



2023 Prince Edward Island Pre-budget Submission

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CANADIAN TAXPAYERS FEDERATION

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Canadian
Taxpayers
Federation

Contents

About the Canadian Taxpayers Federation	1
Executive Summary	2
Tax Relief	3
Introduction	3
Eliminate bracket creep	4
Cut the provincial portion of the HST by two percentage points	5
Cut income tax bills by five per cent	6
Replacing business subsidies with business tax relief	6
Finding Savings in Government Expenditure	8
Introduction	8
Bringing government compensation in line with Prince Edward Island's labour market	8
Implementing a Sunshine List	10
Conducting a thorough review with the aim of reducing spending	10
Conclusion	11

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizens' group 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 organization. At the end of 2020, the CTF had over 235,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (Saskatchewan and Manitoba), Ontario, Québec and Atlantic Canada. Regional offices conduct research and advocacy activities specific to their provinces 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, online postings and publications to advocate on behalf of CTF supporters. 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.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive emailed Action Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine, published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board members and representatives are prohibited from donating to or holding a membership in any political party. In 2019-20, the CTF raised \$4.8 million on the strength of 39,792 donations. Donations to the CTF are not tax deductible as a charitable contribution.



Executive Summary

Near-record increases to the cost of living have hit Prince Edward Islanders hard. Bills are now more expensive and families need relief.

To help Islanders deal with soaring inflation and high living costs, the government of Prince Edward Island should focus on providing relief through sales and income tax cuts. Given the province's balanced budget position, it is well placed to do exactly that.

Prince Edward Island ended the last fiscal year with an unexpected surplus, largely due to an increase in tax revenue of \$186.5 million over what was projected.¹ Instead of running a projected \$26.5 million deficit, the province balanced the books and ran a \$83.8 million surplus.²

The measures outlined in this report aim to lower the tax burden and stimulate the economy. They provide tax cuts to both individuals and businesses to save families money and help grow the economy. Reducing taxes and helping grow the economy means more money in the pockets of Islanders who will be able to spend it as they see fit.

To finance the relief, this report relies on ending corporate welfare and finding additional efficiencies, including through reducing labour costs. It will also call on the province to maintain its balanced budget position.

The measures proposed in this submission include:

1. Eliminating bracket creep.
2. Cutting the provincial portion of the HST by two percentage points.
3. Cutting income tax bills by five per cent.
4. Replacing business subsidies with business tax relief.
5. Bringing government compensation in line with Prince Edward Island's labour market.
6. Implementing a Sunshine List.
7. Conducting a thorough spending review with the aim of reducing overall spending levels.

With these proposed measures we are confident that the government will be able to provide much-needed tax and inflation relief, while not negatively impacting its fiscal position.

This report includes two main sections: tax relief and spending reductions.

Costed Measures	Tax Relief	Budgetary Savings
Cutting the HST by two percentage points	\$68.6	
Cutting all income tax bills by five per cent	\$21.1	
Replacing business subsidies with business tax cuts	\$23.1	\$42.6
Bringing employee compensation to market levels		\$70.8
Total per category	\$112.8	\$113.4
Net budget impact:		\$0.6

¹ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

² <https://www.cbc.ca/news/canada/prince-edward-island/PEI-budget-surplus-2022-1.6636710>

All numbers are in millions.

Tax Relief

Introduction

Islanders are confronting increases in living costs that haven't been seen in decades. Canada as a whole saw prices rise by 6.9 per cent last year,³ while Islanders were hit even harder at 8.4 per cent.⁴ The cost of food alone has increased at a rate of roughly 11.4 per cent.⁵

Earlier this year, the government helped meet the challenge of inflation by issuing a one-time tax-free payment to most families across the province. However, this payment was a one-time payment. Inflation was and remains a stubborn and long-lasting problem. Islanders need more than one-time payments: they need permanent relief.

The first crucial step is eliminating bracket creep. P.E.I. is one of only two provinces that still fails to index its tax brackets to inflation. Bracket creep punishes taxpayers for simply keeping up with higher living costs. Given that inflation is at a level not seen for decades, this year bracket creep will hit Islanders much harder than in other recent years.

