School of Public Policy | UNIVERSITY OF CALGARY

The Fiscal Implications of Separation: Revenues and Fiscal Balance

Technical Paper

The Economic and Fiscal Implications of Alberta Separation

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INTRODUCTION

Would a separate Alberta be able to collect enough revenue to cover its expenses and make new policy choices?

This paper provides some answers while keeping in mind a separate Alberta would need to spend more than the federal government to replicate existing federal programs and take on the transitional costs of separation.[a]

To generate answers, we:

- Combine the revenue forecast in the First Quarter Fiscal Update with an estimate of federal revenues raised in Alberta in 2026–27;
- Subtract the spending described in Impacts on Expenditures from these revenue estimates to come up with an approximation of what a separate Alberta's surplus or deficit — its fiscal balance — would look like;
- Estimate how much this fiscal balance might change in response to some of the economic shocks we discussed in the technical paper *The Economic Implications of Separation*.

1. PROVINCIAL AND FEDERAL REVENUES RAISED IN ALBERTA

1.1 ESTIMATED PROVINCIAL AND FEDERAL REVENUES

The first column of Table 1 shows the revenue forecast for 2026-27 in the Government of Alberta's (GoA) First Quarter Fiscal Update. The Update revenue estimate is based on a West Texas Intermediate (WTI) oil price averaging US$73.50, up from $60.50 in the Budget forecast. Total revenues for the GoA are $86.3 billion, which includes $14.1 billion in federal transfers.

Table 1 shows the importance of oil and gas revenues to Alberta. In 2026–27, resource royalties are expected to be 26.6 per cent of all revenues for a total of $23 billion. In addition, Alberta receives corporate income tax and investment income from oil and gas extraction. In 2024–25, the latest year for which information on income taxes paid by the oil and gas extraction sector is available, price and output levels were similar to those in the GoA Update, suggesting that corporate income tax revenue, which was $3 billion in 2024-25, would be similar as well. Investment income accruing in the Heritage Savings Trust Fund, which represents the return on accumulated royalties, is forecast at $2.4 billion in the Update. Total revenue related to oil and gas extraction is therefore likely to be about $28.5 billion in 2026–27, which is almost a third of revenues for that year.

Resource-related revenue is highly volatile. Over the 10 years ending in 2024–25, 21.1 per cent, on average, of the province's total revenue came from royalties, corporate income taxes on resource income and investment income from the Heritage Savings Trust Fund. The ratio ranged from 10.2 to 38.1 per cent during that same decade. We can see similar wide fluctuations if we look at royalties, which are available for a longer time period (Figure 1). Over the 20 years ending in 2026-27, the share of royalties in total revenue averaged 19.7 per cent and ranged from 6.5 to 33.2 per cent.

[a] See the technical paper *The Economic Implications of Separation*.

Another key source of income is federal transfers, two-thirds of which consist of the Canada Health and the Canada Social Transfers. In contrast to royalties, transfers represent a stable share of revenues around a rising trend (Figure 1). Over the 20 years ending in 2026–27, the share of federal transfers in total revenues rose at a trend rate of 3.2 per cent a year,[b] reaching 17.8 per cent of revenues in 2026-27. There are few large fluctuations around this trend, particularly when the temporary surge associated with the COVID-19 pandemic is excluded.[c]

