

**RENEWAL** (FIRST APPROVED IN 2012)

**Reducing the Small Business Tax**

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**Issue**

When entrepreneurs make decisions about where to locate their business they consider many factors, and taxes often become of central importance. Alberta’s small business tax is no longer competitive relative to other jurisdictions, such as Saskatchewan and British Columbia. Saskatchewan’s rate was cut in half on July 1, 2011, from 4.5 per cent to two per cent and British Columbia’s rate was expected to be lowered to nil on April 1, 2012, but the reduction was postponed in mid-2011 as part of a group of measures to offset the elimination of the harmonized sales tax (HST). The trend is clear. Jurisdictions competing for businesses, labour and entrepreneurs are aggressively pursuing lower taxes in an effort to undercut Alberta’s tax advantage. The Alberta government must move to lower Alberta’s small business tax to two per cent from the current three per cent in order to maintain a competitive business environment for Alberta’s small businesses.

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**Background**

Alberta has one of the most competitive tax structures in Canada. Small businesses serve as the backbone of the Canadian economy, accounting for 98 per cent of total businesses and employing 48 per cent of the labour force.<sup>35</sup> Alberta is home to a highly entrepreneurial and innovative workforce that is leading Canada in the number of established businesses per 1,000 and is second in terms of GDP per established business.<sup>36</sup> These numbers are a reflection of the near two decade government direction to make Alberta the most tax competitive jurisdiction in Canada – and we’ve succeeded.

Imitation being the sincerest form of flattery, competing jurisdictions have been aggressively pursuing lower taxes for the better part of the last decade. In mid-2011, Saskatchewan lowered its small business tax from 4.5 per cent to two per cent and estimated the annual savings to small business to be \$80 million.<sup>37</sup> British Columbia was set to eliminate its small business tax rate of 2.5 per cent, but due to the successful harmonized sales tax (HST) referendum the measure, it was postponed in mid-2011.<sup>38</sup>

AB	BC	SK	MB	ON	QC	NS	NB	PEI	NFLD
3%	2.5%	2%	0% <sup>39</sup>	4.5%	8%	3.5%	4.5%	1%	4%

Alberta’s competitive tax structure is being eroded by aggressive public policy decisions being made in neighbouring jurisdictions. The last small business tax reduction in Alberta was made in March 2004 and a threshold increase from \$460,000 to \$500,000 was made in 2009. A reduction in the small business tax

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<sup>35</sup> Industry Canada. *Key Small Business Statistics. July 2010.* [http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h\\_rd02488.html](http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd02488.html)

<sup>36</sup> Ibid

<sup>37</sup> Government of Saskatchewan. Saskatchewan Ministry of Finance. Budget 2011-12. 2011-12 Revenue Initiatives, 69.

<sup>38</sup> Ernst & Young. Provincial Corporate Income Tax Rates – 2011. 2011. (Accessed on 3 January, 2012); available from [http://www.ey.com/Publication/vwLUAssets/Tax\\_Rate\\_Card\\_-\\_2011\\_Provincial/\\$FILE/Provincial2011.pdf](http://www.ey.com/Publication/vwLUAssets/Tax_Rate_Card_-_2011_Provincial/$FILE/Provincial2011.pdf); Internet.

<sup>39</sup> Manitoba and Nova Scotia have set the threshold at \$400,000, other provinces have set it at \$500,000.

rate would not be a significant hit to the total revenue expected from corporate taxes. In fact, Alberta received an estimated \$300 million from small businesses out of a total corporate income tax take of \$3.6 billion in 2011-12.<sup>40</sup> The Alberta Chambers estimates that a one per-cent reduction in the small business tax rate would reduce government revenues by \$100 million which would stay in the pockets of small business owners, leading to greater economic activity and employment in the province.

Alberta small business owners are fortunate to be paying low personal income taxes and low fuel taxes, as well as not paying a provincial sales tax, payroll taxes or health premiums. These tax advantages are important tools for attracting business and investment to Alberta. However, times are changing and the 2008 recession has reminded us that we cannot remain complacent. A competitive tax structure requires continuous review and comparisons to our neighbours' trending behaviour. In light of recent tax changes in other jurisdictions, the prudent course is to lower the small business tax rate by one per cent to position this province for continued growth and long-term prosperity.

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**The Alberta Chamber of Commerce recommends the Government of Alberta:**

1. Reduce the small business tax rate to two per cent from three per cent to retain Alberta's competitive tax regime for small businesses.

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<sup>40</sup> Government of Alberta. Ministry of Finance. Budget 2011; Tax Plan. 10 February 2011, 151.