Had personal income tax brackets been indexed since they were last changed in 2008, a taxpayer earning \$50,000 this year would be paying nearly \$300 less in income taxes.⁶ It is time for the government to stop profiting off of inflation by finally indexing tax brackets to the rate of inflation.

Relief should not stop there. Governments also profit off of inflation through higher sales tax revenue. When the price of goods rises, so too does revenue brought in from sales taxes. This submission is calling on the government to cut the provincial portion of the HST from 10 per cent to eight per cent to help lower costs for consumers nearly everywhere they shop.

We are also calling on the government to lower income tax bills across the board by five per cent, in part to make up for years of over-taxation due to bracket creep.

The above recommendations would not only provide inflation relief for families and boost incomes, but it would also lead to higher economic growth and more prosperity.

There exists a prosperity gap between Prince Edward Island and the rest of Canada. Prince Edward Island's GDP per capita is the lowest compared to all other provinces. In 2020 the GDP per capita was \$40,024, compared to the national average of \$52,564.⁷

This translates to lower salaries for workers and lower profits for local businesses. As the government aims to grow the province's economy, addressing this gap through growing business investment should be at the top of its economic priorities.

Growing business investment involves making sure individuals and businesses have the funds available to make investments and grow their local markets.

³ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

⁴ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

⁵ <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

⁶ Authors calculations

⁷ <https://royal-bank-of-canada-2124.docs.contently.com/v/hot-provincial-momentum-to-lose-steam1>

An effective way for the government to do this is to take less cash out of citizens' and local businesses' pockets by reducing their taxes.

Recent periods of low levels of business investment have been cited as a main reason why Atlantic Canada has struggled relatively in economic growth compared to the rest of the country.⁸

To help further stimulate investment, the government should replace subsidies with business tax cuts. Tax cuts attract investment and job creators, unlike subsidies, where economic research has found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.^{9 10}

Reducing taxes also has an added benefit of increasing competitiveness with other jurisdictions, incentivising new businesses and individuals to set up and invest in P.E.I., rather than in some other locale.

Peer-reviewed studies have found a clear link between tax cuts and economic growth.^{11 12 13 14 15} Given the heavy tax burden that Islanders shoulder, at nearly 34 per cent of GDP,^{16 17} there is room to reduce it to stimulate the province's economy and provide relief.

These recommendations would help Islanders better afford their bills and increase competitiveness.

Eliminate bracket creep

Tax relief: N/A

Prince Edward Island is one of only two provinces that fails to index its tax brackets to inflation. That means taxpayers are forced into higher tax brackets by inflation, even though their actual buying power hasn't gone up. The federal government and most provinces fix this problem by indexing tax brackets to inflation. Failing to index brackets is a form of covert tax hike known as bracket creep.

Apart from a few changes to the basic personal amount, tax brackets in Prince Edward Island have remained unchanged since 2008.¹⁸ Meanwhile, the purchasing power of a dollar has gone down by 23 per cent in Prince Edward Island.¹⁹

Across the country, most governments have recognized the negative impacts of bracket creep and have indexed their tax brackets to inflation. Only Prince Edward Island and Nova Scotia fail to index any of their tax brackets.

Indexation would have a significant impact on Islanders in the long run as the impact of bracket creep compounds year over year. Prince Edward Island should change its Income Tax Act, so the basic minimum amount and tax brackets are indexed to the consumer price index. The table below provides an overview of the impact bracket creep since 2008 is having on this year's tax bill for three sample income earners.

⁸ <https://www.fraserinstitute.org/sites/default/files/promoting-capital-investment-in-atlantic-canada.pdf>

⁹ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

¹⁰ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

¹¹ <https://academic.oup.com/gje/article-abstract/133/4/1803/4880451?redirectedFrom=fulltext>

¹² <https://www.aeaweb.org/articles?id=10.1257/pol.20170241&from=f>

¹³ https://www.nber.org/system/files/working_papers/w20753/w20753.pdf

¹⁴ <https://www.journals.uchicago.edu/doi/abs/10.1086/701424>

¹⁵ <https://www.jstor.org/stable/41789231>

¹⁶ <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610022201>

¹⁷ <https://www.princeedwardisland.ca/sites/default/files/publications/estimatesbook.pdf#page=185>

¹⁸ https://www.princeedwardisland.ca/sites/default/files/legislation/i-01-income_tax_act.pdf

¹⁹ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.5&cubeTimeFrame.startYear=2000&cubeTimeFrame.endYear=2021&referencePeriods=20000101%2C20210101>

Income earner	Extra taxes paid this year due to bracket creep
\$50,000	\$ 298.00
\$70,000	\$ 643.00
\$90,000	\$ 730.00

Source: Income Tax Act.
Base year: 2008.

