014-15, as promised in the 2011 federal election.

[1] Interest payments on debt from 2007-08 to 2012-13 taken from 2013 Fiscal Reference Tables. Interest payments on debt from 2013-14 to 2018-19 taken from the November 2013 Update of Economic and Fiscal Projections. $80B figure reached by taken new debt added as a proportion of total debt, multiplied by annual public debt charges.

[2] Update of Economic and Fiscal Projects. Nov. 12, 2013.

Stop the $20 Billion a Year EI Rip-Off

The Problem

On the surface, the Employment Insurance system provides a safety net for Canadian workers. In reality it is a patchwork of complex rules that treats workers in drastically different terms depending on where they live or their occupation.

Few dispute the need for a program that protects Canadians in the event of job loss. But a program that treats workers differently is contrary to the values of fairness and equity that Canadians should expect from their governments.

While the case can be made – and the CTF does – that business, income taxes and tariffs are too high in Canada, at least taxpayers can see tangible benefits for their tax dollars in infrastructure spending, national defence and healthcare. The difference with EI is that the vast majority of Canadians see no benefit to this tax in any given year, while a minority of the population collects from the program on an annual basis.

Considering that EI is a program that less than 10 per cent of Canadians even use in any given year,[3] the sheer size of the program, $19 billion in 2011-12, is alarming when compared with the size of more vital government programs. It is larger or similar in size to our defence spending ($20 billion), the Department of Health ($3.8 billion), Environment Canada ($1 billion), all children's benefits ($12.7 billion) and Public Safety, the RCMP and the Canadian Border Services Agency combined ($5.2 billion).[4]

The EI program divides Canada into 58 different Economic Regions. Each region has different requirements to qualify for EI benefits, with higher unemployment regions offering greater benefits for longer periods of time. No other industrialized country has such a system.[5]

This has led to a perverse system where the federal government is incentivizing staying at home and not working while local firms face major job shortages. In fact, EI is not just a source of temporary of assistance, but a major source of income in some regions. In both rural Newfoundland and Labrador and PEI, EI is equal to over 15 per cent of employment income.[6]

Meanwhile, between 1981 and 2009, western provinces and Ontario have paid $113 billion more in EI taxes than they have received back in premiums, with $75 billion coming from Ontario. $38 billion of this has been transferred to Atlantic Canada and

[3] 2012 Labour Force, Statistics Canada. 2012 EI Monitoring and Assessment Report.
[4] 2012 Public Accounts.
[5] Medow, Jon. (2011). Hidden Regional Differentiation: EI and Unequal Federal Support for Low Income Workers. *The Mowat Institute.*
[6] Statistics Canada Cansim Table 111-025.

Quebec, with the rest vanishing into the massive EI bureaucracy or being raided by the federal government and transferred to general revenues.[7]

A Solution for Taxpayers: the Employment Insurance Savings Account

The Canadian Taxpayers Federation recommends that working Canadians be entitled to keep the $4,277 currently taxed off their paycheques every year.

Canadian workers could instead direct the money to their own Employment Insurance Savings Account (EISA). Workers would become eligible for an EISA at 16 years of age or after their first job, whichever comes last. If they, their spouse or a family member lost their job, they could draw down the savings account. The account could also be used for maternity leave, long-term sickness and a leave absence from work to care for a sick family member and other social benefits which are currently part of the EI program. The fishing benefit would be abolished, with workers in that industry subject to the same rules as other workers.

A dual income household where both earners make over $47,400 who first started contributing to their EISA at 25 years old would save $1,065,000 by retirement at age 65, assuming EI contributions rise at the rate of inflation and investment returns reflect the 10 year average of the S&P/TSX (Cdn) Index.[8]

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[7] Statistics Canada Provincial and Territorial Accounts, Catalogue 13-018-XWe.
[8] Assuming EI employer and employee contributions rise at the 10 year average inflation rate of 2.04 per cent and the investments yield a return equal to the 10 year average S&P/TSX (Cdn) Index, which is 6.6 per cent.

