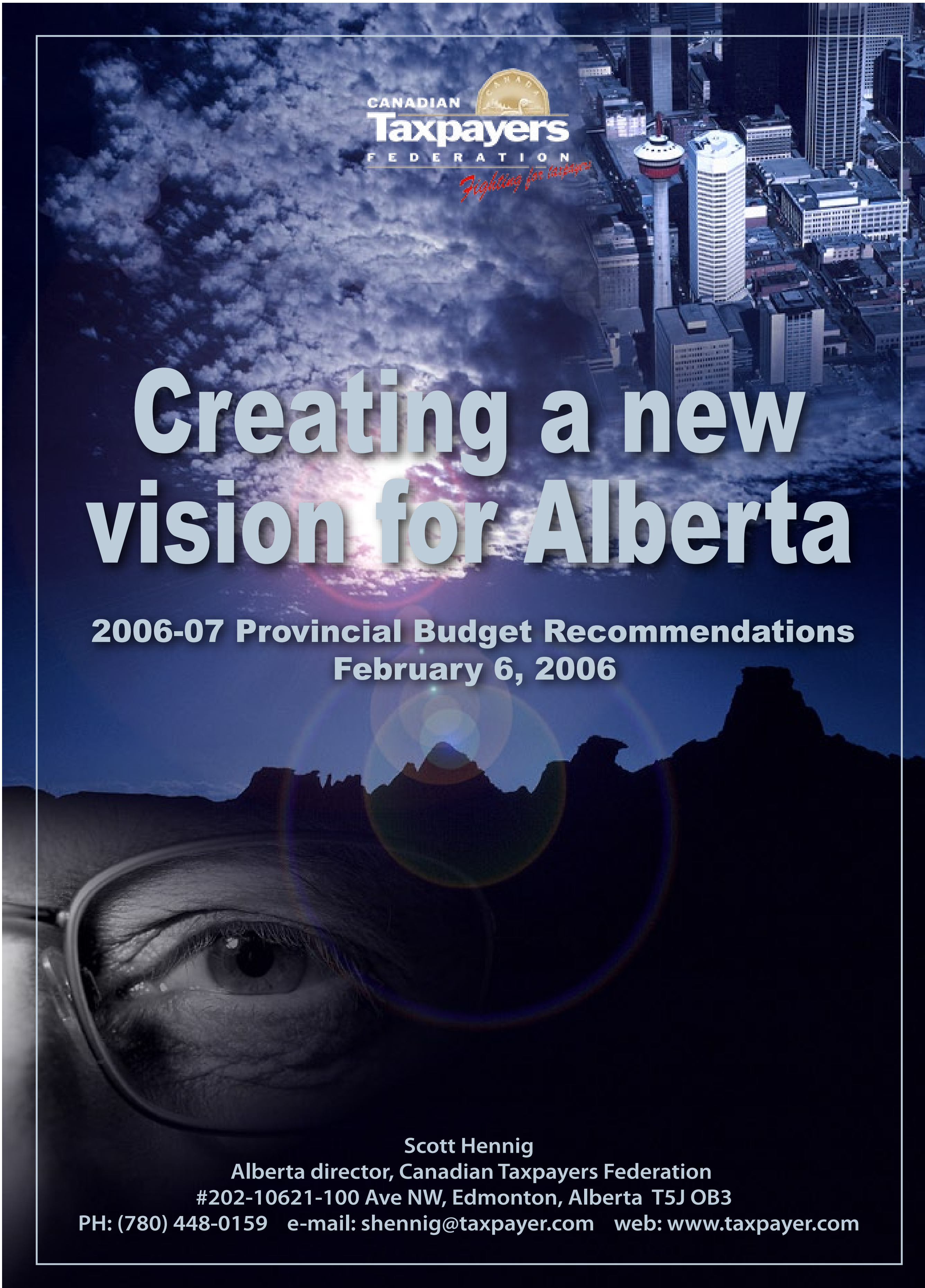

Canadian Taxpayers Federation
Fighting for taxpayers

Creating a new vision for Alberta

2006-07 Provincial Budget Recommendations
February 6, 2006

Scott Hennig
Alberta director, Canadian Taxpayers Federation
#202-10621-100 Ave NW, Edmonton, Alberta T5J OB3
PH: (780) 448-0159 e-mail: shennig@taxpayer.com web: www.taxpayer.com

ABOUT THE CANADIAN TAXPAYERS FEDERATION

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 72,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

The CTF's Alberta office is located at:
#202, 10621 – 100 Ave
Financial Building
Edmonton, AB
T5J 0B3

Telephone: 780-448-0159
Facsimile: 780-482-1744
E-mail: shennig@taxpayer.com
Web Site: www.taxpayer.com

TABLE OF CONTENTS

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION #1: The CTF recommends the Alberta government not increase program expenditures above $26.3 billion for the 2006-07 provincial budget.

