A Taxpayers Budget

Canadian Taxpayers Federation Submission to the Select Standing Committee on Finance and Government Services

October 2006

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 Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 61,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Provincial offices 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 flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. 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 to the CTF are not tax deductible.

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

Suite 105, 438 Victoria Avenue East
Regina, Saskatchewan
S4N 0N7

Telephone: 306.352.7199
Facsimile: 306.352.7203
E-mail: canadian@taxpayer.com
Web Site: www.taxpayer.com

Table of Contents

Subject	**Page**
Key Recommendations	6
Financial Reporting	7
Debt	9
Tax Review	12
Tax Reform	14
Property Tax Cap	16
Officers of the Legislature	18
First Nations Relationship Fund	21
2010 Olympics	22
Government Advertising	24
Private Medical Insurance	26
ICBC	28

Overview

Not long ago more people were leaving the province than arriving. A decade of tax and spend policies hostile to business and investment pushed skilled labour, small business and young, educated workers out of the province in search of opportunity. Now, people are once again flocking to British Columbia and the opportunities seem endless.

The economic prosperity we enjoy today, however, did not spontaneously emerge. Nor can it be entirely attributed to the volatile natural resource sector. Policy decisions, re-defining government priorities and cleaning up the fiscal mess of the 1990s steered the province back on a track of growth and sustainability. In 2001, the New Era Liberals reigned in government spending, streamlined regulation and eased the tax burden for all British Columbians. These decisions are largely driving today's economic good times.

The question we should be asking now is: how do we sustain this growth, remain competitive and ensure all British Columbians reap the benefits of our healthy economy? Simply put: tax relief. Broad base tax relief not only encourages greater productivity, retail spending and investment but it has also proven to be a boon for provincial coffers. The results of the 2001/2 income tax cuts are clear: within four years of the 25 per cent income tax cut government taxation revenues still managed to balloon by 20 per cent.

In order for British Columbia to remain competitive and sustain our economic growth, taxes not only need to be reduced but simplified as well. Central to this year's recommendations is a call for a comprehensive review of corporate and personal income taxes. Streamlining and simplifying the tax code not only reduces administrative costs but also enhances compliance and competitiveness. British Columbia has five different marginal rates of taxation, countless credits, deductions and exemptions. Our closest neighbour and competitor, Alberta, has a single tax rate, a generous basic exemption and of course no debt.

The government should establish a tax review committee with a mandate to simplify, lower and flatten the corporate and personal income tax system. The CTF would recommend three steps: eliminate the top two marginal income tax rates, increase the basic personal exemption to $15,000 and eliminate all deductions, exemptions and credits.

These reforms would be the initial phase of moving British Columbia toward a single tax rate system. Further, the capital tax on financial institutions pegs the province into an uncompetitive position in a sector that is worth almost 3 per cent of British Columbia's Gross Domestic Product (GDP) and employs over 25,000 people. Capital taxes were eliminated for general corporations for good reason as they are disincentives for growth and investment. The tax review committee should also be mandated to develop a phase out schedule for capital taxes on financial institutions.

British Columbia's housing market has been substantially impacted from the booming economy. Housing prices and assessments have continued to increase at double digit figures for most of the province. Presumably, homeowners would be happy to see such improvements in their equity over such a short period of time. However, this is not the case. Because municipalities use fair market valuations to set property taxes, the unintended consequence leaves homeowners wanting their asset to remain stagnate.

Municipalities are not adequately adjusting their mill rates or tax rates to neutralize the impact of a healthy real estate market. The result: property tax bills have increased massively in almost every municipality in British Columbia. As homeowners brace each and every year for the unpredictable expense of property taxes, services provided by municipalities remain unchanged.

Another key recommendation in this year's budget submission is for the government to implement a cap on property tax bills across the province to the consumer price index (CPI). Increases beyond the CPI would require voter approval. It is time to reign in the power of local politicians and to implement a more sustainable and transparent budgeting process. It is time to provide certainty for taxpayers; rather than tax collectors.

Health care remains at the top of the list when considering budget pressures for both the provincial and federal governments. The system, as currently designed, is not only unsustainable financially but also unnecessarily restrictive on patient choice. The recently launched health care conversation has a lot of promise and the CTF hopes the dialogue is open and honest without the usual demagogic belief in the status quo.

It is undeniable that the health care debate was redefined when the Supreme Court of Canada struck down a Quebec prohibition on the provision and sale of private medical insurance in the 2004 *Chaoulli* case. British Columbia has a similar prohibition and the Supreme Court's ruling should be the main point of reference for the current conversation on health care. As such, the CTF is strongly recommending that the prohibition on private medical insurance be repealed as one needed avenue of reform in health care. It is morally reprehensible that families can buy medical insurance for their pets but parents can't do the same for their children.

The budget consultation theme, "what choices would you make" provides its own answer: leave the money in the pockets of taxpayers; allow them to make their own choices. Systemic surpluses are not an indication that government isn't spending enough but rather that government is taxing too much. The priority of the provincial government should be reforming the income tax system and easing the burden of taxpayers.

Key Recommendations

- The CTF recommends the government adopt a legislated debt retirement plan that would mandate, at minimum, an annual *net debt reduction* equivalent to 2.5 % own source revenue.

- The CTF recommends the government establish a tax review committee with a mandate to simplify, lower and flatten personal and corporate income taxes.

- The CTF recommends British Columbia: eliminate the top two income tax brackets, bump the basic personal amount up to $15,000 and eliminate all income tax credits, exemptions, refunds and deductions.

- The CTF recommends the government implement a cap on property tax bills across the province and limit annual increases to the consumer price index (CPI). Increases beyond the CPI must receive voter approval.

- The CTF recommends the government approve all budgetary increases requested by the offices of the Auditor General, Ombudsman and the Information and Privacy Commissioner. The CTF further recommends the purview of the auditor general be expanded to municipal governments and the office of the ombudsman be provided adequate resources to handle complaints against local governments.

- The CTF recommends the government re-affirm its commitment to limit 2010 Olympic funding to $620 million. The CTF further recommends that the provincial government members of the Vancouver Olympic Organizing Committee (VANOC)'s board of directors report annually to the legislature on the management and fiscal practices of the committee including its quarterly financial reports and they be subject to review by the auditor general.

