

2017 Issue No. 7
16 March 2017

Tax Alert – Canada

Alberta budget 2017-18

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“This year, we are forecasting our deficit to decline to \$10.3 billion, half a billion dollars less than last year’s budget deficit.”

*Alberta Finance Minister Joe Ceci
2017-18 budget speech*

On 16 March 2017, Alberta Finance Minister Joe Ceci tabled the province’s fiscal 2017-18 budget.

The budget contained no new taxes, and no tax increases or decreases that had not previously been announced.

- ▶ The provincial general corporate income tax rate remains at 12%.
- ▶ The provincial small-business tax rate for 2017 is 2% (as announced in Budget 2016).
- ▶ Personal income tax rates remain between 10% and 15%, with only the income tax brackets to which each rate applies increasing slightly due to indexing to inflation.
- ▶ The provincial carbon levy will increase from \$20/tonne of carbon to \$30/tonne effective 1 January 2018 (as announced in Budget 2016).
- ▶ Tobacco and fuel tax rates remain unchanged.
- ▶ Education property tax rates will be frozen for 2017-18, as will post-secondary tuition in the province.

The minister anticipates a deficit of \$10.344 billion for 2017-18, and projects further deficits of \$9.709 billion in 2018-19 and \$7.227 billion in 2019-20.

Following is a brief summary of the key tax measures.



Business tax measures

Corporate tax rates

No change was proposed to the provincial general corporate income tax rate of 12%, which was increased from 10% on 1 July 2015.

Further, as announced in Budget 2016, Alberta's small-business corporate income tax rate was reduced from 3% to 2% effective 1 January 2017. The small-business limit remains at \$500,000.

Alberta's 2017 corporate tax rates are summarized in Table A.

Table A: Corporate tax rates

	2017	
	Alberta	Federal and Alberta combined
Small-business tax rate	2.0%	12.5%
General corporate tax rate	12.0%	27.0%

Other business tax measures

The minister also reconfirmed the Alberta Investor Tax Credit (AITC) and Capital Investment Tax Credit (CITC), both of which were announced in Budget 2016:

- ▶ **Alberta Investor Tax Credit:** The AITC provides a 30% tax credit for equity investments in eligible Alberta businesses that undertake research, development or commercialization of new technology, products or processes, as well as interactive digital media development, video post-production, digital animation or tourism.
 - Eligible corporations must apply to be enrolled in the program. Once approved, the corporation may be eligible for tax credit certificates. Note, however, that funding is provided on a first-come, first-served basis until the annual funding for the AITC program is fully allocated.
 - Individuals can then use their certificates to claim a *refundable* tax credit of up to \$60,000 per year when filing their personal income tax returns.
 - Corporate investors can also claim the AITC, and while there is no maximum limit on the credit that can be claimed by the corporate investor, the tax credit is non-refundable.
- ▶ **Capital Investment Tax Credit:** The CITC is a two-year program that provides a 10% non-refundable tax credit of up to \$5 million on a corporation's eligible capital expenditures on manufacturing, processing and tourism infrastructure.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2017 Alberta personal tax rates are summarized in Table B.

Table B: Alberta personal tax rates 2017

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$126,625	\$126,626 to \$151,950	\$151,951 to \$202,600	\$202,601 to \$303,900	Above \$303,900
10.00%	12.00%	13.00%	14.00%	15.00%

For taxable income in excess of \$202,600, the 2017 combined federal-Alberta personal income tax rates are outlined in Table C.

Table C: Combined federal and Alberta personal tax rates 2017

Bracket	Ordinary income*	Eligible dividends**	Non-eligible dividends**, ***
\$202,601 to \$202,800	43.00%	24.81%	35.39%
\$202,801 to \$303,900	47.00%	30.33%	40.07%
Above \$303,900	48.00%	31.71%	41.24%

* The rate on capital gains is one-half the ordinary income rate.

** The rates apply to the actual amount of the taxable dividends received from taxable Canadian corporations.

*** Budget 2017 announced the intention to change Alberta's dividend tax credit rate, which is not reflected in this table (see comments below).

Personal tax credits

This budget proposes changes to the following personal credits:

- ▶ Alberta's dividend tax credit rate will be adjusted due to changes in the federal components. Income earned in a small business and flowed out to shareholders will continue to be taxed at a minimum of 10%, matching Alberta's lowest personal income tax rate.
- ▶ Provincial political contribution tax credits will be extended to contributions to party leadership elections and candidate nomination races, but the maximum credit of \$1,000 and contribution limit of \$2,300 will remain.

A point of interest

Federal/provincial carbon pricing: what's Saskatchewan going to do?

As announced in Alberta's 2016 budget, the province introduced a carbon levy effective 1 January 2017 at a rate of \$20/tonne of carbon dioxide equivalent, which will increase to \$30/tonne on 1 January 2018.

The federal government has also announced that it will be introducing a price on carbon effective 1 January 2018 in all regions of Canada that do not have a provincial carbon tax/levy or participate in a cap-and-trade system by that time.

Alberta's 2017 budget touts the fact that Alberta's carbon levy currently excludes sectors of the province's economy that are exposed to global markets from carbon pricing. In particular, farming and agriculture are largely exempt from the provincial carbon levy, as is the upstream oil and gas sector, at least until 1 January 2023.

Interestingly, the Alberta budget notes that had the provincial government not acted and imposed the carbon levy, "a federal carbon price would come into effect in 2018, and is unlikely to provide the same protection to trade-exposed sectors."

In other words, the Alberta government appears to be predicting that the federal carbon pricing system will not provide similar exemptions for the agriculture and oil and gas sectors of the Canadian economy.

If correct, this suggests that provinces that currently do not have either a carbon tax/levy or a cap-and-trade system – in particular, Saskatchewan – may need to act if the federal government does not provide such relief for these sectors when they announce their carbon pricing system later this year. Stay tuned!

Learn more

For more information, please contact your EY or EY Law advisor or one of the following professionals:

Calgary

Alison Jackson

+1 403 206 5375 | alison.e.jackson@ca.ey.com

Dave Van Dyke

+1 403 206 5177 | dave.a.vandyke@ca.ey.com

Dean Radomsky

+1 403 206 5180 | dean.w.radomsky@ca.ey.com

David Douglas Robertson

+1 403 206 5474 | david.d.robertson@ca.ey.com

Edmonton

Derek Alty

+1 780 638 6610 | derek.g.alty@ca.ey.com

Dustin Burbank

+1 780 441 4673 | dustin.burbank@ca.ey.com

And for up-to-date information on the federal, provincial and territorial budgets, visit ey.com/ca/budget.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Tax Services

EY's tax professionals across Canada provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We offer a range of tax-saving services backed by in-depth industry knowledge. Our talented people, consistent methodologies and unwavering commitment to quality service help you build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its potential. It's how we make a difference.

For more information, visit ey.com/ca/tax.

About EY Law LLP

EY Law LLP is a national law firm affiliated with EY in Canada, specializing in tax law services, business immigration services and business law services.

For more information, visit eylaw.ca.

About EY Law's Tax Law Services

EY Law has one of the largest practices dedicated to tax planning and tax controversy in the country. EY Law has experience in all areas of tax, including corporate tax, human capital, international tax, transaction tax, sales tax, customs and excise.

For more information, visit eylaw.ca/taxlaw.

© 2017 Ernst & Young LLP. All Rights Reserved.

A member firm of Ernst & Young Global Limited.

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact EY or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com/ca