

Alberta Revenues

Change
is Needed

Public Interest Alberta
April 2018 Advocacy Conference

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Agenda

1. Defining the problem - Do we need revenue reform?
2. What are the revenue options? What is the right mix?
3. Break
4. Why is a sales tax so unpopular and what can we do about it?

The unique landscape for this conversation.

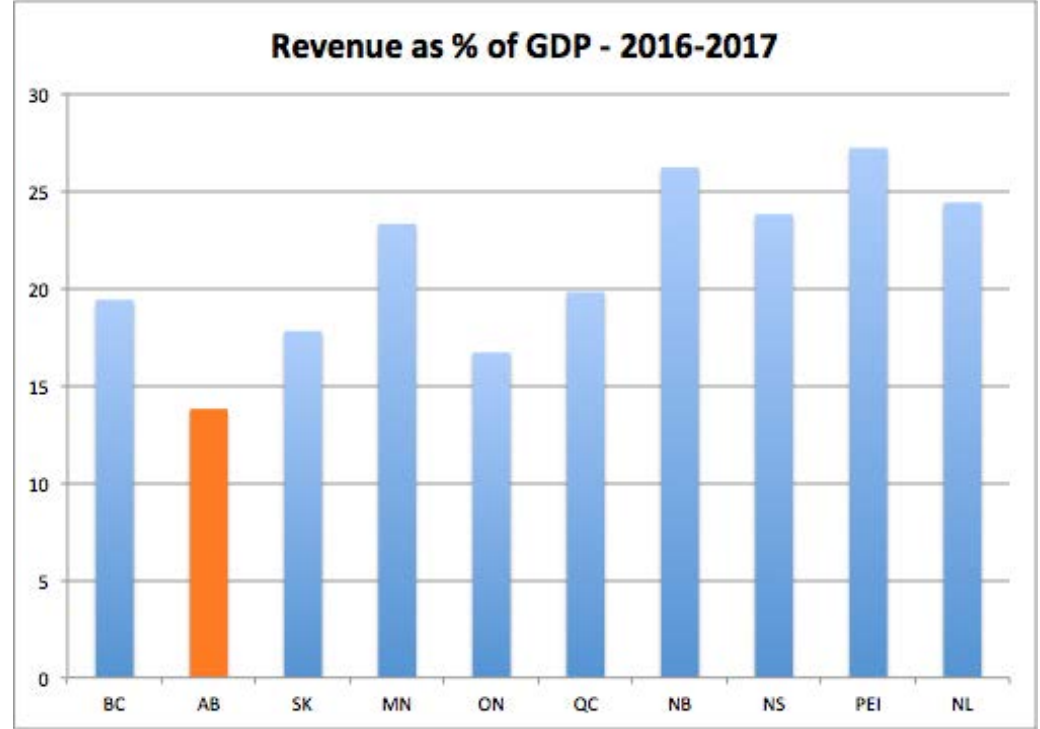
1. Defining the problem

Do we have a revenue problem?



Alberta catches a smaller portion of the economy (GDP) than other provinces

Oil revenues were used to make tax cuts that mostly went to the wealthy and large corporations. Then oil revenues plummeted.

