Prince Edward Island
2019-20 Pre-Budget Submission

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Canadian Taxpayers Federation
Stand Up. Be Heard!

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) 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 organization. Today, the CTF has 145,000 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 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 affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

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 2017-18 the CTF raised $5.1 million on the strength of 31,205 donations. Donations to the CTF are not deductible as a charitable contribution.

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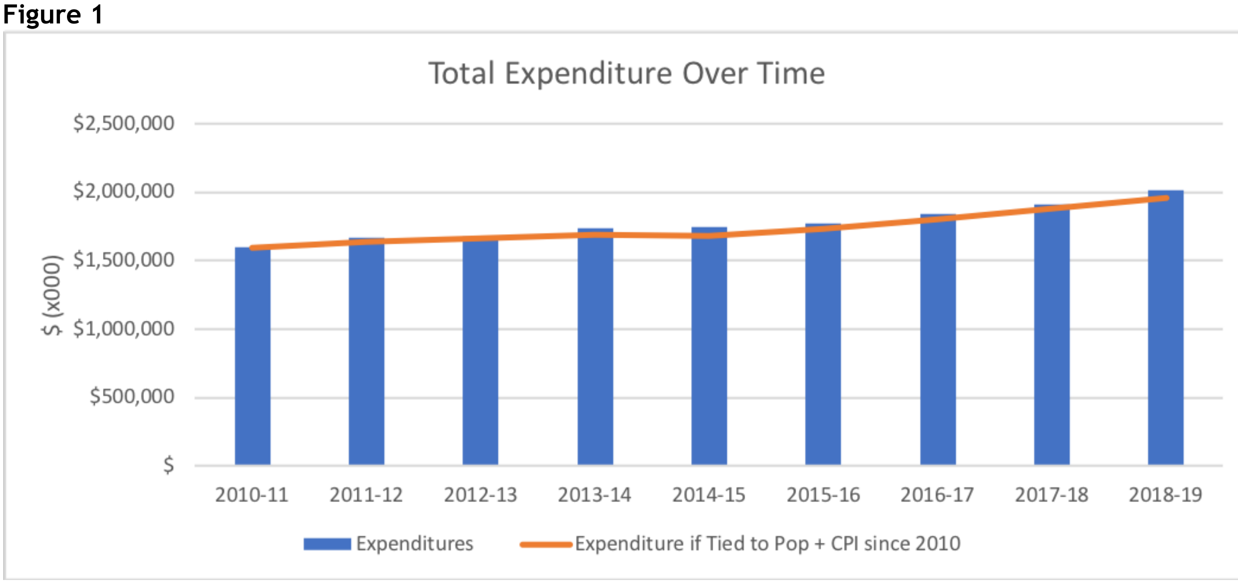
A Path to Sustainability

The Prince Edward Island government has done a commendable job of balancing the operational budget, but the province's debt and debt interest payments are growing, and its spending is unsustainably high. By introducing innovative solutions, finding savings within government and reducing taxes to attract job creators, the province can set itself on a more sustainable path.

Reduce Spending

Spending as a share of GDP is higher in P.E.I. than any other province in Canada, as noted by economist Jack Mintz. While revenues in the second quarter fiscal update were higher than projected, they were eaten up by spending increases. The 2018 budget saw an operational surplus, but the government mostly used it up in new spending rather than paying down the debt. This hurts future P.E.I. taxpayers, who tomorrow will be stuck with the bill. As is shown in Figure 1, operational spending would be lower today if the level was at or below the rates of inflation and population growth.

Figure 1



Better Value for Health Care and Education Dollars

Spending in the province not only needs to be reduced overall, it needs to be reprioritized. That will ensure the government is delivering the best value for taxpayer dollars. P.E.I.'s aging population is an issue for the sustainability of P.E.I.'s health-care system, while declines in student enrolment have made education spending increases irresponsible. Innovative solutions will be the key to delivering necessary care and education to Islanders while maintaining balanced budgets.

