2014 Pre-Budget Submission

Submission by the Canadian Taxpayers Federation
to the House of Commons Standing Committee on Finance

September 29th, 2014

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

- Pay down the debt: After pushing Canada's federal debt past the $600 billion mark, it's time for the Harper government to start paying it down.

- Provide broad based tax relief for Canadians: Taxes are too high and boutique tax cuts unnecessarily complicate taxes.

- Reform Employment Insurance by creating Employment Insurance Savings Accounts (EISA): EI keeps Canadians out of the workforce, while employers face job shortages.

- End Equalization Payments: Equalization is meant to provide equal access to services regardless of where Canadians live, but so-called have-not provinces end up with more generous services than have provinces.

- Let municipalities pay for their own bridges and transit: Those who use infrastructure should pay for it, either through local taxes, tolls or the existing gas tax transfer.

- Shutter the pork-barreling regional development agencies: Corporate welfare is ineffective, unfair and wasteful. Businesses should succeed or fail on their own merit.

- Curb excessive pay and benefits for federal government employees: Government employees are making outrageous demands. The government needs to negotiate aggressively with the unions to get value for taxpayers.

Deficits and Debt

The CTF conducted a survey of our supporters in mid-September – 5,500 of them responded. 53 per cent said that paying down the debt was their top priority for what to do with a surplus while 44 per cent favoured tax cuts. Only 2 per cent wanted to see more federal spending.

Between April 1, 2008 and March 31, 2013 the government added $147.6 billion to the federal debt. This brought the total federal debt to more than $600 billion for the first time in Canada's history. This record-breaking mountain of debt will be passed on to our children and grandchildren. It's unfair to force future generations to pay for ill-considered spending schemes, many of them proven to be wasteful and ineffective.

Financing the debt is expected to cost $29 billion this year.[1] That's more than the combined budgets of the departments of National Defence, Veterans Affairs, Canada Border Services and Public Safety.[2]

Between April 1, 2008 and March 31, 2013, debt interest charges alone cost $151.5 billion.

Our supporters are clearly not comfortable with any debt reduction target expressed as an arbitrary ratio of debt to GDP. They want Canada to achieve national debt freedom.

Tax Relief

Taxes in Canada are too high despite recent tax cuts. They are also too complex partly because of the way taxes have been cut, with boutique tax credits and deductions.

Canada should move to a lower, simpler and flatter tax system. Reducing income tax rates, eliminating most tax deductions and credits and reducing the number of tax brackets would spur economic growth and make for a fairer tax system. The reforms would make work more rewarding, reduce compliance costs and lower the tax burden on Canadians.

With a simpler tax code filing taxes will be easier for taxpayers and collecting taxes would be easier for the government. With fewer credits and deductions the overall rates could be lower, saving time and making the system fairer. Less money would be spent on accountants. The Canada Revenue Agency's bloated budget of $3.8 billion could be reduced.

[1] http://www.budget.gc.ca/2014/docs/plan/ch4-2-eng.html
[2] http://www.tbs-sct.gc.ca/ems-sgd/me-bpd/20142015/me-bpd-eng.pdf

High marginal tax rates are a disincentive to working harder, since the government takes an even higher percentage of your earnings when you earn more. With fewer tax rates, those who earn more will still pay more taxes but the system will not punish them as much for working hard and earning extra money for their families.

Employment Insurance

Canadians should be entitled to keep the $2,193 currently taxed from them and their employer every year in EI premiums. All Canadians are taxed at the same rate for EI, but their eligibility to collect benefits depends heavily upon which of 58 "economic regions" they call home. In each region, a different number of hours worked is required to qualify for benefits, and in each region, there is a different number of weeks that benefits can be collected. The administration of this overly complex system costs taxpayers $1.8 billion in 2013.[3]

Canadians in some parts of the country pay far more into the system they collect. Between 1981 and 2009, Ontario and the western provinces contributed $113 billion more in premiums than they received in benefits. The Atlantic provinces and Quebec received $38 billion more in benefits than they paid in premiums.

Rather than sending the money to Ottawa, to be processed and shipped elsewhere, the money should collected into a personal Employment Insurance Savings Account (EISA) containing RRSP-eligible investments.

If EI contributors, or a member of their immediate family member should lose their job, they could withdraw some of these EISA savings while they look for a new job. The savings could also be used for maternity leave, long-term sickness and other social benefits currently part of the EI program.

Canadians using their own money from their personal EISA would be motivated to find work quickly. They would also motivate family members they chose to assist. For those who remain consistently employed, their money would accumulate over the years. Canadians active in the workforce for 40 years, paying today's level of EI taxes, could save over $500,000, assuming investment returns similar to those achieved by the Canadian Pension Plan.

On retirement, these EISA savings could be transferred into a tax-sheltered income vehicle. Money that would have otherwise been processed by the government and shipped elsewhere would instead help to fund retirement. This means that the EISA would address two problems; inadequate retirement savings and Employments Insurance's disincentives to work.

