



THE FUTURE
MEETING PRIORITIES SHARING BENEFITS
Alberta Tax Advantage

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Alberta Tax Advantage

“This government is committed to seeing that Albertans have more money in their pockets, either on the personal or on the business tax side.”

Pat Nelson,
Minister of Finance
Calgary Herald,
March 27, 2001

“Alberta’s tax cuts have been spectacular and it is trailblazing...”

Mary Webb, Senior Economist,
Bank of Nova Scotia,
National Post,
February 19, 2001

“...if we want to have better taxes, we must strike a good compromise between fairness and economic efficiency.”

Pierre Fortin,
“Less Taxes and Better Taxes”,
February 2000

LOWER AND BETTER TAXES

Taxes matter. They affect our everyday lives – how much of our earnings we get to keep and how we pay for the public services we value. Albertans want low, fair taxes. They are proud of the fact that they pay the lowest taxes in Canada, while still enjoying excellent public services that contribute to their quality of life.

Taxes also shape our tomorrow. Our choices about taxes today will affect how quickly the economy grows, the skills that people acquire, and the kinds of industries that develop in Alberta. Alberta’s economy must provide good jobs and offer opportunities that keep our highly skilled young people in the province. This means that our taxes must be competitive, in Canada and internationally. We cannot look at changes to the tax system solely in terms of how they divide the existing economic pie – we also have to consider how they contribute to economic growth, so that the pie gets bigger and everyone is better off than before.

This year, the government has implemented significant improvements to personal and business taxes. As a result of these changes, Albertans enjoy a fair tax system today that provides for economic growth tomorrow. We have lower, simpler, fairer and more competitive taxes.

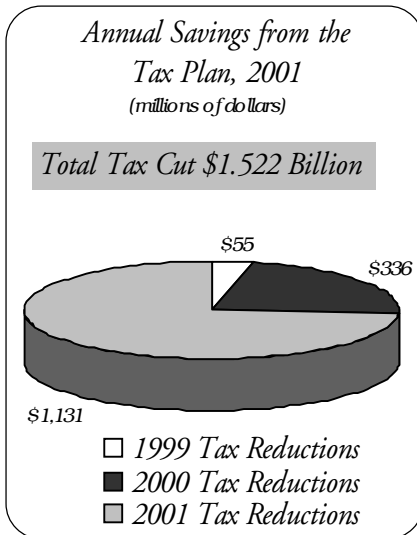
THE SINGLE RATE TAX SYSTEM IS HERE!

This year our new made-in-Alberta personal income tax system became a reality. Alberta now levies its single rate tax on taxable income instead of calculating tax as a percentage of federal tax. The Alberta Tax Review Committee first recommended this system in 1998 after consulting with Albertans. The government agreed to the changes and targeted January 2002 as the implementation date. The healthy state of our finances has allowed us to accelerate this plan. The single rate tax came into effect January 1st of this year, so Albertans get their tax savings a year ahead of the original schedule.

Not only are Albertans getting the tax savings sooner, they are getting bigger savings than originally planned. The Committee recommended a tax system with an 11% rate and basic personal and spousal exemptions of \$11,620. In May 2000, the government reduced the rate to 10.5% and increased the exemptions to \$12,900. But our financial situation allowed for even more cuts on an affordable basis – in January, we announced another reduction to the single rate, this time to 10%.

At the same time, the government announced increases to other credits. The disability tax credit increases from \$4,293 to \$6,000, the caregiver and infirm dependent credits jump from \$2,386 to \$3,500, and the part-time and full-time education credits double to \$120 and \$400 per month respectively.

The single rate tax is the final step in the tax plan that we began three years ago. In 1999, we matched federal increases to the basic and spousal exemptions. Last year, we paralleled federal reductions and eliminated the 8% surtax. With the introduction of the single rate tax, total personal income tax cuts will exceed \$1.5 billion, or 23%.



COMPETITIVE AND FAIR

In addition to immediate tax savings, Albertans will see a future economic pay-off from the tax changes we make today. The analysis in Budget '99 indicates that by 2006, Alberta's real GDP is expected to be about 1.7%, or \$2.3 billion, higher than it would have been without the tax changes. Employment will be about 35,000 greater.

The new tax system rewards initiative by reducing the tax bite that comes with earning more income. Alberta's top marginal rate, including federal and provincial taxes, has dropped from 43.7% in 2000 to 39%, the lowest in Canada. When people see less of their hard-earned dollars going to the government and more staying in their wallets, they are willing to work harder and invest more in education and training. Aside from the tax savings, Albertans will benefit from the economic growth that results when people see larger rewards for their work effort and education.

The new tax system will help attract and retain the kind of workforce that our economy needs to prosper. In today's economy, the most important asset of many businesses is the knowledge of their employees. If Alberta wants to encourage knowledge-based businesses, it must be a place where highly skilled, highly mobile workers want to live. Low, competitive taxes are an important reason why talented workers choose to work here. Without low taxes, we risk losing our own highly educated people to places that reward them more for their abilities.

Albertans want a competitive tax system that is also fair. The single rate tax balances these objectives by increasing our competitiveness while improving fairness. As a result of the increased basic and spousal exemptions, about 200,000 low-income Albertans are dropped from the provincial tax rolls, and the amount of income that people can earn without paying provincial tax increases. A working individual will pay no Alberta income tax until income reaches \$13,645, the most generous level in Canada.

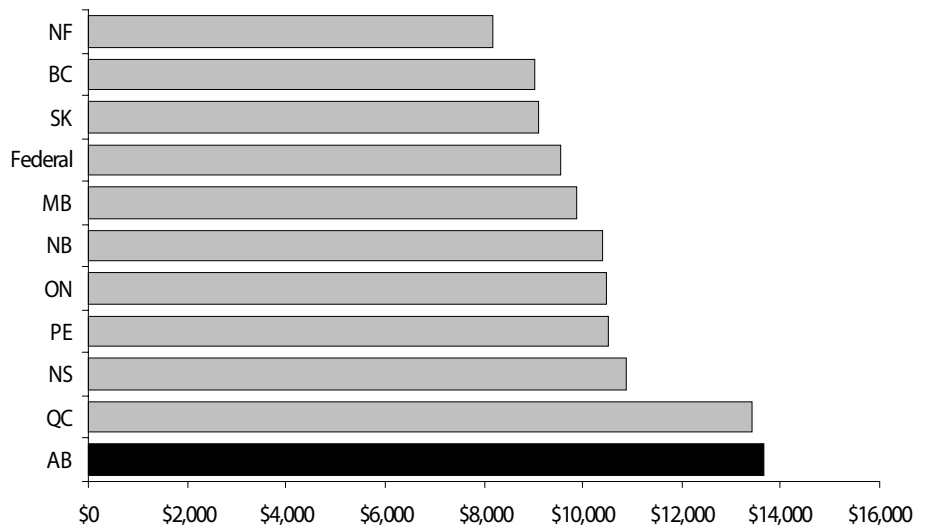
"... thinking someone else should continue to shoulder an unfair share because they worked harder to get ahead is not a solution."

