

ALBERTA TAX ADVANTAGE



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Alberta Tax Advantage

HIGHLIGHTS

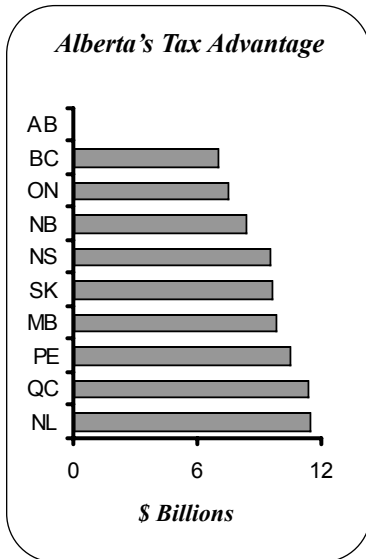
- Albertans continue to pay the lowest taxes in Canada.
- The Alberta Family Employment Tax Credit will be enhanced, delivering more benefits to more families.
- Property tax rates will fall by about 5%.
- The 5% hotel room tax is converted into a 4% tourism levy.

INTRODUCTION

Tax systems have a profound impact on our everyday lives. Taxes affect business decisions to invest and innovate, and people's decisions on where they live and work and how much they spend. While taxes pay for public services, taxes that are too high, or levied inefficiently, impact economic growth and eventually, those same public services. Alberta is committed to a tax system that provides revenue for government programs in a way that minimizes the impact to businesses and individuals.

Provincially, Albertans pay low personal income taxes, property taxes and fuel taxes, and pay no general sales taxes. Businesses pay low corporate income taxes, no general sales taxes on their business inputs, no general payroll taxes and no capital taxes. We have been able to keep rates low in part because we have not introduced special tax incentives for certain groups or activities. If Alberta had the tax system of any other province, Albertans and Alberta businesses would pay at least \$6.9 billion more in tax each year.

Alberta's tax system promotes economic growth. With the lowest taxes in Canada, more money stays in the pockets of Albertans, who know best how to spend and invest it. Low taxes encourage businesses to innovate and help attract investment, creating opportunities for Albertans.



PERSONAL TAXES

Alberta Family Employment Tax Credit

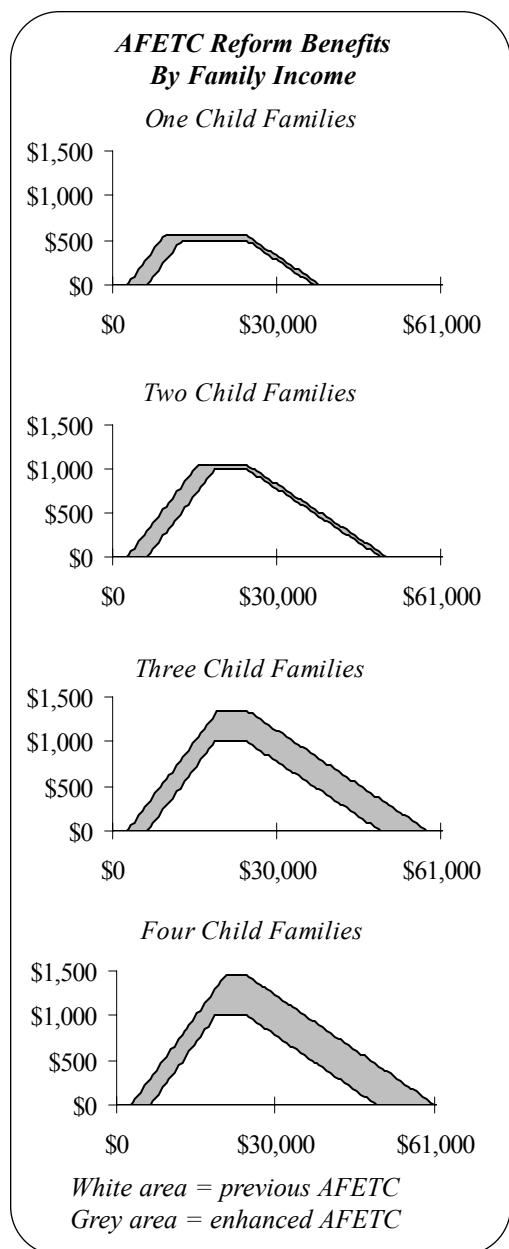
The Alberta Family Employment Tax Credit (AFETC) was introduced in 1997 to increase support to low and middle income families and to encourage work effort. Families receive a refundable tax credit worth up to \$500 per child and \$1,000 per family. The credit is phased in at a rate of 8% once families earn at least \$6,500 in annual working income. The credit is phased out at a rate of 4% starting when annual family net income reaches \$25,000. It is fully phased out by \$37,500 for families with one child and \$50,000 for families with two children.

