

# ALBERTA TAX ADVANTAGE

**BUDGET**  
**2004**  

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**ON ROUTE**  
**ON COURSE**

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# Alberta Tax Advantage

*“Alberta’s tax advantage has contributed to making our economy the most dynamic in Canada.”*

**Pat Nelson**  
**Minister of Finance**  
**March 24, 2004**

*“With a 10% single-rate personal income tax, the highest basic personal tax exemption, the lowest fuel taxes, and no sales tax, Alberta imposes the lowest overall tax burden of all provinces on its residents.”*

**Dominion Bond Rating Service**  
**Credit Rating Report**  
**November 28, 2003**

## HIGHLIGHTS

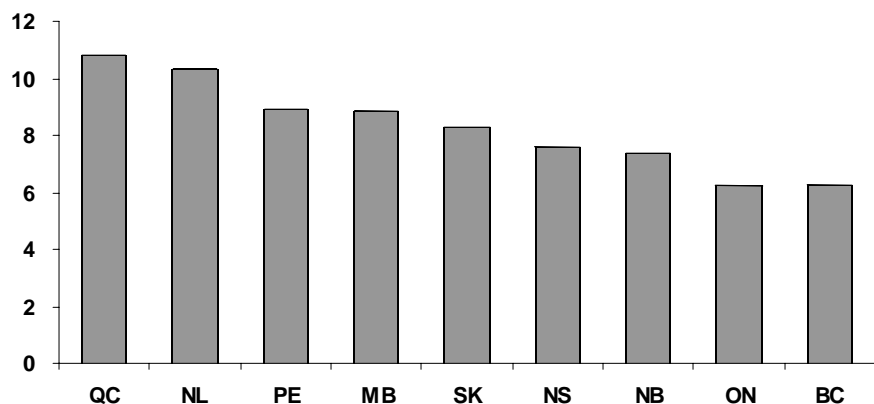
- Albertans continue to pay less tax than anywhere else in Canada.
- The general corporate income tax rate will fall to 11.5% and the small business rate to 3.0%, saving businesses \$142 million in 2004-05.
- Inflation indexing of the personal income tax system saves taxpayers \$150 million in 2004.
- School property tax rates drop by about 2.3%.

## INTRODUCTION

As one of the key components of the Alberta Advantage, Alberta's tax advantage has contributed to making our economy the most dynamic in Canada. Alberta has among the lowest personal and corporate income taxes, property taxes and fuel taxes in the country. When combined with no general sales tax, payroll tax or capital tax, individuals and businesses in Alberta pay much less in taxes than they would in any other province. Low tax rates encourage people to live and invest in Alberta and help keep our economy strong.

## 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 systems as the other provinces. The comparison also includes government revenues from health care insurance premiums and liquor markups.

*“In the long run, Canada will be best served by a business tax system with low tax rates and a broad, neutral base...”*

**Robert D. Brown**  
**National Post**  
**February 27, 2004**

Our tax advantage is based on a policy of low rates and a broad base. Instead of favouring certain groups with special incentives, we prefer to provide benefits to all taxpayers by lowering overall rates. An approach that treats all taxpayers the same minimizes taxes for everyone, not just for those qualifying for a particular incentive.

The low rate, broad base tax policy is an important part of Alberta's economic strategy for the future. The government can avoid the pitfalls of trying to pick those industries that will be strong in the future. As new industries develop in response to changing market opportunities, they will not be penalized because of special tax incentives that have been implemented for other industries. By giving all industries the best possible chance to flourish, we can maximize economic growth, helping to keep Alberta an attractive place to live and work for years to come.

## BUSINESS TAXES

### Corporate Income Taxes

Making businesses more competitive by cutting corporate taxes helps all Albertans, whether by creating jobs, lowering prices for consumers or increasing wages for workers. Low corporate taxes make Alberta an attractive place for people to start businesses, or expand existing operations. They also attract investment to Alberta from around the world, creating opportunities that will keep Alberta's economy strong in the future.

