

IMPLICATIONS OF TAXATION WITHOUT INDEXATION IN ALBERTA

Lindsay M. Tedds and Gillian Petit

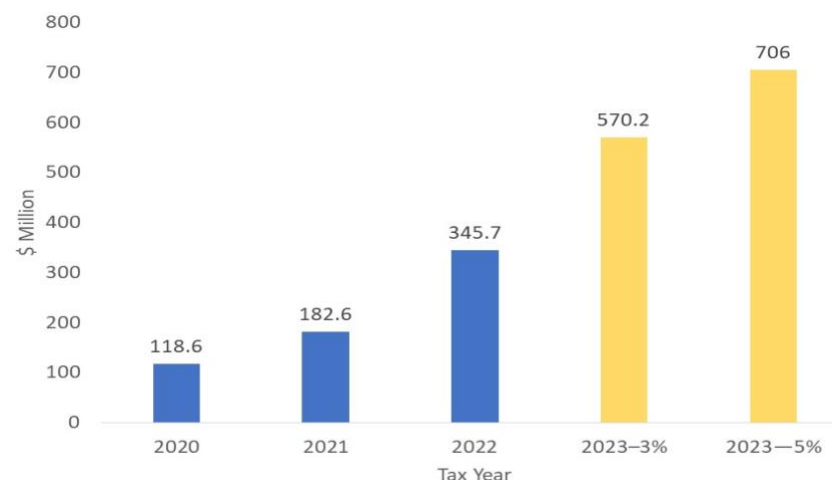
In the Alberta 2019 Budget (Alberta Treasury Board and Finance 2019), then Finance Minister Travis Toews announced that Alberta would “temporarily pause indexation of non-refundable tax credits and tax bracket thresholds...” (p. 11). This tax policy trends piece examines the implications of this freeze to Alberta tax payers.

What is indexation? Indexation is the adjustment of tax brackets in response to inflation. As inflation increases, the price of goods and services rises. So that consumers can continue to purchase the same level of goods and services (i.e., maintain their purchasing power), incomes need to rise by the same amount as inflation. As incomes rise to keep pace with inflation, income tax thresholds must also rise to avoid ‘bracket creep.’ That is, if the income tax thresholds are not indexed to inflation, an increase in income will result in higher taxes paid by the taxpayer even though their purchasing power has not changed.

Let us look at an example. In 2019, Nuru earns \$131,220 on which they pay a statutory tax rate of 10 per cent. In 2020, Nuru’s income increased by 1.9 per cent, the exact pace of inflation, to \$133,611. Because the income tax thresholds in Alberta were not indexed to inflation, the whole increase is taxed at the next highest statutory tax rate of 12 per cent. This, despite the fact that Nuru’s real income did not increase. Had indexation been maintained their increase would have been taxed instead at 10 per cent. Under an un-indexed scenario, Nuru pays nearly \$50 more in tax than they would have otherwise. While that might not seem like much, across all tax payers and year after year, it adds up.

The effect on de-indexation on Alberta taxpayers can be modeled using the Statistics Canada Social Policy and Simulation Database and Model (Statistics Canada 2022). For Alberta taxpayers, we model what their taxes would have been had Alberta tax credits

Yearly Increase in Provincial Taxes Paid by Alberta Taxpayers Due to De-indexation (Millions \$)



and tax brackets been indexed to the federal rate of inflation for the years 2020 to 2022 (Government of Canada 2021). For 2023, we model the impact of both a 3 and 5 per cent indexation rate, both plausible rates given current inflation. We examine the increase in provincial taxes paid by Albertans each year due to the lack of indexation.

In 2020, the Government of Alberta’s policy of de-indexation meant that Albertans paid \$118.6 million more in taxes than they would have otherwise. Of those taxpayers who had to pay more in 2020, the average amount more paid was \$51.43. By 2022, this had grown to \$345.7 million, for an average increase in taxes paid of \$147.87. In total, between 2020 and 2022 the Alberta government accrued \$646.9 million in additional tax revenues as a result of de-indexation.

Were de-indexation to continue for the 2023 tax year, Albertans could pay between \$570 million to \$706 million more in taxes as a result. This would mean that those Albertans who experience bracket creep could, on average, pay between \$235 and \$291 more in provincial income tax in 2023. The cumulative impact of the policy choice to continue de-indexation could, in 2023, rise to more than \$500 for each affected Albertan family. We show this in the table below, and note that these families will also be dealing with significant increases in the cost of living.

Average Increase in Taxes Paid by Affected Albertans Due to Bracket Creep (\$)

2020	2021	2022	2023–3% Forecast	2023–5% Forecast	Cumulative Increase in Taxes Paid
\$51.43	\$79.74	\$147.87	\$235.16	\$291.07	\$541.2–\$570.11

While Travis Toews recently indicated that the government would reinstate indexation if economic projections are met (Dawson 2022), Toews also stepped down as Finance Minister to run for the UCP leadership. With Jason Nixon now appointed as Minister of Finance, the fate of the province's de-indexing policy is unclear. Minister Nixon tabled the final results for the 2021-2022 fiscal year on June 28, 2022 and despite posting a \$3.9 billion surplus, the update made no mention of a path to de-indexation. It is also unclear whether any return to indexing will be cumulative so that Albertans catch up in terms of the purchasing power of their income. Albertans may have to wait until the UCP leadership race is settled.

AUTHOR NOTES

Dr. Lindsay M. Tedds is an Associate Professor in the Department of Economics and seconded to the School of Public Policy, University of Calgary. She can be contacted at lindsay.tedds1@ucalgary.ca. Dr. Gillian Petit is a Research Associate in the School of Public Policy, University of Calgary. She can be contacted at gillian.petit@ucalgary.ca. The authors declare they have no competing interests, either financial or community in nature.

REFERENCES

- Alberta Treasury Board and Finance. 2019. *Fiscal Plan: A Plan For Jobs and the Economy 2019-2023*. <https://open.alberta.ca/dataset/3d732c88-68b0-4328-9e52-5d3273527204/resource/2b82a075-f8c2-4586-a2d8-3ce8528a24e1/download/budget-2019-fiscal-plan-2019-23.pdf>.
- Dawson, Tyler. 2022. "Alberta Finance Minister Will Re-examine De-indexing of Tax Brackets that Costs Albertans Millions." *Exeter Lakeshore Times-Advance*, March 16, 2022. <https://www.lakeshoreadvance.com/news/politics/alberta-finance-minister-will-reexamine-de-indexing-of-tax-brackets-that-costs-albertans-millions>. <https://www.lakeshoreadvance.com/news/politics/alberta-finance-minister-will-reexamine-de-indexing-of-tax-brackets-that-costs-albertans-millions>.
- Government of Canada. 2021. "Indexation Adjustment for Personal Income Tax and Benefit Amounts." Last Modified 2021-11-16. Accessed June 17. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html>.
- Statistics Canada. 2022. Social Policy Simulation Database and Model (SPSD/M) V29.0.