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STABILIZING ALBERTA'S REVENUES

A COMMON SENSE APPROACH





Stabilizing Alberta's Revenues: A Common Sense Approach

Shannon Stunden Bower, Trevor Harrison, and Greg Flanagan
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About the Parkland Institute

Parkland Institute is an Alberta research network that examines public policy issues. Based in the Faculty of Arts at the University of Alberta, it includes members from most of Alberta's academic institutions as well as other organizations involved in public policy research. Parkland Institute was founded in 1996 and its mandate is to:

- conduct research on economic, social, cultural, and political issues facing Albertans and Canadians.
- publish research and provide informed comment on current policy issues to the media and the public.
- sponsor conferences and public forums on issues facing Albertans.
- bring together academic and non-academic communities.

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Executive summary

The Province of Alberta is currently dealing with a fiscal shortfall resulting from an over-reliance on natural resources revenues in funding core services such as health care, education, social services, and public infrastructure.

This report shows that Alberta's budget difficulties are not related to over-spending, and therefore cannot be addressed by austerity measures. The report also shows that continued over-reliance upon natural resources royalties subjects Albertans to the economic volatility and long-term unsustainability inherent in oil and gas revenues.

This report argues that the only workable solution to Alberta's fiscal woes is the adoption of a set of measures employed by governments the world over as a stable and predictable means of revenue generation: taxation. Specifically, this report argues the case for increased corporate taxation and a return to a progressive income tax regime in the province.

Alberta has considerable tax room. The province could collect nearly \$11 billion more in taxes and remain the country's lowest-tax jurisdiction. By the government's own estimates, an increase in corporate taxes of 2% (on a par with Saskatchewan's and Manitoba's rates) would bring in an additional \$840 million. Implementing a higher corporate tax rate would also help offset the costs of infrastructure, environmental monitoring, and regulation that are insufficiently compensated by corporations operating in Alberta.

The provincial government should return to a progressive income tax regime. The flat tax imposes a significant cost on the province - at least \$1.8 billion in 2010 alone - and fuels the excessive inequality that harms Albertans socially and economically. Progressive income tax would also shift the tax burden, moving a greater proportion on to Alberta's wealthy.

There is considerable public support for increased and fairer taxation. A substantial number (40%) of Albertans agree they are willing to pay higher taxes to improve public services, and a significant majority (60%) agree that those with higher incomes should pay more in tax. The provincial government is out of step with the opinion of Albertans when it comes to collecting excess wealth from corporations and the rich.

Higher corporate taxes and a return to a progressive tax regime would bring in substantial money to provincial coffers, stabilize provincial revenues, and garner widespread public support. Ultimately, adopting these measures would also work to build the kind of society Albertans want, by tempering excessive inequality and promoting fairness.

1. Introduction

“Today, 30% of our budget is funded by revenues from oil and gas. This means we are vulnerable to swings in resource prices - as we have seen with natural gas prices in the past, and now the price we receive for Alberta oil.”

– Premier Allison Redford, Address to Albertans, January 24, 2013

In her recent address to Albertans, Premier Redford correctly identified the key problem currently facing the province. Government revenues are too much tied to resource revenues, creating swings in the amount of money available to fund the infrastructure, programs, and services that Albertans need.

It is misleading, however, to suggest that the drop in revenues is the result of a drop in petroleum exports to the United States, an unexpectedly low price for oil, or the differential price paid for Alberta oil.¹ These factors are important, but they are neither unusual nor unexpected.² Pointing to what went wrong with resource revenue projections only distracts from a serious discussion of the structural problems impacting Alberta's revenues.

The solution to Alberta's fiscal woes does not lie in increased markets, through trade and pipelines, for Alberta's oil and gas. In fact, in the absence of significant reform to the provincial revenue stream, securing additional markets will only further exacerbate the kind of over-reliance upon resource royalties that has kept Alberta from adequately developing a stable means of revenue generation employed by governments the world over: taxation.³

Unfortunately, and despite a growing consensus among economists, business analysts, and tax experts from across the political spectrum,⁴ the government has not yet committed itself to examining the issue of taxes as a means of addressing Alberta's revenue rollercoaster.

The Parkland Institute argues that, as the government looks beyond the March 7 budget, it should make several much needed changes to the province's tax regime.

This report makes clear that the solution to Alberta's revenue problem lies in rebalancing Alberta's finances through both increased and fairer taxation. It demonstrates that this solution is economically feasible, given the vast wealth accumulated by well-off individuals and corporations. It pays particular attention to two key opportunities for revenue reform: corporate taxes and progressive income taxes. The report further demonstrates that revenue reform is politically saleable among a substantial number of Albertans. A large number of Albertans are willing to pay more taxes; even more are favourable to a progressive tax regime.

¹ “Premier's Address to Albertans,” Government of Alberta, accessed February 13, 2013, <http://alberta.ca/Premiers-Address.cfm>. See also Karen Kleiss, “Alberta Faces ‘Tough Choices,’ Premier Says,” *Edmonton Journal*, January 14, 2013, accessed February 4, 2013, <http://www.edmontonjournal.com/news/edmonton/Alberta+faces+tough+choices+premier+says/7818435/story.html>.