Reform the Pay and Benefits of Federal Government Employees

The Problem

In 2012-13, the federal government spent $46.1 billion on payroll. This means that 39 cents of every dollar for Direct Program Expenses went to employee compensation.[9] If the Harper government is serious about balancing the budget in 2014, it can no longer ignore one of the largest cost drivers.

The Parliamentary Budget Officer (PBO) estimates that costs per fulltime employee (FTE) are a staggering $114,100. That figure is expected to grow to $132,400 per FTE in 2014-15.[10]

A study by the Fraser Institute notes that government employees (on average, over all levels of government) enjoy a 12 per cent wage premium over private sector premiums.[11] Most shocking is that this premium does not even cover employment benefits, where government employees enjoy their largest advantage over the private sector.

Are taxpayers getting any value for these highly priced Ottawa bureaucrats? That is difficult to measure, when they are so rarely at work. In 2011-12, federal employees took an average of 17.9 sick days. Veterans Affairs Canada led the way with a staggering 24.2 average sick days per worker.[12] Meanwhile, Canadians not working in government took only 6.9 days on average.[13]

The gap between government employees and everyone else grows when you start to look at retirement benefits.

Over 88 per cent of government employees are covered by a registered pension plan, compared to just 24 per cent in the private sector. Ninety-four per cent of government employees who have pensions are members of a defined-benefit pension plan, while just 52 per cent in the private sector with pensions enjoy this privilege.

Even more troubling is the looming pension shortfall. The CD Howe Institute pegged the unfunded liability of the pension for federal employees at $267 billion.[14]

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[9] 2012-13 Annual Financial Report of the Government of Canada.
[10] Office of the Parliamentary Budget Officer. "The Fiscal Impact of Federal Personnel Expenses: Trends and Developments." Dec 11, 2012.
[11] Palacios, Milagros and Jason Clemens. "Comparing Public and Private Sector Compensation in Canada." *The Fraser Institute*. Apr, 2013.
[12] "Average Paid and Unpaid Sick Leave Usage by Organization." *Treasury Board Secretariat*. Web. Oct 12, 2013.
[13] 2013 Statistics Canada Force Survey.
[14] Robson, William B.P. "Ottawa's Pension Abyss: The Rapid Hidden Growth of Federal-Employee Retirement Liabilities." *C.D. Howe Institute*. Dec 2012.

Eventually, the cash will run out in this Ponzi scheme and taxpayers will be on the hook for a massive bailout.

Government employees retire earlier (60 years old) than the private sector (62.4 years old).[15] They also enjoy greater job security. In 2008-09, only 183 employees were fired from the entire federal government work force. This was the highest dismissal rate in the last 10 years.[16]

A Solution for Taxpayers: Tough Bargaining to Bring Wages and Benefits in Line with the Private Sector

The federal government must not cave into never-ending demands for greater perks and benefits for government employees. Treasury Board officials should be mandated to enter all collective bargaining talks with the goal of closing the gap between the public and private sectors.

Managers should also be empowered to reward and punish poorly performing employees. Tough collective bargaining rules see promotions based on seniority and make it nearly impossible to fire poor performers. The involuntary turnover rate in Canada was 3.7 per cent in 2012-13.[17] In 2008-09, only 183 people were dismissed from the Core Public Administration – 224,000 people – of the federal government, or .08 per cent. Empowering managers will foster a workplace of teamwork, innovation and achievement.

[15] Palacios, Milagros and Jason Clemens. "Comparing Public and Private Sector Compensation in Canada." *The Fraser Institute*. Apr, 2013.
[16] Government of Canada. *PSMAC Subcommittee on People Resourcing.* Oct 2010.
[17] "HR and Compensation." *The Conference Board of Canada*. Web. Nov 19, 2013.

Get Government Out of the Business of Business

Problem

Corporate welfare is the practice of the government taking money from taxpayers and interfering in the marketplace by picking winners and losers, through subsidies and interest free loans to businesses, which are often never repaid.

Who benefits from these handouts? Government will often give special favours to "strategic" industries that are of "national importance." Unfortunately, gaining the ever-valuable "strategic" label often depends more on a company's well-connected lobbyists than their actual value to the Canadian economy.