- The CTF recommends the government enact an "Olympic Transparency Plan" to track all related and/or trademarked 2010 Olympic spending in addition to previously committed capital spending. The CTF also recommends that all capital projects be subject to a rigorous and competitive tendering process, and where possible pursue public-private partnerships.

- The CTF recommends the government repeal section 45 (1) of *The Medicare Protection Act* that prohibits the purchase and sale of private medical insurance.

Fiscal Forecasting, Budget and Three Year Reviews

The CTF recommends the government conduct an audit at the end of each three year fiscal cycle and provide explanations for forecast deviances.

The Canadian Taxpayers Federation (CTF) commends the government for fully implementing the Generally Accepted Accounting Principles (GAAP) for the Summary Financial Statements and for continuing efforts to improve forecasting and financial reporting. An important aspect of financial forecasting is the government's three year fiscal plan. Each budget includes a three year fiscal plan which provides taxpayers with a bird's eye view of the government's future goals and projects. However, all too often, the government is too eager to look forward without reference to where they've come.

Each successive budget contains a rolling forward update of the three year forecast, but to date there has been no accounting for the massive variations between the initial spending and revenue projections with the actual revenue and expenses incurred. It is just as important for government to look back on its track record and ability to stay the course as it is to provide future fiscal goals.

For example, the 2005 budget estimated this year's (2007) revenue to be $33.4 billion but the recently released first quarterly report estimates revenue to hit $36.3 billion. The fiscal plan was off by almost $3 billion. These variations aren't necessarily a failure of government forecasting. For example, natural resource prices are beyond government control. However, it is incumbent upon the government to provide an explanation and analysis of its forecasting difficulties.

Fiscal Plan vs. Actual

	Revenue ($ millions)	Expense ($millions)
Budget 2005 Plan for 2006/7	33,497	32,847
1st Quarterly Report 2006/7	36,386	34,346
Variation	2,889	1,499

On the other hand, government *does* have control and responsibility over expenditures. It is expected that expenditure forecasting would be more in line with actual expenses incurred. According to the expense forecasts for this year (2007) included in the budget 2005 documents, total expenses were estimated to be $32.8 billion; whereas the recently released first quarterly report for this year expects actual expenses will hit $34.3 billion, a difference of $1.5 billion. Government should provide a detailed and understandable explanation of the wild variation between its forecast and actual spending.

At the same time, budget 2005 forecast total debt to hit $37.3 billion by the end of March 2006. The public accounts recorded the total provincial debt as $34.3 billion roughly $3 billion less than what was forecast a year earlier. There may be some hidden good news developments between the three year plan and actual accounting, in any event it is up to the government to provide a full explanation for all variances.

An audit at the end of each three year fiscal cycle would explain budget pressures, unforeseen circumstances and contingency spending not originally included in forecasts. The audit should further present figures with consistent accounting principles, ensuring comparisons are equivalent.

Debt

The CTF recommends the government adopt a legislated debt retirement plan that would mandate, at minimum, an annual *net debt reduction* equivalent to 2.5 % own source revenue.

The government should be commended for maintaining debt management as a priority. However, while a falling debt-to-(GDP) ratio is good news for creditors, it is less so for taxpayers. Despite record debt payments for the past two years, debt interest continues to cost taxpayers $5.5 million each day. Those tax dollars aren't available for roads, hospitals or tax relief.

What does a burgeoning debt load mean for a government trying to manage competing priorities? It means fewer resources, fewer choices. It also means higher tax bills for the next generation of taxpayers who will have to pay more down the road just to receive the same services that are provided today.

The CTF recommends the government implement a legislated debt retirement plan that would see, at minimum, *an annual net debt reduction equivalent to 2.5 per cent own source revenue.* Therefore, the government would pay the annual debt servicing costs, plus a further reduction of an amount equivalent to 2.5 per cent of own source revenue. According to calculations from the 2006 public accounts 2.5 per cent own source revenue works out to $754 million.

According to the CTF's supporter survey in British Columbia, 96% of respondents agree that the province should legislate a debt retirement plan. CTF supporters further underscore debt repayment as a priority when asked about annual surpluses. A full 74% felt the number one priority for surpluses should be debt repayment.

CTF Supporter Survey

Should BC follow Alberta's example with a legislated debt retirement plan?

Agree:	96%
Disagree	1%
Undecided:	3%

Last year's finance committee's consultation report noted:

> Another recommendation we heard was that government should commit to implement a long term debt management strategy, with the ultimate goal of British Columbia retiring its taxpayer supported debt. Some of the online submissions indicated disappointment that the government seems reluctant to put into

> place a debt management strategy. (Report on the 2006 Budget Consultation Process, page 30).

The government often notes its improving debt to gross domestic product (GDP) ratio as a measure of its ability to manage debt. The recently released first quarterly report notes the total debt to GDP ratio will fall to 20.3 per cent this year from 20.4 per cent in 2005/6. However, debt to GDP ratios are only indicative of the government's ability to manage the debt, not reduce the debt.

Indeed, the auditor general has noted that total debt has increased by $5.8 billion, or 17 per cent over the past nine years, 1997-2005. Looking at the government's liability trends, the auditor notes that "the general program obligations…have to be paid for by using financial assets available to government general programs. Those include the net assets of the enterprises [crown corporations]. Any shortfall, or 'net liabilities,' will have to be borne by future taxpayers. Net liabilities provide an important measure of the affordability of government's spending and investment activities," (Monitoring the Government's Finances, November 2005, pp.34).

The government's net liabilities have increased 34 per cent between 1997 and 2005. Just nine years ago, net liabilities were $19.6 billion but jumped to $26.3 billion by 2005. Over the same period, per capita net liabilities, the amount that each citizen would need to pay in order to discharge the government's past borrowing and spending commitments, has also increased 24 per cent.

We need not look far in order to see the benefits of being debt free. Alberta is the first province to be debt free. But let us not forget, Alberta's fiscal fortunes weren't simply extracted from the ground. The province put debt retirement into legislation, assuring future taxpayers more value for their money and more choices for government.

