

The Way Forward

Progressive Income Tax in Alberta

Greg Flanagan and Shannon Stunden Bower



For Albertans, budget 2014 will be remembered as a missed opportunity. The provincial government failed to take action to address a major challenge to provincial society: growing income inequality. Widely recognized as one of the key issues of our time, extreme income inequality entails negative consequences for the health, happiness, prosperity, and overall well-being of people from across the income spectrum.¹

This fact sheet focuses on a key contributing factor to income inequality in Alberta: the flat tax, the province's constant rate personal income tax regime. Most jurisdictions around the world employ multiple bracket progressive income tax systems, in which tax rates increase multiple times as set income thresholds are exceeded. Alberta's introduction of the flat tax in 2000 dramatically reduced the progressivity of Alberta's personal income tax system, which led to greater income inequality and diminished tax revenues.²

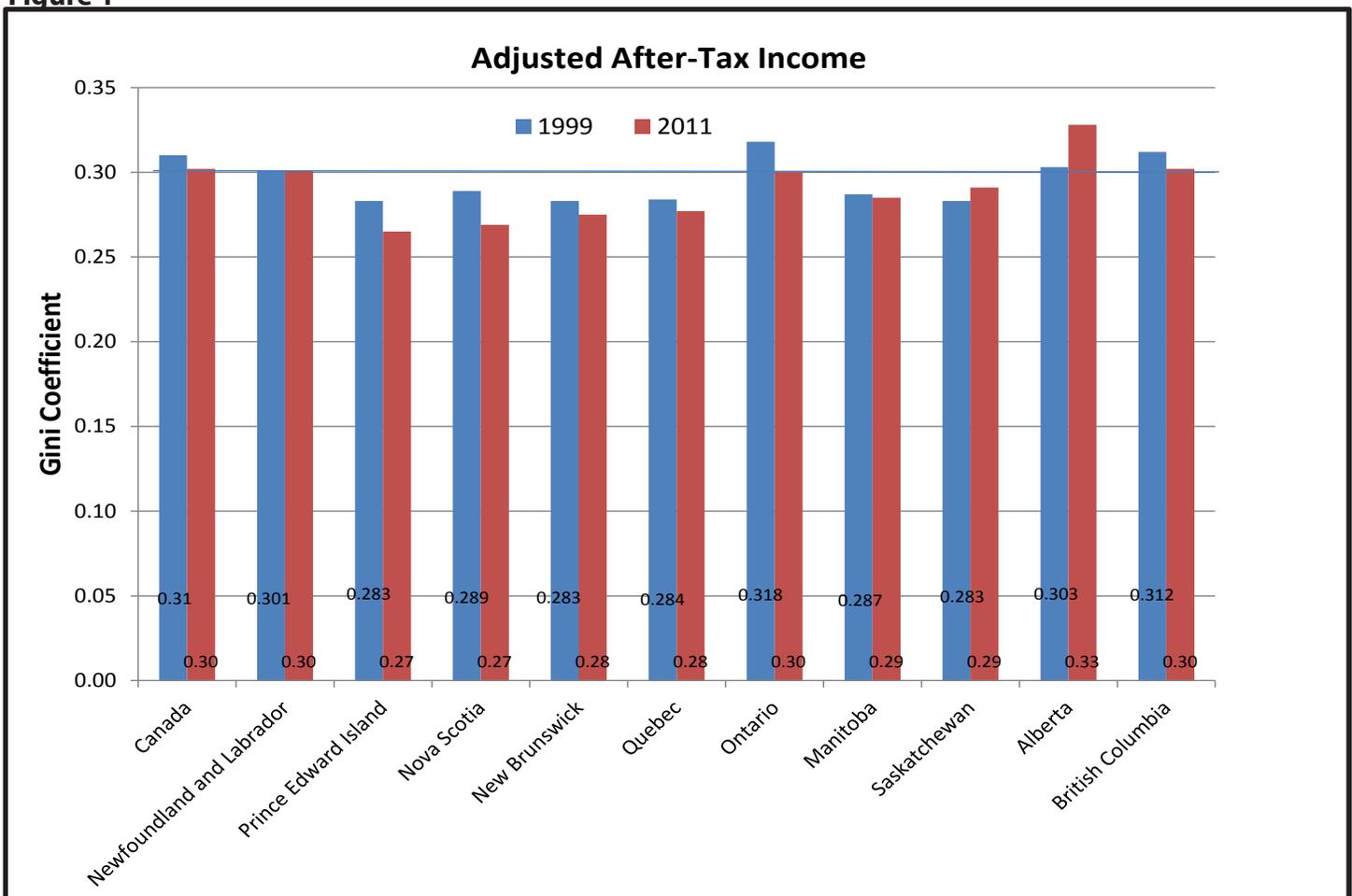
Bringing Alberta back in step with the other Canadian provinces on the issue of progressive income tax would be a first step toward addressing the pressing issue of income inequality and ensuring the availability of adequate funds to support public services such as education and health care. The goal of this fact sheet is to provide Albertans with some of the data they need to engage each other and their political leaders in better-informed discussions about how best to move forward toward a more fair and stable Alberta.