² A recent analysis shows that the average differential between 2005 and 2009 was \$18.19, making up roughly half of the differential for 2012. See Nathan Vanderklippe, “Oil Differential Darkens Alberta's Budget,” *Globe and Mail*, January 23, 2013: B4.

³ While not outright endorsing tax increases, economist Ron Kneebone of the School of Public Policy at the University of Calgary has likewise argued that petroleum pipelines offer an “illusory” solution for the government, which has become too dependent on oil wealth. See Bill Kaufman, “Pipelines Offer ‘easy way out’ for Oil-dependent Alberta: U of C Economist,” *Calgary Sun*, January 22, 2013, accessed February 4, 2013, <http://www.calgarysun.com/2013/01/22/pipelines-offer-easy-way-out-for-oil-dependent-alberta-u-of-c-economist>.

⁴ See, for example, Sheila Pratt, “Taxing Dilemma for Alberta's Finances,” *Edmonton Journal*, January 20, 2013, accessed February 1, 2013, <http://www.edmontonjournal.com/news/Taxing+dilemma+Alberta+finances/7846484/story.html>. See also, Gary Lamphier, “Alberta Ought to Tax its Way Out of the Bitumen Bubble Blues,” *Edmonton Journal*, January 31, 2013, accessed 4 February 2013, <http://www.edmontonjournal.com/business/touch/7895704/story.html?rel=847782>.

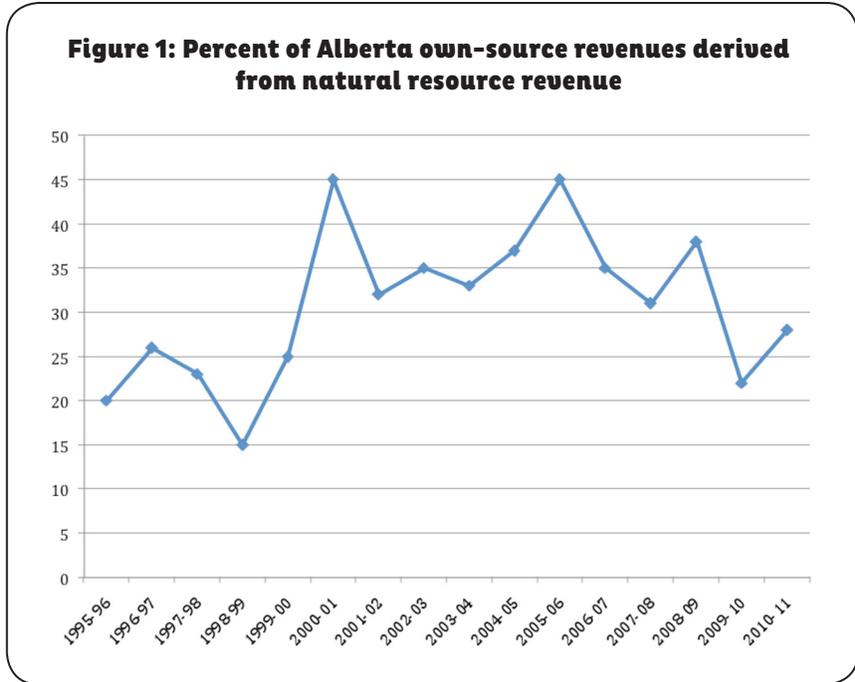
2. The Limits of Resource Wealth

Alberta is blessed with lucrative natural resources, but these resources have too often proven a double-edged sword. The presence of vast resource wealth has enabled the provincial government to maintain a position on taxation that is out of step with other Canadian provinces, and cannot be sustained. Basic services have been bankrolled out of royalties generated through the oil and gas industry. In 2010-11, for instance, resource revenues made up 28% of provincial revenues.⁵ While this approach can seem acceptable when prices for Alberta hydrocarbons are high, the associated difficulties become apparent when prices drop down - as they inevitably do.

The provincial government under Ralph Klein introduced the Alberta Sustainability Fund as an attempt to dampen the effects of the volatility of the oil and gas sector on the Alberta economy. But this amounts to a band-aid on a gaping wound - at least in how it has been used since it was created: it is entirely inadequate to the task at hand. And as we all know, oil and gas are nonrenewable resources. Eventually, all the wells will run dry, but Albertans will still require healthcare, social services, and education. Alberta should not fund core services out of unsustainable natural resource revenues.

Since the early 1990s, the proportion of provincial revenues made up of resource revenues has varied from 15% to over 40% (see Figure 1). These numbers alone suggest the huge volatility of this revenue stream. Over-reliance on resource revenues has left Albertans at the mercy of international markets, with our ability to afford basic services tracking along with the price for Alberta hydrocarbons; hence the problem the province faces going into the upcoming budget. Disturbingly for Albertans concerned about the province's ability to deliver programs and services in light of volatile oil and gas markets, the 2012 provincial budget projected that the proportion of provincial revenues attributable to resources would rise from 2010-11 values.

⁵ Government of Alberta, "Fiscal Plan Tables," Alberta Budget 2012: 130. Accessed January 30, 2012, <http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-tables.pdf>.



Source: Government of Alberta, Budget 2012, Fiscal Plan Tables, p. 130.

