



**MANITOBA  
CHAMBERS OF  
COMMERCE**

***2019 Provincial Budget Submission***

**November 19, 2018**

## **Introduction**

The Manitoba Chambers of Commerce (MCC), established in 1931, is the umbrella organization for Manitoba's chamber movement. With a membership comprised of 70 Local Chambers of Commerce, as well direct Corporate Members, the Manitoba Chambers of Commerce is Manitoba's largest and most diverse business lobby, representing close to 10,000 businesses and community leaders.

Our Vision is to make Manitoba the Best Place to Live and Work. Our Mission is to champion sustainable economic growth leading to greater prosperity for business and communities in Manitoba.

It's that Vision and Mission that we have for the province that drives our comments to the provincial government as it deliberates in the development of Budget 2019.

## **Budget 2019**

The Manitoba Chamber of Commerce believes that for Manitoba to achieve the level of prosperity needed to take the Manitoba economy to the next level the provincial government needs to increase its focus in the budgeting process to ensure economic growth is the driving force behind decisions that are made and that decisions that are made are viewed through the lens of making Manitoba more competitive.

2018 has been a challenging year for business as the ongoing discussions, and negotiations surrounding NAFTA and the subsequent USMCA agreement have created significant uncertainty within the business community.

Throughout the last year, the United States has been increasingly aggressive in making their economy more competitive through significant tax reductions and reducing regulatory burdens. This has had a significantly positive impact on the U.S. economy.

Meanwhile, Manitoba continues to face long-term economic challenges:

- Heavy debt loads and almost \$1-billion annual payments to service that debt
- Manitoba has seen its credit rating downgraded twice in the past four years;

While the government has made strides on a number of key metrics relevant to business – deficit reductions, red tape reduction, spending restraints, and minor tax relief and adjustments we must continue to create a greater balance between cutting expenditures and growing the Manitoba economy.

In today's globally competitive business environment it is imperative that government create a climate that attracts new business and allows existing businesses to grow and thrive. For Manitoba to reach its full potential, there are seven key public policy pillars

that Manitoba must address to demonstrate our collective commitment to “Growing Manitoba’s Economy.”

#### I. FISCAL COMPETITIVENESS

Manitoba must have an effective and fiscally prudent government committed to creating a competitive tax jurisdiction to attract and retain new investment.

#### II. VENTURE CAPITAL

Commitment to the creation of an accessible venture capital fund and supportive tax credit policies to leverage investment in the growth of new and existing businesses.

#### III. GLOBAL TRADE

Commitment to pursuing an expanded global trade profile for Manitoba which derives substantial economic benefit.

#### IV. INFRASTRUCTURE INVESTMENT

Commitment to a strategic, sustained, disciplined approach to investment in Manitoba's core infrastructure.

#### V. ABORIGINAL ENGAGEMENT

Commitment to the creation of an Aboriginal Engagement Strategy to ensure inclusion and partnership in economic growth policies.

#### VI. SKILLED WORKFORCE

Commitment to attracting, educating, training and retaining a skilled, responsive workforce is fundamental to ongoing economic growth.

#### VII. 'NEW FISCAL DEAL' FOR MUNICIPALITIES

Commitment to address the existing fiscal framework between the province and municipalities to meet the challenges of the future.

The Chamber believes that if Budget 2019 is focused on increasing economic opportunities and prosperity in the province, these public policy pillars will be positively influenced.

## **Background – Manitoba Prosperity Report**

The Manitoba Employers Council (MEC), established in 1980, is the most significant collection of individual employers and employer associations in Manitoba.

In 2018, the Manitoba Employers Council undertook a process of reviewing and analyzing a number of key economic indicators over the last ten years to determine whether Manitoba has achieved its prosperity potential relative to neighboring jurisdictions (BC, Alberta, Saskatchewan, and Ontario).