In 1994, our enviable neighbour didn't look so great with a cumulative debt of $22.7 billion. British Columbia's debt load wasn't far off at $25.6 billion. An initial period of restrained spending in the early 1990s coupled with discipline and exceeding payment targets, Alberta announced that it had retired its debt this year. British Columbia on the other hand, has failed to successfully implement any kind of a debt management plan, let alone a debt retirement schedule. Consequently, the province's debt now stands at a staggering $35.4 billion. If Alberta did not maintain a strategy of spending restraint and sustained debt payments, it would be sitting with a $65 billion debt today and would have squandered over $1.4 billion more on annual debt servicing costs. In fact, before Alberta adopted a debt retirement plan, the per capita debt load hovered around $8,400.

Linking annual net debt reduction to own source revenue allows for payment amounts to reflect slow downs in the economy without hamstringing government's ability to respond to unforeseen expenditures or revenue shortfalls. The CTF's proposal is manageable, sustainable and necessary for British Columbia to demonstrate fiscal foresight.

Financial & Economic Review 2005: Debt Summary

Table A2.24 Historical Provincial Debt Summary [1]

	Taxpayer-Supported Debt									
Year	Provincial Government Direct Operating	Education Facilities Capital Financing	Health Facilities Capital Financing	Highways, Ferries and Public Transit	Other [2]	Total Taxpayer-Supported Debt	Self-Supported Debt [3]	Total Provincial Debt	Total Debt as a Per Cent of GDP	Taxpayer-Supported Debt as a Per Cent of GDP
					(millions)				(per cent)	
1969/70	-	338	42	142	100	622	1,661	2,283	24.7	6.7
1970/71	-	362	64	172	99	697	1,808	2,505	25.6	7.1
1971/72	-	380	85	233	95	793	1,948	2,741	24.9	7.2
1972/73	-	408	105	288	87	888	2,062	2,950	23.8	7.2
1973/74	-	425	117	340	145	1,027	2,228	3,255	21.1	6.7
1974/75	-	485	133	386	149	1,153	2,650	3,803	21.3	6.5
1975/76	-	557	178	544	145	1,424	3,144	4,568	23.1	7.2
1976/77	261	658	236	649	188	1,992	3,787	5,779	24.4	8.4
1977/78	261	710	291	656	215	2,133	4,464	6,597	24.9	8.1
1978/79	261	778	334	653	91	2,117	4,838	6,955	23.3	7.1
1979/80	235	836	401	730	195	2,397	5,704	8,101	23.3	6.9
1980/81	209	919	461	729	270	2,588	5,956	8,544	21.6	6.5
1981/82	183	1,067	561	844	291	2,946	7,227	10,173	22.7	6.6
1982/83	883	1,204	660	1,024	894	4,665	7,692	12,357	27.4	10.4
1983/84	1,596	1,321	712	1,392	1,174	6,195	8,440	14,635	30.8	13.0
1984/85	2,476	1,308	717	691	1,276	6,468	9,082	15,550	31.2	13.0
1985/86	3,197	1,276	680	1,034	1,376	7,563	8,990	16,553	30.9	14.1
1986/87	4,802	1,268	681	1,097	812	8,660	8,485	17,145	30.3	15.3
1987/88	5,017	1,278	716	1,192	660	8,863	8,149	17,012	27.2	14.2
1988/89	4,919	1,322	763	1,213	842	9,059	7,396	16,455	23.7	13.1
1989/90	4,209	1,367	837	1,244	1,262	8,919	7,340	16,259	21.5	11.8
1990/91	4,726	1,565	959	1,287	1,281	9,818	7,444	17,262	21.8	12.4
1991/92	6,611	1,939	1,040	1,527	1,431	12,548	7,493	20,041	24.5	15.3
1992/93	8,969	2,426	1,141	1,719	1,641	15,896	7,526	23,422	26.8	18.2
1993/94	10,257	3,054	1,181	1,862	1,627	17,981	7,946	25,927	27.6	19.1
1994/95	10,181	3,631	1,318	2,158	1,749	19,037	8,013	27,050	26.9	18.9
1995/96	10,237	3,990	1,399	2,598	1,695	19,919	8,847	28,766	27.2	18.9
1996/97	11,030	4,230	1,431	3,144	1,440	21,275	8,096	29,371	27.0	19.5
1997/98	11,488	4,352	1,417	3,463	1,431	22,151	8,204	30,355	26.5	19.4
Information from 1998/99 onwards has been restated to include SUCH sector fiscal data.										
1998/99	12,056	4,799	1,406	3,641	1,330	23,232	8,910	32,142	27.8	20.1
1999/2000	13,675	5,184	1,584	3,487	1,276	25,206	9,232	34,438	28.5	20.8
2000/01	12,007	5,458	1,926	4,191	1,527	25,109	8,679	33,788	25.7	19.1
2001/02	13,779	5,843	2,075	4,639	1,198	27,534	8,548	36,082	26.9	20.5
2002/03	15,447	6,124	2,146	4,786	922	29,425	7,452	36,877	26.7	21.3
2003/04	15,694	6,521	2,215	4,880	718	30,028	7,739	37,767	26.0	20.6
2004/05	14,481	6,809	2,112	4,593	662	28,657	7,169	35,826	22.9	18.3

1 Debt is after deduction of sinking funds, unamortized discounts and unrealized foreign exchange gains/(losses), and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an accounts payable. Figures for 1998/99 onwards have been restated to conform with the presentation used for 2005 and to reflect changes in underlying data.

2 Includes BC Buildings, BC Housing Management Commission, Provincial Rental Housing Corporation and other taxpayer-supported Crown corporations and loan guarantee provisions.

3 Includes commercial Crown corporations and agencies and, beginning in 1995/96, funds held under the province's warehouse borrowing program.

Tax Review

The CTF recommends the government establish a tax review committee with a mandate to simplify, lower and flatten the corporate and personal income tax system.

One of the five great goals set out by the Campbell government is "to create more jobs per capita than anywhere else in Canada." A great goal indeed; but one that is difficult to achieve and even more difficult to sustain. Job creation is contingent upon an economy that is attractive for investment and fosters growth. The tax system, its rate, compliance costs, suitability, is certainly one of the most important factors that can encourage and discourage investment, spending, growth and consequently job creation.

In 1998 the Canadian Taxpayers Federation (CTF) presented a submission, 'Simpler, Lower and Flatter' to the Alberta Tax Review Committee. The CTF's sweeping recommendations were grounded in the premise that the 'the tax system should calculate and collect taxes in the fairest, most efficient way possible for the operation of government. The tax system should not be used as a means to other political or social ends.' British Columbia would be wise to heed the same advice.

