

Legislative Assembly of Alberta

Title: **Monday, May 1, 2000**

8:00 p.m.

Date: 00/05/01

[Mrs. Gordon in the chair]

THE ACTING SPEAKER: Good evening. Please be seated, and we'll call the evening session to order.

head: Government Bills and Orders

head: Second Reading

Bill 18

Alberta Personal Income Tax Act

[Debate adjourned May 1: Mr. Bonner speaking]

THE ACTING SPEAKER: The hon. Member for Edmonton-Glenarry.

MR. BONNER: Thank you very much, Madam Speaker. I would like to continue the debate on Bill 18 this evening, and I would also like to continue with my remarks, particularly along the lines of how this is not going to be a fair and equitable tax.

We have seen that when we deal with taxation – and it's an issue that many Albertans are dealing with right now – that there are federal nonrefundable tax credits; for example, an age amount, a dependant amount, CPP contributions, EI contributions, pension income amount, disability amount, tuition and education amounts, medical expenses, caregiver amount, interest on student loans, and donations and gifts. Many of these, again, Madam Speaker, are nonrefundable tax credits.

We also have other nonrefundable tax credits when we're looking at our income tax, such as medical expenses, education amounts, tuition for students – or the portion they don't use can be transferred to an adult, to a parent – donations and gifts to different organizations. All of these will continue to apply, and they'll be levied at 11 percent of the maximum amount permitted for each credit. As well, when we look at the object of this bill, the basic personal, the personal spousal to equivalent, medical expenses, pension, education, caregiver, and disability credits will be indexed to inflation on a year-to-year basis.

Now, unfortunately, when we look at all this, Madam Speaker, this is not going to be fair and equitable to all people, and it's certainly going to impact the most that percentage of the population which now is the group that is earning between \$30,000 and \$70,000 a year. It was good to see in all this that there will be a zero percent increase on the first tax bracket. Those people who have very limited resources should not pay.

As well, I think it's very important that when we look at all this, Madam Speaker, we look at the background of what has led us to the point where we are today. In December of 1997 federal and provincial finance ministers agreed that the provinces should be able to levy taxes directly on taxable income. It was also agreed that the provinces could choose to move to a tax-on-income structure or remain with the current tax-on-tax structure. What we have seen is that if we'd remained on the tax-on-tax structure, certainly we could have given a tax break that was equitable to all brackets on the tax scale.

However, with this particular tax, when we go on tax on income, we find that the people that are getting the greatest benefit from a straight flat tax are those at the very upper end. Somehow this isn't the way taxes were meant to be. Taxes were based on your ability

to pay, and certainly the people that can pay the most taxes are those earning the most money, and they should be the ones that are paying more. So there seems to be a reversal in our thinking here or in what the outcome of a flat tax would be.

Now, under the agreement reached between the federal Finance minister and the provincial finance ministers, the following elements are applicable. The provinces would agree to adopt the federal definition of taxable income as a base upon which to level provincial income tax. Provinces would agree to limit the number of provincial tax brackets, including a zero rate on a narrow first bracket. We've already mentioned that, and I don't think there are any members in the Assembly that would disagree with that particular statement, that the people who are earning the least amount of money should not be required to pay that type of tax.

Now, as well, the provinces would be permitted to establish a distinct block of provincial nonrefundable tax credits to be multiplied by the lowest non-zero provincial rate. The provincial credits would be based on the federal credits but would add supplemental provincial amounts. The provinces would retain access to existing low-income tax reductions with either individually based or family based income testing. Again, we look at who has the ability to pay and who is going to benefit from any revision in the tax system.

What was agreed between the finance ministers and the federal Finance minister was that not all provinces would have to move to the tax-on-income system at the same time. Some provinces would levy tax on income while other provinces could continue the current tax system of levying tax on tax. As well, Madam Speaker, as we look at other jurisdictions who have attempted or even looked at this particular style of taxing on income rather than tax on tax, we find that all of those people have moved away from that particular system and have found that the best system is of course tax on tax.

Continuing on why we have arrived at this point today, in October 1998 the Alberta Tax Review Committee recommended that the province of Alberta move to a new system of tax on income from the current system of tax on tax. As to the elements of the tax-on-income system in Alberta, the committee made the following recommendations. One of the recommendations here was that the province should introduce a single rate of provincial income tax and that this single rate should be set at 11 percent for all taxpayers. A further recommendation was that the basic personal and spousal exemptions should be increased to \$11,620 and fully indexed to inflation.

Other recommendations here were that the temporary deficit elimination taxes, the .5 percent flat rate tax and the 8 percent Alberta surtax, should be eliminated in conjunction with the implementation of an 11 percent single tax rate. According to the committee the implementation of the 11 percent single rate with personal and spousal exemptions of \$11,620 would have taken an additional 78,000 low-income Albertans off the provincial tax rolls and would have reduced the difference in provincial income taxes paid by double- and single-income families.

In the budget of 1999, Madam Speaker, the Alberta government adopted the recommendations of the Alberta Tax Review Committee. The following were the key elements of the Alberta tax plan presented in Budget '99. Alberta matched the federal increase in the basic and spousal exemptions to \$7,131 and \$6,055 respectively. The 8 percent surtax was to be eliminated by July 1 of 2001. The .5 percent flat rate tax and the selective tax reduction were to be eliminated by January 1 of 2002. The 11 percent single rate on taxable income would apply on January 1 of 2002. The basic and spousal exemptions would be increased to \$11,620 on January 1 of 2002.

The cost of implementing the tax package announced in Budget

1999 was estimated at \$600 million. The revenue recovery from the tax package when fully implemented was established at \$120 million, or 20 percent, in the year 2002-2003. By 2006-2007 it was estimated that there would be a 40 percent revenue recovery from the tax plan, and this would be a .8 percent increase in the real gross domestic product and a 17,000 increase in employment from a base case scenario.

8:10

With higher than anticipated revenues expected over the next three fiscal years, the Alberta government decided to accelerate the implementation of the tax plan in the 2000 budget, and the February 24, 2000, provincial budget announced the following modification of the tax plan.

Now, at this point I'd like to interject on some of these suggestions, Madam Speaker, to outline that here again we are taking higher than anticipated revenue and taking that surplus and putting it into something when we certainly could be using that additional revenue to prop up our public health care system. We certainly could have been using that additional money to cut our pupil/teacher ratio in school. Those are two areas that could certainly use a great amount of our assistance, and instead some of those projected surpluses are going to be going into a tax plan.

As well, the 8 percent surtax will be eliminated effective January 1, 2000. The .5 percent flat tax and the selective tax reduction will be eliminated effective January 1, 2001. The 11 percent single rate and the increase in the basic and spousal exemptions are now slated to take effect on January 1, 2000. As well, Madam Speaker, an additional \$100 million was set aside in the 2000-2001 fiscal year to parallel any federal tax cuts applicable to the 2000 tax year while Albertans remain linked to the federal tax-on-tax system.

On February 28, 2000, Madam Speaker, the federal budget announced a reduction in the middle-class income tax bracket from 26 to 23 percent, an increase in the threshold for the middle-income and high-income tax brackets to at least \$35,000 and \$70,000 respectively as well as full indexation of nonrefundable tax credits, including the basic and spousal exemptions, all to be implemented over a period of five years.

As well, Madam Speaker, in the 2000 tax year alone under the federal government tax plan the middle-income tax bracket will be reduced from 26 to 24 percent effective July 1, and there will be an increase in the threshold of middle- and high-income tax brackets to \$30,004 and \$60,009 respectively, and the basic and spousal exemptions will increase to \$7,231 and \$6,140 respectively. It is estimated that the impact of these tax measures on Alberta will be \$66 million in the 2000 tax year alone.

As a result of all of this, Madam Speaker, the impact of the federal government tax measures through 2004, it was revealed that Alberta taxpayers below \$70,000 in taxable income would be paying more in provincial personal income tax under an 11 percent single rate in the 2001 tax year and in subsequent tax years. They would be paying more under this 11 percent flat tax system than if they had remained on the tax-on-tax system.

My last point here is that on March 15, 2000, it was announced that the government would introduce amendments to Bill 18, Alberta Personal Income Tax Act, to ensure that all federal government tax measures impacting on Albertans would be passed through. Details on those changes are expected to follow the release of the province's first-quarter 2000-2001 results in September 2000.

Thank you very much for this opportunity to speak to Bill 18, Madam Speaker, and I look forward to participating more in Committee of the Whole.

THE ACTING SPEAKER: The hon. Member for Edmonton-Riverview.

MRS. SLOAN: Thank you, Madam Speaker. It's a pleasure this evening, on this beautiful spring evening, to rise in debate on Bill 18. You know, when spring comes, I always find that it rejuvenates and gives me some energy, and it's equally pleasing tonight to see that spring appears to have arrived at the Legislature with hundreds of people gathering in anticipation of debate on Bill 11. I think it gives us good reason to pause and reflect on why we're in this Assembly and on the importance of the debates on bills that come before this Chamber.