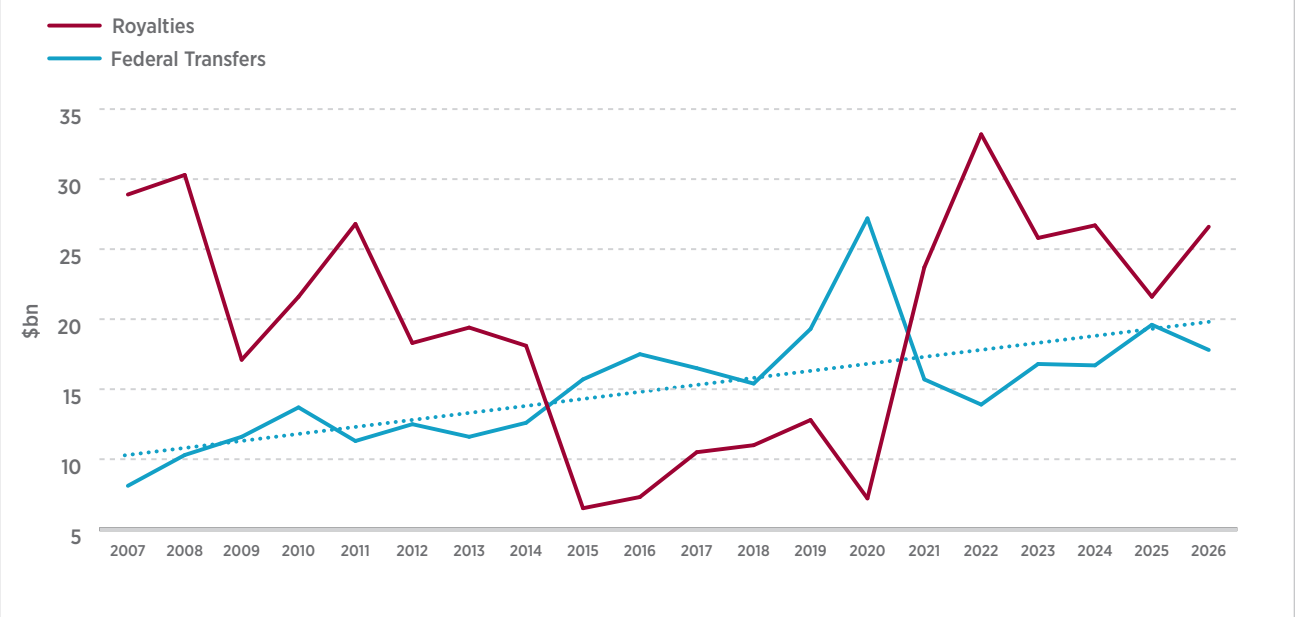
Table 1. Revenues Raised in Alberta 2026-27

	Alberta Government		Federal Revenues Originating in Alberta		Combined	
	$mn	% Share	$mn	% Share	$mn	% Share
Tax revenue	**31,420**	**36.4**	**63,903**	**90.2**	**95,323**	**66.6**
Income taxes	24,199	28.0	53,664	75.7	77,863	54.4
Personal	16,354	19.0	33,884	47.8	50,238	35.1
Corporate	7,845	9.1	16,868	23.8	24,713	17.3
Non-resident withholding	–	–	2,912	4.1	2,912	2.0
Education property tax	3,592	4.2	–	–	3,592	2.5
Excise and sales taxes	3,629	4.2	10,239	14.5	13,868	9.7
Goods and services tax	–	–	7,763	11.0	7,763	5.4
Custom import duties	–	–	763	1.1	763	0.5
Fuel taxes	1,444	1.7	536	–	1,980	1.4
Insurance tax	1,063	1.2	–	–	1,063	0.7
Other	1,122	–	1,178	–	2,300	1.6
Non-tax revenues	**40,798**	**47.3**	**6,951**	**9.8**	**47,749**	**33.4**
Royalties	22,955	26.6	–	–	22,955	16.0
Contributions to employment insurance	–	–	4,244	6.0	4,244	3.0
Interest and other investment income	4,446	5.2	862	1.2	5,308	3.7
Net income from enterprises	3,207	3.7	575	0.8	3,782	2.6
Premiums, fees, and licenses	6,026	7.0	912	1.3	6,938	4.8
Other non-tax revenue	4,164	4.8	358	0.5	4,522	3.2
Federal transfers	14,061	16.3	–	–	–	–
Total revenues	86,279	100.0	–	–	–	–
Own-source revenues	72,218	83.7	70,854	100.0	143,072	100.0

Source: Alberta's First Quarter Fiscal Update, Provincial and Territorial Economic Accounts and authors' calculations.

