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Surplus of Opportunity: Tax Reduction in Alberta

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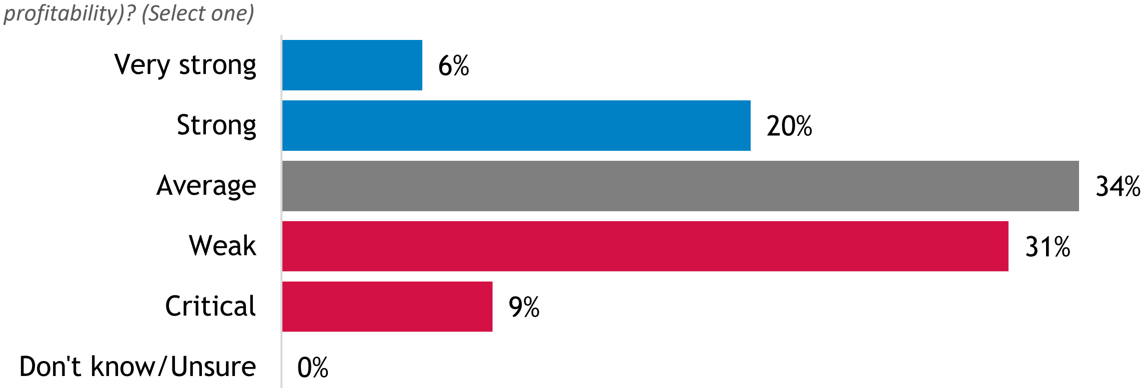
The Alberta Government has projected large budget surpluses over the next three fiscal years.[1] The government deserves credit for its fiscally responsible approach to public finances – a public good that benefits Albertans now and will continue to do so for many years to come. However, in times of an unprecedented affordability crisis for both businesses and individuals, this budgetary position provides an opportunity for the provincial government to lower taxes.

The state of Alberta small business

Figure 1

More Alberta small businesses struggling than thriving

How would you describe the overall financial health of your business right now (e.g., cash flow, debt levels, revenues and profitability)? (Select one)



Source: CFIB, Your Voice Survey – April 2024, April 4 – 22, AB n = 357.

Alberta small businesses continue to struggle with high interest rates, inflation, and lower consumer demand amid the ongoing affordability crisis. According to Alberta small businesses, 40% report weak or critical financial health compared to only 26% reporting strong financial health (see Figure 1).

[1] *Government of Alberta (2024) 2024 – 2027 Fiscal Plan.*

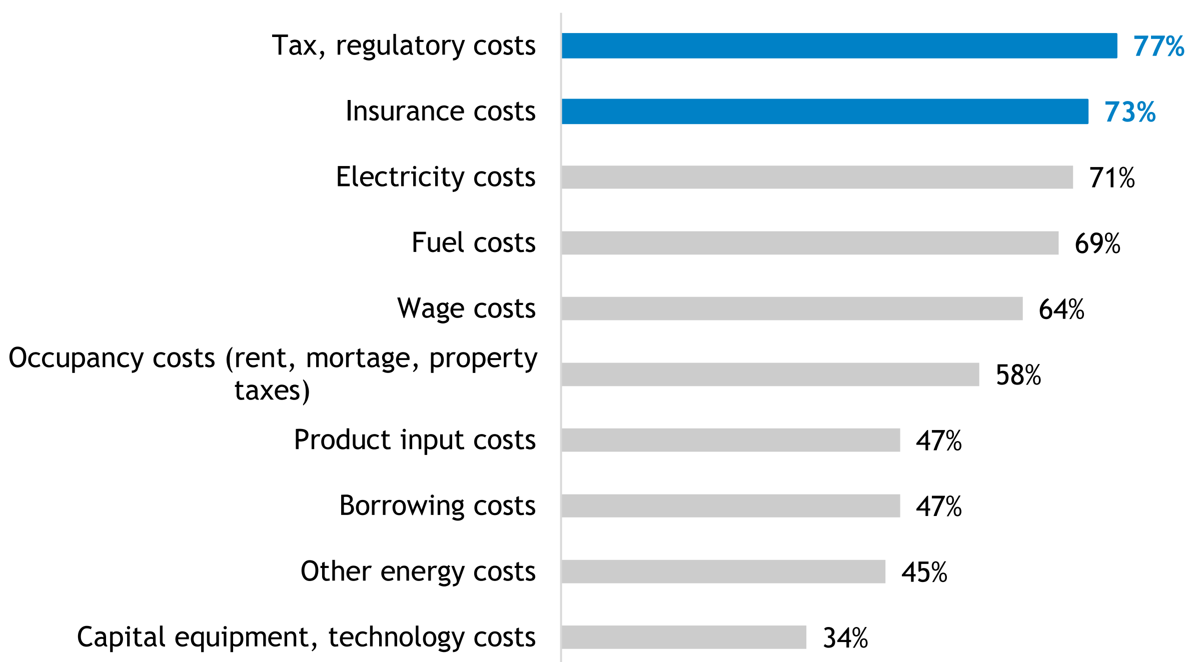
While there are many external factors contributing to the rising cost of doing business, taxes and regulatory costs imposed by all levels of government have become the largest cost constraints for Alberta small businesses, causing difficulties for 77% (see Figure 2). In fact, the share of small businesses citing tax and regulatory costs as their biggest cost constraint is the highest it has been since 2019.