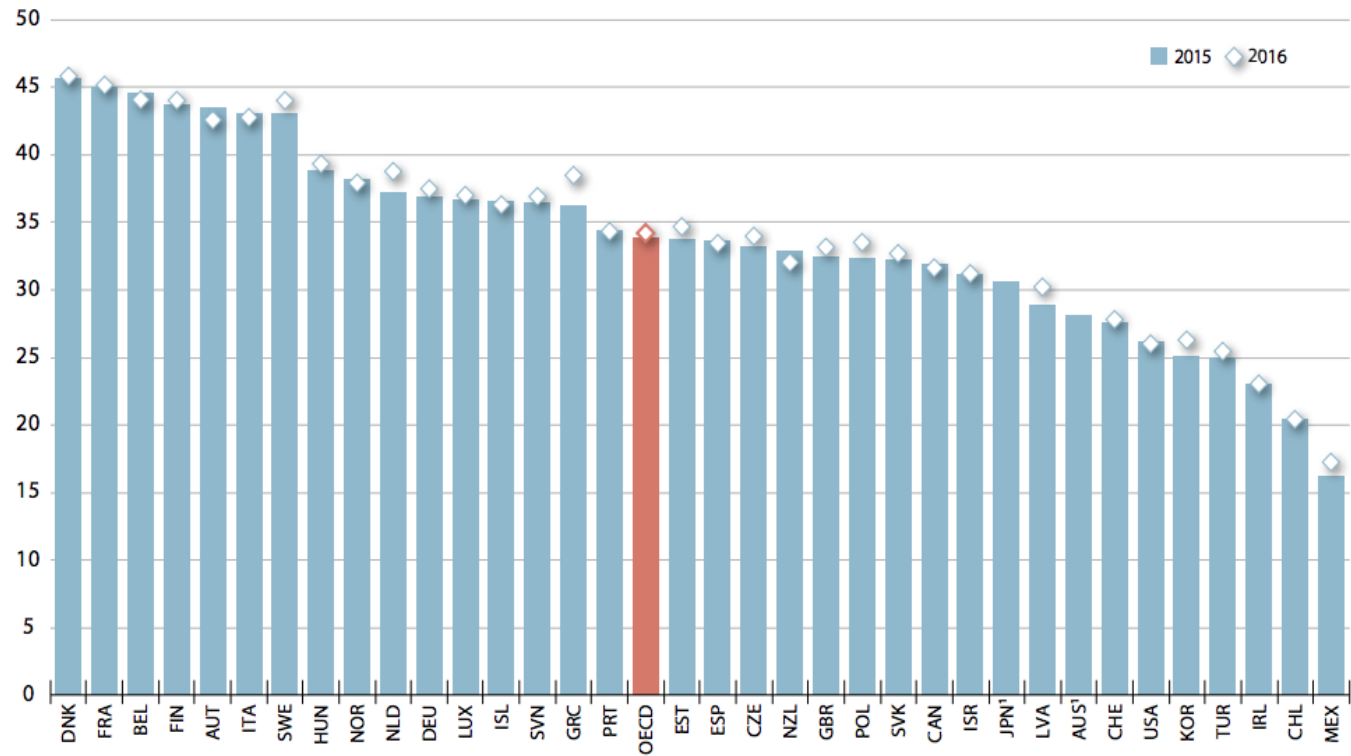


Source: RBC Canadian Federal and Provincial Fiscal Tables April 2016

Alberta has **ROOM TO MOVE**

Revenue as a % of GDP

Canada is a laggard on taxes and has plenty of room to move.

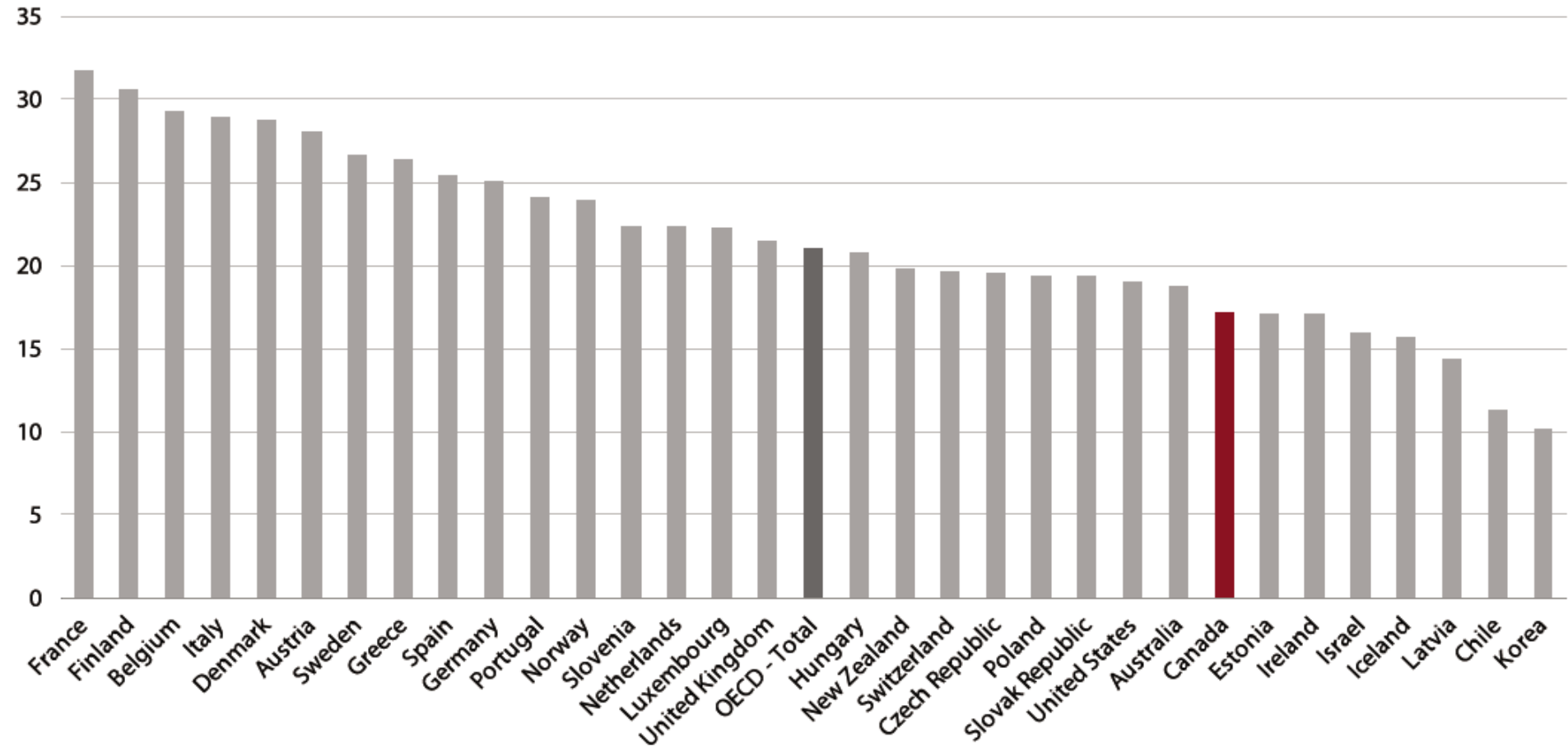


1. Preliminary data for 2016 was not available for Australia and Japan.

Source: Data from *Revenue Statistics 2017*, <http://oe.cd/oeecd-revenue-statistics>