Who loses? First and foremost, Canadian taxpayers, who see their hard-earned tax dollars directly transferred to the bank accounts of big businesses like Pratt & Whitney ($3.28 billion in handouts since 1970) and Bombardier ($1.14 billion in handouts since 1966).[18] But businesses that are not lucky – or well connected enough – to dip into the government slush fund see their competitors gain an unfair competitive disadvantage.

Opposition to business handouts has enjoyed support from across the political divide. The term corporate welfare was first widely used in Canada by then-NDP leader David Lewis during the 1972 federal election. And before becoming prime minister, Stephen Harper was a steadfast opponent of corporate welfare.[19]

Unfortunately, government handouts to businesses are actually increasing. A study by the Institute for Research on Public Policy states that heavy-handed industrial policy is back and on the rise in Canada.[20]

What does corporate welfare actually cost taxpayers?

Between 1994 and 2007, Canada's federal, provincial and municipal governments spent $202 billion on business subsidies. In 2007 alone, these handouts cost taxpayers $1,244 *each*.[21]

Several federal departments dole out cash to favoured businesses – namely Industry Canada and the several regional development agencies. Industry alone spent $13.7 billion between 1982 and 2012. $6 billion of this was handed out without any

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[18] Milke, Mark. "Industry Canada handed out $22.1B in business subsidies, aka "corporate welfare," since 1961. *The Fraser Institute.* Jul 23, 2013.

[19] Hopper, Tristin. "Canadian aerospace firms benefit most from $22B worth of 'corporate welfare' handed out since 1961: report." *National Post.* Jul 22, 2013.

[20] Ciuriak, Dan and John M. Curtis. "The Resurgence of Industrial Policy and What It Means for Canada." *Institute for Research on Public Policy.* Jun 2013.

[21] "Corporate welfare breaks the $200 billion mark: An update on 13 years of business subsidies in Canada." *The Fraser Institute.* Dec 2009.

expectation of the lucky beneficiary ever repaying taxpayers. The rest was on "repayable" loans.[22]

These loans often mean that the company receiving a taxpayer top-up need only pay the money back if they meet certain conditions – sales targets or a certain profit level for instance. If the business doesn't meet whatever arbitrary target they've negotiated with the government, they simply don't have to repay the "loan." The taxpayer, the only player with skin in the game, picks up the tab. Predictably, only 28.8 per cent of the "repayable" loans were ever paid back.[23]

Canada's regional economic development agencies have equally unimpressive records at making sound economic investments. Since its inception, the Atlantic Canada Opportunities Agency's (ACOA) two main corporate welfare programs, the Atlantic Innovative Fund and Business Development Program have given away $356 million in "provisionally repayable contributions." According to a 2012 internal audit of ACOA, only $32 million – or 9 per cent – has been paid back. Not surprisingly, bureaucrats have an abysmal record when they try to interfere in the private economy.[24]

From failed hemp plants to grants to develop "non-exploding sausages," tales of governments wasting taxpayers' dollars on failed business ventures are never ending.[25]

A Solution for Taxpayers: Cut Corporate Welfare, then Cut Taxes

Fortunately, the solution for ending the corporate welfare boondoggle is simple, cancel the programs and close every regional economic development agency whose sole purpose is to dole out taxpayer cash to businesses.

This would save up to $6 billion per year.[26]

Between 2005 and 2009, the federal governments spent $24 billion on subsidies and capital transfers to businesses.[27] This only counts money that was directly transferred to businesses, and not the money to operate the massive bureaucracies responsible for these programs.

Programs that should be axed include the Strategic Aerospace and Defence Initiative ($163m budget), the Automotive Innovation Fund ($67m), the Bombardier CSeries

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[22] Milke, Mark. "Corporate Welfare Bargains at Industry Canada." *The Fraser Institute.* Sept 2012.
[23] Milke. Corporate Welfare Bargains.
[24] Atlantic Canada Opportunities Agency. "Audit of the Management of Provisionally Repayable Contributions." Web. Oct 18, 2013.
[25] "Teddy Awards Backgrounder." *Canadian Taxpayers Federation*. Web. Oct 12, 2013.
[26] Statistics Canada Provincial and Territorial Accounts, Catalogue 13-018-XWe.
[27] StatsCan Catalogue 13-018-XWe.