Regrettably, we won't have long to debate Bill 11, because we're very alert to the fact that the government is closing debate on that particular bill. It's sort of odd that we don't see closure on a bill like Bill 18, Madam Speaker. This is another bill which the government is certainly strongly supportive of. Again, they don't have a lot of evidence that it's going to be effective or to prove that it's going to be even implementable in conjunction with running a broad spectrum of public programs. Much like we have seen with Bill 11, they don't have a great deal of proof, but they're in a position where they're just prepared to go full speed ahead and let the chips fall where they may.

The bill before us, the Alberta Personal Income Tax Act, is a rather unique bill. It proposes that Alberta is again going to, quote, unquote, lead the country in establishing a flat system of tax, an 11 percent tax rate. Now, for the average Albertan, in terms of all the breakdowns, Madam Speaker, I think quite simply their primary question is: how is it going to affect me, and how will it affect the programs that I expect to be funded from my tax dollars and from provincial revenues?

Well, when we look at the '99-2000 budget, which the government released in February, showcasing this new proposed tax plan, we really don't see a lot of information, Madam Speaker, about how in fact the security of our public programs will be guaranteed. In fact, we see repetitive quotes by the *Globe and Mail*, repetitive quotes by the *National Post*, repetitive quotes by the *Calgary Herald* indicating their pleasure and their glee in the establishment of this tax structure.

Oddly enough, we don't see quotations from groups like the Friends of Medicare or the Alberta Teachers' Association or perhaps even the Taxpayers' Federation, and that is possibly because this government, number one, really hasn't planned or thought through how programs will be affected; number two, haven't communicated that to the sectors or groups that would be impacted; and number three, have taken the easiest route possible to market that bill. That is to rely on media interests like the *Globe and Mail*, like the *National Post*, like the *Calgary Herald*, who are all owned by one media mogul who happens to promote this type of corporatism.

Really, Madam Speaker, it's not of interest federally, nor should it be of interest to some large-scale newspaper owner. The people who this will impact most is Albertans, and the questions are about how education funding will be secured and maintained, about how health care spending will be maintained and secured if we implement an 11 percent flat tax and all of a sudden the revenues don't turn out to be quite what the hon. Member for Red Deer-North so eloquently waxed on about in his budget address this February. What if they fall short and then we take this bill in combination with the Fiscal Responsibility Act and the Deficit Elimination Act, which this government has also seen fit to impose on this province, and find ourselves in a position where we don't have enough money to fund?

8:20

Well, perhaps the government has anticipated that, Madam

Speaker. I'm just thinking this through. Perhaps that's why we have a bill like Bill 11. They just may be anticipating that there won't be enough money to fund health care down the road, so we have to have some mechanism by which the taxpayers pay for their own services. Then, lo and behold, isn't it amazing that we have Bill 11 accompanying Bill 18, so if health care funding falls short out of the public purse, Albertans can pay out of pocket for surgical services? It's just part of a master plan that this government hasn't had the political courage to share with their electorate.

Now, just a few more facts. This year the Auditor General – and I know that the minister of energy will be most interested in his remarks – in his report talked about a number of concerns that he had about Treasury and particularly their calculation of budgets and their reporting of budgets. Let me be specific. He recommended that

ministries work with Treasury to develop a strategy to improve the definitions of the components of business plans.

Accompanying that, he made recommendations that ministries clearly reflect the cost of implementing their core businesses. In essence, Madam Speaker, he expressed concern about this government accurately and clearly reflecting the costs of doing business in their ministries. Others might call it the fine art of fudging numbers, but really what the Auditor General was saying is that you must clearly reflect your expenses in your business plans and budgets, and that is not something which this government has chosen to do.

Let me read specifically from recommendation 48.

It is again recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

Similar to the 1997-98 fiscal year, there are reservations in my auditor's reports on the 1998-99 financial statements of all of the Ministries and all of the departments. The nature of the reservations is described in more detail in the following paragraphs.

The purpose of these audit reservations is to maintain a focus on all of the assets, liabilities, revenues and expenses for which the management of the Ministries are accountable, including performance measurement and financial management responsibilities. The reservations alert readers that the related financial statements are not complete and accurate. Also, where possible, the reservations provide the reader of the financial statements with the supplementary information that was missing . . .

Lo and behold, Madam Speaker, missing.

. . . from the financial statements. Further, they are intended to identify circumstances where decision makers are at risk of arriving at faulty conclusions.

So here we are this evening, Madam Speaker, faced with a government that's been fudging the numbers in their ministries, not accurately and completely sharing information on the costs of doing business, and Bill 18, which proposes that we go to a flat system of tax, with no accompanying information on how ministry programs would be impacted. [interjection] I know that the minister of energy is enjoying this line of debate so much, so I'm going to continue on another area relative to my same points.

The Auditor General pointed out that

ministries and departments contained reservations because they did not report their share of pension liabilities and expenses.

So we have in essence, Madam Speaker, outstanding debts within the ministries for pension liabilities and expenses. They haven't accurately reflected that in the business plans. That money is owing, and at some point in the future, probably in the next 10 to 20 years, when a large component of our public sector retires, that money owed will come due. If we find ourselves in the position of having Bill 18 implemented and the flow of revenues to this province reduced, what exactly are we going to say to the public-sector employees who have retired? Are we going to say that we're not

able to fully fund their pension plans, that they won't receive a full pension?

DR. WEST: That's misleading. You know that the actuarials have been done.

MRS. SLOAN: I know that if the minister of energy has got the mettle, Madam Speaker, to stand up and debate this, he'll have a turn after I've finished. I'm sure I'll have given him ample material upon which to debate this bill.

The question is about adequate funding to public programs, adequate funding to cover off the significant pension liabilities that exist. Where will that money come from, Madam Speaker, if Bill 18 takes us to a future where the provincial tax revenue is reduced?

My third point, arising from the Auditor General's report. On page 275 he talked about the "existence of social programs within the tax collection system." Again, I quote.

There are social programs within the tax collection system the cost of which are reductions of tax revenues on income and consumption. In quantifying the impact of these items in the discussion that follows, the amounts shown are actual revenues foregone. The cost of these social programs typically arises through the use of tax deductions, exemptions, credits, incentives, preferential rates and deferrals. These programs promote social or economic purposes to a specific group.

There is a view that these social programs within the tax collection system are an alternative to direct expenditures as a form of government assistance or subsidy.

And he goes on to provide a bit of education about that.

Then he draws the conclusion that

a preliminary estimate indicates that the cost of these social programs is significant.

A limited review by this Office of 1998-99 financial information indicates that for programs administered solely by the Province, there were disclosed costs of about \$300 million for royalty tax credits and undisclosed social program costs of approximately \$700 million . . . In addition, because the Province's assessments for personal income tax are based on the federal personal income tax collection system, there are effectively other Provincial revenue reductions as a result.

He goes on to say:

However, in none of these instances is there disclosure of performance targets and results.

He gives a suggestion that the Department of Treasury should incorporate those within their annual budget.

Now, I looked at the government's marketing material on this bill that was released with the budget, and I don't find any reference to how those social programs and the component of that revenue would be protected. If I am correct, I think that this would impact seniors, the seniors' health insurance premiums, things in that area, Madam Speaker, where we have developed and implemented a program where there is a . . .

DR. WEST: A point of order.

THE ACTING SPEAKER: The Acting Provincial Treasurer has risen on a point of order.

Point of Order Relevance

DR. WEST: Under *Beauchesne* 459, relevance and repetition. The hon. member has strayed away from the principles of the bill, that are discussed in second reading, the principles of Bill 18. The discussion that she's having would be more pertinent to the debate on the budget, which we've had. We've had many, many nights and

many, many hours on the budget and the Auditor General's report and its relevance to the budget. I find tonight we're discussing a specific tax bill, Bill 18, and the hon. member chooses to wander considerably and as well use language, by repetition, that incites the decorum of this House. I heard "fudging." I heard some other comments made in reference to the integrity of the ministers of the Crown, and I feel that she's totally off base for Bill 18.

8:30

MS CARLSON: Madam Speaker, on the point of order.

THE ACTING SPEAKER: Yes, Edmonton-Ellerslie.

MS CARLSON: Madam Speaker, one week off and the Minister of Resource Development forgets the rules of this Assembly. I would refer him, please, to *Erskine May*, page 378, where we talk about relevance in debate, rules governing the contents of speeches. He knows that the hon. member has 20 minutes to come to the point. He knows that many times every speaker in this Assembly has followed the rulings outlined on this page where it says:

A Member must direct [their] speech to the question under discussion or to the motion or amendment [they intend] to move, or to a point of order. The precise relevance of an argument may not always be perceptible.