With this budget, we will improve our competitive advantage further. Effective April 1, 2004, the general corporate income tax rate will fall from 12.5% to 11.5%. The small business rate will fall from 4.0% to 3.0%. These cuts will save corporations \$142 million in 2004-05.

Alberta's business tax plan was announced in *Budget 2001*. We have achieved our goals of cutting the small business rate in half and doubling the small business income threshold to \$400,000. We have cut the general corporate rate by over 25%. Our goal of lowering the general rate to 8.0% remains, and we will continue to take steps towards that goal as they become affordable.

*The general corporate income tax rate falls to 11.5% and the small business rate to 3.0%. Corporations will save \$142 million in 2004-05.*

### Business Tax Cuts

(effective April 1 each year)

	2000-01	2001-02	2002-03	2003-04	2004-05
General rate <sup>a</sup> (%)	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
Financial institutions capital tax (%)	0.7/1.0	Eliminated			

<sup>a</sup> 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.

## Resource Taxation

*Resource companies can continue to deduct the greater of the resource allowance or royalties until 2007.*

In its 2003 budget, the federal government announced changes to the taxation of the resource sector. By 2007, royalties will become fully deductible and the resource allowance will be eliminated for federal purposes. Alberta will parallel this regime in 2007. In order to facilitate the industry's transition to the new system, Alberta will continue to allow companies to deduct the greater of the resource allowance or royalties until that time. Once the resource allowance is eliminated federally, it will also cease to exist for provincial purposes.

Under the old system, companies that had royalties that exceeded their resource allowance were unable to deduct the excess for federal purposes. In comparison, excess royalties have always been deductible for Alberta taxes as a cost of doing business, through the royalty tax deduction. Companies are allowed to carry forward the excess when their royalty tax deduction exceeds their taxable income.

Once the resource tax changes are fully phased in, this additional deduction will no longer be needed. Existing carry-forward balances will expire on December 31, 2013. This provides a seven year carry-forward from the last year the program is operable, consistent with the carry-forward period for other non-capital losses. It also provides a full ten years on carry-forward balances existing prior to the phase-in of the new system.

*Program benefits continue under the ARTC. The credit will be non-taxable by Alberta.*

The decision to return to deductible royalties would have resulted in the elimination of the Alberta Royalty Tax Credit (ARTC) over time. Amounts qualifying under the program will therefore be redefined to ensure program benefits are maintained. The ARTC will also remain non-taxable for Alberta purposes in the hands of its recipients.

## Aviation Fuel Taxes

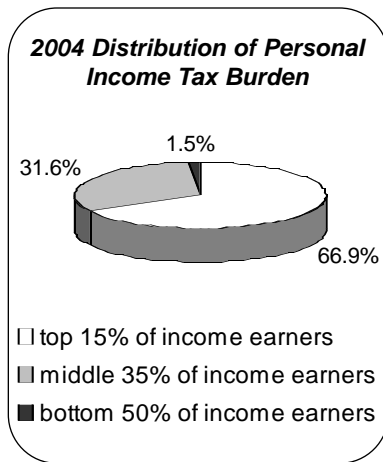
As announced on February 13, 2004, the government has eliminated the aviation fuel tax on all international flights leaving from or coming into the province, effective March 1, 2004. The annual cost of this initiative is approximately \$3 million. While Alberta's 1.5 cent per litre aviation fuel tax was already very competitive across Canada, some of our major competitors, including Washington State and British Columbia, have at least partial exemptions on aviation fuel tax for international flights. The elimination of the aviation fuel tax on international flights will increase Alberta's competitive advantage.

