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Have we lost the Alberta Advantage?

As the dust settles, some Albertans will be faced with sticker shock. As we wait for the federal budget to be issued we need to start looking at our options.

Now is the time to do some tax planning as 2015 will be the lowest tax rates for higher income individuals for the foreseeable future.

INDIVIDUAL

The Notley government has gone from 4 tax brackets to 8 tax brackets and increased the top tax bracket from 39% to 43%. If we then look at the Liberal election platform, that 44% rate could increase to 48%. (See table 1).

Tax rates on other sources of income have also been adversely affected with dividend tax rates increasing anywhere from 6.9% to 12.42%. (See table 2).

CORPORATE

On the corporate front, effective July 1, 2015 the Alberta general corporate tax rate increased by 2% to 12%. This increase will affect those CCPC's with active business income in excess of \$500,000.00 with the Liberal election platform CCPC's with active business income below the \$500,000 small business threshold will see a 0.5% decrease on the federal rate starting in 2016 until 2019 when the tax rate will have dropped to 9% from 11%.

Where integration of the tax system was close to being break even in the past, with the changes by the provincial budget and the proposed federal changes, some tax planning strategies could have negative tax consequences of over 5%. Tax planning strategies will need to be reviewed to create the most cost effective plans going forward.

Items to consider before December 31, 2015

1. Defer claiming RSP deductions in 2015 to get better tax deferral in 2016 (40.25% vs potential (48%)
2. If a shareholder requires large cash flows in the next few years, consider taking the income in 2015
3. Do not claim the capital gains reserve
4. Defer to 2016 claiming cca, inventory write downs, doubtful accounts and eligible capital deductions.

Answer:

Yes, I do believe some Albertans have lost the advantage they have enjoyed over the past 15 years with the tax rates on par with mid 1990's.

Table 1

Total income		2014			2015			2016		
From	To	Federal	Provincial	Total	Federal	Provincial	Total	Federal	Provincial	Total
1	44,701	15.00	10.00	25.00	15.00	10.00	25.00	15.00	10.00	25.00
44,702	89,401	22.00	10.00	32.00	22.00	10.00	32.00	20.50 ¹	10.00	30.50
89,402	125,000	26.00	10.00	36.00	26.00	10.00	36.00	26.00	10.00	36.00
125,001	138,586	26.00	10.00	36.00	26.00	10.50	36.50	26.00	12.00	38.00
138,587	150,000	29.00	10.00	39.00	29.00	10.50	39.50	29.00	12.00	41.00
150,001	200,000	29.00	10.00	39.00	29.00	10.75	39.75	29.00	13.00	42.00
200,001	300,000	29.00	10.00	39.00	29.00	11.00	40.00	33.00 ¹	14.00	47.00
300,001	+	29.00	10.00	39.00	29.00	11.25	40.25	33.00 ¹	15.00	48.00

Table 2 Top marginal personal tax rates

Type of income	2014	2015	2016	2016 ¹		
			Pre- federal	Alberta	British Columbia	Ontario
Ordinary Income	39.00	40.25	44.00	48.00	47.70	53.53
Capital Gains	19.50	20.13	22.00	24.00	23.85	26.77
Eligible Dividends	19.29	21.03	26.19	31.71	31.30	39.34
Ineligible Dividends	29.36	30.84	35.72	40.24	40.61	45.30

¹ based on Liberal election platform of decrease of 1.5% to middle class and a 4% increase on income greater than \$200,000