

Government of Alberta ■

BUDGET 2010

Striking the Right Balance

Tax Plan

Alberta ■

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HIGHLIGHTS

- ◇ Alberta maintains its tax advantage.
- ◇ Personal income tax credit amounts indexed to inflation.
- ◇ Education property tax rates fall 13.5%.

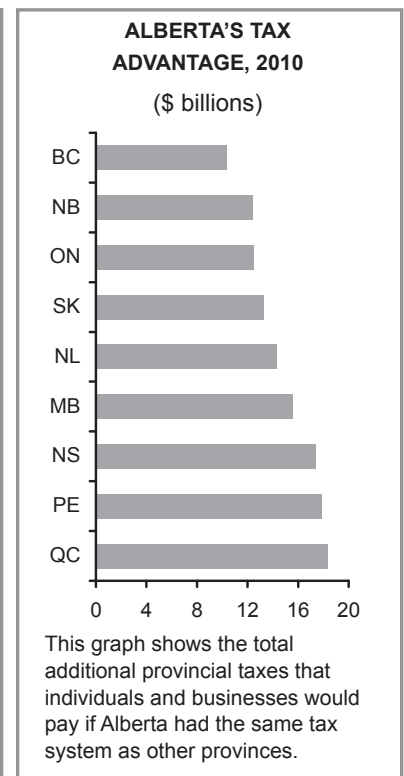
INTRODUCTION

Despite changes to the tax systems in other provinces, Albertans will continue to pay the lowest taxes in Canada. If Alberta had any other provincial tax system, Albertans and Alberta businesses would pay at least \$10.3 billion more in taxes each year.

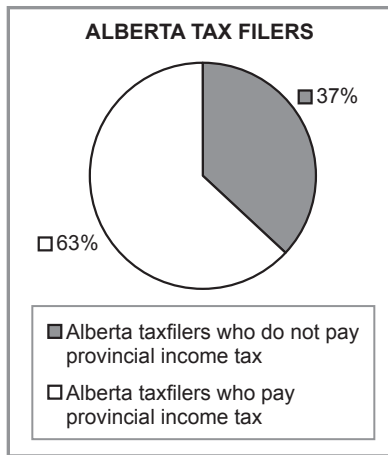
Alberta's personal income tax system levies the lowest top marginal rate which helps to attract and retain highly skilled workers. At the same time, it treats low income individuals and families fairly with large basic credit amounts and support through the Alberta Family Employment Tax Credit.

In addition to our fair and competitive personal income tax system, Albertans enjoy the lowest fuel taxes in Canada and no provincial sales tax. Alberta businesses benefit from the strong business environment created by our low corporate income taxes, no payroll taxes, no capital taxes, and no provincial sales tax.

We are committed to maintaining our province's tax advantage. In this budget, the government confirms its pledge to no tax increases. Alberta will continue to be Canada's most competitive tax jurisdiction.



PERSONAL TAXES

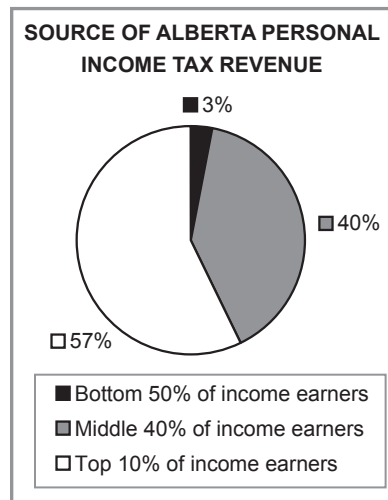


ALBERTA'S TAX SYSTEM AND LOW INCOME INDIVIDUALS

Alberta's tax system is fair for low income individuals and families.

Of the nearly 2.7 million Albertans who file a personal income tax return, 1.9 million are subject to federal income tax, while 1.7 million (or 63%) are subject to provincial income tax.

