

ALBERTA TAX ADVANTAGE

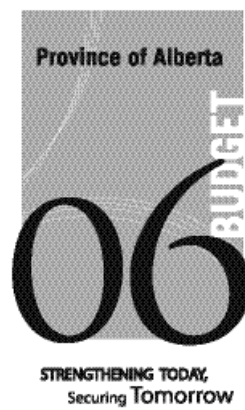


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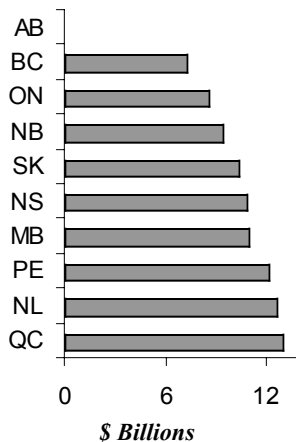
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Alberta Tax Advantage

HIGHLIGHTS

- Albertans continue to pay the lowest taxes in Canada.
- The general corporate income tax rate will be reduced to 10 per cent on April 1, 2006.
- Income thresholds for health care insurance premium subsidies will be increased by \$5,000.
- School property tax rates will be reduced by over 7 per cent.
- Personal, spousal and eligible dependant amounts will rise by an additional \$100 above indexation.

Alberta's Tax Advantage



INTRODUCTION

Alberta has no general sales tax, no payroll tax, no capital tax, and low personal and corporate income taxes. If Albertans and Alberta businesses lived or were located in any other province, they would pay an additional \$7.2 billion in taxes. In addition, over \$1.3 billion was provided to Albertans earlier this year through the Alberta 2005 Resource Rebate. Our low tax environment means more money to spend and invest, helping to sustain the strongest economy in Canada.

The government has focused on building Alberta's tax advantage. From 1999 to 2001, the government phased in substantial cuts to personal taxes, including the introduction of the single rate tax and the highest income exemptions in Canada. We indexed our tax system in 2001, ensuring that the benefits of those cuts would not be eaten away by inflation. In 2005, the Alberta Family Employment Tax Credit was enhanced, increasing benefits to working families. The government has provided assistance to seniors, exempting them from health care insurance premiums and protecting them from any increases to school property taxes.

After making the large cuts to personal taxes, the government began to take steps to create a more competitive tax environment for business. Between 2001 and 2004, we reduced our general corporate income tax rate from 15.5 per cent to 11.5 per cent. The small business rate was cut in half, to 3 per cent, and the small business income threshold was doubled to \$400,000.

Budget 2006 further strengthens the Alberta tax advantage. It includes measures to address emerging competitive pressures and to further enhance the fairness of the tax system, while meeting the government's commitment to reduce taxes in a sustainable, fiscally responsible manner.

TAX REVIEW

The government undertook an internal review of the province's tax system in 2005 to assess whether our tax system remains competitive and fair and encourages economic growth. The review examined a wide range of issues, including our competitiveness with other jurisdictions, ongoing revenue needs, priorities for future tax cuts and whether certain taxes should be eliminated entirely.

The review concluded that, for the most part, our tax system serves Alberta well. We are competitive within North America in attracting investment and skilled workers. Alberta's tax system is also fair, with the highest basic and spousal amounts in the country, allowing people to earn more money before paying any provincial income tax. Last, our tax system is simple and transparent, resulting in lower administrative and compliance costs for taxpayers and improved accountability to Albertans.

However, with no general sales tax, payroll taxes or capital taxes, Alberta's tax base is relatively narrow compared to other jurisdictions. While this is a benefit to Albertans, it also comes with some risks. A broader range of taxes means more stable revenues. With relatively fewer revenue sources, predictable funding for key public services is at more risk in the event of an economic slow-down. Consequently, it is inadvisable to eliminate or dedicate more taxes.

The review identified priorities for future tax cuts. A top priority for the government should be to reduce the general corporate income tax rate. While Alberta's economy is strong now, cutting corporate income taxes will benefit the province for years to come. On the personal side, the focus should be on providing tax relief that is directed primarily towards lower and middle income Albertans.

Our low-rate, broad-base policy provides a level playing field, letting the market, not government, determine the best places to spend and invest. The tax review reaffirmed that this approach to tax policy is the best way to attract investment and promote economic growth.