The Parkland Institute has long argued for increased royalty rates on Alberta's petroleum. Over a decade of study, the Institute has shown that Albertans have received far less than maximum compensation for the liquidation of our shared property.⁶ In 2012-13, for instance, the government aimed to capture only 10% of expected petroleum revenues. Under Premier Lougheed, the target was 35%. In dollars and cents, the failure to uphold Lougheed's revenue-sharing target cost the provincial coffers \$22.3 billion last year alone.⁷

Albertans deserve maximum value for our common resource wealth. But even if the government raised royalty rates tomorrow, the problem of fiscal instability and long-term unsustainability would remain. Commentators from across the political spectrum have recognized the issue. Glen Hodgson, Chief Economist of the Conference Board of Canada, has recently argued that Alberta's leaders should look to "dampen the impact of external market forces" by "moderniz[ing] its tax revenue base."⁸ A recent Macdonald-Laurier Institute publication, authored by Marc Joffe, asserts that despite Alberta's currently strong economy, the province has the highest longer-term default probability relative to other Canadian jurisdictions, and that this is related in part to the province's exposure to the volatile natural resource sector.⁹ Jack Mintz, of the University of Calgary's School of Public Policy, has recently written that the Alberta government "should tackle tax reform with the aim of shifting from volatile to more stable sources of revenues."¹⁰ The implication - correct in our view - is that resource royalties cannot provide an immediate or complete solution to Alberta's fiscal instability; indeed, their illusory promise contributes to the problem.

⁶ See Josée Johnston, ed., *Giving Away the Alberta Advantage* (Parkland Institute, 1999); John W. Warnock, *Selling the Family Silver* (Parkland Institute, 2006); and, more recently, Regan Boychuk, *Misplaced Generosity* (Parkland Institute, 2010), updated in 2012 by David Campanella.

⁷ As calculated by David Campanella, according to the methodology underlying Regan Boychuk, *Misplaced Generosity* (Parkland Institute, 2010), updated in 2012 by David Campanella.

⁸ Glen Hodgson, "Alberta's Fiscal Model Needs a Fresh Re-think," January 23, 2013, accessed January 23, 2013, http://www.conferenceboard.ca/economics/hot_eco_topics/default/13-01-22/alberta_s_fiscal_model_needs_a_fresh_re-think.aspx.

⁹ Marc Joffe, "Provincial Solvency and Federal Obligations," Macdonald-Laurier Institute, October 2012, accessed January 15, 2013, <http://www.macdonaldlaurier.ca/files/pdf/Provincial-Solvency-October-2012.pdf>.

¹⁰ Jack M. Mintz, "Don't Count on Oil," *Financial Post*, January 21, 2013, accessed February 6, 2013, <http://opinion.financialpost.com/2013/01/21/jack-mintz-dont-count-on-oil/>.

Resource wealth does not provide a reliable source of funds for any substantial portion of ongoing and necessary government programs and services. If Albertans are to benefit from stable, high quality public services such as roads, health care, and education, the provincial government must establish a sustainable revenue stream that is unaffected by the volatility of international petroleum markets. The first step toward this involves increased reliance on predictable revenue sources; that is, a mixture of tax measures.

3. The Spending Myth

Some politicians and pundits continue to claim Alberta is a big-spending province. They do so in order to justify ideologically driven cuts to much-needed government programs and services.

It would be of little surprise if Alberta actually did spend a lot. It is, after all, Canada's wealthiest province; in fact, it is among the wealthiest jurisdictions in the world. Why shouldn't Alberta have the best-funded programs?

But claims about Alberta's exorbitant spending habits are simply incorrect. When the data is analyzed on a per capita basis - to enable comparison among provinces with different populations - it becomes clear that, considered alongside the other Canadian provinces, Alberta ranks squarely in the middle of the pack in terms of spending.

Table 1 (below) presents the rank of Alberta government per capita expenditures relative to those of other provinces in the years between 2000 and 2009. In terms of consolidated total provincial and local expenditures,¹¹ Alberta has averaged a fourth place rank. Within sectors, there is significant variation. The province has consistently ranked at or near the top in consolidated education spending, but near the bottom for consolidated social assistance expenditures. In health, the province made its worst showing, ranking an average of 8 over the nine-year period.¹²

¹¹ Due to differences in the divisions of local and provincial responsibility, adding these together is the most appropriate way to compare expenditures across provinces.

¹² Melville MacMillan, *Breaking the Myth* (Parkland Institute, 2009). Table cannot be updated due to cancellation of relevant CANSIM series. Recent data from the Canadian Institute for Health Information (CIHI) ranks Alberta health spending second among the provinces. CIHI includes in health some expenditures that, in the data included in the main text of this report, are included in sectors such as social services. See Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2012* (Ottawa: CIHI, 2012).

Table 1

Ranks of Alberta government per capita expenditures relative to those of other provinces, CANSIM (Financial Management Series)					
Fiscal Year	Consolidated Total Provincial and Local	Provincial Health	Consolidated Education	Consolidated Social Services (excluding QC)	Consolidated Social Assistance
2000-01	4	7	1	3	8
2001-02	3	7	1	3	7
2002-03	4	10	2	3	8
2003-04	6	10	1	5	6
2004-05	4	4	1	5	5
2005-06	4	10	1	4	6
2006-07	4	9	2	5	6
2007-08	3	7	1	5	5
2008-09	4	6	2	5	6

Source: Statistics Canada, CANSIM II, Tables 3850001 and 3850002.

