



CFIB Manitoba 2001 Pre-Budget

Small Business Tax Agenda for Manitoba

Presented to the Honourable Greg Selinger
Minister of Finance
January 24, 2001

Dan Kelly
Vice-President
Prairie Region

Shelly Wiseman
Senior Policy Analyst
Manitoba

Table Of Contents

1.0	INTRODUCTION.....	2
2.0	SMALL BUSINESS OUTLOOK FOR 2001	3
3.0	HIGH PRIORITY ISSUES / MOST HARMFUL TAXES	6
4.0	THE PRICE OF INACTION	7
5.0	PERSONAL INCOME TAX.....	8
6.0	PROPERTY TAX	11
7.0	CORPORATE INCOME TAX	12
8.0	MUNICIPAL GAS TAXES	15
9.0	PROVINCIAL SALES TAX.....	16
10.0	PAYROLL TAX	17
11.0	CORPORATION CAPITAL TAX.....	18
12.0	RECOMMENDATIONS	18
	Personal Income Tax:.....	18
	Property Tax:	19
	Corporate Income Tax:.....	19
	Gasoline and Diesel Fuel Taxes:.....	19
	Provincial Sales Tax	19
	Payroll Tax:	19
	Corporation Capital Tax:.....	19
13.0	CONCLUSION	20



1.0 INTRODUCTION

On behalf of the Canadian Federation of Independent Business (CFIB) and our 4,300 members in Manitoba, we wish to thank you for the opportunity to present our members' budget recommendations to you. This submission will expand upon the issues raised in our letter addressed to you on December 22, 2000.

To begin, we are pleased to inform you that CFIB's national membership reached 100,000 this past summer. We continue to represent the voice of small- and medium-sized businesses through out the country. Provincially, our membership has grown to 4,300 in 2000, up from 4,000 in 1999, representing businesses from all regions and every sector of the economy.

As you know, CFIB takes tax policy very seriously and has made many submissions to the provincial government outlining our members' priorities for changes. There are many reasons to reduce the burden of taxation on business – and in particular, on small business. A successful small business community is a key engine to entrepreneurship. Small firms have created a large portion of the net new jobs in the economy, which helps generate personal income tax revenue for the province. Today's small firms are also tomorrow's medium-sized or large firms – which outlines the importance of being competitive on all major forms of taxation.

In today's global business environment, it may not be good enough to be competitive on one or a few key tax rates. Different tax rates are important to different types of firms, and the Manitoba government must ensure the province is competitive right across the board.

Small business is very close to the consumer and understands the importance of ensuring that their customers are allowed to keep as much of their own disposable income as possible. Manitoba needs significant reform of its personal income tax structure to see this happen.

In the same way that small businesses are helped by lower taxes on individuals, consumers are also affected by the taxes businesses pay. Corporate tax rates, the provincial sales tax, commercial property taxes, and capital gains taxes, all affect the prices consumers pay and the salaries business owners are able to offer to employees.

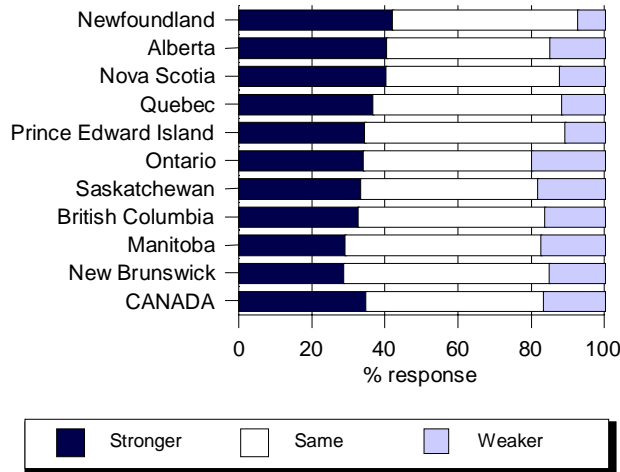
Tax cuts are not just good for business – they are good for all Manitoba residents. The benefits come through higher quality jobs and higher wages, as well as enhanced productivity, lower prices, increased economic activity, more investment to expand current businesses in the province, and a greater incentive to invest in start-up and emerging industries. We urge you give these recommendations careful consideration as you prepare the 2001 Manitoba budget.



2.0 SMALL BUSINESS OUTLOOK FOR 2001

In an annual survey of our members' expectations for the coming year, Manitoba businesses show the second lowest level of confidence in the economy.

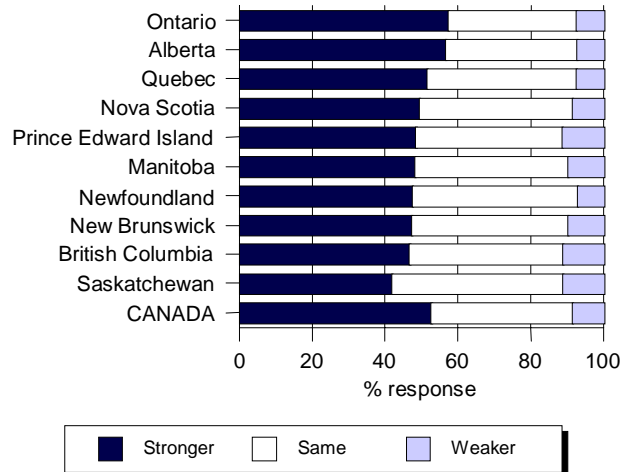
**SMEs' Canadian Economy
Expectations in 2001, by Province**



Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 1

**SMEs' Business Performance
Expectations in 2001, by Province**

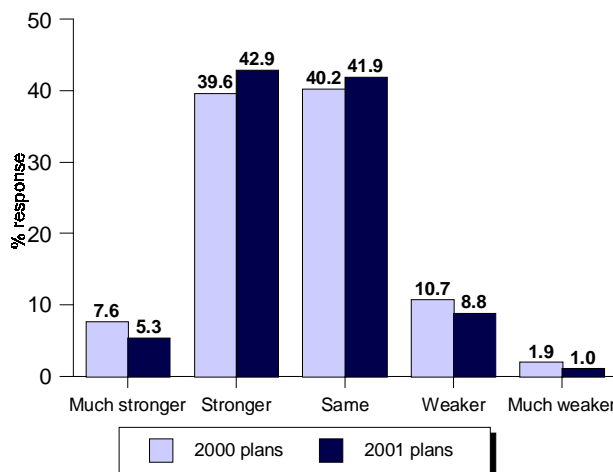


Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 2

However, when it comes to their own firms' prospects for next year, Manitoba was in the mid range with a reading of 48.3 per cent expecting stronger or much stronger performances.