In the fall of 2018, a fee-for-service primary care clinic called Unified Health opened in Halifax. That company intends to open more clinics across the country and it and others like it should be welcomed with open arms in P.E.I. partnering with, and allowing health-care development by, independent job creators wherever possible can ensure Islanders get maximum value for their health dollars.

The government can keep a handle on the education budget by reducing unnecessary expenditures, consolidating school facilities where possible, and introducing innovative education models into the public system.

The P.E.I. government can save costs while improving results for students of all income levels by introducing legislation to allow for charter schools. Charter schools are non-profit, non-religious public schools which are independently operated, but publicly funded for operations, and charge parents no tuition. A 2018 Atlantic Institute for Market Studies report showed that per-student subsidies for charter schools in Alberta saved the government $4,284 per student, per year, versus traditional public school. As of September 2018, P.E.I.'s school age population is 20,802. If five per cent of students shifted to charter schools, based on Alberta's numbers (to give an estimate as spending varies per province), the government could save $4.4 million per year.

IF 5 PER CENT OF STUDENTS SHIFTED TO CHARTER SCHOOLS, NOVA SCOTIA COULD SAVE OVER $4 MILLION TAX DOLLARS EVERY YEAR

The AIMS study found that charter schools in Alberta, on average, outperformed every school type in the province. Charter schools each operate with a specific focus, such as music, science, students with mental health struggles or rural stewardship.

Recommendation: Introduce innovative solutions such as fee-for-service clinics and charter schools to get better value for health and education dollars.

Balance the Budget and Tackle the Debt

It's positive to see P.E.I. tabling operational surpluses. We encourage government officials to continue the course of balanced operational budgets. However, the debt is still growing.

P.E.I. Debt Interest Payments

-$126 million per year
-$348,000 per day
-Third largest spending item

P.E.I.'s debt is over $2.2 billion and growing, leaving each individual Islander with a nearly $14,800 share. A CIBC provincial budget brief on P.E.I.'s 2018 budget reflected positively on the province's financial stability, but noted that P.E.I. is Canada's smallest province by population and GDP, and, "its debt burden is high in the context of its narrow-scope economy," with provincial reliance on federal transfers being the highest of any Canadian province, at about 38 per cent of total revenues.

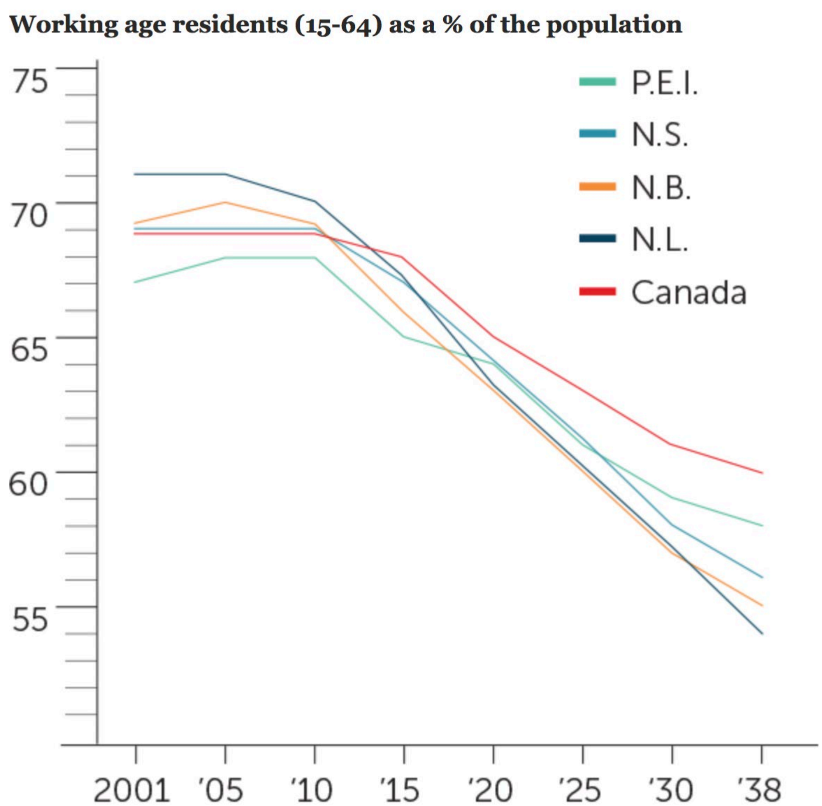
With big debt comes big debt interest payments, which are the third largest expenditure in P.E.I., reportedly costing about $348,000 per day. Debt interest payments cost taxpayers over $126 million, in 2018-19, per the second quarter fiscal update. With interest rates rising in Canada, debt interest payments will only increase, wasting money that could otherwise be spent on textbooks or hospital beds.