Ken Derpack,
Edmonton Sun,
January 9, 2001

“... a more rational tax system would recognize the legitimate interests of low-income Canadians through significantly higher personal exemptions, thus taking them right out of the personal income tax system ...”

Robert Brown,
 “Tax Reform and Tax Reduction”,
 June 1999

Income a Working Individual Can Earn Without Paying Personal Income Tax, 2001



Includes the basic amount, CPP and EI non-refundable tax credits, sales tax credits and selective reductions where applicable.

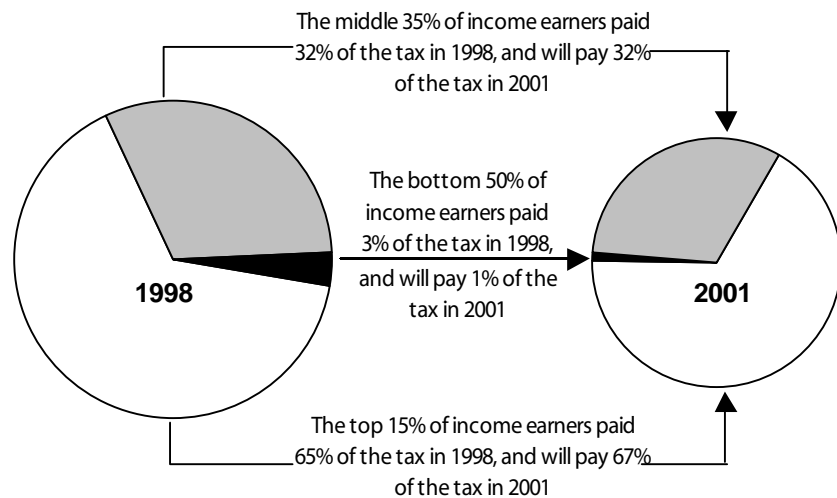
At the same time, those who can afford to pay more, do. Average tax rates rise with income, even under a single rate tax, because the basic exemption shields a smaller proportion of income from tax as income rises. In 2001, the top 15% of income earners will pay 67% of Alberta income tax, up from 65% in 1998.

“How could anything be fairer? ... The low-income workers pay a low amount and the high-income workers pay a high amount, but we all pay at the same rate.”

Bob Easton,
 Grande Prairie Daily Herald-Tribune,
 December 20, 2000

Distribution of Tax Burden

\$1.5 billion less tax will be paid in 2001 than if Alberta had kept the 1998 system



“Everyone who’s a taxpayer should get tax relief and this is what’s been wonderful about what the government has done in Alberta. It’s straight across the board. It’s 10 percent. They don’t play income groups off against one another... It’s clear, it’s transparent, it’s fair, it’s progressive.”

Troy Lanigan,
Acting Alberta Director,
Canadian Taxpayers
Federation,
Calgary Herald,
December 28, 2000

“... Alberta’s flat tax is progressive. The more you earn, the more you pay. What makes it different, and important, is that it contains a limit - [10%] - that applies to everyone.”

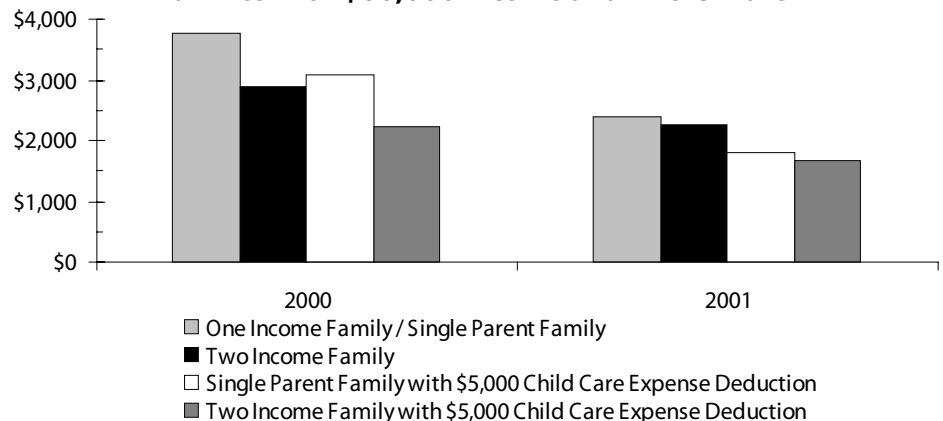
Paul Stanway,
Calgary Sun,
January 6, 2001

The government recognizes that there are two ways to achieve progressivity. One way is to tax high-income earners at high levels. We could hit people with higher and higher tax rates as their income rises. This might be seen as “fair”, but it comes at the cost of a shrinking economic pie, as high-income, highly skilled workers, and the businesses that employ them, move to places with lower taxes.

The second and better way to achieve progressivity is to reduce taxes on low-income earners. The new tax system does this by increasing the basic exemptions dramatically. It eliminates tax for low-income taxpayers, without punishing high-income earners and the economy with high tax rates. The result: a tax system that is both competitive and fair, and that encourages economic growth.

The new tax system is also fairer to one-income families. By taxing all income at a single rate and setting the basic and spousal exemptions at the same amount, it reduces the difference in tax paid by one- and two-income families.

Comparison of Alberta Income Taxes Payable by Families with \$60,000 Income and Two Children



Finally, tax credits are indexed to the Alberta Consumer Price Index, so there is no hidden tax grab when income increases with inflation. This is particularly helpful for low- and middle-income Albertans because the exemptions represent a larger portion of their incomes.