[3] 2012-13 EI Monitoring and Assessment Report

Equalization and Transfers to the Provinces

It's past time to end Equalization payments to provinces. The program rewards wasteful overspending provinces with billions of dollars. From 2006-07 to 2012-13 Equalization payments have increased by 43 per cent, with a total of $118 billion spent over that same time period.[4]

Equalization payments are meant to bring a province's "fiscal capacity" – ability to raise revenue – up to the average of all provinces. The provinces below the average then get an Equalization payment big enough that they meet the national average. However this has meant that the biggest provinces with the most revenue collect Equalization. Since 2008-09 both Ontario and Quebec have regularly collected from the program. And since 2005-06, every province other than Alberta has collected at some point. In 2013-14, Ottawa spent $16.1 billion on Equalization, with $7.8 billion going to Quebec and $3.2 going to Ontario.[5]

The program is meant to ensure that Canadians have equal access to services regardless of where they live, but Equalization has led to "over-equalizing," where "have-not" provinces end up with superior public services paid for by Equalization cash. Consider a secretary earning $35,000 a year in Saskatoon whose federal tax dollars are funding the $7.30 a day daycare for the children of two doctors in Montreal. Or a couple in Calgary with a student in university, having their taxes subsidize the $2,653 annual tuition fees of Quebec university students.[6]

The Equalization program rewards wasteful, overspending provinces with billions of dollars. 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.

Health and Social Transfers to the Provinces

Health care costs are rising and taking up a greater percentage of governments' budgets. In 2012, healthcare spending was 11.6 per cent of the entire national economy.[7] Provincial healthcare budgets are partly funded from the Canada Health Transfer (CHT).

In 2006-07, the transfers were $20 billion, and will reach $32 billion in 2014-15, an increase of 60 per cent in less than a decade.[8] Despite these massive transfers,

[4] 2013 Fiscal Reference Tables.
[5] http://www.fin.gc.ca/fedprov/mtp-eng.asp
[6] The Daily. "Average undergraduate tuition fees for Canadian full-time students, by province." *Statistics Canada.* Web. Oct 29, 2013.
[7] "Canada's healthcare spending growth slows." Canadian Institute for Health Information. Web. Nov 18, 2013.
[8] 2013 Fiscal Reference Tables.

provincial governments are struggling to improve their healthcare systems. The answer doesn't lie in attaching strings to the money or transferring more money to the provinces, but rather in ending the Canada Health Transfer. With health care funding coming from both the federal government and provincial governments, Canadians can't accurately judge how well their tax dollars are being spent.

The federal government also transfers money to the provinces with the Canadian Social Transfer (CHT). This money is meant to help fund post-secondary education, social services, and early childhood development. In 2013-14 this amounted to another $12.2 billion in transfers to provincial governments.

Health care and education are the responsibility of provincial governments. If provinces funded their own health care and education systems, taxpayers would be empowered to hold them to account for how they spent their tax dollars. With this $45 billion the federal government would save in 2014-15 by canceling these transfers they could drastically reduce income tax, and the provincial governments could take up some of that tax room to raise revenues to pay for their own health care and education systems.

It's much better to transfer tax points than tax dollars. It helps hold governments accountable for the tax dollars the collect and the level of service they provide.

Spending on Local Infrastructure

Budget 2013 announced plans to fund roads, bridges, subways, and commuter rail with $53 billion in new and existing funding for provinces, territories and municipalities.[9] However, it's not clear why the federal government should be funding local infrastructure.

Already the federal government provides an annual transfer to municipalities equivalent to five cents per litre of gasoline sold. This transfer is intended to be used to pay for local infrastructure projects. That transfer was worth $2 billion in 2012-13

Despite this transfer, the federal government is planning to build a replacement for the Champlain Bridge in Montreal and promised funding for a Toronto subway extension. The cities claim they can't afford to build infrastructure themselves, but Toronto has an annual budget of $9.6 billion and Montreal's budget for 2014 is $4.9 billion. They can afford to build their own infrastructure and so can other Canadian municipalities.

The federal government shouldn't be building local bridges in Montreal, subways in Toronto or any other local infrastructure. Municipal governments should fund their

[9] http://www.budget.gc.ca/2013/doc/themes/infrastructure-eng.html

own infrastructure. Residents of these and other municipalities should pay for local infrastructure with their own tax dollars, tolls or the existing gas tax transfer.

It's not fair for Albertans to pay for a bridge in Montreal or Nova Scotians to pay for a subway in Toronto. The federal government should end infrastructure transfers to municipalities and cut taxes with the savings.

Regional Corporate Welfare Programs

The government needs to stop wasting taxpayers' money interfering in the economy by picking winners and losers, with grants, subsidies and interest-free loans to businesses which are often never repaid.

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 repaid. Not surprisingly, the federal government has an abysmal record when it attempts to pick winning and losing ideas for business investments.[10]

Each region has a development agency in charge of transferring money to government-favoured businesses from Canadian taxpayers, sometimes to their direct competitors. These agencies send taxpayers' money into the pockets of lucky businesses across the country.

The solution is simple: shut down all of these agencies. That would save taxpayers over $1 billion, money better left, through lower tax rates, in the hands of Canadians competing fairly, on a level playing field

Excessive Pay and Benefits in for Federal Government Employees

The Parliamentary Budget Office has forecast that in the 2014-15 fiscal year the average federal employee will receive $129,800 in total annual compensation.[11]

With their generous pay and benefits, federal government employees should be content, but they aren't. The Public Service Alliance of Canada (PSAC) has a long list of new demands that would taxpayers even more and see government employees work even less than they do already. PSAC represents 47 per cent of the federal government's Core Public Administration.

[10] Atlantic Canada Opportunities Agency. "Audit of the Management of Provisionally Repayable Contributions." Web. Oct 18, 2013.
[11] http://www.pbo-dpb.gc.ca/files/files/Fed_Personnel_Expenses_EN.pdf

PSAC has demanded ten working days off, with pay, to mourn the passing of an ‘aboriginal spirit friend.” They want four more statuary holidays and another week of vacation time.

PSAC has also raised the possibility of reducing the work week to 35 hour with no reduction in pay and to have the option of retiring after 25 years with a full pension.

The government should reject these union demands and negotiate aggressively with PSAC and unions to get value for taxpayers.