RESEARCH PAPERS SERIES

Reasserting the Alberta Advantage: The Case for Capital Freedom and Abolishing Capital Gains Taxation

Gerard Lucyshyn

MEI
Ideas for a More Prosperous Society

JULY 2026

MEI
Ideas for a More Prosperous Society

910 Peel Street, Suite 600
Montreal (Quebec)
H3C 2H8, Canada

Phone: 514-273-0969
Fax: 514-273-2581

150 9th Avenue SW, Suite 2010
Calgary (Alberta)
T2P 3H9, Canada

170 Laurier Avenue W,
Suite 716
Ottawa (Ontario)
K1P 5V5, Canada

iedm.org

The MEI is an independent, nonpartisan, not-for-profit research and educational organization.

Through its publications, media appearances, and conferences, the MEI stimulates debate on public policies across Canada, most notably in Alberta, in Quebec, and at the federal level, by proposing wealth-creating reforms based on market mechanisms.

The opinions expressed in this study do not necessarily represent those of the MEI or of the members of its board of directors. The publication of this study in no way implies that the MEI or the members of its board of directors are in favour of or oppose the passage of any bill.

ISBN 978-2-925043-36-2
Legal deposit: 3rd quarter 2026
Bibliothèque et Archives nationales du Québec
Library and Archives Canada
Printed in Canada

TABLE OF CONTENTS

Executive Summary

This paper makes a comprehensive case for abolishing capital gains taxation in Alberta. It shows how eliminating this tax will increase capital freedom, drive investment, and reassert the Alberta Advantage.

The paper is structured into five chapters. Chapter 1 provides an overview of the existing capital gains tax framework in Canada, the historical rationale behind it, and the recent political uncertainty surrounding it.

Chapter 2 reviews the different types of adverse impacts capital gains taxation creates, such as the lock-in effect, the distortion of investment decisions, the stifling of innovation and entrepreneurship, and the influence on wealth migration.

Abolishing capital gains taxation in Alberta will increase capital freedom, drive investment, and reassert the Alberta Advantage.

Chapter 3 scrutinizes and dispels the misconception that capital gains taxation is about fairness and equity.

Chapter 4 simulates and models the elimination of capital gains taxation in the province of Alberta using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), focusing on lost provincial revenues, Albertans' increased disposable incomes, and job creation.

Finally, Chapter 5 explores the concept of the Alberta Advantage and uses classical liberalism's theoretical foundations to provide justification for eliminating the capital gains tax in Alberta, and thereby reasserting the Alberta Advantage.

Since the inception of capital gains taxation in Canada, numerous papers and authors have written on its negative consequences. What sets this paper apart is that it reconciles practical international examples, statistical estimation, and theoretical foundations to make a comprehensive case for abolishing capital gains taxation in Alberta, and by extension in the rest of Canada.

Introduction

A BUCK IS A BUCK IS A BUCK

The catchphrase "a buck is a buck is a buck" became the mantra of the Carter Commission in 1962 as it was tasked with reviewing the Canadian tax system.[1] Tackling the holy grail of a country's legislation, its tax code, is no simple matter, especially when it had not been reviewed since its inception in 1917. Over those 45 years, tax legislation had become overly complex and inconsistent. It took the Carter Commission five years to complete its analysis and produce its final report.[2]

That report contained a laundry list of recommended improvements which, six decades later, have become common practice and are generally accepted without question. One of those practices is collecting tax on capital gains. Back in the 1960s, the concept of taxing capital gains was considered a radical reform. However unconventional and controversial that was, the Carter Commission held fast to its rationale that capital gains be taxed in the same manner as any other source of income, such as employment income and business income. Hence, the Commission's tagline, "a buck is a buck is a buck."

After the release of the report, the government took three years to produce a white paper on how they planned to implement capital gains taxation. The proposed method, at the time, was to include all or a portion of a taxpayer's capital gains in the taxpayer's income and then apply the applicable marginal rate[3] to the total sum.

The rationale behind this methodology was that it would make the tax system more progressive. In fact, the government argued that it would make things easier on the wealthy, since at the time, high income earners were subject to extremely high rates of taxation (in some cases up to 80% or more). Under the new system, the government would no longer need to impose such a high tax rate on high-income earners. The government acknowledged that taxing capital gains by adding a portion of them to a taxpayer's income was controversial and complicated, but it was believed that such a step "must be taken if Canada's tax system is to be fair, and if it is to be effective."[4]

Back in the 1960s, the concept of taxing capital gains was considered a radical reform.

V-DAY

A major concern at the time was how to ensure that capital gains realized by taxpayers prior to the new rules taking effect would not be subjected to the new tax. To address this concern, the government set Valuation Day (V-Day) for December 31, 1971. For any property acquired before V-Day and sold after V-Day, only the capital gained *between* V-Day and the date the property was sold would be counted, with any appreciation that occurred prior to V-Day being exempt.[5]

While the idea of V-Day and the implementation of capital gains taxation seemed relatively simple and straightforward, it would very quickly become muddled in complexity.

1 Royal Commission on Taxation, *Report of the Royal Commission on Taxation. Vol. 3: Taxation of Income*, Privy Council Office, 1966, p. iii.

2 John G. Head, "Evolution of the Canadian Tax Reform," *Dalhousie Law Journal*, Vol. 1, No. 1, September 1973, p. 51.

3 A marginal tax rate system, or progressive tax system, means your income is divided into different sections (called tax brackets). Each tax bracket or section of your income is taxed at its own unique tax rate, and the tax bracket for each section of income increases for each additional amount of income you earn over the previous bracket. See TD Bank, TD Stories, How Do Marginal Tax Rates Work in Canada? consulted May 7, 2026.

4 Edgar J. Benson, *Proposals for Tax Reform*, Government of Canada, Department of Finance, Queen's Printer for Canada, 1969, p. 36.

5 Patrick Fellows, "V-Day: Only your finance minister knows for sure," *Toronto Star*, December 31, 1971.

Numerous preferential treatments would immediately emerge, with certain types of capital gains *not* included in a taxpayer's income. For instance, only 50% of the realized capital gains from shares of widely-held corporations[6] would be counted, versus 100% of gains on private company shares and real estate. Meanwhile, realized capital gains from principal residences and property owned for personal use would be exempt.

How did the Carter Commission's recommendations rooted in the principle of equality of income regardless of its source morph into a complex system of this-is-and-this-isn't? The answer is found in the differences between the Commission's rationale, the government's interpretation, and the reality of implementation.

THE 1969 GOVERNMENT WHITE PAPER

The 1969 government white paper on implementation was narrowly focused on a certain unidentified group of wealthy individuals who were believed to be avoiding taxes by earning income from the realization of capital gains instead of employment income. The government never actually defined or further described this unidentified multitude. Rather, it repeatedly referred to "them" throughout the paper. In fact, the Department of Finance, at the time, admitted it had no idea what the implications of imposing tax on capital gains would be, but it was basing its estimates on numbers from the United States.

