Better Way Alberta:

REVENUE REFORM

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Context

Alberta is one of the wealthiest jurisdictions in the world. Yet, our health-care system is in crisis, too many children are in large classrooms without enough supports, universities and colleges are being cut while student tuition is going up, and way too many families are struggling to make ends meet and falling into poverty. It does not have to be this way. Alberta can afford to invest in high quality public services that benefit everyone, but the government has to decide to make provincial revenues more fair for Albertans.

The so-called "Alberta tax advantage" is really only an advantage for wealthy corporations and the rich, and it is time to make the tax system more fair for working families. This fact sheet shows that it is possible for the government to raise an additional $5 billion to $15 billion annually to invest in vital public services without increasing taxes for 90% of Albertans. A better way is to demand the Alberta government fix the revenue system by implementing the following recommendations:

1. Make the wealthy pay their fair share by implementing a more progressive income tax system and establishing a wealth tax on luxury goods.
2. Make highly profitable corporations pay what they owe by closing loopholes and properly taxing excess profits.
3. Eliminate public subsidies for highly profitable corporations.
4. Raise royalty rates to ensure resource development benefits all Albertans, now and for the future.
5. Direct new tax revenue from the wealthy and highly profitable corporations to cost relief for hardworking Albertans and improving public services for the benefit of everyone.

Fair and Sustainable Revenues for Albertans

In order to provide the public services that benefit all Albertans and make for a strong economy, we need a government revenue system that is fair and sustainable. As Alberta's population grows to more than 4.5 million people, government funding needs to keep pace so we can invest in schools, hospitals, cities and towns, transportation, and building infrastructure. We also must commit to increasing the number of educators, health-care professionals, and front-line workers who have been stretched to the limit keeping our province running.

It is important for Albertans to understand the full picture of where government revenues come from in order to explore how changes could be made. Although the UCP government revised the estimate upward after the first quarter financial reports, their 2022 – 2023 budget originally projected that it would raise almost six billion dollars less than the $68.3 billion raised in 2021-2022. The following table outlines the Alberta government's projected revenue sources (in $millions).[1]

Revenue sources	**2021 – 2022 Actual**	**2022 – 2023 Estimate**	**2022 – 2023 Revised Aug 31**
Personal Income Tax	$13,335	$13,382	$13,266
Corporate Income Tax	$4,718	$4,040	$6,054
Other Tax Revenue	$5,453	$5,612	$4,517
Resource Revenue – Bitumen	$11,605	$10,349	$20,086
Resource Revenue – Other	$4,565	$3,491	$8,319
Transfers from Government of Canada	$11,595	$12,054	$12,599
Investment Income	$3,579	$3,173	$311
Net Income from government business enterprises	$4,810	$2,435	$2,448
Premiums and fees	$4,520	$4,490	$4,664
Other	$4,142	$3,581	$3,625
Total Revenue	$68,322	$62,607	$75,889

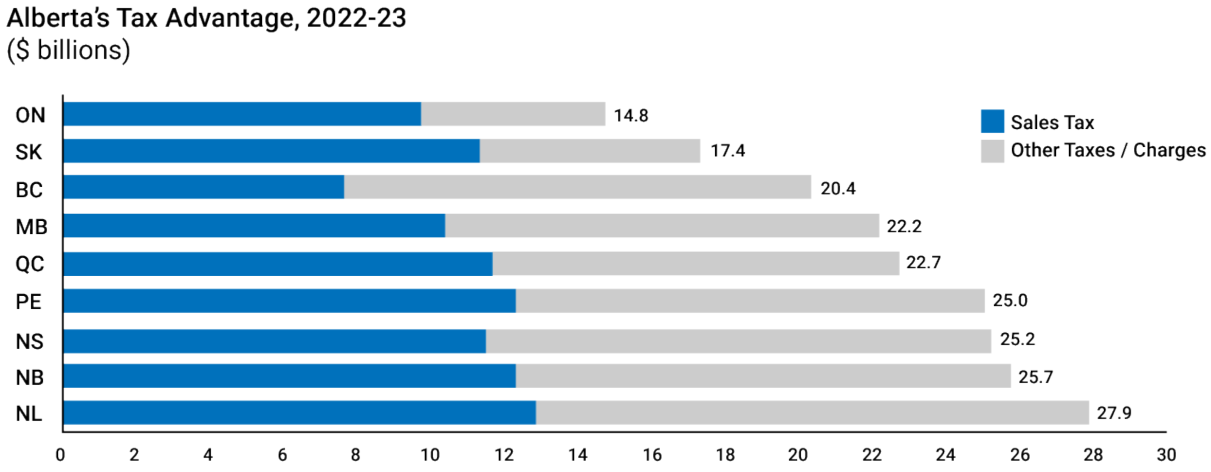
1 https://open.alberta.ca/dataset/9c81a5a7-cdf1-49ad-a923-d1ecb42944e4/resource/4a3977cf-8b11-493e-9daa-6d3266f1a3e5/download/tbf-2022-23-first-quarter-fiscal-update-and-economic-statement.pdf