Cut the provincial portion of the HST by two percentage points

Tax relief: \$68.6 million

Inflation has hit Islanders hard this year. Necessities have only gotten more expensive, with the cost of living rising this year by 8.4 per cent.²⁰

To help families and businesses directly deal with the issue of high prices, the government should lower the provincial portion of the HST. Cutting the sales tax will help to lower costs for families and businesses nearly everywhere they shop.

Sales taxes exacerbate issues caused by inflation. Since the tax is applied at the end of transactions, higher prices means higher taxes. This problem hits low-income taxpayers the hardest, as sales taxes are regressive.

The government can help families afford their higher bills by charging them less when they go to buy things they need.

Prince Edward Island is tied with the other Atlantic provinces for the highest sales taxes in Canada.²¹ Reducing the total tax to 13 per cent would see P.E.I. with the lowest sales tax in the region.

Lowering the HST would not only help Islanders better afford their bills, but it would also increase competitiveness and attract consumers looking to save on their tax bills. Sales tax revenue was \$76.7 million higher in the previous fiscal year than originally projected.²² This windfall should be passed back to Islanders in the form of tax relief.

Prince Edward Island has the lowest level of GDP per capita in the country at \$43,173 per person.²³ One of the factors explaining this poor economic performance is that fact Prince Edward Island's households have an after-tax disposable income level that is also the lowest in the country. This means that after Islanders have paid all of their taxes, they have less cash available to spend in local businesses or to invest in the local economy. This only becomes worse after considering near-record levels of inflation.

There is a clear relationship between household disposable income and household consumption, and between consumer spending and GDP growth. Economic research is also very clear about the link between tax relief measures and economic growth.^{24 25 26}

Lowering the HST by two percentage points would free up \$68.6 million to be invested into the local economy and help families ease the burden of inflation.²⁷

²⁰ <https://www150.statcan.gc.ca/n1/daily-quotidien/221019/dq221019a-eng.htm>

²¹ <https://www.retailcouncil.org/resources/quick-facts/sales-tax-rates-by-province/>

²² https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

²³ <https://www.princeedwardisland.ca/en/information/finance/gross-domestic-product-gdp-by-income-and-expenditure>

²⁴ https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf

²⁵ <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

²⁶ <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living>

²⁷ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

Cut income tax bills by five per cent

Tax relief: \$21.1 million

Islanders are significantly overtaxed, in part, because of bracket creep. The government has been profiting off of failing to index tax brackets for too long. While bracket creep may have been less obvious to some in the five years prior to the pandemic, when the cost of living in P.E.I. grew by an average of 1.3 per cent per year,²⁸ its impact will be profound this year, with living costs in P.E.I. having increased by 8.4 per cent, the highest in the country.²⁹

This submission has called on the government to end bracket creep. It is also calling on the government to reduce income taxes at every level by five per cent to return at least some of the excess tax revenue the government is now collecting.

Another reason the province should cut income taxes is because it is becoming less competitive. New Brunswick recently introduced income tax cuts impacting most brackets for the 2023 tax year. Once those tax cuts are implemented, they stand to save the average New Brunswick taxpayer \$310.³⁰ Prince Edward Island should follow New Brunswick's lead in reducing income taxes.

By lowering the province's income tax burden by five per cent, the government would directly re-inject \$21.1 million dollars into the local economy.³¹

The following chart shows the impact such reductions in income tax bills would have for Islanders.