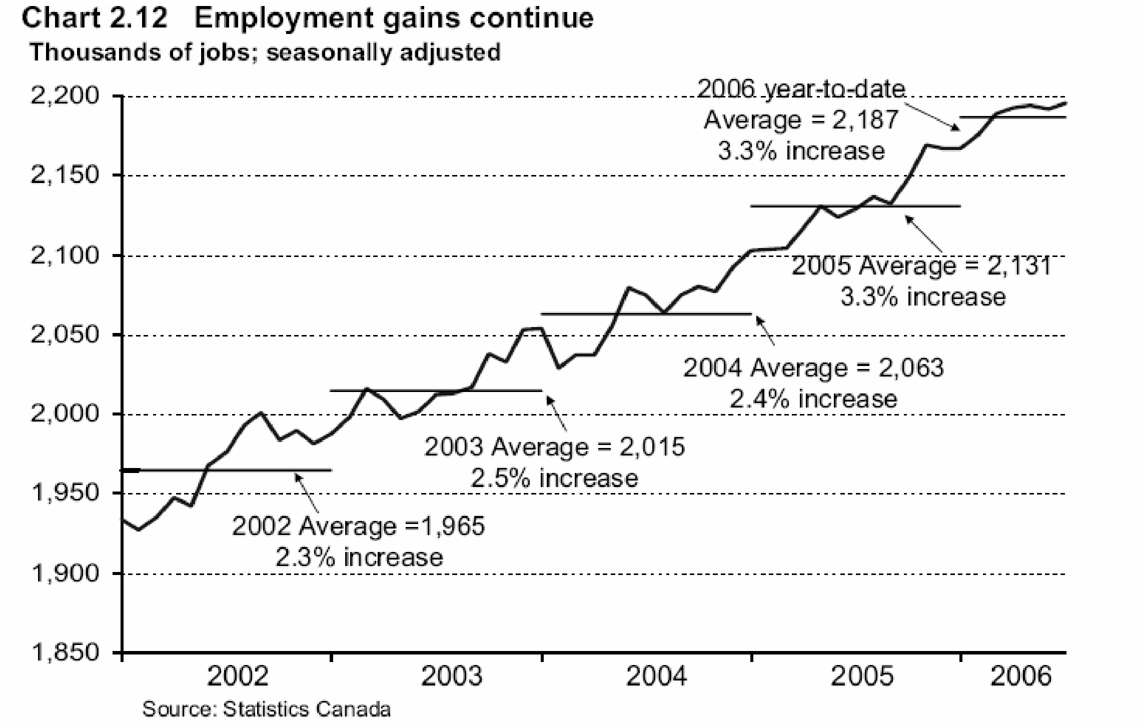
The three key recommendations of that submission included: Alberta calculate provincial personal income tax as a percentage of income (the existing rates were set as a percentage of federal tax), a generous Basic Personal Exemption (BPE) be set and that a uniform low rate of tax with a minimum of credits be established. Within a year, the CTF's recommendations were in large part adopted. At the time, Alberta was enjoying an economic boon and the government recognized the opportunity to maintain and accelerate growth by overhauling the income tax system.

By all accounts, Alberta's 10% single rate has been a roaring success. Alberta's economic growth has continually outpaced every other province and government spending has doubled in nine years! But Alberta isn't the first jurisdiction to reap the benefits of being simple. A flat tax revolution is unfolding in Eastern Europe and around the globe.

It started in Estonia in 1994 with a flat tax for business and personal income of 26 per cent with no deductions. Estonia's record economic growth and surging government revenues led their Baltic neighbours to follow suit, with Latvia, Lithuania, Russia, Slovakia, Poland, Hungary, Georgia and the Ukraine adopting their own version of a flat tax system. The idea is gaining credence around the world and Estonia's growing coffers expect to continue with a further tax reduction to 20 per cent in 2007.

British Columbia has extraordinary opportunity and economic potential but our complicated tax system is standing in the way. Although we have witnessed great strides in economic growth over the past few years, we still have some distance to go before dismantling the disaster of the 1990s. Furthermore, after several years of poor performance, British Columbia's economy has a lot of catching up to do. BC's gross domestic product per capita continues to lag behind Canada's and ranks fifth amongst the provinces, behind Alberta, Saskatchewan, Newfoundland and Labrador (Auditor General Report "Monitoring the government's finances" November 2005). British Columbia should be looking at its tax policies not only to catch up but to gain a competitive edge. Simplifying, lowering and flattening the tax system will remove disincentives to work, save, invest as well as decrease tax avoidance and administrative costs.

Maintaining British Columbia's current rate of employment gains requires decisive and proactive action by the provincial government. The chart below demonstrates the dramatic impact reduced taxes and streamlined regulation has had on employment gains.



The CTF recommends the government mandate a review of the existing personal income tax system as well as corporate and business taxes with a mandate to simplify, lower and flatten the tax code. The CTF further recommends the committee propose a phase-out of capital taxes on financial institutions.

Results from this year's CTF supporter survey on the issue of a tax review committee are almost unanimous with 99 per cent of decided respondents favouring such a committee. No other issue presented to CTF supporters has yielded such a strong level of support.

CTF Supporter Survey
Do you support of a tax review committee with a mandate to simplify, lower and flatten income taxes in British Columbia?
Yes 99%
No 1%

Tax Reform

Simplify, lower and flatten: A three pronged starter plan for British Columbia: eliminate the top two income tax brackets, bump the basic personal amount up to $15,000 and eliminate all income tax credits, exemptions, refunds and deductions**.**

At the heart of competition is the drive to do better, aim higher and seek opportunities to improve. The government should be applauded for its ambitious income tax reduction in 2002. But maintaining a competitive tax regime means more than just one "kick at the can."

The government has repeatedly recognized that businesses need to be able to compete globally and attract world class talent in order to thrive and compete. The government has an obligation to ensure its tax policies foster an environment for wealth creation. Punitive tax loads drive out talent, innovation, investment, jobs and ultimately shrink the tax base.