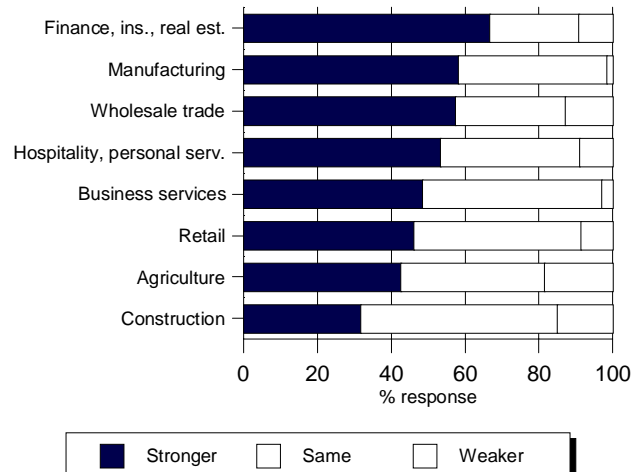
**Manitoba SMEs' Business
Performance Expectations in 2001**



Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 3

**Manitoba SMEs' Business Performance
Expectations in 2001, by Sector**



Source: CFIB *Hard Facts Survey* (Dec. 2000)

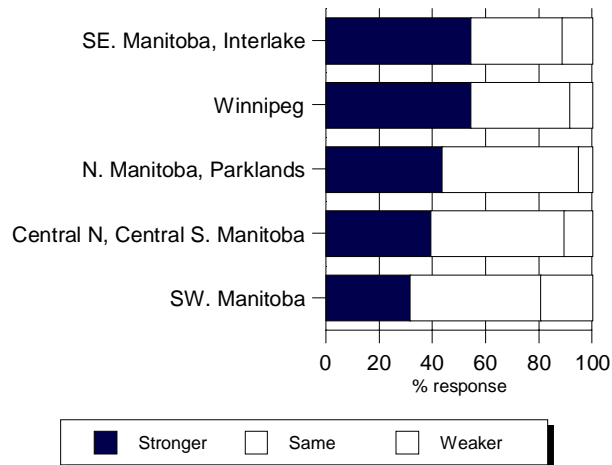
Figure 4

In addition, 41.9 per cent of respondents expect the same performance as last year, and 9.8 per cent anticipate a somewhat weaker or much weaker year.

The Manitoba firms most confident about their prospects for next year are in the financial services and manufacturing sectors, with 66.7 and 58.1 per cent of respondents respectively anticipating stronger growth. Those in the construction industry are the least optimistic about the coming year.

Regionally, Southeastern Manitoba has the highest performance expectations for 2001, with 54.6 per cent of members anticipating a much stronger or somewhat stronger year compared to 2000. Winnipeg followed closely with 54.4 per cent of members anticipating improved business performance, while 44.5 per cent of members in Central North, and 36 per cent in Central South expect a stronger

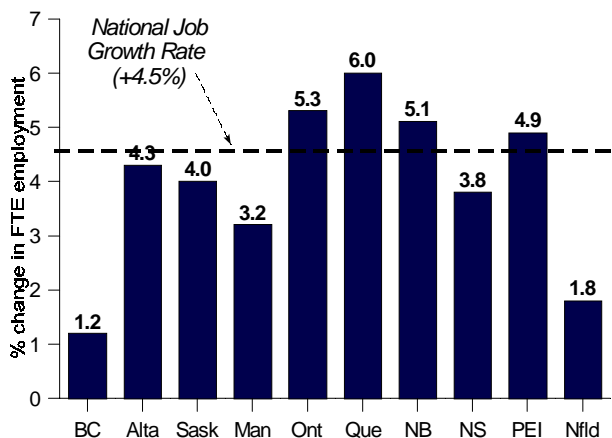
Manitoba SMEs' Business Performance Expectations in 2001, by Region



Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 5

SMEs' Net Employment Forecast for 2001, by Province



Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 6

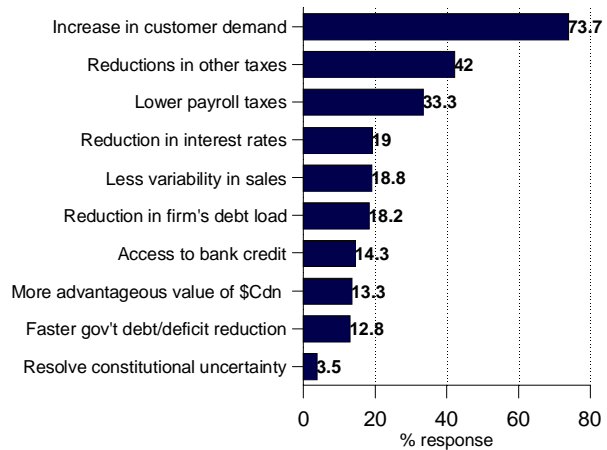
businesses performance in 2001. CFIB members in Northern Manitoba, Parklands, Southwestern Manitoba, and the Interlake anticipate a somewhat stronger economy with recordings of 47.4, 38.1, 31.7, and 35.7 per cent respectively.

Manitoba firms predicted the third lowest job growth rate with a net job growth forecast of 3.2 per cent, down from the forecast of 3.5 per cent last year.



When asked for the factors that would increase job creation – 74 per cent of respondents indicated an increase in customer demand would be of assistance. Also, lower taxation was viewed as a key way to boost hiring by 42 per cent of respondents, followed by lower payroll taxes such as Employment Insurance, Canada Pension Plan, and Workers' Compensation.

Factors That Would Encourage Job Creation Above Current Plans



Source: CFIB *Hard Facts Survey* (Dec. 2000)

Figure 7

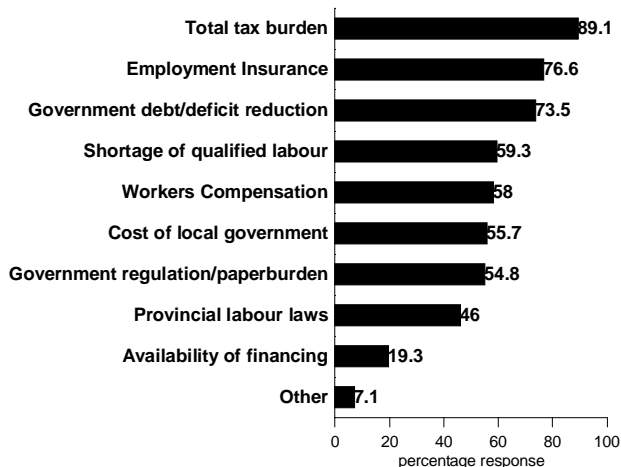
In assessing this current year, the survey results show it was a solid one for many smaller firms, with 41.6 per cent of Manitoba respondents reporting stronger growth compared to 1999, while 29.9 per cent report things were stable, and 28.5 per cent indicated weaker results.

Overall, the prospects for Manitoba small- and medium-sized businesses remain strong. However, when compared to the rest of the country, Manitoba members are less confident about their future, which is in part a result of the high level of taxation faced by firms in this province. It must also be remembered that Manitoba's labour laws are also factored into this equation. High taxes and aggressive pro-union legislation can be a frightening recipe for the Manitoba economy. Despite a positive outlook by many firms, immediate action is needed to ensure Manitoba can compete with other provinces.

