2024 Saskatchewan Pre-Budget Submission

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Canadian Taxpayers Federation

DECEMBER 2023

Canadian Taxpayers Federation

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 $5.1 million on the strength of 45,509 donations. Donations to the CTF are not deductible as a charitable contribution.

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Cover photo: Weston M.

Introduction

Increases in the cost of living have hit near-record levels in Canada and Saskatchewan. 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 Saskatchewan residents hard. Bills for everyday essentials are now more expensive, and families need relief.

The government of Saskatchewan is currently in a deficit position for the fiscal year.[2]

Saskatchewan needs to increase fiscal restraint and respect for taxpayers' dollars. The government needs to address the deficit and get back to surplus. Getting back to surplus ensures the government will have money to use for tax relief and to pay down debt.

To help Saskatchewanians deal with current economic challenges, as well as to help families deal with ever increasing prices, the Canadian Taxpayers Federation recommends that the government of Saskatchewan focus on providing permanent tax reductions.

The measures outlined in this report aim to do just that. It recommends a tax cut to individuals as well as businesses. Reducing taxes for individuals means more money in the pockets of Saskatchewan families to cover bills or to spend as they see fit. Reducing taxes for businesses means more money left over to grow the business and hire more Saskatchewanians.

To finance the relief, this report relies on finding savings in government expenditures.

The costed measures are:

1. **Cut the PST by one percentage point;**
2. **Permanently cut the small business tax;**
3. **Bring government compensation in line with Saskatchewan's labour market;**
4. **End corporate welfare.**

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.saskatchewan.ca/government/news-and-media/2023/november/27/2023-24-mid-year-report-shows-revenue-growth-offset-by-expense-due-to-drought

Costed Measures	Cutting Taxes	Cutting Spending
Cut the PST by one percentage point	$478,383,333	-
Permanently cut the small business tax	$71,360,000	-
Bring government compensation in line with Saskatchewan's labour market	-	$408,227,710
End corporate welfare	-	$869,000,000
Total per category	**$549,743,333**	**$1,277,227,710**
Net budget impact		**$727,484,377**

With these proposed measures we are confident that Saskatchewan will be able to provide much-needed tax and inflation relief while not having a negative impact on its budgetary position.

Along with these costed measures, the CTF also recommends the government keep presenting balanced budgets based off of the costed measures highlighted in this report and start a Saskatchewan heritage fund.

Balancing the budget means lower debt and less money wasted on interest payments every year. The government presented a balanced budget in 2022. It needs to build on that momentum and keep balancing the budget, and not dive back into deficit.

A heritage fund would safeguard the wealth of Saskatchewan's resources for the future. Every year the province waits to commit to paying down the debt and creating a heritage fund is another wasted opportunity. The provincial government owes it to the Saskatchewanians of today to be prudent with its spending. It owes it to future generations to allow them to benefit from the province's wealth of natural resources.

By comparison, Alberta's Heritage Saving Trust Fund is currently valued at $21.6 billion.[3] Alaska's Permanent Fund is valued at more than $102 billion CAD. Norway's Sovereign Wealth Fund is valued at a jaw-dropping $1.9 trillion CAD. Saskatchewan is rich in natural resources, and it is wise for the government of Saskatchewan to start saving our wealth that flows from those resources.[4]

3. https://www.alberta.ca/heritage-savings-trust-fund#:~:text=The%20Heritage%20Fund's%20fair%20value,of%20the%20previous%20fiscal%20year

4. https://www.taxpayer.com/media/SK_HeritageFund_2023.pdf

Cutting Taxes

Cut the PST by one percentage point

Tax relief: $478.4 million

Increases to the cost of living have become one of the biggest causes of economic insecurity for Saskatchewan families. Canada saw a 6.8 per cent rise in prices last year.[4] The cost of groceries has increased at a rate of roughly 9.8 per cent alone.[6] This means that more and more everyday working people are struggling to afford food.

The people of Saskatchewan need the government to make life more affordable. And a sales tax cut is a good place to start.

In 2017, the government raised the provincial sales tax by one percentage point from five to six per cent while removing many exemptions on items such children's clothing, used vehicles, restaurant meals and construction services.[7]

During the last budget, Saskatchewan was one of the only provinces to not cut any taxes for residents. Alberta, Ontario and Newfoundland and Labrador all cut fuel taxes, while Manitoba, Quebec, and New Brunswick all cut income taxes.[8]

Not providing any tax relief for the people of Saskatchewan was a mistake.

The government is projecting to take in a record amount of PST revenue this year and it can rectify the mistakes of the past while helping Saskatchewanians afford their ever-increasing bills by taking less money out of their pockets.