Only a few months after approving this budget, Jason Kenney announced that the current revenue projections have increased by $13.2 billion. This increase in revenue is primarily related to the increase in global oil and gas prices due to war in Ukraine, despite the UCP government's attempt to claim they are responsible for this surplus.

While this latest revenue boom is positive news for Alberta's bottom line, it does not fix the underlying flaws with the revenue system. Alberta needs to fix the revenue system so that vital public services are not being funded based on the booms and busts of the oil industry. It would be more sustainable and responsible to future generations to make the whole tax system more progressive and to use revenue from non-renewable resources to diversify the economy and save for the future.

The 2022-2023 provincial budget explains that if Alberta had the same tax structure as Ontario, the next lowest tax jurisdiction in Canada, the province would have an additional $14.8 billion to invest in public services ($17.4 billion for Saskatchewan and $20.4 billion for BC).[2]

Figure 1



Source: Alberta Treasury Board and Finance
This graph shows the total additional provincial tax and carbon charges that individuals and businesses would pay if Alberta had the same tax system and carbon charges as other provinces. This information reflects tax rates for other provinces known as of February 2, 2022. This comparison includes personal and corporate income tax, sales tax, fuel tax, carbon charges (excluding the federal carbon pricing backstop), tobacco tax, health premium, payroll tax, liquor tax and markups, land transfer tax and other minor taxes.

Figure 1 shows that a significant part of this difference is due to Alberta being the only province in Canada without a sales tax. However, even without implementing a sales tax, Alberta could establish more progressive income and corporate tax rates similar to other provinces. This fact sheet shows various tax reforms that could be implemented **without increasing any taxes for over 90% of Albertans and could raise between $5 – $15 billion of additional revenue each year.**

2 https://open.alberta.ca/dataset/6d0f1358-beb5-4bb7-8da1-a350a138039c/resource/36771cab-bee0-44b5-99ad-a03d88da653c/download/budget-2022-fiscal-plan-2022-25.pdf#page=101

Implement a More Progressive Income Tax System

Most Albertans have been led to believe that Alberta has the lowest income taxes in Canada. However, this is only true for the top 7% of tax-paying Albertans who make more than $131,000 per year. In fact, the average worker in Alberta earning $60,000 per year pays over $1,000 more in provincial income taxes than if they lived in BC or Ontario. This is because those provinces have more equitable tax systems for low-wage workers. On the other hand, a person earning $1 million per year in Alberta pays approximately $60,000 less in taxes than if they lived in BC or Ontario.[3]

Alberta had a flat tax rate of 10% for all tax-paying Albertans from 2001 until 2015 when the Prentice Conservative government proposed to move to higher rates for taxpayers earning over $50,000. When the Notley NDP government was elected in 2015, it established a more progressive income tax system with four additional tax brackets, but only for income over $120,000. The five current provincial tax brackets and rates used in Alberta are listed in Figure 2.

Figure 2

AB Tax Bracket	AB Taxable Income	Current AB Tax Rates	New Tax Rate Based on BC
First	$0 — $131,220	10%	10%
Second	$131,221 — $157,464	12%	14.7%
Third	$157,465 — $209,953	13%	16.8%
Fourth	$209,954 — $314,928	14%	20.5%
Fifth	$314,929+	15%	20.5%

For this fact sheet, Calgary economist Dr. Gillian Petit used the SPSD/M database to calculate how much additional revenue would have been collected if Alberta used the same rates as British Columbia for the close to 250,000 Albertans (7%) with taxable income over $131,221. **Overall, the increase in annual tax revenue for the province would be $1.255 billion.**

In other words, if Alberta implemented the same tax rates as BC on high income earners, the government would be able to hire thousands more health and education professionals and provide vital programs to support low-income families and young people to improve their well-being and future success.