The AFETC has been very successful in supporting working families. We want to build on that success by enhancing the benefits under the program, and expanding it to include more children. Families will now receive up to \$550 for the first child, \$500 for the second, \$300 for the third and \$100 for the fourth. We also want to make sure that these benefits are not eaten away by inflation. We will index benefits and the phase-out threshold at the same rate as the other personal tax credits.

The \$6,500 qualifying threshold targets benefits to working families. We want to maintain that link to the workforce, but extend the benefit to families who do not meet the current threshold requirement. Consequently, we are lowering the qualifying threshold to \$2,760. In the process, we increase benefits for many working families currently receiving the credit.

The changes made in *Budget 2005* will help about 146,000 families, with 13,000 families being added to the program. It will put about \$25 million more into the pockets of Alberta families. A family with three children and \$40,000 in working income will get an additional \$350 as a result of the changes. A single parent with one child and \$5,000 in working income will now be eligible for benefits, and will receive \$179.

Indexing will commence in July 2006. All other enhancements will begin this July. We will make our best efforts to deliver the increased payments by that time. If administrative difficulties arise, Albertans who benefit from the expanded program will receive a retroactive payment at a later date.



Enhanced Alberta Family Employment Tax Credit

(dollars)

Alberta Family Employment Tax Credit enhanced:

- *Extended to 3rd and 4th children.*
- *Qualifying threshold reduced from \$6,500 to \$2,760.*
- *\$50 more for 1st child.*
- *Credit amount and phase-out threshold indexed.*

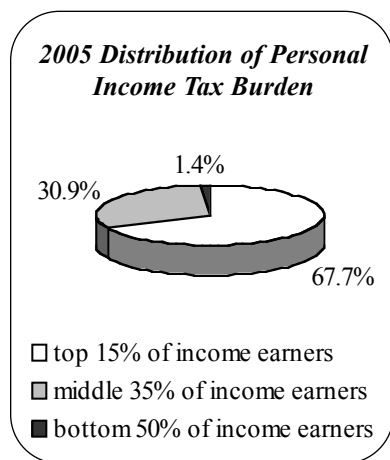
146,000 families benefit with 13,000 new families added to the program.

Number of Children	1	2	3	4
Families with \$5,000 Income				
Current	0	0	0	0
Enhanced	179	179	179	179
Additional Benefit	179	179	179	179
Families with \$10,000 Income				
Current	280	280	280	280
Enhanced	550	579	579	579
Additional Benefit	270	299	299	299
Families with \$15,000 Income				
Current	500	680	680	680
Enhanced	550	979	979	979
Additional Benefit	50	299	299	299
Families with \$20,000 Income				
Current	500	1,000	1,000	1,000
Enhanced	550	1,050	1,350	1,379
Additional Benefit	50	50	350	379
Families with \$25,000 Income				
Current	500	1,000	1,000	1,000
Enhanced	550	1,050	1,350	1,450
Additional Benefit	50	50	350	450
Families with \$30,000 Income				
Current	300	800	800	800
Enhanced	350	850	1,150	1,250
Additional Benefit	50	50	350	450
Families with \$40,000 Income				
Current	0	400	400	400
Enhanced	0	450	750	850
Additional Benefit	0	50	350	450
Families with \$50,000 Income				
Current	0	0	0	0
Enhanced	0	50	350	450
Additional Benefit	0	50	350	450
Families with \$60,000 Income				
Current	0	0	0	0
Enhanced	0	0	0	50
Additional Benefit	0	0	0	50

Assumes the families' working income equals their net income.