Tax Plan Savings for Albertans^a

(dollars)

Income	Alberta Taxes Paid				Savings 2000 to 2001
	1998	1999	2000	2001	
Single					
20,000	1,033	1,007	971	594	377
30,000	1,707	1,679	1,642	1,429	213
40,000	2,485	2,455	2,373	2,073	300
60,000	4,472	4,440	4,236	3,693	543
75,000	6,200	6,168	5,796	4,973	823
100,000	9,342	9,310	8,714	7,173	1,541
One Income Family or Single Parent Family with Two Children^b					
20,000	(526)	(604)	(662)	(1,000)	338
30,000	450	397	343	(701)	1,044
40,000	1,518	1,463	1,354	223	1,131
60,000	4,037	3,978	3,777	2,403	1,374
75,000	5,766	5,706	5,337	3,683	1,654
100,000	8,908	8,848	8,254	5,883	2,371
Two Income Family with Two Children^b					
20,000	(802)	(840)	(874)	(1,000)	126
30,000	279	210	127	(483)	610
40,000	1,060	994	916	228	688
60,000	3,023	2,968	2,871	2,277	594
75,000	4,311	4,254	4,121	3,501	620
100,000	6,889	6,827	6,541	5,705	836
Single Senior^c					
15,000	—	—	—	—	—
20,000	737	699	644	248	396
30,000	1,638	1,613	1,556	1,294	262
40,000	2,944	2,919	2,818	2,444	374
60,000	5,577	5,550	5,228	4,610	618
75,000	7,719	7,692	7,217	6,110	1,107
100,000	11,289	11,262	10,532	8,610	1,922
Senior Couple^c					
25,000	—	—	—	—	—
30,000	205	156	53	—	53
40,000	1,389	1,326	1,241	545	696
60,000	3,468	3,418	3,302	2,617	685
75,000	5,235	5,184	5,005	4,313	692
100,000	8,512	8,459	8,058	7,069	989

^a Calculations include RRSP/RPP contributions except for seniors.

^b Includes the Alberta Family Employment Tax Credit where applicable.

^c Blank lines indicate seniors who pay no Alberta income tax and receive the Alberta Seniors Benefit.

CALCULATING TAX UNDER THE SINGLE RATE SYSTEM

To calculate provincial personal income tax payable under the new system, Albertans first multiply federally defined taxable income by the single rate of 10%. From this amount, Albertans then subtract the Alberta non-refundable tax credits to which they are entitled.

In addition to providing enhanced basic personal and spousal exemptions, Alberta will continue to provide the same non-refundable tax credits as the federal government, including the age, caregiver, and the tuition and education credits. Credits that can be transferred or carried forward under the federal system will continue to receive the same treatment under the Alberta system. Provincial support has increased from about 7.5% of the credit amounts – what you got when you multiplied the old federal tax rate of 17% by the old provincial rate of 44% – to 10%. The charitable donations credit is 10% of the first \$200 and 12.75% of donations above \$200.

Additionally, the province will continue to provide a provincial dividend tax credit, overseas employment tax credit, foreign tax credit and political contributions tax credit. The non-refundable dividend tax credit in Alberta is 32% of the gross up.

Dividend = \$100	Charitable donation = \$500
Gross-up = \$100 x 25% = \$25	Credit on first \$200 = \$200 x 10% = \$20
Alberta dividend tax credit* = \$25 x 32% = \$8	Credit on next \$300 = \$300 x 12.75% = \$38.25
	Total credit = \$58.25

*With the September announcement that Alberta's small business tax rate will be reduced to 3% by April 1, 2003 if affordable, the dividend tax credit will be under review in the future.

Alberta Non-Refundable Tax Credit Block							
2000				2001			
	Maximum Amount (A) \$	Alberta Credit Rate (B) %	Deduction from Alberta Tax (A) x (B) \$	Maximum Amount (A) \$	Tax Rate (B) %	Deduction from Alberta Tax (A) x (B) \$	
Basic personal amount	7,231	7.5	542	12,900	10	1,290	
Spousal amount	6,140	7.5	461	12,900	10	1,290	
Equivalent-to-spouse amount	6,140	7.5	461	12,900	10	1,290	
Age amount	3,531	7.5	265	3,619	10	362	
Infirm dependent amount	2,386	7.5	179	3,500	10	350	
CPP contributions	1,330	7.5	100	1,496	10	150	
El contributions	936	7.5	70	878	10	88	
Pension income amount	1,000	7.5	75	1,000	10	100	
Disability amount	4,293	7.5	322	6,000	10	600	
Disability supplement	2,941	7.5	221	3,500	10	350	
Tuition and education amounts	Variable	7.5	Variable	Variable	10	Variable	
Medical expenses	Variable	7.5	Variable	Variable	10	Variable	
Caregiver amount	2,386	7.5	179	3,500	10	350	
Interest on student loans	Variable	7.5	Variable	Variable	10	Variable	
Donations and gifts							
- first \$200	200	7.5	15	200	10	20	
- over \$200	75% of income	12.75	Variable	75% of income	12.75	Variable	

HELPING ALBERTANS DEAL WITH HIGH ENERGY PRICES

High energy prices are tough on the family budget, hitting Albertans when they fill up at the gas pump and pay their home heating bills. At the same time, high energy prices have created much larger than expected revenues for the Alberta government. In response, we decided to return some of these dollars to Albertans through a refundable tax credit.

The Alberta Energy Tax Refund provides Albertans 16 years of age and over with \$300 to help deal with rising energy costs or other expenses. Most Albertans received the first \$150 installment last fall, with the second installment arriving in mailboxes this month. Because the refund is tax-free, Albertans end up with the full \$300 in their pockets. In total, the tax refund is expected to return over \$690 million to Albertans.

The Alberta government is taking a prudent approach by combining ongoing personal tax cuts with periodic refunds as appropriate. Tax cuts give back to Albertans each year on a sustainable, long-term basis, while a one-time refund gives more back during times of unexpectedly high revenues.

COMPETITIVE BUSINESS TAXES

COMPETING ON A GLOBAL STAGE

Alberta is an excellent place to do business. Our province has many advantages, including a high quality of life, good infrastructure, and a highly educated workforce. Low business taxes add to our advantage. Alberta has no general sales, payroll or capital taxes and one of the lower corporate income tax rates in Canada.

