

REVENUE RAISING OPTIONS FOR ALBERTA

Presentation to Association of Retired Professors,

University of Alberta

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OUTLINE

The problem

Current Realities

Options

- Personal income taxes

- Corporate income taxes

- Other taxes

- Sales tax

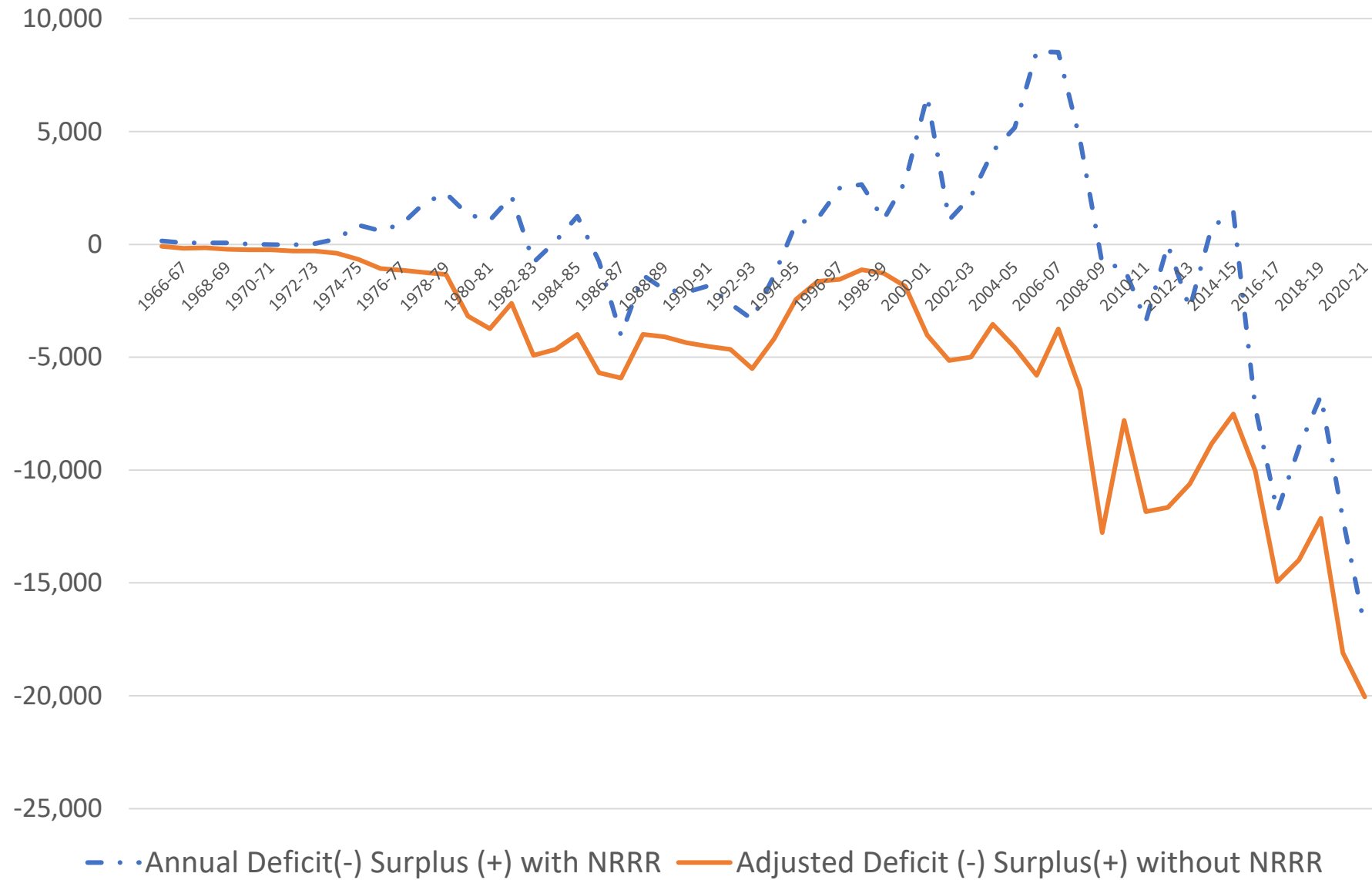
Suggested discussion points

The Problem

Overdependence on Resource Revenues

Alberta has not achieved a budgetary surplus **WITHOUT NRRRR** since 1965

Figure 3.2- Annual Deficit/Surplus with and without NRRR
1965/66-2020-21 (\$)



In their critique and extension of the “staples” view of resource-based development, Chambers and Gordon (1966) demonstrated that for a small open-economy like Alberta, natural resource exports cannot be the source of sustained increases in per capita incomes. In the long run, dependence on natural resource exports results in a larger, but not necessarily richer, economy and population.....