[b] The source of the federal transfer data is the Provincial and Territorial Economic Accounts (PTEA)
[c] The average absolute deviation from the trend level of transfers is 1.5 percentage points of total revenues when the pandemic-related surge is excluded.

Figure 1. Resource Royalties and Federal Transfers as a Percentage of Total Revenues



Source: Alberta 2026 budget,[1] and authors' calculations. Years are fiscal years.

The third column of Table 1 shows our estimates of the revenues that the federal government will collect in Alberta in 2026–27. They were developed from data on federal revenues originating in Alberta presented in the Provincial and Territorial Economic Accounts (PTEA), which are available for calendar years up to 2024, and information from the First Quarter Fiscal Update. Where revenue categories in the two accounting frameworks are the same, as they are for personal and corporate income taxes, we applied the growth rate in the Update to the corresponding revenue category in the PTEA. We increased most other revenue categories by 80 to 90 per cent of the growth rate in Alberta's GDP.[d] We project total revenues for the federal government from Alberta of $70.9 billion in 2026–27, about 4 per cent lower than what the provincial government is expected to raise in that year.[e]

However, the composition of the two revenue sources is very different. The federal government has no resource royalty income and does not of course receive transfers. Instead, 75.7 per cent of revenues come from income taxes, both personal and corporate. Another 14.5 per cent comes from sales and excise taxes, principally the Goods and Services Tax (GST). The federal government also collects contributions to Employment Insurance (EI).

[d] The key exceptions are employment insurance contributions, which grow in line with employment income, and investment income, which is assumed to grow at half the pace of GDP.

[e] In 2024, federal government revenues originating in Alberta, as reported in the provincial economic accounts, were $73.4 billion. Net of the federal fuel charge that was eliminated in 2025, federal revenues were $69.8 billion in 2024.

Box 1. Costs of Collecting Taxes for a Separate Alberta

A separate Alberta would incur substantial additional costs to collect income taxes, excise taxes and duties, and contributions to a SAPP and separate Alberta EI (SAEI). We estimated these costs at $950 million in the technical paper *The Fiscal Implications of Separation: Expenditures* by allocating the Canada Revenue Agency's (CRA's) operating costs in proportion to provincial GDP. If we look at our earlier estimate of $950 million in comparison with other jurisdictions and what they pay to collect taxes, our estimate seems reasonable.

Alberta now spends $55 million a year to collect corporate income taxes, various excise taxes and duties, and custom import and excise duties on alcohol products for both levels of government.[1] The cost of collecting the corporate income tax is likely around $15-20 million. Collection costs are low because the provincial Tax and Revenue Administration (TRA) depends on the CRA to compute taxable income, and its assessments and reassessments typically follow those of the CRA. This allows the province to avoid most audit and compliance activities.[2]

A separate Alberta would therefore incur the full cost of setting up a corporate income tax collection mechanism. It would also incur the full cost of collecting personal income taxes which are presently collected by the federal government under a Tax Collection Agreement, as well as custom import duties and withholding taxes. It would need to collect contributions to SAPP and SAEI.

If we look at what other jurisdictions pay to collect taxes, we get an idea of what a separate Alberta might need to pay. The Australian Taxation Office[3] spent approximately $2.6 billion to collect $506.7 billion in income taxes and pension contributions, giving a cost per dollar collected of 0.51 cents.

The cost of collecting Australia's value-added tax was 0.71 cents per dollar of revenue, which is 39 per cent higher than for other taxes. In 2024–25, Revenue Quebec,[4, p. 202] an independent agency, was allocated $1.22 billion by the government to collect income and consumption taxes, as well as Quebec pension plan contributions for the government. That payment supported the collection of $123.3 billion in net revenue, which means that Quebec's cost per dollar of revenue collected was one cent. If we use the same relative cost that Australia's tax office has experienced collecting that country's value-added tax, we can calculate Quebec's collection costs excluding the GST: it is approximately 0.9 cents per dollar of revenue collected.