Our personal income tax system protects individuals and families with lower incomes by providing high basic personal and spousal credits. These credits ensure that a certain amount of income is exempt from tax. In 2010, the Alberta basic personal and spousal credit amounts will be \$16,825. This means the government exempts the first \$16,825 an individual earns from tax (\$33,650 for a couple). These credit amounts reflect that individuals and families should be able to earn a minimum amount before they start paying any income tax.



In Alberta, after taking into account commonly claimed non-refundable tax credits (personal, spousal, EI, CPP, age and pension):

- ◆ A single working individual can earn at least \$17,844 before paying any provincial income tax.
- ◆ A family of four or a single parent with two children can earn at least \$45,112 before paying any provincial income tax.
- ◆ Senior couples can receive up to \$45,620 before paying any provincial income tax.

What Canadians Can Earn Before Paying Provincial Income Tax, 2010

(dollars)

	AB	Rank	BC	SK	MB	ON	QC	NB	NS	PE	NL
Single individual	17,844	2	18,849	16,281	10,604	13,769	16,248	17,430	12,292	10,808	16,025
Married couple	34,875	1	31,414	32,575	20,335	22,948	28,729	24,745	20,746	18,961	20,521
Married couple (two children)	45,112	2	31,414	42,281	26,572	43,311	50,922	27,152	22,816	22,105	22,163
Single parent (two children)	45,216	1	25,015	37,297	24,044	40,724	39,624	27,129	22,432	19,832	26,812
Single senior	22,811	1	21,569	21,886	19,113	20,249	21,048	20,035	18,376	17,746	18,386
Married senior couple	45,620	1	42,762	41,519	33,560	37,251	35,920	30,610	29,935	29,019	29,061

Note: Tax calculations include the basic personal, spousal and eligible dependant credits as well as EI, CPP, age and pension credits.

Seniors' incomes include private pension income as well as CPP, Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

INDEXATION

Alberta continues to index its personal income tax system to inflation.

In 2010, credit amounts will increase 0.3%. Basic personal and spousal amounts will rise to \$16,825 in 2010, from \$16,775 in 2009.

Indexation will also increase benefits for recipients of the Alberta Family Employment Tax Credit. Beginning in July 2010, payments will rise to \$696 for one child, \$1,329 for two children, \$1,709 for three children, and \$1,836 for four or more children. The income level at which the credit starts to phase out will also rise, to \$33,974.

Alberta Non-Refundable Tax Credit Block

(dollars)

	2009		2010	
	Maximum Amount	Deduction from Alberta Tax	Maximum Amount	Deduction from Alberta Tax
Basic personal amount	16,775	1,678	16,825	1,683
Spousal amount	16,775	1,678	16,825	1,683
Eligible dependant amount	16,775	1,678	16,825	1,683
Age amount	4,675	468	4,689	469
Infirm dependant amount	9,710	971	9,740	974
CPP contributions	2,119	212	2,163	216
EI premiums	732	73	747	75
Pension income amount	1,292	129	1,296	130
Disability amount	12,940	1,294	12,979	1,298
Disability supplement	9,710	971	9,740	974
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	11,473	1,147	11,507	1,151
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	11,473	1,147	11,507	1,151
Caregiver amount	9,711	971	9,739	974
Interest on student loans	Variable	Variable	Variable	Variable
Donations and gifts				
- first \$200	200	20	200	20
- over \$200	75% of income	Variable	75% of income	Variable

In general, credit amounts are multiplied by 10% to arrive at the deduction from Alberta tax. In the case of donations and gifts over \$200, the credit rate is 21%.

TAXES PAY FOR PUBLIC SERVICES

Taxes provide critical funding for public programs and services valued by Albertans. Alberta's tax system helps pay for public education, health services, infrastructure and law enforcement, among other services.

Alberta's tax system is designed to raise the revenue necessary to pay for these programs and services in an efficient and effective manner that is equitable to all Albertans. The principles of a good tax system are:

- **Efficiency** – The tax system is able to raise revenues with the least possible impact on the economy.
- **Effectiveness** – The tax system is able to raise sufficient revenues and achieve socio-economic goals.
- **Fairness** – Similar taxpayers face similar tax burdens and those who cannot afford to pay as much tax pay less than those who can.
- **Stability** – The tax system is not overly reliant on volatile taxes that could jeopardize funding for services during low points in the business cycle.
- **Competitiveness** – The tax system compares favourably with systems in other jurisdictions, thus attracting businesses, investors and highly skilled workers.