The rationale of fairness fades as the white paper progresses and the authors became increasingly focused on how much government revenue taxing capital gains could generate. It was estimated at the time that capital gains taxation could ultimately account for more than 5% of total Canadian personal income tax, or over $390 million (equivalent to approximately $4.15 billion today).[7]

Despite the mounting evidence that proves differently, six decades later, the same rationales, justifications, and misconceptions continue to form the basis for supporting the taxation of capital gains.

The Department of Finance admitted it had no idea what the implications of imposing tax on capital gains would be.

6 A "widely held corporation" is generally understood as a corporation whose shares are available to the public and actively traded on a designated stock exchange. This effectively describes what is commonly known as a public corporation, as opposed to a private or closely held corporation. See Edgar J. Benson, *op. cit.*, footnote 4, p. 52.

7 *Ibid.*, p. 44.

Chapter 1

The Capital Gains Tax Framework in Canada

DEFINING A CAPITAL GAIN

The Canada Revenue Agency considers that you have realized a capital gain "when you sell, or are considered to have sold, a capital property for more than the total of its adjusted cost base and the outlays and expenses incurred to sell the property."[8]

Many countries around the world tax capital gains, and most have preferential tax treatment for them. This preferential treatment often comes in the form of a lower inclusion rate or a lower tax rate. In the first case, taxpayers only include a portion of their realized[9] capital gains as income, which is subjected to the applicable marginal tax rate along with other income.[10] Alternatively, the taxpayer declares the total amount of capital gains and a lower tax rate is applied. In Canada, our system is based on the former.

The portion of the realized capital gain to be included in the taxpayer's income is called the "inclusion portion" which is determined by the inclusion rate. The inclusion rate is a percentage arbitrarily set by the federal government, currently 50%. Since V-Day, the federal government has increased and decreased the inclusion rate several times. Changes in the inclusion rate result in either more or less of realized capital gains being included in taxable income.[11]

The historical changes in the inclusion rate are shown in Table 1-1. For sixteen years following V-Day (1972-1987) the inclusion rate remained constant at 50%. Then in 1988, a Progressive Conservative government increased the inclusion rate up to 66.66% for the next two years (1988-1989), then further increased it to 75% in 1990.[12] In 2000, a Liberal government reduced the inclusion rate back down to 50%, where it remained undisturbed until 2024.[13]

Many countries around the world tax capital gains, and most have preferential tax treatment for them.

THE CHANGE THAT NEVER CAME

On April 16, 2024, a federal budget was tabled, including a plan to increase the capital gains inclusion rate.[14] The plan was to increase the rate from 50% to 66.66% on realized capital gains for corporations and trusts and on individuals whose capital gains were above $250,000, effective

8 Canada Revenue Agency, *Capital Gains 2024*, 2024, p. 7. Capital property "includes depreciable property, and any property which, if sold, would result in a capital gain or a capital loss. You usually buy capital property for investment purposes or to earn income. Capital property does **not** include the trading assets of a business, such as inventory. Some common types of capital property include: cottages; securities, such as stocks, bonds, and units of a mutual fund trust; [and] land, buildings, and equipment that you use in a business or a rental operation." Adjusted cost base (ACB) is defined as "the cost of a property **plus** any expenses to acquire it, such as commissions and legal fees. The cost of a capital property is its actual or deemed cost, depending on the type of property and how you acquired it. It also includes capital expenditures, such as the cost of additions and improvements to the property. You **cannot** add current expenses, such as maintenance and repair costs, to the cost base of a property." See Canada Revenue Agency, Taxes, Income tax, Personal income tax, Reporting income, All types of income, Line 12700 – Taxable capital gains, Definitions for capital gains, consulted May 7, 2026.

9 A "realized capital gain" occurs when one sells a capital asset and realizes a profit, whereas an "unrealized" capital gain occurs when the value of a capital asset appreciates but it is not sold (i.e., real estate, stock, etc.). *Ibid.*

10 MMT Chartered Professional Accountants, Resources, Tax Tips, Overview of Capital Gains, consulted May 7, 2026.

11 Canada Revenue Agency, Forms and publications, Publications, T4037 Capital Gains 2025, consulted May 7, 2026.

12 Catherine Brayley and Lesley Kim, "Capital Gains Taxation in Canada: History and Potential Reforms," *Perspectives on Tax Law & Policy*, Vol. 2, No. 3, September 2021.

13 Goodreid Investment Counsel, Enter Taxman: Capital Gains Inclusion Rate Changes and Your Investment Portfolio, consulted May 7, 2026.

14 Luc Godbout, "Ottawa Saves the Day by Raising Capital Gains Tax," *Policy Options*, April 19, 2024.

TABLE 1-1
Changes to the inclusion rate since 1971

Date	Inclusion Rate
1972-1987	50% (½)
1988-1989	66.66% (⅔)
1990-1999	75% (¾)
2000-2024	50% (½)
June 25, 2024 (cancelled)	66.66% (⅔)
2024-present	50% (½)

Source: Canada Revenue Agency, Capital Gains – 2024 (T4037 (E) Rev. 24).

June 25, 2024.[15] However, due to the contentious political climate at the time, actual legislation was never passed authorizing the increase. The effective date came and went, and the government remained silent on the issue for six months after that date. On January 31, 2025, the federal government announced a new effective date for the increase: January 1, 2026.[16] In the month preceding this announcement, a bizarre sequence of political events unfolded, causing an unprecedented parliamentary conundrum undermining the implementation of the higher inclusion rate.

On January 6, 2025, then-Prime Minister Justin Trudeau asked the Governor General to prorogue parliament until March 24, 2025. This request was due to increasing pressure from his caucus calling for his resignation, as well as a looming non-confidence motion being pushed by the opposition parties. The non-confidence motion threatened to unseat the Liberal minority government. The announcement of the prorogation request also came with the Prime Minister's intention to resign once the Liberal Party of Canada selected a new leader.

On November 4, 2025, the new government cancelled the proposed increase of the inclusion rate, keeping it at 50%.

Upon the Governor General ordering the prorogation of Parliament, the Liberal Party of Canada kicked off a snap leadership race. The political maneuver all seemed to be going as planned. However, under parliamentary rules, when a session ends through prorogation, all business before parliament is terminated. Any unfinished business is dropped, and all committees lose their authority to transact business. All bills that have not received royal assent before prorogation must be reintroduced as if they

15 Miller Thomson LLP, Insights, Corporate Tax, Government of Canada Reverses Course: Deferral of the Increase to Capital Gains Inclusion Rate to January 1, 2026, consulted May 7, 2026.

16 Department of Finance Canada, "Government of Canada announces deferral in implementation of change to capital gains inclusion rate," News release, January 31, 2025.

had never existed.[17] This included the proposed increase to the inclusion rate.