After 2008-09, the federal government terminated the CANSIM (financial management series) data that facilitated meaningful comparisons of government spending across Canadian provinces. In the absence of that data, provincial government expenditures, as reported in provincial budgets and presented on a per capita basis, can provide some context in which to assess Alberta's recent rank on expenditures.

Again, Alberta's figures are undistinguished. While the province ranked second in program expenses per capita in 2008-09, it sat in fourth place from 2009-10 through 2011-12. Table 2 also includes program expenses relative to gross domestic product. Here, Alberta is entirely consistent, ranking at the very bottom of the pack. This means that, considering the size of its economy, Alberta spent the least of all provinces on the programs and services its residents need.

Table 2

Ranks of Alberta government expenditures relative to those of other provinces		
Fiscal Year	Program expenses per capita	Program expenses relative to GDP
2008-09	2	10
2009-10	4	10
2010-11	4	10
2011-12	4	10

Table 2: RBC, Provincial Fiscal Tables, 22 January 2013.

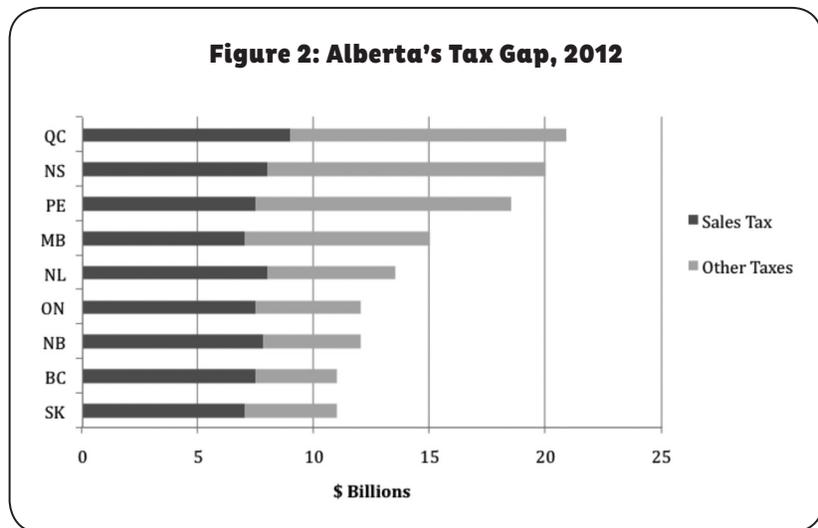
It should be noted that the rankings in Tables 1 and 2 are based on figures that do not account for interprovincial differences in the costs of providing services. High inflation in Alberta has contributed to higher costs for Albertans and the provincial government alike. So in 2008-9, for instance, even per capita program expenditures ranking near the top among Canadian provinces does not mean that the Government of Alberta offered nearly the most, or nearly the best, services.

Evaluating provincial expenditures on a per capita basis puts the lie to the claim that Alberta is a big-spending province. The province has not led the pack in dollars out the door; nor has it been at the bottom. There is no factual justification for claims that the province has a spending problem. In fact, relative to GDP, the province spends less than all the other provinces. The problem remains revenue; specifically Alberta's over-reliance upon unstable and unsustainable resources. The solution is evident: implementing fiscal policies that will ensure stable funding for Alberta's programs and services. In short, a mix of tax measures.

4. Alberta's Tax Structure

Economists are prone to disagreement. But there is one area on which there is broad agreement: the predictability, and hence stability, of taxes. Further, taxes are inherently counter-cyclical. Any given tax regime will generate greater revenues in times of economic growth and lesser revenues in times of economic contraction. In this way, taxes serve as a force for economic stabilization.

As the Alberta government's own communications make clear, if Albertans and Alberta businesses were in any other province, they would pay between \$11 billion and nearly \$21 billion more in taxes. Figure 2 (adapted from the 2012 Alberta budget tax plan) substantiates this argument. The illustration makes clear that Alberta is out of step from other Canadian jurisdictions. It also shows that the province could substantially up its tax take even without introducing a sales tax.¹³



Source: Government of Alberta, Budget 2012, Tax Plan, p. 97.

¹³ Diana Gibson, *A Social Policy Framework for Alberta: Fairness and Justice for All* (Parkland Institute and Alberta College of Social Workers, 2012): 36.

¹⁴ Government of Alberta, "Competitive Corporate Taxes," accessed January 21, 2013, <http://www.albertacanada.com/business/overview/competitive-corporate-taxes.aspx>.

¹⁵ PricewaterhouseCoopers, the World Bank, and the International Finance Corp., "Paying Taxes," 2013, accessed February 10, 2013, <http://www.pwc.com/gx/en/paying-taxes/about-paying-taxes.html>.

Alberta is a low tax jurisdiction, not only by national standards, but also in comparison with the United States. In Alberta, the combined federal/provincial general corporate income tax rate sat at 25% in January 2012. For comparison, in January 2012, the combined federal and state corporate tax rate across the United States averaged 39.2%.¹⁴ Canada currently maintains the lowest corporate tax rates among G8 countries.¹⁵

The government of Alberta could collect nearly \$11 billion additional dollars and still remain the lowest tax jurisdiction in Canada. Stabilizing provincial revenues through modernizing the tax regime could be achieved without giving up the “Alberta Advantage” - the purported benefits to Albertans of living in a low-tax jurisdiction.