INCOME INEQUALITY IN ALBERTA

In terms of income distribution, Alberta is considerably more unequal than any other Canadian province, and the problem is increasing in severity.

The Gini coefficient (also known as the Gini index or Gini ratio) is a summary statistic that can be used to measure the

Figure 1



Source: Statistics Canada. Table 202-0709 – Gini coefficients of market, total and after-tax income, by economic family type, annual (number), CANSIM (database).

equality of income distribution. The Gini coefficient ranges from zero to one, with zero representing perfect equality of income and one representing complete inequality (with one person receiving all income). The higher the Gini coefficient, the greater the inequality of income. Small differences in the Gini coefficient indicate considerable differences in income distribution.

Figure 1 shows the Gini coefficients in 1999 and 2011 for after-tax income in every Canadian province, as well as for Canada as a whole. Alberta's 1999 Gini coefficient of 0.303 was somewhat lower than the Canadian average of 0.31. In that year, both Ontario (0.318) and British Columbia (0.312) had more unequal after-tax income distributions than did Alberta.

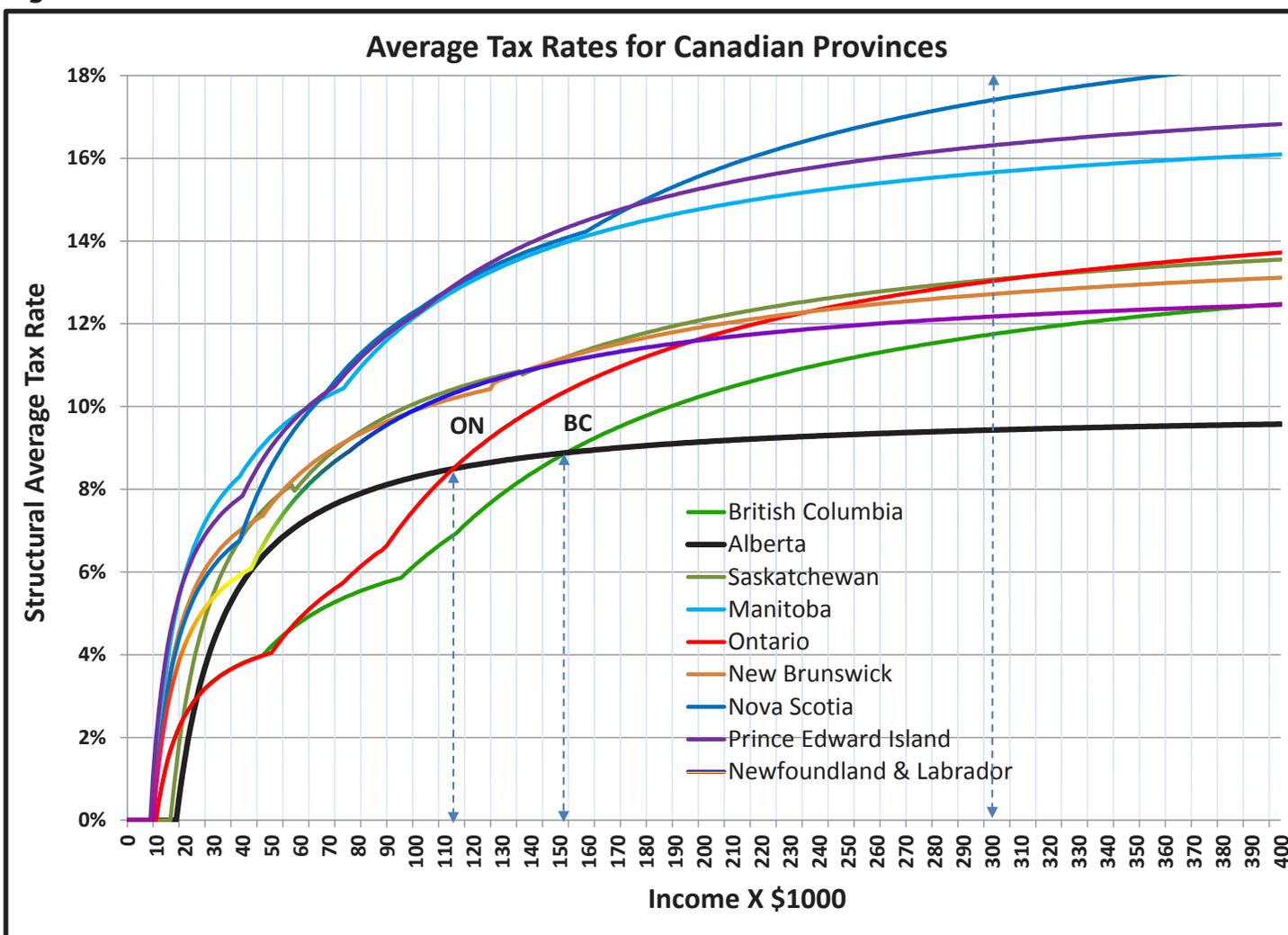
By 2011, the story had changed. Likely as a temporary effect related to the global financial crisis of the Great Recession, after-tax income inequality had decreased across Canada as a whole, as well as in most provinces, including Ontario and British Columbia. While income inequality had increased in Saskatchewan, it had increased considerably more in Alberta. The spike in Alberta's Gini coefficient, up to 0.33, reflects increased income disparity in the province.

Analysis of income shares in Alberta offers additional evidence of income inequality in the province. In 1999, those collecting the top one percent of Alberta incomes enjoyed wages 17 times higher than those received by the bottom 90 percent. Just over half a decade after the introduction of the flat tax, the gulf had widened considerably, with Alberta's top one percent receiving 25 times the income of the bottom 90 percent of Alberta earners by 2007.³ Even in the aftermath of the Great Recession, Alberta's top one percent continued to enjoy incomes 18 times higher than those received by the province's bottom 90 percent.