## PERSONAL TAXES

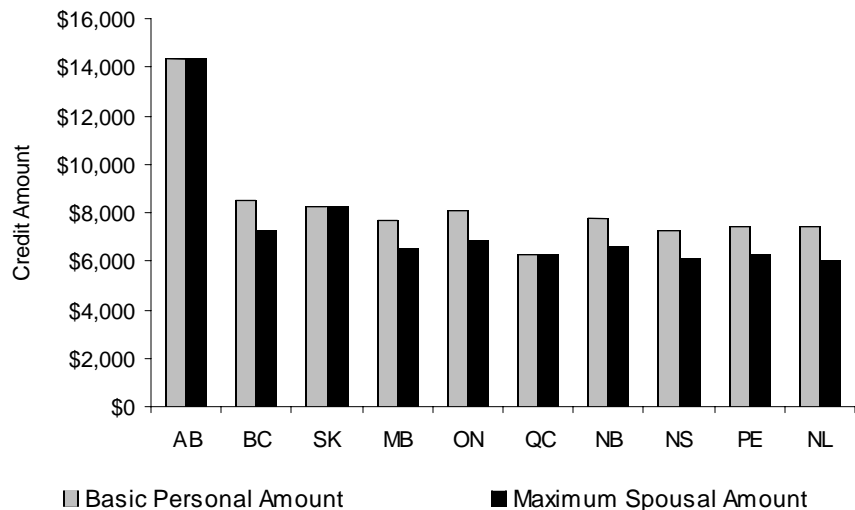
### Personal Income Taxes

Alberta's low personal income taxes allow people to spend or invest more of their own money according to their wishes. Alberta's low top marginal tax rate rewards the efforts of Albertans and attracts skilled workers from around the world, further fueling an already dynamic economy.

When we designed the 10% single-rate system in 2001, we wanted to enhance fairness, while at the same time encouraging economic growth. That is why our basic, spousal and eligible dependant amounts are about double what they were under the old system. Lower income Albertans benefit from the highest exemptions in Canada — at least 68% higher than in any other province. A typical working individual can make about \$15,200 before paying any provincial income tax in Alberta. A typical working family with two children can make about \$35,700 before paying any provincial income taxes, as the Alberta Family Employment Tax Credit offsets any taxes paid up to that income level. Further, since the basic and spousal exemptions are worth the same amount, the system does not discriminate between one-income and two-income families.



### Interprovincial Comparison of Basic and Spousal Credit Amounts, 2004



*Indexing of personal income taxes will save Albertans about \$150 million in 2004.*

The savings gained when the single-rate system was implemented will continue to be protected in 2004 by indexing the tax system for inflation. As a result, the basic, spousal and eligible dependant amounts will rise by 6% to \$14,337. Other credits will rise as well. Indexing will save Albertans approximately \$150 million in 2004.

## Alberta Non-Refundable Tax Credit Block

	2003		2004	
	Maximum Amount (\$)	Deduction from Alberta Tax (\$)	Maximum Amount (\$)	Deduction from Alberta Tax (\$)
Basic personal amount	13,525	1,353	14,337	1,434
Spousal amount	13,525	1,353	14,337	1,434
Eligible dependant amount	13,525	1,353	14,337	1,434
Age amount	3,794	379	4,022	402
Infirm dependant amount	3,669	367	3,890	389
CPP contributions	1,802	180	1,832	183
Employment Insurance contributions	819	82	772	77
Pension income amount	1,048	105	1,111	111
Disability amount	6,291	629	6,668	667
Disability supplement	3,670	367	3,890	389
Tuition and education amounts	Variable	Variable	Variable	Variable
Medical expenses	Variable	Variable	Variable	Variable
Caregiver amount	3,670	367	3,890	389
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%.

### Alberta Family Employment Tax Credit

The Alberta Family Employment Tax Credit (AFETC) supports low and middle-income families by providing them with a refundable tax credit worth up to \$500 per child, to a maximum of \$1,000 per family. By supplementing the income of working families, the AFETC encourages parents to work rather than depend on government assistance.

In *Budget 2003*, we committed to review the program to ensure that it is still meeting its objectives. Our internal review did not identify any serious problems with the current program. A number of potential ways to enhance the program were considered but none are affordable at this time. In 2004, the AFETC will provide about \$70 million in benefits to approximately 140,000 families.

