Meeting the Challenge:

2024 Manitoba Pre-Budget Submission

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Canadian Taxpayers Federation

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Canadian Taxpayers Federation

Contents

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's 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 organisation. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organisers 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 organise petition drives, events and campaigns to mobilise citizens to affect public policy change.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and 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 and representatives are prohibited from holding a membership in any political party. In 2021-22, the CTF raised $5.2 million on the strength of 55,653 donations. Donations to the CTF are not deductible as a charitable contribution.

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Cover photo: Josh Lavallee

Introduction

The cost of living has soared to near record levels in both Canada and Manitoba. World events and high levels of federal government spending have strongly influenced the rise of inflation.[1]

These increases in the cost of living have hit Canadians and Manitobans hard. Bills for basics such as food and fuel are now more expensive, and families need relief.

The government of Manitoba is currently facing its highest deficit ever outside of the pandemic. These measures are recommended to implemented over a two-year period. This allows for flexibility in implementation, while still moving the government towards a balanced budget.[2]

To prepare Manitobans for any upcoming economic challenges and move toward a balanced budget, the government should focus on providing taxpayers with permanent tax cuts and reducing unnecessary government expenditures.

The measures outlined in this report aim to do just that. It recommends tax cuts to save taxpayers money and grow the economy. Reducing taxes means more money in the pockets of Manitoba families to cover bills.

To finance the tax relief and balance the budget, this report relies on finding savings in government expenditures.

The recommended measures are:

1. **Cut the PST by one percentage point**
2. **Permanently cut the provincial gas tax**
3. **Bring government compensation in line with Manitoba's labour market**
4. **End corporate welfare**
5. **Stopping the spending spree**

With these proposed actions, Manitoba will be able to provide much needed tax and inflation relief while improving its budgetary position.

1. https://www.scotiabank.com/content/dam/scotiabank/sub-brands/scotiabank-economics/english/documents/inflation-reports/inflation-report_2022-06-19.pdf
2. https://www.gov.mb.ca/asset_library/en/proactive/20232024/second-quarter-report-2023.pdf

Costed Measures (Over two years)	Tax Relief	Cutting Spending
Cut the PST by one percentage point	$371,714,285	-
Permanently cut the provincial gas tax	$342,000,000	-
Bring government compensation in line with Manitoba's labour market	-	$506,825,000
End corporate welfare	-	$482,000,000
Stopping the spending spree	-	$1,438,579,381
Totals	**$713,714,285**	**$2,427,404,381**
Net budget impact		**$1,713,690,095**

Tax relief

Cut the PST by one percentage point

Tax Relief: $372 million

Inflation is one of the biggest causes of economic insecurity for families. Canada saw a 6.8 per cent rise in prices late last year.[3] Manitobans were hit with a 7.9 per cent increase to their cost of living.[4] Everyday working people are struggling to afford necessities.

It is great to see the Manitoba government commit to tax relief through cutting the provincial gas tax and removing PST from new rental builds, but more can and should be done. The government can help families afford their ever-increasing bills by taking less money out of their pockets in the first place.

The last NDP Manitoba premier, Greg Sellinger, raised the PST and made it harder for families after promising not to raise the tax.[5] Cutting the PST now would show that the new government has learned from the mistakes of the past.

For example:

A family making $75,000 pays more provincial taxes living in Winnipeg than the same family living in Regina, Calgary, Vancouver, Toronto, or Montreal.[6]

Cutting taxes will help close this gap, increase Manitoba's competitiveness, and provide relief to families.

City	Winnipeg	Regina	Calgary	Vancouver	Toronto	Montreal
2023 Provincial Taxes	$6,925	$4,123	$2,603	$3,018	$3,773	$4,543

Source: 2023 Saskatchewan Budget.

Manitobans already pay too much tax. Sales taxes make the consequences of high prices worse. Since the tax is applied at the end of transactions, higher prices mean a higher amount of PST is being charged. This problem hits low-income taxpayers the hardest because sales taxes are regressive. This means that lower income taxpayers pay a higher percentage of their income in sales taxes compared to those with higher incomes.

Poorer people have less money to pay for the stuff of daily life. If that stuff has higher taxes on it, that cuts more deeply into the wallets of the poor than those who are better off.

3. https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm
4. https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm
5. https://www.cbc.ca/news/canada/manitoba/selinger-defends-pst-hike-amid-opposition-1.1357083
6. https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2023-24/budget-documents

Cutting the tax from seven to six per cent would also increase competitiveness in the province. It would move Manitoba to the same PST rate as Saskatchewan and further widen the gap with Ontario's HST, giving Manitoba an edge.

Every cut in the PST makes it easier for Manitobans to consider purchasing items close to home, rather than making a road trip to Saskatchewan to save on PST.