THE FLAT TAX

In 2000, Alberta introduced a personal income tax regime with a statutory single rate of 10 percent applied to all income above a personal exemption.⁴ The introduction of this constant rate tax (the so-called flat tax) had the effect of shifting the tax burden—how much a given individual or income class contributes to the total amount of tax revenue obtained—toward those in the middle of the income spectrum and away from higher earners. Specifically, the flat tax as introduced in 2000 had the effect of making those earning between \$25,000 and \$75,000 bear a greater share of the tax burden.⁵

Figure 2



Source: Canada Revenue Agency. "General income tax and benefit package, 2013," <http://www.cra-arc.gc.ca/formpubs/t1gnr1/menu-eng.html>

More than a decade later, Alberta remains the only Canadian jurisdiction to employ a single rate personal income tax regime. The effect of Alberta's out-of-step policy is evident when the province's personal income tax system is seen in a national context. Figure 2 displays the average personal income tax rates for the provinces of Canada, which were calculated on the basis of 2013 provincial statutory rates.⁶ This provides a means of comparing the progressivity of each province's tax regime.⁷

Figure 2 illustrates similarities among some of the Canadian provinces in terms of personal income tax rates. At least to income levels of \$200,000 per year, average tax rates are similar in Nova Scotia, Prince Edward Island and Manitoba. Rates in Saskatchewan, Newfoundland and Labrador, and New Brunswick are also clustered.

For comparison with Alberta, British Columbia and Ontario are of particular interest. Between incomes ranging from about \$25,000 to about \$110,000 in Ontario and to about \$150,000 in British Columbia, Alberta taxpayers pay more personal income tax. For example, at an income of \$60,000, an Alberta income earner pays about 50 percent more in personal income tax than an individual earning an equivalent income in either British Columbia or Ontario.

In all provinces, high-income earners (over \$150,000 per year) pay greater income taxes than those who earn lower incomes. At an income of \$300,000 per year, an individual earner in Manitoba, Prince Edward Island, or Nova Scotia, would pay 16 to 17 percent (\$47,000 to \$52,000) in tax. In British Columbia, Newfoundland and Labrador, New Brunswick, Ontario, or Saskatchewan an individual earning the same income would pay 12 to 13 percent (\$35,000 to \$39,000) in tax. In contrast, at an income level of \$300,000 per year, an Alberta earner would pay only 9.4 percent in tax—about \$28,000. Clearly, at high income levels, Alberta's average tax rates sit far below those of the other provinces.

Figure 3 illustrates the percent change in tax burden by income group between Alberta's 1999 progressive income tax regime and the current flat tax. The tax rate system used in 1999 is applied to 2010 income tax filers data, which is the most recent available income distribution data. The current 10 percent constant rate tax is then applied to the same income distribution data, and the two sets of results are compared.

As illustrated in Figure 3, under the flat tax regime, Albertans making less than \$75,000 per year are subject to a 4.6 percent increase in their share of the tax burden. In contrast, Albertans making incomes of more than \$75,000 per year enjoy a 4.6 percent reduction in their contribution to provincial income tax revenue.

As compared with the 1999 progressive income tax regime, the flat tax reduces revenues from personal income tax by 16 percent, from \$11.6 billion to \$9.8 billion (based on 2010 income tax filers data). Based on a provincial budget of about \$40 billion, this amounts to a forfeiture of approximately 5 percent of annual provincial revenues.

Using the 1999 tax regime as a point of comparison does not mean a recommendation that the province return to this earlier system. Rather, the comparison exposes how adopting the flat tax regime has increased income inequality in part by giving tax breaks to those who needed them the least. It also shows how the flat tax has reduced the revenues available to the provincial government.