Things became even more peculiar as the Liberal leadership race saw two top contenders emerge: Deputy Prime Minister and Finance Minister Chrystia Freeland and former Bank of Canada Governor Mark Carney. Peculiarly, both campaigned on scrapping the inclusion rate increase which their party and government had proposed. In fact, Finance Minister Freeland had introduced and fully supported the idea of increasing the inclusion rate the previous year.[18] In the end, Mark Carney won a landslide victory. He became the new leader of the Liberal Party of Canada and was sworn in as the country's twenty-fourth Prime Minister.[19]

Parliament resumed on March 24, 2025, with Prime Minister Mark Carney immediately calling a snap election, resulting in another Liberal minority government being formed on April 28, 2025. On November 4, 2025, in its 2025-2026 budget, the new government made good on the Prime Minister's campaign promise and cancelled the proposed increase of the inclusion rate, keeping it at 50%.[20]

The uniqueness of this political parable does not end there. While the potential Liberal leaders were disavowing the increase of the inclusion rate, the Canada Revenue Agency (CRA) released a statement two days after prorogation that they would continue to assess taxes on capital gains at the 66.66% rate from the original effective date of June 25, 2024.[21] However, the increase was never actually passed into law, which means the CRA should not have been assessing taxes on capital gains since June 25, 2024.

Many Canadians rushed to sell appreciated assets after the government announced its intention to increase the inclusion rate.

Shortly thereafter, a judicial challenge[22] was filed in Federal court by Thorsteinssons LLP (Canada's largest tax law firm) and within a matter of days, the government changed the effective date to January 1st, 2026,[23] at which point the CRA stopped assessing taxes on capital gains at the unauthorized increased inclusion rate. This raised several questions about how the government operates in the absence of legal authority. As it turns out, it has been a long-standing practice of the CRA to implement tax changes based on proposed legislation rather than waiting for its adoption,[24] in particular once the change has been introduced in a Notice of Ways and Means Motion.[25]

The political situation and the CRA's autonomous decision to simply start assessing taxes at the higher inclusion rate—despite not having the legislative authority to do so, which raises rule-of-law concerns—produced intense economic uncertainty. The bizarre sequence of events provides real world evidence regarding how tax policy ambiguity ripples beyond Parliament and directly affects investor

17 House of Commons, procedural info, House of Commons Procedure and Practice, Chapter 8: The Parliamentary Cycle, consulted May 8, 2026.

18 Darren Major and David Cochrane, "Freeland would scrap capital gains tax changes if elected Liberal leader: source," *CBC News*, January 22, 2025.

19 Rebecca Rosman and Jackie Northam, "Mark Carney to be Canada's next prime minister," NPR, March 9, 2025.

20 Government of Canada, *Canada Strong – Budget 2025*, Department of Finance Canada, November 4, 2025, p. 241.

21 Pelco Holdings Inc., *Notice of Application*, Federal Court, Court File No. T-250-25, January 24, 2025, p. 7.

22 David Davies *et al.*, "Comprehensive Court Challenge to Proposed CRA Enforcement of Capital Gains Hike Launched," Tax Blog, Thorsteinssons LLP, January 25, 2025.

23 Department of Finance Canada, *op. cit.*, footnote 16.

24 Michelle Schriver, "Legal challenges to capital gains tax changes aim to restore certainty to taxpayers," *Investment Executive*, January 29, 2025.

25 A Notice of Ways and Means Motion in Canada is a formal parliamentary notice that the federal government intends to introduce legislation to impose, amend, or repeal a tax. See House of Commons, procedural info, House of Commons Procedure and Practice, Chapter 18: Financial Procedures, Business of Ways and Means, consulted May 8, 2026.

confidence, markets, capital flows, and investment in general.

It is clear from this sequence of events that the intention behind taxing capital gains has more to do with tax revenues and political maneuvering than with promoting fairness. In fact, the government was counting on generating more than $19 billion over five years. While the increase never materialized, the damage was done as Canadian taxpayers responded to the announcement of the proposed increase, the political uncertainty, and the unauthorized actions of the CRA in a tax policy shell game by the federal government.[26]

Many Canadians rushed to sell appreciated assets before June 25, 2024, the first effective date, after the government announced its intention to increase the inclusion rate. This resulted in taxpayers prepaying taxes, incurring advisory costs, and in some cases triggering alternative minimum tax[27] or benefit clawbacks. Following the cancellation of the increase, those who acted early were worse off financially, while those who did nothing avoided the extra costs and consequences.[28] Although no change was ever made, the government would get 3.2% more revenues than previously forecast partly due to the impact from the announced increase to the inclusion rate and the unauthorized collection by the CRA.[29]

CALCULATING CAPITAL GAINS AND LOSSES

Calculating the inclusion portion of capital gains can be illustrated as follows: Suppose a taxpayer purchased capital property for $500,000 and re-sold it for $600,000. The total realized capital gain is the difference, $100,000. The inclusion portion based on the inclusion rate of 50% of the gain is $50,000. This amount is added to the taxpayer's income and is taxed at the taxpayer's marginal rate. The marginal rate depends on the taxpayer's province or territory, and on his or her total income for the year.

> **Businesses that face stricter controls on capital loss amounts and timing face higher immediate taxes payable and less flexibility.**

On the other hand, if a taxpayer purchased capital property for $500,000 and re-sold it for $400,000, this results in a *capital loss*[30] of $100,000. But depending on how the capital loss occurred, the taxpayer may or may not be allowed to deduct a portion of it from income to reduce the amount of tax owing. The government sets a variety of rules that determine the inclusion portion and whether a capital loss is deductible.[31]

To add to this complexity, business taxpayers may also claim a deductible loss (ABIL) if the capital property was

26 Mathieu Dion and Melissa Shin, "Canada to Get Billions From Tax Change That Didn't Happen," *BNN Bloomberg*, February 10, 2025.

27 The alternative minimum tax (AMT) is an alternative method to calculate the income tax. This tax is often applicable when you have claimed a preferential tax deduction like the capital gains deduction or have preferential tax rates due to credits, such as donation or dividend tax credits. See MNP LLP, Insights, Directory, What is the alternative minimum tax and why am I paying it, consulted May 8, 2026.

28 Rudy Mezzetta, "Canadians who sold assets based on proposed capital gains tax changes left to deal with the consequences," *Burkett Insights*, March 31, 2025.

29 Government of Canada, Department of Finance, Publications, Annual Financial Report of the Government of Canada, Fiscal Year 2024-2025, consulted May 8, 2026.

30 A capital loss occurs when you sell, or are considered to have sold, a capital property for less than the total of its adjusted cost base and the outlays and expenses incurred to sell the property. See Canada Revenue Agency, Forms and publications - CRA, Canada Revenue Agency publications listed by number, T4037 Capital Gains 2025, consulted May 8, 2026.

31 *Allowable capital loss* (ACL) is, for a given tax year, an individual's capital loss for the year multiplied by the inclusion rate for that year. *Allowable business investment loss* (ABIL) is the amount of the loss a business can deduct from its income. A business investment loss results from the actual or deemed disposition of certain capital properties. It can happen when you dispose of one of the following to a person you deal with at arm's length: a share of a small business corporation or a debt owed to you by a small business corporation. For business investment loss purposes, a small business corporation includes a corporation that was a small business corporation at any time during the 12 months before the disposition. *Idem*.