RECOMMENDATION #2: The CTF recommends the Alberta government not allow any in-year unbudgeted spending with the exception of emergency (Sustainability Fund) spending.

RECOMMENDATION #3: The CTF recommends the Alberta government stick to the targets made in previous budgets for future expenditures.

RECOMMENDATION #4: The CTF recommends the Alberta government rollback increases to the initial resource revenue spending level of the *Fiscal Responsibility Act*, from $4.75 billion to $3.5 billion annually. The CTF also recommends the Sustainability Fund cap of $2.5 billion be increased to $3.5 billion immediately and then indexed to inflation starting in the 2007-08 provincial budget.

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RECOMMENDATION #6: The CTF recommends the Alberta government amend or repeal sections of the *Alberta Health Care Insurance Act*, the *Health Care Protection Act* and the *Hospitals Act* to allow private insurers and providers to offer private health care services to Albertans.

RECOMMENDATION #7: The CTF recommends the Alberta government immediately eliminate the regressive health care premium tax for all Albertans.

RECOMMENDATION #8: The CTF recommends the Alberta government immediately eliminate the 3% sales tax on insurance.

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RECOMMENDATION #11: The CTF recommends the Alberta government fulfill its original promise to businesses by reducing the general corporate income tax rate to 8% in the 2006-07 budget.

RECOMMENDATION #12: The CTF recommends the Alberta government amend the *Alberta Taxpayer Protection Act* to require a provincial referendum be held prior to increasing or adding <u>*any*</u> new provincial tax.

INTRODUCTION

On March 31, 2005 Alberta officially became debt-free. On that date Alberta made history. What direction will the province now go?

Alberta is in a unique position – a position that no modern Canadian government has ever had.

Gone are the shackles of yearly interest payments on our debt. Gone is the burden passed onto our future generations from our forefathers. But with those payments and that burden also went one of the sole focuses of the government – to become debt-free. Alberta now has to find its next vision, its next focus, and its next challenge.

The Canadian Taxpayers Federation (CTF) has long supported the efforts undertaken by the Alberta government to turn the provinces fiscal fortunes around. Specifically, we pushed for and supported the Alberta government when the *Balanced Budget and Debt Retirement Act* was first introduced. We did so with the belief that once Alberta put its fiscal house in order – paid off its debt, wiped out corporate welfare, and privatized businesses such as liquor that had no reason to be in government hands – taxpayers would see a move towards lower taxes, smaller government and increased personal responsibility.

The CTF and our over 18,000 supporters in Alberta have waited patiently for the Alberta government to be in a fiscal position that would allow them to take serious action on taxes and spending. Now is that time, now is that opportunity.

However, in the past decade, spending on government programs has increased by 113%. At the same time as Alberta's population grew by 17% and inflation rose by 25%. With spending greatly outpacing both population and inflation, current spending levels are not sustainable.

While opportunities to pay off debt quicker, save for future tax breaks and control the growth of government have been lost, there is still time to "right the ship" and ensure this period in Alberta's history is not referred to as a "squandered opportunity".

Alberta taxpayers will be watching the 2006-07 provincial budget for a sign as to whether the government will continue down the road of unsustainable double-digit spending increases or turn the corner and provide meaningful tax breaks for Albertans.

EXPENDITURES

Put the brakes on budgeted spending

Alberta is today facing the same problem it had in 1993. The province does not have a revenue problem – it has a spending problem.

Since the 1996-97 Alberta budget, program spending has increased by 113%. Sustainable revenues have not increased at the same rate. In fact, combined income taxes, corporate income taxes and education property taxes have grown by 60% since 1996-97. Furthermore, Alberta's population has only increased by 17% while inflation has risen by 25%.

Neither combined population and inflation growth (42%) nor the growth in sustainable revenues (60%) has kept up with current program spending.