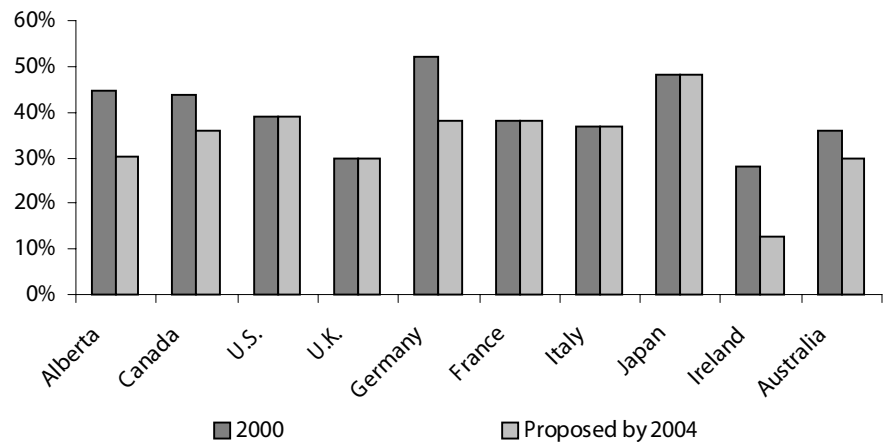
In the past, we were content that our business taxes were competitive compared to other provinces. This is no longer good enough. We have to look beyond Canada's borders. Our advantage must be measured on a global, not just national, stage.

International comparisons show that Alberta may face a disadvantage if we stand still. Alberta's combined federal-provincial corporate income tax rate is currently higher than the rates of many of our major economic competitors, several of whom have announced significant corporate tax cuts. We especially need to look south, to make sure that Alberta businesses are not at a disadvantage relative to competitors in the United States. The recently announced federal corporate income tax reductions, which will drop the federal rate in Canada to 21% by 2004 for most businesses, will improve our relative position, but Alberta should not expect the U.S. to stand still. Alberta must do its part to remain competitive.

"The world is changing quickly on all of us and it's harder and harder every year to remain competitive."

Pete Merlo,
President, Grande Prairie
Chamber of Commerce,
Grand Prairie Daily Herald-
Tribune,
September 18, 2000

General Corporate Income Tax Rates Selected OECD Countries



Source: Jack Mintz, "The February 2000 Federal Budget's Business Tax Measures", C.D. Howe Institute, March 2000, with Ministry of Finance data for Alberta and the U.K.

"By improving Canada's attractiveness as a place to invest, we could raise the economy's capacity to grow and create well-paying jobs over time."

William Robson,
"Good Times, Good Decisions",
August 2000

REVIEWING BUSINESS TAXES IN ALBERTA

People end up paying the cost of business taxes. Businesses can invest almost anywhere in the world. They are less likely to locate here if it means paying high taxes. If businesses choose to invest somewhere else, Alberta's work force will be left with fewer and lower quality jobs, lower wages, and a lower standard of living.

With this in mind, the government appointed the Alberta Business Tax Review Committee in February 2000. Its mandate was to examine the impact of business taxes on Alberta's economic and business climate and on our international competitiveness, and to make recommendations to improve Alberta's competitive position. The Committee asked what Albertans thought about our business tax system, and heard from them through written and verbal submissions.

Albertans expressed their support for lower taxes on business. They wanted the government to deliver low taxes for as many businesses as possible, through corporate income tax reductions. Corporate income tax cuts give the biggest bang for the buck and they are the most important element in international tax competitiveness.

General corporate income tax reductions are better than providing special tax treatment for certain industries. This is called the low-rate, broad-base approach, and the Alberta government remains committed to it, even though other provinces increasingly offer special incentives to certain industries. Special incentives are fine for the favoured industries, but not for other businesses that pay for the special treatment through higher general tax rates. We continue to believe that the market, not government policy, should decide which businesses succeed.

IMPROVING ALBERTA'S COMPETITIVENESS

The Committee's recommendations were intended to improve Alberta's position as one of the best places to start, locate or expand a business. The Alberta government adopted most of the Committee's recommendations, but decided to study others further.

GOVERNMENT RESPONSE	BUSINESS TAX REVIEW COMMITTEE RECOMMENDATIONS
✓	Reduce the general corporate income tax rate from 15.5% to 8% and the manufacturing and processing rate from 14.5% to 8%.
✓	Cut the small business rate in half, from 6% to 3%, and double the threshold from \$200,000 to \$400,000.
✓	Eliminate the capital tax on financial institutions and do not allow capital taxes payable to other provinces to be deductible in Alberta.
✓	No changes to the insurance corporations tax and the hotel room tax.
×	No changes to fuel taxes.
×	Changes should be made to the Alberta Farm Fuel Benefit program so that only unlicensed vehicles and equipment are eligible to use tax-exempt fuel.
Further Review	Changes should be made to the Tax Exempt Fuel Use program so that only unlicensed vehicles and equipment are eligible to use tax-exempt fuel.
Further Review	Changes should be made to the Alberta Royalty Tax Credit program so that benefits go primarily to smaller companies. Over the longer term, the program should be reviewed with the ultimate goal of phasing it out.
✓	Government should address issues related to the taxation of machinery and equipment assessment on electric power generation.
✓	Alberta's capital gains inclusion rate should be reduced from 66.7% to 50%.
✓	The province should maintain a low rate, broad base tax system rather than introduce tax credits.

"The economic environment in Alberta, with its lower taxes, healthy economy and good entrepreneurial business community, provides a better base for quicker growth than any other province."

Ian Robinson,
Partner,
Ernst & Young,
March 7, 2001

The government agrees with the Committee that the first priority is to reduce corporate income tax rates. Lower tax rates benefit all businesses and sectors of the Alberta economy, and ultimately Albertans through a growing economy and better job opportunities. On April 1, the general and manufacturing and processing rates were reduced to 13.5%. The government will cut these rates to 8% by 2004, subject to affordability. These changes will keep Alberta competitive in the global marketplace. Once Alberta's tax rate drops to 8% and the planned federal reductions kick in, the combined federal-provincial corporate income tax rate in Alberta will be 30.12%, well below the existing rate of 44.62%. This will be very competitive with current U.S. rates.

