



# TaxNewsFlash Canada

## Highlights of the 2016 Alberta Budget

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Alberta Finance Minister Joe Ceci delivered the province's 2016 budget on April 14, 2016. The budget anticipates a deficit of \$10.4 billion for the 2016-2017 fiscal year, with anticipated deficits of \$10.1 billion for 2017-2018 and \$8.4 billion for 2018-2019. The budget reduces the small business corporate income tax rate to 2% (from 3%), provides details on the proposed carbon pricing and includes other economic measures to support small business, among other changes. Highlights of tax measures announced in the budget are summarized below.

### Corporate tax measures

#### *Corporate income tax rates*

The budget reduces the small business corporate income tax rate to 2% (from 3%) effective January 1, 2017. As a result, Alberta's corporate income tax rates will be as follows:

Corporate Income Tax Rates – As of January 1				
	2016		2017	
	Alberta	Combined Federal and Alberta	Alberta	Combined Federal and Alberta
General	12.0%	27.0%	12.0%	27.0%
M&P	12.0%	27.0%	12.0%	27.0%
Small business <sup>1,2</sup>	3.0%	13.5%	2.0%	12.5%
<sup>1</sup> on first \$500,000 of active business income				
<sup>2</sup> decrease in tax rate to 2.0% (from 3.0%) effective January 1, 2017				

### *Capital Investment Tax Credit*

The budget provides \$75 million for the new Capital Investment Tax Credit for corporations that make investments in eligible capital assets. The credit will apply to the first time acquisition of new and used property in value-added agriculture, manufacturing and processing, tourism infrastructure and culture industries. The budget provides no further details on this proposed measure.

### *Carbon levy measures*

The budget proposes a carbon fee (referred to as a “carbon price”) to be implemented through a new carbon levy, as well as through new performance standards for large industrial emitters. Alberta intends to introduce legislation enacting the carbon levy this spring, with regulations and further details later this year.

### *Performance standards for large industrial emitters*

The budget proposes that carbon emissions of large industrial emitters will continue to be subject to the Specified Gas Emitters Regulation (SGER) framework until the end of 2017 at which time the province will transition to product and sector-based performance standards. Large industrial emitters will be subject to a price of \$20 per tonne of greenhouse gas emissions over their emissions target as of January 1, 2016. This price will rise to \$30 per tonne on January 1, 2017.

Facilities covered under the requirements of the SGER standards will be exempt from paying the levy on heating fuels. According to the budget, on-site combustion in conventional oil and gas will be levied starting January 1, 2023.

### *Carbon levy*

The budget also introduces a carbon levy on certain fuels consumed for combustion purposes as of January 1, 2017. This levy will be included in the price of transportation and heating fuels, such as diesel, gasoline, natural gas and propane, but will not apply directly to consumer purchases of electricity. Starting January 1, 2017, the carbon levy will be applied to fuels at a rate of \$20 per tonne of carbon dioxide-equivalent emissions and will increase to \$30 per tonne on January 1, 2018.

According to the budget, and in line with the province’s methane reduction strategy, natural gas produced and consumed on-site by conventional oil and gas producers will be exempt from the carbon levy until January 1, 2023.

The carbon levy will apply to individual fuels based on the amount of emissions released when the fuel is combusted. The rates on major fuels are as follows (see [Appendix A](#) for full list):

Type of Fuel	January 1, 2017 Rate (\$20/tonne)	January 1, 2018 Rate (\$30/tonne)
Diesel	5.35 ¢/L	8.03 ¢/L
Gasoline	4.49 ¢/L	6.73 ¢/L
Natural Gas	1.011 \$/GJ	1.517 \$/GJ
Propane	3.08 ¢/L	4.62 ¢/L

Exemptions to the levy will include:

- Heating fuels used on sites subject to the Specified Gas Emitters Regulations (SGER)/performance standards regime
- Natural gas produced and consumed on site by conventional oil and gas producers (until January 1, 2023)
- Fuel used in industrial processes that is not combusted
- Purchases of fuel on-reserve by eligible First Nations individuals and bands for personal and band use
- Marked gasoline and diesel used by farmers in farming operations
- Biofuels, including biomethane, biodiesel and ethanol
- Inter-jurisdictional flights
- Fuel sold for export.

The budget specifies that, for natural gas, the levy will be collected and remitted by entities in the natural gas distribution system. For gasoline and other refined fuels, the collection and remittance of the levy will align with the current system for remitting fuel tax. For other fuels (such as natural gas liquids and coal), entities that either produce and sell, or import and sell these fuels will collect and remit the levy.

