

ALBERTA TAX ADVANTAGE

Alberta **2003** Budget

Making Alberta Even Better

Table of Contents

Introduction 127
Corporate Income Taxes 128
Resource Taxation 129
Personal Income Taxes 130
Alberta Family Employment Tax Credit 131
School Property Taxes 131

LIST OF TABLES AND CHARTS

Alberta’s Tax Advantage 128
Implementation Schedule for the Business Tax Plan 129
Distribution of Personal Income Tax Burden 130
Alberta Non-Refundable Tax Credit Block 130
Provincial Uniform School Property Tax Rate 131
Net Property Tax for a Single Family Home, 2002 132
2003-04 Tax Revenue (Pie Chart) 134
2003-04 Revenue from Tax Sources 135
Interprovincial Tax and Health Care Insurance
 Premium Comparison, 2003 136
Major Provincial Tax Rates, 2003 137
Top Marginal Personal Income Tax Rates, 2003 137

Alberta Tax Advantage

INTRODUCTION

This year, we are adopting a new fiscal framework designed to bring predictability and sustainability to the government's finances. This framework builds upon the predictability already present in Alberta's tax system. Consistently low taxes have become one of the defining features of living and doing business in Alberta. Albertans can proudly claim the lowest overall tax burden in the country — this is one key feature of the fiscal framework that stays the same.

“Alberta has the lowest taxes in Canada, and we’re going to keep it that way.”

Pat Nelson
Minister of Finance
March 19, 2003

Albertans enjoy the advantages of no general sales or payroll taxes, the lowest fuel tax in Canada, and among the lowest school property taxes, personal income taxes, and corporate taxes in Canada. We are unique in many ways — the absence of a sales tax, an innovative single-rate tax system, and no corporate capital tax.

Another distinction is that the government has built its tax advantage on low rates for all Alberta residents and businesses. Rather than favouring certain individuals and sectors with tax preferences, Alberta chooses to follow a low rate, broad base approach. This means that when we have the fiscal room to cut taxes, our first choice is to cut overall taxes. We do not pick winners and losers with the tax system, nor do we expect the broader economy to bear the cost of special tax treatment provided to a select few. This approach is the best for the economy and the fairest.

Since 1994, we have cut taxes in an affordable way, without risking the return to government deficits in Alberta. This year, our tax plan includes further corporate income tax cuts, continued indexation of the personal income tax system, and a freeze in school property tax rates. Low overall taxes mean more opportunities for Albertans, greater rewards for our work and investment, and more wealth to support the public services and quality of life we enjoy. Alberta's low taxes are a solid foundation for our dynamic and vibrant provincial economy.

"...the most competitive tax system was found in Alberta, thanks in part to a 10% single-rate personal income tax, the lowest fuel taxes, no sales tax, and some of the lowest corporate tax rates"

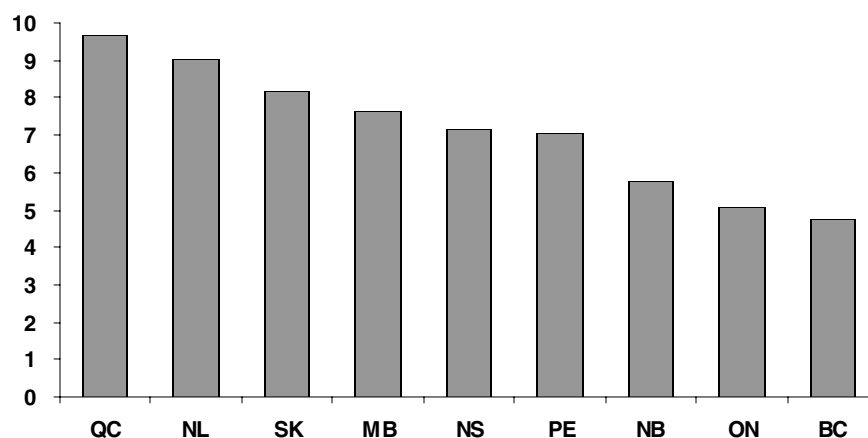
Dominion Bond Rating Service Limited
"The Canadian Federal and Provincial Governments - 2002 Overview"
January 2003

"Alberta is Canada's only competitive corporate tax regime in North America today."