We have seen many speakers on that side of the House take their full 20 minutes to come to the point. In fact, the Member for Calgary-Egmont on the last day of speaking in this Assembly took 12 minutes to speak to Bill 11, at which point in time he never once referenced the subamendment under debate or brought the discussion back there at all. So if he could go 12 minutes without ever even referring to a point, this hon. member, who has several times referred to the bill under question, is completely within order. I understand that you know the rules, but clearly the minister needs to brush up on the rules in this Assembly. There is no point of order.

THE ACTING SPEAKER: I would ask that we do look at what is before us. We are in debate in second reading of Bill 18, which is the Alberta Personal Income Tax Act. It is often very difficult for a Speaker or someone sitting in the chair to define relevance. As was indicated, sometimes the chair does allow a lot of latitude in the debate and in the discussion that's taking place, but I would ask everyone to keep in mind that we do have before us Bill 18 – and it is the Alberta Personal Income Tax Act – and try to ensure that your debate and your discussion is relevant to the bill under debate at the moment.

MRS. SLOAN: Thank you, Madam Speaker. I certainly acknowledge that I'm relatively new to this Chamber, and I may be under some false assumptions here, but I always assumed – and the minister of energy may wish to correct me if I'm wrong – that our programs in this province are funded from tax revenues. Would anyone in this House like to correct me that they are not? I believe that our programs are in fact funded . . .

THE ACTING SPEAKER: Hon. Member for Edmonton-Riverview, I would ask that we try not to be confrontational in this debate. We are only in second reading.

MRS. SLOAN: I'm being as personable and jovial as I possibly can. I know the minister of energy finds me particularly personable and in some cases provocative, but if he would just follow my . . .

MS LEBOVICI: You'll get him all excited, Linda.

MRS. SLOAN: Oh, dear. Heaven forbid that I would do that.

Debate Continued

MRS. SLOAN: Our programs in this province are funded through our tax revenues, and Bill 18 proposes to fundamentally change the way in which we collect taxes in this province. My point being: how do we continue to fund programs and how do we in an accountable fashion assure citizens that we will be able to continue to fund programs if we fundamentally change the tax system so that it's no longer equitable and fair, contrary again to the government's marketing documents?

In fact, what Bill 18 will do is distribute or skew in some respects, Madam Speaker, the tax system towards the 4 percent of our citizens filing taxes in this province who earn above \$100,000, while the 39 percent of citizens who find themselves in the middle-income bracket, earning between \$30,000 and \$70,000, will pay over 45 percent. So in essence we are in fact creating with Bill 18 an inequitable tax structure that offers no assurance that our public programs will be able to be maintained in the future.

[Disturbance in the gallery]

THE ASSISTANT SERGEANT-AT-ARMS: Order!

MRS. SLOAN: With the system now, Madam Speaker, in a pure form, everyone regardless of their income pays the same rate. Under Bill 18 that won't be so. The higher income earners are going to get an advantage. The middle-income earners are going to pay more.

Now, that also brings to mind a similarity. We could say that 18 and 11 are sister bills. With Bill 11 the wealthy in this province most likely won't have concerns about paying extra for health care if in fact private hospitals and a private system of delivery come into play because they have the disposable income to do that. The middle-income people, on the other hand, who do not have as much disposable income, are going to find themselves putting out more money for taxes and putting out, equally so, money for third-party insurance or for the cost to go to get their radiology in the United States, as many people who are trying to access services at the Cross Cancer Institute in my constituency of Edmonton-Riverview are now finding.

While all other provinces are sending people waiting to other provinces or to the States, this province chooses not to. Given the fact that even with the revenue we have now the province is not doing an adequate enough job in ensuring access for Albertans to the health care system, how are they going to assure and guarantee Albertans that they will be able to access health care if our provincial revenues decline under Bill 18?

I'd also just point out that another principle of this bill is that it's going to delink Alberta from the federal tax system, so we can take that on its merit. But at a point earlier this spring, sometime in March, I believe, I think March 11, the Premier in fact said that if the federal government brought in any tax reduction measures subsequent to this taxation year, he would allow those reductions to flow to Albertans, in effect now making a commitment that relinks Alberta to the federal system. That's very confusing, Madam Speaker.

I'm pleased to have had the opportunity this evening to make these debates, and I will now conclude. Thank you.

THE ACTING SPEAKER: The interim leader of the ND opposition.

DR. PANNU: Thank you, Madam Speaker. I'd like to have this

opportunity to speak on Bill 18, the Alberta Personal Income Tax Act, in its second reading. It is legislation that if passed by this Legislature will, I guess, reflect an interesting legacy that will be left here by the former Treasurer of the province. Bill 18 is legislation that doesn't really pass the test of fairness. If approved by this Assembly, Bill 18 will result in a massive shift of the tax load from high-income Albertans onto middle-income Albertans. Bill 18 represents nothing more or less than an attack on middle-class Albertans.

8:40

Every tax accountant and economist who has independently crunched the numbers on this flat tax proposal has reached the same conclusion. The main beneficiaries of this bill will be those with incomes above \$100,000 a year. Middle-class Albertans with incomes from \$30,000 to under \$100,000 will pay a disproportionately higher share of the tax load.

For instance, University of Alberta economics professor Mel McMillan has this to say about the government's flat tax proposal, and I quote: this would really shift the tax burden to the middle class; the big winners are those in brackets beyond \$150,000 and especially those in the \$250,000-plus income bracket, end of quote. Dale Meister, a senior tax accountant with PricewaterhouseCoopers had the following to say, and I again quote: the higher income earners get proportionately bigger savings than the middle-income earners; the tax savings increase in the higher brackets, unquote.

In addition to not passing the test of fairness, Madam Speaker, Bill 18 also fails the test of transparency and honesty. The provincial government knows that reducing tax rates for higher income earners will result in a massive transfer of the tax load onto middle-income Albertans. That is why, to hide the redistributive effects, the introduction of the proposed flat tax is being combined with an overall tax cut in this bill.

Despite the deep cut in personal income tax revenue, however, some middle-income earners will end up paying more tax, not less, under Bill 18. This was the case even before the recent federal budget. Before the recent federal budget the provincial government's own budget documents show that a single person making \$30,000 per year will actually pay \$28 more under the government's flat tax proposal, under Bill 18, than they would under the current tax system.

The recent federal budget has demolished any remaining questions about the fairness of the flat tax scheme set out in Bill 18. A front page story in the *Edmonton Journal* aptly said, "Air gets let out of flat tax." The *Edmonton Journal* story contained an analysis done by income tax specialist Brad Severin. Severin found that middle-class earners will pay about \$170 more next year than they would have under the existing system. That number rises to \$440 by the time all the federal cuts come into effect by the year 2004. A quote from Mr. Severin: "It only gets worse as time goes by." Severin's analysis emphatically concludes that middle-income Albertans would be better off staying with the existing system rather than moving to the regressive flat tax proposal in Bill 18.

I find it appalling and unacceptable that such a fundamental restructuring of the personal income tax is taking place with virtually no public consultation or debate. The so-called Tax Review, which consisted of handpicked Tory insiders, held a few meetings in the dead of summer a couple of years ago. I also find it incredible that a bill which fundamentally changes the personal income tax system in a very regressive manner is being sponsored by a former Provincial Treasurer and shepherded through this Assembly by a caretaker Treasurer.

In my remaining time I would like to briefly debunk some of the

arguments made in favour of the flat tax proposal contained in Bill 18, Madam Speaker. One of these arguments is that a flat tax would make the income tax system simpler. Nothing could be further from the truth. Should Bill 18 be passed by this Assembly, Alberta's tax system won't be any simpler with a flat tax rate than it currently is. What makes a tax system complicated are the numerous exemptions, deductions, credits, and other loopholes encountered in calculating one's taxable income.

The only way to simplify the tax system is to remove the complexities in calculating one's taxable income. Not only does Bill 18 fail to do this; through section 5 it codifies these complexities into provincial law by using the federal definition of taxable income.

The proposed flat tax does not get rid of a single loophole. All of the existing tax credits and deductions would remain. Your tax return would not shrink at all. In fact, your tax form would actually become more complicated. For instance, taxpayers currently need to do only one calculation to determine their nonrefundable tax credits. Under the flat tax plan proposed in Bill 18, they would need to do not one but two calculations, one to calculate their federal tax credits and a second to calculate their provincial tax credits. Despite having three tax brackets, a single tax table can be used to calculate federal and provincial taxes at present. Moreover, over half of tax filers have taxable incomes of less than \$30,000 per year. They already pay a flat tax, or single tax rate, of 17 percent federal and 7.48 percent provincial on this income.

There are those who argue that there are too many tax brackets. The Mulroney government tax reform of 1987 already significantly flattened the Canadian tax system. There are only three tax brackets now. Before 1988 there were 10 different tax brackets, ranging from 6 percent to 34 percent. Going back even further, in 1970 there were 17 tax brackets.