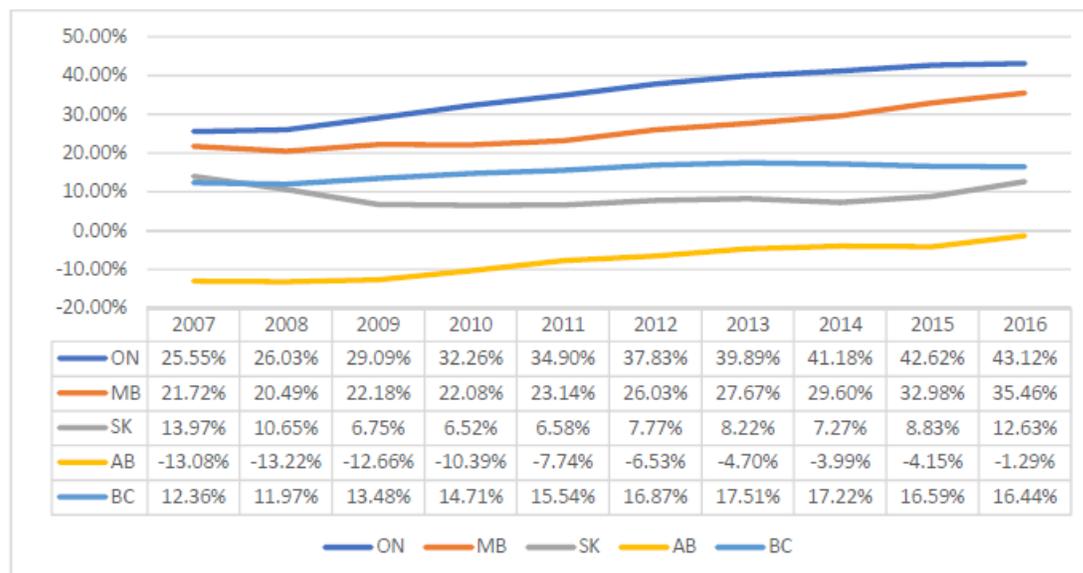
A number of the comparisons are of concern when it comes to business competitiveness with our neighboring provinces.

### **Provincial Net Debt**

Since the global economic recession of 2007/2008, Manitoba’s net debt as a percent of GDP steadily increased from its modern historic low of 21.72% in 2007 to 35.46% in 2016 (see Figure 29).

Net debt is a government’s financial assets minus total liabilities. Manitoba’s net debt to GDP ratio grew by over 60% over the past decade, and Manitoba has the second worst net debt to GDP ratio amongst the five provinces.

*Figure 29: Net Debt as a Percentage of GDP*



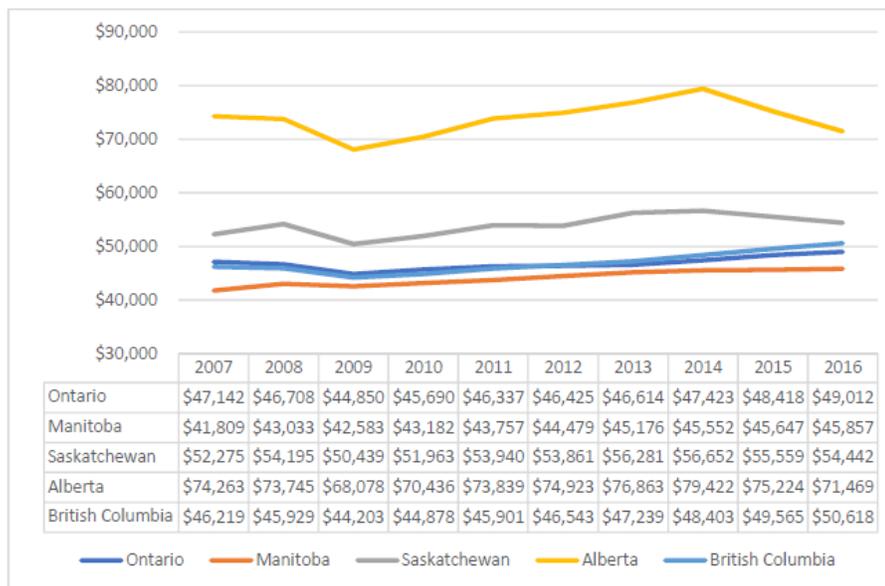
*Source: MEC calculation, Statistics Canada, CANSIM Table 384-0038. Department of Finance Canada Fiscal Reference Tables*

## GDP Per capita

While Manitoba's GDP avoided a significant downturn during the 2009 recession, its moderate annual growth rate of approximately 1.5% makes it difficult to achieve parity levels with better performing provinces.

