School of Public Policy | UNIVERSITY OF CALGARY

Supplementary Information

Technical Paper

The Fiscal Implications of Separation: Revenues and Fiscal Balance

Appendix

The Economic and Fiscal Implications of Alberta Separation

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TABLE OF CONTENTS

1. FORECASTING FEDERAL REVENUES ORIGINATING IN ALBERTA IN 2026-27 1

2. FEDERAL TRANSFERS TO THE ALBERTA GOVERNMENT 3

3. REVENUE ELASTICITIES 3

3.1 Details for Specific Revenue Categories 5

REFERENCES 6

1. FORECASTING FEDERAL REVENUES ORIGINATING IN ALBERTA IN 2026-27

The Provincial and Territorial Economic Accounts (PTEA) provide, among other things, estimates of federal revenues by province and territory. These estimates are available from 2007 to 2024 on a calendar year basis. In 2024, federal revenues originating in Alberta were $73.4 billion (Table 1). Excluding the federal fuel charge, which was eliminated in 2025, and estimated fees for federal policing services, which would be performed by a separate Alberta, federal revenues were $69.8 billion.[1]

We developed the forecast for 2026-27 shown in Table 1 using information from the First Quarter Fiscal Update on growth in revenues and GDP from 2024-25 to 2026-27. For example, personal and corporate income taxes grow 1.5 and -3.4 per cent, respectively, from 2024-25 to 2026-27 in the Update. We assume their federal counterparts grow at the same rate. Most other revenue sources grow at the same rate as Alberta's nominal GDP, 10.4 per cent from 2024-25 to 2026-27, adjusted for the sensitivity of the relevant tax base to GDP growth. For example, GST revenues grow at the same rate as nominal GDP multiplied by .9, the output elasticity of the sales tax base. There are four major exceptions to this approach:

- Employment insurance contributions, which rise at the combined growth rate of employment and average weekly wages in the Update.
- Interest and investment income, which rises at half the growth rate in nominal GDP.
- Non-resident withholding taxes, which are almost unchanged, follow the forecast for overall income tax revenue.
- The gas and diesel tax, which falls by more than a third due to the suspension of the tax from April 10 to September 7.

With these assumptions, adjusted federal revenues originating in Alberta rise 1.5 per cent to $70.9 billion by 2026-27. The small increase reflects declines in corporate income tax revenue and slow growth in personal income tax revenue. That leaves overall income tax revenue, which accounts for about three-quarters of total revenue, almost unchanged from 2024. Other tax revenue, excluding the fuel charge, grows about 5 per cent while non-tax revenues, excluding fees for police services, grow just over 7 per cent from 2024 to 2026-27.

[1] In the PTEA, the federal fuel charge is included in "other excise taxes" but the details are not publicly available and federal reports for the charge are not yet available for 2024-25. The amount shown in the table was obtained by first estimating the Alberta share of other federal excise taxes collected at the national level and then deducting this amount from "other excise taxes" in the provincial accounts. Payments for federal police services amounted to about $180 million in 2024, based on reported costs of $414 million for contract and Indigenous policing in the Government Estimates and an assumed federal share of 30 per cent.

Table 1. Federal Revenues Originating in Alberta. Estimates for 2024 from the Provincial and Territorial Economic Accounts and Forecast for 2026/27 ($millions)

	Actual 2024 ($mn)	Forecast 2026-27 ($mn)	Percentage Change (%)
Tax revenue	**66,854**	**63,902**	**-4.4**
Income taxes	53,760	53,664	-0.2
Personal	33,383	33,884	1.5
Corporate	17,462	16,868	-3.4
Non-resident withholding	2,915	2,912	-0.1
Excise and sales taxes	13,094	10,238	-21.8
Goods and services tax	7,096	7,763	9.4
Custom import duties	697	763	9.4
Gas and diesel tax[1]	849	536	-36.9
Fuel charge	3,361	-	-100.0
Excise duties	778	843	8.3
Air travellers' security charge	176	191	8.3
Cannabis tax	41	40	-1.3
Other	95	103	8.3
Parimutuel supervision	1	-	
Non-tax revenues	**6,500**	**6,952**	**7.0**
Contributions to employment insurance	3,813	4,244	
Interest and other investment income	819	862	5.2
Net income from enterprises	526	575	9.4
Premiums, fees and licenses	1,011	912	-9.8
Sales of goods & services exc. police services	834	912	
Police services	177	-	
Other non-tax revenue	331	358	8.3
Total	**73,354**	**70,854**	**-3.4**
Net of fuel charge and police service fees	**69,816**	**70,854**	**1.5**

Sources: The provincial and territorial economic accounts, the First Quarter Fiscal Update, and authors' calculations.
1. Includes the temporary reduction in the federal gasoline and diesel tax rates to zero from April 10 to September 7.