Jack M. Mintz
President
C.D. Howe Institute
National Post
March 26, 2003

Alberta's Tax Advantage

(billions of dollars)



This graph shows the total additional provincial taxes that individuals and businesses would pay if Alberta had the same personal and corporate taxes as other provinces.

CORPORATE INCOME TAXES

Alberta continues corporate income tax reductions this year. We cut the general rate to 12.5%, reduced the small business rate to 4%, and raised the small business income threshold to \$400,000, effective April 1, 2003. Since 2000, we have cut the general rate by almost 20%, reduced the small business rate by 33%, and doubled the small business threshold.

Albertans recognize that business taxes discourage investment and are ultimately paid by ordinary people in the form of fewer jobs and lower pay. If corporate taxes are not competitive, business owners will decide that Alberta is not a worthwhile place to start or expand a business. The negative impacts of high corporate income taxes are felt even more strongly in a global economy, where Alberta competes with hundreds of jurisdictions to be the chosen destination for investment.

The original tax reduction schedule announced in Budget 2001 was modified last year because of the uncertain revenue picture. The new schedule proceeds more slowly with the planned cuts. Our fiscal plan includes this year's tax cuts plus additional one-percentage point reductions in the general and small business rates in 2004. This will complete the planned small business reductions and move us closer to our long-term goal of an 8% general rate. In Budget 2004, we will make a final decision on the 2004 cuts and consider further cuts to the general rate as affordable.

Implementation Schedule for the Business Tax Plan

(Effective April 1 each year)

	2000-01	2001-02	2002-03	2003-04	2004-05
General rate ^a (%)	15.5	13.5	13.0	12.5	11.5
Small business rate (%)	6.0	5.0	4.5	4.0	3.0
Small business threshold (\$)	200,000	300,000	350,000	400,000	400,000
Railway fuel tax (¢/litre)	3.0	1.5 ^b	1.5	1.5	1.5
Capital tax (%)	0.7/1.0	Eliminated			

^a Manufacturing and processing (M&P) income was taxed at 14.5% in 2000, but in 2001 the M&P rate was reduced to the same level as the general rate. The tax system no longer distinguishes between M&P and other income.

^b Effective May 1, 2001.

“As it stands, Alberta has the lowest top marginal personal tax rate among the provinces, and is the only jurisdiction that levies no provincial sales tax or capital tax.”

TD Economics
“The 2002 Alberta Budget”
March 2002

Cuts to corporate income taxes started in 2001, and will save Alberta corporations about \$435 million in taxes this year. These savings are on top of the savings from cuts to other corporate taxes, such as the elimination of the financial institutions capital tax and the drop in the railway fuel tax.

By following an affordable plan for corporate tax cuts, the government is making sure that it can continue to provide the public services that Albertans value, while laying the groundwork for the growth that will help pay for these services in the future.

RESOURCE TAXATION

In response to a long-standing concern voiced by this government and by Alberta's resource industry, the federal government recently released a proposal to include the resource sector in the federal corporate income tax reductions enjoyed by all other sectors. In its 2000 budget, the federal government excluded the non-renewable resource sector from its decision to cut the federal corporate income tax rate from 28% in 2000 to 21% in 2004.

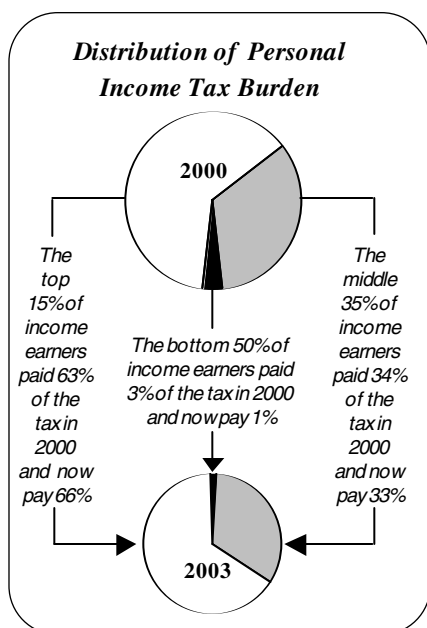
We are pleased that the federal proposal recognizes that all sectors of the economy should be taxed at the same rate, and that royalties are a legitimate cost of doing business. However, we also believe that the federal government could have extended the tax cut to the resource sector more quickly than the lengthy implementation period proposed. The Alberta government will consult with industry and provide feedback to the federal government on its proposal.