At \$45,857 in 2016, Manitoba's GDP per capita is the lowest amongst the five provinces (see Figure 1).

Figure 1: GDP per capita, 2007-2016 (chained 2007 dollars)



Source: MEC Calculation, Statistics Canada CANSIM Table 051-0001, Estimates of population, by age group and sex for July 1, Canada, provinces and territories, CANSIM Table 384-0038, Gross domestic product, expenditure-based, provincial and territorial, chained 2007 dollars

From 2007-2016, Manitoba's GDP per capita increased by 9.68%, the largest increase amongst the five provinces (see Figure 2). Although Manitoba's GDP per capita is still \$3,155 lower than the next closest province.

Figure 2: Provincial GDP per capita growth, 2007-2016 (%)

ON	3.97%
MB	9.68%
SK	4.14%
AB	-3.76%
BC	9.52%

Source: MEC Calculation, Statistics Canada CANSIM Table 051-0001, Estimates of population, by age group and sex for July 1, Canada, provinces and territories, CANSIM Table 384-0038, Gross domestic product, expenditure-based, provincial and territorial, chained 2007 dollars

## Province of Manitoba Economic Forecast and Spending

Since 2013 provincial revenues have risen from approximately \$11.5 billion to \$13.5 billion; an increase of over \$2 billion. These revenue increases have also resulted in an increase in expenditures at a slightly higher rate. In the last budget year of the previous government (2015) provincial government operating expenses were just shy of \$13 billion. In the first three budgets under the new government, government expenditures were targeted at just over \$13.5 billion, \$13.8 billion, and \$14.1 billion, respectively.

	EXPENDITURES \$ (000s)	REVENUE \$ (000s)	TAX REVENUE \$ (000s)	FED GOVT. REV \$ (000s)
2018	14,169,983.00	13,546,035.00	8,138,296.00	4,201,345.00
2017	13,820,363.00	13,016,105.00	7,988,898.00	3,850,840.00
2016	13,537,630.00	12,577,669.00	7,585,368.00	3,844,555.00
2015	12,865,145.00	12,354,435.00	7,583,488.00	3,592,080.00
2014	12,339,124.00	11,944,681.00	7,270,356.00	3,529,362.00
2013	12,068,883.00	11,496,830.00	6,798,573.00	3,538,346.00

-Source: 2013-2018 Estimates of Expenditure and Revenue

The Manitoba Chambers of Commerce believes that repeated budgets have shown that the provincial government has not demonstrated a focus on reducing expenditures.

### Tax Comparisons

#### **General Corporate Tax Rate**

Ontario is the only province of the five with a general corporate tax rate below 12.0%, they are at 11.5%. Manitoba's corporate tax rate has been 12.0% since July 1, 2009. It should be noted that Manitoba's improvement in this category since the last Prosperity Report hasn't come from anything Manitoba has done, but rather from other provinces raising their corporate tax rates.

#### **Small Business Tax Rate**

Manitoba is the only province in Canada with a small business tax rate of 0%. Ontario's small business tax rate is 3.5%, with the other three provinces having a tax rate of 2.0%.

#### **Provincial Sales Tax**

Manitoba ties Ontario for the highest sales tax rate at 8%. The Ontario sales tax rate is harmonized with the federal Goods and Services Tax, the only province of the five with such an arrangement. With the promised one percent sales tax cut, Manitoba would move up to a tie for third with British Columbia.

	B.C.	AB	SK	MB	ON
PST Rate	7.0%	0.0%	6.0%	8.0%	8.0%

## **Payroll Tax**

British Columbia's most recent budget included a commitment to introduce a payroll tax on Jan.1, 2019. The new payroll tax was to start at \$500,000 of payroll in B.C, and the highest tax rate of 1.95% would kick in at \$1,500,000 of payroll. While the payroll taxes start at different thresholds, Manitoba will still have the highest rate at 2.15% if B.C follows through on their new tax.

	B.C	AB	SK	MB	ON
Threshold Tax Starts	NA	NA	NA	\$1,250,000	\$0
Threshold where Highest Tax Rate Starts	NA	NA	NA	\$2,500,00	\$400,000
Highest Tax Rate	NA	NA	NA	2.15%	1.95%

## **Basic Personal Exemption**

The basic personal amount is just one of the non-refundable tax credits every Canadian resident is entitled to claim on his or her income tax return. Currently, Manitoba has the lowest basic personal amount of the five provinces.