Figure 1.1 – Alberta government annual program spending change vs. combined population and inflation rate change

Year	Program Spending (millions)	Change from 96-97 (%)	Annual Change (%)	Population & Inflation change (%)
96-97	$12,701	n/a	n/a	3.86
97-98	$13,773	8.44	8.44	3.29
98-99	$14,346	12.95	4.16	3.74
99-00	$16,356	28.78	14.01	4.91
00-01	$17,976	41.53	9.90	5.06
01-02	$20,071	58.03	11.65	4.06
02-03	$20,053	57.89	-0.09	6.49
03-04	$21,480	69.12	7.12	4.33
04-05	$24,027	89.17	11.86	2.98
05-06*	$27,012	112.68	12.42	2.99
* 05-06 Program Spending based on 2nd Quarter Budget Update				

Had the provincial government set the target for program expenditure increases at the combined population and inflation growth rate starting in 1996-97, the Alberta government would only be spending slightly over $19 billion in 2005-06 rather than over $27 billion. A $19 billion budget would be significantly more sustainable as it would not have to rely on any non-renewable royalty revenues to ensure a balanced budget.

Had the provincial government set the target for program expenditure increases at the combined population and inflation growth rate starting in 2000-01, the Alberta government would only be spending slightly over $21 billion in 2005-06 rather than over $27 billion. A $21 billion budget would also be significantly more sustainable as it would only rely on $1.5 billion in royalty revenues to balance the budget.

The spending problem has only become worse now that Alberta is debt-free. Program spending has already increased 12% over the 2004-05 budget.

The Alberta government needs to start sticking to budgets that only increase program spending at or below the annual combined population and inflation rate.

RECOMMENDATION #1: The CTF recommends the Alberta government not increase program expenditures above $26.3 billion[a] for the 2006-07 provincial budget.

Put the brakes on discretionary in-year spending

Just as worrisome as the annual budgeted spending increases are the in-year, unbudgeted spending increases.

In-year spending has been an issue for the past few years, but seems to have ballooned to a whole new level this fiscal year. In the first six months since the 2005-06 budget was passed, spending increased by 6% and is expected to be upwards of 13% when the third quarter budget update is released. This is unacceptable and makes a mockery of the budget process.

While some Sustainability Fund spending on programs such as the Alberta Natural Gas Rebate Program is welcomed, unbudgeted spending on areas like zoo's and film production should be curbed.

If it's a high priority for spending, it should be in the budget.

Figure 2.1 – Original budget vs. Year-end program spending (millions)

Year	Budgeted program spending	Final program spending	In-year unbugeted spending
02-03	$18,571	$20,035	$1,464
03-04	$20,335	$21,480	$1,145
04-05	$22,286	$24,027	$1,741
05-06*	$25,535	$27,012	$1,477
* 05-06 Final Program Spending based on 2nd Quarter Update			

As seen in Figure 2.1, for the past four years, in-year unbudgeted program spending has averaged nearly $1.5 billion, with 2005-06 expected to be significantly higher.

RECOMMENDATION #2: The CTF recommends the Alberta government not allow any in-year unbudgeted spending with the exception of emergency (Sustainability Fund) spending.

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[a] Calculation based on estimated 3% combined CPI and population growth rate for 2005-06 and original program spending budget of $25.535 billion ($25,535 x 1.03 = $26,301). Note: Target for 2006-07 program spending budget in 2005-06 Budget is $26,225.

Get back on target

Each year, the province lays out three-year budgetary targets. Included in these targets are estimates for the previous year's revenues and expenditures, the upcoming year's estimates for revenue and expenditures, and the next two year's targets for revenues and expenditures. Often these targets are set by looking at the expected growth in population and inflation.

Each successive budget contains a rolling forward update of the three-year forecast. This is sold to Albertans as a three-year budget, however final expenditure numbers are regularly nowhere close to what was originally set out in the first target (two years prior to budget year).

The table below shows just how far off the final numbers are from original targets laid out by the government a mere three years earlier.