*The Alberta Centennial Education Savings Plan will help parents save for their children's post-secondary education.*

### **Tax Treatment of the Alberta Centennial Education Savings Plan**

The Alberta Centennial Education Savings Plan will provide \$500 for every child born to, or adopted by, Albertans, beginning in 2005. An additional \$100 will be provided to an RESP for children attending school in Alberta at ages 8, 11, and 14, starting with children born in 2005. The first \$100 grants will be issued in 2013. The payments will not be taxable and will not affect RESP contribution limits.

The Plan is intended to help parents save for their children's post-secondary education. The money will be deposited in Registered Education Savings Plans (RESPs), which are designed to improve the tax treatment of savings for post-secondary education.

Contributions to RESPs, plus any income earned, are paid to children when they undertake post-secondary education. As contributions to an RESP are made with after-tax dollars, they are not taxed again when paid out. Income earned from the contributions is taxable only when it is paid out and is taxed in the hands of the student. As students usually have lower incomes than the contributors, payments from an RESP are usually taxed at a lower rate. In fact, many students will pay no tax at all on the income.

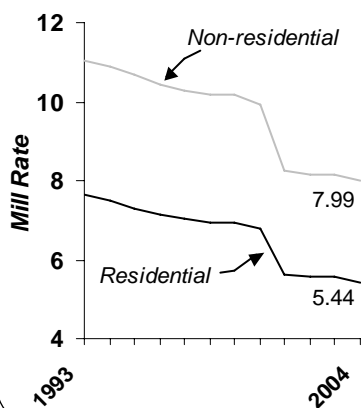
*The maximum political contributions tax credit will increase from \$750 to \$1,000.*

### **POLITICAL CONTRIBUTIONS TAX CREDIT**

The provincial political contributions tax credit encourages corporations and individuals to participate in the political process by offering a non-refundable tax credit for donations to registered political parties, constituency associations and individual candidates. Previously, the maximum credit was \$750 against personal or corporate income tax payable.

Effective for the 2004 tax year, the maximum credit for both corporations and individuals will increase to \$1,000, and the maximum contribution eligible for the credit will rise to \$2,300. The maximum credit has not changed since 1982, so this increase will partially compensate for the overall rise in prices since then. Under the new credit structure, the first \$200 of donations will be credited at 75%, the next \$900 at 50%, and the next \$1,200 at 33 1/3%. The cost of increasing the credit is approximately \$150,000.

**Provincial Uniform School Property Tax Rates**

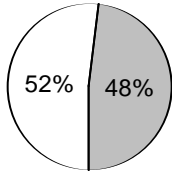


### **SCHOOL PROPERTY TAXES**

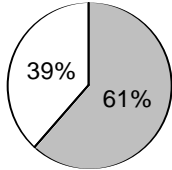
The government will reduce school property tax rates by about 2.3% for 2004. Rates for residential and farm property will fall to \$5.44 from \$5.57 per \$1,000 of assessment. Non-residential rates will be reduced to \$7.99 from \$8.17 per \$1,000 of assessment. The government has either lowered or frozen rates in each of the last 11 years. Since 1993, rates have fallen by over 27%, a key reason why Albertans continue to pay among the lowest property taxes in Canada.



**Distribution of  
Property Tax Burden**



1994



2002

□ School    ■ Municipal

Revenue from the school property tax is expected to be \$1.404 billion in 2004-05, including revenue raised for opted-out school boards.

