

2015 Alberta Tax Changes - Highlights

In June 2015, the new Alberta NDP government introduced a bill to increase provincial income taxes for Alberta individuals and corporations. The highlights of this bill are summarized in this report; however, it should be noted that the NDP government is expected to release a budget in October 2015 that may further impact Alberta income tax rates. This special report is based on the information provided in the bill only, and will be updated to reflect the new budget when available.

Changes to personal taxes

Alberta has maintained a 10% provincial 'flat' tax for some time. However, the Alberta NDP government has eliminated the flat tax rate system by introducing a graduated tax rate system that imposes higher provincial tax rates at progressive levels of taxable income, beginning in 2015. Specifically, individuals earning more than \$125,000 per year will be subject to higher taxes in 2015, and thereafter. The new Alberta personal income tax rates are as follows:

Alberta Personal Income Tax Rates			
Taxable income ¹	2014	2015	2016 and thereafter
\$0 - \$125,000	10.00%	10.00%	10.00%
\$125,000 to \$150,000	10.00%	10.50%	12.00%
\$150,000 to \$200,000	10.00%	10.75%	13.00%
\$200,000 to \$300,000	10.00%	11.00%	14.00%
> \$300,000	10.00%	11.25%	15.00%

¹ Income brackets will be subject to inflation indexing, starting in 2017.

Although the increases to the income tax rates are less significant for 2015, an individual earning income at the highest marginal tax rate will have a significant change in their retained after tax dollars.

For example, an individual with a taxable income of \$500,000 would be subject to additional Alberta income tax of \$4,000 in 2015 and \$16,000 in 2016 (as compared to the 10% flat tax). The higher tax rates will be implemented as of October 1, 2015 but are applicable to the entire 2015 taxation year. Accordingly, employee source remittances made by employers may need to be adjusted to ensure sufficient amounts have been withheld for the 2015 calendar year.

The combined federal and provincial personal income tax rates on investment income applicable to an Alberta resident in the highest marginal tax bracket are as follows:

Top Combined Federal and Alberta Personal Income Tax Rates on Investment Income			
Income type	2014	2015	2016
Interest	39.00%	40.25%	44.00%
Capital Gains	19.50%	20.13%	22.00%
Eligible Dividends	19.29%	21.02%	26.19%
Non-Eligible Dividends ²	29.36%	30.84%	35.72%

² Includes impact of Alberta changes noted herein and Federal changes to the tax rates on non-eligible dividends (beginning in 2016).

Changes to corporate taxes

In addition to personal income tax increases, the Alberta NDP government has also increased general corporate tax rates. However, as shown below, small businesses that earn \$500,000 or less of active business income will not be affected by the tax increases due to an offsetting increase to the Alberta small business deduction rate. The corporate tax rate increases will be effective as of July 1, 2015 and, therefore, corporate year-ends which straddle this date will be subject to a pro-rated tax rate. The new Alberta corporate tax rates applicable to an Alberta corporation with a December 31 year-end are as follows:

Alberta Corporate Income Tax Rates			
Income type	2014	2015	2016
General and Manufacturing & Processing	10.00%	11.01%	12.00%
Small Business (<\$500,000)*	3.00%	3.00%	3.00%
Investment Income*	10.00%	11.01%	12.00%

As a result of these changes, the combined federal and provincial corporate income taxes applicable to investment income earned in an Alberta Canadian Controlled Private Corporation are as follows:

Combined Federal and Alberta Corporate Income Taxes			
Income type	2014	2015	2016
Investment*	44.67%	45.67%	46.67%

Conclusion

The impact of higher Alberta personal and corporate tax rates may have important implications to your particular situation. For further assistance in understanding these changes, please contact your BMO financial professional and/or your tax advisor.

*Canadian Controlled Private Corporation (CCPC)



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