The United States has a more progressive income tax system at the moment than Canada does, especially for those with higher incomes. At the federal level the U.S. has five tax brackets, ranging from a low of 15 percent to a high of 39.6 percent. By comparison, Canada has only three tax brackets, and the top federal tax rate is only 30.9 percent. Some American states have as many as 10 tax brackets. Only six states out of 51 have implemented a flat tax.

Another argument made by flat tax advocates, like our former Treasurer, is that marginal tax rates are too high and are a disincentive to work harder. Marginal tax rates, Madam Speaker, refer to what's paid on the last dollar of income earned by a taxpayer. Effective tax rates, on the other hand, refer to the average rate paid on every dollar of income earned. Marginal tax rates will and should be higher than effective tax rates in a progressive income tax system. It is misleading to focus on the marginal tax rates to measure the fairness of the income tax system.

Effective tax rates are a much better indicator because they measure the rate of tax paid on every dollar of income earned, not just the last or the top dollar. Effective tax rates tend to be significantly lower than marginal tax rates even for those with high incomes because they, like low-income people, are able to benefit from the lower rates applied to their first dollars of income. Higher income earners are also able to reduce their tax liability by taking advantage of things like credits and deductions. Unlike middle-income earners, those with higher incomes are able to afford to maximize their RRSP contributions, to set up family trusts, and to take advantage of capital gains exemptions.

Under the current system, Alberta has by far the lowest marginal tax rate of any Canadian province. In the year 2000 Alberta's top marginal tax rate is 13.26 percent. The next lowest province, Ontario, has a top marginal tax rate of 17.42 percent, which is almost 25 percent higher than the one in Alberta. Under the proposed bill,

Bill 18, the flat tax plan, Alberta's top marginal tax rate would drop to 11 percent, fully 14 percent below Ontario's rate. It's one thing for this government to try and make Alberta some sort of tax haven for the wealthy. It is another thing entirely to do this at the expense of middle-class Albertans, which Bill 18 does. It is not even true that higher income earners have the highest marginal tax rates. When calculations of marginal tax rates include the impact of refundable tax credits, middle-income earners and not high-income earners are already paying the highest marginal tax rates.

The personal income tax system contains a number of refundable credits including the child tax benefit, the goods and services tax credit, the seniors' credit, as well as provincial credits like the seniors' benefit and Alberta employment tax credit. These credits are recovered by being taxed back as income rises. If calculations of marginal tax rates include the impact of refundable tax credits, middle-class earners, not high-income earners, are already paying the highest marginal tax rates.

Robert Brown, the past chair of PricewaterhouseCoopers, calculates that a single-earner family with three children, making between \$30,000 to \$40,000 annually, faces a top marginal tax rate of over 60 percent. By contrast, the marginal tax rate of a similar-size family making \$110,000 a year is just over 50 percent. That is because a family making \$30,000 gets to keep less than 40 cents of every additional dollar earned as a result of the combined increase in tax payable and the reduction in refundable tax credit payments. By contrast, a family making \$110,000 gets to keep almost 50 cents of every additional dollar earned. If anyone has a distinct disincentive to work, it is the middle-class earners, not high-income earners. Imposition of a flat tax as proposed in Bill 18 will make this inequity even worse by raising the marginal tax rate for the middle-income earners while lowering it for high-income earners.

8:50

Proponents of a flat tax say that a flat tax will end bracket creep. When the Mulroney government got itself into financial difficulty a decade ago, they stopped full indexation of tax brackets and exemptions to inflation. Now adjustments are only made for inflation above 3 percent. As a result, until this year's federal budget there had been no increase in the income threshold for the three federal tax brackets for a number of years. The basic and spousal exemptions were increased, starting in the 1999 federal budget, after a number of years of no adjustments.

The Alberta government has as much as any government in Canada benefited from tax bracket creep. Surely the answer to this phenomenon is not to get rid of tax brackets, thereby undermining fairness, but rather to restore full indexation of both tax brackets and basic spousal exemptions. If it wanted to, the provincial government could cut taxes or user fees without bringing in a regressive flat tax as proposed in Bill 18. Moreover, with the size of the budget surpluses in recent years, the Alberta government clearly has the fiscal capacity to cut taxes, increase spending in priority areas, and keep retiring debt.

The question is not whether Albertans should have a tax cut but rather what kind of tax cut. Tax cuts directed at low- and middle-income earners will generate more economic activity than tax cuts directed at the wealthy. That is because the wealthy will likely invest their tax savings in investments – GICs, mutual funds, including foreign-content ones – while low-income and middle-income earners are likely to spend their savings on things that more directly lead to local job creation; for example, buying goods and services.

Are there alternatives to the Tory flat tax proposed in Bill 18 that are fairer to low- and middle-income Albertans? Absolutely. The

New Democrats advocate phasing out health care premiums as an alternative to the flat tax plan set out in Bill 18. While delivering a comparable amount of tax relief, the New Democrat approach would give each Alberta family an \$860 break and a single person a \$408 break regardless of income.

There are many sound reasons why this approach is better. AHC premiums, Madam Speaker, are the worse kind of regressive tax. A family earning \$20,000 pays exactly the same \$818 per year as a family earning \$2 million. The income levels at which Albertans receive premium subsidies are ridiculously low. To receive a full premium subsidy, families must earn less than \$7,500 and singles less than \$5,000. Furthermore, AHC premiums get rotten tax treatment. They get terrible treatment by Revenue Canada. Unlike premiums paid to private health insurers, AHC premiums paid by individuals are not tax deductible. Middle-income seniors and those working in jobs without benefits are particularly hurt by this. Those working in better jobs are also hurt because any portion of AHC premiums paid by employers is fully taxable at the employee's top marginal tax rate.

AHC premiums, Madam Speaker, are costly to administer as well. Alberta Health wastes enormous time and resources to collect premiums and track down those in arrears. In '96-97 the department spent \$11 million on premium collections, more than it spent on administering the health care insurance plan itself. About half of the \$11 million was paid to external collection agencies to track down those with premium arrears. Despite this, the government still wrote off \$29 million in uncollectable premiums in '98-99 alone.

The last point on AHC premiums, Madam Speaker. AHC premiums are a drain on jobs and the economy. As a payroll tax, employers face substantial compliance costs in deducting and remitting health care premiums to the government. The New Democrats would ensure that the savings resulting from the phasing out of premiums are added to the remuneration of employees, not pocketed by employers.

In conclusion, Madam Speaker, Bill 18 does not deserve the support of this Assembly. It's a regressive piece of legislation that benefits only the wealthy at the expense of the middle class. It was the brainchild of a Treasurer that's no longer even in this Assembly to defend it. Instead of blindly moving forward with legislation that's fundamentally unfair and deeply flawed, I urge the Assembly to vote this bill down or, much better, the government to withdraw this bill.

Thank you, Madam Speaker.

THE ACTING SPEAKER: The hon. Minister of Government Services.

MRS. NELSON: Thank you very much, Madam Speaker. I wanted to enter into the debate at second reading on Bill 18, where we're talking about the principles of tax reform insofar as the personal income tax side is concerned.

I'm sure all hon. members or their constituents have had the pleasure this last few weeks of filling out their tax returns and filing them, as they're due by midnight tonight. I know that I myself had the onerous task of preparing 11 returns this last week and going through the calculation that is required for filing those returns. They ranged everywhere from some returns for seniors to students, to what I call severely normal working Albertans, to people that are living and trying to avoid taxation.

It brought to mind a situation I had a number of years back. I was asked to be on a white paper task force for the federal government on tax reform when the original tax reform program was going to take place in this country. It was under the leadership of the then

newly elected Prime Minister, Mr. Mulroney. However, after a great amount of work on that white paper, the bureaucracy of the federal government didn't have the will or would not co-operate, and the government of the day didn't have the steel to go forward and make tax reform a reality in Canada. As a result, when I was in the private sector, every year there were more complications added to tax returns, to the point where if someone did this for a living, the client base grew and grew and grew because they were so ridiculously out of whack that basically you had to have a road map to figure out what the calculations would be.

There hasn't been much improvement. There have been all kinds of different types of tax credits put in place and RRSPs that then transfer into RRIFs when you're older. There are all kinds of write-offs, but they never have dealt with the real problem. The problem with the tax system is that, number one, it is so cumbersome and so out of whack that it becomes a disadvantage for people to actually operate.

One of the things that I think is a misnomer I wanted to mention before I get into the actual bill. If the hon. member would like to refer back to the budget document, the responses to the Auditor General's comments are in the document. Quite frankly, every one of the recommendations from the Auditor General – and this budget document was debated in the House for 25 days, Madam Speaker. If she would refer to page 167 in the budget document and go through every recommendation from the Auditor General – they're listed in this section of the budget document that we spent 25 days debating – I can say, if the hon. member would not interrupt, that every recommendation that was given by the Auditor General has been accepted by the departments or is in the process of being put in place.

