

Economic spotlight

Corporate income tax revenue hits all-time high in 2022

Strong commodity prices and economic activity propelled corporate profits to new highs and boosted Alberta's corporate income tax (CIT) cash receipts to a historical maximum of \$8.2 billion in fiscal year 2022-23, almost double the 2021-22 level. This Economic Spotlight looks at trends in Alberta's CIT cash receipts across major economic sectors in 2022-23.

What are CIT cash receipts?

In general, incorporated businesses with a permanent establishment (e.g., a fixed place of business such as an office, branch, mine, oil well or farm) in Alberta at any time in a taxation year are required to pay Alberta income tax in accordance with the provisions of the *Alberta Corporate Tax Act*. CIT cash receipts—the net balance of CIT payments received by the provincial government after subtracting refunds that are paid back to corporations—constitutes the greatest portion of the annual provincial CIT revenue. Accounting and other minor adjustments comprise the remaining balance. CIT cash receipts are influenced by economic conditions in various industries.

Outsized contribution from oil and gas

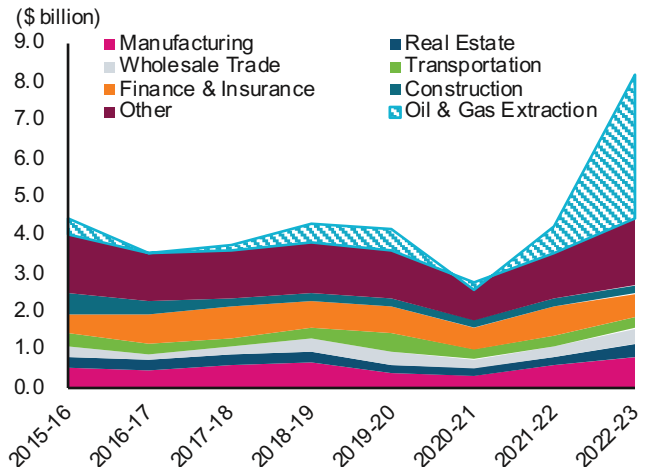
CIT payments from Oil & Gas Extraction spearheaded growth in provincial CIT cash receipts in 2022-23 (Chart 1). The industry contributed almost \$3.8 billion, more than five times its receipts in 2021-22 (Table 1). The energy sector collections were propelled by strong energy prices and record output, which drove strong revenue gains.

Oil prices surged in the first half of 2022. As a result, despite moderating in the second half of the year, West Texas Intermediate (WTI) averaged around US\$91 per barrel (/ bbl) last year. This lifted the Alberta heavy oil benchmark—Western Canadian Select (WCS) price—to the highest on record. Multi-year high oil prices boosted activity in the energy sector, with Alberta's total oil production growing 3.4% year-over-year (y/y) to average 3.7 million barrels per day (bpd), a historical high. While conventional production led the growth (+12% y/y), bitumen production reached a record level of almost 2.0 million bpd.

On the expense side, strong inflationary pressures and rising interest rates pushed operating costs higher in 2022. However, with companies continuing to reinvest a much smaller share of their cash flow into expanding production

CHART 1: OIL AND GAS EXTRACTION LED CIT GROWTH IN 2022-23

Alberta's corporate income tax collections, by major industry



Source: Alberta Treasury Board and Finance

capacity, revenues grew much faster than expenses. This resulted in record CIT collected from the energy sector in 2022-23 (Chart 2).

Chemicals drive growth in manufacturing

Following Oil & Gas Extraction, Manufacturing also contributed to growth in CIT receipts. Manufacturing added \$804 million to CIT collections in 2022-23 (+27% y/y), with chemical manufacturing taking the lead. After an influx of investment into Alberta's petrochemical sector in recent years, a few projects have completed construction and moved into production. Inter Pipeline Ltd. commissioned its polypropylene plant and began initial production in Q2, with an integrated start-up of the Heartland Petrochemical Complex in Q4 2022. This supported higher factory sales and revenues for the chemical sector. Overall, Alberta's chemical manufacturing shipments and international exports of basic and industrial chemicals, plastic & rubber products rose 6.3% and 15% y/y in 2022, respectively.

