



2018 Alberta budget summary

March 2018

Tax alert

On March 22, 2018, Finance Minister Joe Ceci tabled Alberta's 2018-19 budget. This budget sees the province emerging from a time of economic recession with a focus on diversifying its resource-based economy to one that is resilient, stable and less vulnerable to future changes in the price of oil. To accomplish its goals, the province's NDP government has outlined three main areas of focus: diversifying the economy, protecting vital public services and returning the province to fiscal balance. It has been announced that the province will focus on controlling spending, eliminating waste and finding efficiencies in order to balance the budget by 2023, and then begin to focus on reducing the net debt levels.



The government has outlined in this budget its plan to achieve fiscal balance by gradually reducing the deficit over the next six years and is projecting a surplus by the 2023-24 fiscal year. Fiscal results are projected as follows:

Year	Projected surplus/(deficit)
2017-18	(\$9.1 billion)
2018-19	(\$8.8 billion)
2019-20	(\$7.9 billion)
2020-21	(\$7.0 billion)
2021-22	(\$4.3 billion)
2022-23	(\$1.4 billion)
2023-24	\$0.7 billion

It is worth noting that these projections rely on increased personal and corporate taxation revenues that account for 31.4% of total revenues in 2017-18 and 34.1% of total revenues in 2020-21. This increase represents growth; however, this growth is reliant on the economic performance of the province, which remains reliant on the performance of the oil and gas sector.

Furthermore, these projections are based on the assumption that the Enbridge Line 3 replacement pipeline will commence operations in 2019 and the TransCanada Keystone XL and Kinder Morgan TransMountain Expansion pipelines will commence operations by 2021.

While the deficit is projected to decrease, the province's net debt levels are expected to increase substantially over the next few years, from \$20.3 billion forecasted for the 2017-18 fiscal year to \$56 billion projected for the 2023-24 fiscal year.

Business tax measures

Corporate tax rates

No changes to the corporate tax rates or the \$500,000 small business limit are proposed.

Alberta's corporate tax rates for 2018 are summarized in Table A below:

Table A

Alberta corporate tax rates

	Alberta	Combined federal and Alberta
Small business tax rate	2.00%	12.00%
General corporate tax rate	12.00%	27.00%
Manufacturing and processing tax rate	12.00%	27.00%

Interactive Digital Media Tax Credit

To provide additional support for Alberta's interactive digital media sector, the refundable Interactive Digital Media Tax Credit has been introduced. This credit will provide eligible interactive digital media companies with a benefit equal to 25% of eligible labour costs incurred after April 1, 2018.

An additional 5% diversity and inclusion credit enhancement may also be available where the eligible corporation employs workers from under-represented groups. Further detail regarding this enhancement will be provided when the regulations are brought forward.

This program will provide a maximum funding of \$20 million per year and additional details relating to the application and eligibility requirements will be available by summer 2018.

Alberta Investor Tax Credit (AITC)

The AITC is a program that provides a 30% tax credit to individuals and corporate investors who make equity investments in eligible Alberta businesses that undertake research, development or commercialization of new technology, products or processes, as well as businesses engaged in interactive digital media development, video post-production, digital animation or tourism. The program first came into effect on January 1, 2017 and was intended to operate for three years, with investors being limited to an

annual claim amount of \$60,000 and an overall maximum of \$300,000 over a five year period.

The 2018 provincial budget extends the application of this credit until 2021-22 and provides that an additional 5% credit will be provided should an investor invest in eligible corporations that meet certain diversity and inclusion criteria. It is estimated that support provided under the program will average \$30 million per year.

Capital Investment Tax Credit (CITC)

First announced in the 2016 provincial budget, the CITC is a program that provides a 10% non-refundable tax credit on up to \$5 million of a corporation's eligible capital expenditures on manufacturing, processing and tourism infrastructure.

The program was originally intended to operate for two years but the 2018 provincial budget extends the application of the credit until 2021-22. It is estimated that support provided under the program will average \$30 million per year.

