

Canadian tax alert

2015-2016 Alberta budget highlights



Alberta Minister of Finance, Joe Ceci, presented the first budget of the newly-elected NDP government today. The 2015 budget focuses on three key themes:

- Stabilization of funding for key public services;
- A plan to return to a balanced budget in 2019-20; and
- Stimulus for growth, diversification and job creation.

The budget is described by Minister Ceci as being a “shock absorber” for the Alberta economy, involving anticipated deficits, the exhaustion of the Contingency Account in late 2016-17, and the requirement to borrow in subsequent years until 2019-20 when a return to surplus is anticipated. This borrowing plan is intended to be limited through the Fiscal Planning and Transparency Act, establishing a limit on government debt based on 15% of the nominal gross domestic product (GDP) of Alberta’s economy.

Previously introduced measures, including the [June 2015 increases to personal and corporate income tax rates](#), remain in place and unchanged in Budget 2015.

Fiscal overview

Alberta realized a surplus in 2014-15 of \$1.1 billion; however, the province is now projecting four consecutive years of deficits starting with a deficit of \$6.1 billion in 2015-16. The deficit is expected to fall to \$5.4 billion in 2016-17, \$4.4 billion in 2017-18, and \$2.1 billion in 2018-19. A surplus of \$1.0 billion is projected in 2019-20

The budget is based on the government's economic outlook and industry projections, with key variables included in the table below:

	2014-15 Actual	2015-16 Estimate	2016-17 Target	2017-18 Target
WTI Oil (US\$/bbl)	\$80.48	\$50.00	\$61.00	\$68.00
Differential (US\$/bbl)	\$17.30	\$13.60	\$16.30	\$18.50
Natural gas (US¢/GJ)	\$3.51	\$2.60	\$2.80	\$3.20
Exchange rate (US¢/Cdn\$)	88.0	78.0	80.0	82.0
Real GDP (% change)	4.4	(1.0)	0.9	2.4
Unemployment rate (%)	4.7	5.8	6.2	5.8
Alberta CPI (% change)	2.6	0.9	1.7	1.9

The oil price forecast relies largely on data from the summer months, a period where market sentiment for a stronger recovery was relatively optimistic. Since that time, projections for WTI prices have dropped sharply. Deloitte's forecast has decreased from \$72.85/bbl in 2017 to \$57.20/bbl. The price forecast used in the budget, and on which the return to surplus in 2019-20 is in part based, relies on a significant recovery beyond what is currently felt by the market. We refer you to [Deloitte's Q3 oil & gas price forecast](#).

Taxation initiatives

Budget 2015 calls for a number of tax and tax-related initiatives, which are in addition to the changes introduced in June 2015 that increased personal and corporate income tax rates.

Non-eligible dividend tax credit improvements expected

Recognizing the impact of the federal government changes to dividend tax credits for non-eligible dividends, the budget has announced plans to introduce amendments in the fall of 2015 to mitigate increases to the total tax paid on non-eligible dividends in 2016. Changes to the dividend tax credit on eligible dividends, if any, will be announced in the 2016 budget.

Eligible dividend tax credit

In recognition that the recent corporate income tax rate increase means that Alberta's tax on eligible dividends is no longer fully integrated, the government has announced that it will be reviewing this credit leading up to the 2016 budget. Changes, if any, will be introduced at that time.

Job Creation Incentives program

In an effort to bolster employment in the province, the Job Creation Incentive program will be introduced to provide up to \$89 million in total funding per year to employers who create new jobs in Alberta after January 1, 2016. The grants, given on a first-come first served basis, will provide up to \$5,000 for each new job created, with each employer being eligible for up to \$500,000 in total support. Each grant is expected to be determined as 10% of salary, up to \$50,000 in salary per eligible employee. The program will be available to corporations, registered charities and non-profit entities. Details on the application requirements and procedures will be available at a later date, with the program having the potential to be extended after the initial two year period.