A separate Alberta could be collecting as much as $92 billion in tax revenues, $4 billion in SAEI contributions and a further $10.5 billion in SAPP contributions. If we apply Quebec's cost ratio, excluding the GST, to all of these collections in a separate Alberta, it would cost $975 million to collect $106.5 billion. Australia's more efficient cost ratio suggests it would cost just $550 million for the same revenue. Both estimates understate collection costs for a separate Alberta because of scale effects (for more see *The Fiscal Implications of Separation: Expenditures*). Specifically, Quebec raises about 120 per cent of the potential revenues of a separate Alberta; the corresponding figure for Australia is 490 per cent.

If we consider these numbers in the light of what Alberta's TRA currently spends — $55 million — to do its work, the international comparisons suggest a separate Alberta needs to spend between $500 to $920 million more to collect its revenues. This is consistent with the $946 million that we estimated in *The Fiscal Implications of Separation: Expenditures*.

1.2 REVENUES AVAILABLE TO A SEPARATE ALBERTA

We add together these two estimates of revenue, one from the GoA, one from the federal government, to get an estimate of the revenues that might be available to a separate Alberta. We show this in the fifth column of Table 1. For the moment, we are assuming no economic impacts of separation, and so the expected revenues do not change.

It is not at all clear that a separate Alberta would keep the same tax structure. There would be considerable opportunities for simplifying the tax code and the new country might decide on a very different mix of taxes. Our aim is to estimate how much revenue overall would be available to a separate Alberta. To do this we assume:

- Federal corporate income tax revenues are replaced by Alberta taxation;
- Federal personal income taxes and GST revenue[f] are replaced by Alberta personal income taxes;
- All other federal taxes are replaced by identical Alberta taxes; and
- A separate Alberta replicates federal non-tax revenues.

When we make these assumptions, we find a separate Alberta would have revenues of $143.1 billion. Here, we are taking account of the fact that Alberta would no longer receive federal transfers totalling $14.1 billion. Royalties would now be 16 per cent of revenues, compared to 26.6 per cent before, whereas income taxes would be 59.8 per cent of revenues, up from 28 per cent.

2. IMPACT OF ECONOMIC CHANGES ON REVENUES

We now look at what might happen to Alberta's revenues under the various economic scenarios that we modelled in the technical paper *The Economic Implications of Separation*. Recall that we looked at a range of potential separation-induced shocks to a separate Alberta's economy, including impacts on energy production, interprovincial trade and the cost of credit.

In Table 2 below, we show the impact of these scenarios on the revenues of a separate Alberta, over both the short and long term. We use our own estimates of the sensitivity of revenues to economic changes to do this.[g] In our smooth scenario, we assume the new country's government has removed constraints on resource development and successfully attracted more investment into the sector, driving up production.[h] This scenario also assumes only a small increase in interest rates in the short term for businesses and households, and that there are no additional costs to trading with the rest of Canada (RoC). In our difficult scenario, we assume a less advantageous WTI/WCS differential because the new country has not succeeded at securing more pipeline access to more lucrative markets. This scenario also sees much larger, and permanent, increase in interest rates, and a thicker border with Canada, with a very significant increase in trade costs.

In the smooth scenario, output falls 2.2 per cent in the short term, and so revenues also fall, by $2.4 billion. In the long term, output rises by 3.4 per cent, and so revenues rise by $5.4 billion. This means a separate Alberta's revenues would fall to $140.6 billion in the short term before rising to $148.5 billion in the longer term. In the difficult scenario, output decreases by 10.1 per cent in the short term, and so revenues decrease by $18.1 billion. Output drops even further, 16.2 per cent, over the long term, causing revenues to decline by $28.8 billion to a low of $114.3 billion.

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[f] It seems unlikely that Alberta would choose to implement a sales tax like the federal GST, given the traditional unpopularity of such taxes in Alberta. Under provincial law, increases in income taxes, or instituting a sales tax, would require a referendum.