CORPORATE INCOME TAXES

The government recognizes the importance of low corporate taxes in developing a strong economy. Low taxes help Alberta businesses compete in the global marketplace and attract investment to Alberta, meaning more jobs, stronger communities and a better quality of life for all Albertans. Since 2001, the government has made significant reductions to corporate income taxes.

Other countries are also recognizing the benefits of low corporate taxes, which makes it even more important that Alberta take steps to maintain its competitive advantage. Effective April 1, 2006, we will reduce the general corporate income tax rate to 10 per cent, lowering taxes for Alberta businesses by \$265 million in 2006-07.

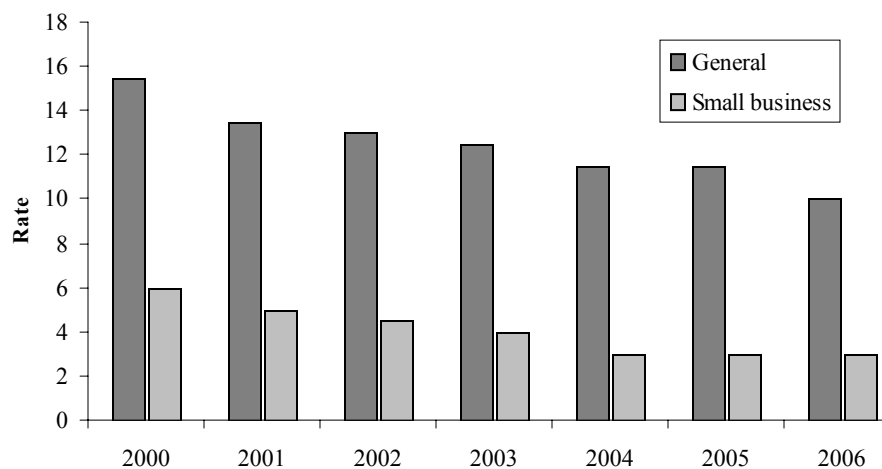
"...other countries are not standing still. The German government has proposed a cut in the federal corporate income tax rate from 25 to 19 percent. The U.S. will be cutting corporate income tax rates by 3 percentage points by 2010... As several other countries have reform proposals in mind that will lead to substantial changes to their corporate tax systems, effective tax rates around the world could be sharply lower by 2010."

C. D. Howe Institute, "The 2005 Tax Competitiveness Report: Unleashing the Canadian Tiger"

Cutting the general corporate income tax rate to 10 per cent will save Alberta businesses \$265 million in 2006-07.

Corporate Income Tax Cuts Since 2000

(per cent)



Rate changes are effective on April 1 of each year.

A single mother with two children and a taxable income of \$32,000 will now receive a full premium subsidy instead of a partial subsidy, saving her \$719 each year.

A couple with a taxable income of \$29,000 will be eligible to receive a partial subsidy. Instead of paying a full premium of \$1,056, they will pay \$420, saving them \$636 each year.

An individual with taxable income of \$16,000 will now be eligible for a full premium subsidy, saving \$528 each year.

HEALTH CARE INSURANCE PREMIUMS

Health care insurance premiums serve as a reminder that health care is not free and that it has a substantial cost. In 2006-07, health care insurance premiums are forecast to raise \$882 million for the health care system. Rates are \$528 per year for individuals and \$1,056 for couples and families.

To reduce the cost for lower income individuals, couples and families, the government provides full and partial premium subsidies. Currently, full premium subsidies are available to all seniors regardless of income, individuals making less than \$12,450, couples earning less than \$21,200 and families earning less than \$27,210. People above those income amounts may qualify for a partial premium subsidy.

As of April 1, 2006, the government will raise the income level under which non-senior individuals, couples and families qualify for full or partial premium subsidies by \$5,000. About 30,000 couples and families and 50,000 individuals will benefit from these changes, saving Albertans \$30 million.

Income Thresholds for Health Care Insurance Premium Subsidies

(dollars)

	Previous		New	
	Full Subsidy	No Subsidy	Full Subsidy	No Subsidy
Individual	12,450	15,970	17,450	20,970
Couple	21,200	28,240	26,200	33,240
Family	27,210	34,250	32,210	39,250

PERSONAL INCOME TAXES

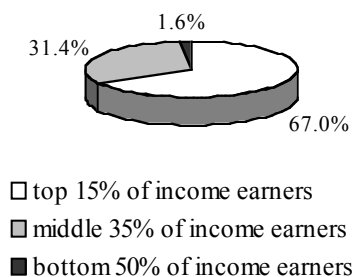
Albertans pay low personal income taxes, with the lowest top marginal income tax rate and the highest basic and spousal amounts in Canada. This is due in part to the cuts to personal income taxes made between 1999 and 2001, worth \$1.5 billion at the time.