The same family noted in our example above pays about $2,003 per year in PST in Manitoba.

Cutting the PST by just one percentage point would save that family $286 in provincial taxes every year. That's the cost of a load of groceries for a family of four.

By lowering the province's sales tax burden by one percentage point, the government would put $372 million back into the pockets of Manitobans, saving the average family $286 per year.

Permanently cut the provincial gas tax

Tax Relief: $342 million

Every day, Manitobans fill up their gas tanks to get work, go to the grocery store or take their kids to hockey practice. With gas prices at near-record highs, a family's bill for transportation is eating away at their budget and making life more unaffordable.

The new Manitoba government has recognized this and is committed to cutting the gas tax for at least six months.[7] However, the government needs to go further and permanently cut the gas tax to save drivers money for the foreseeable future. As the federal government looks to increase its carbon tax until 2030, drivers will need the provincial government's help them save on their gas bill for as long as possible.[8]

The Manitoba government currently charges drivers 14 cents per litre on every fill up of gasoline at the pumps. Axing the gas tax would save the average Manitoba family filling up a Nissan Maxima sedan once a week would $215 over the six months of the proposed cut. Families would save $430 a year if the cut is made permanent. Minivan and pickup truck owners would save even more.

Overall, gas taxes currently make up 29 per cent of the pump prince in Manitoba. Provincial and federal taxes together cost 46 cents per litre of gasoline.[9]

Other provinces also initially cut gas taxes temporarily, but continue to extend the cuts because of the help it gives residents.

Alberta, Ontario and Newfoundland and Labrador all recently cut fuel taxes. Drivers in Alberta saved up to $440 last year, not including secondary savings on costs such as big rig trucks not paying the fuel tax on diesel in Alberta.

In Ontario, a family will see $450 in savings.[10][11] And in Newfoundland and Labrador the average two car family can $475 expect in savings.[12]

Permanently cutting the provincial gas tax would save Manitoba drivers $342 million and save the average family at least $430 per year.

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7. https://www.taxpayer.com/newsroom/ndp-right-to-commit-to-gas-tax-cut
8. https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/carbon-pollution-pricing-federal-benchmark-information/federal-benchmark-2023-2030.html
9. https://www.taxpayer.com/media/Gas-Tax-Honesty-Report-2023.pdf
10. https://calgary.citynews.ca/2022/12/20/alberta-fuel-tax-2023/#:~:text=20%2C%20Minister%20of%20Finance%20Travis,Toews%20said%20in%20a%20statement
11. https://www.ontario.ca/document/gasoline-tax
12. https://www.taxpayer.com/newsroom/taxpayers-federation-applauds-furey%E2%80%99s-gas-tax-cut-extension

Cut spending

Bring government compensation in line with Manitoba's labour market

Savings: $507 million

Paying government employees, also known as "personnel services," is the largest line item in Manitoba's budget.[13]

Last year, the province spent over $9.2 billion on personnel services, representing 87 per cent of what it collected via taxes.[14] In the interest of fairness, and to free up resources for much-needed tax relief, the government must make sure its compensation costs are in line with that of non-government employees in Manitoba.

Before the pandemic, and after adjusting for 11 different individual characteristics, The Fraser Institute found that the average government employee earns a 5.5 per cent wage premium over their private sector counterparts.[15] In the last two years, the number of Manitoba government sector employees making more than $100,000 per year increased by 64 per cent.[16]

Government employees also are more likely to be enrolled in a pension plan than those in the private sector.[17] The type of pension plan afforded to government employees is also typically a defined benefit plan, such as the Civil Service Superannuation Fund for employees of the Manitoba government.[18] 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.

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Personnel Services	$8,070,000,000	$8,241,000,000	$8,759,000,000	$9,041,000,000	$9,215,000,000
Total Expenses	$17,977,000,000	$18,474,000,000	$20,726,000,000	$20,694,000,000	$21,874,000,000

Source: Manitoba Public Accounts.

Those who work for the government in Manitoba also retire earlier and have higher levels of job security than those who work in the private sector.[19]

13. https://manitoba.ca/asset_library/en/publicaccounts2023/AnnualReportPublicAccounts2022-2023.pdf
14. https://manitoba.ca/asset_library/en/publicaccounts2023/AnnualReportPublicAccounts2022-2023.pdf
15. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023
16. https://www.taxpayer.com/newsroom/government-sunshine-list-balloons-by-64-per-cent-since-2020
17. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023
18. https://cssb.mb.ca/employees/new-employees/#:~:text=The%20Civil%20Service%20Superannuation%20Fund,as%20CSSB%20or%20the%20Board
19. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023

In the interest of fairness, the Manitoba government should also cut the transition allowance payable to leaving Members of the Legislative Assembly after an election. After the most recent election, retiring or defeated MLAs were eligible for $1.8 million in taxpayer-funded handouts.[20]

To achieve immediate budgetary savings and bring wages in line with the private sector, the government should implement a 5.5 per cent reduction in total employee compensation costs. Apart from wage reductions, savings can be achieved through other methods. These methods include not replacing unnecessary employees who leave or retire, encouraging early retirement and moving all applicable employees to a defined contribution instead of defined benefit pension plan.