The government also recognizes the important role of small business in Alberta's economy. We will double the eligible income threshold to \$400,000 over two years and halve the small business rate to 3% over three years, subject to affordability. These changes will make Alberta's rate for small businesses the lowest in Canada. The first steps took place on April 1, when the rate fell to 5% and the threshold climbed to \$300,000.

“... this [business tax reductions] will make a good tax environment a great tax environment.”

Dan Kelly,
Canadian Federation of
Independent Business,
National Post,
September 14, 2000

“The one thing about this continuing move down in the tax rate is that it's a robust economy, it's energetic. We can recruit bright, young people here.”

Brant Randles, President,
Louis Dreyfus Canada Ltd.,
National Post,
February 19, 2001

Financial services are also important to future economic growth. Yet, Canadian governments have targeted this sector with special capital taxes. These taxes are becoming more of an issue because of the regulatory and technological changes occurring in the banking industry. These changes are opening the Canadian market to greater competition from abroad, and allowing our existing banks to restructure and enter new lines of business. Maintaining the capital tax in Alberta would discourage financial institutions from locating their restructured operations here, depriving Albertans of the job opportunities offered by a vibrant financial services sector.

For these reasons, the government eliminated the capital tax on financial institutions on April 1, 2001. In conjunction with this change, capital taxes payable to other provinces are no longer deductible in Alberta. This ensures that Alberta will not subsidize other provinces' capital taxes.

Effective May 1, the railway fuel tax rate will be reduced from 3 cents per litre to 1.5 cents per litre, the same rate levied on aviation fuel, since the railways have to pay for their own infrastructure.

The business tax cuts, including the reduction of the inclusion rate for capital gains to 50%, will save Albertans \$1 billion by 2004.

Implementation Schedule for the Business Tax Plan

	2000	Implementation on April 1			
		2001	2002	2003	2004
General rate (%)	15.5	13.5	11.5	10.0	8.0
Manufacturing and processing rate (%)	14.5	13.5	11.5	10.0	8.0
Small business rate (%)	6.0	5.0	4.0	3.0	
Small business threshold (\$)	200,000	300,000	400,000		
Capital gains inclusion rate (%)	50 ^a	50			
Railway fuel tax (¢/litre)	3	1.5 ^b			
Capital tax (%)	0.7/1.0	Eliminated			
Cost of Tax Cuts (\$ millions)		286	561	770	1,000

^a The capital gains inclusion rate was reduced from 75% to 66.7%, effective February 28, 2000, and further reduced to 50%, effective October 18, 2000.

^b Effective May 1, 2001.

FURTHER REVIEW

The Business Tax Review Committee reviewed three programs in the context of the government's commitment to a low-rate, broad-base tax system. These programs are the Alberta Royalty Tax Credit (ARTC), the Tax Exempt Fuel Use program (TEFU), and the Alberta Farm Fuel Benefit program.

The Committee recommended that the government phase out ARTC benefits to larger companies, and ultimately eliminate the program. The Committee also recommended that the TEFU and Alberta Farm Fuel Benefit programs be restricted to unlicensed vehicles and equipment.

The government rejected the recommended change to the farm fuel program. The ARTC and TEFU programs will be reviewed further.

“A higher rate of economic growth will, over time, improve everyone's standard of living, rich as well as poor.”

Bev Dahlby,
“Tax Reform and Economic Growth in Alberta”,
October 2000

School property tax revenue will be frozen at \$1.2 billion.

ECONOMIC BENEFITS OF THE BUSINESS TAX PLAN

If we stand still on business taxes, less investment will come to Alberta, and skilled Albertans will be forced to look elsewhere to find job opportunities. The business tax cuts will help keep investment, jobs and talented people in Alberta. The reductions to Alberta's corporate income taxes are expected to raise Alberta's real GDP by 1.5% by 2006. This amounts to almost \$2 billion added to Alberta's economy.

The goals of competitive taxes for businesses and sustainable revenues for public services are not contradictory. If we leave corporate taxes unchanged, Alberta's advantage will erode and our tax base will stagnate, making it increasingly difficult to raise the revenue needed to fund public services. With competitive taxes, Alberta will see a growing, more diverse tax base that will help to provide revenues in support of public services, and promote economic growth and opportunity.

SCHOOL PROPERTY TAX

Property taxes have been used to fund school systems since Confederation. Although local school boards used to collect property taxes from their communities, the province assumed this responsibility in 1994 to ensure that all children receive the same educational opportunities, regardless of how wealthy their community is. Subsequently, at the request of municipalities, residential properties began being assessed at their market value to increase fairness and consistency across communities.

While property taxes are an important source of funding for education, the government recognizes that they are a cost to homeowners and businesses. We have kept provincial property taxes low as part of the Alberta Advantage. This year, the government is delivering a major cut in school property taxes. We are reducing the amount of school property taxes, including taxes collected by opted out school boards, by \$135 million, to \$1.2 billion in total. Property tax revenue will be frozen at this amount in future years.

This reduction means the provincial uniform school property tax rate will fall from \$6.77 to \$5.62 per \$1,000 of assessed value for residential property, and from \$9.94 to \$8.25 for non-residential property. The result is lower school property taxes for Albertans. The actual reductions for individual homeowners and businesses will vary depending on factors such as the change in the market value of their property and the change in the total taxable assessment in their municipality.

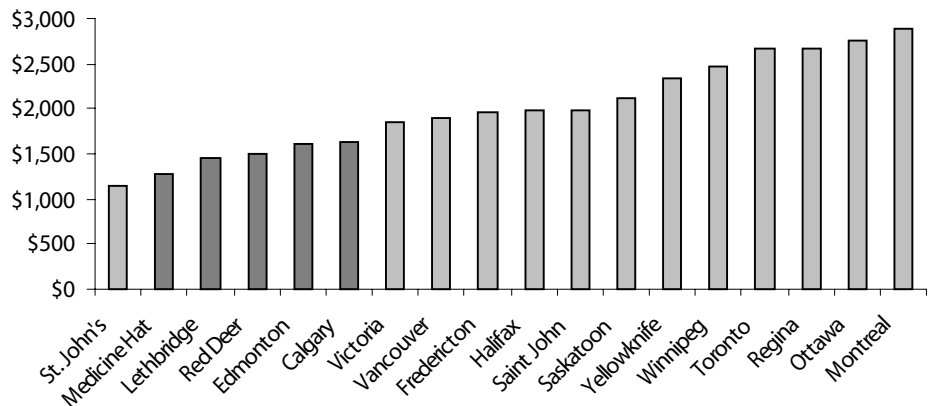
In future years, Albertans should get automatic school property tax rate reductions as the \$1.2 billion revenue requirement is held constant but spread over a growing assessment base.

