



# TaxNewsFlash Canada

## Highlights of the 2019 Alberta Budget

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Alberta's Finance Minister Travis Toews delivered the province's 2019 budget on October 24, 2019. The budget anticipates a deficit of \$8.7 billion for 2019, and projects deficits of \$5.9 billion for 2020 and \$2.6 billion for 2021. Although the budget does not include any new changes to the corporate or personal tax rates, it cancels several tax credits, including the Scientific Research and Experimental Development (SR&ED) Tax Credit, and pauses the annual indexation of personal non-refundable tax credits and tax bracket thresholds.

### Corporate tax changes

#### *Corporate income tax rates*

The budget did not announce changes to the province's corporate tax rates. However, Alberta recently enacted legislation to decrease its general corporate tax rate to 8% (from 12%) over four years (see *TaxNewsFlash-Canada* 2019-25, "[Alberta — Corporate Tax Rate Drops to 8% by 2022](#)"). Specifically, Alberta reduced its general corporate rate to 11% (from 12%) on July 1, 2019, with further 1% rate reductions every year on January 1 until the general corporate tax rate is 8% on January 1, 2022. As a result, Alberta's corporate income tax rates will be as follows:

Alberta Corporate Income Tax Rates					
	Before July 1, 2019	On or After July 1, 2019	2020	2021	2022
General	12%	11%	10%	9%	8%
M&P	12%	11%	10%	9%	8%
Small business <sup>1</sup>	2%	2%	2%	2%	2%

<sup>1</sup> On first \$500,000 of active business income.

When combined with the federal tax rates, the province’s corporate income tax rates will be as follows:

Combined Federal and Alberta Corporate Income Tax Rates					
	Before July 1, 2019	On or After July 1, 2019	2020	2021	2022
General	27%	26%	25%	24%	23%
M&P	27%	26%	25%	24%	23%
Small business <sup>1</sup>	11%	11%	11%	11%	11%

<sup>1</sup> On first \$500,000 of active business income.

### *Elimination of tax credits*

The budget eliminates the SR&ED Tax Credit starting in 2020. As a result, expenses incurred after December 31, 2019 are no longer eligible for this credit.

The budget also cancels:

- The Alberta Investor Tax Credit
- Community Economic Development Corporation Tax Credit
- Capital Investment Tax Credit
- Interactive Digital Media Tax Credit.

The budget advises that Alberta will not grant new approvals for these four credits after October 24, 2019. However, businesses already approved under the Alberta Investor Tax Credit or the Community Economic Development Tax Credit have until December 31, 2019 to raise capital for these credits. In addition, Alberta notes that corporations and individuals will still be able to claim any unused credits, where applicable.

#### **KPMG observations**

Following the announcement that Alberta will cancel the SR&ED Tax Credit effective 2020, taxpayers should consider accelerating eligible SR&ED expenditures to maximize available credits, where possible.

### *Film industry tax credit*

The budget announces a new tax credit for eligible companies in the film industry, to replace the current grant-based support system, which will begin in spring 2020. The new credit will allow eligible companies to claim 22% of eligible expenditures, to a maximum

payment of \$10 million. Alberta states that companies must be approved by the Ministry of Economic Development, Trade and Tourism, which will issue certificates that must be included when filing taxes.

The budget notes that more details will be available when Alberta brings forward legislation and regulations on this measure.

## Personal tax changes

### *Personal income tax rates*

The budget did not announce changes to personal tax rates. As a result, Alberta's personal income tax rates effective January 1, 2019 are as follows:

Personal Combined Federal/Provincial Top Marginal Rates	
	2019
Interest and regular income	48.00%
Capital gains	24.00%
Eligible dividends	31.71%
Non-eligible dividends	42.30%

### *Indexation of the personal income tax system*

The budget announces that Alberta will pause the annual indexation of non-refundable tax credits and tax bracket thresholds, and will carry forward the 2019 amounts for the 2020 and future tax years. Alberta indicates that it will resume indexing the tax system once it achieves the required economic and fiscal conditions.

### *Dividend Tax Credit*

The budget states that Alberta will adjust the dividend tax credit rate for dividends paid out of income taxed at the general corporate income tax rate (eligible dividends) on January 1, 2021 and on January 1, 2022, corresponding with the legislated reductions to the general corporate income tax rate.

#### **KPMG observations**

In light of the changes to the dividend tax credit for eligible dividends, corporate taxpayers should review their dividend-paying policy to determine if it may be advantageous to accelerate or defer dividend payments.

### *Alberta Child and Family Benefit*

The budget introduces the Alberta Child and Family Benefit, which replaces the Alberta Child Benefit and Alberta Family Employment Tax Credit beginning in July 2020.

The new Benefit includes two components that depend on the family net income and number of children:

- Base component — An amount up to \$3,325, to be phased out when family net income exceeds about \$41,000
- Working component — An amount up to \$1,795, to be phased out when family net income reaches about \$61,000.

The Benefit is non-taxable and will be paid quarterly.

### *Education and tuition tax credits*

The budget eliminates Alberta's education and tuition tax credits, beginning with the 2020 tax year. The budget advises that Alberta students will still be able to claim amounts earned before 2020.

### **Indirect tax**

#### *Tobacco tax*

The budget increases tobacco tax to \$55 per carton of 200 cigarettes (from \$50), effective 12:01 a.m. on October 25, 2019. In addition, the budget increases the tax on loose tobacco to 41.25 cents per gram (from 37.5 cents). For cigars, the budget increases the tax to 142% of the taxable price of the cigar (from 129%) and increases the minimum and maximum tax per cigar to 27.5 cents and \$8.61, respectively.

The budget also announces that Alberta intends to introduce a tax on vaping products in its 2020 budget.

#### *Short-term rentals*

The budget states that Alberta intends to introduce legislation in spring 2020 that provides that short-term rentals offered through online marketplaces (e.g., Airbnb, HomeAway, Vacation Rental by Owner (VRBO)) are subject to a 4% tourism levy that applies to hotels and other accommodation providers. Currently, operators of such short-term rentals are generally not required to charge the tourism levy. Alberta notes that this legislation will authorize online marketplaces to collect and remit the levy on behalf of the operators.

### **Other tax changes**

The budget also:

- Freezes education property tax rates in 2019-20, and
- Reconfigures the Canada Workers Benefit, which provides tax relief for lower-income working individuals and families.

### We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's provincial 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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