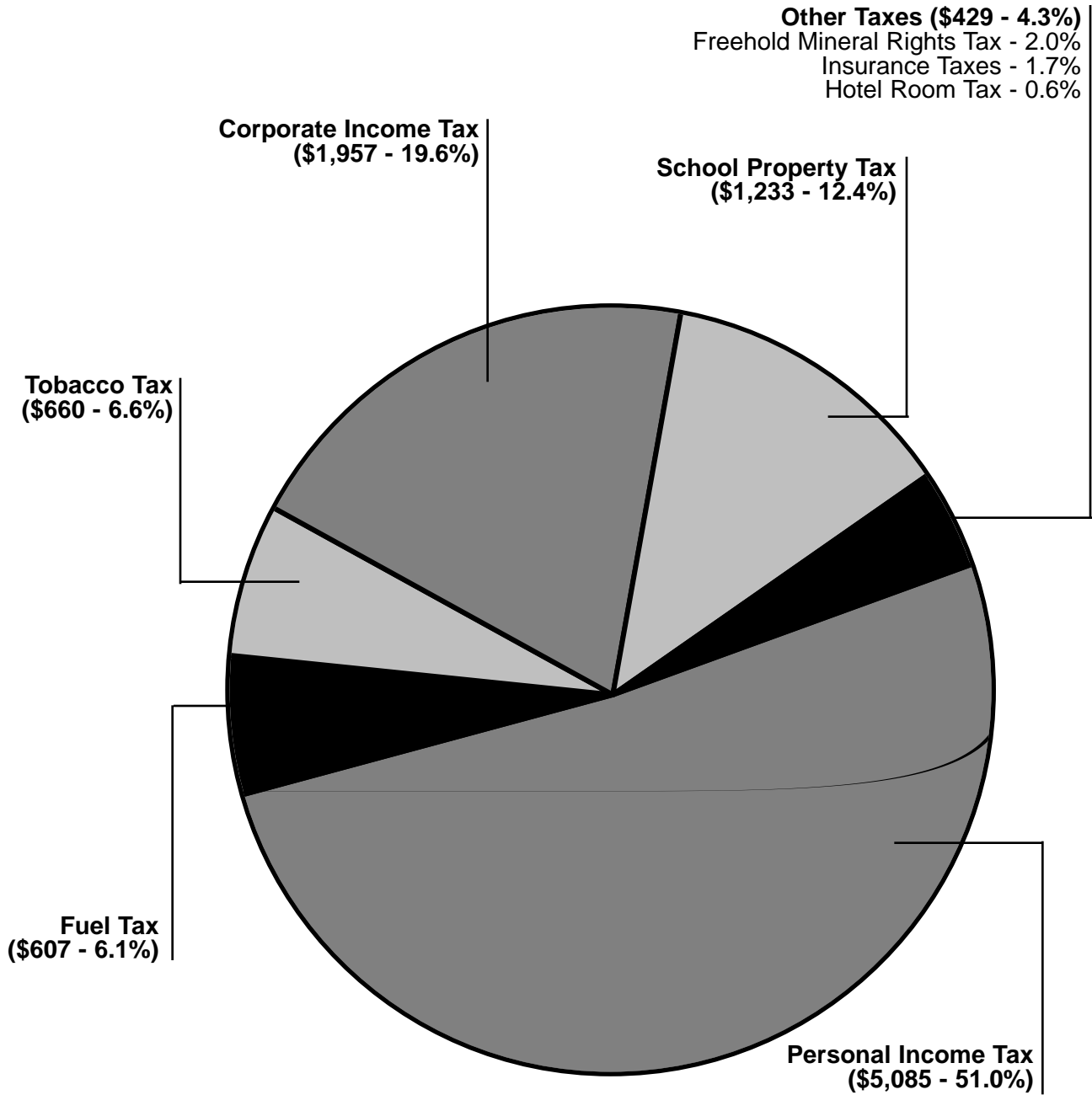
Government revenue will be \$1.233 billion, a 5.7% increase over 2003-04. Government revenues are increasing even as rates are falling because Alberta's assessment base is growing as property values rise and as new homes and businesses are built. School property taxes account for 36% of the total funding for basic education.

The provincial government took over school property taxes in 1994. From 1994 to 2002, the latest year for which municipal statistics are available, the portion of total property taxes devoted to schools fell from 52% to 39%, while the portion devoted to municipalities increased from 48% to 61%.