3.0 HIGH PRIORITY ISSUES / MOST HARMFUL TAXES

The total tax burden remains the highest priority issue for CFIB members in Manitoba with 89.1 per cent of members citing it as a top priority in a recent survey. The second

High Priority Issues in Manitoba



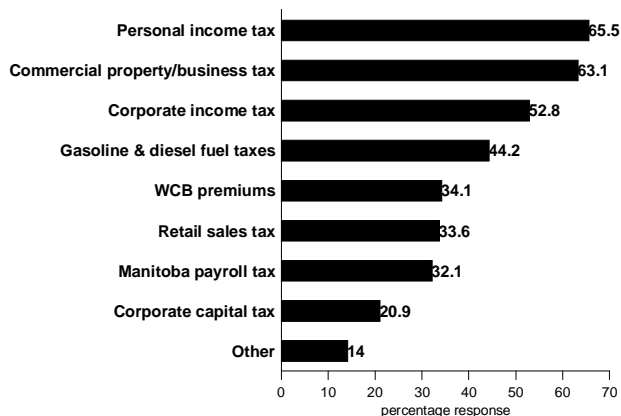
Source: CFIB *Our Members' Opinions Survey No. 47* (Jan. 2001)

Figure 8

When we examine our members' views with respect to taxation in more detail, the largest number (65.5 per cent) viewed personal income tax as the most harmful tax in Manitoba. Commercial property/business tax was regarded as the second most harmful tax at 63.1 per cent, followed by corporate income tax at 52.8 per cent, and gasoline and diesel fuel taxes at 44.2 per cent. Workers' compensation premiums and retail sales tax had readings of 34.1 and 33.6 per cent respectively. Manitoba payroll tax was viewed as one of the most harmful taxes by 32.1 per cent of our members and 20.9 per cent viewed the corporate capital tax as most harmful.

most important issue was Employment Insurance with a response of 76.6 per cent, followed by government debt/deficit at 73.5 per cent, shortage of qualified labour with 59.3 per cent, and workers' compensation and the cost of local government reporting 58.0 and 55.7 per cent respectively. Government regulation/paperburden followed closely with 54.8 per cent of members citing it as a priority issue, along with provincial labour laws with a rating of 46.0 per cent.

Most Harmful Taxes in Manitoba



Source: CFIB *Provincial Survey No. 24* (Sept. 2000)

Figure 9

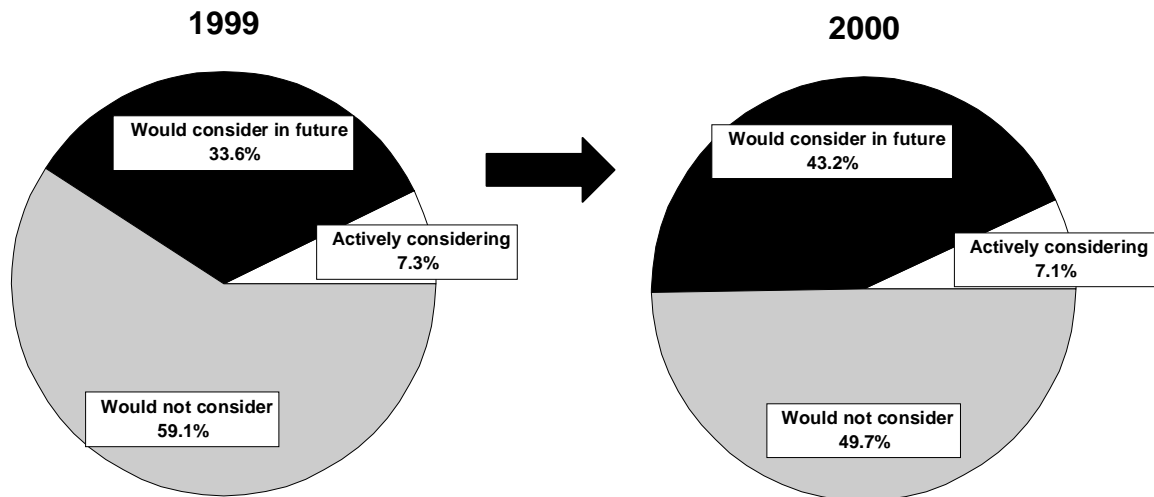
It is clear that CFIB members in every region of the province are affected by Manitoba's high tax rates. The remaining portion of this presentation will focus on specific taxation issues and consequences of government inaction.



4.0 THE PRICE OF INACTION

The total tax burden in Manitoba has caused many of our members to reconsider their current and future business plans in this province. In 1999, 40.9 per cent of our members stated they were either actively considering, or would consider in the future, relocating their firm to another province/jurisdiction with a more favourable provincial tax climate. By 2000, the percentage of firms either actively or potentially considering relocating their firm increased to 50.3 per cent – an increase of over 20 per cent. With just over half of Manitoba's small firms reporting that they are considering or would consider relocating outside of Manitoba, the need for immediate action on the part of government is evident.

Would you consider moving your firm to another province/ jurisdiction with a more favourable provincial tax climate?



Source: CFIB *Provincial Survey No. 23* (Aug. 1999)

Figure 10

Source: CFIB *Provincial Survey No. 24* (Sept. 2000)

Figure 11

Despite the progress made in reducing the small business corporate tax rate in Manitoba, the combination of Manitoba's personal income tax, corporate income taxes, payroll tax, property tax, and broad provincial sales tax creates an uncompetitive and expensive environment for firms to do business. Reductions in the personal income tax in Saskatchewan and Alberta, low corporate tax rates in Alberta and Ontario, and the fact that many other provinces have no payroll tax at all, places Manitoba in a very uncompetitive situation for doing business.

5.0 PERSONAL INCOME TAX

As indicated above, CFIB members cited personal income tax (PIT) as the most harmful form of taxation in Manitoba. In fact, an overwhelming 65.5 per cent of our members felt PIT was most harmful. The concern over PIT has grown steadily over the past number of years, and now represents a top issue for two-thirds of our members.