Sales taxes make high prices worse. Since the tax is applied at the end of transactions, higher prices mean a higher amount of PST 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.

Lowering the tax burden for families also helps Saskatchewan enhance its competitiveness with its neighbours and grow the economy. According to Saskatchewan's own budget, families making $75,000 in both Calgary and Vancouver pay less total provincial tax than the same family in Regina.[9] Cutting the provincial sales tax will lower that gap and make Saskatchewan a more attractive option for those looking to save on their tax bill.

5. https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm
6. https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm
7. https://www.taxpayer.com/newsroom/saskatchewan-needs-to-keep-cutting-taxes
8. https://thestarphoenix.com/opinion/columnists/opinion-saskatchewan-budget-failed-to-make-life-more-affordable
9. https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2023-24/budget-documents

This move would keep Saskatchewan's sales tax lower than Manitoba's and get it closer to competing with Alberta's nonexistent PST. Every cut in the PST makes it easier for Saskatchewanians to consider purchasing items at home in Regina or Saskatoon, rather than making a road trip to Alberta for PST free shopping.

The same family above pays about $1,932 per year in PST.[10] Cutting the PST by one percentage point would save that family $322 in provincial taxes every year.

Lowering the province's sales tax burden by one percentage point, the government would put $478.4 million back into the pockets of Saskatchewanians, saving the average family $322 per year.

10. https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2023-24/budget-documents

Permanently cut the small business tax

Tax Relief: $71 million

There are over 31,000 small businesses in the province. Those small businesses employ almost 150,000 Saskatchewanians.

In 2020, the government of Saskatchewan temporarily cut the small business tax rate to zero per cent to help provincial businesses survive and recover from the pandemic. In July 2023, that cut expired and the tax rate was hiked backed up again.

"Lowering taxes for every small business in our province over the next three years will help them to recover from the pandemic and enable them to retain and hire more workers," said Finance Minister Donna Harpauer after reducing the tax in 2020.[11]

That logic hasn't changed. Low taxes still help businesses deal with economic troubles and expand their enterprise. It's foolish for the government to impose even more costs on small businesses.

A couple of extra dollars in a business owner's pocket every month could make or break their small business, but it's barely a drop in the bucket for the provincial government.

Last year, the government raked in a record over $1.9 billion in business taxes. Fully taxing small businesses again would only increase that windfall by a mere four per cent.[12]

Keeping the small business tax at zero per cent means Saskatchewan is more competitive with its neighbours. Manitoba's small business tax is also zero per cent.[13] Hiking the tax makes it harder for Saskatchewan to attract new job creators.

Small businesses are run by our neighbours and they employ our friends. They create jobs and help grow the economy. The government needs to get rid of the small business tax for good.

Permanently cutting the small business tax rate to zero would result $71 million in savings for business in Saskatchewan. The average small business would save about $2,000 per year.

11. https://www.saskatchewan.ca/government/news-and-media/2020/december/07/lower-taxes-for-small-businesses-will-help-economic-recovery
12. https://publications.saskatchewan.ca/#/categories/893
13. https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html

Cutting Spending

Bring government compensation in line with Saskatchewan's labour market

Savings: $408.2 million

Salaries and wages are the largest line item in the government of Saskatchewan's budget.[14] And this year, the government is spending a record amount on salaries and benefits for its employees.

The provincial government spent over $7.42 billion on employee compensation last year, representing 76 per cent of what it collected via taxes.[15] 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 Saskatchewan.

After taking into account 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.[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 Municipal Employees Pension Plan. 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 Saskatchewan also retire earlier and have higher levels of job security than those who work in the private sector.[18] No government of Saskatchewan employee recorded taking a pay cut during the pandemic.[19]

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Salaries and Benefits	$6,210,206,000	$6,770,919,000	$6,771,234,000	$7,415,610,000	$7,422,322,000
Total Expenses	$14,717,088,000	$15,206,462,000	$15,650,942,000	$19,604,467,000	$19,013,865,000

Source: Saskatchewan Public Accounts.

14. https://publications.saskatchewan.ca/#/categories/893
15. https://publications.saskatchewan.ca/#/categories/893
16. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023
17. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023
18. https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-canada-2023
19. https://secondstreet.org/wp-content/uploads/2021/09/Policy-Brief-The-Last-Pay-Cut-Final.pdf

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 $7.42 billion to $7.01 billion.[20] This will result in a savings of $408.2 million.

	Current Cost	Cost with Reduction
Salaries and benefits	$7,422,322,000	$7,014,094,290
Budgetary Savings		$408,227,710

Source: Saskatchewan Public Accounts.

20. https://publications.saskatchewan.ca/#/categories/893

End corporate welfare

Savings: $869 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.