[g] For information on how these sensitivities were calculated, see Technical Appendices.

[h] For more on these types of costs, see the technical paper *The Economic Implications of Separation*.

Table 2. Impacts of Economic Scenarios on Revenues

		Smooth Scenario	Difficult Scenario
Short Term	Change in Real GDP (%)	-2.2	-10.1
	Change in Revenues (%)	-1.7	-12.5
	Change in Revenues ($bn)	-2.4	-18.1
	Revenues of Separate Alberta ($bn)	**140.6**	**124.9**
Long Term	Change in Real GDP (%)	3.4	-16.2
	Change in Revenues (%)	3.8	-19.9
	Change in Revenues ($bn)	5.4	-28.8
	Revenues of Separate Alberta ($bn)	**148.5**	**114.3**

Source: Authors' calculations.
Note: Smooth scenario: temporary increase in risk premium, greater resource productivity, benchmark WTI/WCS differential, no increase in trade costs. Difficult scenario: permanent increase in risk premium, benchmark resource productivity, high WTI/WCS differential, significant increase in trade costs.

3. FISCAL POSITION OF A POST-SEPARATION ALBERTA

We can now combine our spending estimates from the companion paper *The Economic Implications of Separation* with our revenue estimates from Table 2 to get a picture of what a separate Alberta's fiscal position would look like under our smooth and difficult scenarios. This is shown in Table 3 below.

Table 3. Fiscal Position of a Post-Separation Alberta

		Before Separation	Smooth Scenario	Difficult Scenario
Short Term	Revenues ($bn)	86.3	140.6	124.9
	Expenditures ($bn)	84.2	142.7	150.6
	Surplus/Deficit ($bn)	2.0	-2.0	-25.7
	Surplus/Deficit per Albertan ($)	404	-405	-5,079
	Overall Five-Year Fiscal Cost ($bn)	-	50.5	168.6
Long Term	Revenues ($bn)	86.3	148.5	114.3
	Expenditures ($bn)	84.2	140.7	145.6
	Surplus/Deficit ($bn)	2.0	7.8	-31.3
	Surplus/Deficit per Albertan ($)	404	1,552	-6,194

Source: *The Fiscal Implications of Separation: Expenditures*, Table 5.
Notes: Smooth scenario: temporary increase in risk premium, greater resource productivity, benchmark WTI/WCS differential, no increase in trade costs, higher government efficiency and alternative exclusions, and federal debt allocation based on past contributions. Difficult scenario: permanent increase in risk premium, benchmark resource productivity, high WTI/WCS differential, significant increase in trade costs, lower government efficiency, and per capita debt allocation. See the companion papers *The Economic Implications of Separation* and *The Fiscal Implications of Separation: Expenditures* for further details on these scenarios.

In our smooth scenario, revenues fall to $140.6 billion as output falls, relative to a no separation situation. Expenditures rise to $142.7 billion. These expenditures include the costs required for a separate Alberta to provide services previously provided by the federal government, as well as costs associated with start-up and transition.[i] In this scenario, we also assume that there is higher government efficiency, that there is more scope for reducing duplication, and that Alberta succeeds in taking a lower share (10 per cent) of the federal debt.[j] In this scenario the budget would be in a slight deficit.

Adding together the additional debt taken on from running a smaller surplus, as well as the additional capital expenditures,[k] gives an overall five-year fiscal cost of $50.5 billion.

In the long term under our smooth scenario, output is higher and revenues grow to $148.5 billion. Expenditures are a little lower, at $140.7 billion, as non-capital transition costs are no longer being paid. The result is a $7.8 billion surplus, or $1,552 per Albertan.

Our difficult scenario gets very different results. In the short term, a much weaker economy means revenues of only $124.9 billion. Expenditures rise to $150.6 billion, as government efficiency is lower and a separate Alberta accepts a larger share of the federal debt.[l] The non-capital transition costs are on the high end of our estimates, and all of this results in a deficit of $25.7 billion, or $5,079 per Albertan. This would be a larger deficit than during the COVID-19 pandemic.