Figure 3.1 – Program spending targets vs. actual spending (millions)

Budget Year	1st Target (2 years prior to budget)	2nd Target (1 year prior to budget)	Budget	Actual Spending	Increase in spending from 1st Target
03-04	$19,163	$19,191	$20,335	$21,480	$2,317
04-05	$19,580	$20,865	$22,286	$24,027	$4,447
05-06*	$21,364	$22,809	$25,535	$27,012	$5,648
06-07	$23,079	$26,225	n/a	n/a	n/a
07-08	$26,589	n/a	n/a	n/a	n/a
* 05-06 Actual Spending based on 2nd Quarter Update					

As seen in Figure 3.1, the first budgetary targets have been significantly lower than both the final budgeted amount and even further off the final spending amounts.

The 2006-07 budget was originally targeted to include $23.1 billion in program spending. Thanks to the recent double-digit budgeted spending increases and in-year unbudgeted spending increases, the likelihood of the 2006-07 budget holding program spending to $23.1 billion seems highly unlikely.

Furthermore, looking strictly at the Alberta government's track record for meeting previous year's targets casts doubt on the ability of the government meeting the target set less than a year ago of $26.2 billion in program spending for the 2006-07 provincial budget.

RECOMMENDATION #3: The CTF recommends the Alberta government stick to the targets made in previous budgets for future expenditures.

Roll back the *Fiscal Responsibility Act*

The Alberta government wisely created the Sustainability Fund in 2003 with an amendment to the *Fiscal Responsibility Act*. The change allowed for the first $3.5 billion in resource revenues to flow into general revenues, with the excess funding the new $2.5 billion Sustainability Fund.

The original intent was to use the money in the Sustainability Fund to cover any shortfall if resource revenues did not amount to $3.5 billion in a particular fiscal year. Provisions were put in place such that the money within the Sustainability Fund could also be accessed for natural disasters and emergencies.

While no changes have been made to officially increase the cap of the $2.5 billion Sustainability Fund, changes have been made to increase the initial level of resource revenues that are used for program spending and budgeting. The *Fiscal Responsibility Act* was amended in 2004 to increase the initial amount of resource revenue spending from $3.5 billion to $4 billion. The *Act* was subsequently amended in 2005 to increase the initial amount of resource revenue spending to $4.75 billion.

This has resulted in a greater percentage of initial spending of resource revenues compared to the 10-year average of annual resource revenues.

Figure 4.1 – Annual Resource Revenues (millions) vs. Initial budgeted spending of resource revenues

Year	10-year High	10-Year Low	10-year average	Initial Maximum Spending Level	Initial maximum as % of 10-year average	Initial maximum as % of 10-year low
03-04	$10,586	$2,368	$4,775	$3,500	73.3%	147.8%
04-05	$10,586	$2,368	$5,261	$4,000	76.0%	168.9%
05-06	$10,586	$2,368	$5,898	$4,750	80.5%	200.6%

When the Sustainability Fund was initiated, the Alberta government was limited to spending only 73.3% of the average resource revenues per year. Now that level has risen to 80.5%.

This is a very dangerous road to continue down. If this trend continues it is conceivable the provincial government could soon be budgeting 100% of the 10-year average. The 26.7% buffer between the initial spending level and the 10-year average was intended to keep spending to a reasonable level while allowing some breathing room for the government if revenues came in below average. That buffer has now shrunk to 19.5%.

Even more concerning is that the provincial government is now budgeting to spend over twice what the 10-year low is for resource revenues.

This trend also indicates a growing reliability on resource revenues to fund ongoing government programs. The more reliant the government is on unreliable revenues, the harder the province will be impacted if resource prices return to levels seen in the early 1990’s. In fact, even if resource prices fall to what they were in 1999-2000, either the Sustainability Fund would be tapped or government programs would have to be cut.

Further to that, just as we have seen with the Heritage Fund, not inflation proofing the Sustainability Fund will eventually deteriorate the relative value of the fund. Considerations should be given to stop this from happening.

RECOMMENDATION #4: The CTF recommends the Alberta government rollback increases to the initial resource revenue spending level of the *Fiscal Responsibility Act*, from $4.75 billion to $3.5 billion annually. The CTF also recommends the Sustainability Fund cap of $2.5 billion be increased to $3.5 billion immediately and then indexed to inflation starting in the 2007-08 provincial budget.

Give the public sector what the private sector gets

In the past, the CTF has supported the transparent way MLAs receive their annual remuneration adjustment. Linking wage adjustments to the Average Weekly Earnings of Albertans, not only takes politics out of the process, but also the politicians.

Furthermore, it sends a strong message to Albertans that MLAs are the same as average Albertans; MLAs get the same raise you get – nothing more, nothing less. This is particularly important when using Albertans own tax dollars.