Whether its subsidizing Delta Airlines for $2 million to operate a single route or providing $17.5 million to movie studios to shoot in Saskatchewan, the government should not be in the businesses of businesses, and it definitely should not be forking over taxpayers' dollars to do it.[21] [22]

From 2007 to 2019, the government of Saskatchewan spent $10.4 billion on corporate welfare.[23] That's an average of $869 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 Saskatchewanians. 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 businesses decision to locate somewhere compared to a subsidy.[24]

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.[25] What is clear is that the level of taxation, compared to competing jurisdictions, affects a company's profitability, and ultimately its bottom-line and growth.[26]

In other words, competitive tax rates attract job creators and direct investment.[27] Lower tax rates also contribute to lowering the cost of capital for job creators, thus increasing their ability to re-invest in their company.[28]

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

Corporate welfare doesn't work and handouts only result in single companies getting payouts, while broad-based tax relief, such as completely cutting the small business tax, lets all businesses in that category retain more of its income to use to hire new workers and invest in new equipment.

Completely cutting corporate welfare will reduce budgeted spending by $869 million. Freeing up more funds to repay debt and use for tax relief.

21. https://www.saskatchewan.ca/government/news-and-media/2022/october/20/additional-75m-boost-for-film-and-television-grant-program
22. https://thestarphoenix.com/news/local-news/westjet-announces-new-direct-flights-from-saskatoon-to-minneapolis
23. https://www.fraserinstitute.org/sites/default/files/cost-of-business-subsidies-in-canada.pdf
24. https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf
25. https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e
26. https://www.oecd.org/mena/competitiveness/41997578.pdf
27. https://www.oecd.org/mena/competitiveness/41997578.pdf
28. https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

Continue to pay down the debt and control spending

The government's projected deficit is concerning. The government needs to act quick and return to balance. A balanced budget is the chance to make fiscal restraint the norm, rather than the exception.

Last year's balanced budget and debt repayment allowed taxpayers to save $66 million annually in interest charges, but more can and should be done.[29 30] The government should control future spending to project surpluses as well.

The 2023 mid- year report projects that, along with the deficit, the debt will start going up again this year and reach almost $18.9 billion. That's an $800 million increase compared to the $18.1 billion that the debt was projected to be at the end of this year.[31]

This can't happen.

The government needs to get its act together and stop the debt from increasing next year.

Taxpayers can't afford to waste anymore money on interest payments and future generations can't afford anymore government debt.

This year, the government is projected to spend $708 million on interest charges on the debt.[32] Costing every single Saskatchewan resident $587. That's almost two weeks worth of groceries for a family of four.

In the last five years, interest charges will have cost taxpayers over $2.4 billion, with charges increasing 41 per cent over the same period.[33]

Year	Interest Charges
2018-19	$414,789,000
2019-20	$452,726,000
2020-21	$480,514,000
2021-22	$503,551,000
2022-23	$586,095,000

Source: Saskatchewan Public Accounts.

If the government of Saskatchewan had been more prudent in the past and paid down the debt, that money could have been used to finance a one percentage point cut in the PST,[34] saving taxpayers money instead of wasting it on interest payments.

Since 2007, after adjusting for inflation, government revenues have increased 21 per cent.[35] Meanwhile, spending has increased by 53 per cent.[36]

The government needs to continue to balance the budget and pay down the debt. Expenses should be reduced, and not exceed revenues. Funding for new projects should not come from the tax burden of future generations through government debt.

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29. https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2022-23/budget-documents
30. https://www.saskatchewan.ca/government/news-and-media/2023/june/29/saskatchewan-finishes-202223-with-surplus-pays-down-15-billon-of-provincial-debt#:~:text=Saskatchewan's%20finances%20are%20strong,,in%20estimated%20future%20interest%20costs
31. https://www.saskatchewan.ca/government/news-and-media/2023/november/27/2023-24-mid-year-report-shows-revenue-growth-offset-by-expense-due-to-drought
32. https://thestarphoenix.com/opinion/columnists/opinion-saskatchewan-budget-failed-to-make-life-more-affordable
33. https://publications.saskatchewan.ca/#/categories/5584
34. https://thestarphoenix.com/opinion/columnists/gage-haubrich-good-decisions-in-sask-would-have-led-to-a-cut-in-pst
35. https://www.canada.ca/content/dam/fin/publications/frt-trf/2022/frt-trf-22-eng.pdf
36. https://www.canada.ca/content/dam/fin/publications/frt-trf/2022/frt-trf-22-eng.pdf

Working to continue to reduce the debt through reductions in government spending is paramount. Increasing interest rates means that holding government debt will only become more expensive.

Saskatchewanians cannot afford for the debt to start going back up again.

