

Alberta Budget Report

On March 16, 2017, the Honourable Joe Ceci, President of Treasury Board and Minister of Finance, presented his third budget.

In the third quarter fiscal update released on February 23rd, the government reported that the economy is turning a corner and showing early signs of recovery, including higher exports, drilling activity and employment. Today's budget confirmed that the province is predicting real GDP growth of 2.6% for 2017, which would be the highest rate in Canada according to the government.

The deficit for the 2016-17 fiscal year is now predicted to be \$10.8 billion, which is up slightly from the \$10.4 billion set in last year's budget. The deficit for 2017-18 is estimated to be \$10.3 billion. The province's debt is expected to rise from \$32.6 billion for 2016-17 to \$71.1 billion for 2019-20. Although the debt-to-GDP ratio remains the lowest among the provinces, it will grow from 10.6% to 19.5% over the same time period. Media reports indicate that the Minister stated that the province's finances will be balanced by 2023-24. The budget did not include details on how this would be achieved based on our review.

Key focus areas in today's budget included creating jobs and a diverse economy, investing in infrastructure and protecting and improving services. On infrastructure, the budget includes funding for 24 new and modernized schools, health facilities and highway building and modernization.

The government also highlighted that the Capital Investment Tax Credit and the Alberta Investor Tax Credit are in full operation. These credits are described in greater detail later in our report.

Today's budget included few new tax changes and no income tax increases. For individuals, the political tax credit will be expanded to include donations for qualifying party leadership elections and candidate nomination races. The dividend tax credit on non-eligible dividends will be adjusted in 2017 although details were not released. Corporations will begin to enjoy the reduction of the corporate small business tax rate to 2% that was announced in last year's budget.

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



HIGHLIGHTS

- Deficit of \$10.8 billion forecast for 2016-17
- Deficit of \$10.3 billion forecast for 2017-18
- No personal or corporate tax increases announced
- Economy predicted to grow by 2.6% in 2017

ALBERTA BUDGET PROJECTIONS

In Billions \$	Original Estimate 2016/2017	Revised Forecast 2016/2017	Estimate 2017/2018
Consolidated Revenue	41.4	42.9	45.0
Consolidated Expense	(51.1)	(53.7)	(54.8)
Risk Adjustment	(0.7)	--	(0.5)
Operational Deficit	(10.4)	(10.8)	(10.3)
Contingency Account Year-End Balance	--	2.3	--
Heritage Fund Year-End Balance	15.4	15.4	15.7

PERSONAL TAX MEASURES

Political Contributions Tax Credit

The government is extending the Political Contributions Tax Credit to include contributions to party leadership elections and candidate nomination races that meet the criteria established under the Election Finances and Contributions Disclosure Act. The credit is calculated at 75% on the first \$200 in contributions, 50% on the next \$900 and 33.33% on the next \$1,200, which yields a maximum credit of \$1,000 on total contributions of \$2,300. This change is effective for contributions made on or after January 1, 2017.

Non-Eligible Dividend Tax Credit

As a result of changes in the federal components of the gross-up and dividend tax credit mechanism, the government will be introducing legislation to adjust the dividend tax credit rate on non-eligible dividends for 2017 and subsequent years. The purpose of the adjustment is to ensure that income earned in a small business and distributed out to shareholders will continue to be taxed at a minimum of 10%.

Alberta Child Benefit and the Alberta Family Employment Tax Credit

Families in Alberta can benefit from two refundable tax credit programs, the Alberta Child Benefit (ACB), which was introduced in the 2015 budget, and the Alberta Family Employment Tax Credit (AFETC).

For the 2017-18 benefit year, the ACB will provide families with annual benefits of up to \$1,114 for one child and \$557 for each of the next three children. Families with net income of \$25,832 or less receive the maximum benefit under the program.

For the 2017-18 benefit year, the AFETC will provide support starting from \$773 to up to \$2,038 to working families, based on the number of children in the family. As the credit provides an incentive for parents to work, it applies when family working income reaches \$2,760 and increases as income increases, up to the program maximum. Benefits begin to be phased out once family net income exceeds \$41,786.

Benefit amounts and phase-out thresholds for the ACB and AFETC are indexed to inflation annually and will rise 1.3% for the 2017-18 benefit year.

Personal Tax Rates and Credits

It was confirmed today that personal tax rates and credits for 2017 will be indexed by 1.3%. The tax rates as well as the maximum tax credit amounts and actual Alberta tax credits for 2016 and 2017 are set out in the charts below.