This result, plus the observation that resource price busts inevitably follow price booms, is what has caused economists to be persistent in their attempt to persuade governments to adopt fiscal approaches that encourage public saving and discourage an over-dependence on what is inevitably an unreliable source of revenue.

Emery and Kneebone, 2013

Government reports

The Alberta Tax Reform Commission-1994 (Donald)

Alberta's overall revenues are not expected to grow substantially over the next three years. Royalty revenues are not stable.”

Government reports

Financial Management Commission- 2002 (Tuer)

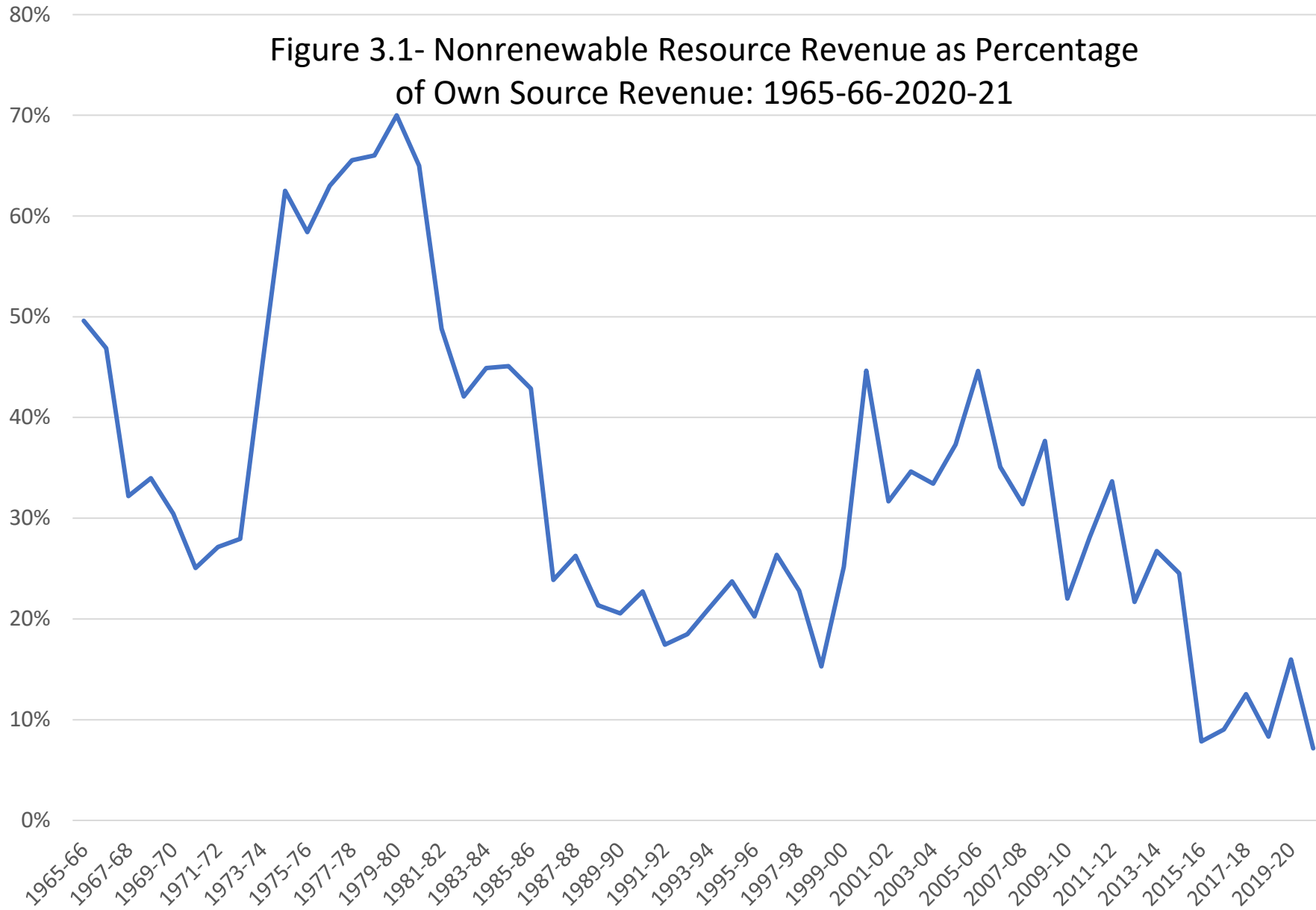
Entitled *Moving from Good to Great: Enhancing Alberta's Fiscal Framework*, this report effusively complimented the Klein government's "outstanding" financial management—but it also observed that government needed to reduce the province's reliance on resource revenues (Alberta Financial Management Commission 2002, 1, 4). Noting that nearly one-half of the provincial economy was associated directly or indirectly with the energy sector, the commission recommended that only "an appropriate and sustainable level of resource revenue be spent on an annual basis" (8).