The Government of Alberta strikes a balance between these competing principles and continually monitors the state of our tax system.

AGGRESSIVE TAX PLANNING

All Albertans consume government services and should pay a fair level of taxes. Unfortunately, aggressive tax planning is a growing concern for governments across Canada. Aggressive tax planning and avoidance hinders the effectiveness and stability of Alberta's tax system by jeopardizing the province's ability to raise sufficient revenue. Unchecked, it would reduce the fairness of the system as other Albertans and Alberta businesses would have to pay more taxes to make up the lost tax revenue. In the long run, Alberta's economy would be hurt and its tax system would become less competitive if tax rates had to increase as a result of unstemmed aggressive tax planning and avoidance.

Canadian tax authorities have identified several schemes they agree constitute aggressive tax planning. Recent examples include a complex set of transactions using interest expenses to move income out of Alberta for the sole purpose of eliminating Alberta tax. Another scheme exploits legislative differences between provinces to elect different year ends in different provinces to avoid provincial tax on capital gains. Alberta estimates that over \$250 million is currently at risk in these and similar schemes.

Alberta has taken measures to protect the provincial tax base. Alberta Finance and Enterprise is working diligently with other provincial and federal jurisdictions to identify and pursue tax avoidance schemes. Alberta has increased its capacity to identify, audit and litigate these transactions. Recent amendments to the Alberta personal and corporate income tax acts have strengthened Alberta's legislation in this area.

Alberta will continue to take the actions necessary to safeguard provincial tax revenue. In doing so, it is also protecting the vast majority of Albertans and Alberta businesses who meet their tax obligations.

