2002 Tax Load Index - The Gap Widens

Our 2002 Tax Load Index expands this year to include B.C., Ontario and two neighbouring U.S. states, North Dakota and Minnesota. Back in the 1980s economists summed up the inflation and unemployment rate to create a “misery index”. In the same vein, this simple comparison sums up a jurisdiction’s key tax rates – the top provincial marginal rates (including surcharges where applicable) on personal and corporate income (most critical to high earners who pay the majority of taxes), payroll and capital, as well as sales taxes to present a picture of tax burden. Federal taxes, being the same in all provinces, are not included in this index. For simplicity’s sake, minor variations in how tax bases are calculated have been ignored. The maximum capital tax rate used is again the highest rate used (i.e. on financial institutions). Capital taxes, considered by economists to be among the most damaging forms of taxation, are lower on other forms of capital.

- The index shows that taxes are falling across the board, declining fastest in B.C., Ontario and then Alberta.
- Alberta maintains and increases its growing tax advantage over its neighbours. As of spring, 2002, Alberta’s tax load was 27.5%. It has Canada’s lowest business and personal taxes and no sales and payroll tax.
- Both U.S. states on the chart have a lower tax load than Alberta. Minnesota is considered to be a “higher tax” state in the U.S., North Dakota a “lower tax” one.
- Manitoba (51.1%) and Saskatchewan (47.8%) presently levy more taxes at higher rates than Alberta, B.C. and Ontario.
- Of the provinces examined, British Columbia cut its tax load the sharpest over 2002, with a 5% drop in the top marginal tax rate, a 3% drop in corporation tax, offset slightly by a .5% hike in sales tax. It moved its top personal income tax rate from the highest in western Canada to second lowest.
- Manitoba’s top personal income tax rate, the second highest on the chart and 74% higher than Alberta’s, is increasingly out of line with other jurisdictions. It is also the only prairie province to levy a payroll tax.
- While Ontario maintains the highest personal income tax rate (including surcharges) and has postponed some scheduled tax cuts this year it has still reduced corporate and capital taxes to protect its valuable corporate headquarter tax base.
- This chart helps explain why Alberta is rapidly out-growing its prairie neighbours. Lower taxes draw in capital, investment, jobs, creating a base for a growing population and rising incomes. Many are high-income jobs that yield high revenue despite low rates.
- Manitoba’s relative lack of growth and dependency on equalization is tied directly to the widening tax gap on this chart. To stimulate its economy it needs to bring its personal income tax rates in line with its lower rate neighbours, particularly since only 6% of its population pays over 33% of taxes.
- Reductions in top rates can be funded initially by efficiencies available from more modern policy models, including introducing a purchaser/provider split into education and healthcare. Experience elsewhere shows that lower marginal rates accelerate growth, expanding the tax base and ultimately increasing revenues.

Sources: Provincial and state budget documents, Canadian Taxpayers Federation