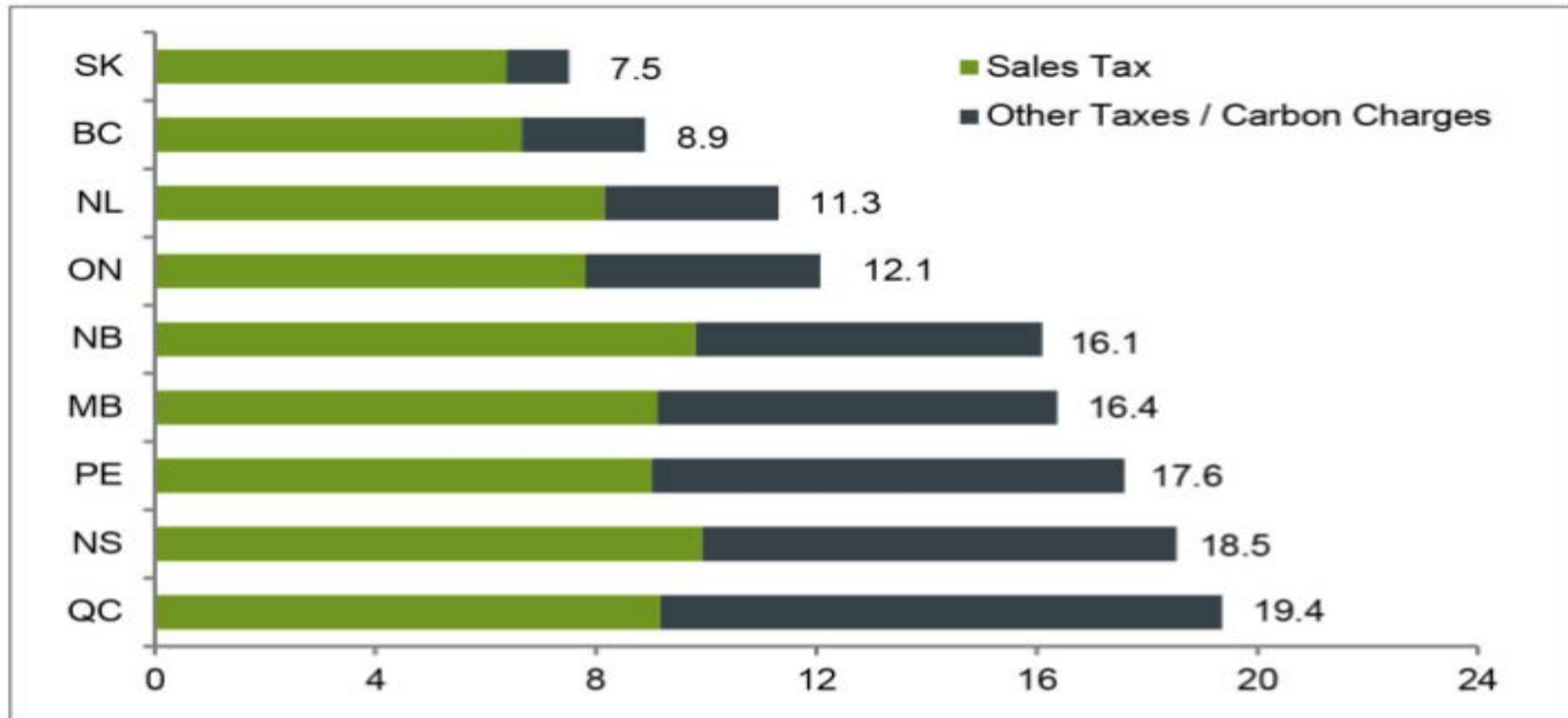
Canada has **ROOM TO MOVE**

Social spending as a percent of GDP - OECD



Alberta's Tax Advantage

(billions of dollars)



Source: Alberta Treasury Board and Finance

The Budget Challenges of Oil-Rich Provinces. What Will 2018 Bring?

Resource revenues as a share of total provincial government revenue, and the share needed to balance (2017/18).



* For consistency, Alberta's figures are calculated on a 'Fiscal Plan' basis.