But unlike private sector employees who either individually or through their union negotiate with their employers for wage and working conditions, public sector employees (teachers, doctors, nurses, social workers, Alberta government employees) negotiate wage adjustments through their unions with taxpayers through our elected officials. In the private sector, the employer negotiates based on a fixed bottom line. In the public sector, our government negotiates using our tax dollars which often seem to be summoned at will.

Tactics like illegal walkouts, strikes and negative ad campaigns have all been used to shame our provincial representatives into offering up double-digit pay raises to many of these unions.

So too has political opportunism. Many taxpayers remember the last-minute wage settlement that kept nurses from striking during the 2001 provincial election. Many taxpayers also recall the double-digit pay raise given to teachers by an arbitrator following their strike and work-to-rule campaign.

Public sector employees provide a valuable and very necessary public service to taxpayers. Due to the nature of the work they do any disruption in the service they provide can cause significant stress. This creates an obvious advantage for the public sector unions, as they can seemingly hold taxpayers hostage while our hospitals and schools become paralyzed.

CTF Supporter Survey

Should the salaries of nurses, MLAs, provincial government employees and other public sector workers be limited to the level of increases received by workers in the private sector?

Yes	**89%**
No	2%
Undecided/No Response	9%

Furthermore, this past session, MLA Doug Griffiths proposed Motion 512 that read:

> *Be it resolved that the Legislative Assembly urge the Government to index the salaries of all Government employees to the average weekly earnings index and provide salary adjustments based on supply and demand pressures within one year following a provincial election.*

Unfortunately Mr. Griffiths motion did not receive the majority of support from the MLAs in the Assembly at the time of the vote.

Linking public sector wages to private sector wages would reduce the likelihood of public sector unions attempting to use provincial elections or strikes to force the government into increasing public sector wages above what is occurring in the private sector. It also ensures our public sector workers receive fair and adequate annual adjustments to their remuneration.

It is also important to note that by linking public sector wage adjustments to the private sector, it in no way eliminates the need for collective bargaining, it does however remove one often contentious point of these negotiations.

RECOMMENDATION #5: The CTF recommends the Alberta government annually adjust public sector wages to reflect the annual change in wages for private sector employees.

Push ahead with heath care reform

The CTF has been and will continue to promote health care reform in Canada for three fundamental reasons.

First, we oppose Canadian governments continuing to throw good money after bad. Health care costs continue to increase every year. In fact, Alberta's health care budget has increased on average by 10% per year since 1997-98. Since then, health ministry spending has more than doubled, with health care costs eating up over $9 billion in 2005-06. Albertans should ask themselves, is their health care twice as good as it was in 1997-98?

Furthermore, it is obvious that these current levels of annual increases are not sustainable. In fact, the Mazankowski Report warned unless the health care system itself is restructured, health care will consume 50% of Alberta's budget by 2012.

Second, allowing for choice and competition will not only take pressure off the public system, but provide economic opportunity. Why should Alberta taxpayers pay for over 70% of the post-secondary education costs for doctors and nurses who immediately upon graduating head south for greener pastures?

Third, Albertans have the right to be able to spend their own hard-earned money on anything they need – including health care. Why should Albertans be able to spend their own money on alcohol, cigarettes, or gambling when they can't spend it to alleviate their own pain? Why should Albertans be able to pay for a surgery for their sick dog, yet not be allowed to pay for a surgery for their sick child or grandchild? Why should Albertans continue to travel to the United States, the UK or India to spend their own money on health care when they could spend it right here in Alberta?

In June 2005, the Supreme Court of Canada struck down a Quebec law banning private medicine and health insurance. In doing so, the high court put individual rights ahead of collective rights. The court held that suffering – and dying – while waiting for government-managed medical care violates the right to "life, liberty and security of the person" as spelled out by the Quebec Charter of Human Rights and Freedoms.

The *Chaouilli* case was a warning shot to other provinces. If Alberta fails to reduce wait times by reforming medicare it will in all likelihood be dragged into court by another sick patient.

Alberta should act now and remove any barriers to private health care insurers and providers in Alberta.

2005-06 CTF Supporter Survey

What should your CTF's number ONE priority be in Alberta for the next twelve months?