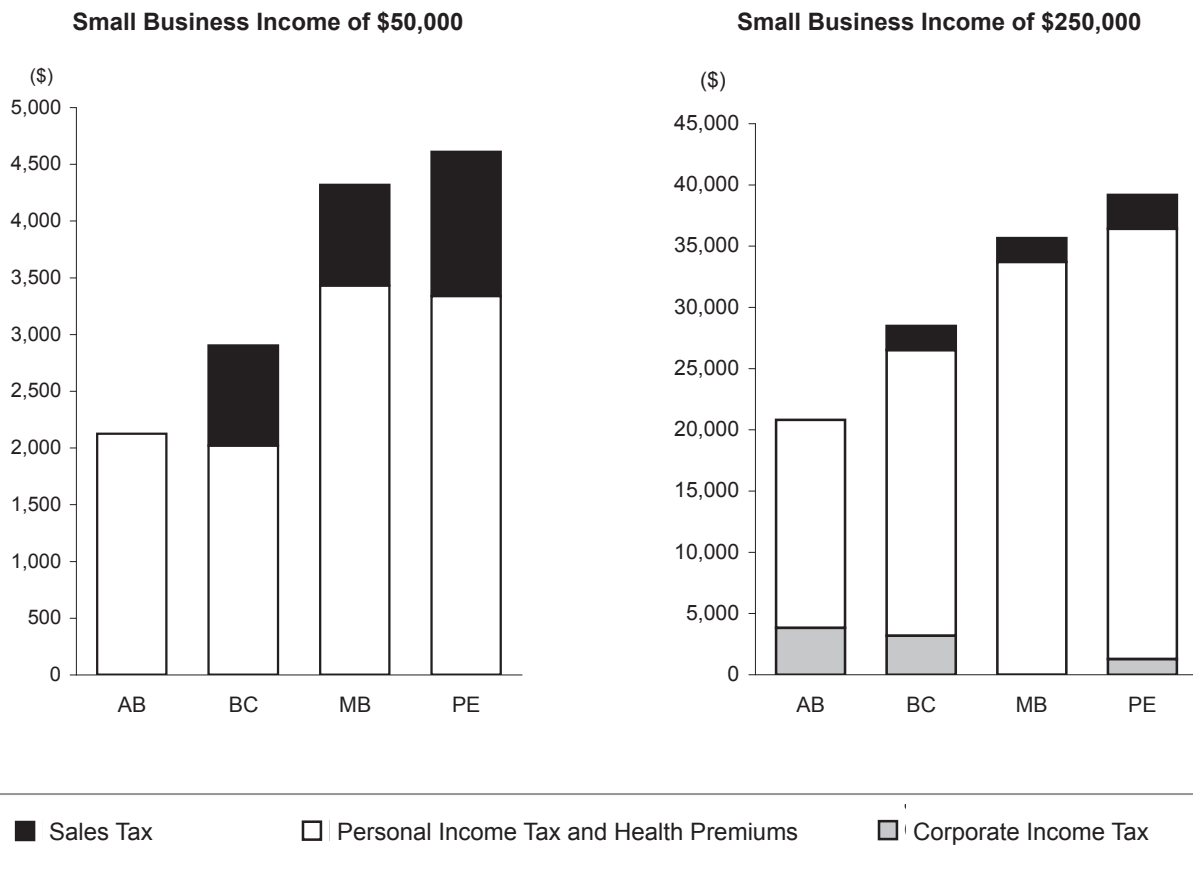
CORPORATE TAXES

TAX COMPETITIVENESS FOR SMALL BUSINESSES

Small business owners pay lower taxes in Alberta than they would in any other province. In recent years, a number of provinces have reduced small business tax rates and increased small business thresholds. Although small business corporations in British Columbia, Manitoba and Prince Edward Island could pay less income tax than their counterparts in Alberta, when all taxes are taken into account, Alberta small business owners are still better off.

|| *Small business owners pay less tax in Alberta.*

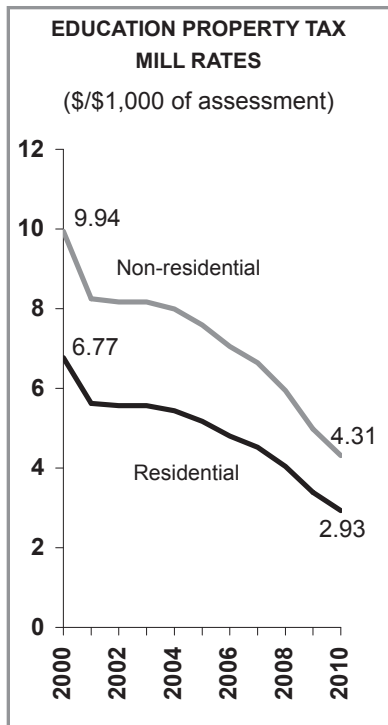
Provincial Taxes Paid By a Small Business Owner, 2010



Notes:

- Small business income is before compensation is paid to the owner.
- It is assumed that the owner is paid a salary until RRSP contributions are maximized, with any remainder taken as dividends.

EDUCATION PROPERTY TAXES



2010 marks the 17th consecutive year that education property tax rates have either been frozen or reduced in Alberta. Property taxes in Alberta are levied by both the province and municipalities, with the provincial portion going to support education funding.

Over the years, education property tax has been a stable source of revenue for Alberta's basic education system. In 2010–11, revenue from education property tax will cover about 30% of the cost of funding Alberta's education system, not including infrastructure.