Personal Income Taxes

Alberta's single rate tax system is fair and good for economic growth. At 10%, Alberta has the lowest top marginal rate in Canada. This attracts people to Alberta and rewards the efforts of the workers that drive our economy.



The highest basic and spousal amounts in the country allow Albertans to earn more money before they pay any provincial income tax. A typical working individual can earn \$15,400 without paying the tax. A typical working family with two children can earn up to \$36,100 before paying provincial income tax, as the Alberta Family Employment Tax Credit offsets any taxes paid to that level.

We indexed the tax system to inflation when we introduced the single rate tax, ensuring that taxes do not increase simply because credit amounts have not increased with inflation. For 2005, most personal tax credits will increase by 1.3%. Basic and spousal amounts will rise by \$186 to \$14,523.

In its latest budget, the federal government enhanced several non-refundable tax credits and introduced a new credit for adoption expenses. Alberta will parallel these changes, with the exception of the change to the federal basic, spousal and eligible dependant amounts, as our amounts are already much higher than the respective federal amounts.

Alberta Non-Refundable Tax Credit Block

(dollars)

	2004		2005	
	Maximum Amount	Deduction from Alberta Tax	Maximum Amount	Deduction from Alberta Tax
Basic personal amount	14,337	1,434	14,523	1,452
Spousal amount	14,337	1,434	14,523	1,452
Eligible dependant amount	14,337	1,434	14,523	1,452
Age amount	4,022	402	4,074	407
Infirm dependant amount	3,890	389	3,940	394
CPP contributions	1,832	183	1,861	186
Employment Insurance contributions	772	77	761	76
Pension income amount	1,111	111	1,126	113
Disability amount	6,668	667	6,755	676
Disability supplement	3,890	389	3,940	394
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	—	—	10,000	1,000
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	5,000	500	10,000	1,000
Caregiver amount	3,890	389	3,940	394
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 increased to 12.75%.

CORPORATE TAXES

“Alberta has been and remains still the least expensive province in which to do business when it comes to taxes.”

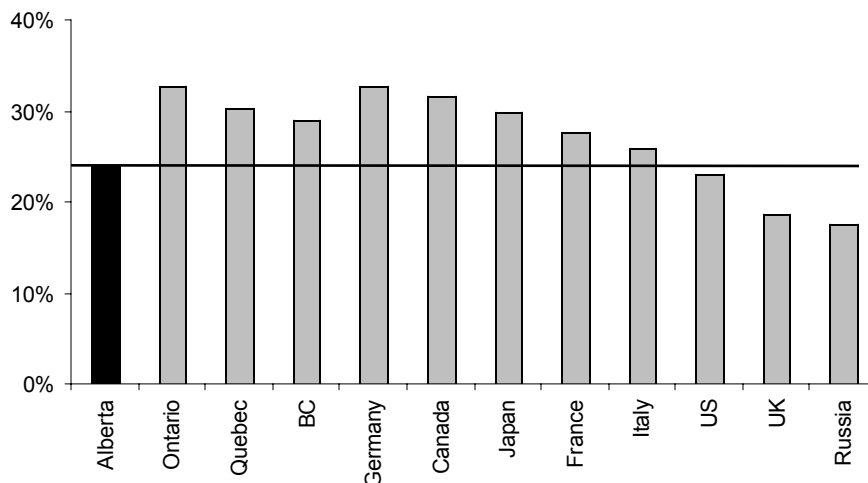
**The Gartman Letter
March 17, 2005**

Alberta’s corporate tax system must be competitive to attract investment and provide more opportunities for Albertans. When tax rates are too high, businesses may choose other jurisdictions in which to locate or expand their operations. Low tax rates on capital investment are particularly important. They are a key factor in encouraging businesses to invest in new technologies and machinery, increasing innovation and boosting productivity, and ultimately resulting in a higher standard of living.