PERSONAL INCOME TAXES

We began cutting corporate taxes only after acting on our first tax priority — personal income tax cuts. The government phased in over \$1.5 billion in personal income tax savings over the three years 1999 to 2001, culminating in the introduction of the single-rate tax system.

Our single-rate tax system has two key components that balance fairness and competitiveness. First, the biggest personal and spousal amounts in the country promote fairness by boosting the amount of income that Albertans can earn tax-free. Secondly, a single rate of 10% provides the lowest top marginal tax rate in Canada. This promotes competitiveness, encouraging people to live, work and invest in Alberta.

The provincial non-refundable credits are indexed to inflation so that their value to Albertans is not eroded over time. Albertans will pay about \$130 million less in personal income taxes this year as a result of the indexation introduced in 2001 when we moved to the single-rate tax. This year, the personal and spousal amounts both increase to \$13,525. A typical single individual can make \$14,300 before paying any provincial income tax. A typical family with two children that earns less than \$34,500 will not pay provincial income tax. For these families, the refundable Alberta Family Employment Tax Credit will exceed Alberta taxes payable.



Alberta Non-Refundable Tax Credit Block

	2002			2003		
	Maximum Amount (A) (\$)	Alberta Credit Rate (B) (%)	Deduction from Alberta Tax (A) x (B) (\$)	Maximum Amount (A) (\$)	Alberta Credit Rate (B) (%)	Deduction from Alberta Tax (A) x (B) (\$)
Basic personal amount	13,339	10	1,334	13,525	10	1,353
Spousal amount	13,339	10	1,334	13,525	10	1,353
Eligible dependant amount	13,339	10	1,334	13,525	10	1,353
Age amount	3,742	10	374	3,794	10	379
Infirm dependant amount	3,619	10	362	3,669	10	367
CPP contributions	1,673	10	167	1,802	10	180
Employment Insurance contributions	858	10	86	819	10	82
Pension income amount	1,034	10	103	1,048	10	105
Disability amount	6,204	10	620	6,291	10	629
Disability supplement	3,619	10	362	3,670	10	367
Tuition and education amounts	Variable	10	Variable	Variable	10	Variable
Medical expenses	Variable	10	Variable	Variable	10	Variable
Caregiver amount	3,619	10	362	3,670	10	367
Interest on student loans	Variable	10	Variable	Variable	10	Variable
Donations and gifts						
- first \$200	200	10	20	200	10	20
- over \$200	75% of income	12.75	Variable	75% of income	12.75	Variable

ALBERTA FAMILY EMPLOYMENT TAX CREDIT

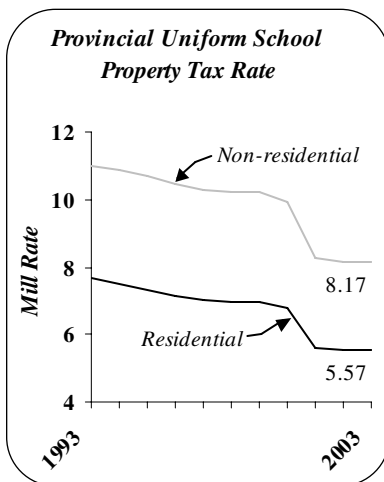
The Alberta Family Employment Tax Credit (AFETC) has two objectives: to support children in low and middle-income families, and to encourage the parents of those children to continue to work. As low-income parents start to earn working income, they begin to lose access to social assistance benefits. After considering taxes and lost benefits, these parents may wonder whether their jobs are worth it. The government provides the AFETC to help ensure that work is a worthwhile choice.

The program provides benefits of up to \$500 per child, to a maximum of \$1,000 per family. The tax credit begins to be phased in when a family's working income exceeds \$6,500 and begins to be phased out when a family's net income is more than \$25,000. In 2003, the AFETC will provide \$80 million in tax relief to about 160,000 Alberta families.

The AFETC was introduced in 1997. The government doubled the maximum benefits the following year, but since that time has not made any changes to the program. The government will review the AFETC to make sure it is still fulfilling its intended purpose, and to assess whether the program should be modified.