In short, whether assessed in a national or an international context, Alberta’s tax system is out of step with other jurisdictions. The following two sections of this report will highlight key opportunities for the provincial government to engage in revenue reform.

5. Revenue Reform Opportunity #1: Cut Corporate Tax Breaks

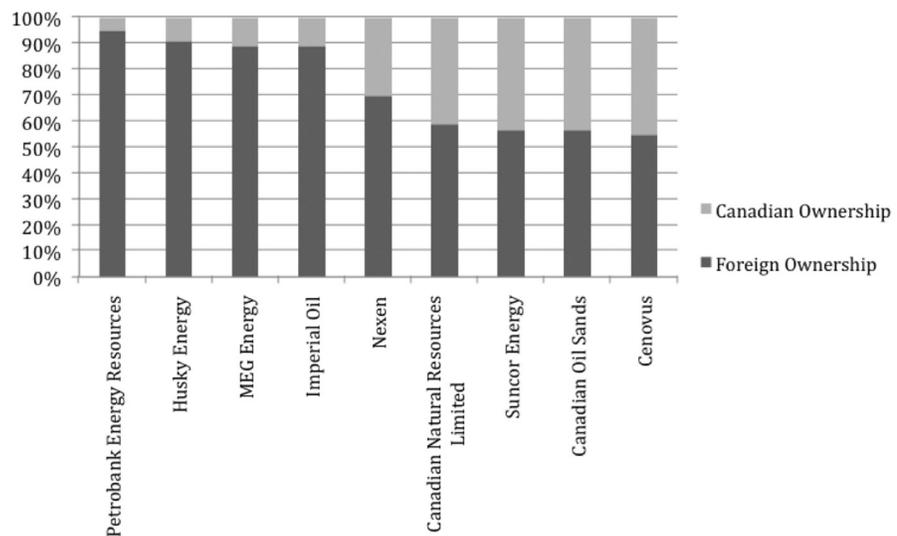
Provincial revenues could be bolstered through increasing the taxes paid by corporations. Comparing corporate profits and taxes makes this clear. Since 1990, Alberta revenues from corporate taxes have remained under \$5 billion: corporate profits skyrocketed from under \$10 billion to well over \$50 billion. Despite a significant drop related to the Great Recession in 2008, corporate profits are again on the rise, and today sit around \$30 billion. (All figures in constant 2002 dollars.)¹⁶ Over the past 20 years, corporations operating in Alberta have amassed substantial wealth while making consistently very limited contributions to funding the services, such as health and education, that Albertans need – or even to covering the costs that corporations impose on the provincial government, such as those for infrastructure, environmental monitoring, and regulation.

¹⁶ Statistics Canada, CANSIM Table 3850001, Consolidated federal, provincial, territorial, and local government revenues and expenditures, annually (Dollars), Terminated v645771 Alberta.; Provincial and territorial governments; Corporation income taxes Terminated, 2010 and 2011, based on [http://www.finance.alberta.ca/publications/budget/budget 2011/fiscal-plan-revenue.pdf](http://www.finance.alberta.ca/publications/budget/budget%2011/fiscal-plan-revenue.pdf).

¹⁷ KPMG, Competitive Alternatives: KPMG's Guide to International Business Location Costs, 2012 Edition, accessed February 10, 2013, http://www.mmkconsulting.com/compalts/reports/2012_compalt_report_vol1_en.pdf.

Considering the foreign ownership of the major corporations operating in Alberta, low corporate taxes amount to a transfer of wealth out of the province and out of the country. Recent analysis of corporations operating in the tar sands has shown that even among those corporations headquartered in Canada, foreign ownership is the norm (see figure 3). It should be noted that corporations operating in Canada also benefit from Canada's system of universal healthcare, insofar as they are not obliged to absorb the costs of providing medical coverage to their employees.¹⁷

Figure 3: Foreign-Ownership of Canadian-Headquartered Corporations Operating in the Tar Sands



Source: Adapted from Nikki Sukec, "Who Benefits? An Investigation of Foreign Investment in the Tar Sands." Forest Ethics Advocacy, 10 May 2012

Economist Erin Weir has explained that because American corporations are obliged to pay to Washington any difference between the Canadian and American corporate tax rates, Canada's low corporate taxes amount to a transfer of wealth to the American government - without offering American corporations any meaningful incentive to invest in Canada.¹⁸

There are thus good political and fiscal reasons for increasing corporate taxes. But how do Alberta's rates compare with other Canadian jurisdictions?

Presently, Alberta's corporate tax rate of 10% is tied with British Columbia and New Brunswick as the lowest in Canada. The overall provincial and territorial average is 12.5%, but the rate in neighbouring Saskatchewan and Manitoba is 12%. Alberta could raise its corporate tax rate to 12% and still retain a competitive corporate tax rate. According to the Government of Alberta, an increase in the corporate tax rates of 1%, from 10% to 11%, would bring in an additional \$420 million. Thus, an increase of 2% would result in an increase to government coffers of \$840 million.¹⁹

Clearly, \$840 million does not make up Alberta's revenue shortfall. But \$840 million per year goes a long way toward doing so, while keeping more revenue in the province to fund the programs and services that Albertans need.