Alberta Child Benefit and Alberta Family Employment Tax Credit

On the personal tax front, the budget introduces the Alberta Child Benefit, providing families with incomes lower than \$41,220 with annual benefits of up to \$2,750 per family. The credit, which will begin in July 2016, will be based on \$1,100 for one child, with an additional \$550 for each of the next three additional children. The credit will be fully available to families with net income up to \$25,500, and will be phased out gradually as income increases to \$41,220. The new credit will be refundable and based on provincial income tax filings, and will be paid out four times per year.

The budget also takes steps to enhance the Alberta Family Employment Tax Credit, a refundable credit aimed at supporting working families with children. This change is expected to provide \$25 million in benefits to eligible Alberta families.

Other taxation matters

Other changes announced include:

- An increase to tobacco tax rates by \$5 per carton, from \$45 to \$50 per carton, effective October 28, 2015;
- An increase to insurance premiums taxes from 2% to 3% for life, accident and sickness insurance, and 3% to 4% for other insurance contracts, effective April 1, 2016;
- An increase to locomotive fuel tax from 4 cents to 5.5 cents per litre, effective November 1, 2015; and
- An increase of 5% in liquor mark-ups, effective October 28, 2015.

There were no changes announced to the corporate income tax, small business income tax or personal income tax rates beyond the changes introduced in June 2015 that have already been enacted. The charitable donations tax credit for donations over \$200 will be maintained at 21%. Other levies announced by the previous government, including health levies and motor vehicle registration increases, have been scrapped.

Capital plan

With \$34 billion in infrastructure projects planned over the next five years, the budget is projecting \$6.9 billion in core government infrastructure spending in 2015-16, rising to \$7.6 billion in 2016-17 and \$7.7 billion in 2017-18. These plans will be financed largely by direct borrowing of \$6.0 billion in 2016-17, with a cumulative \$29.9 billion in direct borrowing expected. This policy direction is based in part on the report prepared by former Bank of Canada governor David A. Dodge, which describes a counter-cyclical approach to infrastructure spending, but the government stops short of introducing tolls or other user fees for provincial transportation networks as a means of generating incremental funding for infrastructure projects.

The capital plan includes \$330 million in new funding for transit, \$170 million for water and wastewater management, \$100 million for Strategic Transportation Initiative Program grants, and other disbursements. Also included is \$2.2 billion for health facilities and equipment, including \$830 million to begin work on the Calgary Cancer Centre.

Based on estimates provided, the total liabilities and borrowing as a percentage of nominal Alberta GDP are expected to reach 10.0% in 2017-18, representing \$36.6 billion in total liabilities and borrowing at that point, up from \$12.9 billion in 2014-15.

Expenditures

Budget 2015 reflects total 2015-16 spending of \$49.9 billion, which is an increase of \$1.5 billion over the March 2015 budget released by the previous government. This spending is expected to increase to \$52.3 billion in 2017-18. Primary sources of these expenditures in 2015-16 include:

- \$19.7 billion for health, up \$800 million from the March 2015 budget, including increased funding for expanded public homecare, long-term care spaces, as well as \$10 million for a mental health strategy;
- \$7.6 billion for education, including \$20 million for a targeted school nutrition program and longer term efforts to reduce school fees;
- \$5.7 billion for advanced education, including a two-year freeze on tuition and a rollback on market modifiers in 25 specific programs; and
- \$4.3 billion for human services.

In an effort to support jobs, growth and diversification, \$299 million is earmarked for the new Ministry of Economic Development and Trade, including \$50 million in new funding over two years for Alberta Enterprise Corporation.

For further details, we refer you to the [Alberta Treasury Board and Finance](#) website.

Please note that Deloitte is prepared to provide accessible formats and communication supports upon request.

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Your dedicated team:

National

Heather Evans

Canadian Managing Partner, Tax

heevans@deloitte.ca

416-601-6472

Albert Baker

National Tax Policy Leader

abaker@deloitte.ca

416-643-8753

Calgary

Markus Navikenas

Director of Operations, Prairie Region

mnavikenas@deloitte.ca

403-267-1859

Edmonton

Matt McMillan

Partner, Tax

mmcmillan@deloitte.ca

780-421-3663



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2 Queen Street East, Suite 1200
Toronto, ON M5C 3G7 Canada
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