Taxable Income	Current Tax Bill	Tax bill with proposed tax cut	Savings under proposed plan
\$50,000	\$4,075	\$3,871	\$204
\$70,000	\$6,869	\$6,526	\$343
\$90,000	\$10,209	\$9,699	\$510

Source: taxtips.ca

Replacing business subsidies with business tax relief

Savings: \$42.6 million | Tax relief: \$23.1 million

The pandemic was difficult for businesses and the labour market. The province's economy continues to struggle. The government should help improve outcomes for businesses by providing tax relief to free up cash flow and allow for growth.³²

Weathering economic storms and finding employment for out-of-work Islanders is not a matter of helping a handful of sectors. It depends on creating a good business environment for all sectors to thrive in. When job creators decide where to relocate or expand, their primary focus is on long-term profitability rather than one-off subsidy packages.³³

Other factors, such as regulatory burdens, tax regime, workforce education, and availability of transportation infrastructure, have a much bigger impact on decisions to locate in one jurisdiction than one-off financial aid packages at taxpayers' expense.³⁴ Subsidies merely act as icing on the cake for companies who have already analyzed the risks and potential returns for their project.

²⁸ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.5&cubeTimeFrame.startYear=2015&cubeTimeFrame.endYear=2020&referencePeriods=20150101%2C20200101>

²⁹ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000402&cubeTimeFrame.startMonth=09&cubeTimeFrame.startYear=2022&referencePeriods=20220901%2C20220901>

³⁰ https://www2.gnb.ca/content/gnb/en/news/news_release/2022/11/0614.html#:~:text=As%20previously%20announced%2C%20for%20the%20increased%20to%20%2417%2C840%20from%20%2417%2C630

³¹ <https://docs.assembly.pe.ca/download/dms?objectId=a2faef6e-6f65-4e2f-b60c-d27fc0fd5902&fileName=Premier.King.02242022.2022-23%20Estimates%20of%20revenue%20and%20expenditure.pdf#page=17>

³² <https://thoughtleadership.rbc.com/canadas-recession-to-arrive-earlier-than-expected/>

³³ https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf

³⁴ <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.³⁵ What is clear is that the level of corporate taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.³⁶

In other words, competitive tax rates attract job creators and direct investment.³⁷ Lower tax rates also contributes to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.³⁸

Provincial general corporate tax rates	
Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
Canadian provincial average	12.7%
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Source: Provincial government websites

Compared with other provinces, Prince Edward Island's corporate tax rate puts the province at a disadvantage, with the highest rate in the country at 16 per cent versus the 12.7 per cent national average.³⁹

Prince Edward Island's main vehicle for doling out subsidies is Innovation P.E.I., gobbling a whopping \$44.3 million last year, with a meager \$1.7 million in associated revenue.⁴⁰ This represents a net cost to taxpayers of \$42.6 million annually. This is equivalent to 47 per cent of what the province collected through corporate income taxes over the same period. Replacing business subsidies with corporate tax relief would also eliminate the economic distortion associated with targeted financial measures.⁴¹ Prince Edward Island's economic strength should not rely on growth expectations in a few targeted sectors, but rather on a broad-based growth of its economic pie.

The province should replace these subsidies with a tax cut in the general and small business tax rates by 25 per cent. Lowering the small business tax rate from its current one percentage point to 0.75 percentage points, and the general corporate tax rate from its current 16 percentage points to 12 percentage points, would put P.E.I.'s corporate tax rate under the national average and amount to \$23.1 million in savings for Prince Edward Island businesses of all sizes.⁴²

³⁵ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

³⁶ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

³⁷ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

³⁸ https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

³⁹ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

⁴⁰ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

⁴¹ https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

⁴² https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

Finding Savings in Government Expenditure

Introduction

Increases in the cost of living have hit near-record levels in Canada and in Prince Edward Island. High levels of federal government spending enabled by the government bond purchasing of the Bank of Canada has strongly influenced the rise of inflation.^{43 44}

The government of Prince Edward Island posted an unexpected surplus last year.⁴⁵ A surplus coming from higher-than-expected tax collections largely due to the unprecedented levels of inflation. This surplus should be passed onto taxpayers through lower taxes.

Nonetheless, the surplus is narrow and debt is growing. In the larger picture, government debt in the province should not be forgotten. Even though the province posted a surplus in 2021-22, the net debt level did increase compared to the year prior.⁴⁶

The section below will provide recommendations of various areas to find savings to help the government keep its budget balanced into the future and reduce the debt load while still providing tax relief to families and help to stimulate the economy.