## Personal tax measures

### *Personal income tax rates*

The budget does not make any changes to the province's personal tax rates. As a result, Alberta's combined federal and provincial top marginal rates for income, capital gains and dividends remain as follows:

Personal Combined Federal/Provincial Top Marginal Rates	
	2016
Regular income	48.0%
Capital gains	24.0%
Eligible dividends	31.7%
Non-eligible dividends	40.2%

#### *Dividend tax credit*

As a result of lowering the small business rate, the budget notes that the dividend tax credit rate for dividends paid out of income taxed at the small business rate (other than eligible dividends) will be adjusted downwards, effective January 1, 2017.

#### *Alberta Investor Tax Credit*

The budget provides \$90 million for the new Alberta Investor Tax Credit for investors who invest in eligible small and medium-sized enterprises in Alberta. The budget provides no further details on this proposed measure.

#### *Climate Leadership Adjustment Rebate*

The budget introduces a non-taxable, refundable rebate to help offset the carbon tax for individuals who earn less than \$47,500 in net family income and for couples and families who earn less than \$95,000 in net family income. The rebate, which will begin in January 2017, generally provides up to \$200 for an adult, \$100 for a spouse and \$30 for each child under 18 in the household (to a maximum of four). The rebates will be increased in 2018 to \$300 for an adult, \$150 for a spouse and \$45 for each child. Payments will not be indexed to inflation.

#### **Other measures**

##### *Economic investments*

The budget announces economic investments, including:

- \$25 million for the Alberta Enterprise Corporation — To be invested in early stage and clean technology focused venture capital
- \$25 million for attracting and supporting new businesses — To support entrepreneurs and small or medium-sized enterprises commercialization efforts, expand the Agrivalue Processing Business Incubator in Leduc and attract major new business investment or company headquarters
- \$25 million for apprenticeship and training — To support apprenticeship-focused and occupationally focused training opportunities

- \$10 million for regional economic development initiatives drive — To drive investment, business growth, job creation and diversification throughout Alberta.

### *Education property tax*

The budget decreases the 2016 residential/farmland rate to \$2.48 per \$1,000 of equalized assessment (from \$2.50). The budget also decreases the non-residential rate to \$3.64 per \$1,000 of equalized assessment (from \$3.67).

### **We can help**

KPMG adviser can help you assess the effect of the tax changes in this year's Alberta budget on your personal finances or business affairs, and point out ways to take advantage of their benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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## **Appendix A — Carbon Levy Rates by Type of Fuel**

Type of Fuel	January 1, 2017 Rate (\$20/tonne)	January 1, 2018 Rate (\$30/tonne)
Aviation Jet Fuel	5.17 ¢/L	7.75 ¢/L
Aviation Gas	4.98 ¢/L	7.47 ¢/L
Bunker Fuel	6.36 ¢/L	9.55 ¢/L
Butane	3.56 ¢/L	5.34 ¢/L
Coal Coke	\$63.59 /tonne	\$95.39 /tonne
Coke Oven Gas	1.40 ¢/m3	2.10 ¢/m3
Diesel	5.35 ¢/L	8.03 ¢/L
Ethane	2.04 ¢/L	3.06 ¢/L
Gas Liquids	3.33 ¢/L	4.99 ¢/L
Gasoline	4.49 ¢/L	6.73 ¢/L
Heating Distillate Oil	5.51 ¢/L	8.27 ¢/L
Heavy Fuel Oil	6.35 ¢/L	9.53 ¢/L
High Heat Value Coal	\$44.37 /tonne	\$66.56 /tonne
Kerosene	5.14 ¢/L	7.71 ¢/L
Locomotive Diesel	5.94 ¢/L	8.90 ¢/L
Low Heat Value Coal	\$35.39 /tonne	\$53.09 /tonne
Methanol	2.18 ¢/L	3.26 ¢/L
Naphtha	4.49 ¢/L	6.73 ¢/L
Natural Gas	\$1.011 /GJ	\$1.517 /GJ
Non-Marketable or Raw Gas	\$1.150 /GJ	\$1.720 /GJ
Pentanes Plus	3.82 ¢/L	5.73 ¢/L
Propane	3.08 ¢/L	4.62 ¢/L
Refinery Gas	3.77 ¢/m3	5.65 ¢/m3
Refinery Petroleum Coke	\$63.86 \$/tonne	\$95.79 \$/tonne
Upgrader Petroleum Coke	\$58.50 \$/tonne	\$87.75 \$/tonne