

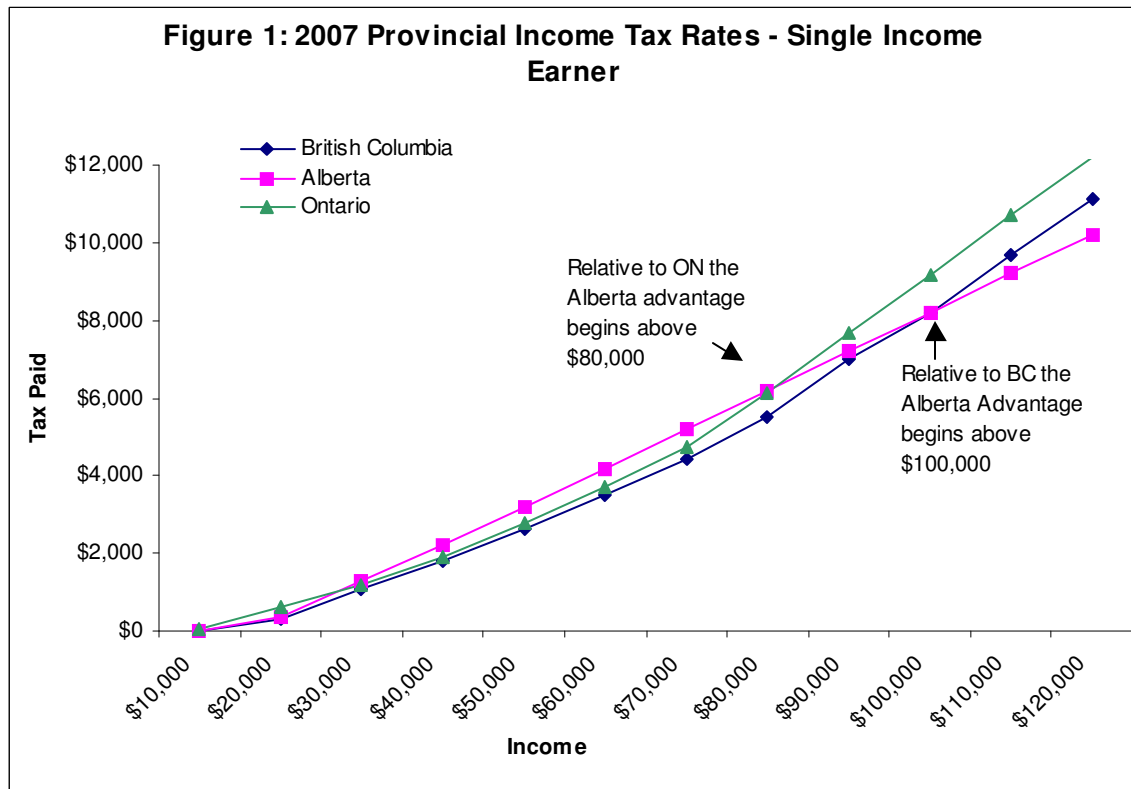


2008 ALBERTA CHAMBERS OF COMMERCE RESOLUTION

Increasing personal income tax competitiveness

Alberta's personal income tax system is one of the most advantageous in Canada. Alberta families with children have access to generous personal exemption thresholds and child tax credits, and the absence of a provincial sales tax is of significant benefit to all Albertans. While the Alberta Chambers appreciate the government's commitment to families and applaud its no sales tax policy, in order for Alberta to retain highly skilled young talent, the province's personal income tax regime for individuals needs to be more competitive relative to neighbouring jurisdictions.

In 2007, Alberta's single income earner tax rate was substantially less competitive than both Ontario and British Columbia. Individuals earning between \$20,000 and \$80,000 in Alberta paid more income tax than individuals in Ontario, and individuals earning between \$20,000 and just over \$100,000 in Alberta paid more than individuals in British Columbia (Figure 1).¹



Source: Statistics Canada, Alberta Finance

¹ It should be noted that 2007 individual income earner tax rates in Alberta, British Columbia and Ontario are all more competitive than those in Saskatchewan at all income levels.



From a tax-to-earnings perspective, Alberta is, therefore, less competitive than both British Columbia and Ontario for the majority of individual income earners. With Alberta forecasted to experience a labour shortage of 109,000 by 2016,² An effective means by which the government can help retain talent is with broad-based personal income tax reductions for individuals – particularly in relation to British Columbia, with whom Alberta has entered into the Trade Investment and Labour Mobility Agreement (TILMA).