In their global study "The Economic Consequences of Major Tax Cuts for the Rich" published in the April issue of Socio-Economic Review, economists David Hope and Julian Limberg conclude that tax cuts for the rich lead to higher income inequality in both the short and medium term. In contrast, such reforms do not have any significant effect on economic growth or unemployment.[4]

3 https://www.eytaxcalculators.com/en/2021-personal-tax-calculator.html

4 https://academic.oup.com/ser/article/20/2/539/6500315?login=false

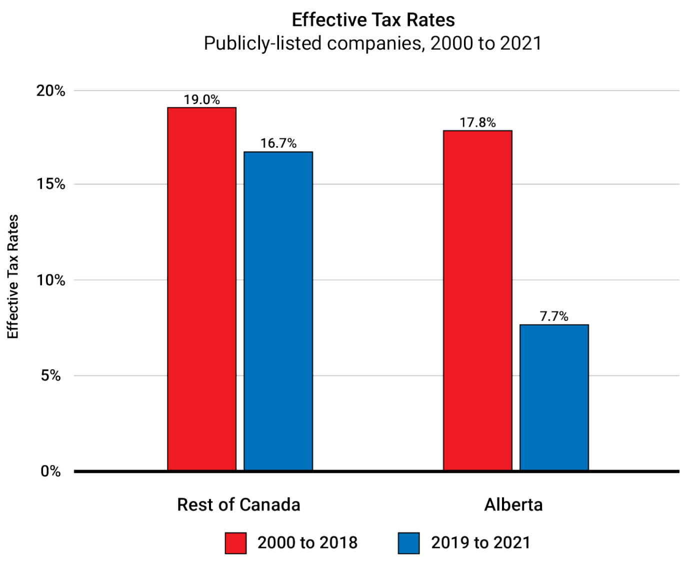
Require Wealthy Corporations to Pay Their Fair Share

Between 2019 and 2021, the UCP government cut Alberta's corporate tax rate from 12% to 8%, which resulted in billions of additional profit for corporations. At the same time, the UCP implemented cuts to workers and programs in health, education, and other human services. Corporate tax rates in other provinces range from 11.5% to 16%, so corporations in Alberta are paying significantly less toward government revenues than if they were in any other province.

For this fact sheet, economist Troy Cochrane from Canadians for Tax Fairness calculated that for the 3 years from 2019 – 2021, the Alberta government collected $11.7 billion in corporate taxes. **However, had the UCP government not cut corporate taxes and left the rate at 12%, the government would have received an additional $6.3 billion over this time period.** The four largest oil sands corporations explain in their annual reports that they have benefited a total of $4.3 billion from Premier Kenney's corporate tax giveaway, most of that going to shareholder dividends, executive compensation, and automation projects.[5]

Troy Cochrane also reveals that Alberta corporations have seen an extremely high rate of corporate tax avoidance compared to other provinces. This means that most corporations do not even pay anywhere near the low corporate rate of 8%. **Had Alberta kept the statutory rate at 12% and actually collected the full 12%, the government would have received a total of $27.8 billion—an additional $16 billion over the last 3 years.[6]**

Figure 3



With an additional $16 billion in revenues, Alberta could address many of the challenges facing our health, education, and human services.