She made reference – and I want to clarify this because I think it's very important – to the liabilities that are not disclosed by this government, and I think the word that was used was “fudging.” All of the liabilities, including the long-term pension obligations of the government and all the pension plans, are disclosed in the financial statements. In fact, if the hon. member would refer to the financial statements . . . [interjections]

9:00

THE ACTING SPEAKER: The hon. Minister of Government Services has the floor.

Carry on, hon. minister.

MRS. NELSON: Thank you, Madam Speaker. If the hon. members would refer to the financial statements, which are filed, they would clearly see that the pension obligations are in fact shown and disclosed within them. Now, recently there has been a new actuarial value on those pension obligations. I can tell you that when I first sat on the Treasury Board and looked at the pension obligations, they were reassessed, and those obligations, because of the actuarial assessment that was done, dramatically changed the outstanding liability.

She's right that they are not allocated out on a department-by-department basis, but that is not normal public accounting procedure, and they are acceptable accounting procedures for all governments in Canada. In fact, most governments do not include the liability in their financial statements at all. In fact, in Alberta we did not have that disclosure in our financial statements until the 1993 budget came around. That was off balance sheet financing and was not included. It needed to be included. It had to be included.

The other thing that Alberta does on its financial statements – and clearly the hon. member I think needs to look at the financial statements – is that we actually do an accumulated depreciation, an

amortization of assets. We list those in our financial statements. We work on an accrual accounting basis, and we try to have a fully consolidated balance sheet, which you can't completely have in a public sector.

The other thing she mentioned was revenue base. Well, I used to have the job for five and a half years of forecasting revenues. I can tell you right now, on forecasting revenues – if you looked at the last two months, oil revenues went as high as \$34 a barrel. They're now down roughly around the \$25 a barrel mark within probably about a six-week time frame. They fluctuate back and forth. If you had in fact, as a lot of people on the opposite side, Madam Speaker, would have suggested, gone in with a budget number of \$25, \$30 a barrel and budgeted for allocation of funds based on that revenue picture, we could very well be in trouble. As I'll remind hon. members, it is against the law in this province for us to run a deficit budget. That's against the law. So I would remind hon. members that fluctuations occur.

Now, we are fortunate in this province in that we have a strong economy and one that has been successful. It's been successful . . . [interjections]

Speaker's Ruling Decorum

THE ACTING SPEAKER: I'm just going to wait, hon. minister, until everyone allows you the opportunity to speak. I've mentioned it a couple of times. We allow everyone in this Assembly to speak when they're recognized. You now have the floor, and I think the people in this Assembly should pay you the due respect and listen to you.

The hon. minister.

Debate Continued

MRS. NELSON: Thank you very much, Madam Speaker. I guess the point I'm trying to make is that while we went off the track of the bill, I couldn't leave those statements outstanding, because clearly there have been 25 days of debate on the budget. The budget has gone through and has been passed. The appropriation bills have been voted on, and there has been debate on those.

Today we're talking about a change in the system. Yes, as the Member for Edmonton-Glenarry said, there was a Tax Review Committee that was struck by the Provincial Treasurer to look at how we could make Alberta more competitive not only on the business side but on the personal side. We've heard time and time again in this Legislature about what's called brain drain, about how people are leaving, particularly our young people who are graduating from our colleges and our universities and our technical schools, and they're going stateside. Why? Why do they go? If you ask them why, it's because of a tax advantage that occurs when they go across the border. [interjections] The Liberals may laugh at that, but quite frankly it's absolutely true.

When you look at the tax disadvantage that occurs for Canadians today – and Alberta's been part of this; let's be very clear. We have taken taxes and taxes on people when those dollars should be left in their pockets so they can make choices and decisions. One of the reasons I looked at this bill with quite a lot of interest, quite frankly, was the fact that if you give governments money, they'll find ways to spend it. In fact, it may sound like a negative, but I can tell you that there are programs on programs that could in fact be introduced if there were money to pay for them. The worst thing that can happen is to take taxpayers' money and put it into programs that are not necessary. Governments have to focus on what it is they're responsible to deliver, because they are dealing with tax dollars.

The Member for Edmonton-Riverview was right. Government's source of revenue is taxation. Let's be very clear about that. That's the only source of revenue a government has. It comes in tax in one form or another. So let's be very clear. The more they have, the more they spend. You don't often see refunds going back to the people who are paying the bills, who are the shareholders, or the taxpayers, of Alberta.

This realignment in this bill I believe does a number of things. We've heard news reports and we've heard people talk about bracket creep, how you move up. The more you earn, the higher you go in your taxation, and you end up just being moved forward, moved forward, moved forward. Sometimes, I can tell you, when you're doing a tax return and you look at how someone has moved above, it's almost: why did they work so hard? Why did they earn that extra \$5,000 or that extra \$10,000 just to be moved up that much higher through bracket creep. By putting in a flat tax, you take away, in essence, that bracket creep. In fact, if you looked at our tax form this year, you'd find that Alberta, like other provinces, had simply just said: well, we're going to take 44 percent of the federal tax payable. Why? Well, because that's the way it was done.

No one can tell me – and I've looked at this for years – where the rationale came from to piggyback onto the federal tax payable system. That affects everybody, but by making a move and saying that Alberta will have a flat tax base, you take away that bracket creep. You take away that bracket creep so you don't have the disincentive of succeeding and moving forward. It's pretty difficult to tell someone to work hard and to keep working hard and work extra time to all of a sudden have it all taxed away. What's the incentive? There isn't an incentive. So you end up with people paying more, working harder, and wondering why.

The flat tax takes a lot of that away. The flat tax helps out people so they can do some planning. It also puts us in a competitive advantage so that we can in fact attract people to this province, and we've been quite successful, I might say, at doing that. If you look at the companies that have moved people to Alberta to help them develop their own corporate sectors, it's amazing the influx of people from all over Canada. In fact, it's amazing to me, when I hear people complaining here about Alberta, and I go home and I look around my own community and constituency and realize that I've had 6,500 new houses built in my constituency in the last three years. Now, these people are coming from somewhere, a lot of them from British Columbia but a lot of them from down east.

Why are they coming to Alberta? Because there are good jobs here, because the economy is healthy, there are good education programs, there are good health programs. They're coming here to Alberta, plus they're looking at what they can do. Now, why are some of our young people leaving Alberta? Because they're going down to take advantage. They're portable. They don't have children in school. They go down from the universities, they go stateside, and they have an advantage down there.

So why not combine the two? Why not attract companies here, bring people here but also keep our young people in Alberta so that we keep the brains in Alberta, so that they don't go out?

9:10

The other thing that I think this bill does, quite frankly, is level the playing field between the two-income family and the one-income family. [interjections]

Speaker's Ruling Decorum

THE ACTING SPEAKER: Edmonton-Norwood, you don't have the floor. Hon. Acting Provincial Treasurer, you don't have the floor, and Edmonton-Riverview, you don't have the floor. The Minister of Government Services has the floor.

Debate Continued

MRS. NELSON: Thank you, Madam Speaker. I'm going to give you a real-life example of the discriminatory practices that existed in the tax act between a married couple and a nonmarried couple. I did a tax return – not this year; I didn't do this one – and if this couple had not been married, they would have had an \$8,000 net tax saving between the two of them, but the fact that they were married cost them \$8,000 more in taxation.

This bill levels the playing field. It leaves the choices up to people to make, choices of life: if they want to work, if they don't want to work. It doesn't penalize someone because one family member may stay home or both family members may work. It doesn't penalize them because they're a married couple. This bill brings it into line. This bill brings a level playing field, and it's something that hasn't been there. It's something that has been neglected for a number of years. Now, it doesn't do the whole job. Let's not kid ourselves. It doesn't do the whole job, but it's a good start.

We've also made the commitment that as the federal government revamps their tax scheme, which I hope they do more of, quite frankly, we will make sure that the advantage of that federal tax scheme is passed on to Alberta taxpayers so that Albertans can enjoy every bit of advantage that comes from tax reduction. As you know, we've said time and time again that the only way taxes are going in this province is down. They're not going up. We want to make sure that Albertans have the best tax advantage, not only corporate but also personal. This bill brings this into line.

One of the other things I find is that taxes were used for the wrong reasons. We all saw that, and everybody here knows about it. We had put taxes in place supposedly to eliminate deficits, taxes in place to have economic well-being. That's nonsense. You don't take money from people to solve a problem. You solve the problem and leave the money with the people. It was a reverse effect. The elimination of those flat taxes is absolutely critical from the standpoint that they were used for the wrong reason. For a government to come forward and say that I think is a fundamental statement, that taxation shouldn't be used to eliminate problems. Taxation should be used after the problems have been solved to support the core programs that a government has to deliver, nothing more.