The $727 million in savings identified in this report can be used to pay down the debt and reduce the annual interest bill, allowing more funds to be freed up for tax relief or further debt repayment.

Start a Saskatchewan heritage fund

Ten years ago, the provincial government was told to start a heritage fund. The government failed to act and now the province is missing out on millions in interest income.

In 2013, former premier Brad Wall commissioned a report on heritage funds by former University of Saskatchewan president Peter MacKinnon. The report recommended the government should create a heritage fund.

"A permanent savings account in the form of a [heritage fund] could turn our one-time revenue from these resources into a lasting source of wealth for Saskatchewan people," MacKinnon said.[37]

Saskatchewan had a heritage fund before. Former premier Allan Blakeney set it up in 1978 "to invest part of non-renewable resources revenues into income-producing assets to ensure that future generations can benefit from resource development in Saskatchewan."[38]

This fund lacked sufficient protections that allowed it to be raided by politicians who couldn't control their spending habits. The government shut down the fund in 1992.[39]

The 2013 MacKinnon report recommended the creation of a heritage fund where the principal can not be spent.[40] MacKinnon also recommended capping resource revenues at 26 per cent of the budget and depositing the rest into the fund. He based this on the average percentage that resource revenues made up of total revenues for the five years prior.

Deposits into the fund are based on capping resource revenues at 14 per cent of total revenues. This was the average amount that resource revenues made up of the total provincial budget during the decade since the report was published. A 10-year average was used in this report because it provides a less volatile resource revenue value for the government to work with, especially in light of the unprecedented economic impact of the COVID-19 pandemic.

However, before investing in any new fund, the Saskatchewan government must deal with the province's debt problem. By the end of this year, the debt is projected to be $18.8 billion.[41] The government would be in a much better position today if it had been more fiscally prudent in the past.

In the past, the government has only made sporadic payments on the debt when revenues were especially high. Paying down the mortgage whenever you get a bonus is good, but it's not sustainable. There needs to be a plan to pay off debt and deposit savings regularly into a heritage fund.

The provincial government has already let a decade pass without action. There is no time left to procrastinate. Saskatchewan needs to pay down the debt and create a heritage fund.

If over the last 10 years, the Saskatchewan government had made repayments on the debt following a plan based on the MacKinnon report, the debt would have been reduced to about $2.5 billion, instead of the $18.8 billion it is projected to be at the end of this year.[42]

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37. https://www.saskatchewan.ca/government/news-and-media/2013/november/12/mackinnon-proposes-saskatchewan-futures-fund
38. https://www.uregina.ca/arts/economics/assets/docs/pdf/papers/109.pdf
39. https://www.uregina.ca/arts/economics/assets/docs/pdf/papers/109.pdf
40. https://www.saskatchewan.ca/government/news-and-media/2013/november/12/mackinnon-proposes-saskatchewan-futures-fund
41. https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2023-24/budget-documents
42. https://www.taxpayer.com/media/SK_HeritageFund_2023.pdf

If over the last 10 years, the Saskatchewan government had made deposits into a heritage fund following a plan based on the MacKinnon report, the fund would contain about $3.3 billion dollars today. The fund would have generated $722 million in interest over the last ten years and would generate $164 million in interest annually.[43]

43. https://www.taxpayer.com/media/SK_HeritageFund_2023.pdf

Conclusion

Saskatchewan is deviating from the right path with the projected deficit for this year. The province needs to get back to balance. All the while, high prices continue to financially hurt families, and the government should provide permanent tax relief.

To make life more affordable, the government should reduce PST by one percentage point. A PST cut would make life more affordable for those who need it most and it would result in $479 million being put directly back into the pockets of Saskatchewan residents and saving the average family $322 every year in provincial taxes.

Given the wage and benefit premium enjoyed by government employees over their private sector counterparts and the plurality that salaries and benefits make up of the government's 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 $408 million in savings that can be used to finance tax relief.

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 $869 million every year. Instead, the government should permanently eliminate the small business tax to make the province more competitive and save business owners money. Permanently axing the small business tax would save small businesses $63 million per year, with an average savings of about $2,000 per business.

Interest payments on government debt represent a recurring expense. That problem 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.

To build for the future, the government should also start a non-renewable resources heritage fund as a plan to pay down the debt and save for the future. If the government had implemented a fund based on the 2013 report's recommendations, the fund would contain about $3.3 billion today and generate $164 million in interest income annually. It's time to start a Saskatchewan heritage fund.

Overall, going forward the government should emphasize foundational fiscal prudence and respect for taxpayers. The budget should be balanced through controlling spending, not relying on tax increases. 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 $550 million back into the pockets of Saskatchewan residents and help save at least $1.3 billion in government operations. This will have a net positive budgetary impact of $727 million.