Health care reform	**23%**
Taxpayer protection/Spending control	21%
2006 tax cut & spending cut	17%
Citizens Initiative Referendum	15%
Uncovering waste	11%
Undecided/No Answer/Other	13%

RECOMMENDATION #6: The CTF recommends the Alberta government amend or repeal sections of the *Alberta Health Care Insurance Act,* the *Health Care Protection Act* and the *Hospitals Act* to allow private insurers and providers to offer private health care services to Albertans.

REVENUE

Finish the job on health care premiums

The CTF welcomed the abolition of the health care premium tax for seniors as a first-step towards abolishing this tax for all Albertans. This age-based exemption, put into place in 2004, has created a situation where seniors who are wealthy, no longer raising children or paying off a mortgage, are exempt from this tax. Yet, middle-income families, struggling with mortgage payments and the cost of raising children, must pay $1,056 per year in addition to other provincial taxes. This is patently unfair.

The health care premium tax is a major obstacle to health care reform. This tax conveys the false message that our health care system costs only $44 per month, or $88 per month for families. In fact, Alberta's public health care system costs $230 per man, woman and child every month. In order for health care reform to succeed, the public needs to understand how expensive our government-run system really is. Albertans need to know that health care makes up more than one third of provincial spending. Yet, the health care premium tax does the opposite, indicating that our health care is relatively inexpensive.

Furthermore, the health care premium tax is totally unnecessary for a government which will already receive $32.3 billion from *other* revenue sources in the 2005-06 fiscal year. Revenues from the health care premium tax ($896 million) make up only 2.7% of total provincial revenues.

And, unlike Alberta's personal income tax, the health care premium tax costs $13 million per year to collect – enough to purchase four MRI machines.

Above everything else, health care premiums are a regressive tax. For a family earning $35,000 a year, the $1,056 in health care premiums is equivalent to 3% of their annual income. For a family earning $100,000 a year, the $1,056 in health care premiums is equivalent to 1% of their annual income.

Even steps to reduce the regressive nature of the health care premium tax, namely the premium subsidy provided to low-income Albertans have not increased since the premiums were raised in 2002. This "premium-creep" slowly eats away at the value of the subsidy and should have been at the very least indexed to inflation.

In summary, the health care premium tax is deceptive, regressive, expensive to collect, harmful to health care reform, and totally unnecessary.

2005-06 CTF Supporter Survey

The Alberta government spends $13 million per year to collect health care premiums. Do you support abolishing this tax?

Yes	**73%**
No	15%
Undecided/No Response	12%

RECOMMENDATION #7: The CTF recommends the Alberta government immediately eliminate the regressive health care premium tax for all Albertans.

Axe the insurance tax

The Alberta government collects a total of $204 million per year in insurance taxes – an average of about $62 for every man, woman and child, or $248 per year for a family of four. A significant portion of this $204 million is paid by business, but at the end of the day, there is only one taxpayer, and all taxes are paid by Albertans as consumers, employees and investors.

The Alberta government continues to contribute to high car insurance costs with its 3% sales tax on car insurance. Eliminating this 3% tax would be a small but positive step towards reducing the price of car insurance for Albertans – immediately and permanently. It would also be a strong signal that the provincial government takes the issue of affordable car insurance seriously.

Abolishing this tax – which brings in *less than one percent* of provincial revenues – would leave an extra $248 per year in the pockets of Alberta families.

RECOMMENDATION #8: The CTF recommends the Alberta government immediately eliminate the 3% sales tax on insurance.

Help taxpayers by banking resource revenues

When first elected, Premier Klein enjoyed using the analogy of running Alberta like you would run your household: Alberta had to stop using its credit card to pay for government programs. Albertans bought into that wisdom and now it's time for the Alberta government to once again heed its own advice.

After paying off their home mortgages, many Albertans begin stocking away the funds they previously used for mortgage payments into savings. They do so with the hope that one day when they retire, they will be able to live off the interest generated by these investments.

While it is laudable for the government to provide $400 cheques to each man, woman and child this year, as the resources are owned by every Albertan equally, the CTF would prefer a longer-term approach to reduce the tax burden of Albertans well beyond what could be a minor blip in world energy prices. A longer term goal of providing tax relief or rewarding Albertans for helping build Alberta should result in Albertans collecting much more than a one-time $400 cheque.