Albertans also benefit from not having to pay a general provincial sales tax. This particularly helps Albertans with lower incomes, who spend a higher portion of their income. In comparison, other provinces generate over 25 per cent of tax revenues from a general sales tax.

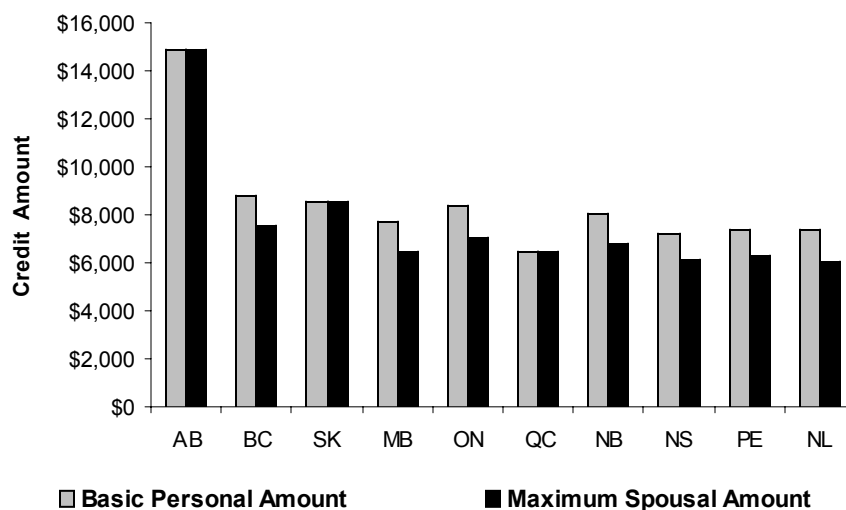
Alberta indexes its personal income tax system to offset inflation, protecting taxpayers. Tax credit amounts will increase by 1.9 per cent in 2006. We will also increase the basic, spousal and eligible dependant amounts by an additional \$100, raising the amounts to \$14,899 for 2006, up from \$14,523 in 2005.

Over 1 million of Alberta's 2.36 million taxfilers pay no provincial income tax.

2006 Distribution of Personal Income Tax Burden



Basic Personal and Spousal Amounts, 2006



As was announced in Budget 2005, annual indexing of the Alberta Family Employment Tax Credit will begin in July 2006. Payments in July 2006 and January 2007 will rise to \$560 for the first child, \$510 for the second, \$306 for the third and \$102 for the fourth. The income level at which the credit begins to be phased out will rise from \$25,000 to \$25,475.

With these increases, a typical single Albertan can earn \$15,800 without paying any provincial income taxes. A typical working family with two children can earn up to \$37,000 before paying provincial income taxes, as the Alberta Family Employment Tax Credit offsets any taxes paid to that level.

Alberta Non-Refundable Tax Credit Block

(dollars)

	2005		2006	
	Maximum Amount	Deduction from Alberta Tax	Maximum Amount	Deduction from Alberta Tax
Basic personal amount	14,523	1,452	14,899	1,490
Spousal amount	14,523	1,452	14,899	1,490
Eligible dependant amount	14,523	1,452	14,899	1,490
Age amount	4,074	407	4,152	415
Infirm dependant amount	3,940	394	4,015	402
CPP contributions	1,861	186	1,911	191
Employment Insurance contributions	761	76	729	73
Pension income amount	1,126	113	1,147	115
Disability amount	6,755	676	6,883	688
Disability supplement	3,940	394	4,015	402
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	10,000	1,000	10,190	1,019
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	10,000	1,000	10,190	1,019
Caregiver amount	3,940	394	4,015	402
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%.