Reducing the cost of paying government employees will reduce the estimated cost of salaries and benefits from $9.2 billion to $8.7 billion.[21] This will result in a savings of $507 million.

	Current Cost	Cost with Reduction
Salaries and benefits	$9,215,000,000	$8,708,175,000
Budgetary Savings		$506,825,000

Source: Government of Manitoba.

20. https://www.taxpayer.com/newsroom/outgoing-mlas-eligible-for-1.8-million-in-golden-parachutes

21. https://manitoba.ca/asset_library/en/publicaccounts2023/AnnualReportPublicAccounts2022-2023.pdf

End corporate welfare

Savings: $482 million

Businesses should be thriving or failing on their own merits, not because some spend more time lobbying the provincial government for taxpayer-funded handouts.

In Budget 2023, the government introduced $95 million in corporate welfare. This includes an extra $50 million to a venture capital fund, $35 million through so-called economic development loans, and $10 million to the Manitoba Mineral Development Fund.[22]

The Manitoba government has a history of handing over tax dollars to businesses. In 2018, the government gave $1.5 million to Canada Goose, a luxury jacket maker.[23] In 2021, the government handed Maple Leaf Foods, one of the biggest food processors in the country, $2 million.[24]

It's clear that the government should not be in the businesses of businesses, and it should not be forking over taxpayers' dollars to do it.

Overall, from 2007 to 2019, the government of Manitoba spent $6.3 billion on corporate welfare.[25] That's an average of $482 million spent each year on subsidies.

Completely axing these subsidies would provide room in the budget to achieve a surplus and provide tax relief to Manitobans. It would also have very little impact on business growth in the province, as businesses do not decide where to move and invest based off the corporate welfare packages they receive.

When job creators decide where to relocate or expand, their primary focus is on long-term profitability rather than one-off subsidy packages. Other factors, like tax rates and level of business regulations have a much bigger impact on a business owner's decision to locate somewhere compared to a subsidy.[26]

Economic research found no statistically significant relationship between business subsidies and economic growth, or per capita GDP levels.[27] The level of **taxation**, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.[28]

In other words, competitive tax rates attract job creators and direct investment.[29] Lower tax rates also contribute to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.[30]

Instead of using taxpayers' dollars to give handouts to corporations, the government should instead look to provide broad base tax relief to encourage businesses to move to and invest in Manitoba.

Corporate welfare doesn't work, and handouts only result in single companies getting payouts, while broad-based tax relief, allows all businesses retain more money to use to hire new workers and invest in new equipment.

Completely cutting corporate welfare will reduce budgeted spending by $482 million, freeing-up more funds to balance the budget, repay debt and use for tax relief.

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22. https://news.gov.mb.ca/news/?archive=&item=52576
23. https://globalnews.ca/news/4442667/manitoba-to-spend-up-to-1-48-million-to-help-jacket-maker-canada-goose-expand/
24. https://www.gov.mb.ca/budget2023/index.html
25. https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada.pdf
26. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
27. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
28. https://www.oecd.org/mena/competitiveness/41997578.pdf
29. https://www.oecd.org/mena/competitiveness/41997578.pdf
30. https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

Stopping the spending spree

Savings: $1.4 billion

The Manitoba government is dealing with its largest deficit in history, outside of the pandemic. Difficult decisions need to be made to get the budget back to balance quickly before the problem gets worse.

This year, Manitoba's debt is increasing, as despite balancing the budget in 2022, the government projects a $1.6 billion deficit for 2023.

By the end of 2023, Manitoba's provincial debt is projected to reach $33 billion, working out about $24,000 per Manitoban.[31] Since 2016, the government has increased the debt by 33 per cent, which means more money must be wasted on interest payments on that debt and not spent on important priorities or used for tax relief.[32]

This year, the government plans to spend $2.2 billion on interest payments on the debt. That costs every single Manitoban $1,600.[33] That's almost a month of groceries for a family of four. If the government had been prudent and paid down the debt in the past, that money could be used to pay the average salary for over 20,000 nurses or police officers.

The interest payments alone make up almost 10 per cent of the entire budget. If the government didn't have to spend that every year on interest, there wouldn't be a $1.6 billion deficit, but rather an $800-million surplus.

Year	Interest Charges
2018-19	$952,000,000
2019-20	$1,000,000,000
2020-21	$1,037,000,000
2021-22	$969,000,000
2022-23	$1,963,000,000[34]

Source: Manitoba Public Accounts.