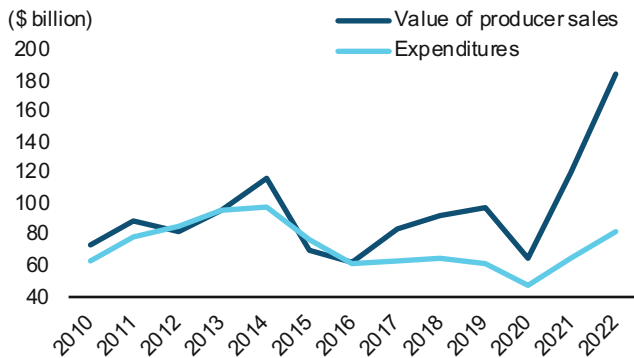
Easing demand for wood products manufacturing

CIT cash receipts from wood product manufacturing retreated from the previous year's levels, partially offsetting gains from the chemical manufacturing subsector. Following a strong recovery in lumber and other wood product prices amid

elevated residential renovations and construction activity in 2021, prices continued moderating throughout most of 2022 as demand for wood products eased. The value of wood product manufacturing shipments dropped by about 10% y/y in 2022, pulling tax receipts for the sector down with it.

CHART 2: OIL AND GAS REVENUE GREW FASTER THAN EXPENSES

Value of energy producers' sales and expenditures (capital and operating) in Alberta



Source: Canadian Association of Petroleum Producers

High input costs weigh on food manufacturing

The food manufacturing subsector also faced challenges last year that dragged down CIT receipts and offset gains in other manufacturing industries. Payments from food product manufacturing in Alberta are driven by meat product manufacturing, followed by grain & oilseed milling. For those producers, the cost of materials and supplies accounts for over 80% of total expenses. In 2022, the farm product price index for cattle & calves as well as for grains jumped by about 12% and 43% y/y, respectively. Elevated input prices and other cost pressures, including higher energy bills, contributed to the erosion of corporate income taxes collected from food manufacturing.

Record migration and limited supply support receipts from real estate

The province collected \$342 million (+3.1% y/y) in corporate income taxes from Real Estate & Rental & Leasing in 2022-23. Most of it came from the real estate subsector. This was amid higher residential rental rates in response to record migration to the province, limited housing supply and rising costs of construction and renovations. In addition, revenue was supported by higher average rents for occupied commercial building spaces in Alberta. The commercial rents services price index grew 4.8% in 2022, driven by rising rent for retailers and industrial buildings & warehouses. The rental &

leasing services subsector also saw higher CIT receipts on the back of strong activity in energy extraction, agriculture and non-residential construction in 2022.

Economic activity bolsters wholesale trade

Strong commodity prices propelled agricultural and energy extraction activity last year, which resulted in annual gains in tax receipts from Wholesale Trade (+47% y/y). The growth was led by establishments primarily engaged in wholesaling farm, mining and industrial machinery and equipment. It was also supported by merchant wholesalers that provide building materials and supplies on the back of higher construction costs and solid construction activity in Alberta last year.

Energy extraction supports transportation

Growth in tax collections from Transportation & Warehousing (+1.5% y/y) was led by the pipeline transportation subsector. This sector benefitted from higher throughput and higher tolls for some major crude oil export pipelines. The value of goods transported by trucks grew in 2022, contributing to higher tax collections from the truck transportation subsector. In addition, expanded warehousing capacity in the province supported stronger tax collections from the warehousing & storage subsector. The rail transportation subsector offset some of the strength in the other sectors. With total Western Division rail traffic down about 2.0% y/y, mainly due to lower crude-by-rail volumes, CIT collections fell compared with 2021.