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**2004-05 Tax Revenue**  
**\$9,971 million**

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## 2004-05 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
<b>1. Personal Income Tax</b>	<b>5,085</b>		
Single-rate tax	5,148	10.0%	514.8 per point
AFETC <sup>a</sup>	(70)		(difficult to express in per unit terms)
NHL Players Tax	7	12.5%	0.6 per point
<b>2. Corporate Income Tax</b>	<b>1,957</b>		
General	1,799	11.5%	156.4 per point
Small business	158	3.0%	52.7 per point
<b>3. School Property Tax<sup>b</sup></b>	<b>1,233</b>		
Residential/farm property	722	\$5.44/\$1,000 of assessment	132.7 per mill
Non-residential	511	\$7.99/\$1,000 of assessment	64.0 per mill
<b>4. Tobacco Tax</b>	<b>660</b>	\$32/carton	20.6 per \$/carton
<b>5. Fuel Tax</b>	<b>607</b>		
Gasoline and diesel	587	9.0 ¢/litre	65.2 per ¢/litre
Propane	8	6.5 ¢/litre	1.2 per ¢/litre
Aviation <sup>c</sup>	8	1.5 ¢/litre	5.3 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
<b>6. Freehold Mineral Rights Tax</b>	<b>204</b>		(difficult to express in per unit terms)
<b>7. Insurance Taxes</b>	<b>165</b>		
Life, accident, sickness	47	2% of premium	23.5 per point
Other	118	3% of premium	39.3 per point
<b>8. Hotel Room Tax</b>	<b>60</b>	5.0%	12.0 per point

<sup>a</sup> Alberta Family Employment Tax Credit

<sup>b</sup> Does not include revenue of \$171 million raised for opted-out school boards

<sup>c</sup> International flights are exempt from the aviation fuel tax.

# Interprovincial Tax and Health Care Insurance Premium Comparison, 2004

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Employment Income of \$30,000 – One Income Family with Two Children</b>										
Provincial income tax	(840)	299	534	515	(380)	(769)	1,089	976	1,112	1,441
Provincial sales tax	—	702	544	810	982	1,297	1,032	1,052	1,242	1,244
Health care premium	201	583	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	226	273	636	—	—	—	179
Fuel tax	270	435	450	345	441	456	435	465	420	495
<b>Subtotal</b>	<b>(369)</b>	<b>2,019</b>	<b>1,528</b>	<b>1,896</b>	<b>1,316</b>	<b>1,620</b>	<b>2,556</b>	<b>2,493</b>	<b>2,774</b>	<b>3,359</b>
Tobacco tax	800	895	800	775	493	515	588	651	748	750
<b>Total</b>	<b>431</b>	<b>2,914</b>	<b>2,328</b>	<b>2,671</b>	<b>1,809</b>	<b>2,135</b>	<b>3,144</b>	<b>3,144</b>	<b>3,522</b>	<b>4,109</b>
<b>Alberta Advantage</b>		<b>2,483</b>	<b>1,897</b>	<b>2,240</b>	<b>1,378</b>	<b>1,704</b>	<b>2,713</b>	<b>2,713</b>	<b>3,091</b>	<b>3,678</b>
<b>Employment Income of \$60,000 – Two Income Family with Two Children</b>										
Provincial income tax	1,971	1,896	2,936	3,106	1,478	2,089	3,182	3,065	3,312	3,645
Provincial sales tax	—	1,031	788	1,167	1,426	1,834	1,515	1,542	1,819	1,829
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	452	547	1,271	—	—	—	357
Fuel tax	405	653	675	518	662	684	653	698	630	743
<b>Subtotal</b>	<b>3,168</b>	<b>4,552</b>	<b>4,399</b>	<b>5,243</b>	<b>4,113</b>	<b>5,878</b>	<b>5,350</b>	<b>5,305</b>	<b>5,761</b>	<b>6,574</b>
Tobacco tax	800	895	800	775	493	515	588	651	748	750
<b>Total</b>	<b>3,968</b>	<b>5,447</b>	<b>5,199</b>	<b>6,018</b>	<b>4,606</b>	<b>6,393</b>	<b>5,938</b>	<b>5,956</b>	<b>6,509</b>	<b>7,324</b>
<b>Alberta Advantage</b>		<b>1,479</b>	<b>1,231</b>	<b>2,050</b>	<b>638</b>	<b>2,425</b>	<b>1,970</b>	<b>1,988</b>	<b>2,541</b>	<b>3,356</b>
<b>Employment Income of \$100,000 – Two Income Family with Two Children</b>										
Provincial income tax	5,264	4,556	6,873	7,681	4,559	8,455	7,508	7,185	7,516	8,556
Provincial sales tax	—	1,582	1,185	1,740	2,149	2,637	2,269	2,315	2,732	2,723
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	754	911	2,119	—	—	—	596
Fuel tax	405	653	675	518	662	684	653	698	630	743
<b>Subtotal</b>	<b>6,461</b>	<b>7,763</b>	<b>8,733</b>	<b>10,693</b>	<b>8,281</b>	<b>13,895</b>	<b>10,430</b>	<b>10,198</b>	<b>10,878</b>	<b>12,618</b>
Tobacco tax	800	895	800	775	493	515	588	651	748	750
<b>Total</b>	<b>7,261</b>	<b>8,658</b>	<b>9,533</b>	<b>11,468</b>	<b>8,774</b>	<b>14,410</b>	<b>11,018</b>	<b>10,849</b>	<b>11,626</b>	<b>13,368</b>
<b>Alberta Advantage</b>		<b>1,397</b>	<b>2,272</b>	<b>4,207</b>	<b>1,513</b>	<b>7,149</b>	<b>3,757</b>	<b>3,588</b>	<b>4,365</b>	<b>6,107</b>