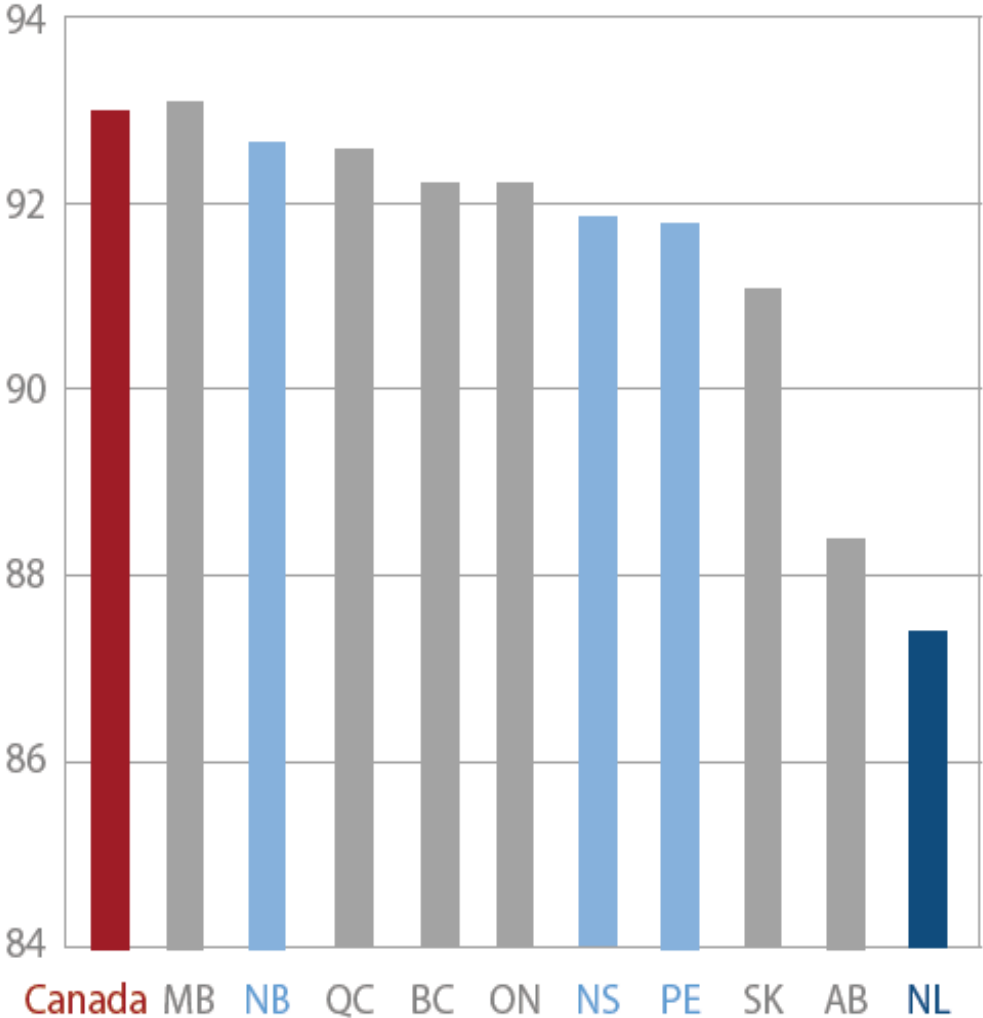
** Saskatchewan's plan to balance by 2019 requires royalties be 11% of revenues.

Source: Kneebone and Wilkins (2016) and various provincial budgets. Graph by @trevortombe