Government reports

Premier's Council on Economic Strategy 2011 (Emerson)

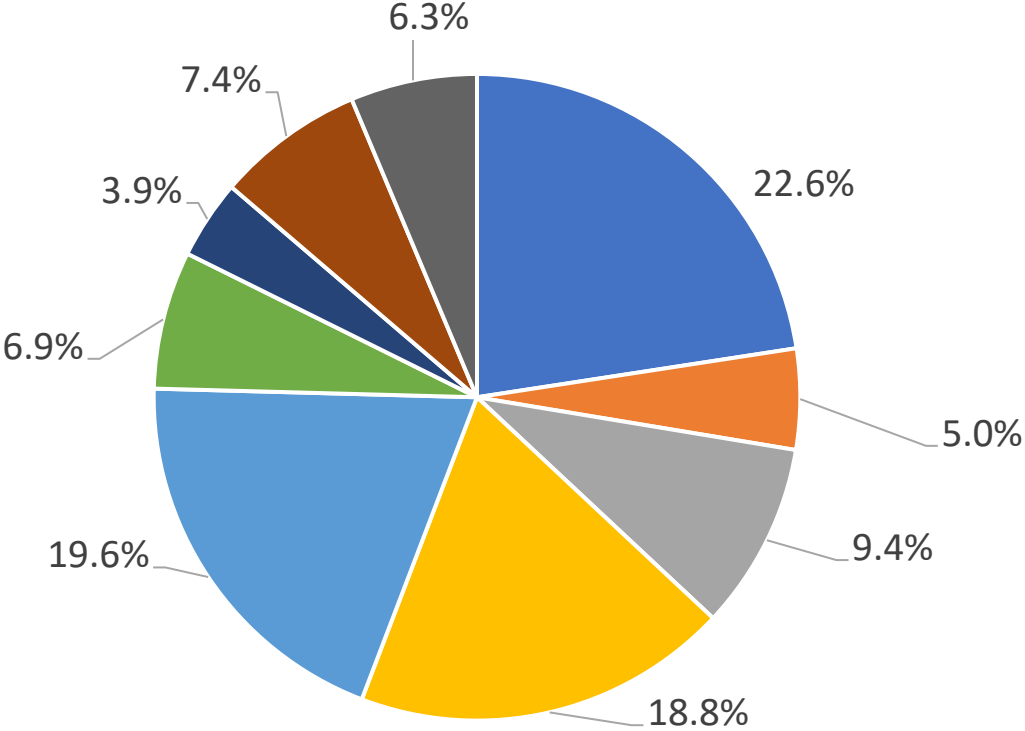
“the true Alberta Advantage is not the ability to create a low-tax environment by underwriting a significant portion of government services with funds received from the sale of energy assets. Rather, the advantage lies in the opportunity to use the proceeds from natural resource wealth to intentionally invest in shaping an economy that is much less dependent on natural resources

Figure 3.1- Nonrenewable Resource Revenue as Percentage of Own Source Revenue: 1965-66-2020-21