SCHOOL PROPERTY TAXES

We are holding the line on provincial uniform school property tax rates in 2003. The rates remain at \$5.57 per \$1,000 of equalized assessment for residential and farm property, and \$8.17 for non-residential property. This follows a major 17% cut in 2001 and an additional 1% reduction last year. This year's freeze makes ten straight years that the government has either reduced or frozen its school property tax rates. This track record is one of the main reasons why Albertans pay among the lowest property taxes in Canada.

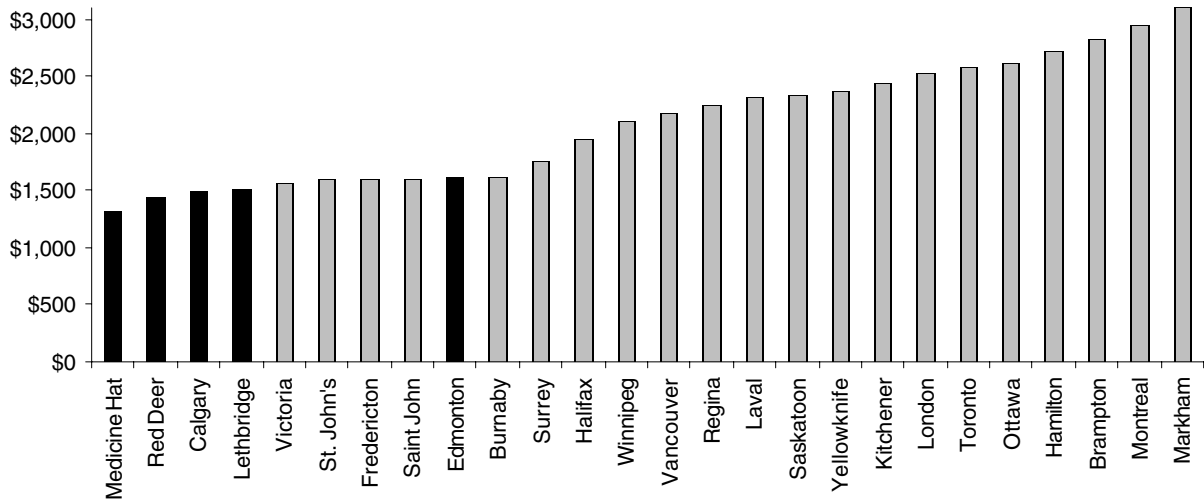


Total school property tax will be \$1.327 billion in 2003-04, including opted-out school boards' share. Government revenue from the school property tax will be \$1.165 billion in 2003-04, a 5.8% increase from last year. Although rates are frozen, the amount collected will increase because Alberta's assessment base continues to grow, just as income tax revenue increases as income grows. The increased revenue will go towards supporting basic education. School property taxes fund approximately 36% of Alberta's basic education costs.

The property tax system promotes fairness in two ways: first for the taxpayer, by applying the same provincial uniform school property tax rate to assessment in every municipality; and secondly for our children, by distributing the funds raised on an equal per student basis across the province. No matter where they live, students across Alberta receive the same educational opportunities.

Net Property Tax for a Single Family Home, 2002

(Selected Canadian Cities)