The $1.4 billion spent on the 2005 resource rebate should have been banked along with the remainder of the resource revenues over and above the $3.5 billion used for annual budgeting and the $2.5 billion Sustainability Fund (note CTF recommendation #4) and used to generate sustainable interest revenues. Ideally these sustainable interest revenues could be used to provide tax relief on an ongoing basis.

For example, the Alberta government is expected to receive $13.2 billion in resource revenues in 2005-06. If this plan were implemented for the 2005-06 year, the first $3.5 billion would go to general revenues leaving $9.7 billion. The approximately $1.2 billion being transferred out of the Sustainability Fund for natural gas rebates and disaster program expenses would then have to be replaced, leaving $8.5 billion to be used as seed money for a fund that could provide tax relief.

At a 7% return, that $8.5 billion would likely generate slightly under $600 million this year, which equates to approximately 10% of the total personal income taxes collected from Albertans. Or if calculated as a payment to every man, woman and child it could pay out $182 per Albertan. If resource prices continue to stay high it is likely this year's $400 cheque could be surpassed in three years, all while creating an ongoing nest egg.

In 2000, the CTF commissioned a study by Dr. Jean-Francois Wen of the University of Calgary. Dr. Wen was asked if it would be possible for Alberta to build up the Heritage Fund and then use the interest to eliminate personal income taxes. Remarkably, Dr. Wen discovered it would not be difficult at all, especially with a little bit of political will.

Dr. Wen determined if the government held the line on spending increases starting in 2000, and dedicated 50% of all resource revenues to the Alberta Heritage Savings Trust Fund, along with retaining all of the interest generated by the fund, Alberta could eliminate personal income taxes by 2015. Furthermore, his study was based on oil priced at $18/barrel and natural gas at $2.35/mcf and increasing only at the rate of inflation. As we have seen this year with oil over $60/barrel and natural gas over $11/mcf, the time-line suggested by Dr. Wen could be substantially ramped up.

Regardless of the mechanism and regardless of where the money is banked, the bottom line is that Alberta has a great opportunity to create lasting prosperity for its citizens. Spending the principle rather than spending the interest will only leave us broke.

We have all heard stories of the person who won the lottery, and lived like a king for a couple of years, but in the end was left penniless and worse off than had they never won in the first place. Most of us shake our head and suggest if we ever won the lottery we would pay off our debts and then save the rest to live off the interest. Yet, Alberta appears poised to follow in the steps of the remorseful lottery winner instead.

One-time resource revenue tax-relief (while appreciated by most taxpayers) is only a temporary solution to address Albertans tax burden. Creating a dedicated fund to provide ongoing tax-relief creates a long-term solution and a legacy of which this government could be proud.

RECOMMENDATION #9: The CTF recommends the *Fiscal Responsibility Act* be amended so any excess resource revenues over and above the $3.5 billion for general revenues and $3.5 billion Sustainability Fund be saved and the interest be used annually for long-term tax relief.

Don't give municipalities our tax break

The CTF has been supportive of initiatives to reduce Albertans tax burden through the reduction/elimination of education property taxes.

This past session, Tory MLA Richard Marz introduced Private Members' Bill 210 in the Alberta Legislature calling for the elimination of education taxes on property by 2011. The CTF publicly supported this Bill as did many municipal politicians. However, the CTF's motive for supporting such a move is very different than many municipal leaders.

Ideally, the taxes you pay should represent either the amount of service you receive and/or your ability to pay. Property taxes achieve neither of these objectives.

Beyond the regressive nature of property taxes, charging them in the name of education is as much of a misnomer as the so-called health care premium. Education property taxes do not pay for education any more than income taxes, corporate taxes or the 3% sales tax on insurance.

Mr. Marz isn't the only politician who finds fault with the regressive nature of property taxes. Indeed, the provincial government freezing education property taxes for seniors was an admission that the current system is broken. But, seniors do not have a monopoly when it comes to high taxes and fixed incomes. Many young families face the same pressure.

Eliminating education property taxes would not only eliminate a badly flawed tax, but it would put money back in the pockets of virtually every Albertan and help young families and low-income earners realize the benefit of home ownership.

But, the provincial government must beware. Eliminating education property taxes might only result in a transfer of tax room from the provincial government to municipal governments, rather than eliminating a poor form of taxation and providing a tax break to Albertans.

Calgary Mayor Dave Bronconnier recently boasted if the province agrees to freeze or eliminate education property taxes, it would pay for a crackdown on everything from petty crime … to organized gangs[b].