If the CTF's previous recommendation to create a tax review committee is implemented, the first phase of reforms for personal income taxes should be: increase the basic personal exemption to $15,000, eliminate all income tax credits and phase out the top two income tax rates. The CTF's three-pronged, reform proposal will simplify the tax code, increase productivity, investment, wages, jobs and reduce compliance and administration costs.

Government needs to collect revenue for the services it provides. However, it can do so in a far less distorting manner than the current system. Complexity creates unnecessary loopholes, higher compliance costs and tax avoidance while high rates discourage saving and investment. There is clear evidence here and internationally that simplifying and flattening the tax code can spur economic growth and benefit government coffers. endlessly. Right now, BC is one of two provinces that has five different income tax brackets, a stingy basic exemption and countless credits, deductions, exemptions and refunds that make no sense and favour one small political constituency at a time.

Personal Income Tax

Taxable Income	Tax Rate
$0 to $33,755	6.05%
$33,755 to $67,511	9.15%
$67,511 to $77,511	11.7%
$77,511 to $94,121	13.7%
Over $94,121	14.7%

CTF tax recommendations would result in an estimated $930 million in forgone revenue. Increasing the basic personal amount to $15,000 would mean an extra $383 for each taxpayer and would remove over 223,400 low income earners from British Columbia's tax rolls. Increasing the basic personal exemption would do far more to help low income earners than the government's current tax credit plan which is clawed backed as income rises; discouraging productivity and the drive to earn more. Also, streamlining the number of income tax brackets by removing the top two rates will increase investment, savings, jobs and wages. Ultimately, the goal is to move to single low rate of taxation with a generous and fully indexed basic personal exemption. In order to remain competitive, BC needs to do more than stay out of the red and ride the wave of high resources prices, the government needs to adopt a forward looking plan to put BC ahead of the curve.

Year	BPE (From $8,676 to $15,000) $-million	Foregone Revenue by eliminating 13.7% Threshold $-million	Foregone Revenue by eliminating 14.7% Threshold $-million	Total in Foregone Revenue $-million
2006/07	658.078*	81.567	190.131	929.7

*Would remove 223,400 British Columbians from tax rolls

The finance committee's 2006 budget consultation report also noted that "one clear message we heard throughout our budget consultations was the need for British Columbia to remain fiscally and economically competitive; not only with our neighbours to the east and south, but also on an international scale. We heard that in order to attract investment in different sectors and different regions of the province, it is important for government to monitor taxation levels to ensure competitiveness with other jurisdictions," (pp.9-10).

It is crucial for the government to seize this moment to build on the roots of its success. The CTF proposal is just one step to simplify the tax system with the future goal of a single tax rate and a generous personal exemption. This will not only give British Columbia a competitive edge but make tax collection more transparent and accountable to those that pay taxes.

Property Tax Cap

The CTF recommends the government implement a cap on property tax bills across the province and limit annual increases to the consumer price index (CPI). Increases beyond the CPI must receive voter approval.

In 2005 the CTF conducted its first comprehensive review of residential property taxes in British Columbia. After reviewing the data provided by the BC Assessment Office, the CTF's findings confirmed anecdotal evidence of skyrocketing property tax bills. The report, "Capping the property tax bite," measured the average residential property tax bill for the past five years in every municipality. Homeowners have been faced with unpredictable and escalating tax bills far in excess of inflation and indeed, income growth.

Average property tax bills have increased anywhere from 3 per cent to 67 per cent in some municipalities. A thriving real estate market has pushed up residential assessments and local governments are not adequately adjusting their mill rates to soften the blow to homeowners. Meanwhile, as property tax bills increase service levels remain the same. The property tax bite is getting bigger as income growth levels are far below that of increases in property tax bills. Average weekly earnings in British Columbia have increased 7.2 per cent over the past five years-not even keeping pace with inflation-while average property tax bills have shot up between 14 and 23 per cent.

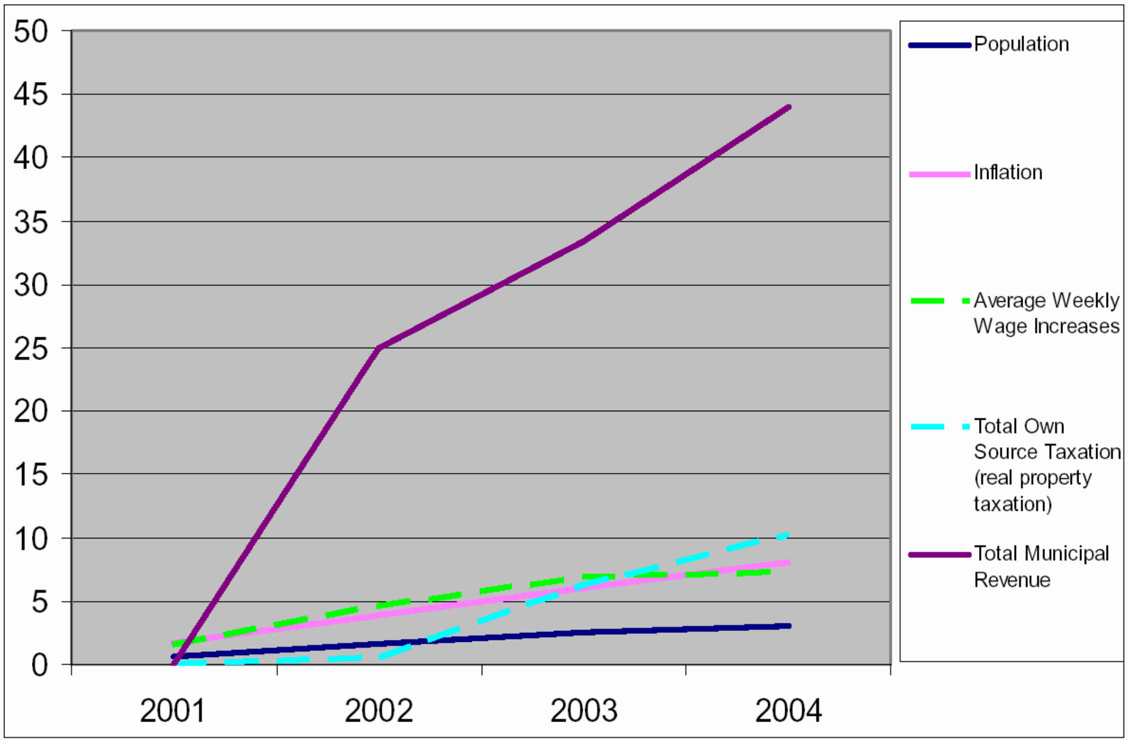
Between 2001 and 2004 total municipal revenue increased 44 per cent. The cry that local governments do not have adequate resources does not correspond with the facts. Municipalities are not only reaping additional revenues from property owners but have enjoyed increased transfers from other levels of government, licenses, fees and newly crafted "developer contribution costs."

