



BDO Dunwoody LLP
Chartered Accountants
and Advisors

Alberta Budget Report

April 7, 2009

Highlights

- *Record Deficit of \$4.7 Billion for 2009-10 Fiscal Year*
- *Four Consecutive Deficits Projected to 2012-13*
- *No Income Tax Changes Announced*
- *Spending Levels Maintained for Now*

Overview

“Building On Our Strength”

On April 7, 2009, the Honourable Iris Evans presented her second budget as Minister of Finance for Alberta. She had the unenviable task of announcing that Alberta would have its first budget deficit in well over a decade. Last year at this time, the province seemed immune to recessionary fears that were worrying Canadians in other provinces. This year, Alberta finds itself impacted heavily by the global financial crisis.

For the 2008-09 fiscal year, the province now finds itself facing a projected deficit of \$1.4 billion, when last year at this time a surplus of \$1.6 billion had been forecasted. It gets worse for 2009-10 when a record deficit of \$4.7 billion is expected. Deficits are now expected to continue until the 2012-13 fiscal year and will be financed out of the province’s Sustainability Fund. This fund will be replenished when surpluses return to the province, with a goal of restoring the fund to 25 to 30% of the province’s operating budget.

The province will maintain spending in all key areas. However, if the fiscal situation does not improve, it is expected that there will be large cuts in spending in the next fiscal year. Deficits will only be permitted if there are sufficient savings in the Sustainability Fund to offset them. Ms. Evans specifically stated that the Heritage Savings Trust Fund, amounting to some \$14 billion, would not be touched.

The following is a summary of the more important items of interest to our clients.

Alberta Budget Projections			
<i>(in millions \$)</i>			
	Original Estimate 2008/2009	Revised Forecast 2008/2009	Projected 2009/2010
Revenue	\$38,743	\$35,627	\$31,661
Program Expenses	(36,955)	(36,838)	(36,170)
Debt Servicing Costs	(220)	(215)	(205)
	1,568	(1,426)	(4,714)
Transfers (net) to Sustainability Fund	-	1,426	4,714
Adjusted Surplus	\$1,568	-	-

Personal Tax Changes

Personal Tax Credits

It was confirmed today that personal tax credits for 2009 will be indexed by 3.8%. The maximum tax credit amounts and actual Alberta tax credits for 2008 and 2009 are set out below.

Alberta Non-Refundable Tax Credit Block				
	2008		2009	
	Maximum Amount	Alberta Tax Credit	Maximum Amount	Alberta Tax Credit
Basic personal amount	\$16,161	\$1,616	\$16,775	\$1,678
Spousal amount	16,161	1,616	16,775	1,678
Eligible dependant amount	16,161	1,616	16,775	1,678
Age amount	4,503	450	4,675	468
Infirm dependant amount	9,355	936	9,710	971
CPP contributions	2,049	205	2,119	212
EI contributions	711	71	732	73
Pension income amount	1,244	124	1,292	129
Disability amount	12,466	1,247	12,940	1,294
Disability supplement	9,355	936	9,710	971
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	11,053	1,105	11,473	1,147
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	11,053	1,105	1,473	1,147
Caregiver amount	9,355	936	9,711	971
Interest on student loans	Variable	Variable	Variable	Variable
Donations and gifts				
- first \$200	200	20	200	20
- over \$200	75% of income	Variable	75% of income	Variable
In general, credit amounts are multiplied by 10% to arrive at the deduction from Alberta tax. In the case of donations and gifts over \$200 the credit rate is 21%.				

Physical Activity Credit

In fall 2008, the Alberta Personal Income Tax (Physical Activity Credit) Amendment Act, 2008 was passed into law by the Legislature. As a private member's bill, it must be proclaimed by the government, and after a review the effectiveness and fiscal impact of the change was drawn into question. Consequently, the bill has not been proclaimed.

Business Tax Changes

Small Business Threshold/Dividend Tax Credit

Under corporate tax rules, Canadian-controlled private corporations pay tax on active business income, up to an income threshold, at lower small business rates. The Minister again confirmed that increases in the Alberta small business threshold previously announced will continue on schedule. Under the previously announced change, the threshold was increased to \$500,000 on April 1, 2009.

For 2009, the dividend tax credit rate on dividends paid out of income taxed at the general corporate rate increased to 10% and the dividend tax credit rate for dividends paid out of income taxed at the small business rate decreased to 3.5% (expressed as a percentage of the taxable amount of the dividend).

Announced in last year's budget, an over-integration tax was to be introduced for 2009 to increase the tax on small business income in excess of the federal small business income threshold to 10% to ensure that employment income and active small business income are ultimately taxed to the same extent. However, with the announcement in the 2009 federal budget that the federal small business threshold will increase to \$500,000 on January 1, 2009, this over-integration tax will not apply in 2009.

Scientific Research and Experimental Development Tax Credit

The new provincial scientific research and experimental development (SR&ED) credit, introduced in last year's budget, is available beginning in 2009 for companies conducting SR&ED in Alberta. The credit is worth 10% of eligible expenditures up to \$4 million, for a maximum credit of \$400,000, and is refundable for all companies.

Other Changes

Tobacco Taxes

Effective midnight tonight, the tax on cigarettes will be increased by \$3.00 to \$40.00 per carton. The tax rate on loose tobacco and cigars will also be raised at the same time to ensure that the tax on all tobacco products is comparable. The tax rate on loose tobacco will be increased by 11.5 cents to 30 cents per gram. Taxes on cigars will rise to 103% from 95%. The minimum and maximum tax will also rise to \$0.20 and \$6.27, respectively.

Education Property Taxes

In 2009, education property tax rates will fall by about 16%, marking the 16th consecutive year that rates have either been frozen or reduced. The residential/farm property rate will fall from \$4.04 to \$3.39 per \$1,000 of equalized assessment. The non-residential rate will fall from \$5.94 to \$4.98 per \$1,000 of equalized assessment.

How Alberta Compares

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to April 7, 2009.

	Top 2009 Personal Rates %	2009 Corporate Rates			Retail Sales Tax %
		General %	M&P %	Small Business %	
BC	43.70	30.0	30.0	13.5	7.0
Alta.	39.00	29.0	29.0	14.0	-
Sask.	44.00	31.0	29.0	15.5	5.0
Man.	46.40	32.0 ⁽¹⁾	32.0 ⁽¹⁾	12.0	7.0
Ont.	46.41	33.0	31.0	16.5	8.0
Qué.	48.22	30.9	30.9	19.0	7.5 ⁽⁴⁾
NB	46.00	32.0 ⁽¹⁾	32.0 ⁽¹⁾	16.0	8.0 ⁽⁵⁾
NS	48.25	35.0	35.0	16.0	8.0 ⁽⁵⁾
PEI	47.37	35.0	35.0	13.1 ⁽²⁾	10.0 ⁽⁴⁾
Nfld.	44.50	33.0	24.0	16.0	8.0 ⁽⁵⁾
Yukon	42.40	34.0	21.5	15.0 ⁽³⁾	-
NWT	43.05	30.5	30.5	15.0	-
Nunavut	40.50	31.0	31.0	15.0	-

- (1) The general business and M&P rates will be reduced to 31.0% on July 1, 2009.
- (2) The small business rate was reduced from 14.2% on April 1, 2009.
- (3) The tax rate for M&P profits eligible for the small business deduction is 13.5%.
- (4) Provincial sales tax applies on GST. Effective combined rate is 12.875% in Québec and 15.5% in PEI.
- (5) As part of the HST (combined rate is 13% with GST).

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