Dividend Tax Credit

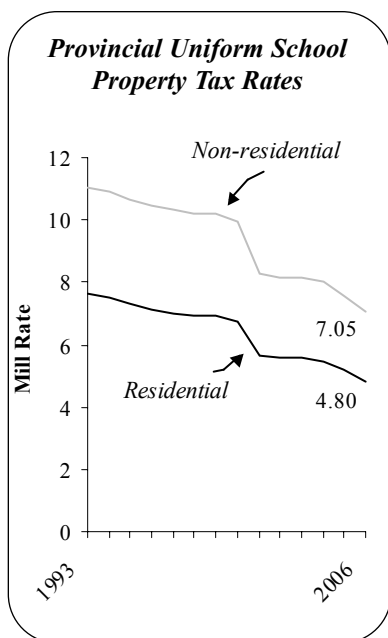
In November 2005, the previous federal government announced changes to its dividend tax credit in order to reduce the disparities in tax treatment of distributions from income trusts compared to dividends from corporations. The federal proposal creates a two-tier dividend tax credit. Individuals will be permitted to claim a dividend tax credit at a higher rate to the extent that the dividend income was paid from corporate income taxed at the general corporate income tax rate. This is intended to eliminate “double taxation” of income taxed at the general corporate rate.

In principle, any change that removes distortionary tax treatment is good. However, Alberta will wait for more details from the new federal government before announcing, later this year, whether it will adopt a similar treatment.

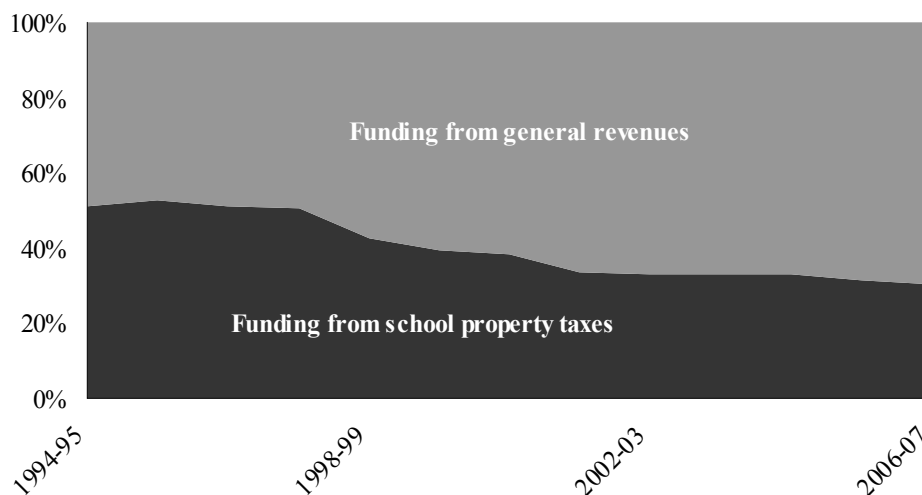
SCHOOL PROPERTY TAXES

Albertans pay among the lowest property taxes in Canada. Since the province took over responsibility for the school property tax in 1994, tax rates have been either reduced or frozen each year, for total reductions of over 36 per cent. School property tax rates will be reduced further in 2006, by about 7.1 per cent. Rates for residential property and farm land will be reduced to \$4.80 from \$5.17 per \$1,000 of equalized assessment. Commercial property rates will fall to \$7.05 from \$7.59 per \$1,000 of equalized assessment.

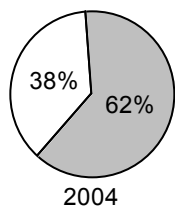
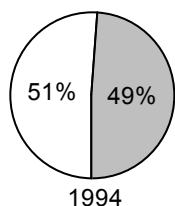
Revenue from the school property tax goes to support basic education in Alberta. In 2006-07, revenue from the school property tax is expected to be \$1.475 billion, including revenue of \$169 million for opted-out school boards. Provincial government revenue will be \$1.306 billion, an increase of 1.7 per cent from 2005-06. School property tax revenues will account for 30 per cent of the total funding for basic education (excluding capital) in 2006-07, compared to 51 per cent in 1994-95.