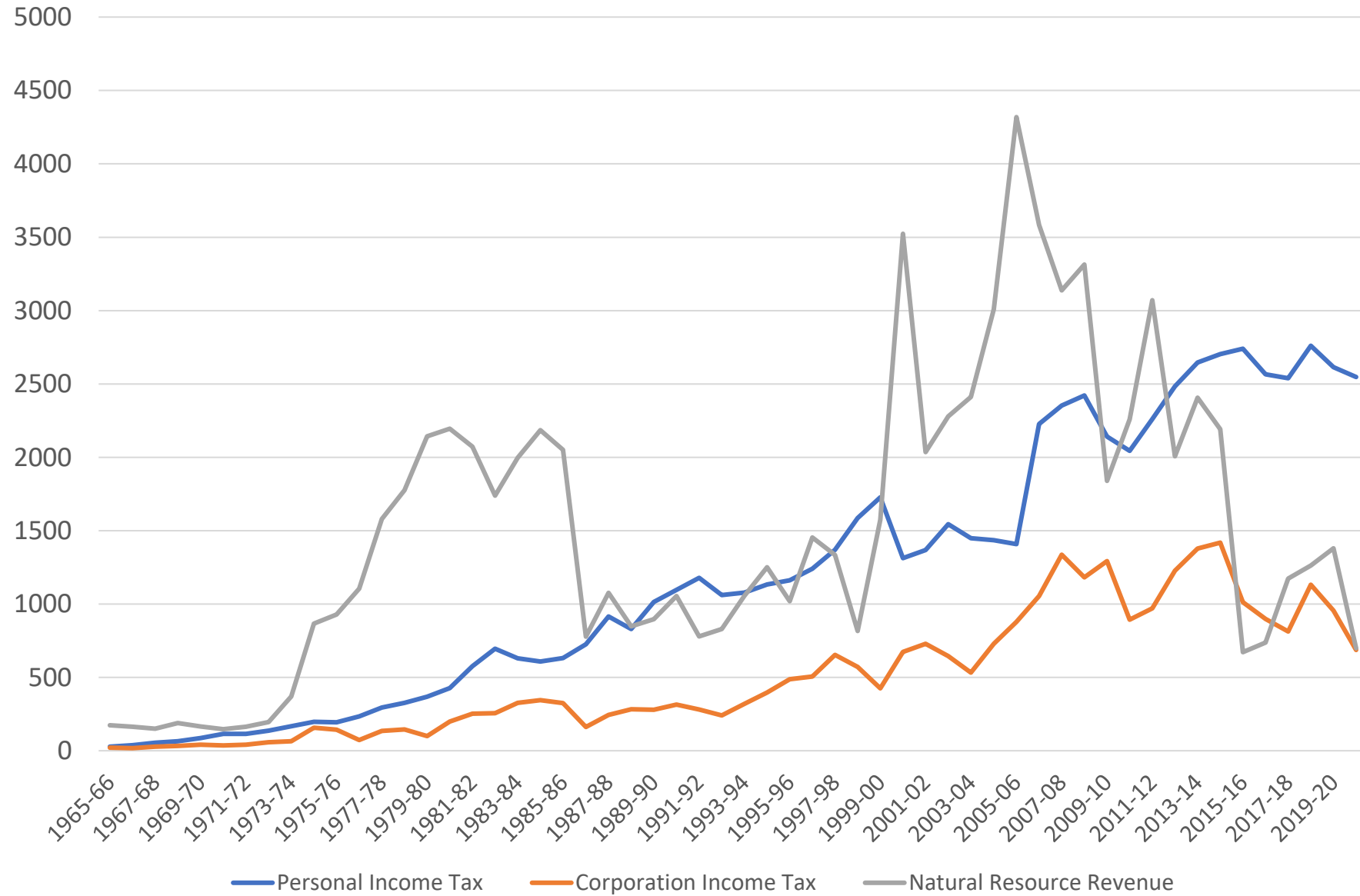
Current situation

Per cent of Revenue from Various Sources: Fiscal Update 2021-22

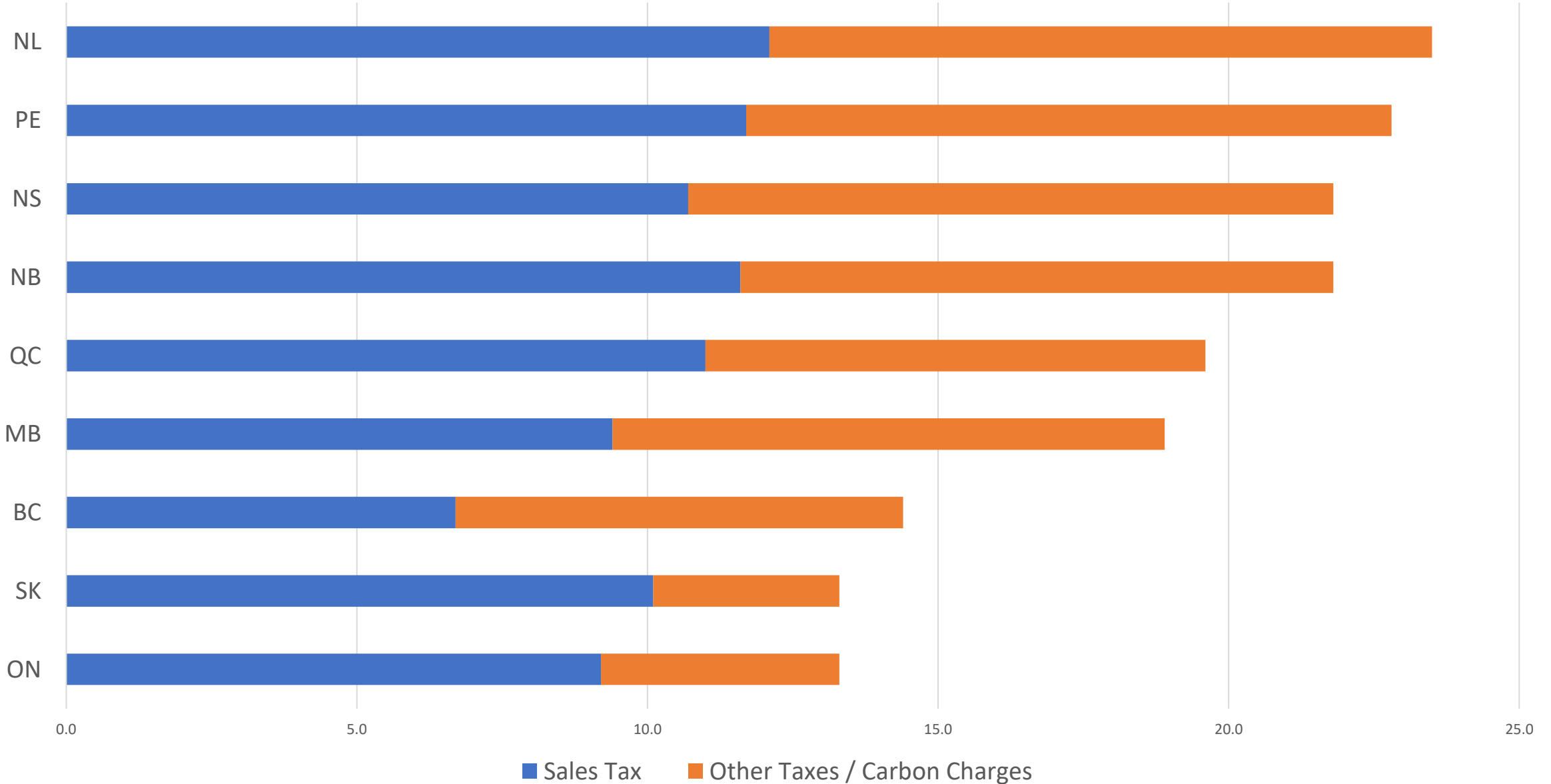


- Personal Income Tax
- Corporate Income Tax
- Other Taxes
- Resource Royalties
- Government of Canada transfers
- Investment Income
- Net Income Government Enterprises
- Premiums, Fees and Licenses
- Other

Figure 4.1 Major Revenue Sources Per Capita:
1965/66-2020-21 (\$2002)