Recommendation: Balance the overall budget in P.E.I. with a focus on reducing the provincial debt and debt interest payments.

Lower Taxes

Prince Edward Islanders pay some of the highest taxes in Canada, with a high top marginal income tax rate, the highest general business tax rate, small business tax rate and sales tax in Canada. The increase in the basic personal amount to $9,160 was positive, but the threshold is still among the lowest in the country, offering little relief to taxpayers of all income levels. It's no surprise that the provincial tax base is shrinking, as illustrated in Figure 2, below. This creates a problem for both the government and citizens depending on provincial services.

Figure 2



Source: Atlantic Business Magazine (Statistics Canada), 2017

Lower Business Taxes to Attract Job Creators and Generate More Government Revenue

With taxes, sometimes less is more. P.E.I. has the highest business taxes in Canada, sending the signal to job creators outside of the province that P.E.I. is a prohibitively expensive place to invest or relocate. The government reduced the small business tax to 3.5 per cent in the 2018 budget, but even with that reduction, it's still among the highest in the country. At 16 per cent, the general business tax is also the highest in Canada.

Academic research done by Bev Dahlby and Ergete Ferede in both 2012 and 2017 showed that a reduction in P.E.I.'s general business income tax rate would actually increase the value of the government's tax revenue.

RESEARCH SHOWS THAT REDUCING P.E.I.'S BUSINESS TAXES WOULD ACTUALLY BRING IN MORE TAX REVENUE

There's further evidence supporting this. Research from the Montreal Economic Institute showed that federal cuts to business taxes between 2001 to 2012 – first instigated by Prime Minister Jean Chretien – were successful, with no negative impacts on revenue generation. The general business tax rate was cut nearly in half, and revenues have held up. Even if P.E.I. experienced a temporary decline in revenue as the result of a business tax cut, the province could fund the shortfall with the elimination of corporate subsidies, loans and credits.

It's time for lower taxes to bring in more business revenue – and more jobs.

Recommendation: Lower business taxes in P.E.I. to encourage job creation and generate more government revenue.

Scrap the Carbon Tax

Driving and heating homes are necessities of life for the majority of Prince Edward Islanders, who can't afford to change their lifestyles on a dime – and shouldn't have to. Originally, the P.E.I. government opposed Ottawa's carbon tax. Environment Minister Richard Brown rejected the tax, stating, "we're fighting for Islanders here." The province is already reducing emissions. P.E.I.'s emissions dropped by 14 per cent from 2005 to 2015, according to Environment and Climate Change Canada, putting P.E.I. ahead of six provinces in pursuit of the Paris Accord 2030 emissions reductions targets.

FROM 2005 TO 2015, P.E.I.'S EMISSIONS DROPPED 14 PER CENT AND GAS SALES FELL BY 2.8 PER CENT - WITHOUT A CARBON TAX

P.E.I.'s carbon tax will begin in April, 2019, by charging drivers an additional 4.42 cents-per-litre of gasoline, partially offset by a 3 cents-per-litre gas excise tax reduction. While the gas tax reduction is positive, P.E.I drivers will still be paying more for a necessity of life on the island. For the first two years, there will be no additional tax on furnace oil on propane, but the full costs of the carbon tax are yet to be seen.