The percentage of basic education funding from the property tax has fallen from 50% in 1994 to 33% this year and will fall to 30% by 2003-04.

The reduction in school property taxes does not mean lower education spending. Instead, a greater share of education costs will be funded from general revenues. The percentage of basic education funding from the property tax has fallen from 50% in 1994 to 33% this year, and will fall to 30% by 2003-04.

Property taxes in Alberta are among the lowest in the country. Among selected Canadian cities, only homeowners in St. John's pay less in property tax on a single-family home than homeowners in Alberta's cities. This year's tax reductions will mean even lower school property taxes for Albertans.

**Net Property Tax for a Single-Family Home
Selected Canadian Cities, 2000**



Notes:

1. Figures include municipal, regional and school taxes, net of any applicable homeowner grants or property tax credits.
2. Taxes are based on the value of a typical single-family home, defined as a 10-15 year old detached bungalow with 3 bedrooms, a main floor area of 1,200 square feet, full basement, one-car garage, and a 5,500 square foot lot.

Source: City of Edmonton, Planning and Development, "2000 Residential Property Taxes and Utility Charges Survey".

FEDERAL-PROVINCIAL ISSUES

NON-RENEWABLE RESOURCE SECTOR

The federal government announced a cut in the general corporate income tax rate from 28% to 21% by 2004. The non-renewable resource sector was excluded from this tax cut, based on the argument that the special tax provisions applicable to the industry already reduce its effective tax rate below those of other sectors. Since then, the federal government has indicated its willingness to discuss the current tax system in the context of a longer-term objective of including the sector in the rate reduction.

The federal government is directing particular attention to whether the resource allowance should be retained or replaced by a return to royalty deductibility. The resource allowance, calculated as 25% of resource income, is a deduction in the calculation of taxable income that is meant to offset the non-deductibility of provincial Crown royalties.

Given the importance of the non-renewable resource sector to Alberta's economy and the long lead times for project financing and development, the Alberta government is working with the federal government and industry to resolve this issue.

TAX COLLECTION AGREEMENTS

Alberta and all other provinces except Quebec participate in tax collection agreements with the federal government for the collection of personal income tax. The agreements provide advantages for taxpayers, and federal and provincial governments. In fact, these arrangements have worked so well for Canada that they are considered internationally as a model for tax administration.

Up until now, provinces were required under the agreements to set their own tax rates as a percentage of federal tax. Provinces were therefore tied to the federal brackets, rate structure and level of credit support. Provinces could, however, administer separate initiatives. This ability strengthened the tax collection agreements as provinces were able to exercise their right of independent tax policy without jeopardizing their participation in the national tax collection system.

Alberta and other provinces now levy provincial tax on taxable income, rather than on federal tax. While Albertans will continue to file only one return, the federal form and provincial attachment, we are no longer tied to the federal brackets, rate structure or credit support levels.

The tax collection agreements must be updated as a result of the provincial moves to tax on income. The federal government has taken a position that if they disagree with a provincial program administered by a province, the province's tax collection agreement could be terminated. In other words, the federal government wants provinces to give up their constitutional right to control provincial tax policy in order to remain within the tax collection agreements. Alberta will not sign any agreement that requires it to surrender policy control to the federal government.

A DECADE OF TAX CUTS

This year's tax cuts are the latest and most significant chapter in a long round of tax cuts that began in 1994.

Starting in 1994, the government has cut school property tax rates every year except for one year when they were frozen. The trend continues this year with a substantial reduction in the amount collected from the school property tax. Both residential and non-residential property owners have enjoyed significant reductions over this period. The uniform provincial residential rate has fallen from \$7.64 in 1993 to \$5.62 per \$1,000 of equalized assessment, while the non-residential rate has fallen from \$11.02 to \$8.25. This amounts to a reduction of more than 25% over the past eight years.

"... this is also the provinces' PIT system and it is critically important that they not be subject to federal unilateralism in the implementation of a tax structure that they deem to be in their interest."

Thomas Courchene,
"National Versus Regional
Concerns",
November 1999

"[Alberta] Government policies, including a low tax burden, contribute to a favourable business environment, experiencing high levels of business investment..."

Moody's Investors Service,
Global Credit Research,
August 2000

Albertans will enjoy over \$4 billion in permanent tax cuts.

Businesses will benefit from \$1 billion reductions in business taxes over the next four years, on top of earlier reductions in property and fuel taxes. The school property tax on machinery and equipment was phased out from 1996 to 1998. In 1997, the province cut the aviation fuel tax from 5 to 1.5 cents per litre, and from 1998 to 1999, the railway fuel tax fell from 9 to 3 cents per litre. This year, the rate on railway fuel falls to 1.5 cents per litre.

Albertans have seen personal income tax savings every year since 1997. In 1997, the government offered relief to low- and middle-income working families by introducing the Alberta Family Employment Tax Credit (AFETC). The next year, we doubled the AFETC and lowered taxes for all Albertans by cutting the basic rate from 45.5% to 44% under the old tax-on-tax system. In 1999 and 2000, we matched the federal increases to basic and spousal exemptions, and in 2000, we eliminated the 8% surtax. With the single rate tax implemented this year, the combined effect of all these cuts is expected to grow to \$2.4 billion in annual tax savings by 2004.

A Decade of Tax Cuts, 1994 to 2004^a

(millions of dollars)

Savings for Individuals

Personal Income Tax	2,328
Alberta Family Employment Tax Credit	80
School Property Tax on Residential and Farm Properties	341
Savings for Individuals	<u>2,749</u>

Savings for Business

Corporate Income Tax	956
Financial Institutions Capital Tax	40
School Property Tax on Business	247
School Property Tax on Machinery and Equipment	230
Aviation Fuel Tax	29
Railway Fuel Tax	19
Savings for Business	<u>1,521</u>

Total Savings for Individuals and Business **4,270**

^a The difference in tax that would be paid in 2004 under the 1994 tax system and the amount that will be paid under the planned 2004 system.

