

The End of the Alberta Tax Advantage

by Ben Eisen, Steve Lafleur, and Milagros Palacios

This paper examines the extent to which the tax policy changes introduced in Alberta in 2015 have diminished Alberta's tax advantage relative to peer jurisdictions.

Specifically, we compare key tax rates in Alberta before and after the recent tax policy changes to assess whether Alberta still holds a significant tax advantage over other provinces and peer jurisdictions in the United States. We focus on three areas of tax policy that have historically composed the main pillars of Alberta's "tax advantage": personal income taxes, corporate income taxes, and sales taxes.

We find that whereas in each of these areas Alberta until quite recently enjoyed a substantial advantage over all Canadian provinces and most US energy states, that advantage has been substantially undermined or completely erased for two of the three pillars (personal income taxes and corporate income taxes).

Specific findings include:

- Before the tax policy changes, Alberta had the lowest corporate tax rate in Canada. Alberta's "advantage" in this area is gone. Alberta's new provincial corporate tax rate is higher than British Columbia's and Ontario's, and is almost identical to those in Saskatchewan, Manitoba, and Quebec. Alberta can now be considered "middle of the pack" within Canada on corporate taxes.

- In 2014, Alberta had the lowest top combined federal-provincial/state tax rate out of 60 Canadian provinces and American states. After the tax policy changes, Alberta's top personal income tax rate is now the 46th lowest. That means Alberta's top rate is now in the highest third of North American jurisdictions. Comparing the marginal personal income tax rate at four different income levels reveals that Alberta no longer has a distinct tax advantage in any of those levels examined.
- Alberta retains one pillar of its tax advantage in the Canadian context, as it alone among the provinces does not have a provincial sales tax. Relative to American energy jurisdictions, however, Alberta does not necessarily enjoy a sales tax advantage as there are several states with neither a federal nor a state-level sales tax.

We conclude that the notion of a uniquely competitive and pro-growth tax regime that provides the province's economy a distinct advantage is largely obsolete.

This development has important implications for Alberta's future economic growth prospects. To provide context for

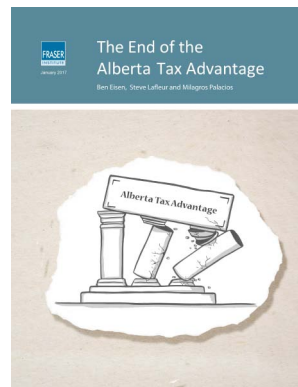
these implications, this paper briefly discusses the research literature on the relationship between tax rates and economic growth, as well as the evidence surrounding the economic impact of different types of taxes.

The literature suggests low and competitive tax rates are generally beneficial for economic growth, particularly with respect to corporate income taxes and personal income taxes. We demonstrate that Alberta's experience is consistent with this evidence, by providing an analysis of the province's economic performance during the life of the province's "tax advantage." This analysis shows that generally, the province economically outperformed the rest of the country and most peer jurisdictions during that time. For example, Alberta's real GDP growth rate between 2001 and 2014 (at 3.3%) was higher than all other provinces and behind only North Dakota among US energy states.

In a discussion section, the paper also considers the fiscal context in which recent tax policy questions were made, assessing the extent to which they were necessitated by the emergence of large budget deficits. We find that the provincial government had other options available to it to shrink the province's deficit, such as reducing and reforming provincial expenditures, which have increased rapidly in recent years. This approach would have preserved Alberta's tax advantage, and economic theory suggests it would have been

beneficial for the province's short- and long-term economic growth prospects relative to the course the government has in fact taken.

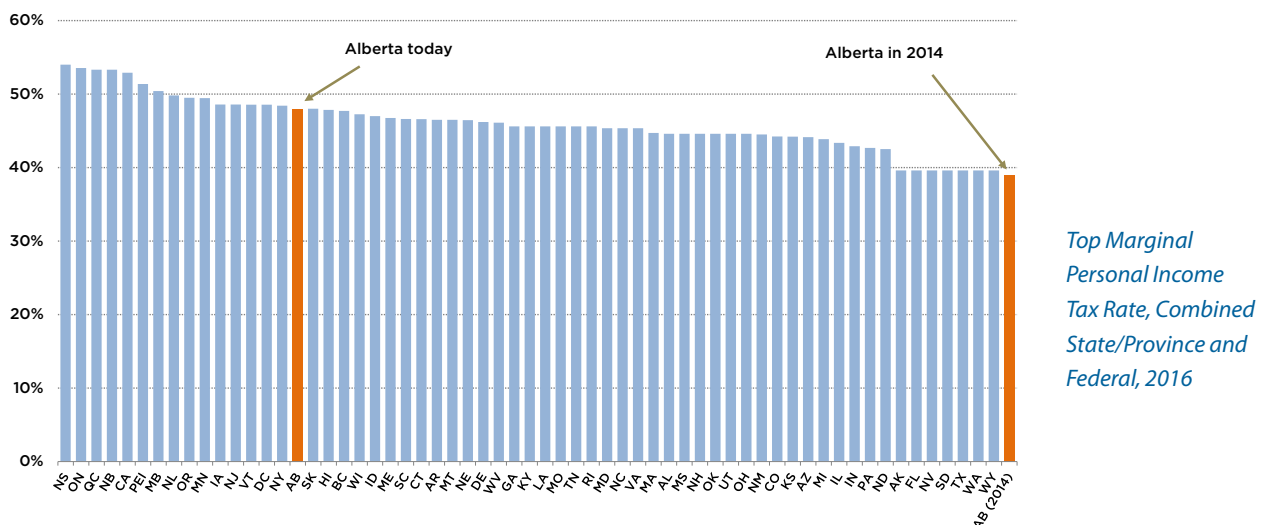
In short, the erosion of Alberta's tax advantage documented here should be viewed as the result of discretionary policy choices rather than a necessity imposed upon the government by fiscal circumstances. As a result of these choices, we conclude that the Alberta tax advantage has been, in large measure, erased.



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Top Marginal Personal Income Tax Rate, Combined State/Province and Federal, 2016