The tax rate on capital investment is dependent upon the general income tax rate. It also depends on other taxes such as capital taxes and sales taxes on capital purchases. In addition, jurisdictions that allow assets to be depreciated faster have a lower "effective" tax on capital, all other things being equal, than jurisdictions where assets must be depreciated more slowly.

In Canada, companies depreciate assets through the capital cost allowance (CCA) system at rates intended to approximate the economically useful life of the asset. However, some CCA rates are too low. In these cases, companies may delay or reduce investment in new technologies because the cost of the asset cannot be recovered over a reasonable period. The recent federal budget boosted CCA rates for electrical turbines and distribution systems, oil and gas pipelines, and telecommunications infrastructure to better match their economically useful lifespan. To encourage investment by Alberta companies, we will parallel those changes for Alberta tax purposes.

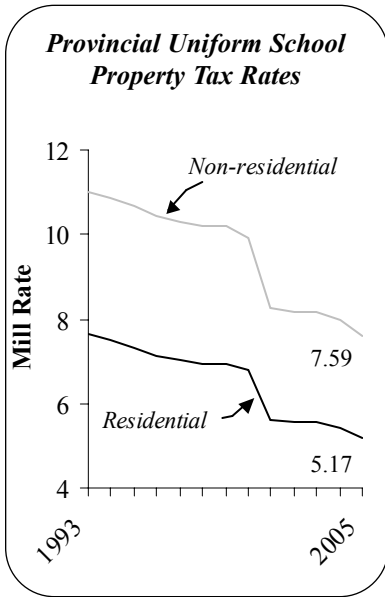
Effective Marginal Tax Rate on Capital Investment G8 Countries, 2004



The effective marginal tax rate reflects the tax burden on a just-profitable capital investment. It incorporates corporate income taxes, including the treatment of depreciation, inventory and financing expenses, capital taxes and sales taxes on capital components. The Canadian rates are averages across all industries excluding the resource sector, while foreign rates are averages between the manufacturing and service sectors.

Source: C.D. Howe Institute.

Alberta provides an attractive tax environment for business. We are competitive with other jurisdictions and intend to remain that way. While further corporate income tax cuts remain a goal, Albertans have indicated that right now, other priorities take precedence.



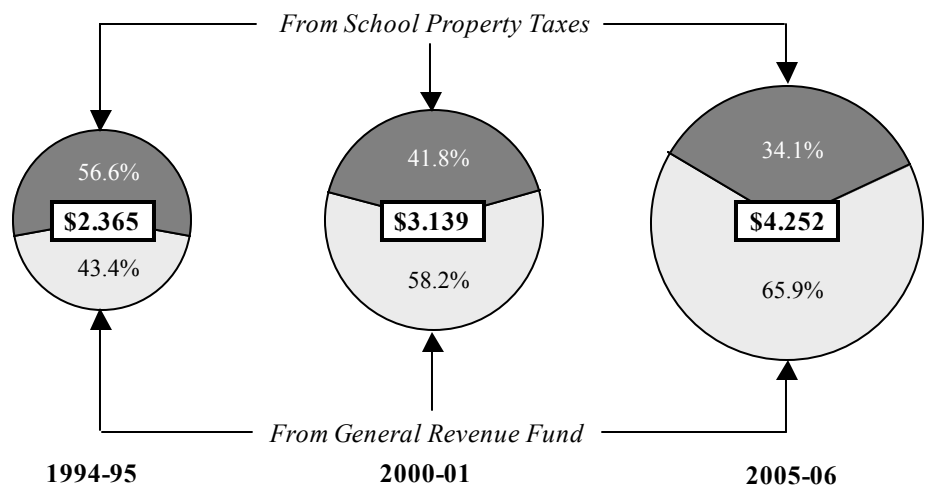
SCHOOL PROPERTY TAXES

In each year since the province took over responsibility for the school property tax in 1994, tax rates have either been reduced or frozen, for total reductions of over 30%. This record of rate reductions is part of the reason why Albertans pay among the lowest property taxes in Canada. In 2005, school property tax rates will be reduced by about 5%. Rates for residential and farm property will fall to \$5.17 from \$5.44 per \$1,000 of equalized assessment. Commercial property rates will be reduced to \$7.59 from \$7.99 per \$1,000 of equalized assessment.