TABLE 1-2

Examples of capital loss application rules

Type of loss	Application rules	Limit to annual deduction
Allowable business investment loss	Any unapplied portion of an ABIL becomes a non-capital loss that can be carried back 3 years and forward 10 years. The unapplied portion of the non-capital loss will become a net capital loss that can be used to reduce taxable capital gains in the eleventh year or any year after.	No limit, Limited to taxable capital gains in the year.
Net capital loss	Carry back 3 years. Carry forward indefinitely.	Limited to taxable capital gains in the year.
Farm loss	Carry back 3 years. For a loss incurred after 2005, carry forward 20 years. For a loss incurred before 2006, carry forward 10 years.	No limit
Listed Personal Property (LPP) loss	Carry back 3 years. Carry forward 7 years.	Limited to net gains from LPP in the year.
Restricted farm loss	Carry back 3 years. For a loss incurred after 2005, carry forward 20 years. For a loss incurred before 2006, carry forward 10 years. You can use part of any unapplied loss to reduce your capital gains from the sale of the farmland that was used in a farming business.	Limited to net farming income in the year. Cannot be more than the property taxes and the interest on money you borrowed to buy the farmland that you included in the calculation of the restricted farm losses for each year. You cannot use it to create or increase a capital loss.

Notes: Business investment loss results from the actual or deemed disposition of certain capital properties. // Net capital loss occurs if your allowable capital losses are more than your taxable capital gains; the difference between the two becomes part of the calculation of your net capital loss for the year. // If you run your farm as a business, you may be able to deduct a farm loss in the year. However, if your main source of income is neither from farming nor from a combination of farming and some other source of income, you can only deduct a portion of your farm loss for the year. // LPP is a type of personal-use property. The principal difference between LPP and other personal-use properties is that LPP usually increases in value over time. LPP includes all or any part of any interest in, or any right to, the following properties: prints, etchings, drawings, paintings, sculptures or other similar works of art, jewelry, rare folios, rare manuscripts or rare books, stamps, or coins. // If your farming business operates as a sideline or part-time venture rather than your chief source of livelihood, the Canada Revenue Agency limits the amount of farm losses you can deduct from your other income.
Source: Canada Revenue Agency, Capital Gains (T4037) 2024, p. 34; SMR CPA, Non-Capital Loss vs Capital Loss: Key Differences Business Owners Should Know, consulted May 8, 2026.

disposed of for zero proceeds. For example, a business could write off uncollectible accounts receivable or shares in a company that has gone bankrupt.[32] Businesses are also allowed to deduct these losses from other sources of income earned but only if their ABIL *plus* their non-capital loss[33] (NCL) total more than the other sources of income.

Some of the rules for applying the various types of allowable losses are summarized in Table 1-2. To add a bit more complexity, ABIL can also be carried backward or forward over different tax years. For example, ABILs converted to non-capital losses can be carried back three years or forward for ten, with any remaining portion becoming net capital losses for future use against taxable capital gains. Farm and restricted farm losses can be carried forward for 20 years.

The limitation of carrying losses back or forward or restricting which gains can be offset increases immediate tax revenues for the government because companies

32 A winding-up order in Canada is a formal court order that mandates the cessation of a company's operations, the liquidation of its assets, and the distribution of the proceeds to its creditors and shareholders. The process is a form of compulsory liquidation, typically overseen by a court-appointed official known as a liquidator. See Government of Canada, Department of Justice, Laws Home, Legislation, Consolidated Acts, Winding-up and Restructuring Act, R.S.C., 1985, c. W-11, consulted May 8, 2026.

33 A non-capital loss is a loss from a non-capital source, such as a business, property (like a rental), or employment, which occurs when allowable expenses exceed income from all sources during a tax year. It is distinct from a capital loss, which results from selling a capital asset for less than its purchase price. See SMR CPA, Non-Capital Loss vs Capital Loss: Key Differences Business Owners Should Know, consulted May 8, 2026.

have fewer deductions available to them. By controlling capital loss deductions, governments can manage their tax revenues. Yet, while limiting amounts and timing increases short-term revenue, it discourages investment and if overly restrictive can negatively impact economic activity.[34]

The ability for businesses to use capital losses as a tax deduction, also known as tax loss harvesting, provides them with incentives to invest by reducing the risk associated with a potential loss.[35] Businesses that face stricter controls on capital loss amounts and timing face higher immediate taxes payable and less flexibility in managing their overall tax burden. This increase in tax liabilities negatively impacts cash flow and impedes investment decisions, thus discouraging capital investments.

The complexity of the system and the differential treatment does not end there; individuals also enjoy the Lifetime Capital Gains Exemption, and entrepreneurs the Canadian Entrepreneurs' Incentive.

LIFETIME CAPITAL GAINS EXEMPTION AND CANADIAN ENTREPRENEURS' INCENTIVE

In addition to the subsequently rescinded inclusion rate hike, the Federal government also announced an increase in the Lifetime Capital Gains Exemption in 2024,[36] from $1.02 million to $1.25 million. This decision exempts capital gains from qualifying small business, farm, and fishing assets by an additional $233,164. For example, an entrepreneur selling a small business (in 2024) and realizing a $1.5-million capital gain would normally be liable to pay taxes on 50% of that gain ($750,000). Under the former exemption, the entrepreneur would subtract $1.02 million (assuming it had not previously been used) from the $1.5 million, leaving approximately $480,000 in capital gains. At 50%, this means $240,000 would be taxable income. Under the increased exemption, the entrepreneur can now subtract $1.25 million from the $1.5 million capital gain, leaving a capital gain of $250,000, of which $125,000 would be considered taxable income.

> **The continued layering of incentives, deductions, rules, and qualifications adds a level of complexity that a majority of taxpayers simply do not understand.**

For corporations, 50% of capital gains are included in taxable income and subject to the corporate tax rate, with special rules for Canadian-controlled private corporations including refundable taxes on investment income and the ability to distribute the non-taxable portion through a Capital Dividend Account as tax-free dividends.[37] In addition, the recent federal policy updates included introducing the Canadian Entrepreneurs' Incentive[38] to encourage investment in small business shares. For example, if an entrepreneur who founded a fintech start-up decides to sell it to another fintech company for $2 million, the $2 million would be a capital gain and the entrepreneur would be taxed on 50% of that gain, or $1M. However, assuming the Lifetime Capital Gains Exemption has already been used in another transaction, then the entrepreneur could claim the Canadian Entrepreneurs' Incentive, reducing the

---

34 Eskandar Elmarzougui *et al.*, *Corporate Loss Utilization*, Office of the Parliamentary Budget Officer, Research Report, February 16, 2023, p. 1.

35 The term "tax loss harvesting" is used when an investment within a non-registered account, such as a stock or a bond, is sold for less than its adjusted cost base, resulting in a capital loss. The adjusted cost base of a particular investment is typically determined by adding the cost to acquire the investment plus any expenses to acquire it, such as commissions and legal fees. See TD Bank, Investing, Direct Investing, Articles, What Is Tax Loss Harvesting, consulted May 7, 2026.

36 Canadian Federation of Independent Business, Home, Tools & Resources, Lifetime Capital Gains Exemption – Is it for you? consulted May 12, 2026.

37 Canada Revenue Agency, Forms and publications - CRA, Technical tax information, Income Tax, Income tax folio index, Series 3 - Property, Investments and Saving Plans, Folio 2 Dividends, Income Tax Folio S3-F2-C1, Capital Dividends, consulted May 12, 2026.