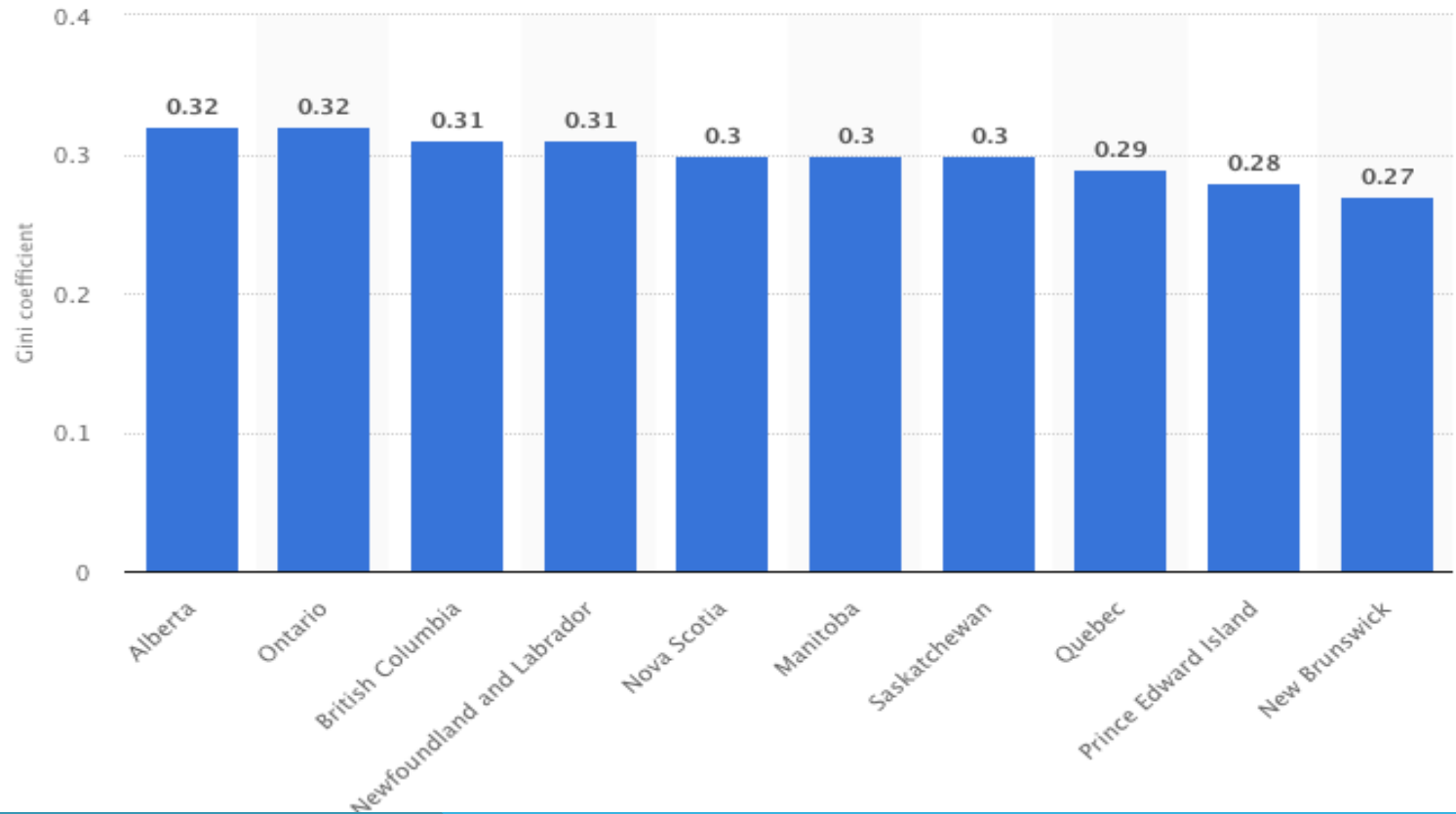
Economic Diversification

Alberta remains very vulnerable to oil and gas shocks

Source: Canadian Northern Economic Development Agency.
<http://www.cannor.gc.ca/eng/1388762115125/1388762170542#chp2>



Gini coefficient of after-tax income in Canada in 2015,



Didn't the NDP already fix revenues?

No.

Carbon levy (small - less than gambling revenues),

PIT more progressive (top bracket is still one of the lowest of all provinces)

Raised Corporate taxes from 10% to 12% (\$200 to \$400m)

Alberta still has a deficit of \$9.1 billion and is not saving resource revenues.



Does Alberta's revenue problem that needs fixing? Why?

What do you consider to be Alberta's spending priorities?

Breakout Groups

6 Good Reasons for Revenue Reform

Jobs may be lost if we don't.

Inter-generational equity - Your kids and grandkids.

Stability not Volatility.

Sustainability - Alberta needs the programs and services for an economy in transition.

Fairness - Capture leakage.

Social and economic justice - Inequality is high in Alberta.

2. What are the revenue options?

What is the right mix?



Options

PIT/CIT reform

Sales tax-and-credit

Wealth taxes - capital, property, automation

Speculation taxes - land transfer fees,
housing foreign owner / vacant



Progressive Income Tax

- Alberta's rich: still pay lower taxes than many provinces.
- Canada: one of the lowest corporate tax rates in the G7.



TaxFacts

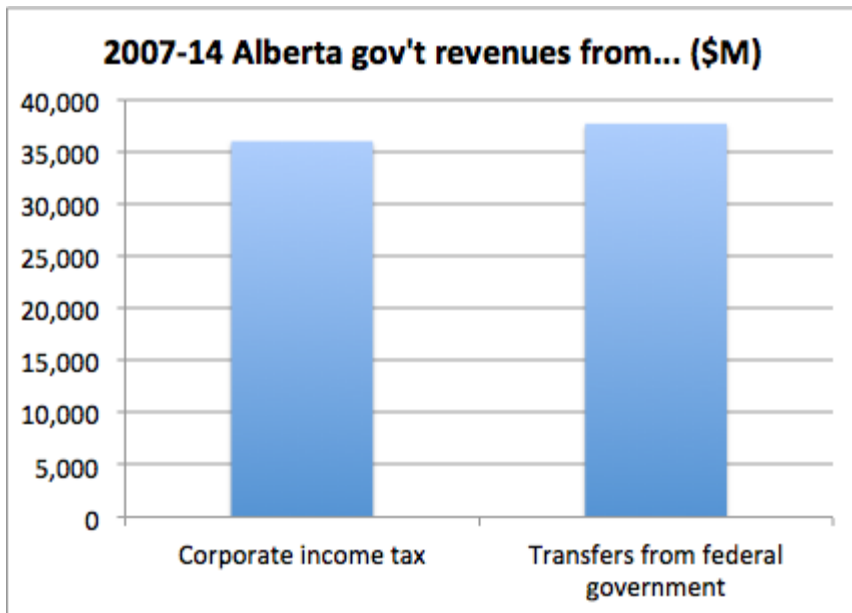
1971 AB top marginal rate:	80 %
2017 AB top marginal rate:	15%
2017 Que/NB/NS	27.75/27.75/21%
The number of brackets 1972:	18
The number of brackets 2017:	5

