



PROTECTING ALBERTANS FROM INFLATION

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Message from NDP Finance Critic Shannon Phillips

Inflation is making life unaffordable for Albertans, and decisions made by the UCP government have made a bad situation worse.

After the 2019 election, one of the first acts of the UCP government was to de-index Alberta's income tax system and benefits from inflation.

Every year, you are paying more income tax, and seeing your benefits reduced.

The UCP is taxing inflation, plain and simple.

Whether you call it "bracket creep," or a "pernicious and insidious tax grab" like Jason Kenney did in the 1990s, de-indexing is having a profound effect on your ability to pay the bills.

Budget 2022 makes it clear that the UCP intends to take over \$1 billion out of the pockets of Albertans, by taxing inflation and taking more money out of your pocket.

With inflation hitting a 30-year high, Albertans are seeing their hard-earned income not going as far as it used to, and families are struggling to make ends meet.

Under the UCP government, Albertans have already seen skyrocketing utility bills, insurance costs, and tuition fees. You're paying more to visit a museum or visit a provincial park. It's getting harder and harder just to get by.

This short paper represents the first core fiscal promise from Alberta's NDP as we head towards 2023: we will end the UCP's tax on inflation.

We will make life more affordable.

We will inflation-proof your household budget.

Sincerely,
Shannon Phillips

Background

The Destructive Impact Of Inflation: The Tax System and Benefits

It has been a generation, but inflation is back. What once used to preoccupy Main Street and Bay Street is now once again a real concern for all Albertans.

Inflation is generally understood as the rise in the price of goods and services in our economy. A generation of Albertans have understood that inflation would rise each year, at roughly 2 per cent. However, we are now in a new inflationary era, and decisions made by the UCP government have made a bad situation worse.

After a prolonged discussion in the previous era of high inflation, a policy consensus emerged at the turn of the century: government's in Canada would index the income tax system to account for inflation each year.

What did this mean?

The amount Albertans and Canadians pay in their income taxes would be adjusted annually to account for inflation. Each year, the basic personal income tax exemption and income tax brackets would increase in line with inflation, so that taxpayers would not face an erosion in their real take home pay.

The Government of Canada and the Government of Alberta both accepted this consensus, and indexation of the income tax system has been a feature of the tax code for a generation.

Absent a policy on indexation, every year the buying power of Albertans is eroded. Moreover, as the effects compound over time, the devastating impacts of inflation accumulate each year the tax system is not indexed. In eras of high inflation like we are now experiencing, the government takes more of your income, even if your earnings stay the same.

While a policy consensus was developed a generation ago to index the income tax system, only recently did a consensus emerge on the indexation of benefits in Alberta.

In 2018, under the leadership of Premier Rachel Notley, all parties in the legislature — including the UCP — voted to pass *Bill 26, An Act to Combat Poverty and Fight for Albertans with Disabilities*. The act ensured that social benefits, like Assured Income for Severely Handicapped (AISH) and the Alberta Seniors Benefit were indexed to inflation. Each year, on January 1, benefits would rise, ensuring in real terms that the purchasing power of the most vulnerable remained intact.

Over the course of 20 years, both federally and provincial, policymakers reached a consensus. Whatever the rate of inflation, citizens would be protected. The income tax system and benefits would be indexed. There would be no tax on inflation.



Response to Government Policy

In Budget 2019, the newly elected UCP government made a seminal decision: the income tax code and the social benefits Albertans rely on would no longer be indexed from inflation. The Alberta NDP strongly opposed this decision.

Alberta is now the only major province to re-introduce “bracket creep”, or what Premier Jason Kenney previously called, in the 1990s, an insidious and pernicious tax on inflation.

In Budget 2022, the UCP government confirmed that the income tax code and social benefits would remain “de-indexed” through 2025. This will have a significant impact on Albertans, as their buying power is reduced. Consider just one element of the provincial income tax code, the basic personal exemption, or the amount that Albertans earn before paying provincial income tax.