¹⁸ Erin Weir, "The Treasury Transfer Effect," *Behind the Numbers: Economic Facts, Figures, and Analysis* 10, no. 7 (Canadian Centre for Policy Alternatives, 2009): 1.

¹⁹ Government of Alberta, "Your Choice: Budget 2012/2013," accessed February 14, 2013, <http://www.budgetchoice.ca/2012/>.

6. Revenue Reform #2: Reintroduce Progressive Income Tax

In 2000, the Alberta government implemented a relatively low constant rate personal income tax at 10% (the so-called flat tax). The new system benefitted higher income earners by drastically reducing their tax rates. At the same time, Alberta moved to a higher deduction (from \$10,000 to \$17,000), which provided some assistance to those with lower incomes. But these changes had the effect of shifting the tax burden on to the middle class, which now contributes a larger share of tax revenues.

In the years since its adoption, the flat tax has helped fuel growing inequality in Alberta. Recent data from Statistics Canada shows that in 1982, Alberta's top 1% had average incomes 10 times larger than the average of the bottom 90%. By 2010, that ratio had jumped to 18 times larger. In inflation-adjusted dollars, the top 1% of Albertans made an average of \$320,000 more per capita in 2010 than they did in 1982. The situation is even more unequal in Calgary, where the top 1% in 2012 had incomes 26 times higher on average than the bottom 90%.²⁰

Excessive inequality harms individuals, families, and communities. It has been shown to lead to a number of social ills.²¹ Further, diverse national and international groups such as the World Bank, the International Monetary Fund, and the Conference Board of Canada, now concur that pronounced inequality represents a significant drag on economic growth.²²

But it is not only Alberta's middle class, or the economy as a whole that loses out under the flat rate tax. These tax cuts for the wealthy cost the public \$1 billion in the first year alone of the new tax's implementation - a loss that arguably points to at least one cause of the province's budgetary problems ever since.²³ Economist Greg Flanagan has calculated that according to 2010 income data, the tax system in place prior to the adoption of the flat tax would have brought in an additional \$1.8 billion that year, even incorporating a \$17,000 deduction. The fair, sensible, and fiscally responsible solution is to return to a progressive income tax system.

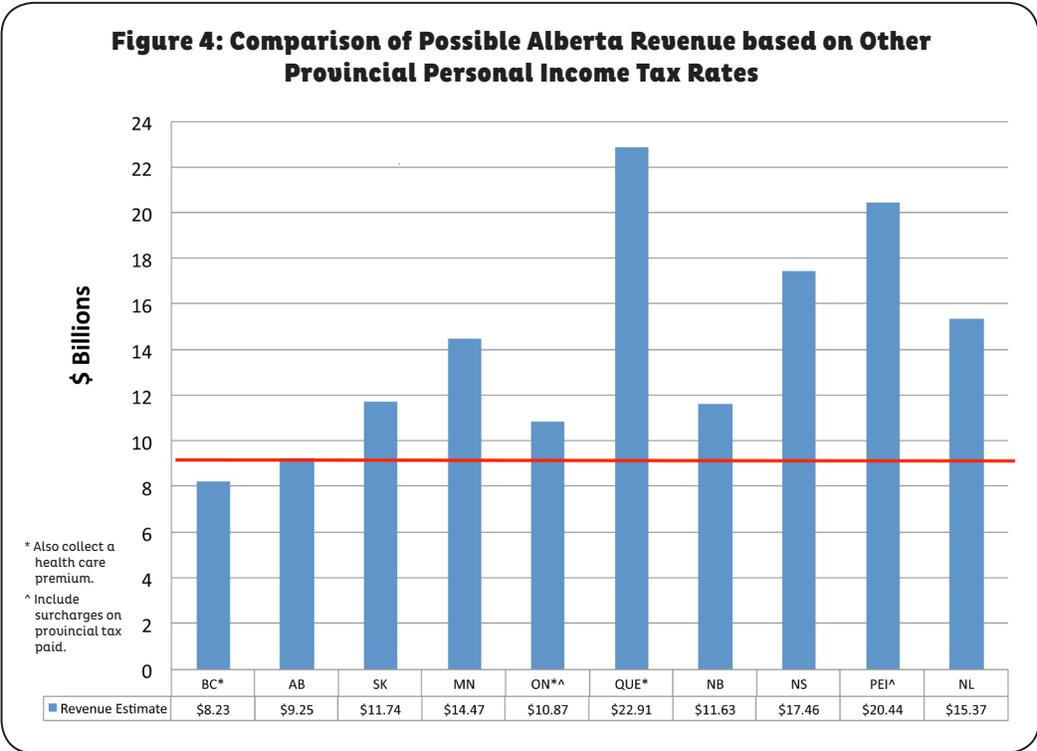
²⁰ Data available in The Parkland Institute, *Alberta is Canada's Most Unequal Province*, January 28, 2013; Canadian Centre for Policy Alternatives, *Income Inequality on the Rise, Especially in Large Cities*, January 28, 2013.

²¹ The abundant literature on this topic includes this much-quoted volume: Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better* (London: Allen Lane, 2009).

