VIEWPOINT 2015 NOV 09

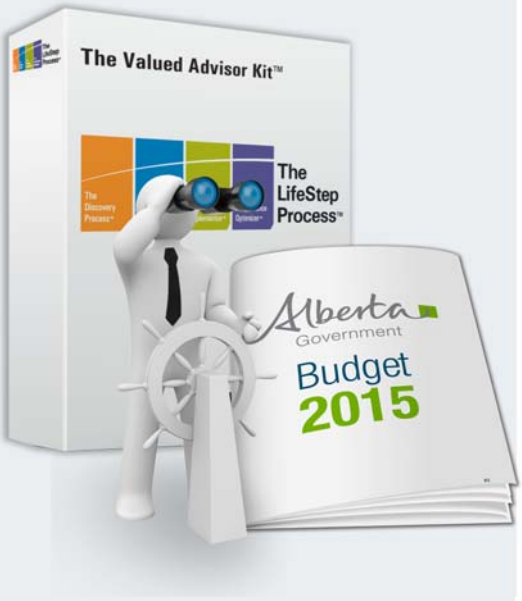
OCTOBER 2015 ALBERTA BUDGET

NEW TAX ERA IMPACTS ESTATE PLANNING IN ALBERTA

Overview

Alberta's newly elected NDP government passed its first budget since coming to power last spring. With 2015-16 revenues forecast at $6 billion less than the previous year, the Notley government moved to broaden its tax base. To offset lost tax revenue from the oil sector and make good on promises for health, education and social services projects, **Alberta is moving forward with tax hikes on personal income and life insurance premiums**.

The new tax rates will impact life insurance planning for some Alberta residents. This Viewpoint discusses the tax changes of most significance to estate planning with life insurance in Alberta, and how ongoing plan management delivered through our Performance Optimizer service keeps plans for our Alberta clients on course.



The opinions expressed in this memorandum are strictly those of Westward Advisors Ltd. This memorandum is for information purposes only and is not legal or tax advice.

Personal Tax Rates Rising Dramatically

As expected, top earners will pay a lot more personal provincial income tax. Unexpected, though, is the speed at which these rate increases will be levied. While the March 26 budget proposal laid out gradual increases over the coming three years, the NDP government ultimately decided that there is no time to waste and will apply them all at once.

Top marginal tax rates apply to taxable income above $300,000 annually as follows:

Type of Income	2015	2016	2016 Plus Federal 4%
Interest	40.25%	44.00%	48.00%
Capital gains	20.13%	22.00%	24.00%
Eligible dividends	21.02%	26.19%	31.71%
Regular dividends	30.84%	35.74%	40.24%

In addition, the new Federal Liberal government has promised to apply an additional 4% tax on taxable income over $200,000. If this promise is fulfilled, the top earners in Alberta will incur a combined top tax rate increase of 23% from 39% to 48%.

Consequently, estate plans funding estate taxes in Alberta with life insurance may find the plans significantly underfunded. The flip side is that the value of an interest deduction on personal borrowings has increased by 13% and potentially 23%, making the after tax cost of borrowing significantly less.

Donation Tax Credit Saved

The NDP government announced it will retain the current Alberta donation tax credit rate of 21% for each dollar donated to charity in excess of $200 annually. The previous government said it would reduce the credit to 12.75% beginning in 2016. Maintaining the combined federal and provincial donation tax credit at 50% of every dollar donated means that estate plans incorporating charitable gifts continue to achieve the planned amount of donation tax benefit. However, the change in personal tax rates discussed above may result in insufficient donation tax benefits to achieve the planning objectives, and larger donations may be required in such plans.

Life Insurance Premium Tax Increases 50%

As announced previously, effective April 1, 2016, the premium tax insurers pay to the Alberta government on all life insurance premiums collected **rises from 2.0% to 3.0%**. This is the first premium tax increase in Alberta in 25 years. The impact on policyholders depends on the terms of the contract. Some life insurance contracts protect the policyholder from premium tax changes, and others permit the insurer to pass on premium tax changes to the policyholder. If the insurer passes the entire tax increase on to the policyholder, the premium effectively increases 1.03%.

The Performance Optimizer Monitors the Impact on Client Plans

The Performance Optimizer stage of The LifeStep Process is designed to address evolving circumstances such as when the tax environment changes. Our Performance Optimizer team will factor in these Alberta tax changes for our Alberta clients when delivering the 2015 Annual Review packages in early 2016. If we identify a material impact on the ability of a plan to fulfill its objectives, we will weigh the options and make recommendations to modify the plan.

© Copyright 2015 Westward Advisors Ltd. All rights reserved.
The LifeStep Process is a registered trademark of Westward Advisors Ltd.