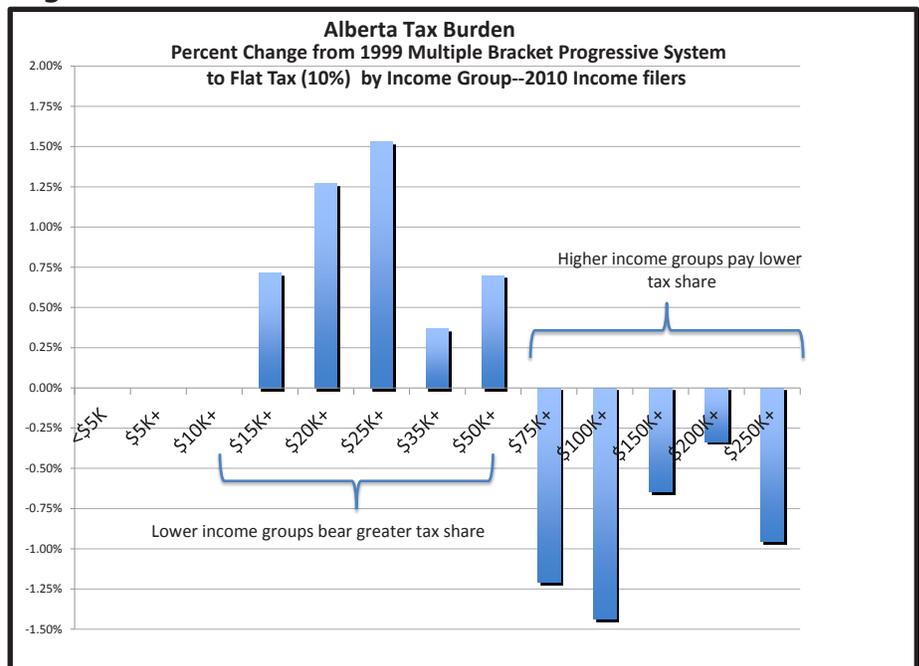
THE WAY FORWARD

Alberta's income inequality has increased since the introduction of the constant rate tax. In a Canadian context, Alberta's income disparity is extreme, and Albertans are worse off because of it.

Any attempt to address income inequality in Alberta should begin with an elimination of the flat tax, an unfair system that increases the net incomes of those who are already well off and suppresses the net incomes of those who aren't as fortunate, while also decreasing the revenues available to the province for the funding of public services such as education and healthcare.

Adopting a progressive income tax system would address the problem of increasing income inequality while presenting an opportunity to move toward adequate and stable provincial revenues.

Figure 3



Source: Statistics Canada. Table 111-0008 – Neighbourhood income and demographics, taxfilers and dependents with income by total income, sex and age group, annual; Canada Revenue Agency. "Canadian income tax rates for individuals - current and previous years," <http://www.cra-arc.gc.ca/tx/ndvds/fq/txrts-eng.html>

1 J.E. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: WW Norton & Company, 2012); Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger* (New York: Bloomsbury Press, 2010); 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, Finance & Development* 48, 3 (2011).

2 Readers interested in further information on the issue of provincial revenues are invited to consult Melville McMillan, "Does Alberta have a spending or revenue problem?" *Edmonton Journal*, 25 February 2014; Shannon Stunden Bower, Trevor Harrison, and Greg Flanagan, *Stabilizing Alberta's Revenues: A Commonsense Approach*, Parkland Institute, February 2013; Greg Flanagan, *Fixing What's Broken: Fair and Sustainable Solutions to Alberta's Revenue Problems*, Parkland Institute, June 2011.

3 Statistics Canada. Table 204-0002 High income trends of tax filers in Canada, provinces and census metropolitan areas (CMA), specific geographic area thresholds, annual. CANSIM (database).

4 At the introduction of the flat rate personal income tax regime, this exemption was \$12,900. In early 2014, it sits at \$17,787.

5 Greg Flanagan, "Shifting the Burden," *Alberta Views* September/October 2000 21-27; Melville L. McMillan, "Alberta's Single-Rate Tax: Some Implications and Alternatives," *Canadian Tax Journal* 48, 4 (2000): 1019-1052.

6 Quebec is excluded from this analysis because differences in that province's tax system complicate national comparisons.

7 Jonathan R. Kesselman and Ron Cheung, "Tax Incidence, Progressivity, and Inequality in Canada," *Canadian Tax Journal* 52, 3 (2004): 709-789.



11045 Saskatchewan Drive,
Edmonton, Alberta
T6G 2E1
Phone: 780.492.8558
Email: parkland@ualberta.ca
Website: www.parklandinstitute.ca