Most Harmful Taxes in Manitoba: 1991 - 2000

TAX/CHARGE	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Personal income tax	41.8	41.4	35.0	39.2	45.3	48.5	48.5	56.3	64.8	65.5
Local commercial property & business taxes (a)	52.7	50.1	58.5	60.1	61.1	59.5	62.8	60.0	63.0	63.1
Corporate income tax	35.4	47.0	33.7	33.0	35.8	40.3	40.0	46.3	50.3	52.8
Gasoline and diesel fuel taxes	35.9	34.0	33.5	27.9	35.6	33.2	29.5	26.6	36.3	44.2
Workers' compensation premiums	43.8	46.6	47.2	50.3	41.1	46.2	36.8	31.7	31.8	34.1
Provincial retail sales tax	21.1	22.9	26.5	28.3	25.7	29.0	26.3	27.1	34.5	33.6
Health and education payroll tax	23.0	20.4	22.4	19.4	20.0	22.7	20.5	21.0	30.6	32.1
Capital tax (b)	-	-	-	-	-	-	12.8	16.6	17.8	20.9
Other fees (b)	8.8	7.0	8.7	12.6	10.1	9.7	12.8	9.8	16.0	14.0
Other taxes (b)	15.5	18.7	13.5	12.1	10.3	9.2				

Source: CFIB Provincial Surveys No. 15-24 (1991 - 2000)

Frequency of response in %

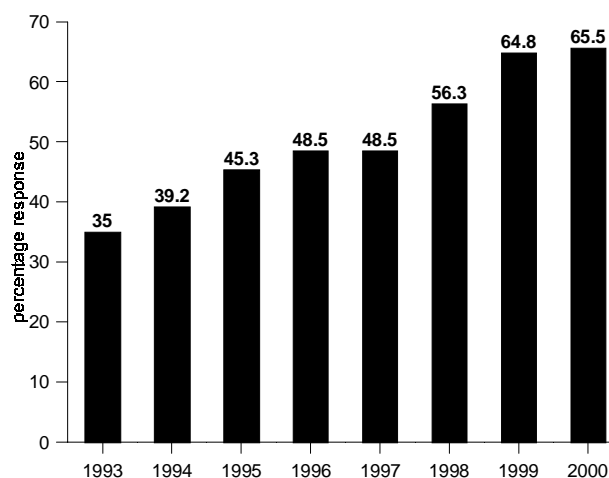
Notes: (a) Prior to 1993, commercial property and business tax were surveyed separately.

(b) In 1997, capital tax was separated from other taxes, and only one "other" category was asked.

Figure 12

Despite minor reductions in PIT over the past few years, Manitoba now maintains the highest level of personal income tax for average families in the country. As clearly outlined in your government's 2000 provincial budget, a family of four with an annual income of \$60,000 pays more personal income tax in Manitoba than in any other province in Canada. For the first time in many years, this average Manitoba family will pay more personal income tax than those in Saskatchewan, Québec, and Newfoundland.

Growing Concern over Personal Income Tax



Source: CFIB Provincial Surveys No. 17-24 (1993 - 2000)

Figure 13



Personal income tax reductions have been, and continue to be, introduced in many provinces. As you know, Saskatchewan recently introduced a plan for major reductions in personal income taxes. Once that plan is fully implemented, a Manitoba family of four with \$60,000 in income will pay 26 per cent more personal income tax than in Saskatchewan. When compared to Alberta, the gap becomes even wider. This same family in Manitoba will pay 79 per cent more provincial personal income tax once Alberta's reforms are fully implemented.

Prairie Personal Income Tax Comparison Family of 4 @ \$60,000

<u>Manitoba 2002</u>	<u>Saskatchewan 2003</u>	<u>Alberta 2001</u>			
10.9% on 1st \$30,544	3,329	11% on 1st \$35,000	3,850	10.0% of total income	\$6,000
15.6% on balance up to \$65,000	4,595	13% on balance up to \$100,000	3,250		
17.5% over \$65,000	-	15% over \$100,000	-		
Preliminary Manitoba Tax	\$7,924	Preliminary Saskatchewan Tax	\$7,100		
		<u>Non-Refundable Credits</u>		<u>Non-Refundable Credits</u>	
<u>Non-Refundable Credits</u>		Basic Amount	8,000	Basic Amount	12,900
Basic Amount	7,494	Spousal Amount	8,000	Spousal Amount	12,900
Spousal Amount	6,363	Child (x2)	5,000	Other (EI/ CPP)	2,300
Other (EI/ CPP)	2,300	Other (EI/ CPP)	2,300		
	16,157		23,300		28,100
Non-Refundable Credits @ 10.9%	\$1,761	Non-Refundable Credits @ 11%	\$2,563	Non-Refundable Credits @ 10.0%	\$2,810
<u>Manitoba Tax Reduction</u>					
Basic	225				
Spousal	225				
Child (x2)	600				
Less 1% Net Income	-600				
	450				
Total Tax Reduction	\$450				
Manitoba Income Tax	\$5,713	Saskatchewan Income Tax	\$4,537	Alberta Income Tax	\$3,190

This Manitoba family will pay 26 per cent more than in Saskatchewan, and 79 per cent more than in Alberta.

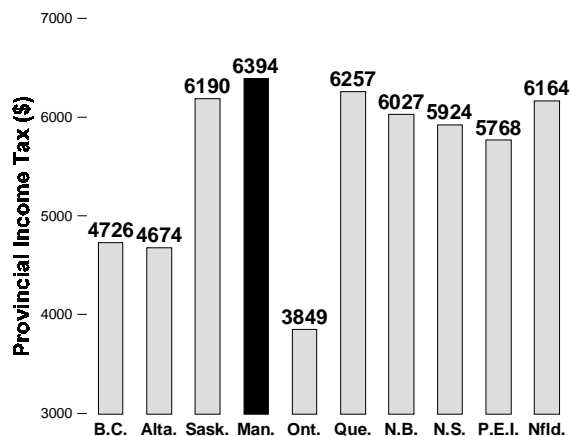
Figure 14



Without immediate action, Manitoba families will quickly fall behind other provinces in terms of take-home income, despite our low cost of living.

As Manitoba has de-linked our personal income tax structure from the federal government, we will not receive the benefit of provincial tax reductions as a result of the federal budget or mini-budget. Other provinces have committed to tax reductions that ensure their taxpayers do not fall behind. We find this particularly disturbing as the province has not moved to end provincial income tax “bracket creep”, despite the positive moves made in Ottawa and many other provincial capitals.

Personal Income Tax Payable on \$60,000 Income (family of four)



Source: Manitoba 2000 Budget

Figure 15

2000 Tax Gap Between Manitoba and:

Ontario	66%	P.E.I.	11%	Newfoundland	4%
Alberta	37%	Nova Scotia	8%	Saskatchewan	3%
British Columbia	35%	New Brunswick	6%	Quebec	2%

Tax gap based on family of 4 with a household income of \$60,000

Figure 16

In addition, it is important to point out that over one-third of our members recently reported that Manitoba’s personal income taxes were negatively impacting on their ability to attract and keep qualified labour. A recent CFIB survey indicates that the shortage of qualified labour is on the rise in Canada with the highest concern expressed by Manitoba members – 59 per cent.