The CTF report broke the province down into five different geographic regions and calculated the average increase in property tax bills between 2001 and 2005 for the average homeowner. The average increase for residents on the "Islands" was 23.7 per cent, with wide variations, like the 53 per cent increase in Lake Cowichan and 14 per cent in Nanaimo. The pattern is repeated across the province and the CTF has heard from virtually every municipality in the province. Homeowners are frustrated and feel appeals to the BC Assessment Office are often fruitless and sometimes end up costing more.

Accountability and transparency at the local level of government is as problematic as the budgeting process. Often times, local governments set their mill rates to fund a "wish list" of projects as opposed to having a stable budget with stable tax rates and bills for homeowners. The current practice works in favour of spendthrift politicians and punishes homeowners for escalating property values.

The CTF recommends the government implement a cap on property tax bills across the province and limit annual increases to the consumer price index (CPI). Increases beyond the CPI must receive voter approval. Property tax bills can be reassessed at the time of sale with each subsequent year's tax bill limited to increases at the rate of the CPI.

BC Trends 2001-2004



It's time to provide property taxpayers the same degree of certainty over their tax bills as income taxpayers and implement a province wide cap. Over 95 per cent of CTF supporters want the province to implement a property tax cap and several hundred property owners have signed the CTF's petition urging the province to take action.

CTF Supporter Survey

Do you support a cost-of-living adjusted cap on property tax bills?	
Yes	96%
No	4%

Officers of the Legislature

The CTF recommends the government approve all budgetary increases, as noted in last year's budget submissions, by the offices of the Auditor General, Ombudsman and the Information and Privacy Commissioner. These legislative officers perform important public duties that enhance transparency and accountability of government and require adequate resources to fulfill these crucial roles.

As officers of the legislature, the auditor general, ombudsman and information and privacy commissioner (OIPC), serve as a check on government. Each office is independent, impartial and acts according to the public's interest—not for the government of the day. It is critical that each office receive the adequate level of resources required to fulfill their respective duties for the benefit of the taxpaying public and government.

I. Auditor General

The auditor-general reviews government financial reports to ensure they are presented accurately and comprehensively. The office also measures the effectiveness of government programs and provides remedies to problematic areas in the management, administration and expenditure of public monies. The auditor promotes transparent financial reporting and serves as an in-house watchdog for the interests of all taxpayers.

Staffing levels have remained constant despite enhanced workloads. In last year's budget submission, the auditor general explicitly notes that he has been unable to examine many important aspects of government due to resource limitations. At a time when government discretionary spending is on the rise with 2010 Olympic projects, capital spending and corporate welfare programs, it is more important than ever that the auditor general have adequate resources to perform his duties.

The CTF recommends the government approve the auditor general's funding request for a $1.1million increase for 2008 and 2009 (funding figures from last year's auditor general budget submission). The auditor general succinctly noted in last year's budget submission the important work of his office:

> [Our] Office provides the Legislative Assembly with a strong means for holding government to account for how it delivers almost $41 billion in programs and services to the people of British Columbia. No other organization in the province provides the same type of independent and objective assessments on the accountability and overall performance of government.

The CTF also recommends the auditor-general's purview and resources be expanded to conduct value for money audits of major municipal capital projects. Increasingly, local governments are engaging in multi-million and sometimes billion dollar capital projects with taxpayer money and yet the correlating accountability measures have not been adopted or implemented. As municipal budgets swell, it is crucial that the appropriate oversight measures are in place to ensure tax dollars are used effectively.

II. Ombudsman

The ombudsman's office investigates complaints and makes recommendations regarding government administrative unfairness. In last year's budget submission, the office describes itself as "one of the key institutions in a democracy for ensuring the provision of open and accountable decision-making."

The ombudsman performs an important check on government, ensuring that day to day administrative decisions are done fairly and respectfully. The office has the capacity to publicize maladministration and can recommend remedial measures.

The CTF recommends the government approve the ombudsman requests for additional funding (as per last year's budget submission) and provide additional resources to enable the office to handle complaints regarding local governments.

III. Office of the Information and Privacy Commissioner (OIPC)

The information and privacy commissioner's office duties are largely set out in three statutes, *Personal Information Protection Act (PIPA), the Freedom of Information and Protection of Privacy Act (FIPPA)* and *Lobbyists Registration Act (LRA*). In last year's budget submission to the finance committee, the OIPC noted that it's "mandate under the laws we enforce is critical to ensuring transparency and accountability in government and protection of personal privacy and private sectors. The public, public bodies and organizations expect excellence from us and the OIPC needs more resources to meet those legitimate expectations." (page 2).

In a recent letter to the minister responsible for the *Freedom of Information and Protection of Privacy Act*, the Information Commissioner noted the ongoing budgetary issues faced by his office:

> September 27, 2006
>
> Our operating budget for the *Freedom of Information and Protection of Privacy Act* was cut by 10% in 2002-2003 and another 10% in 2003-2004, with a further cut of 15% for our *Freedom of Information and Protection of Privacy Act* activities proposed for 2004-2005. Our overall budget was increased in 2004-2005 solely because of the significant new responsibilities this Office was given in enforcing the *Personal Information Protection Act*, which came into force on January 1, 2004.

> That law covers the entire provincially-regulated private sector in British Columbia. This Office's duties under the *Personal Information Protection Act* represent a substantial expansion of our responsibilities beyond those under the *Freedom of Information and Protection of Privacy Act*. To be clear, the budget increase in 2004-2005 related solely to our new *Personal Information Protection Act* role and in no way related to the existing *Freedom of Information and Protection of Privacy Act* functions.