38 The Canadian Entrepreneurs' Incentive reduces the inclusion rate to 33.3% on a lifetime maximum of $2 million in eligible capital gains. Entrepreneurs will have a combined full and partial exemption of at least $3.25 million when selling all or part of a business. The incentive will result in a one-third inclusion rate, and the limit will increase by $200,000 each year, starting in 2025, until it reaches $2 million in 2034. See Department of Finance Canada, "Government announces details on new Canadian Entrepreneurs' Incentive," News release, August 12, 2024.

TABLE 1-3

Capital gains tax regime comparison, publicly traded shares, 2023

Tax Treatment	Countries
Taxed with other personal income	Canada, Australia, Chile, Czechia
Separate capital gains tax - flat rate	Austria, Colombia, Costa Rica, Estonia, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Mexico, Norway, Poland, Portugal, Slovenia, Sweden
Separate capital gains tax - progressive rate	Denmark, Finland, Lithuania, Spain, United Kingdom, United States
Exempt	Belgium, Korea, Luxembourg, New Zealand, Slovak Republic, Switzerland, Turkey

Note: Tax treatment may depend on whether assets are held in a professional or personal capacity. Only gains above a threshold are taxed, or a fixed deduction applies. Minority shareholders are exempt from capital gains tax when trading listed shares on the exchange, except for foreign (excl. Australian) publicly traded shares, which are taxable under a deemed rate of return method.
Source: Diana Hourani and Sarah Perret. *Taxing Capital Gains: Country Experiences and Challenges*. OECD Taxation Working Papers, No. 72. Paris: OECD Publishing, February 26, 2025.

taxable amount to 33% of the $2 million ($666,000) when selling the business.

The continued layering of incentives, deductions, rules, and qualifications adds a level of complexity that a majority of taxpayers simply do not understand. The more complex this form of taxation becomes, the further it moves from the original stated intention of fairness. While the majority of countries tax capital gains, fairness is not their primary motive; rather, as seen above, it is government revenues.

INTERNATIONAL EXPERIENCE

In 2025 the OECD released a report examining different member countries' experiences taxing capital gains. The report analyzed the countries' rationales, the challenges they faced, and the implications of offering preferential tax treatment for capital gains compared to other forms of income. The report found that most OECD countries tax capital gains only upon realization and at preferential rates or offer exemptions for specific assets such as housing or closely held businesses. However, the report did find that in practice, capital gains tax systems often introduce economic distortions, and constrain government revenue-raising potential.[39]

If capital gains deserve preferential treatment because of these benefits, then why tax them in the first place?

There are a number of different ways countries tax capital gains. Table 1-3 provides an overview of these variations for publicly traded shares. Countries such as Canada, Australia, Chile, and Czechia tax capital gains as part of personal income. Some, such as Germany, Japan, France, and numerous others, impose a separate flat-rate tax, while yet others including Denmark, the United States, and the United Kingdom use a separate but progressive capital gains tax.

39 Diana Hourani and Sarah Perret, *Taxing capital gains: Country experiences and challenges*, OECD Taxation Working Papers, No. 72, February 2025, p. 34.

TABLE 1-4
Countries without a capital gains tax

Bahamas	Eswatini	Mauritius
Bahrain	Gibraltar	Namibia
Barbados	Guernsey, Channel Islands	Saint Lucia
Bermuda	Hong Kong	Singapore
Brunei Darussalam	Isle of Man	Trinidad and Tobago
Cayman Islands	Jersey, Channel Islands	

Source: PricewaterhouseCoopers, Quick Charts, Capital Gains Tax (CGT) Rates, consulted July 8, 2026.

Countries that provide preferential tax treatment for capital gains usually cite as a rationale for the different tax treatments a desire to encourage economic growth, investment, and entrepreneurship, reduce the lock-in effect, address the double taxation of business income, and avoid the taxation of gains caused by inflation. Many also cite that favourable capital gains tax treatment addresses the lumpiness of capital gains and helps in achieving policy goals, such as promoting homeownership. Yet if capital gains deserve preferential treatment because of the benefits, then why tax them in the first place? In fact, some countries, such as Bahamas, Bermuda, Cayman Islands, Hong Kong, Mauritius, Singapore, and others, cite these exact reasons to explain why they do *not* tax capital gains. Table 1-4 provides a list of countries with no capital gains tax.

While most of these countries have very small economies, they are actively competing for global capital, high-net-worth individuals, and multinational corporations. By eliminating capital gains taxes, their goal is to become attractive investment hubs, tax residences for wealthy individuals, and international financial centres like Singapore, Hong Kong, and the Bahamas. These countries have found that the elimination of capital gains taxation reduces the cost of investing and encourages investment inflows, which in return foster entrepreneurship and business creation.[40]

> **The elimination of capital gains taxation reduces the cost of investing and encourages investment inflows, which in return foster entrepreneurship and business creation.**

It is not just policymakers in these countries who feel that the elimination of capital gains taxation is beneficial. International wealth consultants also recommend these places due to their tax-neutral philosophy and/or taxation of only locally sourced income (e.g., Hong Kong and Singapore), citing the same benefits: savings, investment opportunities, and economic growth.[41]

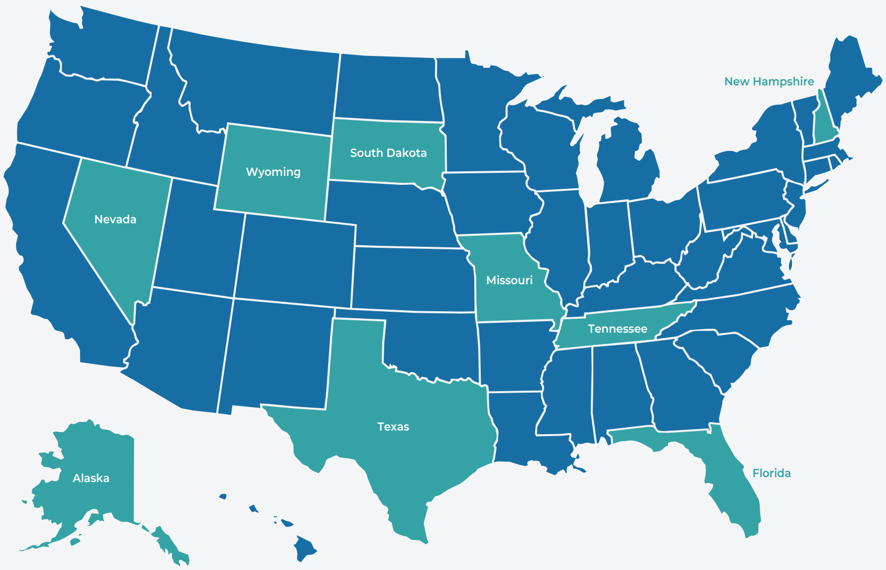
Tax-neutral philosophy is not only found at national or federal levels, either. In the United States, despite having a progressive federal capital gains tax, nine states do not

40 *Ibid.*, pp. 21-30.