CIT

Make it more progressive

Context - CIT revenues below transfers from Federal government to AB government.

Alberta needs to lead on re-establishing CIT rates.



CIT comparison

Statutory corporate income tax rate in the United States, including an average of state corporate income taxes, is 25.7 percent.

	Provincial	Federal
BC	11	26
NWT	11.5	26.5
Ontario	11.5	26.5
Sask	11.75	26.75
Quebec	11.8	26.8
Alberta	12	27
Manitoba	12	27
Nunavut	12	27
Yukon	13.49	28.49
NB	14	29
NFLD	15	30
Nova Scotia	16	31
PEI	16	31

Capital tax, automation tax.

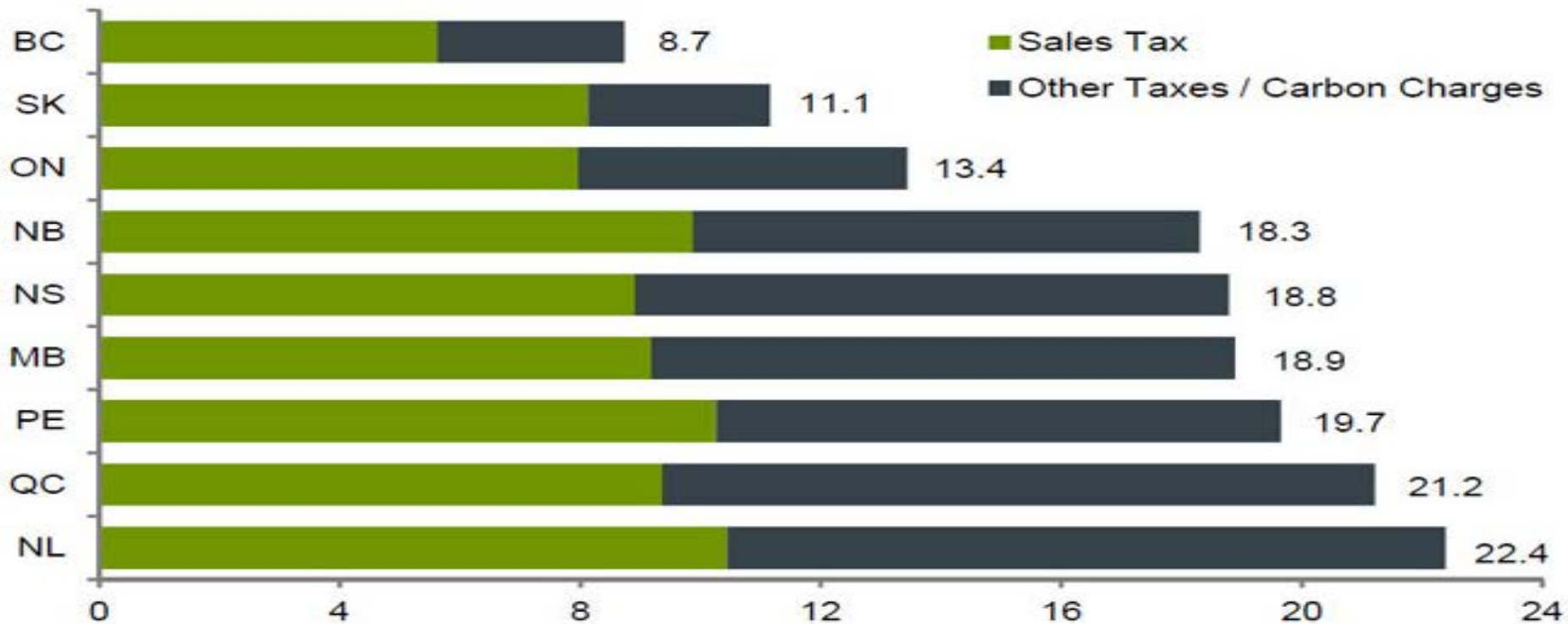
Wealth and Speculation taxes

Property tax - make it progressive by law, prohibit reductions. Helps municipalities and reduces demands they make for transfers.

Land transfer tax to replace land transfer fees. Make it progressive, reduce housing market speculation, improving affordability.

Others - financial transfers, inheritance, etc.