²² Andrew G. Berg and Jonathan D. Ostry, "Inequality and Efficiency: Is There a Trade-off Between the Two or Do They Go Hand in Hand?" *International Monetary Fund* 48, no. 3, (September 2011), accessed February 5, 2013, <http://www.imf.org/external/pubs/ft/fandd/2011/09/Berg.htm>.; Conference Board of Canada, *Canadian Income Inequality, Is Canada Becoming More Unequal?*, (July 2011), accessed February 1, 2013, <http://www.conferenceboard.ca/hcp/hot-topics/caninequality.aspx>.

²³ Greg Flanagan, "Provincial Budgets and Political Ideology," in *The Return of the Trojan Horse: Alberta and the New World Order*, ed. T. Harrison (Montreal: Black Rose, 2005), 132.

The disadvantages of Alberta’s flat tax are put in context with reference to practices in other provinces, all of which administer a progressive tax rate over the income range. Most have lower rates than Alberta at low income levels and all have much higher rates at high income levels.²⁴ Figure 4 compares current Alberta income tax revenue to the revenue that Alberta would generate if it adopted the income tax system employed in each of the other provinces. Based on gross income consistently calculated across the provinces, it indicates that nearly all of the other provinces raise substantially more through income tax, ranging from \$1.6 billion to \$13.6 billion in annual revenues. The mean of the extra revenues available through the income tax rates of the other provinces sits at \$5.5 billion.



Source: Statistics Canada, table 111-0008; KPMG, Federal and provincial/territorial personal income tax rates, brackets and surtaxes for 2013, 31 December 2012.

Figure 4 makes clear that applying the British Columbia personal income tax regime would generate less revenue for Alberta. But if the BC system trails here in terms of revenue generation, it still leads the Alberta system in terms of working toward greater income equality. The tax burden is distributed differently in BC, with a much greater proportion borne by the wealthy. Further, BC’s recently-released provincial budget created an additional tax bracket, meaning that wealthy British Columbians will contribute a greater fraction of their incomes in taxes (albeit temporarily, given that the arrangement is currently to expire in two years).

²⁴ Three provinces impose a premium for health care, and two provinces maintain surcharges on provincial income tax owing.

Progressive taxation is a method through which to pursue the goal of greater income equality, which would have substantial benefits for Albertans from across the income spectrum. Applying the tax systems of the other provinces would shift the tax burden, moving a greater proportion on to Alberta's wealthy.

A number of leading public finance economists are now making the case for progressive taxation. Peter Diamond and Emmanuel Saez have argued that high earners should be subject to high and rising marginal tax rates on earnings.²⁵ Saez has also argued that higher tax rates for the rich "reduce the pretax income gap without hurting economic growth." As he put it to the *Globe and Mail* newspaper, when tax rates for the wealthy are low, "top earners extract more pay at the expense of the 99 per cent."²⁶

This report does not offer an exhaustive discussion of the various options available for revenue reform. A fuller analysis of potential opportunities for revenue reform is available in an earlier Parkland Institute report authored by economist Greg Flanagan, titled *Fixing What's Broken: Fair and Sustainable Solutions to Alberta's Revenue Problems*.²⁷ However, even the brief analysis offered here shows that there is ample room to expand Alberta's tax base without harming its reputation as a place to invest.

²⁵ Peter Diamond and Emmanuel Saez, "The Case for a Progressive Tax: From Basic Research to Policy Recommendations," *Journal of Economic Perspectives* 25, no. 4 (2011): 165-90.

²⁶ Chrystia Freeland, "A Pro-Market Case for Taxing the Super Rich," *Globe and Mail*, February 7, 2013, accessed February 8, 2013, <http://m.theglobeandmail.com/report-on-business/economy/a-pro-market-case-for-taxing-the-super-rich/article8349613/?service=mobile>. See also Thomas Piketty, Emmanuel Saez, and Stefanie Stantcheva, "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities," Working Paper 17616, National Bureau of Economic Research, November 2011.

²⁷ Greg Flanagan, *Fixing What's Broken: Fair and Sustainable Solutions to Alberta's Revenue Problems* (Parkland Institute, 2011). Also relevant is a recent study released by Marc Lee and Iglia Ivanova, titled *Fairness By Design: A Framework for Tax Reform in Canada* (Canadian Centre for Policy Alternatives, 2013).

²⁸ See, for example, the results of two recent studies: *The Common Good: Who Decides?* (The Trudeau Foundation, November 2012); and Shannon Daub and Randy Galawan, *Beyond the 1%: What British Columbians Think about Taxes, Inequality and Public Services* (Canadian Centre for Policy Alternatives, 2012).

7. What Albertans Want

Common stereotypes portray Albertans as holding different values from other Canadians, especially with regard to the role of government and the willingness to pay higher taxes in order to fund efficient programs and services. There is evidence, however, that this stereotype is incorrect. According to recent polling data, Albertans do understand the connection between taxes and the provision of stable funding for efficient government services. Further, they are willing to pay higher taxes - in fact, Albertans may be more willing than people in other parts of Canada to have their taxes raised.²⁸ And perhaps more importantly, a large majority of Albertans feel that those with larger incomes should contribute a more substantial fraction of their incomes in taxes.