This is a clear indication that if the province reduces Albertans' tax burden through the elimination of education property taxes, Calgarians are unlikely to realize any net tax savings.

RECOMMENDATION #10: The CTF recommends any freeze, reduction or elimination of provincial education property taxes continue to be explicitly expressed to Albertans BY LAW on their property tax bill, showing how much the education portion is in relation to their overall tax bill and any yearly change.

Fulfill the promise on business taxes

In the 2001-02 budget, the Alberta government committed to reduce the general corporate income tax rate to 8% by 2004. While it was reduced from 15.5% to 11.5% between 2001 and 2004, the provincial government has not yet fulfilled its promise to reduce it further to 8%.

If Alberta followed through and reduced its general corporate income tax rate to 8%, it would be the lowest in Canada, and would put Alberta at a competitive advantage over other provinces.

Figure 11.1 – Alberta Government's original implementation schedule for corporate income tax reductions[c]

Implementation Schedule for the Business Tax Plan

		Implementation on April 1			
	2000	2001	2002	2003	2004
General rate (%)	15.5	13.5	11.5	10.0	8.0
Manufacturing and processing rate (%)	14.5	13.5	11.5	10.0	8.0
Small business rate (%)	6.0	5.0	4.0	3.0	
Small business threshold ($)	200,000	300,000	400,000		
Capital gains inclusion rate (%)	50[a]	50			
Railway fuel tax (¢/litre)	3	1.5[b]			
Capital tax (%)	0.7/1.0	Eliminated			
Cost of Tax Cuts ($ millions)		**286**	**561**	**770**	**1,000**

[a] The capital gains inclusion rate was reduced from 75% to 66.7%, effective February 28, 2000, and further reduced to 50%, effective October 18, 2000.
[b] Effective May 1, 2001.

[b] "Tax break may fund crime fight". Michael Platt, Calgary Sun, January 18, 2006,
[c] http://www.finance.gov.ab.ca/publications/budget/budget2001/fiscal.pdf p. 19

RECOMMENDATION #11: The CTF recommends the Alberta government fulfill its original promise to businesses by reducing the general corporate income tax rate to 8% in the 2006-07 budget.

Preserve Premier Klein's legacy

Premier Klein's commitment to a taxpayer protection law with a referendum requirement is longstanding.

In the *Calgary Sun* of March 9, 1997, Premier Klein was quoted as saying:

> "So let's make it so government cannot increase any taxes unless the people tell us to do so. And that would have to be through a provincial referendum and, quite frankly, I don't think the people would ever approve it."

In the *Edmonton Journal* of March 10, 1997, Premier Klein was quoted as saying:

> "We say as a party no new taxes and we will not raise taxes. But just to show people that we are serious about this, we would like to enshrine it somehow in law."

Premier Klein's views on this issue are shared by Albertans, 83% of whom want Alberta to have taxpayer protection legislation, according to a 2002 JMCK poll commissioned by the CTF.

The *Alberta Taxpayer Protection Act* requires that a referendum be held only prior to the introduction of a general provincial sales tax. But any other new taxes and tax increases can be imposed at any time for any reason.

In contrast to Alberta, other jurisdictions have laws which require politicians to put tax increases and new taxes to voters in a referendum. In Switzerland, a tax increase must be put to a referendum if 50,000 voters sign a petition requesting a referendum. Swiss taxpayers have sometimes voted for tax increases – but only after politicians made a convincing case for their necessity. In the state of Washington, and many other U.S. states, voter approval is required for any tax increases or new taxes. This applies to expanding the base for a tax, increasing the rate of a tax, or introducing a new tax.

Currently, without taxpayer protection legislation, the onus is on Albertans to justify to politicians why we should be able to keep our own hard-earned money. The onus ought to be on special interest groups and politicians to justify why they want to take more tax revenue from Albertans.

As taxpayers are the people who foot the bills, they should be consulted on any and all tax increases. The *Alberta Taxpayer Protection Act* should be amended to require a referendum on all new taxes and tax increases. This not only would fulfill a longstanding promise of Premier Klein, it would help preserve his legacy as providing Albertans with the lowest tax burden in Canada.

RECOMMENDATION #12: The CTF recommends the Alberta government amend the *Alberta Taxpayer Protection Act* to require a provincial referendum be held prior to increasing or adding _any_ new provincial tax.