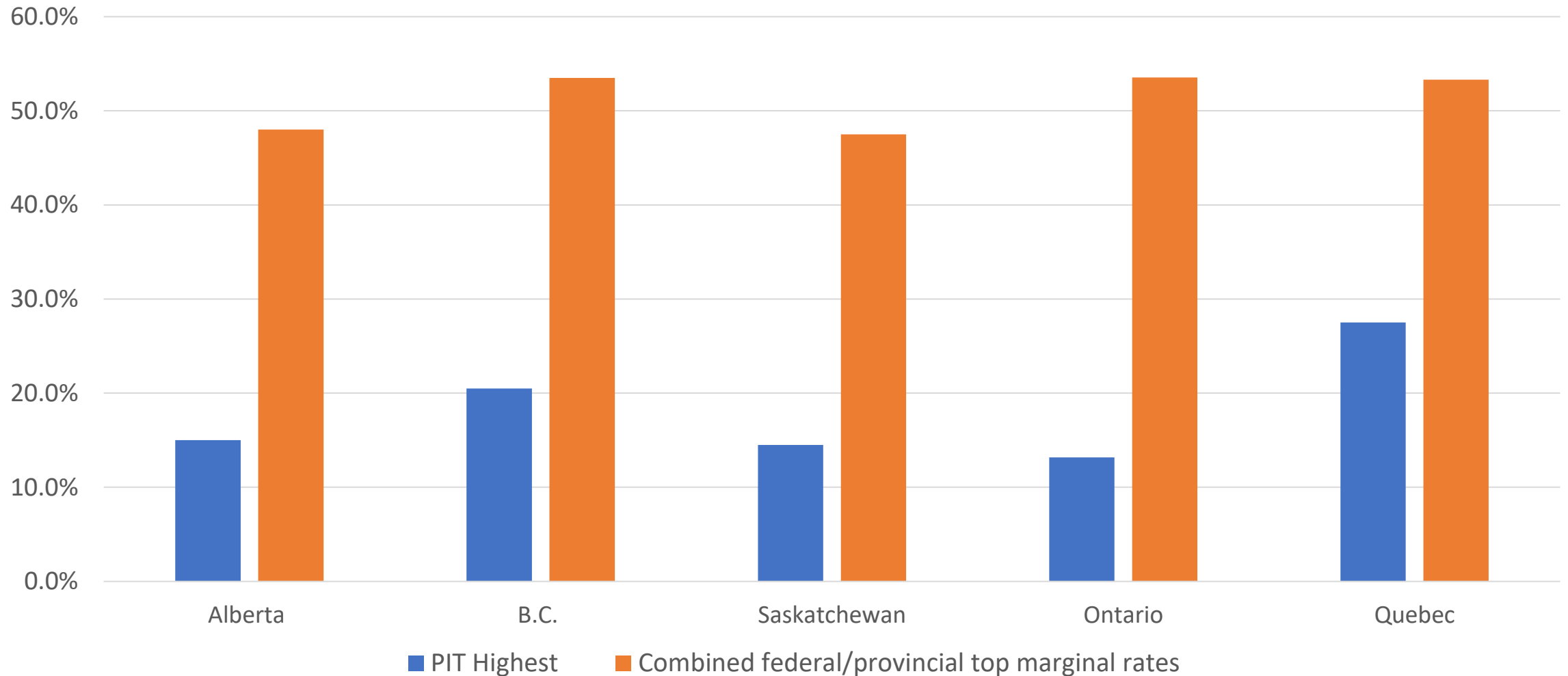


Alberta's Tax Advantage 2021 (\$billions)