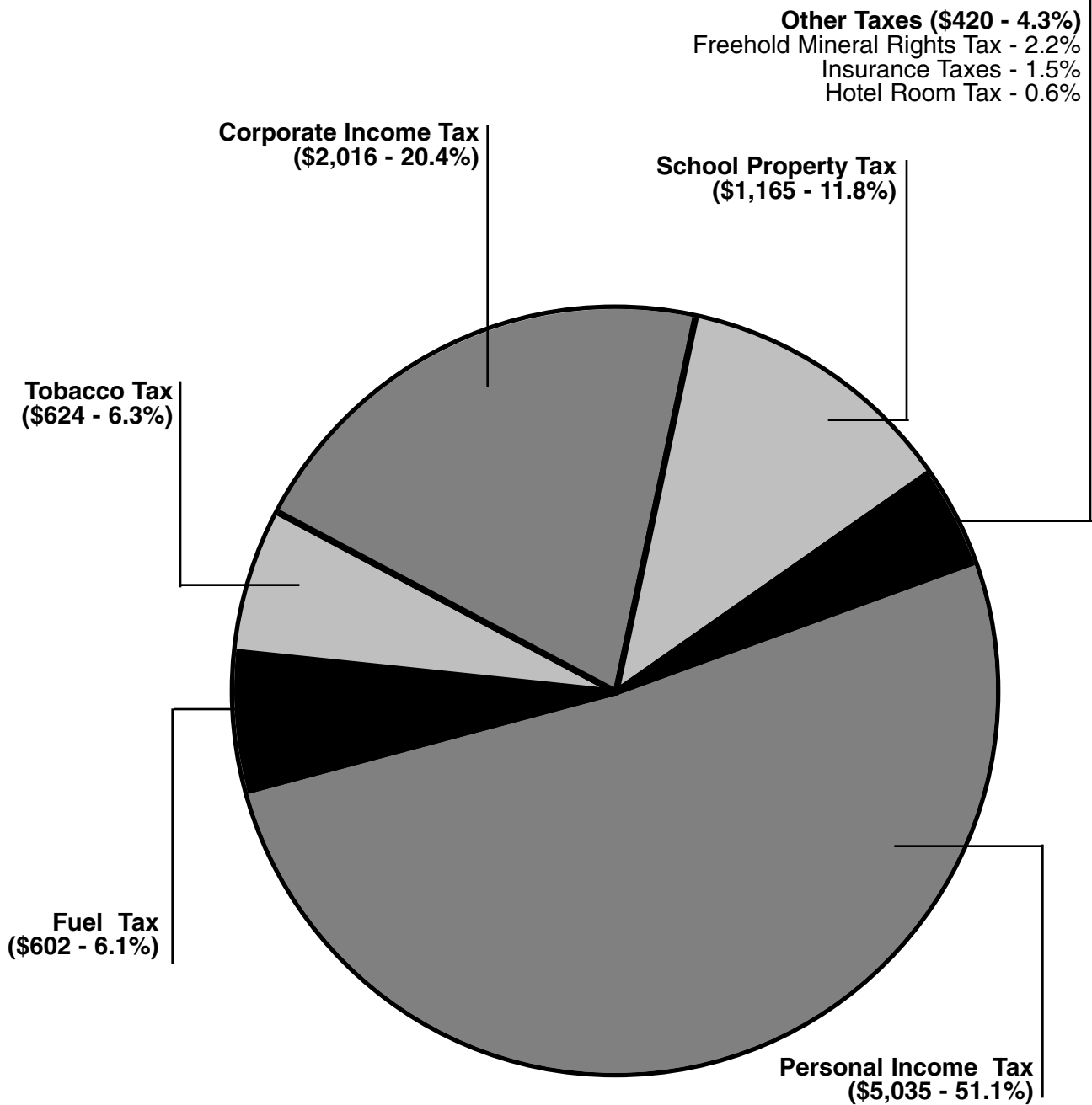
Notes:

1. Includes municipal, regional and school taxes, net of any applicable homeowner grants.
2. Taxes are based on the value of a typical 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, Burnaby, Surrey and Brampton is based on an average-value home that may differ slightly from the above definition.

Source: City of Edmonton, Planning and Development, 2002 Residential Property Taxes & Utility Charges Survey.

TAX TABLES AND CHARTS

2003-04 Tax Revenue
\$9,862 million



2003-04 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	5,035		
Single-rate tax	5,109	10.0%	510.9 per point
AFETC ^a	(80)		(difficult to express in per unit terms)
NHL Players Tax	6	12.5%	0.5 per point
2. Corporate Income Tax	2,016		
General	1,787	12.5%	143.0 per point
Small business	229	4.0%	57.3 per point
3. Fuel Tax	602		
Gasoline and diesel	579	9.0 ¢/litre	64.3 per ¢/litre
Aviation	11	1.5 ¢/litre	7.3 per ¢/litre
Propane	8	6.5 ¢/litre	1.2 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
4. Tobacco Tax	624	\$32/carton	19.5 per \$/carton
5. School Property Tax^b	1,165		
Residential/farm property	640	\$5.57/\$1,000 of assessment	114.9 per mill
Non-residential	525	\$8.17/\$1,000 of assessment	64.3 per mill
6. Freehold Mineral Rights Tax	214		(difficult to express in per unit terms)
7. Insurance Taxes	148		
Life, accident, sickness	43	2% of premium	21.5 per point
Other	105	3% of premium	35.0 per point
8. Hotel Room Tax	58	5.0%	11.6 per point

^a Alberta Family Employment Tax Credit

^b Does not include revenue of approximately \$162 million raised by opted out school boards.