How Basic Education is Funded



Distribution of Property Tax Revenues



□ School ■ Municipal

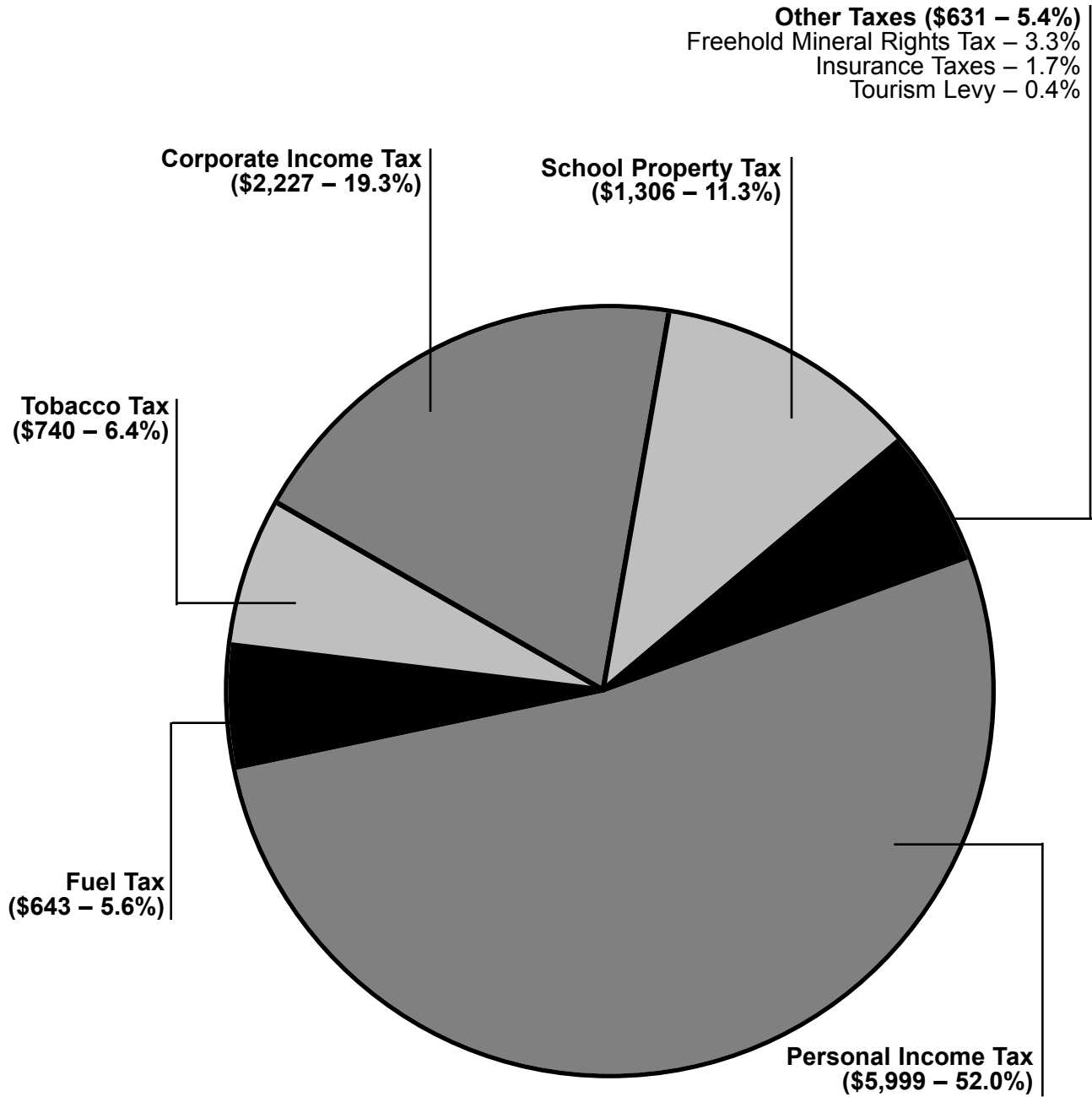
While revenue from the school property tax has increased in recent years, the province's record of rate reductions means that the province takes proportionately less revenue from the total combined provincial/municipal property tax every year. In 2004, the last year for which statistics are available, school property tax revenue accounted for 38 per cent of total property tax revenue, compared to 51 per cent in 1994. This record of rate cutting has benefitted municipalities by freeing up tax room, providing them with the ability to obtain additional revenue from the property tax base. Taxpayers have benefitted from lower property tax rates to the extent that municipal tax increases have been lower than the provincial reductions.

INCOME TRUSTS

Income trusts have become a popular investment vehicle, and the number of corporations transforming themselves into income trusts has grown in recent years. When corporations change themselves into income trusts, the way in which they are taxed also changes. When income is earned through a corporation, it is subject to corporate income tax in the province where the business is located. With the shift to income trusts, no corporate income tax is paid on the income. As a consequence, some businesses that operate in Alberta, using Alberta's infrastructure, do not contribute to the costs of that infrastructure.