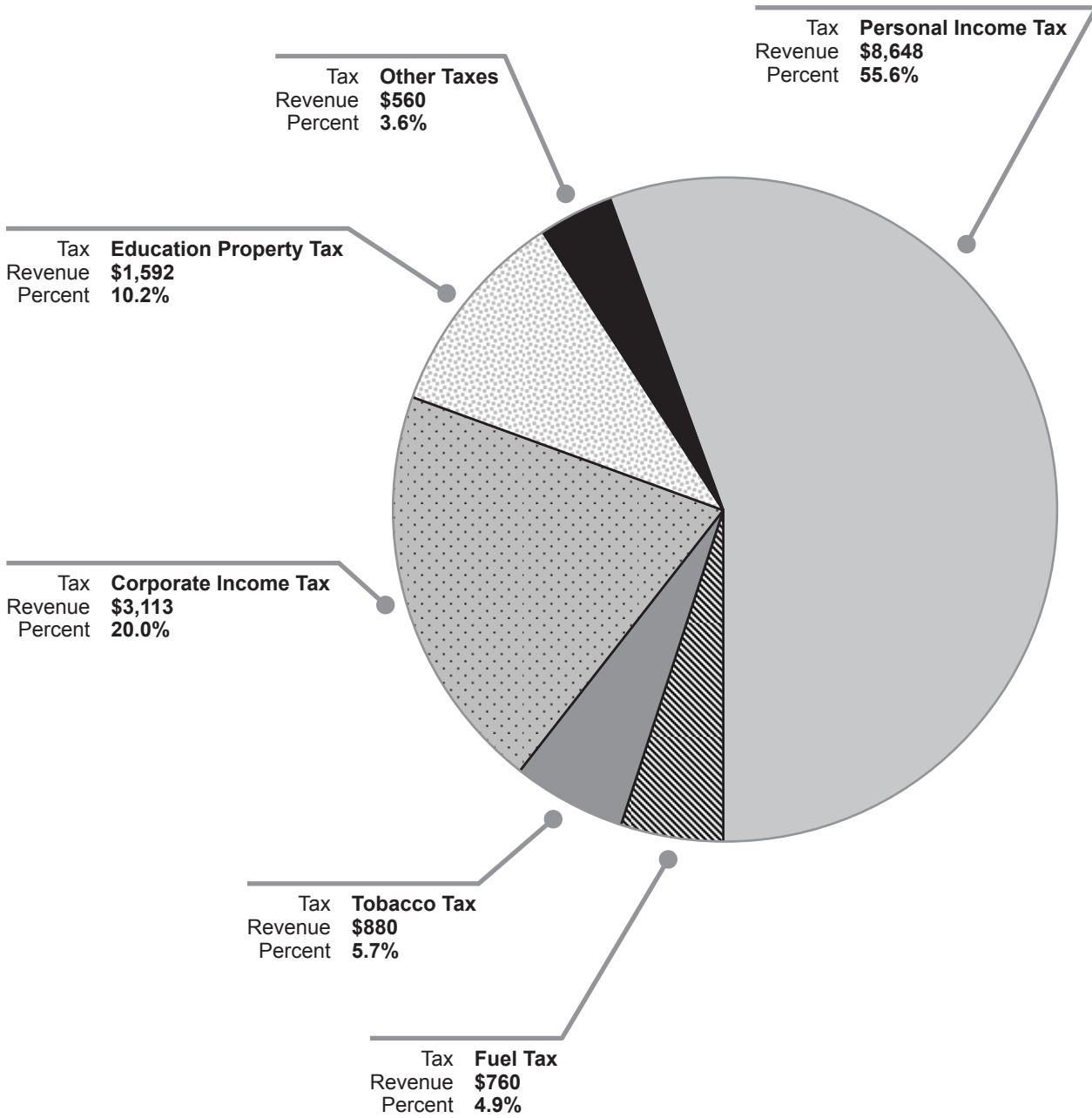
While education property tax revenue is increasing, mill rates are being reduced by 13.5% in 2010–11 to offset inflationary growth in the provincial assessment base. Consequently, the residential/farm property rate will fall from \$3.39 to \$2.93 per \$1,000 of equalized assessment. The non-residential rate will fall from \$4.98 to \$4.31 per \$1,000 of equalized assessment.

Since 2000, education property tax rates have declined by 57%.