Program ($64), the Northern Ontario development program ($34m) and the Knowledge Infrastructure Program ($183m) to name a few.

Each region of the country has a regional development agency in charge of transferring taxpayer money to lucky businesses. The government should move to permanently close the Atlantic Canada Opportunities Agency ($376m), the Economic Development Agency of Canada for the Regions of Quebec ($295m), the Federal Economic Development Agency for Southern Ontario ($241m), the Canadian Northern Economic Development Agency ($52m) and Western Economic Diversification ($128m) for a total savings of just over $1 billion.

The money saved should be dedicated either to personal income tax cuts or paying down the federal debt.

End the Provinces' Equalization Addiction

The Problem

No program exemplifies the perverse system of disincentives the federal government gives to spendthrift provincial administrations than Equalization. Ottawa regularly rewards poorly-run, spend-happy, debt-ridden provincial governments with billions in Equalization money.

Between 2006-07 and 2012-13, the federal government has pulled $118 billion from the productive economy to bailout select provincial governments. Annual Equalization payments have increased 43 per cent over that time.[28]

Equalization payments are measured by comparing the "fiscal capacity" of provincial governments – their ability to raise tax revenue – with the average of the other ten provinces. The federal government will top up provincial coffers with Equalization cash until they meet the national average.[29]

Since 2005-06, all provinces except Alberta have collected Equalization at some point. Since 2008-09, Ontario, Quebec and the Maritime provinces have collected from the program regularly. In 2013-14, Ottawa will spend $16.1 billion on Equalization, with $7.8 billion going to Quebec alone.[30]

Equalization takes the old adage of "giving a drunk a drink" and brings it to the national level, with the federal government as the enabler and the "have not" provinces as out of control drinkers. But it's taxpayers who are left with the double hangover of increased taxes and massive government debts.

"Being poor can pay off for a change," wrote the *Halifax Chronicle Herald* in reference to Nova Scotia's Equalization windfall.[31] While we disagree with their assessment of the Nova Scotia government as "poor" – think your rich friend who always has a new luxury car and fancy lake house but is up to their eyeballs in credit card debt – the statement is telling. There are indeed major incentives for provincial governments to remain dependent on federal Equalization bailouts.

While the program's purpose is to ensure that Canadians have equal access to public services regardless of where they live, Equalization has actually lead to "over-equalizing," where "have-not" provinces end up with superior public services paid for by Equalization cash. Consider the secretary making $35,000 a year in Saskatoon whose federal tax dollars are funding the $7 a day daycare for the children of two doctors in Montreal. Or how about couple in Calgary with a student in University

[28] 2013 Fiscal Reference Tables.
[29] Department of Finance Canada. "Equalization Program." Web. Nov 14th, 2013.
[30] Finance. "Equalization."
[31] McLeod, Paul. "Atlantic Accord renewal appears set." *The Chronicle Heard.* Web. Nov 2, 2013.

having their taxes pay to subsidize the artificially cheap $2,653 annual tuition fees of Quebec students.[32]

As the CD Howe Institute's Finn Poschman said, "In a nutshell, poor people in richer provinces commonly subsidize the living standard of people who are better off but happen to live in poorer provinces."[33]

Anecdotes aside, the evidence is clear that the "have-not" provinces consistently have better public services than the "haves" – thanks in large part to "have" province money. A Fraser Institute study has found that the six "have-not" provinces outperform the four "have" provinces in 13 of 19 measurements, including the per capita number of family doctors and university tuition fees. The "have" provinces led in only three categories, and there were three ties.[34]

Not only does Equalization allow these provinces to fund better services than other provinces, but it also removes any incentive to increase economic prosperity through the development of natural resources and prudently managing their finances. Quebec's PQ government has said no to tapping into the province's vast shale gas reserves, with Premier Pauline Marois explaining that revenues from new economic activity will simply mean smaller Equalization handouts.[35]

A Solution for Taxpayers: Scrap Equalization

The Government of Canada must take a hardline in ongoing negotiations and phase out Equalization payments over five years, with the last payments occurring in 2017-18. The federal government must also move immediately to remove non-renewable natural resource revenue from the equation that calculates a province's fiscal capacity. Removing these revenues from the equation will remove the disincentive that stops Quebec from developing its shale gas.