Finance and insurance takes a breather but remains strong

After strong performance in 2021, tax receipts from Finance & Insurance in 2022-23 fell back closer to its average level, \$600 million (-24% y/y). Lower tax receipts in 2022 were in part the result of a one-time boost to corporate profits in the previous year when credit loss provisions that had been booked but not used during the pandemic were added to profits. This granted the industry a short-term lift to taxable income in 2021.

Higher costs weigh on construction profits

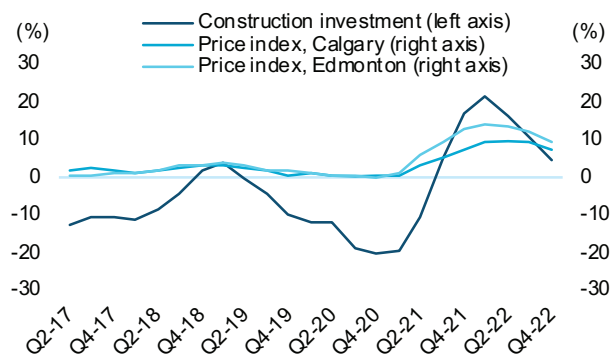
Rising costs dragged down corporate margins in the construction sector. Tax receipts from Construction went down 6.6% y/y to \$224 million in 2022-23, despite solid activity in Alberta in 2022. Lower receipts were driven by lower instalments and higher refunds from the non-residential building construction subsector. In addition to growth in the



non-residential building construction price index (Chart 3), cost pressures came from wages and salaries in the industry, which increased over 11% y/y in 2022, ahead of the provincial average (+9.0% y/y). Also, contractors that install or service building equipment such as electricity, water, heating and cooling contributed less CIT in 2022-23 than a year earlier. These declines were partially offset by tax gains from the construction of industrial utility systems such as storage tanks, pumping stations and power plants, following growth in non-energy extraction investment. Capital expenditures outside of oil and gas extraction reached almost \$27 billion in 2022 (+1.8% y/y), the highest level since 2015.

CHART 3: GROWTH IN CONSTRUCTION COSTS OUTPACE NON-RESIDENTIAL CONSTRUCTION ACTIVITY

Non-residential building construction investment in Alberta and construction price index, year-over-year per cent change



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Source: Statistics Canada, Haver Analytics

TABLE 1: CIT REVENUE HITS ALL TIME HIGH IN 2022-23

Alberta's CIT cash receipts, by industry (reclassified)

	2020-21	2021-22		2022-23	
	Cdn\$ millions	Cdn\$ millions	contribution to y/y growth (p.p.*)	Cdn\$ millions	contribution to y/y growth (p.p.*)
All industries	2,563	4,240	65.4	8,185	93.0
Accommodation and food services	21	34	0.5	43	0.2
Administrative and support, waste management and remediation services	49	58	0.4	56	(0.1)
Agriculture, forestry, fishing and hunting	46	58	0.5	72	0.3
Arts, entertainment and recreation	1	2	0.1	9	0.2
Construction	186	240	2.1	224	(0.4)
Educational services	6	10	0.1	11	0.0
Finance and insurance	576	785	8.1	598	(4.4)
Health care and social assistance	144	144	0.0	159	0.4
Information and cultural industries	109	86	(0.9)	80	(0.1)
Management of companies and enterprises	120	160	1.6	302	3.3
Manufacturing	314	631	12.4	804	4.1
Mining (except oil and gas)	15	24	0.3	88	1.5
Oil and gas extraction	(212)	706	35.8	3,765	72.2
Other services	59	64	0.2	76	0.3
Professional, scientific and technical services	224	204	(0.8)	263	1.4
Public administration	0	0	0.0	1	0.0
Real estate and rental and leasing	197	202	0.2	342	3.3
Retail trade	173	227	2.1	279	1.2
Transportation, warehousing and storage	243	245	0.1	312	1.6
Unknown	20	68	1.9	243	4.1
Utilities	22	25	0.1	66	1.0
Wholesale trade	251	268	0.7	394	3.0

Source: [Alberta Treasury Board and Finance](#); * p.p. - percentage points; red numbers in brackets are negatives