Sales tax revenue potential

Sales tax-and-credit

Why? Some people don't pay any taxes. Need to get at least something.

Regressive as tax alone, though less regressive than MSP or other head taxes (less regressive because rich spend more).

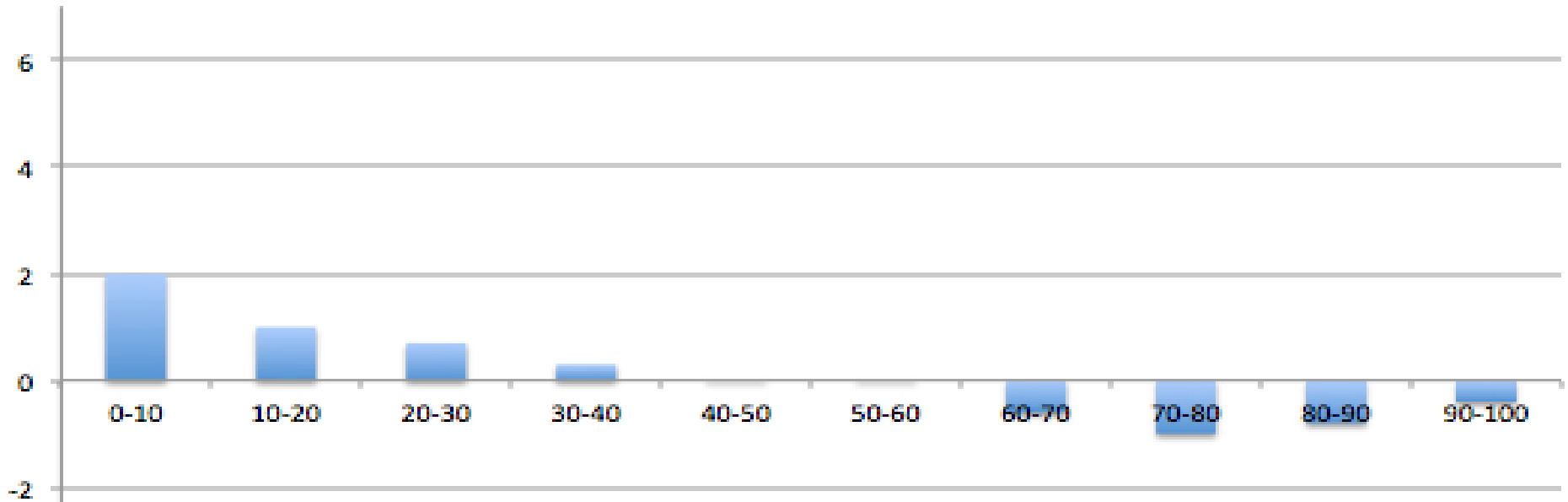
Refundable tax credit. I.e. everyone gets it, regardless of income, and whether file taxes.



Making a sales tax progressive

tax-and-dividend

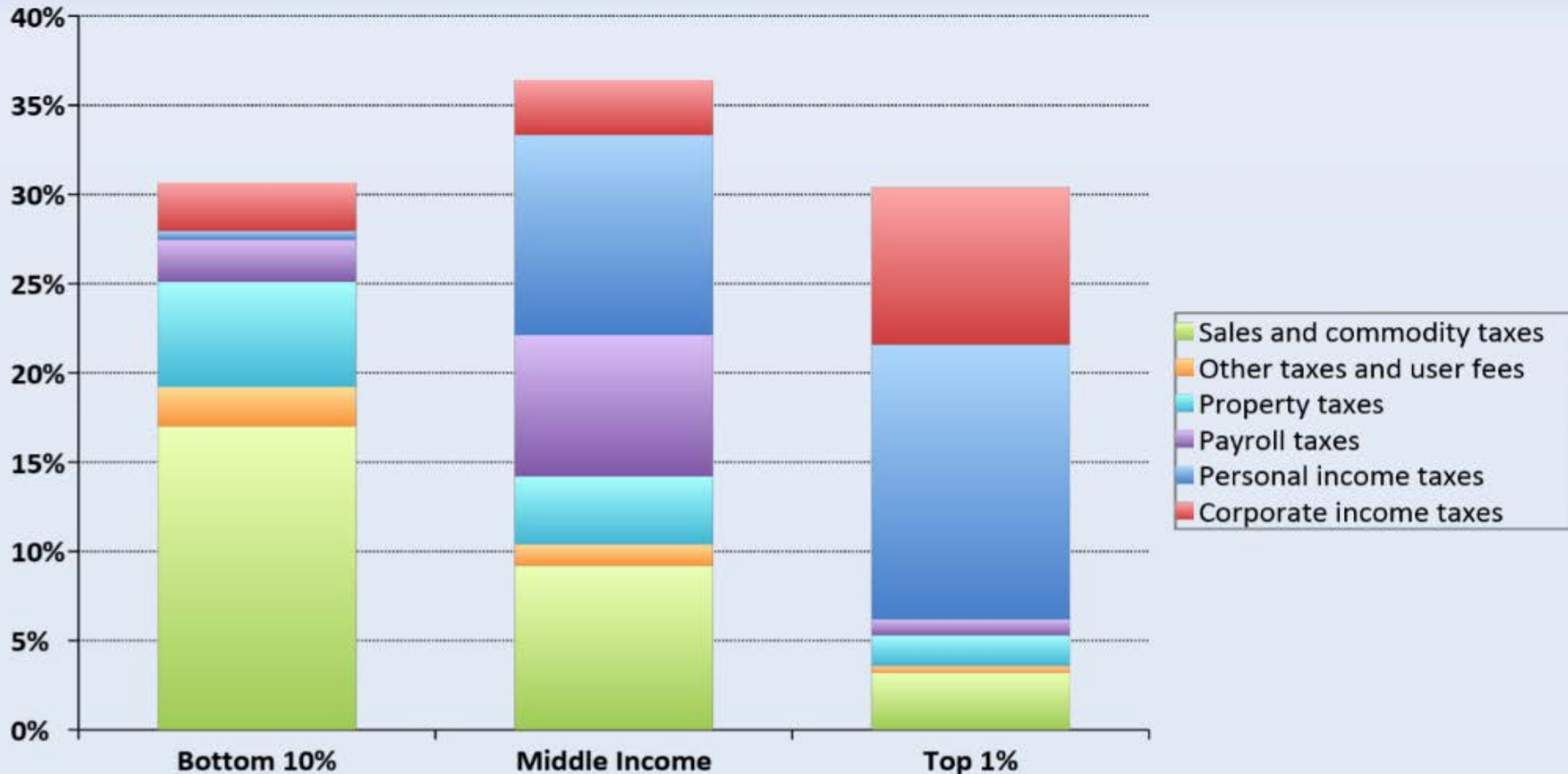
% financial impact ave. by income decile (illustration)
Net impact of sales-tax-and-dividend