In its place should be a program that matches provincial debt repayment, dollar for dollar in "have-not" provinces. By reducing debt interest payments, these provinces will free up money that otherwise would get wasted. This money can be used to cut taxes or on priority spending, all better places for tax dollars than interest payments.

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[32] The Daily. "Average undergraduate tuition fees for Canadian full-time students, by province." *Statistics Canada.* Web. Oct 29, 2013.

[33] Poschmann, Finn. "Where the Money Goes: The Distribution of Taxes and Benefits in Canada." *C.D. Howe Institute*. Apr 16, 1998.

[34] Milke, Mark. "Super-sized fiscal federalism." *Fraser Institute.* Nov 2013.

[35] Van Praet, Nicolas and Jameson Berkow. "Quebec moves on shale-gas ban as industry attacks plan as short-sighted." *National Post.* Sept 20, 2012.

Reforming the Canada Health Transfer: Restoring Power to Provincial Governments

The Problem

Nearly all countries in the developed world are faced with a looming healthcare funding shortfall. Increasing life expectancy coupled with falling birthrates and rising costs will see healthcare taking an ever larger percentage of provincial budgets. In 2012, healthcare spending equalled 11.6 per cent of the entire national economy.[36]

A large portion of provincial healthcare budgets are funded from the Canada Health Transfer (CHT). When the Conservative government took office in 2006-07, these provincial transfer payments equalled $20 billion. The transfer payments will reach $32 billion in 2014-15, an increase of 60 per cent in less than a decade.[37]

These massive increases followed the recommendations of the Romanow Commission, which advocated that the federal government could "buy change" when it came to healthcare performance. But as Jeffrey Simpson explains in his book *Chronic Condition*, when large amounts of other people's money are put up for grabs with little to no accountability, the most organized elements will seize whatever they can while the consumer – the taxpayer – loses out.

In this case, unions benefited from the increased spending.[38] Between 2000 and 2009, nurses saw their wages rise twice as fast as the average wage of all workers, while doctors also saw huge gains, topping out at a 9.6 per cent increase in 2008-09. This all came with no discernible increase in productivity.[39]

While universal healthcare is generally considered the third rail of Canadian politics – a privilege that is beyond debate for fear of political repercussions – it is incumbent upon federal lawmakers to evaluate if Canadian taxpayers are getting value for their dollar.

Among OECD countries, Canada rank 26th in access to physicians, 16th in access to nurses and 24th in hospital beds.[40] Regarding wait times, a study by the Commonwealth Fund found that Canada ranked dead last among seven countries in

[36] "Canada's healthcare spending growth slows." Canadian Institute for Health Information. Web. Nov 18, 2013.
[37] 2013 Fiscal Reference Tables.
[38] Simpson, Jeffrey. *Chronic Condition*. Toronto: Penguin Group, 2012. Print.
[39] Simpson. *Chronic Condition*.
[40] Clemens, Jason. "Applying the welfare reform lessons of the 1990s to healthcare today." *Macdonald-Laurier Institute.* Oct 2011.

five categories and second last in the other two.[41] Among nations with universal health programs, Canada's was the most expensive.[42]

A Solution for Taxpayers: Leave healthcare to the provinces

While the obvious answer to the poor performance of provincial governments with the healthcare cash transferred from the federal government may be to move to a "string attached" approach where provinces must meet certain guidelines to qualify for funding, the opposite is true. The current system has failed precisely because of federal involvement.

Economist Jason Clemens references the welfare reform of the 1990s as the roadmap for success in healthcare. With the end of Canada Assistance Plan and federal meddling, provinces were free to pursue individual policy reforms and act as laboratories for public policy experiments. Welfare beneficiaries ultimately dropped from a high 3.1 million in 1994 to 1.7 million in 2009.