Insurance costs are the second greatest cost constraint for Alberta small businesses. While Alberta insurance is completely private with no government-run insurance company, high premiums are made worse by the provincial government's Insurance Premium Tax (IPT). This tax rate is applied to insurance premiums collected by insurers for insurance policies covering risks (e.g. fire, vandalism, accident) in the province, and can be as high as 4% of insurance bills.

Figure 2

Tax and regulatory costs are currently the most damaging they have been for small businesses since before the pandemic

What types of input costs are currently causing difficulties in your business? (Select all that apply)



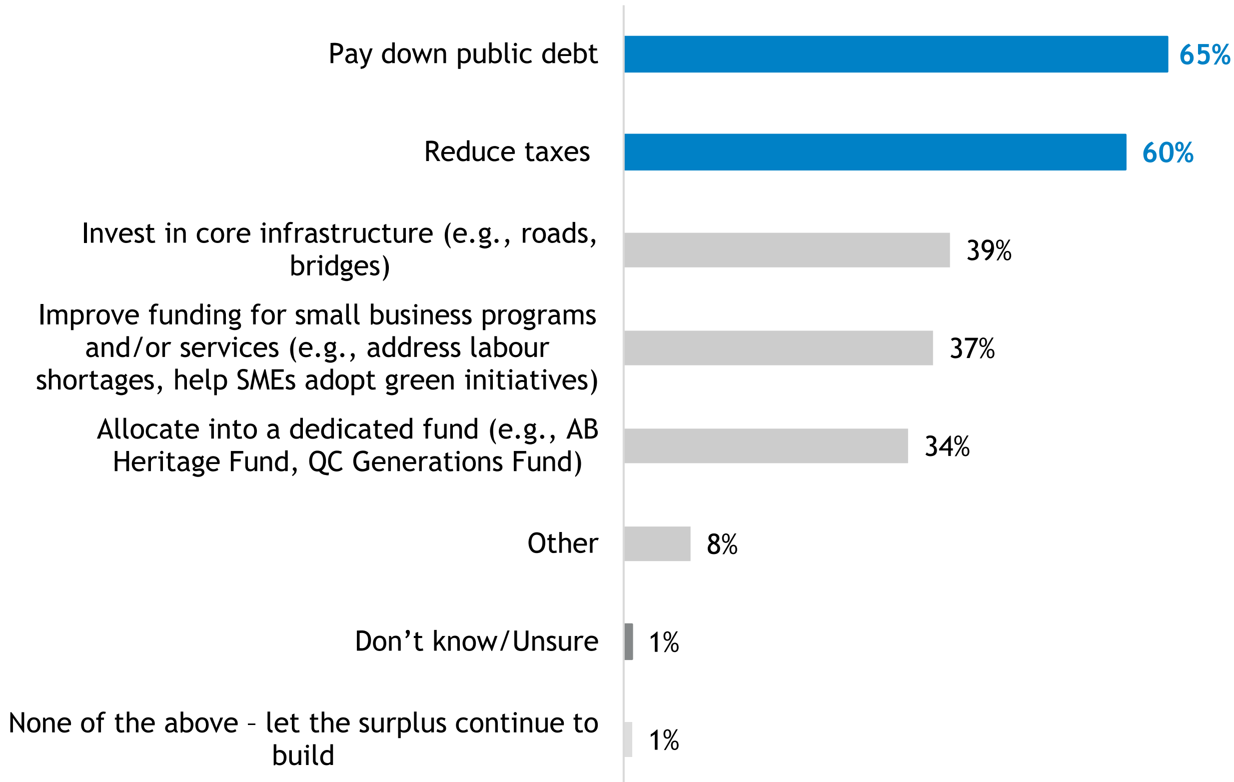
Source: CFIB, Business Barometer, June 2024, AB n = 236.