In the long term, revenues fall further to $114.3 billion. Expenditures are $145.6 billion, not quite as high as in the short term, because the transition is over. Nonetheless, the government runs a deficit of $31.3 billion, even higher than in the short term. This is equivalent to $6,194 per Albertan.

In this case the five-year fiscal cost is $168.6 billion.

To sum up, in our smooth scenario, Alberta's fiscal position deteriorates slightly in the short term but improves in the long term as the economy improves. In our difficult scenario, Alberta's fiscal position deteriorates dramatically, and does not improve over the long term. Alberta would have a deficit of more than five per cent of GDP.

4. RECONCILING WITH ESTIMATES OF THE FISCAL GAP

Some may find it surprising that Alberta is not in a better fiscal position after separation, especially in a smooth scenario where we assume separation has positive or neutral impacts on the economy.

Public discussions of Alberta's place in Confederation often refer to Alberta's "fiscal gap." Also referred to as the province's net contribution to Confederation, this gap is the difference between what Albertans pay to Ottawa and what they receive in return. Estimates of this gap can be quite large. Economists Robert Mansell, Mukesh Khanal and Trevor Tombe found that, since 1961, Alberta had contributed $631 billion more in taxes and other payments to the federal government than it received in federal spending.[5]

If the fiscal gap is large, then it seems logical that separation would give Alberta significant extra fiscal room to cut taxes, increase spending or reduce debt. Table 4 shows our estimate of the current fiscal gap: $14.0 billion in 2026–27. It is equal to federal revenues raised in Alberta, less what is spent by the federal government in Alberta, including fiscal transfers to the GoA.[m]

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[i] Capital costs are amortized over time as the assets depreciate and so do not show up immediately as expenditures.

[j] These are scenarios *v.* and *vii.* from the technical paper *The Fiscal Implications of Separation: Expenditures*, Table 4.

[k] These do not show up in the expenditure numbers as under accrual accounting; they only show as expenditure once they depreciate.

[l] These are scenarios *vi.* and *viii.* from *The Fiscal Implications of Separation: Expenditures*, Table 4.

[m] One reason why the fiscal gap is not larger is that the federal government is running a significant deficit, and so revenues are not large enough to cover spending. If the federal budget were balanced, then revenues from Alberta would likely be higher, or spending lower, which would make the fiscal gap larger. We also exclude the CPP as it is accounted for separately from the federal budget.

Table 4. Estimates of Alberta's Fiscal Gap

	Total ($bn)
Revenue and Spending	
Federal revenue from Alberta	70.9
Federal spending in Alberta	56.9
	14.0
Fiscal Gap	
Additional cost of replicating federal services	11.7
Overall federal spending that benefits Albertans	68.6
Adjusted Fiscal Gap	**2.3**

Source: Technical paper: *The Economic Implications of Separation*. Authors' calculations.

The challenge is that the fiscal gap, as it is usually talked about or presented, does not include spending that takes place outside of Alberta but still benefits Albertans. This includes spending on tax collection, foreign aid, and Canada's embassies around the world, as well as head office functions that take place in Ottawa. In the technical paper *The Fiscal Implications of Separation: Expenditures*, we saw that the additional cost of replicating federal services to Albertans was $11.7 billion. If we add this to total federal spending, we get a total of $68.6 billion of federal spending, which yields a much smaller fiscal gap of $2.3 billion. If Alberta separates, then there is also, in the long term, $6.5 billion of additional ongoing costs.[n] These more than offset the fiscal gap.

In short, while Alberta does pay more into Confederation that it gets out, the total is less than what one would calculate by only looking at federal spending within the province.

5. IMPLICATIONS FOR TAXPAYERS

What would these fiscal numbers mean for taxpayers in a separate Alberta? If the government ran a surplus, it would, in principle, have room to cut taxes, increase spending or pay down debt. Conversely, a deficit would mean that the government had to, at some point, raise taxes and curtail spending. These actions would be far more likely than issuing more debt as the new country would be trying to establish a record of fiscal prudence and so improve its credit rating.