One of the "New Era" promises made in 2001 was for British Columbia to have the "most open, transparent and democratic governments in Canada." A key to transparency and openness is the availability of information relating to public policy decisions, government programs and contracts. Despite the 2001 promise, the OIPC's budget was cut by 35 per cent. The information and privacy office has not only experienced shrinking resources but also significant increases in responsibilities. In fact, the OIPC notes in this year's budget submission it "is facing serious challenges in meeting its legislated duties."

The last week of September was the first "Right to Know" week held across Canada. The purpose was to highlight the importance of access to government records and the vital role of information and privacy officers. In British Columbia, the CTF was a proud sponsor of the BC Information Summit which brought together a diverse group of interests including the welcome attendance of the Minister of Citizen and Labour Services as well as the Information Commissioner. As well, during the "Right to Know" week a coalition announced the launch of an ongoing Campaign for Open Government. The goal of the campaign is for the government to implement all of the 2004 Special Committee recommendations.

How can citizens hold their government to account if information is sealed under lock and key? British Columbia may very well have the best freedom of information laws in Canada (which speaks more loudly to the measuring stick than the accomplishments), but if the office charged with carrying out its provisions is stripped of its resources then the law isn't worth much.

The OIPC has also championed the need for voluntary disclosure, that is, government documents would be automatically available to the public leaving the burden on government to justify non-disclosure. A transition to a policy of voluntary disclosure would certainly ease the administrative and bureaucratic costs of the current system. In the meantime, a substantial increase to the budget of the OIPC is essential to restoring openness and transparency to the provincial government.

The CTF recommends that the government increase the annual funding available to the OIPC.

First Nations New Relationship Fund

The CTF recommends the government provide a First Nations Relationship Fund accountability report.

In the 2005/6 budget and fiscal plan, the government created a First Nations Relationship Fund. The $100 million Fund is dedicated to help "First Nation and Aboriginal communities build appropriate capacity to provide effective input and participate in the management of lands, resources and social services." Unfortunately, very little detail has been provided as to what specific measures constitute "capacity building."

All too often, taxpayers have watched well-intentioned dollars go to ill-defined programs that produce few results for those most in need. Furthermore, the First Nations New Relationship policy was developed behind closed doors, with no public input and by some accounts, cabinet input. Government approaches that encourage certainty and finality with respect to land and treaty claims should be applauded, however, there has been very little to suggest that this "new relationship" is taking taxpayers down that path.

Consequently, the CTF recommends the government provide an accountability report on the First Nations Relationship Fund. The report should provide performance and results based measurements to the legislature.

2010 Olympics

The CTF recommends the government re-affirm its commitment to limit 2010 Olympic funding to $620 million. The CTF further recommends that the provincial government member of the Vancouver Olympic Organizing Committee (VANOC)'s board of directors report to the legislature annually on the management and fiscal practices of the committee and the auditor general review VANOC's quarterly financial reports.

The CTF recommends the government enact an "Olympic Transparency Plan" to track all related and/or trademarked 2010 Olympic spending in addition to previously committed capital spending. The CTF also recommends that all capital projects be subject to a rigorous and competitive tendering process, and where possible pursue public-private partnerships.

In 2010, Vancouver will host the Winter Olympics. While putting together the bid for the 2010 Olympics, all the partners signed contribution agreements. The province committed to providing $255 million for the capital costs of sport and event venues, $55 million for a legacy endowment fund, $175 million in security costs, medical costs of $13 million, upgrade costs for the Sea-to Sky Highway at $600 million, $14 million for the Callaghan Valley Road and a $139 million contingency fund.

Together, provincial taxpayers will be billed at least $1.251 billion[1] (before inflation) for the "Spirit of 2010." However, the government maintains the capital infrastructure commitments, like the Sea-to-Sky Highway upgrade were already planned expenditures and do not count as Olympic related funding.

In order to clarify the extent of taxpayer funding for the Games, the CTF recommends the government adopt an "Olympic Transparency Plan." The government should produce an annual report that tracks all Olympic related and trademarked spending for all ministries, including new spending initiatives like the Spirit of 2010 Commerce Centre, BC Olympic Games Secretariat and the 2010 Business Summit. The report should also provide results based measurements demonstrating value for tax dollars.

The federal government recently announced it will conduct a review of all federal contributions to VANOC since 2003 by an external auditor. In many respects, the federal government is the junior funding partner of the Olympics but is taking the lead with respect to accountability and transparency of tax dollars going to the Games. The CTF urges the provincial government to follow the example of the federal government and conduct its own audit of tax dollars that have gone to VANOC. Better yet, work with the federal auditor to conduct one comprehensive report for all of the tax dollars that have been handed over to VANOC since 2003.

[1] For further details on the government's Olympic spending plan, please see the Auditor General's 2002/03 Report 6: Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games.

In his September 2006 report, "The 2010 Olympic and Paralympic Winter Games" the auditor general echoed the CTF's call for better and more comprehensive financial reporting of the Olympic Games. "We believe that the Province of British Columbia should also have a clear definition of Olympic costs—one that reflects the full extent of the Province's investment in the Games—so those costs can be managed effectively and reported completely" (pp. 34). The report also recommends that the province report regularly to the public on the status of Olympic costs.

The provincial bid included a guarantee by the government to cover any financial shortfalls or cost overruns by the Vancouver Olympic Organizing Committee (VANOC). As a bid partner and contributor, the province has a VANOC representative. The CTF recommends that the provincial member report to the legislature annually on the activities and performance of VANOC. The VANOC member should also provide the legislature with the committee's quarterly financial reports. The auditor general should review the financial statements presented by VANOC to ensure accuracy and completeness.

As the financial backstop, taxpayers have a right to know how the VANOC is managed. Together these recommendations should provide enhanced transparency of taxpayer Olympic funding and serve to keep the public informed and the government accountable on the progress made and decisions taken by the VANOC.

CTF Supporter Survey

With regard to the 2010 Winter Olympics in Vancouver/Whistler, do you support or oppose the following:

Governments should spend no more than $620 million – the original estimates that surfaced prior to the bidding process.

88%	**Support**
12%	**Oppose**

The Olympic Organizing Committee should report directly to the legislature and be subject to review by the auditor general?

90%	**Support**
10%	**Oppose**

Advertising

The CTF recommends a legislated ban on all non-essential government advertising and sponsorships.