5 Ian Hussey, forthcoming research from Parkland Institute.

6 Troy Cochrane – Canadians for Tax Fairness

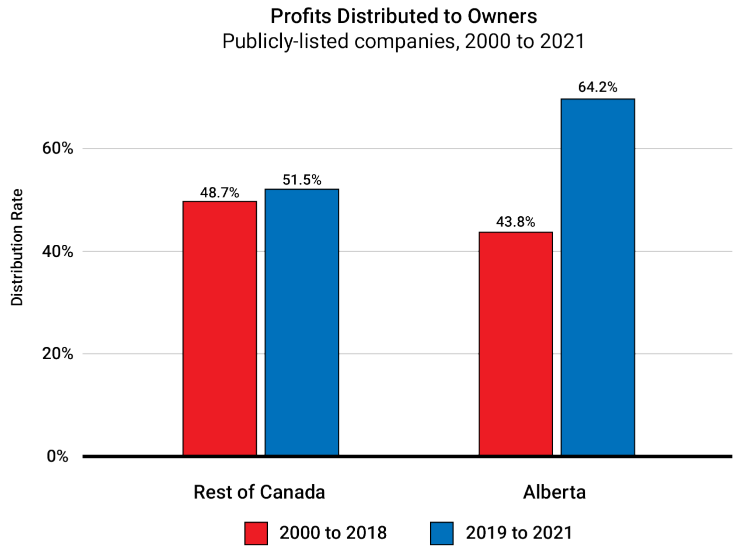
Turn Excess Profits into Cost Relief for Canadian Families

A number of jurisdictions are implementing a tax on excessive corporate profits, particularly given many corporations have been making huge profits during the pandemic. While energy corporations are giving billions to shareholders and corporate executives are enjoying huge bonuses and salary increases, most Albertans are struggling with rising inflation due to extreme energy costs.

According to research by Canadians for Tax Fairness, the 10 largest oil and gas companies in Canada claimed $29 billion of pre-tax profit in the six months from October 2021 to March 2022. That's $10.8 billion more than their next best six month period between 2011 and 2019.[7] For example, Suncor Energy reported in August 2022 that its latest quarterly earnings increased fourfold to $4 billion.[8]

Instead of investing these massive profits back into Alberta, many corporations have increased shareholder dividends. **The amount of corporate profits in Alberta going to shareholders has skyrocketed to 64%, while the Canadian average is close to 50%.**

Figure 4



Alberta should explore following the example of the United Kingdom, which implemented a 25% windfall tax on oil and gas profits so the UK could support people who are struggling to deal with the surge in the cost of living that has come from this year's extreme energy prices. Albertans are the owners of our natural resources and so Albertans should be benefiting from high energy prices, not just international investors.

7 https://www.taxfairness.ca/en/news/it%E2%80%99s-time-turn-windfall-oil-and-gas-profits-cost-relief-canadian-families

8 https://www.reuters.com/business/energy/suncor-energys-second-quarter-profit-jumps-fourfold-2022-08-04/

Set Higher Minimum and More Progressive Royalty Rates

With the recent skyrocketing of world oil and gas prices, corporations are also benefiting from Alberta's generous royalty system compared to many other global jurisdictions. Premier Peter Lougheed always reminded Albertans that we need to think like owners when we are selling our oil and gas resources. Albertans could be capturing significantly more in royalties that could be invested in diversifying and transitioning Alberta to a more sustainable economic future.

Alberta's current royalty system allows corporations to pay off all of their expenses and profit margins while paying a very low royalty rate during what is called the "pre-payout period". During the pre-payout period the royalty rate is only 1% of gross revenues at prices up to $55/barrel, rising to 9% when prices reach $120/barrel.[9]

BC's new royalty framework announced in May 2022 uses a similar revenue-minus-cost royalty system that is also price sensitive. However, their system is designed to achieve a return of 50 percent of profits on the public resource after costs are accounted for. Effective September 2022, all new wells drilled in BC will pay a minimum royalty rate of 5% on new revenues during the pre-payout period, a 40% increase from the previous rate of 3%.[10]

Alberta should, likewise, revise the minimum royalty rate for oil sands from 1% to 5%. At current oil prices (which are very high), companies are paying a pre-payout royalty rate near 9% of gross revenues. A minimum rate of 5% for oil sands projects that are in the pre-payout phase would reduce the sudden decline in government revenue when the price of oil drops again in the future.

Likewise, the government needs to make sure the people of Alberta receive a greater share of revenues when oil and gas prices are high. The province should receive at least 50% of profits in the post-payout period when oil prices rise above $100/barrel. The government should also remove the $120/barrel maximum rate so Albertans can receive a greater share of profits if prices rise above $120/barrel. **Albertans should be the ones who benefit more from the sale of our oil and gas resources at high prices rather than multinational corporations and foreign shareholders.**

Despite these massive corporate profits, Alberta is the highest provider of fossil fuel subsidies among Canadian provinces. According to the International Institute for Sustainable Development report "Blocking Ambition", Albertans subsidized oil and gas corporations with totals of CAD $1.32 billion in 2020/21 and $658.7 million in 2021/22.[11]

Rather than subsidize profitable oil and gas companies, the provincial government could follow BC's example and set a target of capturing at least 50% of profits. The UCP government does not even have a target as to what percentage of oil and gas income it is trying to collect. Instead of having royalties flow out of the province in the form of corporate dividends, the proceeds from the sale of non-renewable resources should be invested in programs to permanently reduce energy costs for Albertans. Albertans could create many jobs and save on our energy costs if we supported people to retrofit their homes, expand renewable electrification, subsidize the purchase of electric vehicles, and invest in public and inter-city transit infrastructure.