Bringing government compensation in line with Prince Edward Island's labour market

Estimated Savings: \$70.8 million

Salaries and wages have represented the largest line-item in the government of Prince Edward Island's budget over the past five years.⁴⁷

Last year, the province spent over \$983.8 million on employee compensation, representing over 74 per cent of what it collected via taxes.⁴⁸ In the interest of fairness, and to free up resources for much-needed inflation relief, the government must make sure its employee compensation costs are in line with that of non-government workers in Prince Edward Island.

⁴³ https://www.scotiabank.com/content/dam/scotiabank/sub-brands/scotiabank-economics/english/documents/inflation-reports/inflation-report_2022-06-19.pdf

⁴⁴ <https://www.bankofcanada.ca/rates/banking-and-financial-statistics/bank-of-canada-assets-and-liabilities-weekly-formerly-b2/>

⁴⁵ <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

⁴⁶ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

⁴⁷ <https://www.princeedwardisland.ca/fr/sujet/previous-years-public-accounts>

⁴⁸ <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

	2018	2019	2020	2021	2022
Employee compensation	\$810.30	\$839.00	\$886.60	\$941.40	\$983.80
Total Consolidated Expenditures	\$1,912.50	\$2,021.70	\$2,165.60	\$2,370.20	\$2,568.90
Share of Total Consolidated Expenditures	42.4%	41.5%	40.9%	39.7%	38.3%

Source: Government of Prince Edward Island

After adjusting for 11 different individual characteristics, it has been found that the average government employee in Atlantic Canada earns a 7.2 per cent wage premium over their private sector counterparts.⁴⁹ The cost of paying government employees in Prince Edward Island has also seen a 17.3 per cent increase since 2019.⁵⁰

Government employees are also more likely to be enrolled in a pension plan than a private sector employee. Only 13.4 per cent of private employees are covered by a pension plan compared to 70.7 per cent of those that work for the government.⁵¹

The type of pension plan given to government employees is also typically much more generous than those of the private sector. Of those who have a pension in the government sector, 97.9 per cent of them are defined benefit plans, compared to only 24.2 per cent of plans for those covered in the private sector.⁵² A defined benefit plan offers the employee a guaranteed benefit during retirement. This guarantee is often on the back of taxpayers who would be saddled with the cost of a bailout if pension funds do not perform well.

Those who work for the government in Prince Edward Island also retire earlier and have higher levels of job security than those who work in the private sector.⁵³

Given the wage premium and other non-wage benefits that government employees enjoy over other workers, the government of Prince Edward Island should seek to bring wages more in line with private sector practices in the interest of fairness and to free up resources for much-needed inflation relief.

To further reduce compensation costs, the government of Prince Edward Island should look to move towards a defined contribution rather than defined benefit pension scheme for its employees, as is common in the private sector.

To achieve immediate budgetary savings and bring wages in line with the private sector, the government should implement a 7.2 per cent reduction in total employee compensation costs. This will reduce the estimated cost for government salaries and benefits from \$983 million to \$912 million.⁵⁴ This will result in a savings of \$70.8 million that can then be used to help provide relief for taxpayers.

⁴⁹ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵⁰ <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

⁵¹ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵² <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵³ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-atlc-2021.pdf>

⁵⁴ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

Implementing a Sunshine List

Estimated savings: Unknown

	2018	2019	2020	2021	2022
Total Consolidated Expenditures	\$1,912.50	\$2,021.70	\$2,165.60	\$2,370.20	\$2,568.90

Source: Government of Prince Edward Island. All numbers in millions.

Taxpayers have a right to know what their money pays for and what government employees earn. It is with that in mind that the vast majority of Canadian provinces have implemented what are known as sunshine lists, allowing taxpayers to see the costs of the highest-paid government employees in their jurisdiction.

In Ontario, for instance, the sunshine list publishes the names and salaries of every government employee paid \$100,000 or more.⁵⁵ In New Brunswick, the threshold is reached at \$60,000 per year, while in Saskatchewan, the list begins at \$50,000.^{56 57} Only Quebec and Prince Edward Island don't publish such a list.⁵⁸

To meet or surpass the standards of government transparency existing in the rest of the country, the government of Prince Edward Island should implement a sunshine list and publicly divulge information on the province's highest-paid bureaucrats.

