

Carrot and stick: How Bill 32 may decrease proposed tax savings in Alberta Budget 2025

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Alberta's Bill 32: Financial Statutes Amendment Act, 2024 (Bill 32), received royal assent (i.e., passed into law) on December 5, 2024. Bill 32 came into force on January 1, 2025 and contained a suite of amendments to various pieces of legislation including the Alberta Personal Income Tax Act, which determines the rate of provincial taxes for residents of Alberta.¹

Prior to the creation of the new tax bracket in the 2025 Alberta Budget, if inflation continued to be higher than 2 per cent through 2025, all individuals in Alberta were guaranteed to pay more in income taxes as a result of Bill 32 and its corresponding changes to the Alberta Personal Income Tax Act. **The permanent loss in an individual's purchasing power is a result that was obfuscated in the description of the legislation which vaguely proposed to:**

...standardize indexing across government to help Albertans with the cost of living by creating a consistent and stable system. In addition, a new annual adjustment system would enable a more consistent and flexible approach to determining the amount that benefits and taxes will be impacted...²

Central to this new legal framework is the concept of the "Alberta Escalator", a new defined term which introduces a new way to calculate Alberta's annual tax bracket increases. The Alberta Escalator is also used to calculate various benefits such as Assured Income for the Severely Handicapped (AISH) payments, the Alberta Child and Family Benefit (ACFB), the Alberta Seniors Benefit, and other credits geared towards support for financially vulnerable Albertans.

With the announcement of a new tax bracket for income under \$60,000 in the 2025 Alberta provincial budget, the result is an interesting sleight of hand that disguises the recently passed potential tax increases present in the Alberta Escalator.

Key takeaways

- a. Bill 32 creates "bracket creep" when inflation is higher than 2 per cent and, in the absence of the new \$60,000 tax bracket, would have resulted in more taxes regardless of income level;

- b. In effect, the potential tax increase present under the Alberta Escalator is partially saved by the proposed introduction of a new tax bracket for income up to the first \$60,000;
- c. Bill 32 reduces government benefits available to Alberta benefit recipients; and
- d. The Alberta Escalator does not appear to offend the Alberta Taxpayer Protection Act which requires a referendum in the event of an “income tax increase”.³

Indexation

To understand the Alberta Escalator, it is first important to understand indexation and how this applies to tax brackets. Generally, the indexation of tax brackets helps to ensure that the amount of tax does not outpace a taxpayer’s income (and by extension, a taxpayer’s buying power). The change is slight from year to year, but, over the long term, indexation ensures that the buying power and the amount of tax paid by a taxpayer keeps pace with inflation.

Federally, personal income tax and benefit amounts are indexed to inflation each year using the Consumer Price Index (CPI) data as reported by Statistics Canada.

Indexation is the reason why the tax-free savings account (TFSA) contribution limit was \$5,500 in 2016, and has steadily increased year to year up to \$7,000 in 2024; similarly, indexation is why the lifetime capital gains exemption has increased steadily year to year from \$824,176 in 2016, to \$1,016,836 in 2024.⁴ These values keep pace with and adjust for inflation so that the values of various credits and brackets stay the “same” year to year.

In short, as individuals earn more over time via increased wages, salaries, or inflation adjusted income (or if the basic personal amount does not go up), a deindexation of tax brackets will result in more tax as individuals are pushed in higher tax brackets and more income is exposed to tax. Deindexation results in individuals paying more tax despite the same purchasing power.

A situation where an individual is pushed into higher tax brackets due to inflation, and those tax brackets do not adjust with inflation, is commonly referred to as “**bracket creep**”. Included in **Appendix ‘A’** to this bulletin is a sample basic calculation demonstrating the effect of bracket creep.

The Alberta Escalator

Bill 32 includes the definition for the Alberta Escalator found in section 44.2 of the Alberta Personal Income Tax Act.⁵ This provision states that the Alberta Escalator is a “percentage... prescribed for the year on or before the first day of the year” or “the lessor of 2 per cent, and... [the CPI for Alberta].”

In plain language, the Alberta Escalator is (unless otherwise prescribed) the **lesser** of 2 per cent and the Alberta CPI for the year. Effectively, this definition limits or imposes a ceiling on the indexation of tax brackets to 2 per cent. The Alberta Escalator guarantees bracket creep when CPI is above 2 per cent.