Despite Alberta having one of the lowest tax burdens in the country – due to its low corporate income tax rate and absence of a provincial sales tax – there is still room for improvement. This is particularly apparent when the provincial government is collecting more money than it needs to fund its programs and operations. The provincial government recently announced it was ending the 2023/2024 fiscal year with a $4.3 billion dollar surplus.[2] When asked what the government should do with surplus funds, Alberta small businesses supported reducing both public debt and the tax burden (see Figure 3).

Figure 3

Small businesses want the Alberta government to use the surplus to reduce debt and taxes

If the Alberta government has or were to have a surplus, what should be done with it? (Select all that apply)



Source: CFIB, Your Voice Survey – November 2023, November 2 – 16, AB n = 427.

Reducing the tax burden

The provincial government has a large enough surplus to effectively pay down public debt *and* reduce taxes. The government has tentatively planned to create a new 8% personal income tax (PIT) bracket for income up to $60,000, contingent on there being sufficient surplus funds to do so.[3] Currently, it is planned that the new bracket be introduced at 9% in 2026 before lowering it to 8% in 2027. This is a positive step that will provide savings for workers, boosting the economy by generating more spending.

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[2] *Government of Alberta (2024). Solid year-end sets stage for prosperous Alberta Future. https://www.alberta.ca/release.cfm?xID=90577844A2DF7-F866-2CF6-D1DAC479C9BFC67D*
[3] *Government of Alberta (2024) 2024 – 2027 Fiscal Plan.*

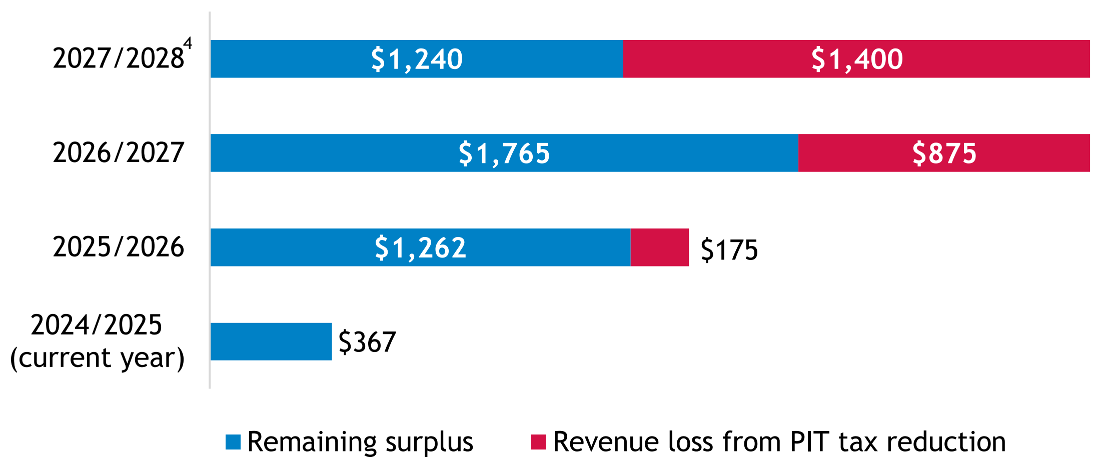
Such an action would indirectly benefit small businesses through potentially higher consumer spending. Even with this tax cut, the Alberta government is expected to have a surplus of nearly $2 billion in the 2026/2027 fiscal year (see Figure 4).