We won't stop here. The *It's Your Money* survey asked Albertans what the government should do with permanent extra money freed up by paying down the debt, and with one-time extra resource revenue when energy prices are high.

Albertans told the government that their top priority is to put money back in their pockets, through permanent tax cuts, and through one-time rebates from resource windfalls. The top choice for permanent reductions was personal income taxes, followed by fuel taxes, health care insurance premiums, and lastly, school property taxes.

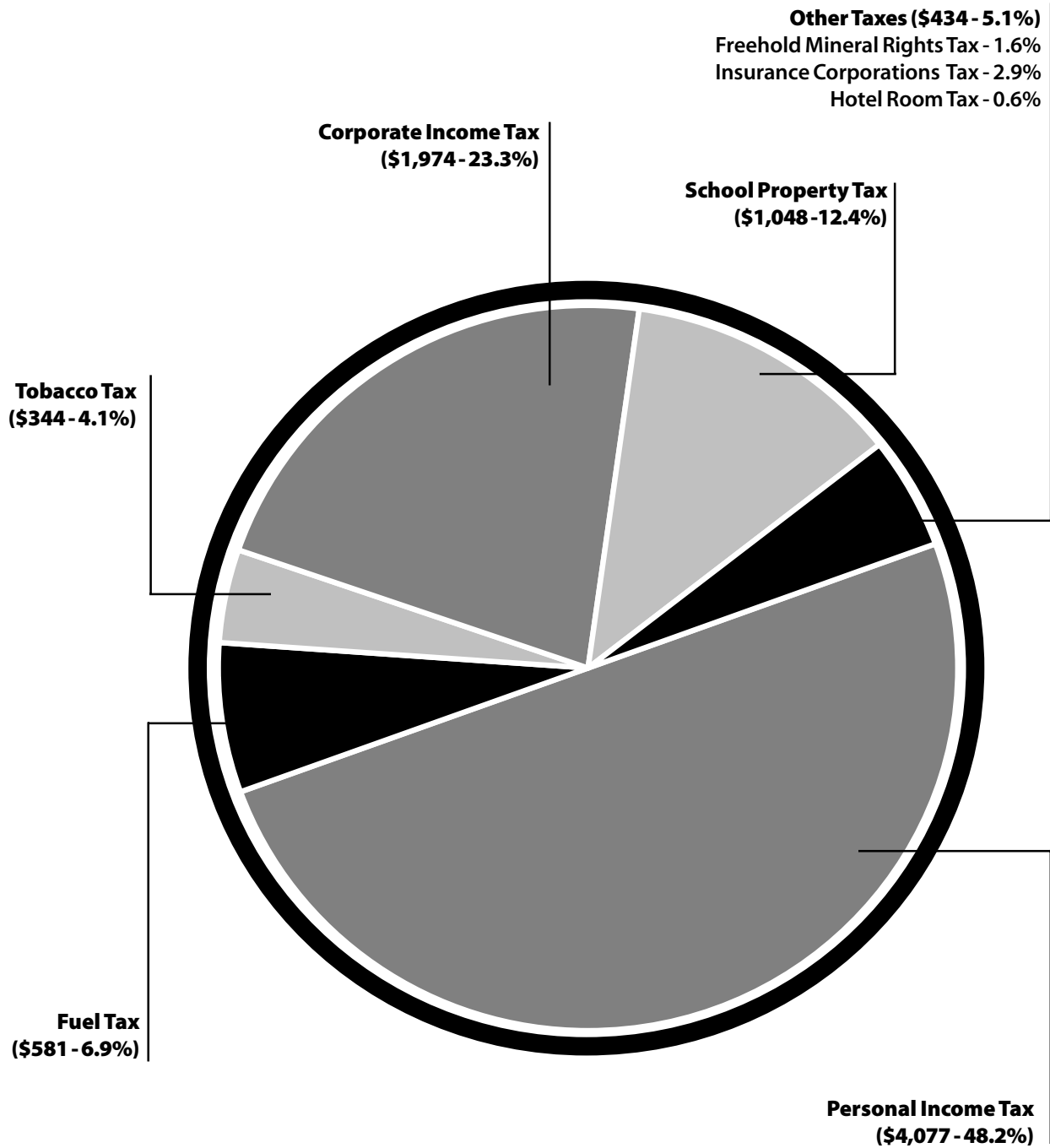
The tax system will continue to evolve to meet Albertans' needs. It will remain an important part of what makes Alberta a great place to live, work, and raise a family.

Tax Revenue by Source

(millions of dollars)

Total Tax Revenue \$8.458 Billion

2001-02 ESTIMATE



2001-02 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	2001 Tax Rate	Annual Revenue per Unit of Tax
1. Personal Income Tax	4,077		
Personal Income Tax	4,422	10.0%	442.0 per point
Energy Tax Refund	(345)		
2. Corporate Income Tax	1,974		
General Rate	1,731	13.5%	128.0 per point
Small Business Rate	243	5.0%	48.5 per point
3. Fuel Tax	581		
Gasoline and Diesel	556	9¢/litre	62.0 per ¢/litre
Propane	9	6.5¢/litre	1.5 per ¢/litre
Railway	4	1.5¢/litre	2.5 per ¢/litre
Aviation	12	1.5¢/litre	8.0 per ¢/litre
4. Tobacco Tax	344	\$14/carton	24.5 per \$/carton
5. School Property Tax	1,048		
Residential/Farm Property	600	\$5.62/\$1,000 of assessment	107.0 per \$/\$1,000 of assessment
Non-Residential	448	\$8.25/\$1,000 of assessment	54.5 per \$/\$1,000 of assessment
6. Freehold Mineral Rights Tax	253		(difficult to express in per unit terms)
7. Insurance Corporations Tax	134		
Life, Accident, Sickness	36	2% of premium	18.0 per point
Other	98	3% of premium	32.5 per point
9. Hotel Room Tax	47	5.0%	9.5 per point

