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# Canadian tax alert
## 2016-2017 Alberta budget highlights

The Minister of Finance, Joe Ceci, released the 2016-2017 Alberta budget today. The most notable elements of the budget are represented by the introduction of $9.6 billion of total carbon tax and compliance payment revenue over the next five years (to be generated by the implementation of recommendations from the Climate Change Advisory Panel) and ongoing deficits through 2018-2019, at which point the deficit will remain at $8.4 billion and represent a debt-to-GDP ratio of 15.5%, up from 6.0% forecast in 2015-2016.

### Fiscal overview

The budget forecasts a deficit of $10.4 billion in 2016-2017, and will continue at $10.1 billion in 2017-2018 and $8.4 billion in 2018-2019. There is no clear indication as to when the deficits will cease. These deficits include a "risk adjustment" to consider a "low price scenario" for oil prices over the next three budget periods. The risk adjustments are $0.7 billion in 2016-2017, based on a low oil price scenario of $36/bbl (WTI, US$), $1.5 billion in 2017-2018 based on a low oil price scenario of $43/bbl, and $2.0 billion in 2017-2018 based on a low oil price scenario of $54/bbl. As outlined below, the "low price scenario" considered by the government is only moderately lower than Deloitte Canada's price forecast for 2018-2019.

Of particular note is the combination of increases to government expenditures of 13.5% between 2015-2016 and 2018-2019, when spending will reach just short of $56 billion (up from $49.3 billion forecast in 2015-16), and the elimination of the 15% limit on debt-to-GDP ratio that is currently legislated in the *Fiscal Planning and Transparency Act*. The debt-to-GDP ratio is expected to exceed 15% in 2018-2019. Comparatively, the debt-to-GDP ratio was 3.4% in 2014-2015.

Of this spending, $330 million will be deployed under the Climate Leadership Plan in 2016-2017, rising to $2.4 billion in 2018-2019.

The estimates also rely on certain resource revenue assumptions. The table below outlines several of those key economic and price assumptions.

| | 2015-16 Forecast | 2016-17 Estimate | 2017-18 Target | 2018-19 Target |
|---|---|---|---|---|
| WTI Oil (US$/bbl) | $45.00 | $42.00 | $54.00 | $64.00 |
| WCS differential (US$/bbl) | $13.40 | $15.20 | $17.50 | $18.50 |
| Natural gas (Cdn$/GJ) | $2.30 | $2.40 | $2.80 | $3.00 |
| Exchange rate (US₵/Cdn$) | 76.0 | 73.5 | 75.5 | 77.5 |
| Real GDP (% change) | (1.5) | (1.4) | 1.9 | 2.8 |
| Unemployment rate (%) | 6.0 | 8.0 | 7.5 | 6.5 |
| Alberta CPI (% change) | 1.1 | 1.5 | 1.7 | 2.1 |

The values noted below represent the Deloitte Canada's price forecast for Q1 2016, as compared to the WTI oil values used in the October 2015 budget.

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|
| WTI Oil (US$/bbl) – previous budget estimates | $50.00 | $61.00 | $68.00 | n/a |
| WTI Oil (US$/bbl) – Deloitte forecast | $47.50* | $44.00 | $50.00 | $57.20 |

*2015 Deloitte estimate based on Q3 2015 forecast

As highlighted above, while the WTI price estimates on which certain revenue expectations are built has been significantly reduced, resource revenue remains $1.4 billion in 2016-2017, rising to $4.2 billion in 2018-2019. This increase is predicated on both an increase in commodity prices and an increase in production of raw bitumen, offset by a projected decline in production from conventional sources.

Nominal cost saving measures are being undertaken, including freezing salaries for political staff and managers in government departments and agencies, saving an estimated $121 million, eliminating or amalgamating 26 agencies, and suspending other programs and reductions, saving an estimated $33 million.

In the face of revenue headwinds, operating budget increases will average 2% per year.

Total projected core government capital spending over the next five years remains projected at $34.8 billion.