Rather than paying tax at the business level, investors pay personal income tax on the income in their province of residence. Alberta has 10 per cent of Canada's population, yet over 60 per cent of Canada's market capitalization for income trusts. The shift from corporate income tax, which is taxed in Alberta, to personal income tax, which is taxed in the jurisdiction where the investor lives, means that Alberta has lost revenue, and will continue to do so. A recent estimate puts Alberta's net revenue loss at about \$400 million per year. As part of its ongoing review of the tax system, Alberta is examining this issue.

2006-07 Tax Revenue
\$11,546 million



2006-07 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	5,999		
Single rate tax	6,079	10.0%	607.9 per point
Family Employment Tax Credit	(80)		(difficult to express in per unit terms)
2. Corporate Income Tax	2,227		
General	1,930	10.0%	193.0 per point
Small business	297	3.0%	99.0 per point
3. School Property Tax ^a	1,306		
Residential/farm	780	\$4.80/\$1,000 of assessment	162.5 per mill
Non-residential	526	\$7.05/\$1,000 of assessment	74.6 per mill
4. Tobacco Tax	740	\$32/carton	23.1 per \$/carton
5. Fuel Tax	643		
Gasoline and diesel	624	9.0 ¢/litre	69.3 per ¢/litre
Propane	5	6.5 ¢/litre	0.8 per ¢/litre
Aviation	10	1.5 ¢/litre	6.7 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
6. Freehold Mineral Rights Tax	386		(difficult to express in per unit terms)
7. Insurance Taxes	195		
Life, accident, sickness	57	2% of premium	28.5 per point
Automobile and other	138	3% of premium	46.0 per point
8. Tourism Levy	50	4.0%	12.5 per point

^a Does not include revenue of \$169 million raised for opted-out school boards.

Interprovincial Tax and Health Care Insurance Premium Comparison, 2006

(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	(910)	597	504	507	(380)	(3,923)	977	979	1,115	1,444
Provincial sales tax	-	715	476	860	895	1,194	1,153	1,135	1,285	1,275
Health care premium	-	-	-	-	225	-	-	-	-	-
Payroll tax	-	-	-	232	273	643	-	-	-	169
Fuel tax	270	435	450	345	441	456	435	465	621	495
Subtotal	(640)	1,747	1,430	1,944	1,454	(1,630)	2,565	2,579	3,021	3,383
Tobacco tax	800	895	875	875	615	515	588	776	873	850
Total	160	2,642	2,305	2,819	2,069	(1,115)	3,153	3,355	3,894	4,233
Alberta Advantage		2,482	2,145	2,659	1,909	(1,275)	2,993	3,195	3,734	4,073
Employment Income of \$60,000 – Two-Income Family with Two Children										
Provincial income tax	1,865	1,655	2,850	3,088	1,352	904	3,130	3,095	3,318	3,652
Provincial sales tax	-	1,029	851	1,220	1,455	1,992	1,660	1,637	1,851	1,842
Health care premium	792	972	-	-	265	-	-	-	-	-
Payroll tax	-	-	-	463	546	1,286	-	-	-	337
Fuel tax	405	653	675	518	662	684	653	698	932	743
Subtotal	3,062	4,309	4,376	5,289	4,280	4,866	5,443	5,430	6,101	6,574
Tobacco tax	800	895	875	875	615	515	588	776	873	850
Total	3,862	5,204	5,251	6,164	4,895	5,381	6,031	6,206	6,974	7,424
Alberta Advantage		1,342	1,389	2,302	1,033	1,519	2,169	2,344	3,112	3,562
Employment Income of \$100,000 – Two-Income Family with Two Children										
Provincial income tax	5,153	4,437	6,752	7,533	4,438	7,779	7,319	7,560	7,517	8,557
Provincial sales tax	-	1,567	1,277	1,819	2,176	2,817	2,485	2,439	2,775	2,738
Health care premium	792	972	-	-	675	-	-	-	-	-
Payroll tax	-	-	-	772	910	2,144	-	-	-	562
Fuel tax	405	653	675	518	662	684	653	698	932	743
Subtotal	6,350	7,629	8,704	10,642	8,861	13,424	10,457	10,697	11,224	12,600
Tobacco tax	800	895	875	875	615	515	588	776	873	850
Total	7,150	8,524	9,579	11,517	9,476	13,939	11,045	11,473	12,097	13,450
Alberta Advantage		1,374	2,429	4,367	2,326	6,789	3,895	4,323	4,947	6,300

Calculations are based on other provinces' tax parameters known as of February 23, 2006.