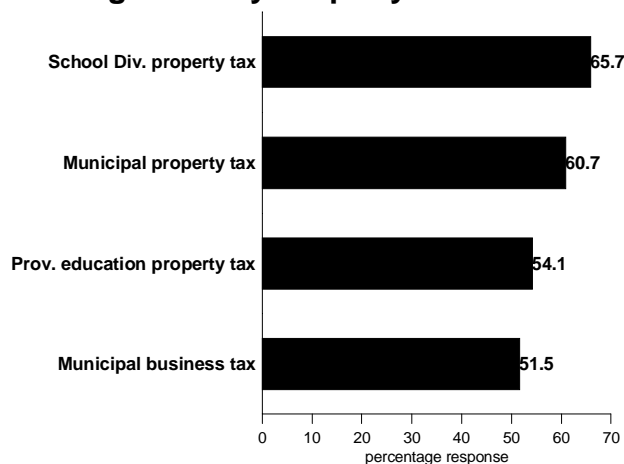
CFIB urges the government to take action to ensure Manitoba remains a competitive place to live and do business. A reduction in personal income tax rates, expansion of deductions, raised thresholds in tax brackets, and re-indexation to inflation are essential to ensure businesses remain in Manitoba and are able to prosper.



6.0 PROPERTY TAX

As noted above, commercial property / business tax was viewed as the second most harmful form of taxation by our members. In an earlier CFIB survey with respect to property-based taxes, school division property taxes were regarded as the highest

High Priority Property Tax Cuts



Source: CFIB *Provincial Survey No. 23* (Aug. 1999)

Figure 17

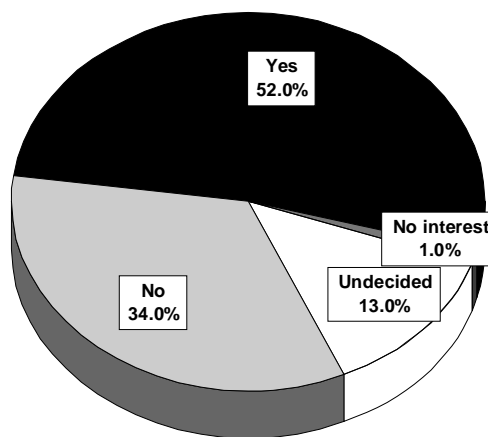
While your government has enriched the property tax credits for homeowners, CFIB recommends the province adopt a property tax methodology which is fair and affordable to both business and residential properties. Currently, businesses in Manitoba, especially Winnipeg, pay an unfair amount of property tax. CFIB supports the eventual elimination of the provincial education tax for homeowners, but cautions business owners cannot be left out of any plan. In putting forward any plan to reduce or eliminate the provincial education property tax, we urge the government to first equalize the tax treatment of business and residential property. Announcing a plan to reduce the commercial rate from 18 mills to 8 mills over time would be an excellent start.

priority, followed by municipal property taxes, the provincial education property tax, and municipal business tax.

Of major concern to CFIB members is the significant property tax disparity between commercial and residential properties. Businesses pay taxes on a higher portion of assessed value – 65 per cent for most commercial property, versus 45 per cent for private homes. In addition, businesses pay more than double the rate of provincial education property taxes.

Manitoba Education Taxes

Should homeowners and business owners pay the same provincial education mill rate?



Source: CFIB *Mandate Survey No. 186* (Aug. 1997)

Figure 18



7.0 CORPORATE INCOME TAX

As you know, CFIB has commended your government for its commitment to follow through on the planned reductions in the small business corporate tax rate. However, due to changes in other jurisdictions, Manitoba's corporate income tax structure for other sizes of firms is becoming increasingly uncompetitive.

A top priority of CFIB is the reduction of corporate income tax rates in Manitoba. As mentioned earlier, in a survey conducted in September 2000, 52.8 per cent of our members cited corporate income tax as the most harmful tax in Manitoba. Corporate income taxes were viewed as the third most harmful form of taxation in the province. Concern over corporate income tax was only exceeded by the two-thirds of respondents citing personal income tax and 63.1 per cent suggesting commercial property / business taxes as most harmful.

**Corporate Income Tax Comparison
Small Business Rate - Under \$200,000
(Present or Scheduled Rate)**

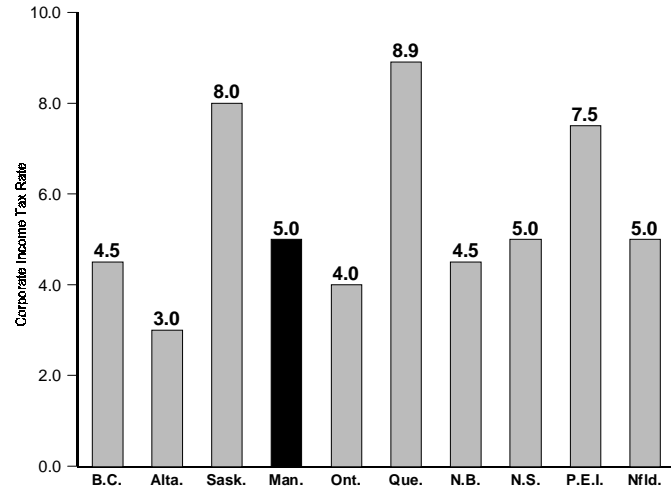


Figure 19

**Corporate Income Tax Comparison
Medium Rate - Between \$200,000 - \$400,000
(Present or Scheduled Rate)**

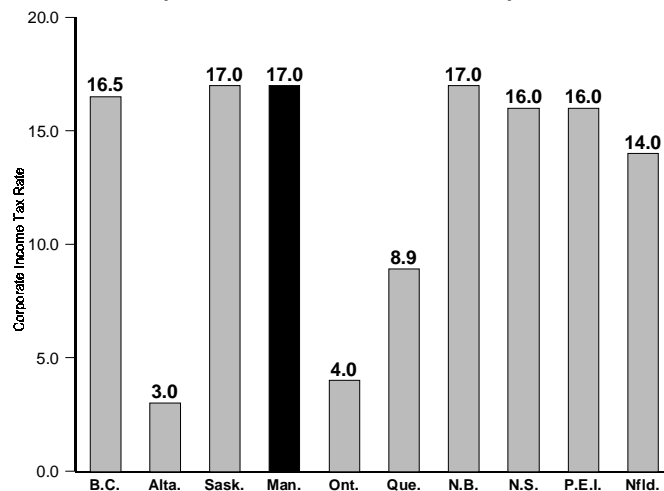


Figure 20

While CFIB is pleased your government is in the process of reducing the small business tax rate to five per cent by 2002, we urge you to increase the small business corporate tax threshold from \$200,000 to \$400,000 over the coming years. Such action would help protect the province's medium-sized firms and create a more competitive tax environment.

As you know, the Ontario government announced it will raise its small business threshold from \$200,000 to \$400,000, and reduce the corresponding small business



rate to four per cent. This decision will create a more favourable and profitable business climate in Ontario.