Revenue from the school property tax is expected to be \$1.45 billion in 2005-06, including revenue for opted-out school boards. Government revenue will be \$1.273 billion, a 3.2% increase over 2004-05. Revenue is increasing even as tax rates are falling because Alberta's assessment base has grown as new homes and businesses are built. The increase in revenue corresponds to the average increase in growth related to new development. School property taxes account for approximately 34% of the total funding for basic education.

For seniors who choose to stay in their current homes, the government will provide a rebate to assist with the year-to-year increases in school property taxes. This annual refund will be equal to the increase in school property taxes from 2004. This program will save seniors around \$7 million in 2005-06, with the amount growing in future years. Seniors will still be subject to any increases in municipal property taxes.

Basic Education Funding (billions)



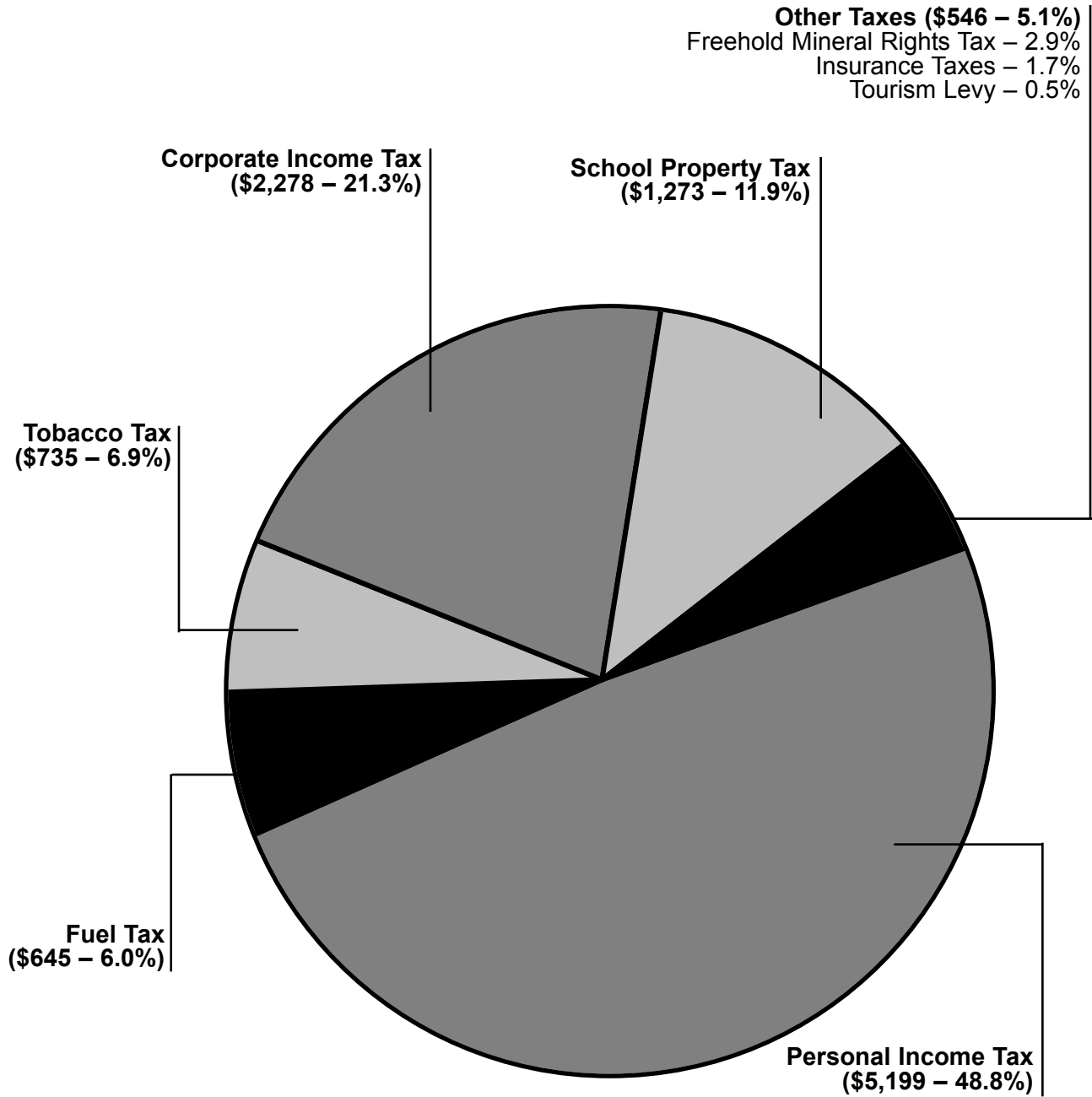
The provincial portion of basic education funding from general revenue is growing while the amount paid from property taxes is shrinking.