Alberta's CPI information is accessible on its website,⁶ and the highlighted months below represent where CPI was higher than 2 per cent for the past five years:

Month	CPI	Month	CPI	Month	CPI
2019-11-01	0.020611	2021-11-01	0.0426409 9	2023-11-01	0.024752
2019-12-01	0.022776	2021-12-01	0.0476519 3	2023-12-01	0.029851
2020-01-01	0.029893	2022-01-01	0.0480109 7	2024-01-01	0.033645
2020-02-01	0.024648	2022-02-01	0.0553278 7	2024-02-01	0.041849
2020-03-01	0.006988	2022-03-01	0.0653505 8	2024-03-01	0.034632
2020-04-01	-0.00487	2022-04-01	0.0629654 7	2024-04-01	0.029933
2020-05-01	0.000694	2022-05-01	0.0713324 4	2024-05-01	0.030469
2020-06-01	0.016118	2022-06-01	0.0839489 6	2024-06-01	0.030414
2020-07-01	0.009053	2022-07-01	0.0738523	2024-07-01	0.026506
2020-08-01	0.005579	2022-08-01	0.0596026 5	2024-08-01	0.020384
2020-09-01	0.014696	2022-09-01	0.0616710 9	2024-09-01	0.019277
2020-10-01	0.011142	2022-10-01	0.0679868	2024-10-01	0.029661
2020-11-01	0.012535	2022-11-01	0.0659630 6	2024-11-01	0.027778

2020-12-01	0.007655	2022-12-01	0.0599868 2	2024-12-01	0.0247584 54
2021-01-01	0.007602	2023-01-01	0.0503926 7	2025-01-01	0.0253164 56
2021-02-01	0.006186	2023-02-01	0.0362459 5		
2021-03-01	0.019431	2023-03-01	0.0332268 4		
2021-04-01	0.032867	2023-04-01	0.0426751 6		
2021-05-01	0.031228	2023-05-01	0.0307788 9		
2021-06-01	0.026897	2023-06-01	0.0185873 6		
2021-07-01	0.037267	2023-07-01	0.0285006 2		
2021-08-01	0.047157	2023-08-01	0.0425		
2021-09-01	0.04	2023-09-01	0.0368519 7		
2021-10-01	0.043388	2023-10-01	0.0210136		

Starting in April of 2021, there was only one month where the CPI was below 2 per cent.⁷ Each highlighted item above represents an occasion where CPI outpaced the 2 per cent ceiling for indexation and consequently would result in more taxes payable (and a corresponding loss in buying power) for Albertans under the new Alberta Escalator should the corresponding annual inflation average more than 2 per cent.

Effects on Alberta tax brackets

To understand the true cost and potential devaluation of an individual's Alberta income, we can look at what tax brackets will look like with and without the application of the Alberta Escalator where CPI remains at a constant 2.9 per cent for the next five years.⁸

This rate is suggested for discussion purposes only and serves as a reasonable comparison as it is the actual 2024 CPI for Alberta. Under the Alberta escalator if CPI is less than 2 per cent then taxation is effectively indexed.

As an added wrinkle, the Alberta government has announced the introduction of a new personal income tax bracket of 8 per cent on the first \$60,000 of income.⁹ We will include this new proposed bracket below to demonstrate that the bracket creep resulting from the Alberta Escalator will diminish the proposed savings of “up to \$760 a year” in varying degrees for individuals regardless of what tax brackets their income falls into.¹⁰

Attached as **Appendix ‘B’** to this article is a detailed calculation with the results summarized below outlining four distinct scenarios. Each scenario follows an Alberta individual who makes \$60,000 in employment income year-after-year and receives a bump in income equal to the CPI (being 2.9 per cent for the purposes of our calculations). The calculations track a five-year period with and without the application of the Alberta Escalator and further, considers the tax savings present with and without the proposed addition of a new tax bracket for an Albertan’s first \$60,000 of income.

Footnotes

¹ [Bill 32: Financial Statutes Amendment Act, 2024 \(No. 2\) \(\\$\)](#)

² [Updating financial Laws | Alberta.ca](#) (this page has been removed).

³ [RSA 2000, c A-36 | Alberta Taxpayer Protection Act | CanLII](#)

⁴ Ignoring the most recent LCGE bump to \$1,250,000.

⁵ [Bill 32: Financial Statutes Amendment Act, 2024 \(No. 2\) \(\\$\)](#)

⁶ [Consumer Price Index](#)

⁷ [Consumer Price Index](#)

⁸ Alberta Budget 2024 “Energy and Economic Assumptions” suggests an inflation estimate of 2.5 for 2024 and 2.2 for 2025 to 2027, actual CPI for 2024 is 2.9.

⁹ [BUDGET | Alberta.ca](#)

¹⁰ [Alberta tax overview | Alberta.ca](#)

¹¹ [Assured Income for the Severely Handicapped \(AISH\) | Alberta.ca](#)

¹² [No Tax Hike Guarantee - The United Conservative Party](#)

¹³ [Taking action on affordability | alberta.ca](#)

¹⁴ [Alberta tax overview | Alberta.ca](#)

¹⁵ [RSA 2000, c A-36 | Alberta Taxpayer Protection Act | CanLII](#)

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