41 Vardanyan & Partners, Global, Top Countries With Zero Capital Gains Tax: Best Havens for Expats and Investors, consulted May 12, 2026.

FIGURE 1-1

U.S. States that do not have a state-level capital gains tax



Source: The Entrust Group, Home, Blog, State-by-State Capital Gains Tax Rates for 2025, consulted May 12, 2026.

have a state-level capital gains tax[42] (see Figure 1-1). (Eight of the nine also have no state income taxes.[43]) Most of them have never taxed capital gains, with the exception of Missouri, which only recently joined the list.

On July 10, 2025, Missouri eliminated its capital gains tax for individuals with a pledge to phase out the tax on corporate gains by 2029. The Missouri House of Representatives approved this landmark legislation with the aim of providing tax relief to residents and improving the state's competitiveness for businesses and entrepreneurs. This measure, according to the House, is intended to encourage investment, promote business growth, and stimulate economic development, while attracting new companies and motivating existing ones to reinvest and create high-paying jobs.[44]

On July 10, 2025, Missouri eliminated its capital gains tax for individuals with a pledge to phase out the tax on corporate gains by 2029.

42 Internal Revenue Service, Help, Tax Topics, Topic no. 409, Capital gains and losses, consulted May 12, 2026; The Entrust Group, Home, Blog, State-by-State Capital Gains Tax Rates for 2025, consulted May 12, 2026.

43 Tax Foundation, Home, Data, Where Do State and Local Governments Get Their Tax Revenue? consulted May 12, 2026; Tax Foundation, Home, Data, State Tax, Missouri, 2026 Missouri Tax Rates, Collections, and Burdens, consulted May 12, 2026.

44 Missouri House of Representatives, Missouri House Passes HB 594 & 508 to Provide Significant Tax Relief and Boost Economic Growth, consulted May 12, 2026.

Chapter 2

The Harmful Impacts of Taxing Capital Gains

Missouri is a great example of policymakers finally recognizing the harmful impacts of taxing capital gains, especially since they are abandoning this practice, whereas the other states shown in Figure 1-1 have never taxed capital gains. Over time, numerous authors, organizations, and think tanks have written on the negative effects of taxing capital gains. For the purposes of this paper, it serves the reader to have a general understanding of the lock-in effect, negative impacts on capital markets, and the reduction of liquidity within the economy, as well as the potential for wealth migration.

THE LOCK-IN EFFECT

The lock-in effect refers to a situation in which individuals and investors delay selling stocks, real estate, and other investments in order to avoid paying taxes on the realized capital gains they would earn if they sold those assets. Investors have an incentive to defer or avoid paying the tax by holding on to the asset longer than they otherwise would. This is demonstrated by the high correlation between the tax rate and investors' willingness to sell.

The lock-in effect thus leads to market inefficiencies in the form of a suboptimal allocation of assets within the economy, as the timing of decisions to sell are distorted due to tax concerns. Indeed, the Canadian government acknowledged the lock-in effect in its 1971 white paper implementing the taxation of capital gains.[45] Acknowledging this negative impact, policymakers of the day admit to deliberately creating such market inefficiencies while selling Canadians the slogan that this was "fair" (see Chapter 3).

The taxation of capital gains distorts investor behaviour and affects market liquidity. Distorting investment decisions drives investors to adopt buy-and-hold strategies with their assets. Buy-and-hold strategies impede the flow of capital from investments with low returns to investments that have potentially higher returns—in other words, capital misallocation and capital rigidity in capital markets. This behaviour was demonstrated in 2024 following the mere announcement that the government intended to increase the inclusion rate, with investors rushing to sell off their assets ahead of the effective date. This clearly demonstrates that lowering the inclusion rate, or eliminating the taxation of capital gains altogether, will increase the flow of capital and allow investors to determine appropriate capital allocation without government interference or distortion.

The lock-in effect leads to market inefficiencies in the form of a suboptimal allocation of assets within the economy.

One of the most popular and enduring misconceptions is that the taxation of capital gains only affects higher income earners. Recall that capital gains result from the appreciation of the value of capital assets when they are sold, and so their taxation impacts all individuals who own capital assets. This includes a variety of investors, not least those liquidating accumulated capital to enjoy their retirement. The taxation of capital gains is especially devastating for retirees and seniors who are living off of their life savings.

45 "Periodic revaluation would also reduce the 'lock-in' effect that may well otherwise occur. If a taxpayer faces a tax on the sale of an investment, and that tax is postponed if he holds on to the investment, he may feel 'locked in'. As long as he holds, he would have, say, $100 working for him. If he sells, he would have only, say, $90 or $95 to reinvest. Since periodic revaluation would reduce this lock-in effect, it would reduce what might otherwise be an obstacle to the workings of the capital market." See Edgar J. Benson, *op. cit.*, footnote 4, p. 41.

Seniors are reluctant to sell their capital assets due to the tax burden they will have to shoulder; instead, they reduce their spending habits, essentially creating a *generational* lock-in resulting in an unequal distribution of wealth and further limitations on future market liquidity.

In 2025, small businesses accounted for 98.2% of all businesses in Canada.[46] The taxation of capital gains discourages risk-taking, entrepreneurship, and innovation, negatively impacting all small and medium enterprises (SMEs). Following the announcement of the proposed increase in the inclusion rate in 2024, Canada's tech sector voiced their strong opposition, warning that the measure would inflict "irreparable harm" on innovation and economic growth. Leaders from major firms like Shopify, along with industry groups such as the Council of Canadian Innovators, argued that higher capital gains taxation would discourage entrepreneurs from building or scaling companies in Canada, drive talent and startups to relocate abroad, and undermine incentives that were linked to stock options that support employment and retention. Other critics of the increase warned it would dampen investment, hinder job creation, and weaken Canada's competitiveness in the global tech landscape.[47] Ignoring the business sector, the government stuck to its sales pitch that the inclusion increase would only affect the wealthiest (0.13%) and that it would promote fairness in the tax system.[48]

FOLLOWING THE MONEY: WEALTH MIGRATION

Even according to this flawed logic that an increase would only impact the wealthiest, this is in and of itself damaging to the economy. The *Henley & Partners Private Wealth Migration Report 2025* examined the current historic wave of global millionaire migration. It projected an increase in millionaire relocations across the world from 142,000 in 2025 to 165,000 by the end of 2026. Furthermore, the report found a central theme in decisions by millionaires to relocate was tax policy. Simply put, traditional reasons such as historical prestige, cultural attractions, and established financial centres are not necessarily sufficient to retain wealth, especially in jurisdictions that do not have supportive tax policy. Measures such as estate duties and capital gains taxes remain the key factor in determining relocation choices.

> **The taxation of capital gains discourages risk-taking, entrepreneurship, and innovation.**

The report found that the most popular destinations for migrating millionaires are jurisdictions with no or favourable capital gains tax, such as Bermuda, Cayman Islands, Hong Kong, Mauritius, Singapore, and the UAE.[49] Capital does not respect political boundaries; it will be allocated to the best available investment opportunities if investors are left unhindered by government. Governments are fully aware of this fact, yet continue to feed taxpayers the fairness argument as their justification for continuing to undermine economic growth and capital markets. This behaviour is very evident as the whole concept of fairness reappears whenever political survival or promises of substantial tax revenues are at stake.