In Alberta, the government responded to its Business Tax Review by announcing massive corporate tax changes. The province will raise its small business corporate tax threshold from \$200,000 to \$400,000, lower its small business rate from six to three per cent, and cut its top corporate rate from 15.5 to eight per cent.

These lower corporate tax rates will have major implications on Manitoba, as they will exacerbate the already significant tax gap between these provinces. In particular, medium-sized firms will now pay four times more tax in Manitoba than Ontario, and nearly six times more tax than in Alberta.

**Corporate Income Tax Comparison
Large Rate - Above \$400,000
(Present or Scheduled Rate)**

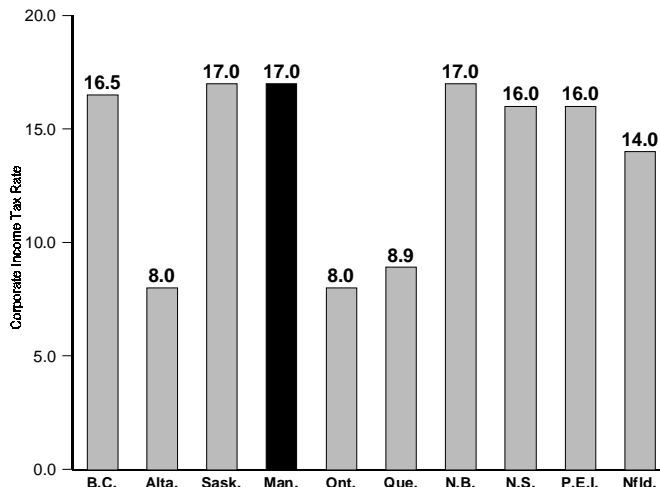


Figure 21

**Corporate Income Tax Rates
(Upon full implementation)**

Corporate Income	Manitoba	Alberta	Ontario
Under \$200,000	5%	3%	4%
\$200,000 - \$400,000	17%	3%	4%
Over \$400,000	17%	8%	8%

Figure 22

The corporate taxation disparity between Manitoba, Ontario, and Alberta is significant. For example, a business with an annual income of \$390,000 in Manitoba will pay 17 per cent corporate income tax on nearly half of its income. In comparison, a business with the same annual income in Ontario will pay four per cent corporate income tax and three per cent in Alberta on its entire business income.

As the Federal government currently collects corporate income tax on behalf of the province, we recognize that it may be administratively difficult for Manitoba to unilaterally raise its small business threshold. However, it is our understanding that the province has the ability to address this by using the opportunity provided with the Federal decision to reduce taxes on income between \$200,000 and \$300,000. For the next number of years, the Federal government has essentially created a medium-sized



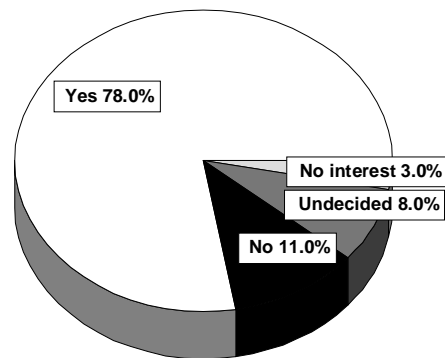
business tax rate of 21 per cent, in between the small business rate of 12 per cent and the top rate (which is being reduced from 28 per cent over time). The Manitoba government should seize this opportunity to raise its small business threshold to \$300,000, or establish a medium-sized rate.

In a survey conducted in September 2000, 78 per cent of CFIB members supported the introduction of a provincial middle income tax bracket. The cost to government of such a change would be extremely small, but it would send the message to entrepreneurs that the province encourages growth of our existing business community.

The reduction and eventual elimination of business subsidies is an option CFIB recommends to provide government with additional revenue to help pay for a reduction in the corporate income tax rate. In a survey conducted by CFIB, 58 per cent of our members opposed all forms of business subsidies. It is CFIB's view that providing business subsidies, particularly during strong economic times, is inappropriate and harmful. Many of the loan programs offered by government are market distorting and provide advantages for certain businesses over their subsidy free competitors. Instead, a decision to reduce taxes would benefit all businesses rather than provide benefits to a few.

CFIB has always argued that our members want to help themselves. By reducing and eliminating the many burdensome taxes business owners face in Manitoba and allowing firms to retain a greater share of their own earnings, businesses can afford to address their expansion and marketing needs. The practice of taxing business and subsequently providing funding in the form of grants and subsidies is archaic and non-productive. We encourage you to review our recent correspondence to Ministers Mihychuk and Friesen, in which we make specific recommendations with respect to Manitoba's subsidy programs.

Corporate Income Taxes
Should the Manitoba government introduce a middle income bracket for corporate income taxation?



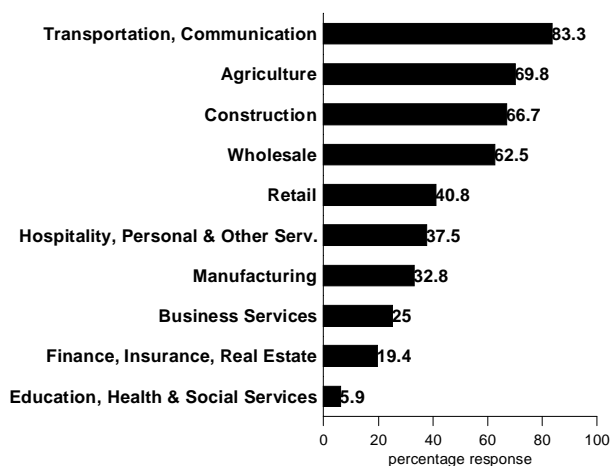
Source: CFIB Mandate Survey No. 200 (Sept. 2000)

Figure 23

8.0 MUNICIPAL GAS TAXES

Gasoline and diesel fuel taxes were viewed as the most harmful tax in Manitoba by 44.2 per cent of our members. Given the sky rocketing cost of fuel, it is not surprising to see the significant number of small business owners who rank gasoline and diesel fuel taxes as a high priority for reduction.

Concern Over Gasoline and Diesel Fuel Taxes, by Sector



Source: CFIB Provincial Survey No. 24 (Sept. 2000)

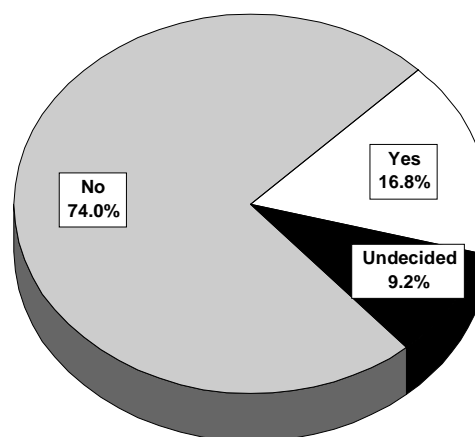
Figure 24

In a break down by industrial sector, it is apparent the high cost of fuel has implications for business. Over 83 per cent of our member in the transportation and communication sector reported gasoline and diesel fuel as the most harmful tax in Manitoba. This was followed by 69.8 per cent in the agricultural sector, 66.7 per cent in construction, and 62.5 per cent in wholesale trade who felt gasoline and diesel taxes were most harmful.