## Carbon tax

A carbon levy will be introduced that will apply to purchases of all fossil fuels that produce greenhouse gas emissions when combusted. From gasoline to propane, and natural gas to aviation fuel, the levies will be introduced on January 1, 2017 at a benchmark rate of $20/tonne. These will then increase to $30/tonne effective January 1, 2018. The table below provides some levies for certain major fuel types:

| | January 1, 2017 | January 1, 2018 |
|---|---|---|
| Diesel | 5.35 ₵/L | 8.03 ₵/L |
| Gasoline | 4.49 ₵/L | 6.73 ₵/L |
| Natural Gas | 1.011 $/GJ | 1.517 $/GJ |
| Propane | 3.08 ₵/L | 4.62 ₵/L |
| Aviation fuel | 5.17 ₵/L | 7.75 ₵/L |
| Refinery Petroleum Coke | $63.86/tonne | $95.79/tonne |
| Upgrader Petroleum Coke | $58.50/tonne | $87.75/tonne |

Over the next five years, it is expected that these carbon levies and compliance payments will represent $9.6 billion in incremental revenue for the government.

Some exemptions to these levies are expected to apply, including sites covered under the Specified Gas Emitters Regulation/performance standards, natural gas produced and consumed on site, "marked" gasoline and diesel used in farming operations, and fuel purchased on-reserve for personal or band use (consistent with exemptions from Alberta's other commodity taxes).

At present, no legislation to enact the levy has been introduced; however, it is expected that the legislation will be introduced this spring, with further guidance related to the levy released later in the year.

To offset the impact on individual Albertans, a rebate will be made available to low and middle-income individuals and families. The rebate, which will start at $200 for the first adult in a family in 2017, will be phased out for a single individual when net income reaches $51,250. For a couple with four children, the rebate will be phased out in 2018 when family income reaches $108,250. These rebates will come at a cost of $2.3 billion, which is expected to be wholly funded by the levy itself.

The government has stated that it is this revenue that will be effectively funding a 1% reduction in the small business income tax rate, representing tax expenditures of $865 million over five years, with the remaining funds being reinvested in the economy. This reinvestment is via $3.4 billion in spending on large scale renewable energy projects, "transformative innovation and technology", bioenergy initiatives, as well as the costs associated with the implementation of the carbon tax plan.  A further $2.2 billion will be spent on green infrastructure such as public transit, with $645 million made available through a newly-created provincial agency, Energy Efficiency Alberta, to facilitate initiatives related to energy efficiency and micro-generation.

## Measures concerning business

As noted above, the budget introduces a reduction to the small business income tax rate, dropping it from 3% to 2% effective January 1, 2017; this rate is consistent with Saskatchewan's rate and second only to Manitoba's 0% rate. It should be noted, however, that many Alberta businesses should anticipate adjustments to their operating cost profile through the introduction of carbon levies effective January 1, 2017 that will jump further on January 1, 2018.

A Capital Investment Tax Credit is also expected to be introduced, worth a total of $75 million (in aggregate across all taxpayers) over two years for corporations that make investments in “eligible capital assets.” Further details on the credit were not released, but are expected to be announced later this year.

## Measures concerning individuals

In light of the decrease to the small business income tax rate, the dividend tax credit for “other than eligible” dividends is expected to be reduced, effective January 1, 2017. For corporations with accumulated earnings that were not subject to the general corporate income tax rate, this represents an anticipated increase to the effective tax rate to extracting those accumulated historical corporate profits.

The new Alberta Child Benefit and Alberta Family Employment Tax Credit are expected to come into effect in July 2016, with the first payments to be made in August. The Alberta Child Benefit will be at least partially available for families with net income of up to $41,220, with the Alberta Family Employment Tax Credit phase-out threshold being increased from $36,778 to $41,250.

## Other measures

As an effort to spur investment in eligible small and medium-sized enterprises in Alberta, the Alberta Investor Tax Credit is being introduced, projected to be worth an aggregate of $90 million over two years. No details as to how the credit will be introduced, or eligibility requirements, are available at this time.

For further details, we refer you to the Alberta Treasury Board and Finance website.

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