

Return to a Single Rate Personal Income Tax Regime (2023)

Issue

The improvement of our province's overall tax competitiveness is a key factor in supporting strong economic growth for Alberta in the near, mid, and long term. Alberta finds itself in the enviable position of having potential significant budgetary surpluses for the foreseeable future as demand for Alberta oil & gas remains strong and prices are projected to be firm over the coming years. Rather than committing these surplus amounts to reactive spending, we believe that it is prudent to break the cycle of spending leading to deficits and debt when resource royalties wane and invest in Albertans by returning to a more efficient and simplified Alberta personal income tax structure.

Background

In 1999, the Alberta provincial government proposed a net tax reduction of approximately \$500 million, which represented about 10.9% of the forecast 1998-99 personal income tax revenue to be generated. The outcome of this proposal was the introduction of an 11% single rate tax to be levied on the taxable income of Albertans.²⁴² In addition, the government also proposed to increase the basic personal and spousal exemptions from \$7,131 and \$6,055 respectively, to \$11,620, indexed for inflation. These measures were intended by Alberta Tax and Revenue Administration (ATRA) to become effective in 2001 with an announcement of the changes in the 2000 February budget and were targeted to provide Albertans with a significant reduction in their overall combined federal-provincial personal income tax burden with almost all Albertans realizing some tax savings as a result.

This proposal became problematic when the federal government delivered its own budget subsequent to the Alberta budget on February 28, 2000. In this budget, the federal government reduced the federal middle bracket rate from 26% to 24% which immediately resulted in the 11% Alberta single rate tax placing middle income earners at a distinct disadvantage in comparison to the pre-budget Alberta personal income tax regime. In response to academic analysis and lobby efforts by leading tax practitioners, the rate was decreased to 10.5% and the basic exemption increased to \$12,900 to address the inequity imposed on middle income earners. This rate was further reduced to 10% and remained in place until 2015.

During this period, Alberta was largely viewed as a competitive, low-tax jurisdiction which operated to attract skilled professionals and entrepreneurial investment into the province. With the election of the NDP in 2015, the single rate tax was abandoned in favor of 5 marginal income tax brackets (See Table 1) with the top marginal rate increased to 15% for taxable income of an Alberta taxpayer over \$341,502. In 2016, the federal Liberal government added "insult to injury" by increasing the top federal marginal rate from 29% to 33% which resulted in a combined top marginal rate in Alberta of 48%. This represented a 23% increase in the top marginal rate from the pre-2015 levels of 39% to 48% and also resulted in Alberta falling from the lowest combined (federal/provincial/state) tax jurisdiction in North America to the 16th highest top personal rate in

²⁴² The introduction of the 11% single rate tax accompanied a phased-in reduction of the 8% surtax in excess of Alberta income tax in excess of \$3,500 and the elimination of the 0.5% surtax on taxable income.

North America in 2017²⁴³ and the 10th highest in 2019. In the course of a few short years, the Alberta Advantage had been completely eroded.

Detractors of the single rate tax suggest that the regime is completely “non-progressive” and would only benefit high and ultra-high net-worth individuals who would realize a generously reduced top marginal rate of taxation. The argument is largely flawed as the generous basic exemption operates to completely remove many low-income taxpayers from the tax rolls completely or dramatically reduces the effective rate of taxation from the first dollar of taxable income when calculated across the basic exemption threshold. Accordingly, low and middle income earners realize genuine reductions in personal income taxes exigible as the basic exemption actually operates to effect a “dual-rate” regime with taxpayers who have taxable income below the basic exemption threshold paying a rate of 0%.

Arguments related to the taxation inequity of high and ultra-high net-worth taxpayers can easily be addressed under a single rate regime by imposing a surtax that would be applied at a level of taxable income that would be consistent with the federal top marginal bracket. This would still result in some savings to taxpayers at this end of the continuum but would mollify detractors who suggest that a single rate regime only benefits those who are subjected to the top marginal rates.

It is widely recognized that high rates of personal taxation are a deterrent to productive economic activity – the effects of “bracket creep” and the movement between “progressive brackets” remain a deterrent for workers to work more and earn more. There is also the thought that excessive rates of taxation (especially for high and ultra-high net-worth taxpayers) promotes tax planning “mischief” and aggressive tax avoidance planning. In jurisdictions where single rate regimes exist, it has been noted that not only has compliance and revenues increased dramatically, but also the incidence of aggressive tax avoidance planning.²⁴⁴

The time is right for Alberta to restore income tax competitiveness and to foster an environment of strong economic growth. A return to a single rate tax with a sufficiently substantive basic personal exemption and a surtax for high and ultra-high net-worth taxpayers that would be exigible at the top federal marginal bracket would provide a strong step toward restoring the Alberta Advantage. At a projected rate of 8% with a 50% surtax applicable at the top marginal bracket for taxable income in excess of \$235,675, the cost to the provincial *fisc* approximates \$4.5 billion, well within the projected surplus for the current year and for years to come with the anticipated strength of energy prices. Even at the top marginal rate, this will reflect an overall tax saving of 3% and yield a more competitive top marginal rate for Alberta of 45%.

There is also a strong argument that a return to a single rate system would also restore the perceived inequity between single taxpayers and family units of taxpayers as a single rate tax with equal personal and spousal exemptions means that single and dual-earner families with the same family income pay the same aggregate income tax.²⁴⁵

The Alberta Chambers of Commerce recommends that the government of Alberta:

1. Restore the single rate personal income tax regime at a rate equal to 8% of taxable income

²⁴³ “Yes, Alberta’s Tax Advantage is Gone”; The Calgary Sun, January 7, 2017, Steve Lafleur & Ben Eisen, The Fraser Institute

²⁴⁴ “The Winners and Losers if Alberta Returns to a Flat Tax System”, McLeans, May 9, 2018, Lindsay Tedds

²⁴⁵ “Alberta’s Single Rate Tax: Some Implications and Alternatives”; Canadian Tax Journal (2000); Vol. 48, No.4; pg. 1047.

in excess of a basic personal exemption equal to \$21,000; and,

2. Apply a 50% surtax for high and ultra-high net-worth taxpayers effective for taxable income in excess of the prevailing top marginal bracket amount, which for 2023 is reflected at \$235,675.

Table 1:

TaxTips.ca - Alberta Tax Rates			
2023 Taxable Income	2023 Tax Rates	2022 Taxable Income	2022 Tax Rates
first \$142,292	10%	first \$134,238	10%
over \$142,292 up to \$170,751	12%	over \$134,238 up to \$161,086	12%
over \$170,751 up to \$227,668	13%	over \$161,086 up to \$214,781	13%
over \$227,668 up to \$341,502	14%	over \$214,781 up to \$322,171	14%
over \$341,502	15%	over \$322,171	15%