PREMIUMS AND OTHER LEVIES

As part of an overall plan to enhance their benefits, as of October 1, 2004, all Alberta seniors are exempt from paying health care insurance premiums. While low income seniors were previously exempt from premiums, over 170,000 seniors that were paying before are now exempt as well. The change will result in about \$90 million staying in the pockets of Alberta's seniors in 2005-06.

On April 1, 2005, Alberta's hotel room tax was reduced from 5% to 4% and converted into a tourism levy, saving guests of Alberta accommodation over \$11 million in 2005-06. Provincial spending on tourism marketing and development in a year will now be determined by the amount the levy raised two years previously.

2005-06 Tax Revenue
\$10,676 million



2005-06 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	5,199		
Single rate tax	5,281	10.0%	528.1 per point
Family Employment Tax Credit	(85)		(difficult to express in per unit terms)
NHL Players Tax	3.5	12.5%	0.3 per point
2. Corporate Income Tax	2,278		
General	2,091	11.5%	181.8 per point
Small business	187	3.0%	62.3 per point
3. School Property Tax ^a	1,273		
Residential/farm	746	\$5.17/\$1,000 of assessment	144.3 per mill
Non-residential	527	\$7.59/\$1,000 of assessment	69.4 per mill
4. Tobacco Tax	735	\$32/carton	23.0 per \$/carton
5. Fuel Tax	645		
Gasoline and diesel	626	9.0 ¢/litre	69.6 per ¢/litre
Propane	7	6.5 ¢/litre	1.1 per ¢/litre
Aviation	8	1.5 ¢/litre	5.3 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
6. Freehold Mineral Rights Tax	310		(difficult to express in per unit terms)
7. Insurance Taxes	186		
Life, accident, sickness	50	2% of premium	25.0 per point
Automobile and other	136	3% of premium	45.3 per point
8. Tourism Levy	50	4.0%	12.5 per point

^a Does not include revenue of \$177 million raised for opted-out school boards.