The background consists of several overlapping geometric shapes. A large orange triangle is on the right side, pointing towards the top-left. On the left side, there are two blue triangles: a lighter blue one on top and a darker blue one on the bottom, both pointing towards the right. The text 'Tax mix matters' is positioned in the white space between the blue and orange shapes.


Tax mix matters

Average Tax Rate as a Share of Income for Different Types of Tax

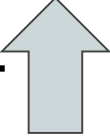


From Marc Lee, *Eroding Tax Fairness* (CCPA, 2007), 2005 data.

PIA statement on revenues: To give the province sufficient capacity to invest in a more just and fair province:

- Increase **income tax rates** for middle and upper income brackets.
 - Introduce a **sales tax**, mitigated to ensure the impact is minimal on Albertans with low incomes.
 - Introduce fair **royalty rates** on non-renewable resources to save for the future.
- 

Revenues

5% PIT 

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Mechanical revenue effect	24.1	3.6	43.1	30.3	490.1	1287.7	63.7	64.3	505.7	370.2
Behavioural effect	-12.4	-3.4	-34.2	-16.8	-379.4	-650.7	-38.1	-32.0	-145.7	-161.5
Net provincial own-revenue gain	11.6	0.2	8.9	13.5	110.7	637.0	25.6	32.3	359.9	208.7
Impact on federal revenue	-19.7	-4.2	-38.2	-25.2	-316.8	-842.0	-49.3	-46.4	-281.8	-237.8

Source: Authors' estimates.

¹ The impact on federal revenue assumes there is no income shifting across provincial boundaries.

Source: Provincial Taxation of High Incomes

The Effects on Progressivity and Tax Revenue

KEVIN MILLIGAN AND MICHAEL SMART | NOVEMBER 25,

2015. <http://irpp.org/research-studies/aots5-milligan-smart/>

Revenues:

PIT - 5% on top bracket - **\$350 million** (Milligan and Smart, see slide 22)

Broader PIT changes from other provinces: British Columbia: \$2.4 billion, Saskatchewan: \$1 billion, and Ontario: \$3.6 billion.

CIT - 2% change - **\$250 million to \$450 million***

5% Sales Tax - from **\$5 billion to \$7.4 billion** annually after a rebate is given to low-income earners.**

2017-18 deficit is now forecast at **\$9.1 billion**. Canada's PBO estimates the tax gap at **\$14.1 billion**.

* Based on estimates of increase from 10% to 12% effective July 1, 2015: \$250 million in 2015-16 and \$450 million in 2016-17. GOA Tax plan • Fiscal Plan 2015–18. P 86.

** Bev Dahlby, University of Calgary's School of Public Policy, As quoted by Gordon Kent in: "Panelists push for Alberta sales tax, but not everyone agrees," Edmonton Journal, February 21, 2018.

Breakout: The tax mix

What is the role of the sales tax?

Sales tax myths

Alberta has never had one- we have

Alberta doesn't have one - we do - the GST



Breakout

Why is the sales tax so unpopular and what can we do about it?