Calculations are based on other provinces' tax parameters known as of February 27, 2004.

## 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, 2004

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Personal Income Tax</b>											
Statutory rate range											
- lowest rate	(%)	10.00	6.05	11.00	10.90	6.05	16.00 <sup>a</sup>	9.68	8.79	9.80	10.57
- highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 <sup>a</sup>	17.84	15.17	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Basic amount	(\$)	14,337	8,523	8,264	7,634	8,044	6,275	7,756	7,231	7,412	7,410
Spousal amount	(\$)	14,337	7,298	8,264	6,482	6,830	6,275	6,586	6,140	6,294	6,055
<b>Corporate Income Tax</b>											
General rate	(%)	11.5 <sup>b</sup>	13.5	17.0	15.5	14.0	8.9	13.0	16.0	16.0	14.0
M&P rate	(%)	11.5 <sup>b</sup>	13.5	10-17 <sup>c</sup>	15.5	12.0	8.9	13.0	16.0	7.5	5.0
Small business											
- rate	(%)	3.0 <sup>b</sup>	4.5	5.5	5.0	5.5	8.9	3.0	5.0	7.5	5.0
- threshold	(\$000)	400	300	300	360	400	n/a	400	250	250	250
<b>Capital Tax</b>											
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 <sup>d</sup>	3.00	3.00	3.00	4.00
<b>Retail Sales Tax</b>											
	(%)	—	7.5	6.0	7.0	8.0	7.5 <sup>e,f</sup>	8.0 <sup>e</sup>	8.0 <sup>e</sup>	10.0 <sup>i</sup>	8.0 <sup>e</sup>
<b>Gasoline Tax</b>											
	(¢/litre)	9.0	14.5 <sup>g</sup>	15.0	11.5	14.7	15.2 <sup>g,h</sup>	14.5 <sup>h</sup>	15.5 <sup>h</sup>	14.0	16.5 <sup>h</sup>
<b>Tobacco Tax</b>											
	(\$/carton)	32.00	35.80	32.00 <sup>h</sup>	31.00 <sup>h</sup>	19.70	20.60	23.50 <sup>h</sup>	26.04 <sup>h</sup>	29.90	30.00 <sup>h</sup>
<b>Payroll Tax</b>											
	(max.%)	—	—	—	2.15	1.95	4.26 <sup>i</sup>	—	—	—	2.00

Rates for other provinces known as of February 27, 2004.