TABLES AND CHARTS

2010–11 Tax Revenue (\$15,553 million)

(millions of dollars)



2010–11 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	8,648		
Single-rate tax	8,762	10.0%	876.2 per point
Family Employment Tax Credit	(114)		n/a
2. Corporate Income Tax	3,113		
General	2,822	10.0%	282.2 per point
Small business	291	3.0%	97.0 per point
3. Education Property Tax^a	1,592		
Residential/farm property	947	\$2.93 / \$1,000 of assessment	323.2 per mill
Non-residential	645	\$4.31 / \$1,000 of assessment	149.7 per mill
4. Tobacco Tax	880	\$40/carton	22.0 per \$/carton
5. Fuel Tax	760		
Gasoline and diesel	737	9.0 ¢/litre	81.9 per ¢/litre
Propane	5	6.5 ¢/litre	0.8 per ¢/litre
Aviation	14	1.5 ¢/litre	9.3 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
6. Freehold Mineral Rights Tax	167		n/a
7. Insurance Taxes	330		
Life, accident, sickness	84	2% of premium	42.0 per point
Other	246	3% of premium	82.0 per point
8. Tourism Levy	63	4.0%	15.8 per point

^a Does not include revenue of approximately \$199 million raised for opted-out school boards.

Interprovincial Tax and Health Care Premium Comparison, 2010

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Employment Income of \$30,000 – One Income Family with Two Children										
Provincial income tax	(1,327)	312	(617)	267	(1,480)	(4,498)	306	820	1,066	502
Provincial sales tax	-	632	624	955	305	1,047	1,292	1,173	1,328	1,278
Health care premium	-	-	-	-	225	-	-	-	-	-
Payroll tax	-	-	-	234	273	624	-	-	-	100
Fuel tax	270	435	450	345	441	456	321	465	474	495
Total	(1,057)	1,379	457	1,801	(236)	(2,371)	1,919	2,458	2,868	2,375
Alberta Advantage		2,436	1,514	2,858	821	(1,314)	2,976	3,515	3,925	3,432
Employment Income of \$75,000 – Two Income Family with Two Children										
Provincial income tax	2,630	1,935	2,649	4,518	1,776	2,559	4,098	4,476	4,723	3,868
Provincial sales tax	-	1,498	1,010	1,533	1,846	2,027	2,093	1,917	2,176	2,092
Health care premium	-	1,026	-	-	563	-	-	-	-	-
Payroll tax	-	-	-	584	682	1,559	-	-	-	249
Fuel tax	405	653	675	518	662	684	482	698	711	743
Total	3,035	5,112	4,334	7,153	5,529	6,829	6,673	7,091	7,610	6,952
Alberta Advantage		2,077	1,299	4,118	2,494	3,794	3,638	4,056	4,575	3,917
Employment Income of \$125,000 – Two Income Family with Two Children										
Provincial income tax	6,873	5,030	7,787	10,014	5,660	10,598	9,020	10,670	10,319	9,069
Provincial sales tax	-	2,292	1,505	2,300	2,779	2,909	3,154	2,849	3,265	3,137
Health care premium	-	1,026	-	-	788	-	-	-	-	-
Payroll tax	-	-	-	974	1,137	2,598	-	-	-	415
Fuel tax	405	653	675	518	662	684	482	698	711	743
Total	7,278	9,001	9,967	13,806	11,026	16,789	12,656	14,217	14,295	13,364
Alberta Advantage		1,723	2,689	6,528	3,748	9,511	5,378	6,939	7,017	6,086

Calculations are based on other provinces' tax parameters known as of January 20, 2010.

Assumptions:

- * Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- * Health care premiums are net of premium subsidies.
- * In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for the net health care premiums.
- * Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.
- * RRSP/RPP contributions of \$1,000, \$9,700 and \$16,800 are included in the calculation of personal income tax for the \$30,000, \$75,000 and \$125,000 families, respectively.
- * For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- * The children in each family are assumed to be 6 and 12 years old.