There are statements here about income levels. Again I'll refer hon. members to the budget document. There is an example here listing the single-income family with two children earning \$50,000 and the advantage of this bill, what it means to that family. Under the existing system that family would have an Alberta tax payable of \$2,834. Under the new system that will be reduced to \$1,927. Now, that is a clear advantage for that family. You can go through. There are charts in this document that show how the advantage is there.

Senior citizens. I just finished doing tax returns, and where I find it is unconscionable – a lot of our seniors rely upon dividends as income. They don't necessarily have pension plans; they have dividends. When you have the gross-up of income on a dividend and you put that into income, it affects all of the benefits. The age exemption is reduced because of the gross-up on the dividend because the dividend tax credit doesn't come in until after the fact of the calculation on the tax credit. Then the senior loses the benefit of that age exemption because they have over the years put their dollars into preferred shares or some sort of dividend-bearing instrument that gives them a workable income.

Not only does it hurt them there. I mean, you take the fact that when you go through their tax returns and because they have put dollars away, they not only get a claw-back on their old age security, but they also have a disadvantage for the existing tax credits that are there. It's unconscionable that that can happen to our seniors. This

program starts to help address that. It doesn't do it all, but hopefully if the federal government follows suit and amends and looks back at some of those white papers and realizes that tax reform is critically important in this country if we are going to be competitive and fair to the shareholders, the people of Canada, they will adopt some of those things, some of the instruments in this bill, and put them in place federally so clearly we can have a better tax system that is not cumbersome, that is not burdensome, and doesn't provide a disadvantage for Canadians to live in this country. We're going to be doing that here through this bill in Alberta, and hopefully the rest of them will follow suit.

Thank you, Madam Speaker.

THE ACTING SPEAKER: The hon. Member for Edmonton-Rutherford.

MR. WICKMAN: Thank you, Madam Speaker. This is my opportunity to speak to the principles of Bill 18 during the second reading stage, and if I had my druthers, I'd druther be outside, where we have hundreds of people making a great deal of sense.

Madam Speaker, in the 11 years I've been here, which counting fall sessions would be close to 20 sessions in all that have been held, I've seen hundreds of bills go through. The two worst bills that I've seen in those 11 years ironically are both happening during this session, those of course being Bill 11 and Bill 18.

The effects of those two bills are dramatic throughout the province in terms of restructuring health care and in terms of restructuring taxation, and when we look at Bill 18 and we equate it to Bill 11, we see some ideology that is very, very similar as to those particular people that will welcome the bill or have least resistance to it because it doesn't impact on them as much. Those, of course, are the wealthy of the province. Those that will have resistance to both bills are those that see financial implications down the road, that being the middle class. When we look at the lower class, there will be some benefit for them in terms of taxation under Bill 18 but very marginally.

In my opinion, the former Treasurer saw that his concept of what he calls a single-rate tax, which has now become known as a sort of flat tax – I think he perceived it as his legacy, and he was so anxious to leave that legacy prior to his departure to the Alliance that he even upped the date of the budget so that he could jump the gun on the federal minister. It was almost like a snooker game.

However, what happened is that he jumped the gun a bit too fast. I think the federal minister outsnookered him, because when the federal minister made his sensible tax reforms, that basically destroyed the benefits that the former Provincial Treasurer had been saying would occur as a result of his concept, and a bit of mathematics determined that quite easily.

As tax reforms continue to occur at the federal level, the impact provincially is going to be more and more dramatic on Alberta taxpayers in terms of the provincial tax. Of course, we hear the Premier saying that they can adjust the 11 percent to 10 percent, to 9 percent, whatever, but I don't see any indication of amendments coming forward that the 11 percent is going to be adjust to, say, 9 percent.

Of course, the new Acting Provincial Treasurer could do the honourable thing and just simply scrap Bill 18, scrap that particular concept and work with the federal ministry rather than fight them or try to outdo them because it's a different political party. Remember, we're in a confederation here. We're not one island unto ourselves so that we can just go off in our own far-fetched direction.

9:20

The previous speaker talked in terms of the number of tax returns

she's done and the complications of the tax return. I have a couple of QuickTax programs myself. On the one at home I do about 15 returns. We also have one I purchased for the constituency office so that we could do tax returns for those on lower incomes. That's one of the things that I paid for out of my own pocket because it's not covered under our budget, but so be it. It helps people out. It's given me a great deal of knowledge as to how the tax situation operates both federally and provincially, and I do agree with the previous speaker that taxation is a very, very complicated situation. Even though there have been attempts to simplify it in terms of the forms and such, really when it comes right down to it, the best change that ever occurred was the computerization that allowed for programs like QuickTax, because that has helped.

It continues to remain complicated at both levels. We see surtaxes, and we see additional surtaxes. We can look at the exemptions, for example, where we have an exemption, but then there's an additional personal exemption depending on what your income is. Again, some of that is the fault of the federal government; I'll acknowledge that. But, again, the way to resolve it, the way to simplify it is not to go off in our own direction, which is going to hurt Albertans but rather to work with the federal government and come up with a system across Canada in terms of sensible tax reform at both the federal and the provincial levels.

Madam Speaker, I'm going to reflect on some of the comments that were made during the last number of months that have led us to the position we are at today. We can go back to July 26, 1999, when Klein mused about accelerating the Alberta single-rate tax scheme in 1999 and 2000 by increasing the basic personal and spousal exemptions to \$11,620, first as a means of providing tax relief to low- and middle-income Albertans. The Premier did not recognize that under the current tax collection agreement the province cannot adjust federally defined amounts of refundable tax credits while remaining linked to the tax-on-tax system.

What occurred at that particular point when there was talk about the single-rate tax scheme being introduced is that somewhere it was flogged out there by the spin doctors on the government side that this would mean provincial tax relief ultimately of up to \$1,500 for any person that was making \$30,000 income or less. In effect, the statement was made that anybody making \$30,000 or less would not pay any provincial income tax. There were people that came to my constituency office and said: "This is great. I could potentially save up to \$1,500. I hope your caucus is not going to oppose it."

So I started to ask some questions and got some research done. Basically, somebody had come up with some type of notion that if you took a certain scenario of a married couple with two dependants, this, this, this, and this, in that one particular category at \$30,000 you wouldn't pay any income tax because of the amounts of exemptions that would apply. We're talking in terms of a married couple with a couple of dependants.

Then we jump ahead to November 23, 1999. The Premier said that the government might lower the 9 cents per litre gasoline tax, and then a few days later, in fact two days later, the Premier mused about a gasoline tax rebate. Then on December 29 the Premier mused about providing Albertans with a \$100 tax rebate; in other words, cheques for \$100 were going to be sent to every taxpayer across Alberta, like the old Social Credit dividends if any of you have been around long enough to actually receive one of those dividends. I certainly haven't been, but I did hear about them. An actual cheque or dividend was mailed out to Albertans, and this was the same concept.

However, on January 7, 2000, just a few days later, the former Provincial Treasurer said that the government was considering a personal income tax cut in the year 2000. Then 10 days later, on

January 17, the same former Provincial Treasurer said that the government was considering a reduction in health care premiums. The next day that former Provincial Treasurer said that the surplus would be used to pay down the debt rather than to provide tax cuts in 2000.

On January 26 the Premier's government stated that an 18 cent reduction in the mill rate for the education property tax would be applicable to the 2000-2001 fiscal year, which amounts to a paltry \$22.50 tax cut for the average homeowner. Now, that was actually implemented; that did provide a \$22.50 tax cut for the average homeowner. There we actually saw a reduction, a benefit of \$22.50 to the average homeowner, and I didn't see a great deal of dancing in the streets over that particular one.

We jump ahead to February 24. The former Treasurer then reannounced the 11 percent flat tax scheme for the eighth time since the 1999 provincial budget, the eighth time that that was announced. We go then to February 27. The former Provincial Treasurer called on the federal government to cut taxes, and he's quoted as saying: what we're saying to Mr. Martin is try it; you'll like it. On February 28 the former Treasurer commented on federal government tax measures. He said that the federal cuts didn't go as far as Alberta's but that they're better than tax increases. On February 28 the former Provincial Treasurer speculated about a reduction in the 11 percent single-rate tax. Quoting him: if it stays up throughout the whole year, maybe we could look at a reduction there and go to 10.5 percent.

I could go on and on and on. The point I'm trying to make here, Madam Speaker, is: where exactly is the provincial government headed in terms of their tax reform? We now, of course, have the former Provincial Treasurer in a position where he is no longer accountable for the various proposals that did come forward, for the actual bills that were introduced. Of course, the Premier has the flexibility, if he chooses to, to simply scrap that and again come out with something that's a bit more feasible.

Madam Speaker, I want to speak for a bit on some of the principles and use some actual figures just to give an indication as to how the mechanics of Bill 18 would work from the research that I've been able to gather. The figures clearly point out to me that Bill 18 is a tax grab on the middle class.