Over the last five years, interest charges have cost taxpayers $4.9 billion.[35]

Taxpayers can't afford for the government to keep wasting money on interest payments. Increasing interest rates also means that holding government debt will only become more expensive.

The government has a spending problem.

Since 2018, overall government revenues have increased by 27 per cent, but spending has increased by 35 per cent.[36] This is a fundamental imbalance that the government needs to address.

31. https://www.gov.mb.ca/asset_library/en/proactive/20232024/first-quarter-report-july2023.pdf
32. https://manitoba.ca/asset_library/en/publicaccounts2023/AnnualReportPublicAccounts2022-2023.pdf
33. https://manitoba.ca/asset_library/en/publicaccounts2023/AnnualReportPublicAccounts2022-2023.pdf
34. The large change in interest charges from 2021 to 2022 is largely attributed to a change in accounting methods, not fiscal practices.
35. https://www.gov.mb.ca/asset_library/en/proactive/20222023/public-accounts-2022.pdf
36. https://www.gov.mb.ca/asset_library/en/proactive/20232024/second-quarter-report-2023.pdf

Before the pandemic, the government was already spending at all time highs. Since that time, inflation-adjusted per person revenue has remained flat. This means that while the government has collected more in overall revenue, it is a result of population growth, not from increases in revenue per taxpayer. Government spending per person on the other hand, has increased by seven per cent.[37] [38] [39] [40]

To balance the budget and stop the debt from increasing, the government needs to reduce spending to pre-pandemic, all-time highs in 2018-19 with spending increases adjusted for inflation and population growth.

This would result in the government spending $1.4 billion less than is currently budgeted for 2023-24. Combining that with the other savings highlighted in this report would allow the government to balance the budget when implemented over two years.

The net $1.7 billion in savings identified in this report can be used to balance the budget over the next two years. Future surpluses can then be used pay down the debt and reduce the annual interest bill, allowing more funds to be freed up for tax relief or further debt repayment.

37. https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2023.html
38. https://www.gov.mb.ca/asset_library/en/proactive/20232024/second-quarter-report-2023.pdf
39. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.2&cubeTimeFrame.startYear=2017&cubeTimeFrame.endYear=2022&referencePeriods=20170101%2C20220101
40. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901&cubeTimeFrame.startMonth=01&cubeTimeFrame.startYear=2019&cubeTimeFrame.endMonth=10&cubeTimeFrame.endYear=2023&referencePeriods=20190101%2C20231001

Conclusion

Addressing Manitoba's financial challenges will not happen overnight, and it will not be easy. To get back to balance and reduce the debt, the government needs to meet this challenge head on and act as soon as possible.

However, the government is not the only one facing a budget crunch and it should also focus on making life more affordable for Manitobans.

Reducing the provincial sales tax alone would result in $372 million being put directly back into the pockets of Manitoba families, saving the average family $286 per year.

The government should also make its recently announced gas tax cut permanent. Drivers will face high prices for the foreseeable future, especially with the federal government's plan to continue to hike up the carbon tax.

Drivers need permanent relief. Permanently cutting the provincial gas tax would save Manitoba drivers $342 million and save the average family about $430 per year.

Given the wage and benefit premium enjoyed by government employees over their private sector counterparts and the large expense that salaries and benefits make up of the budget, it is necessary to reduce the cost of government employee compensation. Eliminating the wage gap between the government and the private sector promotes fairness and would provide $507 million in savings that can be used to finance tax relief and balance the budget.

The government also needs to end corporate welfare. Years of research shows that when companies are looking to move and invest, they are looking for low taxes and low regulation, not taxpayer handouts. Stopping the corporate welfare gravy train would instantly save the provincial government about $482 million every year.

Interest payments on government debt represent a recurring expense, one that is not going away unless the province finds a way to dig itself out of debt. Making it a clear priority to continue reducing the debt would reduce the amount spent on interest payments and free-up more funds for much-needed inflation relief.

Instead, only increasing government spending by population and inflation from previous pre-pandemic highs would save taxpayers $1.4 billion in unnecessary government expenditure.

Given the especially dire fiscal situation that the Manitoba government finds itself in, it is prudent to implement these cost savings measures over the course of two years. Allowing flexibility in the government's budgeting process while still moving towards a balanced budget.

Going forward, the Manitoba government should emphasize foundational fiscal prudence and respect for taxpayers. The budget should be balanced through controlling spending, not relying on tax increases. Future surpluses should not be used for new spending, but instead, be set aside for tax relief or to pay down the debt.

Overall, the measures recommended in this report will put $714 million back into the pockets of Manitobans and help save at least $2.4 billion in government spending. This will have a net positive budgetary impact of $1.7 billion.