



ALBERTA

TREASURY BOARD AND FINANCE

*Office of the Minister
MLA, Calgary-Fort*

March 30th, 2016

Mr. Ken Kobly
President and Chief Executive Officer
Alberta Chambers of Commerce
1808, 10025 - 102A Avenue
Edmonton AB T5J 2Z2

Dear Ken:

I am writing in follow up to our meeting and discussion about the collection of corporate taxes in Alberta.

In your *2015 Budget: How did it score?* report you recommended in part that the Government of Alberta "consolidate the provincial and federal income administrations". After carefully reviewing this matter, the Government has determined that it will continue with the provincial administration of corporate tax collection. We believe that provincial administration of corporate tax collection is in the best interest of Albertans and Alberta businesses.

Our position is based on three key considerations, which are addressed below. We sincerely hope that the Chamber will reflect upon the information contained in this letter, and consider revising your position on this matter.

Under the current structure, the provincial administration of corporate income tax (CIT) collection incurs an annual administrative cost to Alberta of approximately \$10 million, and roughly \$20 million annually in bad debt expenses, for a net cost of \$30 million/annum.

As you are likely aware, by administering CIT collection provincially, the government's costs are offset by interest on taxes owed and revenue from tax penalties. While gross revenue from interest, fees and penalties can vary substantially from year to year, a recent analysis of the past six years indicates that on average, the government grosses roughly \$105 million/annum.

Therefore, by administering CIT provincially, the Government of Alberta averages roughly \$75 million in net revenue per year, in addition to employing over 200 people in Alberta.

In the event that Alberta were to cede its authority to the CRA, we would forgo all administrative costs, however we would also cede all revenue from interest, fees and penalties to Ottawa. Therefore, government revenues would decline by roughly \$75 million/annum, in perpetuity. Simply put, given the cost/benefit, there is no persuasive fiscal rationale to have CRA administer Alberta's CIT.

I should add that despite administering our own CIT collection system, Alberta relies significantly on the CRA for audits and enforcement of the taxable income calculation, including resolving tax disputes through the court system as necessary. These substantial costs are borne entirely by the CRA, and serve to significantly reduce our provincial administration costs (and hence the net revenue the government receives).

There are a number of important benefits that exist for Alberta businesses because we administer our CIT system provincially. For example, under the CRA system, small businesses with incomes below \$500,000 are generally required to pay quarterly tax installments. These installments are advance payments made periodically on account of a businesses' anticipated tax liability for a year. Of course, advance payments are an unfortunate financial and administrative burden on small businesses, and can seriously diminish cash flow. Fortunately, in Alberta, Canadian controlled private corporations with taxable income below \$500,000 are not required to make these tax installments. Our unique ability to exempt Alberta small businesses from paying advance payments is a direct result of having a provincially administered CIT collection system.

On a broader note, I should highlight that Alberta relies on the federal government to administer the calculation of income for tax purposes. This approach requires that Alberta parallel the federal rules for calculating income. However, to the benefit of Alberta businesses, when they compute taxable income for the year, they have the ability to claim different discretionary deductions for federal and provincial purposes (e.g. losses, capital cost allowances, etc.). This ability to claim different discretionary deductions allows Alberta businesses to vary the amount of taxable income they report for federal and provincial purposes. This flexibility can be of significant benefit for Alberta businesses, particularly in years where they have federal tax credits that must be used.

Consider, for example, a scenario where federal tax credits must be used in a given year. To utilize the credits, an Alberta business would not claim their full discretionary deductions federally, but could provincially. This would make the business' taxable income lower for Alberta purposes than federal. The higher federal taxable income would increase the business' federal taxes against which the credits would then be offset.

I hope the information contained in this letter will be considered by the Chamber membership. If you have any additional questions or concerns, I would be happy to facilitate a meeting with the policy experts at the Alberta Chamber and officials from Treasury Board and Finance (TBF) to discuss this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Ceci', written in a cursive style.

Joe Ceci
President of Treasury Board,
Minister of Finance