The province is following the federal government's dictates, but there's reason to believe that Ottawa will continue to raise the carbon tax requirement higher over time. A leaked federal briefing document indicated that the carbon tax would have to rise to $300/tonne by 2050 to meet Canada's emission reduction targets. That would cost $220 billion per year and add $638 to the price of gas for a 50-litre fill-up.

Carbon taxes raise the cost of other taxes as well, by driving up the price of emissions-intensive government services such as the operation of hospitals, schools, busses and ambulances.

CARBON TAXES DRIVE UP THE COST OF HOSPITALS, SCHOOLS, AMBULANCES AND PUBLIC TRANSIT

These are costs that P.E.I. taxpayers simply cannot afford. As several other provinces, including neighbouring New Brunswick, have stood united in a fight against Ottawa's carbon tax, launching legal battles against the federal government, P.E.I. has let its taxpayers down by shrugging and complying with the federal demands. The provincial government should stay true to its original opposition to Ottawa's tax.

Provinces Challenging Ottawa's Carbon Tax in Court

New Brunswick, Ontario, Manitoba, Saskatchewan

Recommendation: Scrap the carbon tax and join other provinces in challenging Ottawa's carbon tax.

Eliminate Bracket Creep

While most Canadian provinces have ended the process of bracket creep by indexing tax brackets to the provincial rate of inflation, Prince Edward Islanders who receive cost-of-living increases from their employers are pushed into higher tax brackets, paying higher taxes even when their purchasing power isn't growing. This amounts to a sneaky tax increase that could easily be eliminated by the provincial government. The CTF publishes annual reports highlighting bracket creep. Our research shows that a two-income P.E.I. family making $90,000 per year will have to pay an additional $99 this year thanks to bracket creep. A single-income individual making $60,000 per year will pay an extra $49 as a result. These hikes compound year after year, quietly draining funds from Islanders.

Recommendation: Eliminate bracket creep by indexing income tax brackets to the provincial rate of inflation.

Shift Toward Greater Financial Independence

There are long-term economic advantages for Prince Edward Islanders in shifting away from heavy reliance on federal transfers and moving toward greater financial independence.

New Brunswick Premier Blaine Higgs recently stated during a first ministers' meeting that the federal government should cut equalization payments to force provinces to develop their resources. Higgs rightly suggested that by feeling a little pain, provincial governments reliant on equalization would be forced to implement economic reforms to become more self-sufficient.

A CIBC provincial budget brief on P.E.I.'s 2018 budget reflected positively on the province's financial stability, but noted the high level of reliance on federal transfer payments. P.E.I.'s reliance on federal transfers is the highest of any Canadian province, representing about 38 per cent of total revenues.

P.E.I.'S RELIANCE ON FEDERAL TRANSFERS IS THE HIGHEST OF ANY CANADIAN PROVINCE

The reliance on federal transfers is too high. Over one third of P.E.I.'s budget is dependent on the outcomes of other provincial economies which are influenced by politicians over whom Islanders have no electoral control. This puts Islanders at risk and disincentivizes economic activity which would lead to a better quality of life in the province.

The goal of every province should be to become a have province – not to remain financially dependent on others. To foster greater financial independence, the P.E.I. government can join New Brunswick Premier Blaine Higgs in calling for equalization reform. P.E.I.'s relatively stable economy is evidence that the province can become more financially independent by strengthening homegrown industries and welcoming job-creators with lower taxes.

Recommendation: Join New Brunswick in calling for equalization reform and focus on creating a more financially independent province.

Conclusion

The P.E.I. government must reduce the provincial debt, especially as rising interest rates drive up the cost of debt interest payments. The government can dedicate funds to debt repayment by reducing spending – bringing expenditures in line with other provinces and introducing innovative solutions to deliver better value for health care and education dollars. The high tax burden relative to other provinces creates a competitive disadvantage for P.E.I. and unnecessary hardship for P.E.I. business owners and taxpayers. The P.E.I. government can stay on track with its balanced operational budgets while also lifting the tax and debt burdens off current and future taxpayers, ensuring smooth sailing ahead.