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, 2006

		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	(\$)	14,899	8,858	8,589	7,734	8,377	6,520	8,061	7,231	7,412	7,410
– Spousal amount	(\$)	14,899	7,585	8,589	6,482	7,113	6,520	6,845	6,140	6,294	6,055
Corporate Income Tax											
General rate	(%)	10.0	12.0	17.0	14.5	14.0	9.9	13.0	16.0	16.0	14.0
M&P rate	(%)	10.0	12.0	10-17 ^b	14.5	12.0	9.9	13.0	16.0	16.0	5.0
Small business											
– rate	(%)	3.0	4.5	5.0	4.5	5.5	8.5	2.0	5.0	6.5	5.0
– threshold	(\$000)	400	400	300	400	400	400	450	350	300	300
Capital Tax											
General	(max.%)	—	—	0.60	0.50	0.30	0.525	0.25	0.275	—	—
Financial institutions	(max.%)	—	3.00	3.25	3.00	0.90	1.30 ^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	20.7 ^g	16.5 ^f
Tobacco Tax	(\$/carton)	32.00	35.80	35.00 ^f	35.00 ^f	24.70	20.60	23.50 ^f	31.04 ^f	34.90	34.00 ^f
Payroll Tax	(max.%)	—	—	—	2.15	1.95	4.26 ^h	—	—	—	2.00

Rates for other provinces known as of February 23, 2006.

- ^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 1.05% 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 This rate is based on an 11.5 ¢/litre base rate and 10.7% of the average wholesale price and is recalculated on a monthly basis.
- ^h 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, 2006

(per cent)

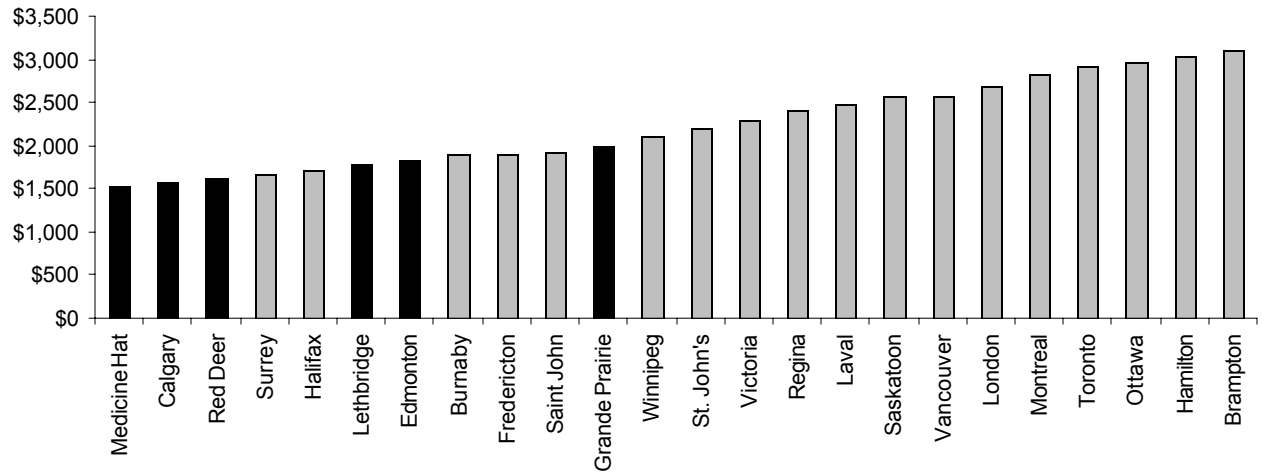
	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Federal	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Provincial	10.00	14.70	15.00	17.40	17.41	24.00	17.84	19.25	18.37	19.64
Federal abatement ^a	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	43.70	44.00	46.40	46.41	48.21	46.84	48.25	47.37	48.64

Rates for other provinces known as of February 23, 2006.

- ^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, 2005

(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 and Burnaby is based on an average value home that may differ from the above definition. Information for Edmonton, Halifax and Toronto is based on the median value of a single detached house that may differ from the above definition.

Source: City of Edmonton, Planning and Development, 2005 Residential Property Taxes & Utility Charges Survey.