

# Taxes

# Alberta GPI

## Noteworthy:

- In 1961, the average Albertan paid \$885 (1998\$) in taxes—or 10% of personal expenditures.
- In 2002, the average Albertan paid \$4,297 (1998\$) in direct taxes (federal, provincial, municipal), an increase of 385%.
- Taxes were the largest category of all personal spending in 2002, at 22% of all expenditures.
- Taxes as a percentage of real personal income (total) increased from 9% in 1961 to 20% in 2002.
- One of the key drivers to increasing taxes is not increased government program spending *per se*, but, increasing interest payments on federal government debt, which in 1999 took almost one-third of each tax dollar.

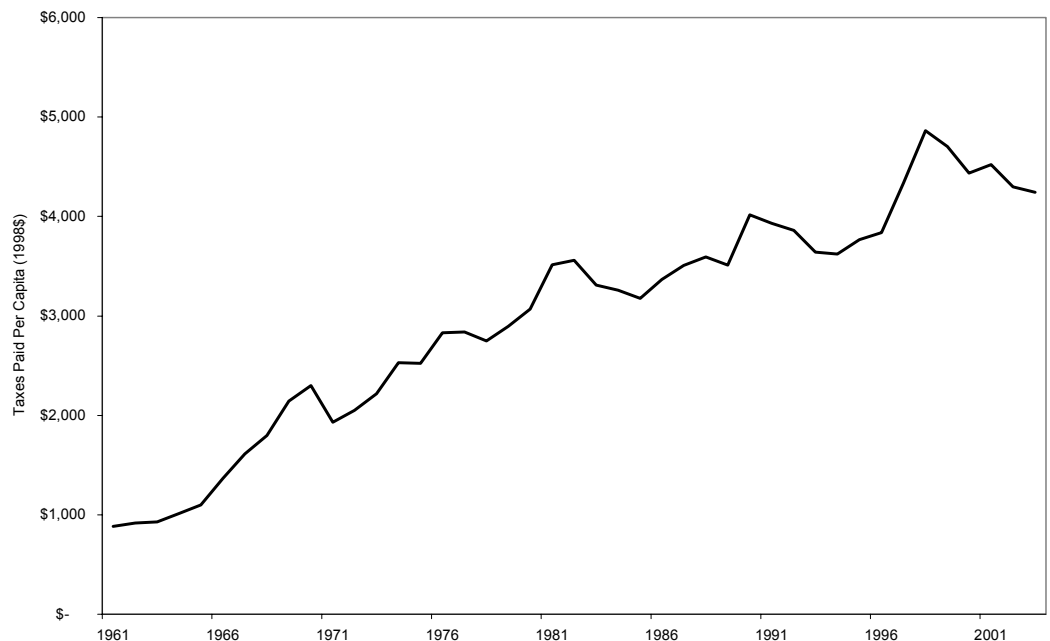
## Taxes in Alberta: How Much?

According to the Alberta Government's *Measuring Up 2005* Alberta boasts the lowest provincial tax load in Canada. It is the only province without a capital tax or retail sales tax, and has the lowest tax on gasoline among the provinces. Despite this, Albertans' direct tax load (federal, provincial, municipal) has increased almost 5 fold since 1961, according to statistics in the Alberta Economic Accounts. In 1961, each Albertan paid on average \$885 (1998\$) in direct taxes; by

2002, the average was \$4,297 (1998\$). This represents a average 4.2% per annum increase in real taxes since 1961, which is significantly higher than the 1.3% per annum average increase in real weekly wages. In 1961, taxes made up roughly 10% of average total personal consumption expenditures; by 2002, they amounted to 22% of expenditures. Indeed, taxes in 2002 were the single largest personal expenditure. There is nothing implicitly wrong with

paying taxes to governments for services that benefit the community and other objectives for the common good. However, one of the growing components of government expenditures is payment of interest charges on public debt. In 1999, we estimate that roughly \$0.29 per \$1 paid in federal income taxes went to pay for interest on the federal debt.