Alberta's fiscal plan shows two consecutive years of surplus increases from 2024/2025 to 2026/2027, providing room for the revenue loss from the PIT tax reduction. Since the expected surplus for the 2027/2028 fiscal year when the PIT tax reduction is expected to be fully phased in is not available, we assume for these calculations that the surplus before the PIT revenue loss remains constant from the previous year, following the trend of surplus increases. It is worth noting this surplus is still far below reported surpluses for the previous 2022/2023 and 2023/2024 fiscal years.

Figure 4

Alberta Government expected to retain a large surplus after PIT rate reduction

Expected budgetary position of the Alberta Government (millions of dollars)



Source: CFIB analysis of Government of Alberta budgetary data. See Appendix for more details.

While this new PIT tax bracket will help address affordability for individuals, taxes should also be lowered to directly support small businesses. Considering the Alberta government is expected to maintain a large surplus even after the PIT tax reduction, there is still room for this improvement. Lowering taxes applied to small businesses will also indirectly benefit individuals by spurring investment in the Alberta economy, boosting wages and lowering prices (see p. 7). Two tax rates which burden small businesses in the province are the small business corporate tax rate and the aforementioned Insurance Premium Tax (IPT).

[4] *Total surplus before phase in of new PIT tax rate in 2027/2028 is set to equal total surplus before phase in of 2026/2027 due to lack of information.*

Small Business Tax Rate

Currently, Alberta has a small business tax rate of 2%. This is in line with other Canadian provinces like British Columbia but is higher than PEI's rate of 1% and Manitoba, which has no small business tax rate.[5] This is a tax rate small businesses must pay on their revenue, decreasing the amount available to pay their staff, payroll taxes such as CPP and EI, property taxes, and other bills such as for electricity and heating, both of which are also taxed by different levels of government. Lowering their rate will bring Alberta closer in line with these two provinces and provide meaningful cost savings to small businesses with a minimal revenue reduction for the province. Total revenues from the small business tax rate are expected to be $308 million in the next fiscal year of 2025/2026, just 0.4% of Alberta's total revenues that year.[6] This means that the provincial government could eliminate the tax while maintaining a large surplus of over $1 billion. Even though the tax only makes up a small portion of government revenues, it has a large negative impact on the province's small businesses.

Insurance Premium Tax (IPT)

The IPT consists of two tax rates, one rate of 3% levied on insurance premiums for accident, life, and sickness and another rate of 4% levied on insurance premiums for every other type of insurance. The latter would increase costs for both small businesses and individuals for auto, disaster, property, business, and many other types of insurance. This tax rate is being levied at a time when both consumers and businesses are struggling with high insurance costs, and its reduction would help alleviate this burden.

Lowering the small business tax rate by half (1% decrease) would cost less than 12% of the cost for the government's planned creation of a new PIT tax bracket when fully phased in (see Figure 5). Reducing the insurance premium tax rate for premiums other than for life, accident, and sickness by half (2% decrease) would cost just 30% of that amount. Even after lowering both these tax rates, the government would be able to maintain a budgetary surplus of around $1 billion until the new PIT tax bracket is phased in, after which it would hover around half a billion dollars.

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[5] *Government of Manitoba. Corporate Income Taxes.* *https://www.gov.mb.ca/finance/business/ctaxes.html#:~:text=The%20small%20business%20rate%20is,Canada%20Revenue%20Agency%20Web%20site*
[6] *Government of Alberta (2024) 2024 – 2027 Fiscal Plan.*

Figure 5

Alberta Government can afford to cut tax rates given surplus position

Budgetary position of the Alberta Government if the small businesses tax rate and IPT tax rate were both lowered by half (millions of dollars)

Source: CFIB analysis of Government of Alberta budgetary data. See Appendix for more details.