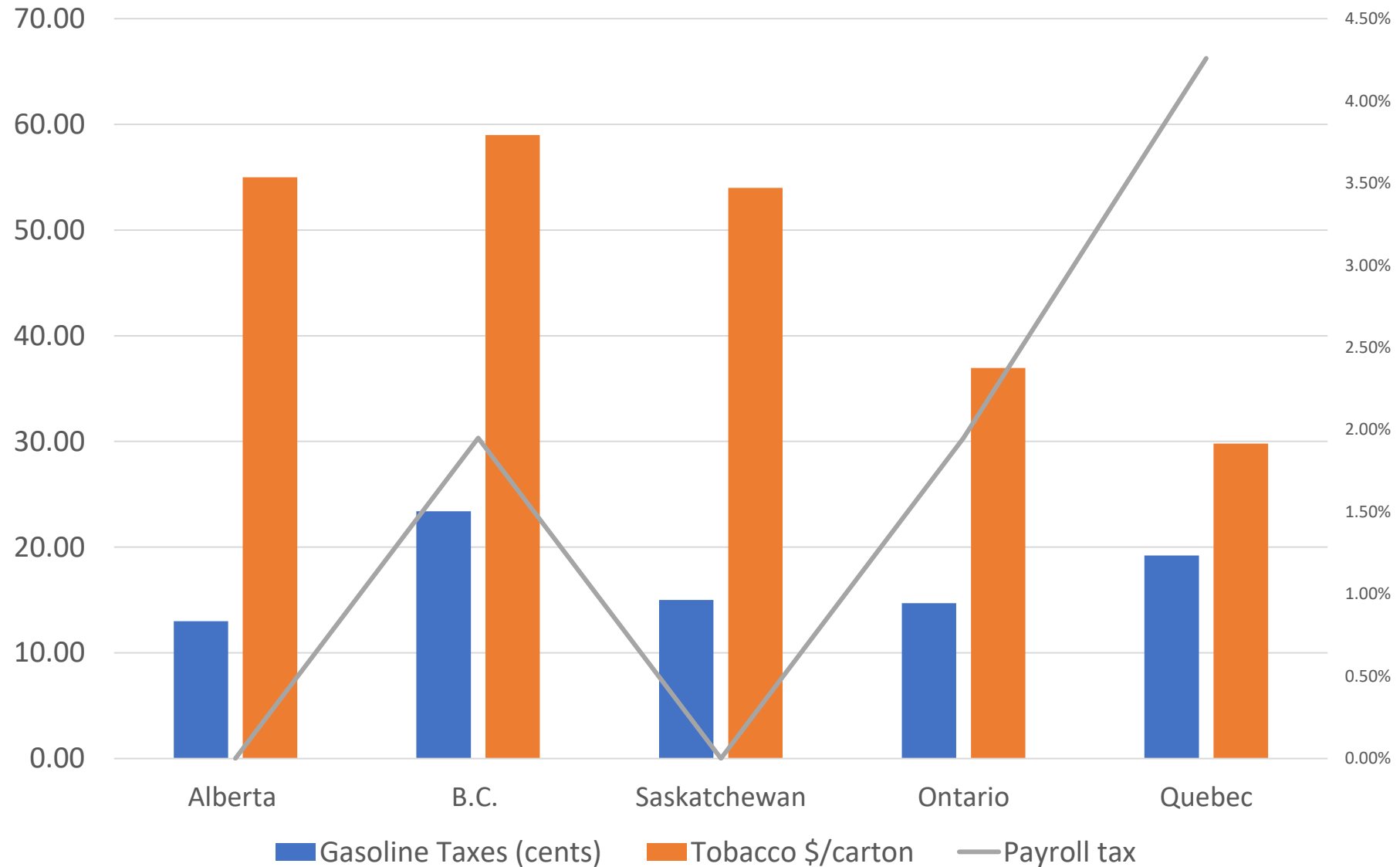


Options- Personal Income Tax

Major Provincial Tax Competitors -Personal Income Tax Rates 2021 (%)

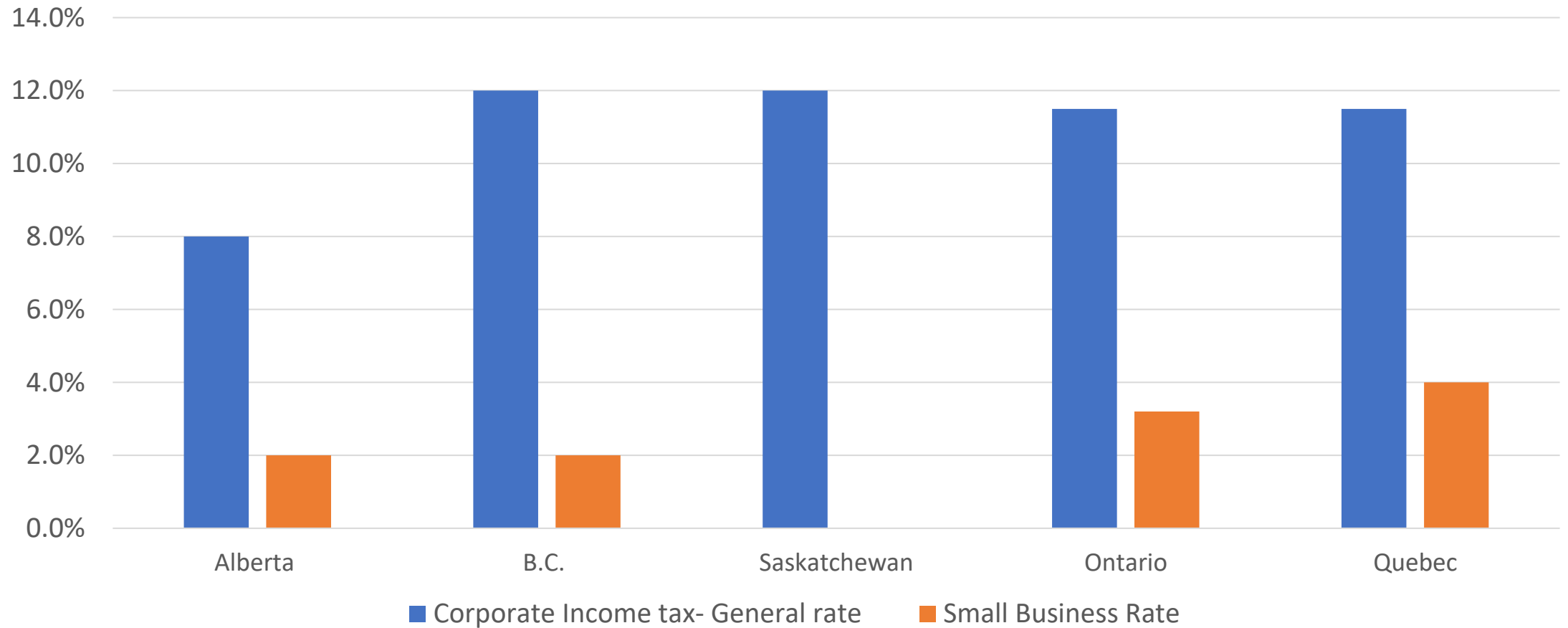


Major Provincial Tax Competitors: Gasoline, Carbon, Tobacco and Payroll Taxes 2021 (%)