Major Provincial Tax Rates, 2010

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax											
Statutory rate range											
- lowest rate	(%)	10.00	5.06	11.00	10.80	5.05	16.00 ^a	9.30	8.79	9.80	7.70
- highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 ^a	14.30	17.50	16.70	15.50
Surtax	(%)	-	-	-	-	20/36	-	-	10.0	10.0	-
Combined federal/provincial top marginal rate ^b	(%)	39.00	43.70	44.00	46.40	46.41	48.22	43.30	48.25	47.37	44.50
Personal amount	(\$)	16,825	11,000	13,348	8,134	8,943	10,505	8,777	8,231	7,708	7,833
Spousal amount	(\$)	16,825	9,653	13,348	8,134	7,594	10,505	7,453	6,989	6,546	6,400
Corporate Income Tax											
General rate	(%)	10.0	10.5	12.0	12.0	12.0 ^d	11.9	11.0 ^e	16.0	16.0	14.0
M&P rate	(%)	10.0	10.5	10/12 ^c	12.0	10.0 ^d	11.9	11.0 ^e	16.0	16.0	5.0
Small business											
- rate	(%)	3.0	2.5	4.5	- ^f	4.5 ^d	8.0	5.0	5.0	1.0	5.0
- threshold	(\$000)	500	500	500	400	500	500	500	400	500	500
Capital Tax											
General	(max.%)	-	-	-	0.2	- ^d	0.12	-	0.1 ^g	-	-
Financial institutions	(max.%)	-	- ^h	3.25	3.0	- ^d	0.49 ⁱ	3.0	4.0	5.0	4.0
Sales Tax											
	(%)	-	7.0	5.0	7.0	8.0	7.5 ^j	8.0	8.0	10.0 ^j	8.0
Gasoline Tax											
	(cents/litre)	9.0	19.0 ^k	15.0	11.5	14.7 ^l	15.2 ^{k,l}	10.7 ^l	15.5 ^l	15.8 ^m	16.5 ^l
Tobacco Tax											
	(dollars/carton)	40.00	37.00 ^l	36.60 ^l	37.00 ^l	24.70 ^l	20.60	23.50 ^l	43.04 ^l	44.90	36.00 ^l
Payroll Tax											
	(max.%)	-	-	-	2.15	1.95	4.26 ⁿ	-	-	-	2.00

Rates for other provinces known as of January 20, 2010.

^a Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs.

^b The top federal personal income tax rate is 29%, except in Quebec where the top federal rate is 24.22% because of the federal abatement.

^c The general corporate income tax rate is reduced by up to 2 points based on the share of a corporation's national manufacturing and processing income allocated to Saskatchewan.

^d Ontario will cut its general corporate income tax rate from 14% to 12%, its manufacturing and processing rate from 12% to 10%, and its small business rate from 5.5% to 4.5% on July 1, 2010. The province will also eliminate its capital taxes on general corporations and financial institutions on July 1, 2010.

^e New Brunswick's general corporate income tax rate will fall from 12% to 11% on July 1, 2010.

^f Manitoba will reduce its small business tax rate to zero on December 1, 2010.

^g Nova Scotia will reduce its Large Corporations Tax from 0.15% to 0.10% on July 1, 2010.

^h British Columbia will eliminate its Corporation Capital Tax for financial institutions on April 1, 2010, but will subsequently levy a financial institutions minimum tax of 1% of paid-up capital.

ⁱ Quebec's financial institutions capital tax includes a base rate of 0.24% and a compensatory tax of 0.25%.

^j These provinces apply their sales tax on the retail price of the good inclusive of the Goods and Services Tax.

^k The British Columbia rate is 14.5 ¢/litre plus the carbon tax on gasoline, which is 3.33 ¢/litre until June 30, 2010, after which it will rise to 4.45 ¢/litre. An additional 6 ¢/litre is imposed in the greater Vancouver area, 3.5 ¢/litre in Victoria and 1.5 ¢/litre in Montreal.

^l These provinces apply their retail sales tax or the provincial portion of their harmonized sales tax on the retail price of the good inclusive of the particular excise tax.

^m This rate is based on a 7.1 ¢/litre base rate and 10.7% of the average wholesale price and is calculated on a monthly basis. The total tax rate is capped at 15.8 ¢/litre.

ⁿ Quebec levies an additional tax of up to 2% on the wages of financial institutions that is not included in this rate.