Interprovincial Tax and Health Care Insurance Premium Comparison, 2003

(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	(839)	348	606	511	(380)	(759)	1,086	1,107	1,109	1,437
Provincial sales tax	—	694	496	756	1,008	1,181	955	989	1,167	1,234
Health care premium	201	583	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	226	278	666	—	—	—	181
Fuel tax	270	418	450	345	441	456	435	465	420	495
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	432	2,836	2,352	2,563	1,777	1,997	3,064	3,209	3,269	4,022
Alberta Advantage		2,404	1,920	2,131	1,345	1,565	2,632	2,777	2,837	3,590
Employment Income of \$60,000 – Two Income Family with Two Children										
Provincial income tax	2,127	1,918	3,005	3,105	1,558	2,208	3,175	3,397	3,305	3,637
Provincial sales tax	—	1,028	724	1,097	1,473	1,677	1,412	1,457	1,722	1,828
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	453	556	1,331	—	—	—	363
Fuel tax	405	627	675	518	662	684	653	698	630	743
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	4,124	5,338	5,204	5,898	4,679	6,353	5,828	6,200	6,230	7,246
Alberta Advantage		1,214	1,080	1,774	555	2,229	1,704	2,076	2,106	3,122
Employment Income of \$100,000 – Two Income Family with Two Children										
Provincial income tax	5,421	4,630	6,966	7,903	4,641	8,528	7,502	7,941	7,510	8,550
Provincial sales tax	—	1,571	1,086	1,624	2,213	2,405	2,107	2,170	2,578	2,711
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	755	927	2,219	—	—	—	604
Fuel tax	405	627	675	518	662	684	653	698	630	743
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	7,418	8,593	9,527	11,525	8,873	14,289	10,850	11,457	11,291	13,283
Alberta Advantage		1,175	2,109	4,107	1,455	6,871	3,432	4,039	3,873	5,865

Calculations are based on other provinces' tax parameters known as of March 19, 2003.

Assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- 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 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, 2003

		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	9.77	9.80	10.57
- highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 ^a	17.84	16.67	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Basic amount	(\$)	13,525	8,307	8,000	7,634	7,817	6,150	7,756	7,231	7,412	7,410
Spousal amount	(\$)	13,525	7,113	8,000	6,482	6,637	6,150	6,586	6,140	6,294	6,055
Corporate Income Tax											
General rate	(%)	12.5	13.5	17.0	16.0	12.5	8.9	13.0	16.0	16.0	14.0
M&P rate	(%)	12.5	13.5	10-17 ^b	16.0	11.0	8.9	13.0	16.0	7.5	5.0
Small business											
- rate	(%)	4.0	4.5	6.0	5.0	5.5	8.9	3.0	5.0	7.5	5.0
- threshold	(\$000)	400	300	300	320	320	n/a	400	200	200	200
Capital Tax											
General	(max.%)	—	—	0.60	0.50	0.30	0.60	0.30	0.25	—	—
Financial institutions	(max.%)	—	3.00	3.25	3.00	0.90	1.45 ^c	3.00	3.00	3.00	4.00
Retail Sales Tax											
	(%)	—	7.5	6.0	7.0	8.0	7.5 ^d	8.0 ^d	8.0 ^d	10.0	8.0 ^d
Gasoline Tax											
	(¢/litre)	9.0	14.5 ^e	15.0	11.5	14.7	15.2 ^{e,f}	14.5 ^f	15.5 ^f	14.0	16.5 ^f
Tobacco Tax											
	(\$/carton)	32.00	32.00	32.00 ^f	29.00 ^f	17.20	18.10	23.50 ^f	26.04 ^f	22.90	27.00 ^f
Payroll Tax											
	(max.%)	—	—	—	2.15	1.95	4.26 ^g	—	—	—	2.00

Rates for other provinces known as of March 19, 2003.

^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' sales taxes are harmonized with the federal 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 tax on top of this 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, 2003

(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	18.34	18.37	19.64
Federal abatement ^a	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	43.70	44.00	46.40	46.41	48.21	46.84	47.34	47.37	48.64

Rates for other provinces known as of March 19, 2003.

^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.