46 Innovation, Science and Economic Development Canada, "Key Small Business Statistics 2025," *Key Small Business Statistics*, 2026, p. 6.

47 Tara Deschamps, "Tech industry warns budget's capital gains proposals could cause 'irreparable harm'," *CityNews Ottawa*, April 17, 2024.

48 Department of Finance Canada, News, Tax Fairness for Every Generation, consulted June 5, 2026.

49 Henley & Partners, Henley Private Wealth Migration Report 2025, The Great Wealth Flight: Millionaires Relocate in Record Numbers, consulted May 30, 2026.

Chapter 3

Reconsidering Fairness and Equity in Tax Systems

Governments worldwide, including the Canadian federal government, have long acknowledged that taxing capital gains by including them in a taxpayer's income is controversial. Over the years, the complexity of this form of taxation has grown, resulting in a hodgepodge of what is and what is not exempt, with some exemptions applying over different time periods, and so on. This form of taxation has become so complex and confusing that most taxpayers simply leave it up to specialized accountants to figure out. Despite this, the government persists in boasting that this form of taxation helps the average taxpayer, a fantasy propped up with taglines about keeping Canada's tax system "fair."[50]

FAIRNESS AND EQUITY IN TAXATION

Underpinning such a notion of fairness in taxation are a number of concepts. Among the most significant of these are horizontal equity, vertical equity, the ability-to-pay principle, and progressive taxation. These concepts provide the analytical framework within which tax policy is most often evaluated and justified.

The concept of horizontal equity holds that individuals in similar economic circumstances, particularly those at the same income level, should bear the same tax burden. The idea is that a tax system should not arbitrarily discriminate between taxpayers who are in similar situations. For example, if two individuals earn the same total income, horizontal equity suggests they should pay the same amount of tax, regardless of the source of that income.

In the context of capital gains, policymakers argue that excluding them from taxation violates this principle, as certain individuals receive some or all of their income through investments rather than through employment or business income. This rationale was central to the recommendations made by the Carter Commission back in 1966, as seen above.

Vertical equity, on the other hand, addresses the issue of fairness across individuals in different economic positions. It holds that taxpayers with higher incomes or greater wealth must contribute more of their resources in taxes. Vertical equity also usually does not simply mean paying more in absolute terms; rather, it often implies paying a greater *share* of one's income the higher that income is. This is commonly accomplished through progressive taxation. In most debates over the taxation of capital gains, vertical equity plays a central role, as capital gains are assumed to be realized by only higher-income individuals.

> **Over the years, the complexity of this form of taxation has grown, resulting in a hodgepodge of what is and what is not exempt.**

The principle of ability to pay is used by governments as moral justification for structuring taxes in ways that reflect differences in income and wealth. They maintain that tax burdens should correspond to an individual's financial capacity, and that those with more resources should be contributing more to public revenues as doing so does not sacrifice their basic living standards. Note that these "basic living standards" are generally defined as subsistence living. Retirees who have worked and paid taxes their entire lives might disagree that mere subsistence in retirement represents a fair outcome.

50 Edgar J. Benson, *op. cit.*, footnote 4, p. 36.

Discussions around horizontal and vertical equity underscore the goal of tax policy itself. By introducing the taxation of capital gains, the government sought to reduce forms of inequity by aligning tax treatment of income from any source. Unfortunately, the taxation of capital gains fails to deliver conceptually in both vertical and horizontal equity, meaning that it fails in terms of fairness.

There are layers of exemptions and restrictions on what gains can and cannot be offset, variable controlled claiming of capital losses, the difference in taxation between individuals, the use of Capital Dividend Accounts, the Canadian Entrepreneurs' Incentive, and the long-standing tradition of paying no capital gains tax on the sale of a principal residence. All of these are examples of differential treatment within horizontal and vertical dimensions of equity.

The principle of ability to pay is used by governments as moral justification for structuring taxes in ways that reflect differences in income and wealth.

Evidently, the fairness argument is not really about fairness at all, having more to do with tax revenues and misguided intentions that end up creating more harm than good. Even the tax revenue justification by governments is suspect, however, as evidenced by the many countries around the world, and the nine U.S. states, that do not tax capital gains.

While it is easy to point to foregone tax revenues in the immediate term, the fact of the matter is that reducing taxation on capital gains increases disposable income and creates jobs, which in turn ultimately generates more tax revenues. To demonstrate this, the following chapter will focus on the impact that eliminating the capital gains tax would have on the province of Alberta.

Chapter 4

A Fiscal Simulation Using SPSD/M: Alberta Without a Capital Gains Tax

The idea of lowering or eliminating capital gains taxation has been written about extensively by numerous think tanks, business organizations, and individuals across Canada. Leading think tanks working in this area include the Fraser Institute, the CD Howe Institute, and the MEI.

In October 2017, the MEI submitted a brief to the Standing Committee on Finance of the House of Commons as part of the Pre-Budget Consultations in Advance of the 2018 Budget. In that brief, the MEI recommended that the capital gains tax be substantially reduced (or simply abolished) as a federal measure in order to help Canadian businesses be more productive.[51] Just over a year later, on December 18, 2018, the Fraser Institute released a similar article suggesting that if the Alberta government removed capital gains income from total income, essentially exempting capital gains from provincial income taxes, this would send a powerful signal to investors, entrepreneurs, and business owners both within Canada and abroad.[52]

While both suggestions are theoretically sound, questions remain regarding the outcomes of such actions. How much would provincial revenues decrease? What effect would the changes have on the average Albertan's income? And how would it impact job creation?

To answer these questions, we use the Social Policy Simulation Model (SPSD/M). The SPSD/M is a computer model designed to assist in analyzing the financial interactions between government policies and individuals in Canada. It allows assessment of the cost implications or income effects of changes to Canada's personal taxation and cash transfer system.

HOW MUCH WILL PROVINCIAL TAX REVENUES DECREASE?

Governments implemented capital gains taxation primarily to generate revenue. To assess the impact on Alberta's provincial tax revenues, five separate simulations were run using SPSD/M, with the capital gains inclusion rate set at 40%, 30%, 20%, 10%, and 0%, respectively. Figure 4-1 shows the results in terms of provincial tax revenues lost as the inclusion rate was incrementally *decreased.* Note that the loss of provincial tax revenues *increases* at a slightly decreasing non-linear rate as the inclusion rate falls. The total loss of provincial taxes is estimated at $414 million (in the year of the change) if the inclusion rate were changed from 50% to zero.

Setting the inclusion rate to 0% produces an *estimated loss* of $431 million in tax revenues or approximately 1.42% of Alberta's total 2025 tax revenues.

The incremental tax losses for each 10-percentage-point reduction in the inclusion rate were as follows: 50% to 40% ($108.3 million), 40% to 30% ($90.3 million), 30% to 20% ($81.2 million), 20% to 10% ($72.3 million), and 10% to 0% ($62.1 million).