Table 5 below looks at what would happen to taxes if a separate Alberta wanted to reestablish its pre-separation budget surplus of $2.0 billion. In the smooth scenario, taxes would need to rise by $809 per Albertan in the short term. In the long term, because the government would be running a surplus greater than before separation, there would be room to cut taxes, by $1,148 per Albertan. The government could alternatively adjust spending as an alternative to raising or cutting taxes.

[n] See the technical paper *The Fiscal Implications of Separation: Expenditures*, Table 5.

Table 5. Impact of Economic and Fiscal Scenarios on Taxes

		Before Separation ($)	Smooth Scenario ($)	Difficult Scenario ($)
Short Term	Surplus/Deficit per Albertan	404	-405	-5,079
	Amount taxes need to increase to restore pre-separation budget balance		809	5,483
Long Term	Surplus/Deficit per Albertan	404	1,552	-6,194
	Amount taxes need to increase to restore pre-separation budget balance	-	-1,148	6,598

Source: Authors' calculations.

In the difficult scenario, taxes would need to rise by $5,483 per Albertan in the short term to restore Alberta's pre separation fiscal position. In the long term, with an economy that was even weaker relative to no separation, taxes would need to rise by $6,598 per Albertan. Again, the government could alternatively adjust spending as an alternative to raising or cutting taxes.

6. SUMMARY

In this paper, we looked at the revenues that both the GoA and the federal government collect in Alberta, and put those estimates together with those from the technical paper *The Fiscal Implications of Separation: Expenditures* to understand what would happen to Alberta's fiscal position after independence, and how it would affect individual taxpayers.

- A separate Alberta would also be able to collect taxes currently collected by the federal government. These include income taxes, sales taxes, contributions to Employment Insurance and gasoline taxes. Alberta would lose federal transfers such as the Canada Health Transfer and the Canada Social Transfer. Taking this into account, we estimate that the GoA and the federal government together collect about $143 billion in revenue in the province.
- What revenues would actually be in a separate Alberta depends on what happens to the economy. As we have seen, there is a broad range of economic outcomes possible.
  - In the smooth scenario, where GDP growth dips a little in the short term and increases over the long term, relative to what would have happened without separation. In this case revenues decline to about $141 billion before rising to $148 billion.
  - In the pessimistic scenario, where GDP falls in both the short and long term, relative to what would have otherwise happened, revenues decline to $125 billion in the short term and fall further in the long term to $114 billion.
- Putting together the expenditure numbers and the revenue numbers gives us a broad range for what a separate Alberta's surplus or deficit might look like, compared to the $2.0 billion that Alberta reported in its most recent Fiscal Update.[o]
  - In the more optimistic scenario, with lower expenditures, and only a temporary dip in output, the surplus would become a deficit of $2 billion in the short term, before becoming an almost $8 billion surplus over the long term.
  - In the more pessimistic scenario, a separate Alberta would run a deficit of almost $26 billion in the short term, rising to than $31 billion in the long term.

[o] Government of Alberta 2026-27 First Quarter Fiscal Update and Economic Statement.

- For individual Albertans, these bigger surpluses could translate into tax cuts or increases in spending, large deficits could translate into tax increases or cuts in spending.
  - In the more optimistic scenario, there would be room in the long term for a cut in taxes of more than $1,100 dollars per Albertan, while keeping the surplus at its current level.
  - In the more pessimistic scenario, taxes would need to rise by around $5,500 per Albertan in the short term and by around $6,600 in the long run.
- A separate Alberta would need to set up its own revenue agency, which would cost significantly more than what the provincial Tax and Revenue Administration (TRA) currently spends.
- Although Alberta makes a significant fiscal contribution to the RoC — $14 billion in 2026–27 by conventional measures — this would be mostly offset by the costs associated with providing services formerly provided by the federal government, and so separation does not give Alberta a large fiscal advantage, especially when transition costs are factored in.

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