



THE SCHOOL OF PUBLIC POLICY

Alberta's fiscal crisis – MacKinnon report shows the need to cut spending – new School of Public Policy report shows how to fix taxation

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Calgary – Alberta is in a fiscal crisis according to the UCP government. We are spending beyond our means – much more than other provinces. That has led to a big deficit and ever-growing debt. Debt servicing costs are eating into program spending. We need to cut.

Today, The School of Public Policy and one of Canada's leading economists Ken McKenzie released a deep dive into Alberta's taxation system. McKenzie's report on the taxation mix in Alberta gives the government clear direction on how to adjust Alberta's taxation.

According to McKenzie "The purpose of the report is to examine alternative ways of raising government revenue in Alberta. In some cases, I argue for tax reductions and in others for tax increases. Based on the analysis, the report calls for the following: 1. Cut the corporate income tax rate as planned. 2. Keep the full provincial carbon tax. 3. Maintain the progressive rate structure in the personal income tax (no flat tax), but consider a middle class personal income tax cut. 4. Impose a harmonized provincial sales tax. To the extent that these changes, coupled with reforms on the expenditure front, place the province on a sustainable fiscal path, consideration should be given to reintroducing systematic contributions to a stabilization fund and then, eventually, the Heritage Fund. The economic environment going forward will, in my view, be very different than what the province has faced historically – the Alberta of the future is very unlikely to look like the Alberta of the past."

A provincial sales tax would enable the Alberta government to get off the royalty roller-coaster. The dizzying ride that roller-coaster created, and its concomitant blithe fiscal philosophy of "don't worry, be happy", has to come to an end. Lower growth in the demand for fossil fuels is the 21st century reality and Alberta must adapt its fiscal structures accordingly.

Returning to fiscal sustainability will require some choices on both the revenue and expenditure fronts. The types of changes to the revenue regime discussed above would go some way to creating a tax system that appropriately balances efficiency and equity considerations.

The paper can be downloaded at <https://www.policyschool.ca/publications/>

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