In the year 2001 a taxpayer earning \$35,000 will pay \$2,385.69 in provincial taxes under the current tax system while paying \$2,571.80 in provincial taxes under an 11 percent single rate. That's a tax grab by this government of \$186.11. Now, that's not exactly what we would call tax relief, not to the middle class, not to that particular taxpayer earning \$35,000 a year.

When we look at the year 2004 under the proposed formulas, the same taxpayer earning \$35,000 will pay \$2,194.60 in provincial taxes under the current system while paying \$2,517.36 provincial taxes under the 11 percent single rate. That's a tax grab by the government of \$322.76. So, again, we don't really see what I would call tax relief.

If we look at the year 2004 again, a taxpayer earning \$50,000 a year will pay \$3,787.60 in provincial taxes under the current tax system while paying \$4,167.36 under the 11 percent single-rate tax, a tax grab of \$379.76. Again, very consistent.

9:30

We see one thing occurring as I go through these particular figures, and that thing of course that occurs is a tax grab on the middle class. Now, if we turn around and look at the Alberta marginal rate for taxpayers with taxable incomes in the high-income tax bracket, above \$70,000, comprising 13 percent of the tax filers in Alberta, it would be 13.26 percent under the current tax system

versus 11 percent under the single-rate tax. That means that a taxpayer earning above \$70,000 would have to pay \$110 on each additional thousand dollars earned under the Alberta single-rate system while paying \$132.60 in provincial taxes under the current rate.

The bottom line is that we see as things escalate – and here's where a bit of really simple mathematics comes in. When I do these tax returns, I talk about the same tax returns, but for different people, that the former speaker spoke of. When we talk in terms of the various taxation at the federal level, we can look at – what is it? – the 17 percent and the 29 percent, if I remember right, and then it goes up to about 39 percent, depending on your income. Now, our provincial tax is based on a percentage of that federal tax. If I recall correctly, off the top of my head, the rate has been reduced from a high of 44.5 or 45.5 to 42.5 over the years.

We start looking at 42.5 percent of, let's say, the federal rate. Of course, we're going to see a situation where as the income increases, that flat tax of 11 percent as it applies, because it's not progressive, is going to mean more and more savings. When we talk in terms of a flat tax or a single-rate tax, it takes away that whole concept of the progressive nature of most taxation, even in things like the licensing of a vehicle. Provincial governments across the country, municipalities – you have a progressive tax at the municipal level in the sense that the more your property is worth, the more you pay. If you improve that property, your amount of taxes goes up.

Madam Speaker, as foolish as it may sound, when I was on the municipal council – and I don't know if you experienced the same thing when you were on the municipal council in your particular municipality, when you were in fact Her Worship the mayor – I had people say to me: well, it's a disincentive to increase my assessment when I improve my property; why should I improve it if I'm going to have to pay more? They actually suggested that it should be reversed, that as you improve your property, your taxes would go down. Now, just stop and think about that for a second. It may on the surface sound like it makes a bit of sense because it would provide some incentive for people to improve their property. Those that didn't would be taxed at a higher rate. We actually had one former municipal councillor that agreed with that concept.

Can you imagine a person of very low income being faced with that situation where they've got to pay a higher rate of taxation because they can't afford to fix their property or bring it up to the same standard as somebody a few blocks down the road that has money to build a sauna, has money to put in a fireplace, has money to build an attached garage, whatever, and who for those additional luxuries would get the benefit of an additional tax break? That takes away from the nature of a progressive tax system.

It can be argued that a progressive tax system can contribute to the so-called brain drain. I don't buy that myself. I think there's a great deal more involved with those people that decide to leave Canada and go to the United States or people that leave the United States and come to Canada. I think there's a whole lot more involved than the actual amounts of taxation that may be paid. For example, any Canadian moving down to the United States realizes right off the bat that any tax savings that may occur because they happen to have a lower tax rate are going to be more than offset by the health care costs. Ironically, we could find ourselves in the same type of situation here in Alberta in years to come if we proceed with Bill 11. That could very well happen.

I think when people move, when people relocate to a different country, they do it for several reasons. One may be because of climate. It may be because they see some opportunities in their particular field, like we saw here a number of years ago when we saw the health care system slashed and nurses could no longer get

jobs here in the province of Alberta. Sure, they went to the United States, not necessarily because it was their desire at that particular time to go to Texas and leave their family here, but they were forced to because the opportunity that they had been educated for, that they had trained for was taken away. They had no choice.

So you see, I think there's a great deal more to the whole question of relocation than the matter of taxes being a wee bit lower. In fact, I feel sorry for an individual that would be that motivated by saving a few dollars that they would actually forsake their country, that educated them, to go to another country that they may not particularly care for. They may not particularly care for the environment there and the social programs and such, but they save a few dollars. I would feel sorry for that type of person.

Madam Speaker, when we look at taxation, we look at the amounts of dollars that are achieved. We always talk in terms of tax reform, which we have to do. I hear the Association of Alberta Taxpayers coming out quite often in recent times, in fact very, very aggressively, against this government in terms of some of its proposed tax reforms and such.

Madam Speaker, I would like to go on, but I have to conclude at that point. Thank you.

THE ACTING SPEAKER: The hon. Member for Edmonton-Centre.

MS BLAKEMAN: Thank you very much, Madam Speaker. I'm glad to have the opportunity to join in debate on second reading of Bill 18, the Alberta Personal Income Tax Act. Second reading is about the principle of the bill, the ideas that are being put forward in it. I'm glad of the opportunity to explore some of the principles that are being set forth here.

The whole idea of taxes, I think, is raised by this. The first thing that comes to mind is: do we need an improvement in the system that we have? I think most people would say: absolutely; you bet. There are lots of flaws. It's difficult. In some cases there are loopholes that are accessible to some and inaccessible to others, so there's an inequity that can be created. I'm not debating that the tax system needs improvement, but do I think that the principles being set forth in Bill 18 are the improvement? No, I do not think so.

Let me set the record straight right here. You know, I don't want to be accused of being someone that wants to charge everybody more taxes just because. I'm one of those people that would love to pay less in taxes, along with many, many other Albertans out there, but I still want the balance. I'd also like to see the good services and programs that are provided that we as Albertans receive in exchange for the taxes we pay.

There's a really interesting ideological principle that is encased in Bill 18. The former Provincial Treasurer - I'm not sure what the exact title is - set it out pretty clearly when he moved first reading of Bill 18. For reference, that is on page 470 of *Hansard*. He talks about the fact that he thinks taxes are punishment, which I find really interesting given that taxes pay for all those things that I think many people in Alberta want. The former Provincial Treasurer has spoken a number of times, in *Hansard* and in the media and other places, so he's well on the record that somehow taxes are punishment.

9:40

That's a really interesting concept to me. I guess what it brings to mind is: when did having a fire service and a police service available when you call 911 become a punishment? When did having roads in the cities and highways in the rural areas become a punishment? What about signage on the highways? When did that become a punishment? When did street lights and sewage systems and having water delivered to your home become a punishment? When did the

availability of health care, such as it is, become a punishment? When did pension plans for civil servants and others that fall under the local authorities pension plans become a punishment? When did monitoring and licensing and evaluation and adherence to standards in safety become a punishment? You know, when did the inspection that we get for pressure vessels or occupational health and safety or building codes become a punishment? When did it become a punishment to get education between K and 12 or a subsidy for postsecondary education?

This whole concept that taxes are somehow punishment I find really puzzling. You know, when did social programs like child welfare become a punishment? I would have thought that was something society wanted to have and was willing to pay for, but somehow that's become a punishment. When did having an Ombudsman as part of our system, the payment for that Ombudsman's office, become a punishment? Or even Elections Alberta. That's paid for out of taxes. That's part of what's paid for from our taxes. When did that become a punishment? How about the subsidies for the seniors' health premiums? When did that become a punishment?

So there are a number of issues that start to roll through your brain when you look at the principles that are in this Bill 18 and this idea, certainly as espoused by the former Provincial Treasurer, that taxes are a punishment. I really struggle with that one.

What's the deal with this flat tax? Goodness knows there are numbers and percentages, and this percent is this amount of money and that percent is that amount of money. I'm going to do you all a favour by not reciting any of those figures, because they are readily available. For anyone listening along, I encourage you to check it out on *Hansard* at www.assembly.ab.ca. The proceedings are also available in real audio for those of you that don't want to read *Hansard*. [interjections] My colleagues are saying hi, and I'll pass that on.

The flat tax I think moves the burden of taxes from those who can afford it most to the middle class. It's moving us from a progressive system to a regressive system in that the progressive system we have is where those who could pay more did pay more. That was the concept our tax system was based on. Certainly when you examine that, you do have people in upper levels of income who use a smaller percentage of their income to cover the basics of housing and food and shelter and clothing and transportation, that sort of thing, and I think that's appropriate. A regressive system means that everyone pays the same amount, the same percentage exactly. That, of course, when you look at what percentage of your income is being used to cover those basics, definitely becomes a disadvantage to the lower class.