Interprovincial Tax and Health Care Insurance Premium Comparison, 2005

(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	(865)	616	555	516	(380)	(3,651)	1,067	977	1,113	1,442
Provincial sales tax	-	723	506	849	888	1,107	1,111	1,101	1,317	1,323
Health care premium	201	227	-	-	225	-	-	-	-	-
Payroll tax	-	-	-	236	280	637	-	-	-	179
Fuel tax	270	435	450	345	441	456	435	465	510	495
Subtotal	(394)	2,001	1,511	1,946	1,454	(1,451)	2,613	2,543	2,940	3,439
Tobacco tax	800	895	875	875	585	515	588	776	873	839
Total	406	2,896	2,386	2,821	2,039	(936)	3,201	3,319	3,813	4,278
Alberta Advantage		2,490	1,980	2,415	1,633	(1,342)	2,795	2,913	3,407	3,872
Employment Income of \$60,000 – Two Income Family with Two Children										
Provincial income tax	1,936	1,694	2,898	3,108	1,416	1,280	3,159	3,090	3,314	3,647
Provincial sales tax	-	1,057	886	1,215	1,434	1,826	1,618	1,601	1,914	1,930
Health care premium	792	972	-	-	265	-	-	-	-	-
Payroll tax	-	-	-	472	561	1,274	-	-	-	357
Fuel tax	405	653	675	518	662	684	653	698	765	743
Subtotal	3,133	4,376	4,459	5,313	4,338	5,064	5,430	5,389	5,993	6,677
Tobacco tax	800	895	875	875	585	515	588	776	873	839
Total	3,933	5,271	5,334	6,188	4,923	5,579	6,018	6,165	6,866	7,516
Alberta Advantage		1,338	1,401	2,255	990	1,646	2,085	2,232	2,933	3,583
Employment Income of \$100,000 – Two Income Family with Two Children										
Provincial income tax	5,227	4,501	6,820	7,680	4,500	8,196	7,425	7,559	7,515	8,555
Provincial sales tax	-	1,615	1,333	1,812	2,151	2,588	2,426	2,392	2,876	2,875
Health care premium	792	972	-	-	675	-	-	-	-	-
Payroll tax	-	-	-	786	934	2,123	-	-	-	596
Fuel tax	405	653	675	518	662	684	653	698	765	743
Subtotal	6,424	7,741	8,828	10,796	8,922	13,591	10,504	10,649	11,156	12,769
Tobacco tax	800	895	875	875	585	515	588	776	873	839
Total	7,224	8,636	9,703	11,671	9,507	14,106	11,092	11,425	12,029	13,608
Alberta Advantage		1,412	2,479	4,447	2,283	6,882	3,868	4,201	4,805	6,384

Calculations are based on other provinces' tax parameters known as of March 21, 2005.

Assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- Health care insurance 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 insurance 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.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- RRSP/RPP contributions of \$1,000, \$7,800 and \$13,500 are included in the calculation of personal income tax for the \$30,000, \$60,000 and \$100,000 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, 2005

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax											
Statutory rate range											
– lowest rate	(%)	10.00	6.05	11.00	10.90	6.05	16.00 ^a	9.68	8.79	9.80	10.57
– highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 ^a	17.84	17.50	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Credit amounts											
– Personal amount	(\$)	14,523	8,676	8,404	7,634	8,196	6,365	7,888	7,231	7,412	7,410
– Spousal amount	(\$)	14,523	7,429	8,404	6,482	6,960	6,365	6,698	6,140	6,294	6,055
Corporate Income Tax											
General rate	(%)	11.5	13.5	17.0	15.0	14.0	8.9	13.0	16.0	16.0	14.0
M&P rate	(%)	11.5	13.5	10-17 ^b	15.0	12.0	8.9	13.0	16.0	7.5	5.0
Small business											
– rate	(%)	3.0	4.5	5.0	5.0	5.5	8.9	2.5	5.0	7.5	5.0
– threshold	(\$000)	400	400	300	400	400	n/a	425	300	300	300
Capital Tax											
General	(max.%)	—	—	0.60	0.50	0.30	0.60	0.30	0.30	—	—
Financial institutions	(max.%)	—	3.00	3.25	3.00	0.90	1.45 ^c	3.00	4.00	5.00	4.00
Retail Sales Tax	(%)	—	7.0	7.0	7.0	8.0	7.5 ^d	8.0	8.0	10.0 ^d	8.0
Gasoline Tax	(¢/litre)	9.0	14.5 ^e	15.0	11.5	14.7	15.2 ^{e,f}	14.5 ^f	15.5 ^f	17.0	16.5 ^f
Tobacco Tax	(\$/carton)	32.00	35.80	35.00 ^f	35.00 ^f	23.45	20.60	23.50 ^f	31.04 ^f	34.90	34.00 ^f
Payroll Tax	(max.%)	—	—	—	2.15	1.95	4.26 ^g	—	—	—	2.00

Rates for other provinces known as of March 21, 2005.