Personal tax measures

Personal income tax rates

No changes to personal income tax rates are proposed; however, credit amounts and bracket thresholds will be indexed to inflation and increase by 1.2% in 2018. As a result, the basic personal, spousal and eligible dependant amounts will increase from \$18,690 to \$18,915.

The rates for 2018 are as follows:

- 10% on the first tax bracket (up to \$128,145)
- 12% on the second tax bracket (from \$128,145 up to \$153,773)
- 13% on the third tax bracket (from \$153,773 up to \$205,031)
- 14% on the fourth bracket (from \$205,031 up to \$307,547)
- 15% on the fifth bracket (over \$307,547)

Table B illustrates the top combined federal-Alberta marginal rate of tax on various types of income for 2018.

Table B

Alberta combined marginal personal tax rates

Taxable income	2018
Interest	48.00%
Capital gains	24.00%
Eligible dividends	31.71%
Regular dividends	41.64%

Alberta Family Employment Tax Credit (AFETC)

To provide additional benefits for working families with annual employment income over \$2,760, the amounts provided under the AFETC have been increased for the 2018-19 benefit year.

For 2018-19, the threshold at which benefits will begin to be phased out will be increased from a family net income of \$41,786 to \$42,287 (at a rate of 4% of family net income greater than \$42,287). The benefit payments have also been indexed to inflation and will increase to a maximum of \$783 for one child (\$773 for 2017-18), \$1,495 for two children (\$1,476 for 2017-18), \$1,922 for three children (\$1,898 for 2017-18) and \$2,064 for four or more children (\$2,038 for 2017-18).

Alberta Child Benefit (ACB)

The benefits provided under the ACB have also been increased for the 2018-19 benefit year. As a result of this increase, the phase-out threshold for the ACB will be increased from a family net income of \$41,786 to \$42,255, and families with a net income of up to \$26,141 will receive the maximum benefit of this refundable credit (up from \$25,832 in 2017-18). Families with one child will be eligible for a maximum annual benefit of \$1,128 (\$1,114 for 2017-18), with an additional annual benefit of \$564 (\$557 for 2017-18) for each of the next three children; therefore, families with four or more children will be eligible to receive a maximum annual benefit of \$2,820 (\$2,785 for 2017-18).

Other measures

Cannabis tax

The 2018 provincial budget notes that Alberta has agreed in principle to enter into a coordinated framework with the federal government regarding the taxation of cannabis, covering the first two years of legalization. Under this framework, the greater of \$1 per gram or 10% of the producer price will be collected, with the province receiving 75% of this tax room. The province will also be allowed to collect an additional tax of up to 10% of the retail price

Both the federal and provincial duties will be collected by the federal government. Federal collection of these amounts will minimize administration costs to the provincial governments and compliance costs to business.

Education property tax

As part of the 2018 provincial budget, a freeze on education property tax collection has been implemented. Yet, despite the freeze on the total amount of tax collected, the property tax rates themselves have increased as a result of lower assessed property values in 2016:

- The residential/farmland rate has increased from \$2.48 to \$2.56 per \$1,000 of equalized assessment.
- The non-residential rate has increased from \$3.64 to \$3.76.

Carbon tax

To offset costs associated with the carbon tax, an Alberta Climate Leadership Adjustment Rebate is provided to Albertans meeting certain income thresholds. In 2018, the maximum rebate provided will reach \$300 for single individuals, \$450 for couples and \$540 for couples with two children. The amount for couples with children will increase by \$45 for each additional child—to a maximum of four children. The relevant income thresholds that will determine the amount of the rebate are as follows:

- Benefits provided to single individuals will begin to be phased out at a rate of 2.67% once net income reaches \$47,500, and will be fully phased out once net income reaches \$55,000.
- Benefits provided to couples and families will begin to be phased out at a rate of 4% once net income reaches \$95,000, and will be fully phased out once net income reaches \$103,750 for couples with no children, \$106,000 for couples with two children and \$108,250 for couples with four children.