2. FEDERAL TRANSFERS TO THE ALBERTA GOVERNMENT

Federal transfers to the Alberta government are expected to rise 11.4 per cent from 2024-25 to the current fiscal year (Table 2). The largest contribution to growth comes from the Canada Health Transfer, which is also the largest transfer program. The Canada Social Transfer and infrastructure-related transfers also make substantial contributions to growth. Early learning childcare agreements and other transfers are expected to edge down over the two years.

Table 2. Federal Transfers to the Alberta Government ($ millions)

	2024/25	2026/27		
	Actual ($mn)	Estimate ($mn)	% Growth	% Share
Canada Health Transfer	6,161	7,036	14.2	50.0
Canada Social Transfer	1,993	2,198	10.3	15.6
Early learning childcare agreements	1,208	1,172	-2.9	8.3
Infrastructure support	767	1,079	40.6	7.7
Transfers to SUCH sector[1]	676	699	3.5	5.0
Agriculture support programs	507	561	10.6	4.0
Labour market development agreements	252	295	16.9	2.1
Other transfers	1,055	1,020	-3.3	7.3
Total	**12,618**	**14,061**	**11.4**	**100.0**

Source: Alberta First Quarter Fiscal Update.
1. Schools, universities, colleges, and hospitals.

3. REVENUE ELASTICITIES

This section provides background information on how we estimated the revenue effects of possible economic disturbances, or shocks, arising from the separation of Alberta. We illustrate the methodology by considering a stylized shock in which real GDP changes one per cent with all sectors affected equally. The change in GDP arises in equal measure from changes in employment and productivity, and the shock does not affect prices. The actual shocks arising from separation would have different effects by sector and income category, which would in turn affect revenues from those areas.

Ideally, we would use Alberta-specific information on the sensitivity of revenues to changes in GDP, but those estimates are incomplete and difficult to interpret.[2] As a result, the sensitivity parameters, or elasticities, are developed using federal revenues, meaning the impact on a separate Alberta's revenues could be slightly larger or smaller. We calculated the sensitivity parameters for personal and corporate income taxes from estimates of fiscal sensitivities presented in the 2025 federal budget.[1] The sensitivity parameter for excise taxes was calculated from estimates prepared by the Parliamentary Budget Officer.[2] We developed the sensitivity of royalty revenues to output by modelling the response of post-payout oilsands royalties and assuming that pre-payout oilsands royalties and all other components of royalties change proportionately with industry output (i.e. the elasticity is one).[3]

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2 Abundant information on the revenue impact of changes in energy prices is presented in budget documents, but the only non-energy revenue sensitivity reported is the impact of a 1 per cent change in household primary income on tax revenue. (Primary income comprises wages and salaries; profits from self-employment, small business, and farming; rental income, interest, and dividends.) The source of the reported change in revenue (e.g. personal income tax alone, or in combination with excise taxes) is not specified, which makes it difficult to calculate a revenue elasticity.

3 Oilsands projects are classified as post-payout when their cumulative revenues exceed their cumulative costs, which comprise the initial capital investments, operating costs, and an allowable return on investment.

Table 3 illustrates the impact of these assumptions. A 1 per cent increase in real GDP affecting all sectors equally would raise the revenues of a separate Alberta by about $1.5 billion or 1 per cent after four years. Royalties are the most responsive to output changes, driven by an elasticity of 1.5 for post-payout oilsands royalties, which rise sharply as the combination of fixed costs and higher output boosts the royalty base.[4] The elasticity of tax revenue is 1.1, while the elasticity of non-tax revenues, excluding royalties, is 0.6. The non-tax revenue elasticity is much higher than the elasticity of the residual "other revenue" category in the budget document 0.3 and in Stanton[2] just 0.2. The composition of provincial non-tax revenues is different than at the federal level, so our output elasticity estimate is based on an examination of non-tax revenues by component. Some of these components, such as net income from enterprises, and premiums, fees and licenses are assumed to have elasticities well above 0.3.