### Taxes Paid per Capita 1961 to 2002

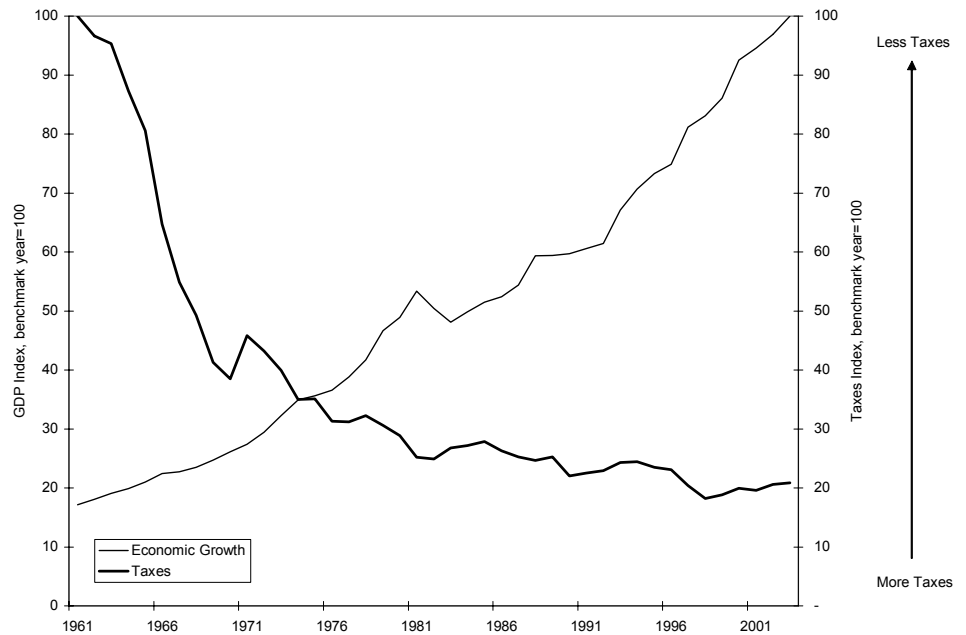


Source: Alberta Economic Accounts for 1961 to 2002 (2003 data not available at time of publication).

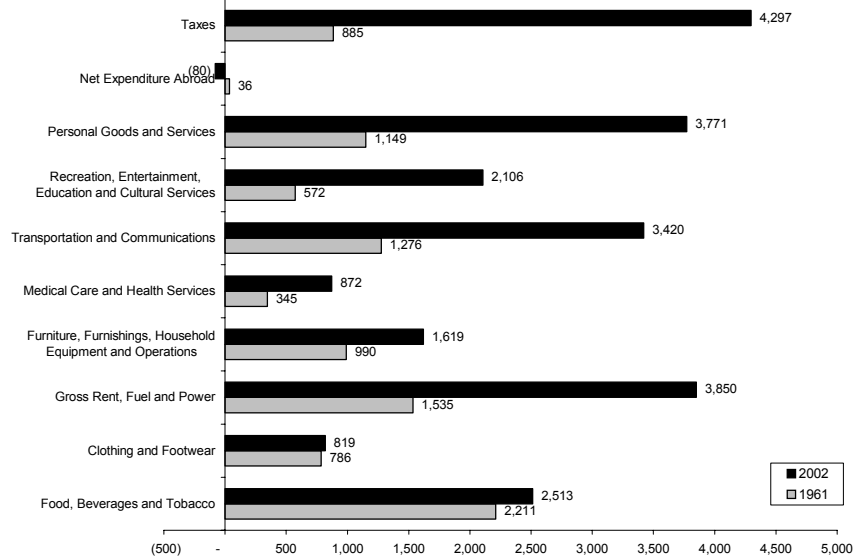
# So What?

Income taxes were first introduced in Canada following World War I to help pay for the war debt. Since then, taxes have become part of life and have increased substantially (see figure on previous page). Indeed, taxes are important to finance government spending on services such as health care, education and social services, as well as other services like environmental protection and economic development. Investing taxes collected from earned income of individuals or businesses in long-term human, social and natural capital is prudent if such investments lead to improved well-being. Taxes that are collected to pay for regrettable expenditures, such as cleaning up toxic waste, environmental degradation or fixing up failed financial ventures on the other hand, do not directly increase well-being but rather guard against a reduction in well-being. Today, Albertans and other Canadians pay taxes in many forms, from income taxes, the Goods and Services Tax (GST) and property taxes to user fees or levies. The current progressive tax system plays an important role in redistributing income and wealth in society. This impact is seen in the GPI income inequality account. Taxes have the effect of redistributing income from the rich to less fortunate and lower-income Albertans. Yet, the increasing tax burden can be viewed as a regrettable trend, particularly the portion of taxes that is going to service debt (almost one-third of federal taxes). Taxes, in terms of real 1998 dollars, have increased so dramatically that they now account for 20 cents of every dollar of personal consumption expenditure, more than any other purchase category (see figure at lower right).

## Alberta Tax Index: Where are we today?



## Personal Expenditure on Taxes Relative to Other Expenditures, Alberta (1998\$)



Source: Alberta Economic Accounts

Taxes paid per Albertan in 2002 averaged \$4,297 for a total of \$12.42 billion (1998\$), the equivalent of 10% of Alberta's 2002 GDP.

As an index, all taxes paid in Alberta in 2002 ranked 20 on a scale where 100 is set equal to the lowest level of taxes paid between 1961 to 2002 (see upper figure).