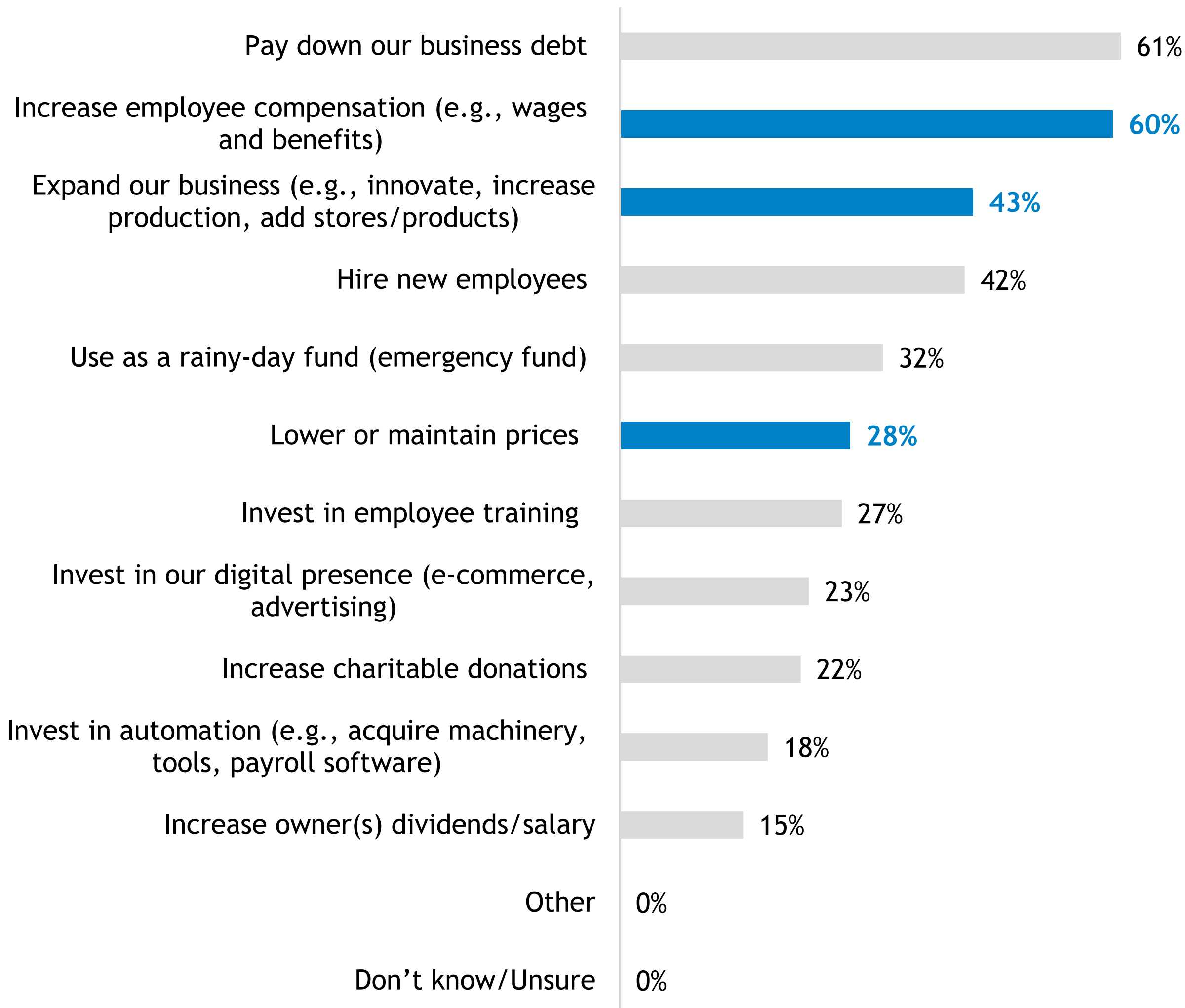
[7] *Total surplus before phase in of new PIT tax rate in 2027/2028 is set to equal total surplus before phase in of 2026/2027 due to lack of information.*

Together, cost savings to small business from the reduction in the small business tax rate would amount to almost $500 million over three years, in addition to the savings from the reduction in the IPT tax rate. Small business owners could use these cost savings to reinvest in their business and their workers, providing a boost to the local economy and provincial productivity (see Figure 6). Over a quarter (28%) would lower or maintain prices, providing a bulwark against inflation, easing the ongoing affordability crisis.