It is by no coincidence that government advertising spiked last year—an election year. Total spending on government ads hit $19 million and included 2010 Olympic promotional campaigns that cost taxpayers over $4 million. Other campaigns such as the "Best Place on Earth" series cost millions of dollars and provided no informational or educational purpose.

The public purse should not be used to warm the electorate to the performance of the incumbent government. Voters have a four year record to judge the government's performance and shouldn't be forced to subsidize ads reminding them of the highlights.

Advertising that is informational in scope, such as warnings and updates on SARS, forest fires and other public safety announcements certainly fall within the ambit of essential advertising. Reminding British Columbians that the Olympics are coming in 2010 is outside the scope of necessary and are an absolute waste of tax dollars. Noted below a full 95 per cent of respondents in the 2005 CTF supporter survey agreed that government advertising should be limited to informational purposes.

Public Affairs Advertising Fiscal Year 2004/5

Campaign	Cost ($ 000)
Achieve BC	2,481
Invest Here	3,177
Best Place To Work	3,836
Tourism	4,417
Parks	372
Budget Mailer	434
BC Day	118
Picture BC	137
Labour Day Message	79
Olympic Thanks	56
Northern Development	73
Operational Communications	2,039
Total	17,219
Forest Fires, West Nile	633

A legislated ban on non-essential advertising will ensure that no government, regardless of stripe, will be able to use tax dollars for partisan purposes and will curb election year spikes. The scope of government needs to be re-drawn and advertising campaigns at taxpayers' expense should be the first non-essential item to be chopped.

CTF 2005 Supporter Survey

Government advertising should be limited to informational purposes only?	
95 %	**Agree**
2%	**Disagree**
3%	**Undecided/No Answer**

Choice: Private Medical Insurance

The CTF recommends the government repeal section 45 (1) of *The Medicare Protection Act* that prohibits the purchase and sale of private medical insurance.

The 2004 Supreme Court ruling in the *Chaouilli* case was not only a stinging indictment of the current status of Canada's health system but should have sparked an immediate change in patient rights and choices. Unfortunately, not much progress has been made. Our current single payer system is financially unsustainable and prioritizes bureaucracy over human compassion. Patients should have the right to spend their after tax dollars as they see fit and be able to make health care choices on their own terms.

The *Chaoulli* case struck down a Quebec law that prohibited the purchase and sale of private medical insurance. British Columbia has a similar provision in *The Medicare Protection Act* which states that, "a person must not provide, offer or enter into a contract of insurance with a resident for the payment, reimbursement or indemnification of all or part of the cost of services that would be benefits if performed by a practitioner." The constitutionality of this prohibition is still unclear, but its limiting impact on patients is very real. Prohibiting the purchase and provision of private medical insurance not only condemns patients to lengthy and damaging wait lists but also unnecessarily impugns their freedom and ability to choose.

How can this or any other government in Canada morally justify a system that allows Canadians to spend what they want on alcohol, cigarettes and gambling, but prohibits them from spending their own money on needed medical care for themselves or loved ones?

According to Supreme Court Justice Deschamps, "a number of witnesses acknowledged that the demand for health care is potentially unlimited and that waiting lists are a more or less implicit form of rationing." Isn't it time to recognize that rationing as a means of distribution always fails to meet the demands of consumers, whether it is with health care or food?

The Supreme Court concluded that the Canada Health Act does not prohibit private health care services and that a prohibition on private medical insurances "is not necessary to guarantee the integrity of the public plan."

Given the court's findings, there is no justification for British Columbia to maintain such a prohibition and every reason to repeal it.

British Columbia always leads the country when it comes to reform and innovation. With this Supreme Court ruling, the provincial government has been handed an extraordinary opportunity to once again take on a leadership role by repealing section 45 of *the Medicare Protection Act* and ending the prohibition on private medical insurance.

The recently announced health care conversation provides the government, patients and taxpayers an opportunity to move British Columbia forward to a more sustainable, patient centred health care system. But if the discussion is to be constructive, the terms of reference needs to be based in reality and not ideology. In this regard, the Supreme Court ruling in the *Chaoulli* case should prove instructive as should the findings of the Premier's mission to Sweden, Norway, France and England.

Opening up the health care system to the private sector is not a panacea. But, it is certainly a step in the right direction, for patient choice, sustainability and increased resources.

Choice: ICBC

The CTF recommends the government introduce legislative changes to allow greater competition in the provision of auto insurance.

During the first round of restructuring, the government announced that two questions would guide all decisions: should the government be doing this? And, if so, is this the most effective way to do it? The insurance and liquor monopolies are good examples of a few questions that were left answered. The government should at least allow the private sector to compete if it is unwilling to let go of the reins.

One of the many promises the Liberals made during the 2001 election was to "introduce greater competition in auto insurance, to create increased choice and reduce motor vehicle premiums." Apart from setting up a new regulator, the British Columbia Utilities Commission, there has been little change to the government auto insurance monopoly. In 2003, Bill 58 was introduced to amend the regulations of the government run Insurance Corporation of British Columbia (ICBC). However, the most important provisions governing competition and ensuring a "level playing field" for private insurance providers, (sections 50 and 51) was never proclaimed into law.

In their December 2005 Issues Update, the Insurance Brokers of British Columbia note:

> The Insurance Corporation Amendment Act (Bill 58, 2003) appointed the BCUC as the regulator responsible for setting ICBC's basic insurance premiums and ensuring there is no cross-subsidization between ICBC's basic and optional operations. Sections of Bill 58 that give the BCUC similar jurisdiction over optional insurance were omitted when it was proclaimed into law. The unproclaimed sections of Bill 58, which effectively prohibit ICBC from engaging in activities that would reduce competition, are already in place in federal competition legislation.

Furthermore, the integrated financial model used by ICBC camouflages the fact that it cross-subsidizes its basic and optional insurance products. As a result, consumers are left with no real choice and the private sector is becoming a smaller and smaller portion of the market. In other words, ICBC is fortifying its monopoly.

There have been countless polls and surveys that show British Columbians want to have a choice for their auto insurance needs. At the very least, private competitors should be able to compete fairly for optional insurance customers and ICBC should be more transparent with its financial reporting.

CTF Supporter Survey

Do you support an end to ICBC's monopoly?	
81%	**Yes**
19%	**No**