In the spring of 2012, the Population Research Laboratory at the University of Alberta conducted its annual All-Alberta Survey. The survey of 1207 residents of the province involved questions on a range of subjects, including four bearing on Alberta revenue reform, and two specifically on Albertans’ support for increased taxes.²⁹ The questions gauged responses using a five-point scale ranging from “strongly disagree” (1) to “strongly agree” (5). The first question asked those surveyed to respond to the statement, “I would be willing to pay higher taxes to improve public services.” The second question asked them to respond to the statement, “People with higher incomes should pay a greater share of the taxes than they do now.”³⁰ Table 3 shows the results for both of these questions.

Table 3

All-Alberta Survey Results by Response			
	Agree/Strong Agree	Neither	Disagree/Strong Disagree
Willing to Pay	40	25	35
Higher Income Pays	60	17	21

As shown, on the first question, 40% of Albertans strongly agreed or agreed that they would be willing to pay higher taxes. On the second question, one that targets the tax situation of higher earners even more specifically, just over 60% agreed or strongly agreed that people with higher incomes should pay a greater share of taxes. In short, there was especially strong support for the notion of progressive taxation.

We also looked at responses to these questions in correlation to key socio-demographic variables.³¹ Table 4 shows the percentage of those strongly agreeing or agreeing with the statements according to their area of residence (Edmonton, Calgary, or other).

²⁹ The margin of error for this survey is plus or minus 2.8%.

³⁰ A third question asked those surveyed to respond to the statement, “Alberta’s oil and gas royalty rates should be raised.” In response, 49.5% of Albertans said they agreed or strongly agreed with this statement, while 24.9% said they neither disagreed nor agreed. As noted earlier, Parkland Institute has long argued that Alberta’s royalty regime is deeply flawed, leaving profits that rightfully belong to the people of Alberta in private corporate hands. Apparently, a large number of Albertans concur. As this report concentrates on the issue of taxation, however, responses to this question are not the focal point of this analysis.

³¹ Education, which generally correlates highly with income, was found to positively correlate with responses to question 1, but not to question 2. Age was not significant on question 1, but younger voters were significantly (and perhaps surprisingly) less supportive of the idea that higher incomes should pay higher taxes. Gender was not significant on either question.

Table 4

All-Alberta Survey Results by Area of Residence of Responders in Agreement			
	Edmonton	Calgary	Other
Willing to Pay	45	43	33
Higher Income Pays	64	58	63

Even considering variations within Alberta, what is striking is the relatively high percentage of those in both Edmonton and Calgary willing to pay higher taxes, and the very high percentage of those across the province who believe that people with higher incomes should pay more taxes.

The most striking correlation between survey responses and key demographic variables however, was household income. Table 5 (below) shows the percentages of those strongly agreeing or agreeing with the two statements based on household income.

Table 5

All-Alberta Survey Results by Income Level of Responders in Agreement				
	<59,999	60,000-99,999	100,000-149,999	>150,000
Willing to Pay	38	44	45	41
Higher Income Pays	74	67	64	44

Those with higher household incomes, especially in the middle income brackets and higher brackets of \$60,000-99,999 and \$100,000-149,999, were most supportive of paying higher taxes. And while support for progressive taxation was particularly high in the lowest bracket, it was also very high in these same middle and upper-middle income groups. But it should also be noted that, even among those whose household income was \$150,000 and above, support for progressive taxation was 44% - a sizeable number.

The recent polling data presented in this report makes clear that, in holding to the flat tax system, the Alberta provincial government is not only out-of-step from jurisdictions across Canada and around the world, but also out-of-touch with the preferences of a majority of Albertans. There is substantial support across the province for changes to the personal income tax regime, aimed not only at generating a stable revenue stream, but also at working toward greater income equality.

8. Conclusion

The overwhelming consensus among analysts from across the political spectrum is that an over-reliance upon petroleum royalties means persistent instability and long-term unsustainability for Alberta's revenue stream. There is no serious debate on this issue.

This report makes it clear that arguments that Alberta has a spending problem are without foundation. Cuts and other assorted austerity measures will not solve the province's budget woes. Alberta has a revenue problem that can be resolved only through a re-examination of the basket of available tax measures.

This report offers discussion of two key ways to pursue revenue reform in Alberta. First, it asserts that Alberta should increase corporate taxes. Using the government's own estimates, a change in rate from 10% to 12% would result in an increase in revenues of at least \$840 million. Second, this report argues that Alberta should reintroduce progressive income tax.

Moving toward a progressive tax system in keeping with those employed across Canada and around the world would address the growing problem of income inequality in Alberta. While other means of revenue reform, such as a sales tax, would increase provincial revenues, progressive taxation has the significant advantage of also working toward greater income equality. Our report shows that progressive taxation would find favour among a large majority of Albertans.

Taxes are not merely about revenues. They are about fairness, equity, and community-building. Taxes are the means through which we, as citizens, pool our resources to fund the efficient programs and services we all need, from healthcare to education to social services. Tax dollars are also used to maintain public roads and buildings, and to meet other infrastructure needs.

No one "likes" paying taxes. But after years of living through cycles of booms and busts, and enduring the ebbs and flows in provincial services that over-reliance on resources revenues has meant, many Albertans are prepared to contribute, through taxes, to putting the province on more solid fiscal footing. The provincial government should follow the lead of its citizens and work toward ensuring a fair, stable, and sustainable revenue stream.



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