<i>Alberta Personal Tax Rates</i>			
Bracket	Tax Rate %	Income bracket	
		2016	2017
1	10	Up to \$125,000	Up to \$126,625
2	12	\$125,000.01 to \$150,000	\$126,625.01 to \$151,950
3	13	\$150,000.01 to \$200,000	\$151,950.01 to \$202,600
4	14	\$200,000.01 to \$300,000	\$202,600.01 to \$303,900
5	15	\$300,000.01 and up	\$303,900.01 and up

<i>Alberta Non-Refundable Tax Credit Block</i>				
	2016		2017	
	Maximum Amount	Alberta Tax Credit	Maximum Amount	Alberta Tax Credit
Basic personal amount	\$18,451	\$1,845	\$18,690	\$1,869
Spousal amount	18,451	1,845	18,690	1,869
Eligible dependant amount	18,451	1,845	18,690	1,869
Age amount	5,141	514	5,208	521
Infirm dependant amount	10,680	1,068	10,820	1,082
CPP contributions	2,544	254	2,564	256
EI premiums	955	96	836	84
Pension income amount	1,421	142	1,439	144
Disability amount	14,232	1,423	14,417	1,442
Disability supplement	10,680	1,068	10,819	1,082
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	12,619	1,262	12,783	1,278
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	Variable	Variable	Variable	Variable
Caregiver amount	10,681	1,068	10,819	1,082
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%.

BUSINESS AND OTHER MEASURES

Investor and Investment Tax Credits

The government announced the Alberta Investor Tax Credit (AITC) in 2016 to benefit investors who invest in eligible small and medium-sized enterprises in Alberta. In addition, a Capital Investment Tax Credit (CITC) was announced in 2016. Both of these credits can be claimed starting in 2017.

The three-year AITC offers a 30% tax credit to investors who make equity investments in eligible Alberta businesses that undertake research, development, or commercialization of new technology, new products, or new processes. It is also applicable to businesses engaged in interactive digital media development, video post-production, digital animation or tourism.

Eligible corporations can now apply to be enrolled in the AITC program. If approved, individuals and corporations that invest in these corporations may be eligible for tax credit certificates. Individuals can then use their certificates when filing their personal income tax returns to claim a refundable tax credit of up to \$60,000 per year.

Corporate investors can claim the AITC when filing their corporate income tax return. The credit is non-refundable for corporations and there is no maximum limit on the amount of credit that can be claimed.

Funding is provided on a first-come, first-served basis until the annual funding for the program is fully allocated. Investments made as of April 14, 2016 may be retroactively eligible for the AITC in 2017.

The CITC is a two-year program that provides a 10% non-refundable tax credit of up to \$5 million for a corporation's eligible capital expenditures on manufacturing, processing and tourism infrastructure. The CITC will have three competitive application intake periods in each year of the program, with applications reviewed against established criteria. The total budget for the program is \$70 million.

Carbon Levy

As of January 1, 2017, a carbon levy is applied to heating and transportation fuels such as diesel, gasoline, natural gas and propane. As well, on that date, the carbon levy is charged on sales of fossil fuels that emit greenhouse gases when combusted, at a rate of \$20 per tonne, rising to \$30 per tonne in 2018. In 2017, the \$20 per tonne rate translates to rates of \$4.49 cents per litre for gasoline, 5.35 cents per litre for diesel fuel and \$1.011 per gigajoule for natural gas.

Education Property Taxes

Education property tax rates will be frozen for 2017-18. The residential/farmland rate will remain at \$2.48 per \$1,000 of equalized assessment and the non-residential rate will remain at \$3.64.

HOW ALBERTA COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to March 16, 2017.

	2017 Corporate Rates				2017 Provincial Sales Tax %
	Top 2017 Personal Rates %	General %	M&P %	Small Business %	
B.C.	47.70	26.00	26.00	13.00 ⁽¹⁾	7.00
Alta.	48.00	27.00	27.00	12.50	-
Sask.	48.00	27.00	25.00	12.50	5.00
Man.	50.40	27.00	27.00	10.50	8.00
Ont.	53.53	26.50	25.00	15.00	8.00 ⁽⁵⁾
Qué.	53.31	26.80	26.80	18.50 ⁽²⁾	9.975 ⁽⁶⁾
N.B.	53.30	29.00	29.00	14.00 ⁽³⁾	10.00 ⁽⁵⁾
N.S.	54.00	31.00	31.00	13.50	10.00 ⁽⁵⁾
P.E.I.	51.37	31.00	31.00	15.00	10.00 ⁽⁵⁾
N.L.	51.30	30.00	30.00	13.50	10.00 ⁽⁵⁾
Yukon	48.00	30.00	17.50	13.50 ⁽⁴⁾	-
N.W.T.	47.05	26.50	26.50	14.50	-
Nunavut	44.50	27.00	27.00	14.50	-

- (1) The small business tax rate will decrease to 12.5% effective April 1, 2017.
- (2) Québec provides a rate reduction from the small business rate for eligible manufacturing small and medium-sized enterprises (SMEs). Where certain conditions are met, the maximum reduction available is 4%, for a combined rate of 14.5%. Note that a lesser reduction from the small business rate may be available to certain manufacturing SMEs where some, but not all conditions are met.
- (3) The small business tax rate will decrease to 13.5% effective April 1, 2017.
- (4) The tax rate for M&P profits eligible for the small business deduction is 12%.
- (5) As part of the HST (combined rates are 15% in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland & Labrador and 13% in Ontario).
- (6) The QST system is harmonized with the GST, though two separate tax systems remain – the GST and the amended QST. The combined rate is 14.975%.

The information in this publication is current as of March 16, 2017.

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