Someone suggested to me that the scheme of this flat tax was sort of like a reverse Robin Hood or Robin Hood's evil twin brother in that it's a plan to steal from the middle class to give to the rich. That, I'm sure, was said with a good deal of humour. I think there's something in it, though, because I think it is a tax break. It's disguising a tax break that benefits the wealthiest, the elite, and is put forward as something that is of benefit to all Albertans.

Here's the one set of figures I'll use. This proposed flat tax gives 3.6 percent of Albertans earning more than \$100,000 a 29.1 percent tax cut. Yowza.

AN HON. MEMBER: Good.

MS BLAKEMAN: I hear members opposite saying "good." Well, I'm sure those that are earning more than \$100,000 feel that's so, but if they are gaining that kind of tax cut, where is the, you know, equivalency as it shakes down for the rest of the income earners?

An interesting thing has happened here in the sort of selling of the idea, the principle of this, to Albertans, and I think there were sort of three stages to this. One was that I don't think the middle class, which is the majority of the voting base, would accept the poor being gouged as they would be if a flat tax were put all the way across the board. It truly would disadvantage people. The first thing you do is raise the exemption threshold so that the poor, many of them in fact, will be exempt from paying tax, and that's a bit more acceptable, a bit more palatable to people. So that's the first thing you do in trying to sell this thing.

The second thing is you tell people that it's something else, that it's not so much a flat tax. I mean, we've heard all kinds of discussions tonight about how it's going to benefit people, single-income families over dual-income families. I'll just refer people to *Hansard* to read the comments that have been made previously about what else this bill is supposed to be.

I think this is the real genius of it. The third part of this is that you give the people a tax cut to sell this scheme to begin with, so instead of them understanding or seeing right away that in fact this is going to be them paying more money, especially if you're in the middle class, that sort of \$30,000 to \$80,000 income range, make sure you set the level at such a point that they'll get a tax break the first time out. It's like a sale. You know, it's like a loss leader. So the first year out that's certainly what will happen, and in a lot of cases people will indeed pay less, a little less in some cases and a lot less in other cases. That way you just really get people hook, line, and sinker. It's brilliant marketing, but then again this government has a lot of resources to pull on for marketing of what they would like to institute. Is it \$8 million in the Public Affairs budget? That helps a lot. [interjection] Oh, my goodness; each ministry has a marketing budget. Well, no wonder they do so well.

So here we now have kind of sold this with a loss leader of setting the level at a point where even the middle class, which are the ones that are really going to get soaked in this whole idea, get a tax cut. It's interesting, because for those who understand the microeconomics of all of this, with this flat tax and the exemptions on the bottom for the lower income earners you really do create a ratchet effect, so not if but when the percentage amount on this flat tax is raised, it is really going to torque the middle class the most significantly.

So here we have a state where I think it's fair to say that the elite, those earning substantial amounts of money – and certainly you start looking at the \$250,000 mark a year, but I think for lots of people even \$100,000 and up is a substantial amount of money to be earning in every year – are going to really get good tax cuts. What was the amount I mentioned? About 30 percent? And the lower income are not paying any at all, so who's paying? Well, the middle class is going to be paying, and with this setup you end up with a real ratchet effect, a torquing of it, particularly when the rate starts to rise, and you get a perpetual bias, a leaning towards the lower taxes and the lower spending all the time. That hearkens us back to this whole idea of: well, what do we get for our taxes? I don't think that taxes are punishment. I think they should be a balance. They should be common sense, and it should be a fair exchange for the services that are provided.

So we have a government doing a really good sales job here of getting people to try and accept this flat tax, and then the feds came along and did a better job of it, because they actually did reduce the taxes for the middle class in a meaningful and sustainable and long-term way, and that makes this flat tax idea even worse.

As I think about this, I think: well, how far will the government go? In order to catch up with the position the federal government has now placed them in, the 11 percent I don't think is going to fly.

I suspect there will be an amendment coming forward that actually drops it to 10 percent or 9 percent or something in order to make that happen. Remember my number three, the actual tax cut that people get? In order to make that happen, they're going to have to keep dropping this rate in order to get that sales effect happening here, that loss-leader effect. So I'm just wondering how low the government is willing to go. I mean, are they going to cut it to 9 percent, to 8 percent? Where are they willing to go in order to sell this the first time out to get everyone hooked into it? Then they can start ratcheting it up.

9:50

Right now we're in a very enviable position in Alberta because of the high oil and resource revenue, but as we well know, this is a cyclical economy and oil prices will not stay high forever. It's not as though the present government can actually either create that oil or create the high prices for that oil. They are just able to take advantage of it. So I really do see the principle of this bill as being an ideology that's disguised as an economic policy, and I think there's good reason to question that in the same way as the cuts that were based on the so-called out-of-control spending – and I'll put that in quotes – which was really about some other agenda to do with cuts to the health care system, I think, to bring in private health care.

So I'd like to hear from members of the government: what is the evaluation system that's in place to determine whether this is going to work or not? I'd like to see a bit more of the cost-benefit analysis, the studies that show this is really going to benefit people, because I don't think it will. The things that I've laid out already indicate that it won't. I'd like to know: what are the key performance indicators for the success of this program? I'd like to see those up front, and I'd like to know what the goals are up front before we have something like this bill pass.

I'd also like to know: if this is the plan the government has, then what is the stable funding the government is looking at to be able to pay for these services? Or is the expectation that there wouldn't be any services offered anymore? I mean, are we looking to lottery dollars for the stable funding that we can predict on? Are we perhaps going to look at the price of oil to base everything on? Neither one of those is reliable long term or stable, so I have real concerns about this.

You know, this is the government that had to pass a law to keep itself from having a deficit, which always sort of scares me, when people have to put those kinds of restrictions on themselves. It seems to indicate that they're just bursting to go out and actually do that thing that they have to put those kinds of restrictions on themselves. I did note in that legislation that was passed – and I think it's been mentioned previously by the Minister of Government Services – that there was no real punishment involved in that. Usually when you set something up and say, "This thing shall not happen," then there's a punishment involved that says: if it does, then here's the punishment. While this government was willing to pass a law that said, "We cannot have a deficit; we must stop ourselves from doing that," there was no punishment involved in that legislation. So given past performance, I think I have some reason to be suspect about what is being proposed in Bill 18.

Now, a few other points that I made while I was listening to other people debating. The Minister of Government Services was talking about – and I just found this far too much of a contradiction – on the one hand how people are fleeing the province because of the high taxes. Well, you know, I have never met these people. The people I've met left to get jobs in other places. They left because they honest to goodness really preferred a different lifestyle, an ideology to live under. They preferred the American way of thinking. They

wanted to go there. Okay. Fine. But it wasn't for the taxes. Then in the next breath the minister is saying that all these people are moving to Alberta. I'm sorry. All these people are leaving Alberta; all these people are moving to Alberta. Those two things don't quite go together.

I do agree that people are moving to Alberta, because I have certainly been the beneficiary of that in my riding of Edmonton-Centre. We're trying to revitalize our downtown, so there have been incentive programs there. A lot of new accommodations have been built in my riding, so I know there are people moving to Alberta. We also know that there have been things like the agreements that have been worked out with Calgary for infrastructure dollars, for instance, because of the large population growth there.

When I take a step back and try and say, "Okay, when we look at the principle of this bill, is this a good idea or a bad idea?" I think it's a bad idea, and I'm deeply suspect because of the ideology inherent in this bill that's disguised as economic policy. I've talked about that from this government in other scenarios before. But there are a few things that those wiser than I in economic policy – you know, I don't want to just slam this bill and say that there's not one single good thing in it. I'll try to be fair here and evenhanded. I think people better versed in economic policy than I have indicated that the unhooking from the federal system is something that should be seriously considered. Okay. The relationship between the wage earner and their family circumstances and the taxation system needs

to be reviewed, and I think it does but perhaps not for the reasons people would suspect. I think we still need to seek an equity and a fairness in that whole system so that we are neither rewarding nor punishing people for whatever their family circumstance happens to be, and there are a variety of different family circumstances that do exist in this country and in this province. I'm looking for fairness there, and I don't see it today.

I think it's important that it be clarified very clearly whether the federal tax point system would be left in place, because that's one of the things that's not clear when this is talked about. If we talk about wiping everything out and going to this flat tax system, do we wipe out all those credits that go along with it? [Ms Blakeman's speaking time expired]

Well, I'll have to continue this in Committee of the Whole, and I do look forward to it, Madam Speaker.

THE ACTING SPEAKER: The hon. Member for Calgary-North Hill.

MR. MAGNUS: Thank you, Madam Speaker. As much as I'd love to join this scintillating debate on Bill 18, I will move adjournment.

[Motion to adjourn debate carried]

[At 9:58 p.m. the Assembly adjourned to Tuesday at 1:30 p.m.]