Interprovincial Tax and Health Care Insurance Premium Comparison, 2001

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NF
Employment Income of \$30,000 – One Income Family with Two Children										
Provincial Income Tax	(701)	447	881	580	(279)	(734)	1,255	1,120	1,121	1,450
Provincial Sales Tax	—	690	491	783	995	1,126	939	977	1,225	1,084
Health Care Premium	612	648	—	—	—	—	—	—	—	—
Payroll Tax	—	—	—	226	285	706	—	—	—	171
Fuel Tax	270	330	450	345	441	456	321	405	390	495
Tobacco Tax	350	550	430	430	183	265	300	339	398	550
	531	2,665	2,252	2,364	1,625	1,819	2,815	2,841	3,134	3,750
Alberta Advantage		2,134	1,721	1,833	1,094	1,288	2,284	2,310	2,603	3,219
Employment Income of \$60,000 – Two Income Family with Two Children										
Provincial Income Tax	2,277	2,768	3,429	3,207	1,908	2,867	3,300	3,426	3,333	3,669
Provincial Sales Tax	—	1,037	732	1,160	1,477	1,608	1,424	1,469	1,847	1,641
Health Care Premium	612	648	—	—	—	—	—	—	—	—
Payroll Tax	—	—	—	452	570	1,413	—	—	—	343
Fuel Tax	405	495	675	518	662	684	482	608	585	743
Tobacco Tax	350	550	430	430	183	265	300	339	398	550
	3,644	5,498	5,266	5,767	4,800	6,837	5,506	5,842	6,163	6,946
Alberta Advantage		1,854	1,622	2,123	1,156	3,193	1,862	2,198	2,519	3,302
Employment Income of \$100,000 – Two Income Family with Two Children										
Provincial Income Tax	5,705	6,548	7,895	8,532	5,006	9,795	7,926	8,154	7,710	8,780
Provincial Sales Tax	—	1,594	1,114	1,738	2,266	2,340	2,159	2,226	2,812	2,476
Health Care Premium	612	648	—	—	—	—	—	—	—	—
Payroll Tax	—	—	—	754	950	2,355	—	—	—	571
Fuel Tax	405	495	675	518	662	684	482	608	585	743
Tobacco Tax	350	550	430	430	183	265	300	339	398	550
	7,072	9,835	10,114	11,972	9,067	15,439	10,867	11,327	11,505	13,120
Alberta Advantage		2,763	3,042	4,900	1,995	8,367	3,795	4,255	4,433	6,048

Calculations are based on tax parameters known at April 4, 2001.

Assumptions:

- 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.
- For two income families, income is split 60/40 between the two spouses.
- Business bears between 25% and 60% of the provincial sales tax, dependent upon the provincial tax regime.
- RRSP/RPP contributions are included in the calculation of personal income tax.
- The children in each family are assumed to be 6 and 12 years old.

Major Provincial Tax Rates, 2001

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NF
Personal Income Tax											
Statutory Rate Range											
- Lowest Rate	(%)	10.00	8.40	11.50	10.90	6.20	17.00 ^a	9.68	9.77	9.80	10.57
- Highest Rate	(%)	10.00	19.70	16.00	17.50	11.16	24.50 ^a	17.84	16.67	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Basic Exemption	(\$)	12,900	8,000	8,000	7,361	7,426	5,900	7,412	7,231	7,412	7,410
Spousal Exemption	(\$)	12,900	6,850	8,000	6,251	6,306	5,900	6,294	6,140	6,294	6,055
Corporate Income Tax											
Small Business Rate	(%)	5.0 ^b	4.5	8.0 ^c	6.0	6.5	9.04 ^d	4.0	5.0	7.5	5.0
M&P Rate	(%)	13.5 ^b	16.5	10/17 ^e	17.0	12.0	9.04 ^d	16.0	16.0	7.5	5.0
General Rate	(%)	13.5 ^b	16.5	17.0	17.0	14.0	9.04 ^d	16.0	16.0	16.0	14.0
Capital Tax											
General	(max.%)	—	0.30	0.60	0.50	0.30	0.64	0.30	0.25	—	—
Financial Institutions	(max.%)	— ^b	3.00	3.25	3.00	0.90	1.55 ^f	3.00	3.00	3.00	4.00
Retail Sales Tax	(%)	—	7.0	6.0	7.0	8.0	7.5 ^g	8.0 ^g	8.0 ^g	10.0	8.0 ^g
Gasoline Tax	(¢/litre)	9.0	11.0 ^h	15.0	11.5	14.7	15.2 ^{i,h}	10.7 ⁱ	13.5 ⁱ	13.0	16.5 ⁱ
Tobacco Tax	(\$/carton)	14.00	22.00	17.20 ^j	17.20 ^j	7.30 ^j	10.60 ^j	12.00 ^j	13.54 ^j	15.90	22.00 ^j
Payroll Tax	(max.%)	—	—	—	2.15	1.95	4.26 ^j	—	—	—	2.00

Rates for other provinces known as at April 4, 2001.

- ^a Quebec residents receive an abatement of 16.5% of federal tax in lieu of cash transfers to Quebec for several social programs, reducing the lowest and highest effective rates to 14.36% and 19.71%, respectively.
- ^b These rates are effective April 1, 2001.
- ^c This rate is reduced to 6% effective July 1, 2001.
- ^d The Quebec corporate tax rate includes the basic rate of 8.9% plus the Youth Fund surtax of 1.6%.
- ^e 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.
- ^f The Quebec financial institutions capital tax includes the base rate of 1.28%, the Youth Fund surtax of 1.6%, and a compensatory tax of 0.25%.
- ^g These provinces' sales taxes are harmonized with the federal GST and apply to a broader base than other provincial sales taxes.
- ^h An additional 4 cents/litre is imposed in the greater Vancouver area, 2.5 cents/litre in Victoria and 1.5 cents/litre in Montreal.
- ⁱ These provinces apply their retail sales taxes on top of this tax.
- ^j There is an additional 2% compensatory tax on wages of financial institutions that is not included in this rate.

Top Marginal Personal Income Tax Rates, 2001

(per cent)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NF
Federal	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Provincial	10.00	19.70	16.00	17.50	17.41	24.50	17.84	18.34	18.37	19.64
Federal Abatement ^a	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	48.70	45.00	46.50	46.41	48.71	46.84	47.34	47.37	48.64

Rates for other provinces known as at April 4, 2001.

- ^a Quebec residents receive an abatement of 16.5% (4.79 percentage points on the top rate of 29%) of federal tax in lieu of federal cash transfers to Quebec for several social programs. This reduces the top basic federal rate of 29% by 16.5%, or 4.79% of taxable income.