Figure 6

Most Alberta small businesses would use cost savings from tax cuts to decrease debt and increase employee compensation

If governments at any level were to reduce the overall burden of taxes and fees, what would your business do with the savings? (Select all that apply)



Source: CFIB, Your Voice Survey - June 2024, June 6 - 19, AB n = 243.

Recommendations

Given the Alberta government's current and upcoming surplus position, CFIB recommends the following to mitigate the affordability crisis Albertan citizens and business owners currently face:

1. **Follow through with the government's commitment to create a new personal income tax bracket:** This reduction will put more money into workers' pockets, addressing the affordability crisis for individuals and indirectly boosting the local economy by facilitating more consumer spending.

2. **Reduce or eliminate the small business tax rate:** This reduction would allow small businesses to keep more of the money they earn, allowing many to keep the doors open at a time when small businesses in the province are struggling. In addition to addressing the affordability crisis for these businesses, it will indirectly benefit individuals through higher compensation and lower prices.

3. **Reduce or eliminate the 4% Insurance premium tax rate:** This reduction would lower the artificial cost of insurance premiums caused by the tax rate in the province, thereby addressing high insurance costs for both individuals and small businesses.

Appendix

Revenue losses from reduction in the small business and insurance premium tax rate

Since the Alberta budget does not provide revenue projections for the small business tax rate and the 4% insurance premium tax (IPT) rate beyond the current 2024/2025 fiscal year, expected revenues from the small business tax rate are calculated as a share of corporate income tax revenues, while those from the 4% insurance premium tax rate are calculated as a share of total insurance premiums tax revenues (composed of both IPT rates).

Revenues from the small business tax rate are 4.4% of total corporate income tax revenues in 2024/2025. This share is applied to revenue projections for the corporate income tax over the next several fiscal years. Revenues from the 4% IPT rate are 74.1% of total insurance premiums tax revenues and this share is applied to revenue projections for the insurance premiums tax over the next several fiscal years.

Estimates for the 2027/2028 fiscal year

Since revenue projections for the 2027/2028 fiscal year are not available in Alberta's most recent budget, the surplus before tax reductions (revenue decreases from small business, insurance premium, and personal income tax cuts) is assumed to be the same as the surplus before tax reductions for the 2026/2027 fiscal year for this report. Revenue projections from the corporate income tax and insurance premiums tax for the 2027/2028 fiscal year are based on the assumption that revenues from these taxes will grow at the same average yearly rate as expected for the previous three years.

Average yearly growth in tax revenues ((2026/27 revenues / 2023/24 revenues) ^ 1/3) - 1

Cost of the new personal income tax bracket

The Alberta government estimated the costs of the proposed new personal income tax bracket to be $1.4 billion when fully phased in (8%). Given that this is effectively a tax rate reduction of 2% for all income earned between the basic personal amount (which all income earners are eligible to earn tax free) and $60,000, the partially phased in tax bracket (9%) is a tax reduction of 1% in this same income range. Therefore, the cost of the partially phased tax rate would be half of the fully phased in bracket, at $700 million.

While Alberta's current estimates for the cost of the new bracket is given on a calendar year basis (as the tax bracket will be introduced at the beginning of the calendar year), its finances outlined in its budget are provided on a fiscal year basis. To account for this, the costs were dispersed across the fiscal years based on what percentage of that year would be subject to each tax rate (8% and 9%). For example, since 75% of fiscal year 2026/2027 (the last 9 months of calendar year 2026) would be subject to the 9% tax rate while the remaining 3 months (first 3 months of calendar year 2027) would be subject to the 8% tax rate, the cost is calculated to be 75% of the total partially phased in cost and 25% of the fully phased in cost.

2025/26 fiscal year = (0.25 x $700 million)

2026/27 fiscal year = (0.75 x $700 million) + (0.25 x $1,400 million)

2027/28 fiscal year = (1 x $1,400 million)