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The Fiscal Implications of Separation: Revenues and Fiscal Balance

Technical Paper

The Economic and Fiscal Implications of Alberta Separation

September 2026

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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]

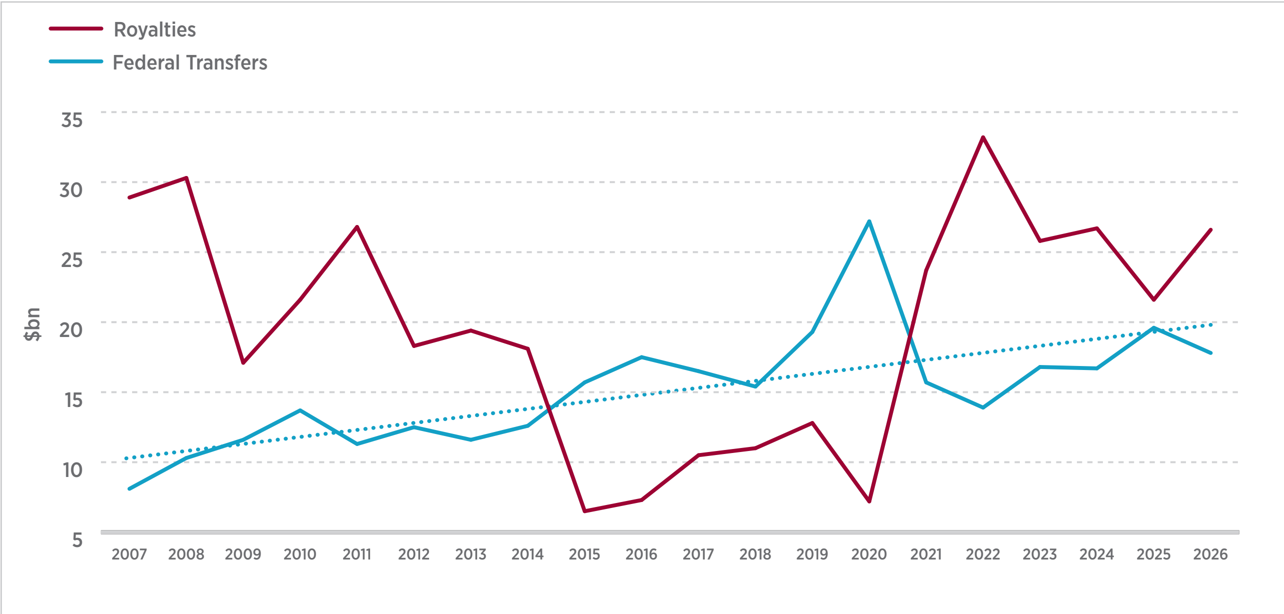
Table 1. Revenues Raised in Alberta 2026-27

	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).

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[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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Supplementary Information

Technical Paper

The Fiscal Implications of Separation: Revenues and Fiscal Balance

Appendix

The Economic and Fiscal Implications of Alberta Separation

September 2026

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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]

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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List of Acronyms

Appendix

The Economic and Fiscal
Implications of Alberta Separation

September 2026

Acronym	Term
AB	Alberta
AER	Alberta Energy Regulator
APP	Alberta Pension Plan
ART	Agreements on Reciprocal Trade
AVG.	Average
B.C.	British Columbia
Bn / bn	Billion
CBAM	Carbon border adjustment mechanism
CBC	Columbia Broadcasting System
CBSA	Canada Border Services Agency
CDN	Canadian
CEO	Chief Executive Officer
CER	Canada Energy Regulator's
CFTA	Canada Free Trade Agreement
CGE	Computable General Equilibrium Model
CPI	Consumer Price Index
CPP	Canada Pension Plan
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CUSMA	Canada-U.S.-Mexico Trade Agreement
DFAA	Disaster Financial Assistance Arrangements
DSA	Democratic Socialists of America
EI	Employment Insurance
EU	European Union
EVs	Electric vehicles
excl.	Excluding
FTA	Free trade agreement
FTE	Full-time equivalent
GC	Government of Canada
GDP	Gross domestic product
GHG	Greenhouse gas
GIS	Guaranteed Income Supplement
Govt	Government / governments
GST	Goods and Services Tax
IMF	International Monetary Fund
IRCC	Immigration, Refugees and Citizenship Canada

Acronym	Term
IT	Information Technology
MB	Manitoba
MFN	Most Favoured Nation
Mn / mn	Million
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
N.B.	New Brunswick
N.L.	Newfoundland and Labrador
N.S.	Nova Scotia
OAS	Old Age Security
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
ON	Ontario
P.E.	Prince Edward Island
PQ	Parti Québécois
PTEA	Provincial and Territorial Economic Accounts
QC	Quebec
R-CALF	Ranchers-Cattlemen Action Legal Fund
RCMP	Royal Canadian Mounted Police
RoC	Rest of Canada
SAEI	Separate Alberta's Employment Insurance
SCC	Supreme Court of Canada
SK	Saskatchewan
SPPA	Separate Alberta's Pension Plan
TCA	Trade Continuity Agreement
TEU	Treaty on European Union
TMX	Trans Mountain Expansion
TRA	Tax and Revenue Administration
U.K.	United Kingdom
U.S.	United States of America
UN	United Nations Organization
USTR	United States Trade Representative
WCS	Western Canadian Select
WTI	West Texas Intermediate
WTO	World Trade Organization