Conduct a thorough review with the aim of reducing spending

Estimated savings: Unknown

Bureaucracy grows to meet the needs of the expanding bureaucracy, as the saying goes. Over the course of the last five years, spending in Prince Edward Island has gone up by \$656.4 million, or about 34 per cent.^{59 60}

In its efforts to balance the budget in the nineties, Prime Minister Jean Chrétien's government set forth the best practices for program reviews. The review was comprehensive and applied six tests to every expense:⁶¹

1. Does it serve the public interest?
2. Is government involvement necessary?
3. Is this an appropriate role for this level of government?
4. Are public-private partnerships possible / desirable?
5. Are there ways to make it more efficient?
6. Can taxpayers afford this expense?

The savings identified thanks to this process led to \$9.8 billion in spending reductions, equivalent to 18.9 per cent of federal program spending at the time.⁶²

This program review allowed the federal government to balance the budget in 1997-98 and pay down more than \$100 billion in federal debt before the financial crisis hit in 2008.⁶³ This reduced the proportion of tax dollars going towards debt interest payments from 30 per cent in 1996-97 down to 13 per cent in 2008-09.⁶⁴

The savings also allowed for significant tax relief, such as GST reduction, business and personal income tax relief, and the establishment of TFSA's as a vehicle to boost household savings.⁶⁵ Relief that that is needed by Islander's who are faced with an ever-increasing rising cost of living.

⁵⁵ <https://www.ontario.ca/page/public-sector-salary-disclosure>

⁵⁶ <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf>

⁵⁷ <https://www.cicorp.sk.ca/reports/payee-disclosure-reports>

⁵⁸ <https://www.theglobeandmail.com/canada/article-sunshine-lists-have-helped-narrow-the-gender-pay-gap-but-ottawa-wont/>

⁵⁹ <https://www.princeedwardisland.ca/en/information/finance/public-accounts>

⁶⁰ <https://www.princeedwardisland.ca/en/information/finance/provincial-budget-operating-budget>

⁶¹ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁶² https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁶³ https://www.rbc.com/economics-subscriber/pdf/Template-provincial%20fiscal%20tables_October2022.pdf?_ga=2.45019876.1912156774.1668026480-1443291271.1665068851

⁶⁴ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

⁶⁵ https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-CanadaPaper_Web_F.pdf

A solid red triangle pointing to the right, located to the left of the "Conclusion" header.

Conclusion

Prince Edward Island is in an unexpectedly better fiscal position than initially projected.⁶⁶ However, higher living costs have hit families hard. The government should take advantage of its fiscal position to provide much-needed relief.

To help Islanders faced with higher bills, the province should deliver universal tax relief to help all taxpayers weather the storm of inflation. Doing so will increase household incomes and enhance Islanders' ability to spend and invest in local businesses.

Prince Edward Island is one of only two provinces that fails to index its income tax rates to inflation. This leads to a situation where families are faced with a tax hike year after year, even if their real incomes haven't grown. Living costs have skyrocketed this year, forcing families to face tough choices.

To make life more affordable, the government should index its income tax brackets to inflation, reduce the sales tax by two per cent and lower income taxes by five per cent. Reducing sales and income taxes would result in \$89.7 million being injected back into the local economy.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

To further help the province's economy grow, the government should also take steps to make the province more attractive to investment in all industries by replacing

its subsidies with corporate tax cuts. Reducing the corporate income tax by 25 per cent and eliminating subsidies would see the government save \$42.6 million and put \$23.1 million directly back into the hands of Prince Edward Island businesses.

Despite a posted surplus, Prince Edward Island's net debt is still increasing.⁶⁷ Working to reduce the debt through reductions in government spending will be paramount, as increasing interest rates mean that holding such a debt load will only become more expensive.

Given the wage and benefit premium enjoyed by government employees over those in the private sector and the impact of rising compensation on the government's bottom line, it is necessary to make fundamental changes and reduce the cost of government employee compensation. Eliminating the compensation gap between private sector employees and those working for government promotes fairness and would save taxpayers \$70.8 million next year.

Overall, the measures recommended in this report will put \$112.8 million back in Islanders pockets and help save at least \$113.4 million in government operations. This will have a net positive budgetary impact of \$0.6 million.

⁶⁶ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf

⁶⁷ https://www.princeedwardisland.ca/sites/default/files/publications/web_volume_1_2021-2022_pa.pdf