^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 general corporate tax rate is reduced by up to 7 points based on the share of a corporation's national manufacturing and processing income allocated to Saskatchewan.

^c The Quebec financial institutions capital tax includes the base rate of 1.20% and a compensatory tax of 0.25%.

^d These provinces apply their retail sales tax on the retail price of the good inclusive of the GST.

^e An additional 6¢/litre is imposed in the greater Vancouver area, 2.5¢/litre in Victoria and 1.5¢/litre in Montreal.

^f These provinces apply their retail sales taxes on the retail price of the good inclusive of the particular excise tax.

^g Quebec levies an additional 2% compensatory tax on the wages paid by financial institutions that is not included in this rate.

Top Marginal Personal Income Tax Rates, 2005

(per cent)

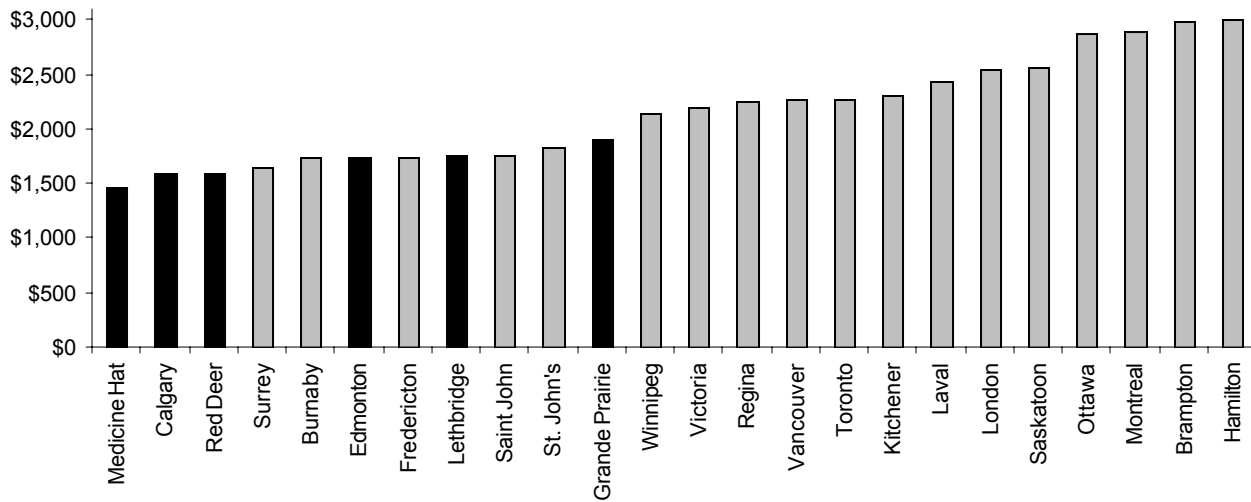
	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Federal	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Provincial	10.00	14.70	15.00	17.40	17.41	24.00	17.84	19.25	18.37	19.64
Federal abatement ^a	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	43.70	44.00	46.40	46.41	48.21	46.84	48.25	47.37	48.64

Rates for other provinces known as of March 21, 2005.

^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. This reduces the top federal rate of 29% by 16.5%, or 4.79% of taxable income.

Net Property Tax for a Single Family Home, 2004

(selected Canadian cities)



Notes:

1. Includes municipal, regional and school taxes, net of any applicable homeowner grants.
2. Taxes are based on the value of a single family home, defined as a 25-30 year old detached bungalow with 3 bedrooms, a main floor area of 1,200 square feet, finished full basement, double car garage, and a 6,000 square foot lot. Information for Vancouver, Surrey and Burnaby is based on an average-value home that may differ from the above definition.

Source: City of Edmonton, Planning and Development, 2004 Residential Property Taxes & Utility Charges Survey.