	B.C	AB	SK	MB	ON
2016	\$10,027	\$18,451	\$15,843	\$9,134	\$10,011
2017	\$10,208	\$18,690	\$16,065	\$9,271	\$10,071
2018	\$10,412	\$18,915	\$16,065	\$9,382	\$10,354

## **Personal Income Tax Rate**

Manitoba has the second highest top income tax rate amongst all provinces. When you add in the effect of federal taxes, Manitoban's in the top federal tax bracket lose over half their incomes in taxes to the provincial and federal governments. Manitoba's highest income tax rate also starts at the lowest level of all five provinces, over \$60,000 lower in income as compared to the next province.

	B.C	AB	SK	MB	ON
Income Tax Rate	16.80%	15.00%	14.50%	17.40%	20.53%
Income Tax Bracket Starts	\$150,001	\$307,548	\$129,215	\$68,822	\$220,001

In today's globally competitive business environment, the Manitoba Chambers of Commerce believes it is imperative that government create a climate that attracts new business and allows existing businesses to grow and thrive in Manitoba. Business leaders have made it clear that they don't believe Manitoba's tax framework is competitive with other provinces.

Regardless of who creates it, all tax policy must support the following three principles:

- *Growth* – The tax system should stimulate economic growth

- *Transparency* – The tax system should be structured so that its intent can be clearly understood by the taxpayers and administered by authorities impartially and predictably.
- *Accountability* – The government must be publicly accountable to taxpayers for money raised and expended by it.

## **Recommendations**

The Manitoba Chambers of Commerce remain committed advocates for developing a quality of life that will make ***Manitoba the Best Place to Live and Work***.

Specifically for Budget 2019, the Manitoba Chambers of Commerce would recommend that the Provincial Government take the following actions:

1. ***In recognition of the progress made in the last two years, adhere to a commitment of returning to a balanced budget.***
2. ***Commit to a provincial review of the tax structure (both personal and corporate) of Manitoba, focused on examining:***
  - ***Implementation of long-term provincial strategies to provide the business community with confidence and certainty that tax reduction is a priority, and***
  - ***Setting a target of having Manitoba's tax levels and provincial tax threshold levels more competitive when compared with other provinces.***
  - ***Specifically we would ask the province to take action on the following taxes***
    - Corporate Tax***
      - ***Index tax thresholds to inflation on an annual basis.***
    - Personal Tax***
      - ***Raise the personal tax exemption to become more competitive with other provinces.***
      - ***Index brackets to be consistent with other provinces.***
    - Payroll Tax***
      - ***Eliminate this tax over a five-year timeframe through a threshold approach.***
3. ***Continue to focus on reducing expenditures. The Chamber believes this should continue to be a priority and suggests that any provincial government spending policy must support the following four principles:***
  - ***Sustainability – Is the spending sustainable over a continued time-frame?***

- ***Transparency/Simplicity – Government spending should be structured so that it can be clearly understood by the taxpayers and inexpensive to administer;***
  - ***Accountability – The government must be publicly accountable to taxpayers for money raised and expended; and***
  - ***Efficiency – Government spending should be done in the most efficient manner possible. Performance measures should be established to determine efficiencies.***
- 4. *Establish a comprehensive access to capital strategy that identifies all stages of capital financing, current capital availability and local gaps along the entire capital continuum (idea – incubator – angels – venture capital funds – Series A, B, C) and provincial initiatives to address gaps.***
- 5. *It is imperative that the province’s Economic Development Strategy be released and we would urge the provincial government to provide the supports and resources to ensure its success.***

## **Conclusion**

By focusing greater attention on key economic indicators and measuring our success, the results will be more significant prosperity for all Manitobans. The Chamber believes it’s time to be BOLD and focus on growing our economy, creating jobs and leveraging our strengths through a strategic, focused and results driven approach.

The reality is that all countries, provinces, and communities are all dependent on a growing economy to meet the needs of its citizens. It is imperative that governments are focused on creating a competitive economic climate that provides business with the confidence and certainty needed to grow, invest and create jobs.