Table 3. Sensitivity of Revenues of an Independent Alberta to Economic Conditions

		Impact of a 1 per cent increase in real GDP [1]			
	2026/27	2030/31		Long -run	
	$mn	%	$mn	%	$mn
Tax revenue	**95,323**	**1.1**	**1,014**	**1.0**	**942**
Income taxes	77,863	1.2	907	1.1	829
Personal	50,238	1.2	603	1.1	553
Corporate	24,713	1.1	272	1.0	247
Non-resident withholding	2,912	1.1	32	1.0	29
Education property tax	3,592	0.2	6	0.3	12
Excise and sales taxes	13,868	0.7	101	0.7	101
Goods and services tax	7,763	1.0	78	1.0	78
Custom import duties	763	1.0	8	1.0	8
Fuel taxes	1,980	0.8	16	0.8	16
Insurance tax	1,063	0.8	9	0.8	9
Other	2,300	0.8	18	0.8	18
Non-tax revenues	**45,542**	**1.0**	**450**	**1.0**	**388**
Royalties	22,955	1.3	298	1.0	230
Contributions to employment insurance[2]	4,244	0.5	21	0.0	-
Interest and other investment income	5,308	0.5	27	1.0	53
Net income from enterprises	3,782	0.9	35	0.9	33
Premiums, fees, and licenses	6,938	0.9	65	1.0	68
Other non-tax revenue	4,522	0.2	9	0.2	9
Total	**143,072**	**1.0**	**1,468**	**0.9**	**1,334**

Sources: Provincial economic accounts, 2025 federal budget,[1] Stanton,[2] and authors' calculations.
1. The change arises in equal measure from changes in employment and productivity.
2. Impact on the Employment Insurance account balance (change in contributions less the change in benefits).

[4] The model used to assess the sensitivity of royalties is a simplified version of a model developed by Dr. G. Kent Fellows and described in Fellows et al.[3]

Note that the impact on Employment Insurance (EI) captures both the change in contributions and the change in benefits. EI premiums must be set to ensure they cover benefit payments over a rolling 7-year period. An economic downturn therefore results in higher contributions as well as higher benefits. To have a "stand-alone" aggregate output elasticity for revenues, we present the EI elasticity net of changes in benefits, which is a 0.5 per cent reduction in EI revenues.

In the long term, assuming no change in tax rates, the response would be very similar to the short-term response. The responsiveness of corporate income taxes would decline over time as firms adjust fixed costs to restore profit rates to normal levels. The long-term response of royalties would also decline as production costs rise in the face of a sustained increase in output. Similarly, the response of personal income tax revenues would decline as volatile income components such as capital gains and bonuses return to more normal levels. However, with a progressive income tax system, a 1 per cent change in all incomes will change the average effective personal income tax rate, so the elasticity could remain above 1 in the longer term. The long-term response of net employment insurance contributions falls to zero given the statutory requirement for the program to be self-funded. The response of interest and other investment income would also rise over time along with the activities generating the income. The long-term aggregate elasticity is 0.9 with a constant revenue structure. However, the response to a shock could be different if the impacts differ by sector, particularly if output in the oil and gas industry changes more or less than in other industries.

The response of revenues to a 1 per cent change in the price level is almost identical to a real GDP shock for all components except royalties, the personal income tax, and EI revenues and expenses. Royalties respond in the same way to price and output changes in the short term, but their response to price changes remains high over the longer term, if output levels do not change. The inflation elasticity of personal income tax revenues is smaller than for real output (0.9 compared to 1.2) because fewer taxpayers change income tax brackets when the price level changes than when real output and incomes change. EI revenues and expenses are much less sensitive to changes in wage rates than to employment levels. As a result, the price shock elasticity of EI net contributions is zero, compared to 0.5 when real output changes.

3.1 DETAILS FOR SPECIFIC REVENUE CATEGORIES

In developing an estimate of the output elasticity of royalties, we assume that all royalties for components except those for post-payout oilsands projects are calculated as a percentage of the value of output. As a result, royalties on these components, which account for about 30 per cent of the total, respond with unit elasticity to output changes. As noted above, post-payout oil sands royalties have higher elasticity because they are based on net revenues, which rise faster than the value of output due to fixed costs.

The federal studies do not provide elasticity estimates for all revenue categories. We developed estimates for the missing categories as follows.

- We applied the output elasticity for corporate profits to non-resident withholding taxes and to profits of government business enterprises. We applied the GST output elasticity to custom import duties, and we applied the excise tax output elasticity to liquor, gaming, and cannabis profits.
- We set the output elasticity of government fees, or sales of goods and services, at 1, reflecting the assumption that all sectors, including the government sector expand 1 per cent.
- We set the output elasticity of the education property tax at 0.3. The base for the tax is split 68 to 32 per cent for residential and business property. The residential base is assumed to be unaffected by output changes, while we assume output elasticity in the business tax base is 0.5.

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