» Basic Personal Exemption in 2019 under the NDP:	\$19,369
» Basic Personal Exemption in 2025 under the UCP:	\$19,369
» Basic Personal Exemption in 2025 if indexed:	\$22,219

If the income tax system had remained indexed through 2025, all Albertans would have seen an increase in the basic personal exemption by \$2,850. Simply put, on this measure alone, the statistically average family will pay more than \$500 more under the UCP’s decision to tax inflation.

Alberta’s families have also been hard hit by other changes made by the UCP’s decision to de-index. Key benefits, like the Alberta Child and Family Benefit (ACFB), are losing their value. Over the course of the UCP’s plan, a family with two children will lose \$485 in income because the ACFB is not increasing with inflation.

Overall under the UCP's plan, Albertans will pay more than \$1 billion in additional income tax, as the cost of living continues to increase.

The most vulnerable Albertans have also lost substantial buying power under the UCP's de-indexing agenda. Consider two of Alberta's most important income support programs, AISH and the Alberta Seniors' Benefit:

» Annual AISH Amount in 2019 under the NDP:	\$20,220
» Annual AISH Amount in 2025 under the UCP:	\$20,220
» Annual AISH Amount in 2025 if indexed:	\$23,195
» Alberta Seniors Benefit (couple) in 2019 under the NDP:	\$5,145
» Alberta Seniors Benefit (couple) in 2025 under the UCP:	\$5,145
» Alberta Seniors Benefit (couple) in 2025 if indexed:	\$5,902

In real terms, the most severely handicapped Albertans will lose nearly \$3,000/year under the UCP's plan, while low income seniors, those struggling with poverty, will lose roughly \$750/year.

While the UCP decision to de-index the income tax system and Alberta's core social benefits has clearly hurt Albertans, it is also clear that they seriously misjudged the accelerating rate of inflation.

In January, the Bank of Canada's Monetary Policy Report estimated the inflation rate 4.2 per cent for 2022. However, in late February, the UCP's Budget 2022 decided to under-estimate the inflation rate, pegging it at 3.2 per cent this year. While we are still early in the year, Statistic Canada recently reported that inflation reached a 30-year high at 5.7 per cent on an annualized basis.

It is clear that the current government is not concerned about inflation and the real impact it is having on Albertans.





Our Commitment

Albertans can not afford a government that taxes inflation.

As we stated in 2019, the decision made by the UCP government to de-index the income tax system and the benefits Albertans rely on was wrong. Increasing rates of inflation will only make a bad situation worse.

Our firm commitment to Albertans is simple. If elected, we will:

- » **Re-index the income tax system**
- » **Re-index all benefits**

We will end the tax on inflation.

We will put more money in the pockets of families, seniors, and vulnerable Albertans.



Conclusion and Next Steps

Albertans deserve a government they can trust, and one that puts their needs first.

The commitment made by Alberta's NDP is one you can take to the bank.

With Budget 2022, the average family of four, earning two incomes, is already paying roughly \$400 more because of the UCP's tax on inflation. At the same time, AISH recipients have already lost more than \$1000 in purchasing power, while a seniors couple has lost \$350. As inflation rises, Albertans will become worse and worse under the UCP's plan.

As we continue to build our plan, we want to hear from you.

When we made our commitment, we also said that we would look at Alberta's fiscal framework and consider the feasibility of retroactively re-indexing, and undoing the damage the UCP has done.

We want your input as we develop ideas and proposals to make life more affordable for Albertans.

I hope you will continue to engage with us at AlbertaFuture.ca

Sincerely,

Shannon Phillips

Give Us Feedback

WE WANT YOUR FEEDBACK

Alberta's Future is an initiative to build a new economy that benefits every person in our province. We want you to share your thoughts and ideas on proposals like this one.

We welcome you to submit your own proposals too!

All of our proposals and those contributed by Albertans like you can be found at AlbertasFuture.ca. On that website, you can also register for in-person and online conversations happening right across Alberta.

We are also hosting this conversation on social media, using the hashtag [#ABFuture](https://twitter.com/ABFuture)

Engage directly with NDP Leader Rachel Notley on YouTube, Twitter, Instagram, and Facebook



@RachelNotley

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