# Canadian tax alert

## 2017-2018 Alberta budget highlights

March 16, 2017

The Minister of Finance, Joe Ceci, introduced Budget 2017, “Working to make life better”. The following is a summary of the tax highlights contained in the budget.

### Fiscal/economic outlook

The budget anticipates economic growth in Alberta to be 2.6%, with the 2017-18 deficit expected to be $10.3B, a modest decrease from the $10.8B deficit in the prior year. It is expected that revenue will increase from $42.9B to $45.0B, while expenses will increase from $53.7B to $54.9B, with a further $0.5B reflected as a “risk adjustment” intended to provide a buffer against fluctuations in non-renewable resource revenue.

Deficits are projected to continue in 2018-19, with $9.7B projected, and 2019-20, with $7.2B projected. The budget did not predict when the province would return to balanced budgets or a surplus.

In addition to the deficit, Budget 2017 plans for $9.2B in capital spending in 2017-18, of which $1.2B is planned for schools, $901M for roads and bridges, and $688M for health facilities and equipment.

With the projected deficit and capital spending, and projected GDP growth rate of 2.6%, it is expected that the provincial debt will increase from $32.6B in 2016-17 to reach $45B in 2017-18, with projections showing continued debt increases to $71.1B in 2019-20. This represents an estimated debt-to-GDP ratio of 13.8% in 2017-18, climbing to 19.5% by 2019-20.

### Oil and gas price forecast

The budget relies on certain estimates, with oil and gas prices being of particular importance. The below table outlines the West Texas Intermediate price estimates, in US dollars, used in the 2017-18 budget, with comparative estimates from Deloitte's oil and gas price forecast as released in January 2017[1].

| Year | Budget estimate | Deloitte forecast |
|---|---|---|
| 2018 | $55.00 | $58.15 |
| 2019 | $59.00 | $62.40 |
| 2020 | $68.00 | $69.00 |

More recent contractions in oil prices may increase the degree of strain on the fiscal position, using up the $500M "risk adjustment" buffer used in the determination of the projected deficit. A $1.00 change in oil price (WTI US$/bbl) represents a $310M change in revenue. Similarly, a $0.01 change in the Canada/US foreign exchange rate has a $215M impact on revenue.

## Personal tax measures

There were no significant announcements with respect to personal tax measures in Budget 2017.

### Dividend tax credit

It is anticipated that the dividend tax credit rate will be adjusted for 2017 and subsequent years, as a consequence of changes to certain federal legislation. Further details of the anticipated change were not released; however, the stated objective was to ensure that income earned by a small business and distributed to shareholders by way of dividends should continue to be taxed at a minimum of 10%.

### Political contributions tax credit

Contributions eligible for the political contributions tax credit are being extended to cover contributions made to party leadership elections and certain candidate nomination races, effective for contributions made on or after January 1, 2017. The maximum of $2,300 in contributions that are eligible for the credit remains in place.

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[1] Deloitte's price forecast is available at http://info.deloitte.ca/REA-oil-gas-price-forecast-jan-2017.

## Business tax measures

There are no significant new business tax measures in the budget. The previously announced reduction in the small business income tax rate from 3% to 2%, effective January 1, 2017, remains in place. This results in Alberta having the second lowest small business tax rate in Canada, tied with British Columbia and Saskatchewan, and trailing Manitoba, which has reduced its rate to 0%.

It is estimated that $3.9B of corporate income tax revenue will be generated in 2017-18, representing a 17.2% increase over 2016-17. The budget acknowledges that corporate profits in 2015 were weaker than estimated in Budget 2016, which has led to a $1B shortfall in forecast corporate income tax revenue in 2016-17 than was budgeted for the period.

**Capital Investment Tax Credit**
The Capital Investment Tax Credit, a two-year program providing a 10% non-refundable tax credit of up to $5M of a corporation's eligible spending, will be allocated based on a competitive application process occurring with three intake periods in each year.

## Other measures

**Carbon levy**
There are no notable changes to the carbon levy, which came into effect on January 1, 2017. Planned increases in carbon levy rates, from $20/tonne to $30/tonne effective January 1, 2018, remain in place. The carbon levy is expected to make up 4.8% of total government revenue in 2017-18.

**Alberta Investor Tax Credit**
The Alberta Investor Tax Credit, a three-year program that was announced previously, offers a 30% tax credit for eligible equity investments. Corporations are now able to apply to be enrolled in this program, and individuals can now benefit from up to $60,000 per year in refundable credits upon receipt of the tax credit certificate from those eligible corporations. For corporations that make eligible investments, the credit is non-refundable, but there is no maximum limit on the amount of credit that can be claimed.

As funding is provided on a first come, first served basis until the estimated $90M of available funding is fully allocated, applying promptly to access this funding is encouraged.

For further details, we refer you to the Ministry of Finance website.

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