This is why the CTF is proposing taking the next step in the devolution of healthcare spending with the elimination of the Canada Health Transfer. When healthcare is being funded by different levels of government it is impossible for voters to accurately judge performance levels and hold governments to account. How can a voter judge if their current tax levels are appropriate when it is unclear who is funding any given program?

Restoring healthcare as the sole domain of the provinces would empower taxpayers and allow them to finally hold provincial governments to account. The money saved from the elimination of the CHT would also fund broad based federal income tax cuts, naturally giving the room needed to the provinces to compensate for the decrease in healthcare funding through higher taxes. In other words, better to transfer tax points than tax dollars.

[41] Davis, Karen and Cathy Schoen and Kristof Stremikis. "Mirror, Mirror on the Wall: How the Performance of the U.S. Healthcare System Compares Internationally." *The Commonwealth Fund.* Oct 2010.
[42] Clemens, Jason. "Applying the welfare reform lessons of the 1990s to healthcare today." *Macdonald-Laurier Institute.* Oct 2011.

A Roadmap for Tax Relief in the Short Term

Balance the Budget to Make Good on 2011 Election Promises

As noted earlier, the debt added since 2007-08 will cost taxpayers $80 billion in interest payments by 2018-19. Cutting these wasteful interest payments is one benefit to getting to surplus. The other benefit is to attain the fiscal capacity to provide tax relief to hardworking Canadians.

While reaching surplus should remain the number one priority of the government, it should not come at the expense of taxpayers through higher taxes. And let's not forget that taxpayers have already been hit with a massive 25 per cent increase in EI taxes since 2008[43] and a $330 million tariff increase in the 2013 budget.[44] In this pre-budget submission, the CTF has outlined several possible reforms to reduce spending and reach surplus early.

In the 2011 federal election, Prime Minister Harper promised to allow income splitting for families and double the maximum annual contribution to TFSAs with one caveat; the reforms would only take effect when the government climbed its way out of budget deficits. Delivering these long awaited tax cuts is just another reason to reach surplus by 2014 – which will also fulfill an important 2011 election pledge.

Resist Calls for New Tax Increases and Risky Programs

As the 2015 federal election nears, growing calls for new national programs that will undoubtedly solve every problem known to man will be made by political parties, interest groups and unions. The government must avoid the temptation to bribe Canadians with their own money through new, national programs while also rejecting any new taxes and not hiking EI premiums.

Ominously, there have been growing calls for a "fat tax" that proponents claim would reduce obesity. The Ontario Medical Association called for such a tax in 2012[45] while NDP Health Critic Libby Davies has a private members bill which aims to regulate salty foods.[46] Not only does social engineering like this infantilize Canadians who are perfectly capable of deciding what they eat for themselves – they also don't work.

[43] Canada Revenue Agency EI premium rates and maximums.
[44] Strauss, Marina and Greg Keenan. "Retailers warn of price hikes as Ottawa budget boosts tariffs." *The Globe and Mail.* Web. Nov 12, 2013.
[45] News release. "Ontario's Doctors Call for Urgent Action to Combat Obesity Epidemic." *Ontario Medical Association*. Web. Oct 23, 2012.
[46] "NDP health critic tables bill for national sodium strategy." CTVnews.ca. Web. Nov 16, 2013.

Denmark initiated the world's first fat tax in 2011, angering both businesses and consumers, while leading to record levels of cross border shopping as Danes simply crossed over into Germany to buy cheaper groceries.[47]

So too should calls to hike CPP premiums and payouts be rejected. Without question Canadians are not saving enough for retirement. Fixing public-service pensions so that massive unfunded liabilities do not continue to strip money away from Canadians without pensions would be a start. So too would letting Canadians keep their EI contributions, such that any money not used during times of unemployment would go towards their retirement savings. Lastly, increasing the TFSA limits will also help Canadians save for retirement. Confiscating even more money off of Canadians' paycheques in order to fund an even larger defined-benefit CPP system is not the proper solution.

[47] "Denmark's food taxes: A fat chance." *The Economist.* Web. Nov 16, 2013.