

ALBERTA INCOME TAX RATE INCREASE

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ALBERTA TAX REVENUE INCREASE?

**Prepared for:
EDMONTON CHAPTER OF CPAs**

Edmonton – November 17, 2016

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Areas of Practice

Corporate Tax Planning

Estate Planning

Farm Taxation, Family Farm Reorganizations & Tax Planning

Personal Tax Planning

Tax Representation & Litigation

John practices in all areas of taxation with an emphasis on corporate and personal tax planning. John has given numerous presentations on tax issues at a number of local and national forums, including the Canadian Tax Foundation, the Legal Education Society of Alberta and CPA Alberta.

John is on the board of CPA Alberta, the board of the Edmonton CPA Club and is a regular presenter at its annual CPA Forum North Conference held in Jasper.

John is currently enrolled in the Institute of Family Enterprise Advisors program which is expected to be completed in 2016.

John grew up in Calgary, received his CPA, CA designation in 1995 and articulated at an international accounting firm. In 1995, John moved to Grande Prairie, Alberta where John practiced tax planning for 10 years servicing clients in northern Alberta and BC. In 2005, John moved to Edmonton to attend law school at the University of Alberta and joined Felesky Flynn LLP in 2008.

John enjoys spending time with his wife and 4 young children, is a minor hockey coach, an avid kiteboarder, golfer and skier, and in the past was a private bush pilot.

Professional History

STEP Canada, 2016

Called to Alberta bar, 2009

Joined Felesky Flynn LLP, 2008

Independent Tax Consulting Practice, 1998-2008

Qualified as a Chartered Professional Accountant, 1995



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QUESTION TO ALBERTA FINANCE

Why are you increasing personal income tax?

- The increase in the personal income tax rates will **help Alberta deal with the current revenue shortfall**

- http://www.finance.alberta.ca/business/tax_rebates/personal-income-tax/personal-income-tax-questions-and-answers.html#what



QUESTION TO ALBERTA FINANCE

Why are you increasing personal income tax?

- Albertans were clear in the last election that they supported the idea of a more progressive, multi-rate personal income tax system to **generate additional revenue...**



ALBERTA TAX REVENUES

AB Personal Income Tax Revenues		
	Actual	Budget
2013-14	10,537	10,001
2014-15	11,042	11,153
2015-16	11,357	11,699
2016-17		11,405
2017-18		11,759
2018-19		12,363

<http://www.finance.alberta.ca/publications/budget/index.html>



PROFILE OF HIGH INCOME EARNERS

In general:

- Business owners
- Own corporations
- Own multiple residences



TAX RATE CHANGES

➤ Provincial Tax Rate Changes

	BC	AB	SK
2014 Personal	16.8%	10.0%	15.0%
Corporate	11.0%	10.0%	12.0%
Small Business Rate	2.5%	3.0%	2.0%
2015 Personal	16.8%	11.3%	15.0%
Corporate	11.0%	10.0%	12.0%
Small Business Rate	2.5%	3.0%	2.0%
2016 Personal	14.7%	15.0%	15.0%
Corporate	11.0%	12.0%	12.0%
Small Business Rate	2.5%	3.0%	2.0%



TAX RATE CHANGES

➤ Combined Tax Rate Changes

	BC	AB	SK
2014 Personal	45.8%	39.0%	44.0%
Corporate	26.0%	10.0%	12.0%
Small Business Rate	14.0%	14.5%	13.5%
2015 Personal	45.8%	40.3%	44.0%
Corporate	26.0%	25.0%	27.0%
Small Business Rate	13.5%	14.0%	13.0%
2016 Personal	47.7%	48.0%	48.0%
Corporate	26.0%	27.0%	27.0%
Small Business Rate	13.0%	12.5%	12.5%



IMPACT OF TAX RATE CHANGES

- 23.1% Alberta personal income tax rate increase from 2014 to 2016
- Impact?
 - Discourages people from engaging in productive economic activity, ultimately hindering economic growth and prosperity
 - Competitive disadvantage for attracting and retaining skilled labour, investment and entrepreneurs

<https://www.fraserinstitute.org/studies/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness>



IMPACT OF TAX RATE CHANGES

➤ Impact with regards to US?

- 42 out of 61 Canadian and US jurisdictions are lower than all Canadian provinces

<https://www.fraserinstitute.org/studies/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness>

– Trump's Tax Policy

- Top personal tax rate decrease from 39.6% to 33%
- Business tax rate decrease from 35% to 15%

<https://www.donaldjtrump.com/press-releases/fact-sheet-donald-j.-trumps-pro-growth-economic-policy-will-create-25-milli>



IMPACT OF TAX RATE CHANGES

➤ Impact?

- Tax increases are unlikely to raise as much revenue as governments expect since taxpayers – particularly upper-income earners – tend to change their behavior in response to higher tax rates

<https://www.fraserinstitute.org/studies/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness>



IMPACT OF TAX RATE CHANGES

➤ Impact?

- Simply choose to take more leisure time
- Channel income through corporations
- Take advantage of a variety of legal tax planning mechanisms available
- Shift revenue to other jurisdictions
- More difficult to attract corporate offices since more difficult to attract senior employees

https://www.fraserinstitute.org/studies/albertas-personal-income-tax-increases-likely-to-yield-less-revenue-than-expected?SESSb0c121dd327a625f20a5331a3d11eb8a=CoCNMs9f_VQPFipUCQYu48MguhZahJPMmT5zt_p9lr8



IMPACT OF TAX RATE CHANGES

➤ Impact?

- In UK, top tax rate was increased to 50% in 2010 to generate £2.5 billion in new revenue
- Only generated £1 billion or less of new revenue
- UK promptly reduced top rate – now at 45%

https://www.fraserinstitute.org/studies/albertas-personal-income-tax-increases-likely-to-yield-less-revenue-than-expected?SESSb0c121dd327a625f20a5331a3d11eb8a=CoCNMs9f_VQPFlpUCQYu48MguhZahJPMmT5zt_p9lr8



POSSIBLE EFFECTS

- Tax base reduced
 - No longer incentive to tax income in Alberta
 - Move income to another jurisdiction
- Realize income in 2015 instead of 2016/17/18
- Increased interest to implement more aggressive tax planning



POSSIBLE EFFECTS

- Reduced confidence in investing in Alberta
- Significant investment previously targeted for Alberta deployed elsewhere in the world
- Of course current AB economy must be factored in



POSSIBLE ALBERTA TAX REVENUES

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POSSIBLE SOLUTION?

- Alberta government reduces tax rate?

NUNAVUT - THE NEW ALBERTA?

	BC	AB	SK	NU
2016 Personal	47.7%	48.0%	48.0%	44.5%



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