

# Giving Away the Golden Egg

## Alberta's tax giveaway and the need for reform

Alberta could move from deficit into surplus simply by abandoning the "flat tax" which has been a massive giveaway, especially to the wealthy. Alberta's income tax advantage is a myth for most Albertans, with only high earners paying less income tax here than they would in other provinces. Making the tax system more progressive would also stimulate the economy, creating and protecting jobs for working Albertans.

### Alberta's \$5.5 billion tax giveaway

In 2001 the provincial government replaced the progressive tax system with a 10% across the board income tax, often referred to as the "flat tax." This resulted in significantly reduced tax revenue for the government. If the 1999 income tax structure was still in place in 2006, revenues for that year would have been \$10.4 billion compared to actual revenue for 2006 of approximately \$4.7 billion. That means that for 2006 alone, income taxes were \$5.5 billion lower than they would have been if the previous tax system had still been in place. On the basis of estimates, that number would be significantly higher in the current fiscal year.

Given that Alberta's deficit is currently projected to be \$4.3 billion. By simply abandoning the "flat tax," the province could change from deficit to surplus. This means that cuts to health care, education and other public services are completely unjustifiable.

### Other room for tax reform

Figure 1 shows how much more tax revenue each province collects than Alberta. This reveals that Alberta is leaving in the range of \$10 to \$18 billion on the table each year by failing to charge competitive tax rates. Table 1 shows the details of this giveaway, revealing that there is a lot of tax room for Alberta to move up, not only in income taxes, but also on the gasoline tax, retail sales tax, capital tax on financial institutions and corporate taxes.

According to provincial government figures, Alberta's average tax share was the lowest in the nation at only 77.7 per cent of the national average in 2004-05. Nova Scotia is in second place 99.4 percent of the national average, leaving an unnecessarily wide gap.

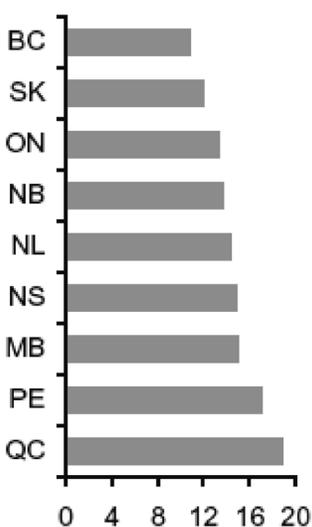
Most businesses do not choose Alberta due to low taxes but because of the resource wealth and natural bounty. Those industries cannot thrive without expensive infrastructure, healthy, educated workers, and research and development. Alberta should be charging a tax premium to pay for those services.

### Alberta has to end its addiction to natural gas revenues

Natural gas production in Alberta peaked in 2001 and has been declining precipitously since. Yet, the government continues to rely on royalties from gas to fund operations. Albertans have paid the price in revenue volatility. The province needs to move to more sustainable revenues from progressive income and corporate taxes.

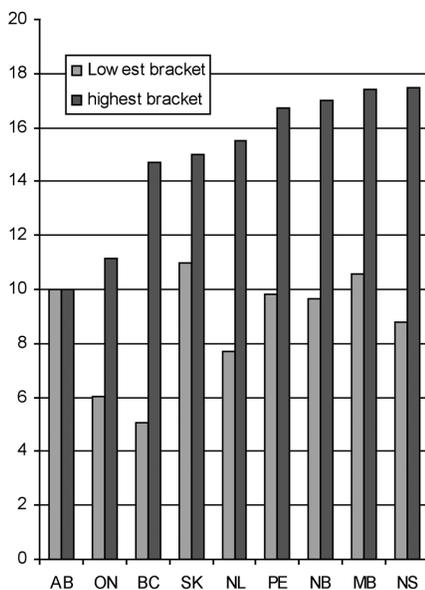
Figure 1  
**Alberta's Tax Disadvantage**

(\$ billions)



	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Corporate Taxes</b>										
General	10	11	12	12	14	12	12	16	16	14
Small Business	3.0	2.5	4.5	2.0	5.5	8.0	5.0	5.0	2.1	5.0
<b>Capital Taxes</b>										
General				0.30	0.23	0.24		0.15		
Financial Institutions		1.00	3.25	3.00	0.68	0.73	3.00	4.00	5.00	4.00
<b>Retail Sales Tax</b>		7.0	5.0	7.0	8.0	7.5	8.0	8.0	10.0	8.0
<b>Gasoline Tax</b>	9.0	18.0	15.0	11.5	14.7	15.2	10.7	15.5	14.5	16.5
<b>Tobacco Tax</b>	40.00	37.00	36.60	35.00	24.70	20.60	23.50	33.04	39.90	36.00

Figure 2  
**Tax Comparison  
 by province 2009**



1 For a more detailed discussion of this see "Breaking the Cycle" by the Parkland Institute, April 2009.

2 Studies in the US have found that increasing taxes at higher income levels did not have the expected negative outcomes. See "Back on Track: Why progressive tax reform is an essential part of New York's budget solution" by the Fiscal Policy Institute and Centre for Working Families, March 22, 2009.

### Alberta's income tax advantage a myth for most

Lower middle-income Albertans pay higher income tax rates than they would in many other provinces and territories. In contrast Albertans in the top income bracket pay by far the lowest income tax rate in Canada. **Figure 2** shows the stark contrast between how Alberta's rates compare for the lowest and highest tax brackets. For the bottom bracket, which affects all taxpayers, Alberta actually has the third-highest rate in all of Canada. It is only for the wealthiest that Alberta wins out.

The same disadvantage plays out for middle income families. A family earning \$75,000 in Alberta pays a higher income tax rate than the same family in British Columbia, Saskatchewan, Ontario, Quebec, the Yukon, the NWT, and Nunavut. A two income family with two children in Alberta earning \$125,000 would still pay a higher tax rate than the same family in B.C. or Ontario.

Alberta's income tax advantage is a myth for most and should not get in the way of real income tax reform.

### Progressive tax reform as a stimulus

Across the board, economists have been saying that tax cuts to the wealthy are not an effective economic stimulus.<sup>1</sup> The reason: the bulk of that money is spent on imports, savings, and debt re-payment. Little of the money is spent locally where it would create jobs and stimulus. Economists call this leakage.

The converse is also true - increasing taxes for that class of earners will not have much, or any, negative impact on the economy.<sup>2</sup> Making the tax system more progressive is a perfectly responsible choice for a government in a recession.

Reclaiming lost tax revenue will also mean that spending can be maintained on social programs like health care and education. Direct spending by government is recognized by economists as the most effective form of stimulus.