9 https://www.alberta.ca/royalty-overview.aspx#jumplinks-3

10 https://news.gov.bc.ca/releases/2022EMLI0034-000787

11 https://www.iisd.org/system/files/2022-02/blocking-ambition-fossil-fuel-subsidies-canadian-provinces.pdf

Establish a Tax on Wealth and Luxury Goods

With billionaire wealth and inequality skyrocketing during the pandemic, many politicians are exploring implementing new taxes on extreme wealth. Polling during the 2021 federal election showed that 89% of Canadians overall (and 83% among Conservative voters) support the idea of a wealth tax.[12]

Canada's parliamentary budget officer (PBO) released a report in September 2021 that calculated **a 1% tax on net wealth of more than $10 million would generate $60.7 billion over a 5 year period.** [13] Economist Alex Hemingway from the Canadian Centre for Policy Alternatives modeled a moderate wealth tax with three brackets: 1% on net wealth over $10 million; 2% over $50 million; and 3% over $100 million. He calculates that this wealth tax would raise an estimated $28 billion in its first year, with revenues rising annually to $46 billion by its tenth year. **The cumulative amount raised nationally for the wealth tax over a 10 year period would be $363 billion.**[14]

While a wealth tax could be difficult to implement at a provincial level, Alberta could call on the federal government to establish the tax and increase transfers to the province from the revenue that's generated. At the July 2022 Council of the Federation meeting, all provinces demanded the federal government increase fiscal transfers to the provinces to address the growing crisis in health care.[15] Given Alberta has 11% of the Canadian population, **a wealth tax at the rates proposed by Hemingway could equate to an additional $3 billion for Alberta in the first year and rise to an additional $5 billion by the tenth year.**

Some municipalities in Canada have been exploring the idea of implementing progressively higher rates on luxury houses. Edmonton City Council has asked Administration "to investigate what it would mean to charge different tax rates for residential properties in different categories, such as those of higher values." [16] Given the UCP's significant cuts in funding to municipalities in Alberta, allowing additional ways for cities to set more progressive tax rates would help to support more municipal public services. [17]

12 https://www.nationalobserver.com/2021/08/05/news/canadians-want-wealth-tax-willing-to-vote

13 https://distribution-a617274656661637473.pbo-dpb.ca/e45d50992f5e3c2e474f60ce79b76664db4bdf21c2f205990 1c-3575c65f6c0fd

14 https://www.policynote.ca/federal-wealth-tax/

15 https://www.canadaspremiers.ca/canadas-premiers-looking-to-partner-with-federal-government-on-health-care-sus-tainability/

16 https://edmontonjournal.com/news/local-news/edmonton-councillor-wants-mansion-tax-city-studies-progressive-taxa-tion

17 https://www.parklandinstitute.ca/an_unfair_deal

Alberta could also integrate a provincial tax into the 2021 federal government tax on luxury cars and aircrafts over $100,000.[18] The Federal government is also bringing in a new 1% tax on vacant homes owned by foreigners. The government predicts this tax could bring in up to $175 million a year starting in January, 2023.[19]

Alberta should support the implementation of national wealth and luxury goods taxes and invest the resulting revenue to address the housing crisis and provide support and other programs for low-income families. The current rise in inequality and poverty affect the health of our communities, and it is a sad comment on our society when we have people buying mansions with their corporate tax cuts[20] while the number of unhoused Albertans continues to rise.[21]

18 https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies/luxury-tax/luxury-tax-registration.html

19 https://www.cbc.ca/news/business/budget-tax-1.5993593

20 https://dailyhive.com/calgary/alberta-mansion-underground-tunnel

21 https://dailyhive.com/calgary/alberta-mansion-underground-tunnel

Acknowledgements

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