Alberta is the only Canadian jurisdiction that applies a proportional flat income tax rate for all income levels – ensuring fair treatment regardless of employment income. However, Alberta also boasts the highest basic personal exemption amount (\$15,435) and, therefore, exhibits one of the most progressive average tax rates in the country (as income increases, the average tax rate also increases).

In order to preserve the favourable distributional attributes of Alberta's personal income tax regime while improving upon our competitive position within the Alberta-British Columbia economic trading block, the Alberta Chambers recommend that government adopt broad-based tax cuts through one of two methods:

[1] Increasing the basic personal exemption amount from \$15,435 to \$18,000; or [2] Lowering the current flat tax rate from 10 per cent to 9 per cent.

Increasing the basic personal exemption amount from \$15,435 to \$18,000

Increasing the basic personal exemption amount to \$18,000 will improve our competitive position relative to BC and Ontario by narrowing the Alberta-BC tax gap for all personal income levels, and reclaiming the Alberta advantage outright for income levels up to \$30,000 and those levels above \$90,000 (Table 1). The Alberta-BC tax differential would decrease from a high of \$788 to \$532 for an income of \$70,000.

Raising the personal exemption amount would improve the progressiveness of Alberta's tax regime by increasing average taxes with income. The benefits of this option would accrue largely to lower income earners in Alberta, especially employees in the service and hospitality industries.

With the total number of people employed in Alberta estimated at 1,977,100,³ it is estimated that this proposed change would cost government \$507 million, or 1.4 per cent of 2007-08 government revenues.

Lowering the current flat tax rate from 10 to 9 per cent

Lowering the current flat tax rate would similarly improve Alberta's competitive position relative to BC and Ontario for all income levels. However, the benefit will accrue largely to higher income earners (Table 1). Under this option, Alberta regains its competitive tax

² Alberta Employment, Immigration and Industry. 2006. Alberta's Occupational Demand and Supply Outlook 2006-2016. November.

³ Statistics Canada. 2007. Labour Force Survey October <http://www.statcan.ca/english/Subjects/Labour/LFS/lfs.pdf>



position over BC for incomes above \$90,000, and the Alberta-BC tax differential would decrease from a high of \$788 to \$269 for an income of \$70,000.

The Chamber estimates that this proposed change would cost government \$732 million, representing approximately 2.1 per cent of 2007-08 government revenues based on personal income tax revenues of \$7,318 billion, as outlined in Government's 2007 budget.⁴

Table 1: Taxes Paid – Individual Income Earners					
Income Level	Existing Taxes			Proposed Alberta	
	Ontario	British Columbia	Alberta	Option 1 Increasing Basic Personal to \$18,000	Option 2 Decreasing Flat Tax to 9%
\$10,000	\$57	\$0	\$0	\$0	\$0
\$20,000	\$621	\$304	\$339	\$82	\$305
\$30,000	\$1,186	\$1,090	\$1,271	\$1,015	\$1,144
\$40,000	\$1,890	\$1,787	\$2,204	\$1,947	\$1,983
\$50,000	\$2,798	\$2,646	\$3,193	\$2,937	\$2,874
\$60,000	\$3,713	\$3,511	\$4,193	\$3,937	\$3,774
\$70,000	\$4,734	\$4,405	\$5,193	\$4,937	\$4,674
\$80,000	\$6,138	\$5,535	\$6,193	\$5,937	\$5,574
\$90,000	\$7,656	\$6,985	\$7,193	\$6,937	\$6,474
\$100,000	\$9,174	\$8,204	\$8,193	\$7,937	\$7,374
\$110,000	\$10,691	\$9,674	\$9,193	\$8,937	\$8,274
\$120,000	\$12,209	\$11,144	\$10,193	\$9,937	\$9,174

Bold text indicates a favorable tax burden relative to British Columbia and Ontario.

Recommendations

The Alberta Chambers of Commerce recommends that the province of Alberta adopt broad-based personal income tax cuts through one of two methods:

1. Increasing the basic personal exemption amount from \$15,435 to \$18,000, or
2. Lowering the current flat tax rate from 10 per cent to 9 per cent.

⁴ Alberta Finance. 2007. Budget 2007-10 Fiscal Plan p 46.