- <sup>a</sup> Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs.
- <sup>b</sup> These rates are effective April 1, 2004. The previous rates were 4.0% for small business and 12.5% for the M&P and general rates.
- <sup>c</sup> The general rate is reduced by up to 7 points based on the share of a corporation's national manufacturing and processing income allocated to Saskatchewan.
- <sup>d</sup> The Quebec financial institutions capital tax includes the base rate of 1.20% and a compensatory tax of 0.25%.
- <sup>e</sup> These provinces' sales taxes are harmonized with the federal GST.
- <sup>f</sup> These provinces apply their retail sales tax on the retail price of the good inclusive of the GST.
- <sup>g</sup> An additional 6¢/litre is imposed in the greater Vancouver area, 2.5¢/litre in Victoria and 1.5¢/litre in Montreal.
- <sup>h</sup> These provinces apply their retail sales taxes on the retail price of the good inclusive of the particular excise tax.
- <sup>i</sup> 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, 2004

(per cent)

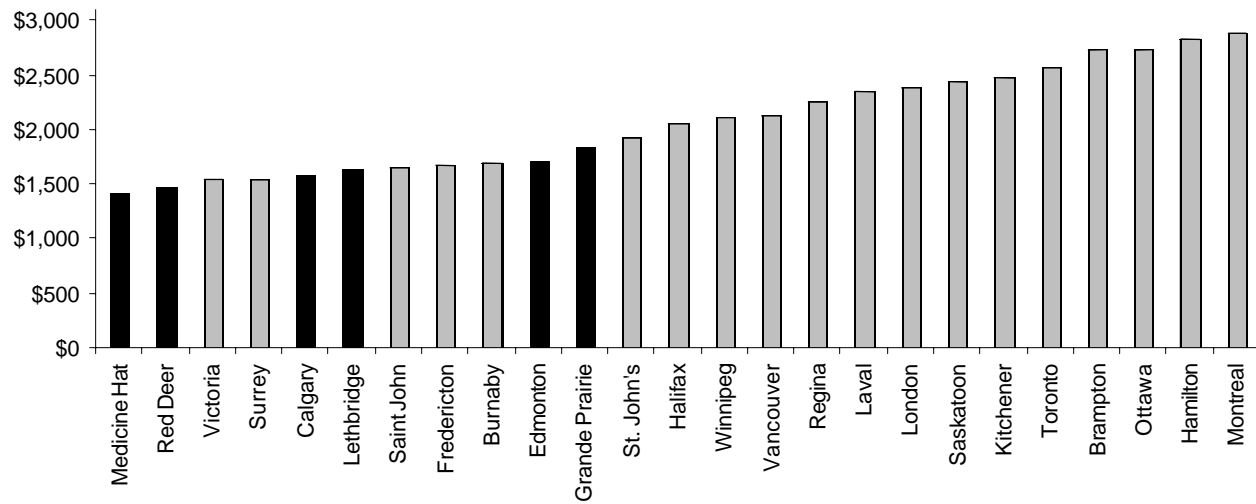
	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Federal	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Provincial	10.00	14.70	15.00	17.40	17.41	24.00	17.84	16.69	18.37	19.64
Federal abatement <sup>a</sup>	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	43.70	44.00	46.40	46.41	48.21	46.84	45.69	47.37	48.64

Rates for other provinces known as of February 27, 2004.

- <sup>a</sup> 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, 2003

(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 and Burnaby is based on an average-value home that may differ slightly from the above definition.

**Source:** City of Edmonton, Planning and Development, 2003 Residential Property Taxes & Utility Charges Survey.