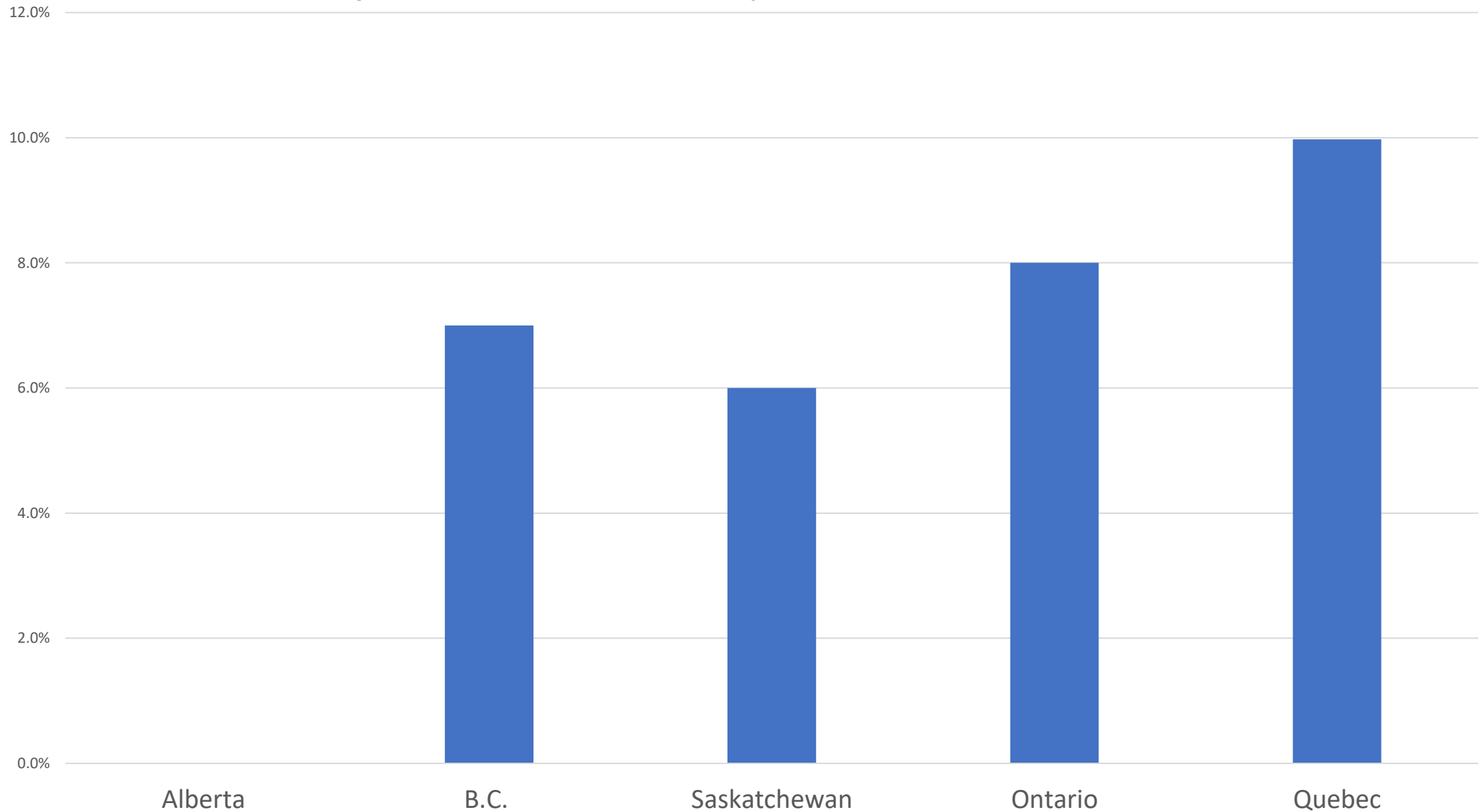


Options- Corporate Income Tax

Major Provincial Tax Competitors: Corporate and Small Business tax Rates 2021
(%)



Major Provincial Tax Competitors: Sales Tax- 2021 (%)



Considerations

- Retail sales tax far more stable compared with CIT and Resource Revenue
- Mechanisms through Harmonized Sales Tax in place
- Taxes out of province consumers
- Taxes consumption of inherited health
- Cost to raise a dollar much lower than other taxes
- BUT regressivity

Possible Discussion questions

- Is diagnosis correct?
- What are obstacles to change?
- Is Toews going to announce revenue review?
- What are best options?