CFIB has also surveyed its members on the issue of establishing an additional fuel tax for regional road improvements. Almost three quarters of members opposed the idea.

CFIB recommends the province announce a longer-term strategy to bring down gasoline and diesel fuel taxes.

Municipal Gas Taxes Do you favour an additional fuel tax to pay for regional road improvements?



Source: CFIB Provincial Survey No. 22 (Aug. 1998)

Figure 25

9.0 PROVINCIAL SALES TAX

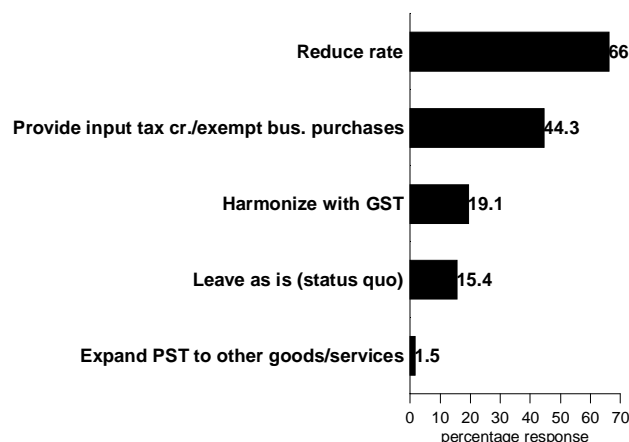
While somewhat further down the list of top tax priorities, a significant percentage of small businesses want to see a reduction in the provincial sales tax (PST) rate. As mentioned above, 33.6 per cent of our members view the PST as the most harmful tax in Manitoba. In a subsequent survey question, our members were asked for their priorities for changes to the PST. A full 66 per cent cited reduced rates, 44.3 per cent called for exemptions for business purposes / provisions for input tax credits, while 19.1 per cent said harmonization with the Goods and Service Tax was a priority. A further 15.4 per cent want PST to remain as is, and 1.5 per cent suggested an expansion of the tax to other goods and services.

Our provincial sales tax remains one of the broadest in Canada and is paid in large part by business taxpayers. Small firms look at the impact of the PST from at least two perspectives. First, small firms are very aware of the impact of taxation on consumer behaviour. A reduction in the PST rate would place more money in the hands of the consumer allowing for an increase in disposable income. At the same time, the PST is a significant business tax, which drives up the cost of doing business in the province. Thus, a reduction in the PST alleviates two of the concerns of doing business

in Manitoba. Consumers would have an increased disposable income, and the cost of doing business would be reduced, creating a more competitive business environment.

In the short-term, CFIB recommends the PST exemption for electricity for mining and manufacturing be expanded to all business sectors. Given the dramatic increase in the cost of natural gas, we further recommend the province eliminate the PST on this vital commodity. Due to the significant difficulties facing the agricultural community, we also suggest that the PST be eliminated on materials used in the construction of farm buildings (as is presently the case in Saskatchewan and Ontario). We would also be willing to work with government to develop a strategy to exempt more business inputs from the grip of the PST. Not only would this help reduce the cost of doing business for small firms, but it would help prepare the province for any future consideration of the harmonization of the PST with the GST. While costly, we also recommend the province

Priorities for Changes to the Retail Sales Tax



Source: CFIB *Provincial Survey No. 24* (Sept. 2000)

Figure 26

reduce the rate of the PST, as has recently occurred in Saskatchewan. Our neighbouring province has cut its rate by one-third (from 9 per cent to 6 per cent) in the last few budgets. Manitoba should set as a medium-term goal to match the PST structure of Saskatchewan.

10.0 PAYROLL TAX

Manitoba remains the only province in Western Canada that charges a separate and unique payroll tax on its firms – the Levy for Health and Post-Secondary Education. While the exemption threshold now stands at \$1 million, firms of all sizes view the tax as a considerable disincentive to doing business in Manitoba. In fact, 32.1 per cent of CFIB members cited the payroll tax as the most harmful tax in Manitoba. The percentage increases to 84.6 per cent if we just consider those businesses that employ 50 or more staff, which are more likely to have payroll in excess of \$1 million. CFIB has always maintained that the existence of

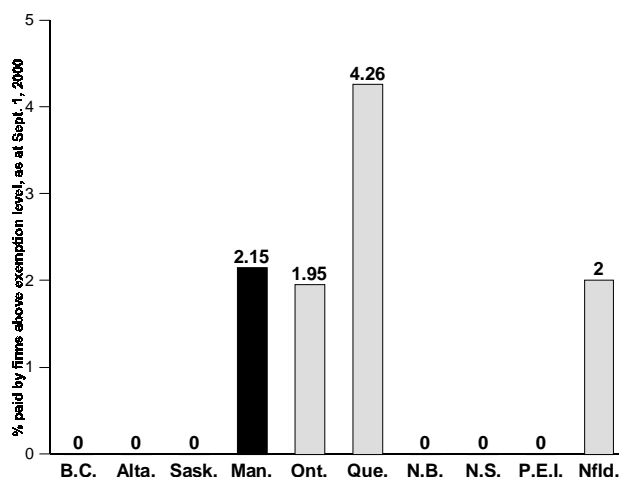
Concern Over Manitoba's Payroll Tax, by Size of Firm (number of employees)

0-4	20.9%
5-19	21.1%
20-49	59.0%
50+	84.6%

Figure 28

before paying the 2.15 per cent rate. Alternatively, the province should set a plan in place to raise the exemption threshold by \$250,000 per year to exempt a larger number of firms from this punishing form of taxation. This second alternative would have an extremely low cost to the provincial treasury.

Interprovincial Comparison of Payroll Taxes



Note: Rates effective September 1, 2000. Provinces have lower rates, deductibles, and/or exemptions for firms of varying sizes.

Figure 27

the payroll tax is a considerable impediment to expansion and growth in the province.

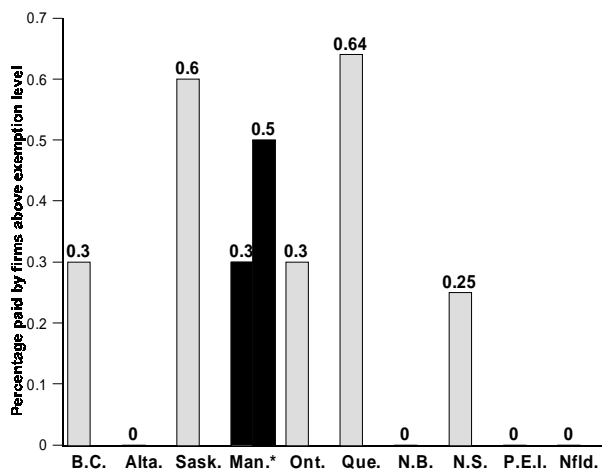
In previous years, we have suggested a number of different ways in which the province could address the challenge of the payroll tax. For example, the province could convert the \$1 million exemption threshold into a deductible, which would allow all firms to deduct the first \$1 million

11.0 CORPORATION CAPITAL TAX

While further down on the list of most harmful taxes, and affecting fewer businesses, 20.9 per cent of small firms cite the Corporation Capital Tax as the most harmful tax in Manitoba.

CFIB would like to see the Corporation Capital Tax converted to a deductible system similar to the approach taken by Saskatchewan. While Saskatchewan has a higher rate of capital tax, it provides a \$10 million deduction to all firms. CFIB recommends the province convert its \$5 million exemption into a deductible, and then raise the level on a regular basis toward eliminating this tax.

Interprovincial Comparison of Corporation Capital Taxes



Note: Manitoba charges a 0.2% surtax on taxable paid up capital in excess of \$10 million.

Figure 29

12.0 RECOMMENDATIONS

In order to ensure Manitoba's economy continues to grow, we urge the province to make a number of changes to the provincial tax structure in 2001. In particular, we believe that Manitoba should be able to establish a short-term goal to have tax levels at the same level as our neighbours in Saskatchewan.

Personal Income Tax:

- End provincial income tax "bracket creep" by indexing our tax system to inflation;
- Significantly increase the basic personal exemption and spousal exemption to reduce the burden on low-income families (at minimum \$8,000 each);
- Raise the thresholds of the income tax brackets to \$35,000 and \$100,000 respectively; and,
- Reduce personal income tax rates to ensure all Manitoba families pay no greater income taxes than Saskatchewan. This would require the province to lower the middle rate from 15.6 to 13 per cent, and the top rate from 17.5 to 15 per cent.



Property Tax:

- Reduce the education support levy on commercial property to the same level as residential property.

Corporate Income Tax:

- Seize the opportunity provided by the federal government to raise the small business threshold to at least \$300,000, or introduce a permanent middle corporate income tax rate;
- Reduce the general corporate tax rate by one point per year for the next four years; and,
- Consider additional reductions of the small business corporate tax by eliminating any remaining subsidies to businesses.

Gasoline and Diesel Fuel Taxes:

- Introduce a long-term plan to reduce the tax by 0.5 cents per year for five years.

Provincial Sales Tax

- Expand the sales tax exemption for electricity for manufacturing and mining to other sectors;
- Exempt all sales tax on natural gas for business purposes to help address rising energy prices;
- Exempt PST for materials used in the construction of farm buildings (as is the case in Saskatchewan and Ontario);
- Work with CFIB to expand the list of PST exemptions for business inputs to keep Manitoba's tax on par with other provinces; and,
- Lower the rate to six per cent to stay competitive with Saskatchewan.

Payroll Tax:

- Convert the \$1 million exemption threshold into a deductible for all firms; and/or,
- Raise the threshold or deductible by \$250,000 per year as part of a long-term strategy to eliminate the tax.

Corporation Capital Tax:

- Convert the \$5 million exemption threshold into a deductible for all firms; and/or,
- Raise the threshold or deductible by \$1 million per year as part of a long-term strategy to eliminate the tax.

We believe these changes would assist us in ensuring Manitoba remains competitive with other jurisdictions. As noted above, while Manitoba tax rates have historically been higher than both Alberta and Ontario, we are alarmed to note that on most major rates



of taxation, Manitoba is not competitive with Saskatchewan. Once tax reductions are fully implemented in Saskatchewan, Manitoba will have:

- 26 per cent higher personal income taxes for average families than Saskatchewan;
- 17 per cent higher sales taxes than Saskatchewan;
- a 2.15 per cent payroll tax versus no payroll tax in Saskatchewan; and,
- a 0.3 per cent capital tax for firms between \$5 and \$10 million versus no tax in Saskatchewan.

13.0 CONCLUSION

While CFIB recognizes the pressure your government is under to ensure a fair and balanced budget, we urge you to consider the dire consequences if Manitoba's high tax burden is not addressed. With 50.3 per cent of the small business community reporting that they are considering or would consider relocating outside of the province – up 20 per cent in one year – the need for immediate action on the part of government is evident.

As a short-term goal, CFIB strongly recommends your government follow the lead of Saskatchewan with respect to personal income tax and sales taxes. In addition, now that the province has lowered corporate income tax rates for small firms with profit under \$200,000, we urge you to take a similar initiative for medium-sized firms. By raising the small business threshold or establishing a medium-sized rate for corporate income up to \$300,000, Manitoba will be more competitive with Alberta and Ontario where the small business threshold is increasing to \$400,000.

We also recommend the province announce longer term plans to equalize the provincial education tax treatment between home and businesses, and lower gasoline and diesel fuel taxes, the payroll tax, and the corporation capital tax. We believe that if such a plan were adopted, Manitoba's economy would continue to prosper for the decade ahead.

Tables and Charts

Figure #	Title	Page
1	SME's Canadian Economy Expectations in 2001 by Province	3
2	SME's Business Performance Expectations in 2001, by Province	3
3	Manitoba SME's Business Performance Expectations in 2001	3
4	Manitoba SME's Business Performance Expectations in 2001, by Sector	3
5	Manitoba SME's Business Performance Expectations in 2001, by Region	4
6	SME's Net Employment Forecast for 2001, by Province	4
7	Factors That Would Encourage Job Creation Above Current Plans	5
8	High Priority Issues in Manitoba	6
9	Most Harmful Taxes in Manitoba	6
10	1999 Consideration to Move Business from Province	7
11	2000 Consideration to Move Business from Province	7
12	Most Harmful Taxes in Manitoba 1991 – 2000	8
13	Growing Concern Over Personal Income Tax	8
14	Prairie Personal Income Tax Comparison	9
15	Personal Income Tax Payable on \$60,000 Income (family of 4)	10
16	2000 Tax Gap between Manitoba and Other Provinces	10
17	High Priority Property Tax Cuts	11
18	Manitoba Education Taxes	11
19	Corporate Income Tax Comparison – Small Rate	12
20	Corporate Income Tax Comparison – Medium Rate	12
21	Corporate Income Tax Comparison – Large Rate	13
22	Corporate Income Tax Rates (upon full implementation)	13
23	Corporate Income Taxes	14
24	Concern Over Gasoline & Diesel Fuel Taxes, by Sector	15
25	Municipal Gas Taxes	15
26	Priorities for Changes to the Retail Sales Tax	16
27	Interprovincial Comparison of Payroll Taxes	17
28	Concern Over Manitoba Payroll Tax (by size of firm)	17
29	Interprovincial Comparison of Corporation Capital Taxes	18