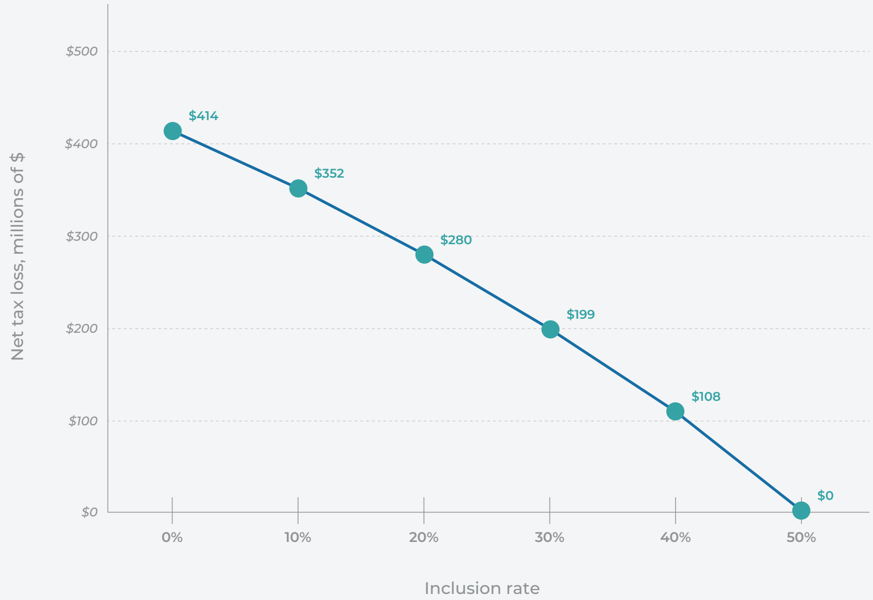
Using the above results from the SPSD/M modeling, we can estimate a linear model that can be used to predict the potential loss of provincial tax revenues based on any inclusion rate, or reduction thereof, where *TL* represents

51 Mathieu Bédard, *Lowering Corporate and Capital Gains Taxes Could Unlock Productivity for All Canadians*, MEI, House of Commons Brief, October 2017, p. 2.

52 Niels Veldhuis *et al.*, *Reforming Capital Gains Taxes in Alberta*, Fraser Institute, Fraser Research Bulletin, December 2018, p. 1.

FIGURE 4-1

Decrease of provincial taxes vs. inclusion rates (Alberta)



Source: Author's estimations based on SPSD/M model data for 2025 taxation regime.

the loss in provincial tax revenues, and *IR* represents the inclusion rate.

$$TL = 431 - 824\ IR \tag{4.1}$$

For example, under the predictive model if the inclusion rate were lowered from 50% to 15% then the province could expect to lose approximately $307.4 million dollars in tax revenues or approximately 1% of Alberta's 2025 total tax revenues. Using this predictive model, setting the inclusion rate to 0% produces an *estimated loss* of $431 million in tax revenues (similar to the result from the SPSD/M modelling) or approximately 1.42% of Alberta's total 2025 tax revenues.[53]

INCREASE IN DISPOSABLE INCOME

According to the SPSD/M estimates, eliminating the capital gains tax would result in an increase of $1.1 billion in the disposable income[54] of Albertans in the year of change. Simulations based on inclusion rates of 40%, 30%, 20%, 10%, and 0% demonstrate that as the inclusion rate decreases, Albertans' disposable income increases at a decreasing non-linear rate. Figure 4-2 shows the cumulative increases in disposable income as the inclusion rate decreases by 10 percentage points. Each incremental decrease of 10 points results in the following increases of disposable income: 50% to 40% ($321.5 million), 40% to 30% ($247.2 million), 30% to 20% ($211.2 million), 20% to 10% ($178.3 million), and 10% to 0% ($149.1 million).

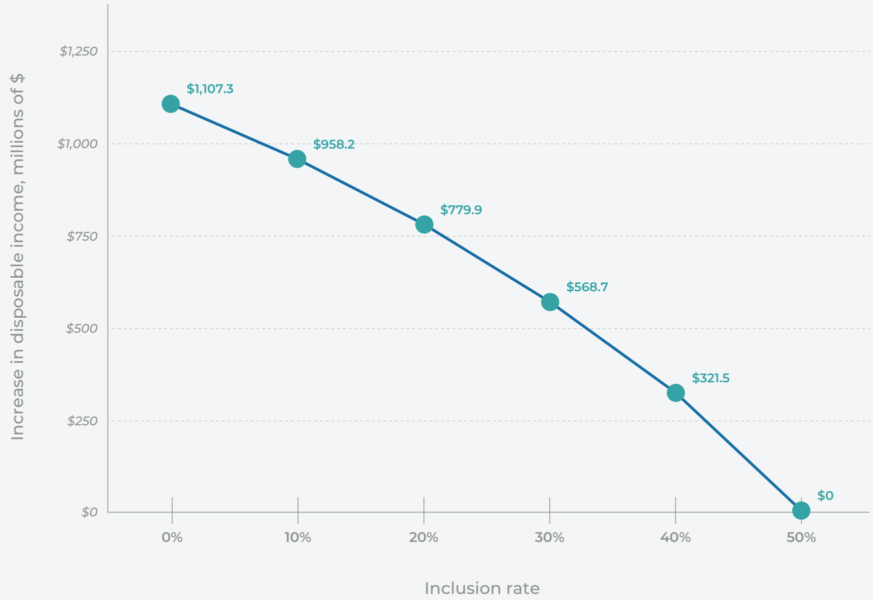
Applying a linear regression to this data, we can estimate the increase in Albertans' disposable income for any

53 Alberta. Ministry of Treasury Board and Finance. "Revenue." Government of Alberta. Table 3. Accessed June 8, 2026.

54 Disposable income is defined as total income minus total income taxes. It is important to note that the increase in disposable income is greater than the increase in total income, as the removal of the capital gains tax allows gains to flow directly into disposable income.

FIGURE 4-2

Increase of disposable income vs. inclusion rate (Alberta)



Source: Estimations based on SPSD/M data for 2025 taxation regime.

inclusion rate or reduction thereof. Where *Yd* represents the Albertans' disposable income, and *IR* denotes the inclusion rate.

$$Yd = 1170 - 2188\ IR \quad (4.2)$$

INCREASE IN CONSUMABLE INCOME

Despite the reduction in provincial tax revenues, there would be a modest increase in commodity and consumption taxes if the inclusion rate were changed from 50% to 0%. The cumulative increase in Albertans' *consumable income*[55] would be $1.08 billion in the year of change. Note that the difference between disposable income and consumable income is commodity and consumption taxes paid. Simulating the impact on Albertans' consumable income with the inclusion rates of 40%, 30%, 20%, 10%, and 0%, Figure 4-3 shows the cumulative increase in consumable income for each 10-percentage-point decrease in the inclusion rate. Consumable income rises at a decreasing non-linear rate. Each incremental decrease of 10 points in the inclusion rate results in the following increases in Albertans' consumable income: 50% to 40% ($314 million), 40% to 30% ($241 million), 30% to 20% ($206 million), 20% to 10% ($173 million), and 10% to 0% ($144 million).

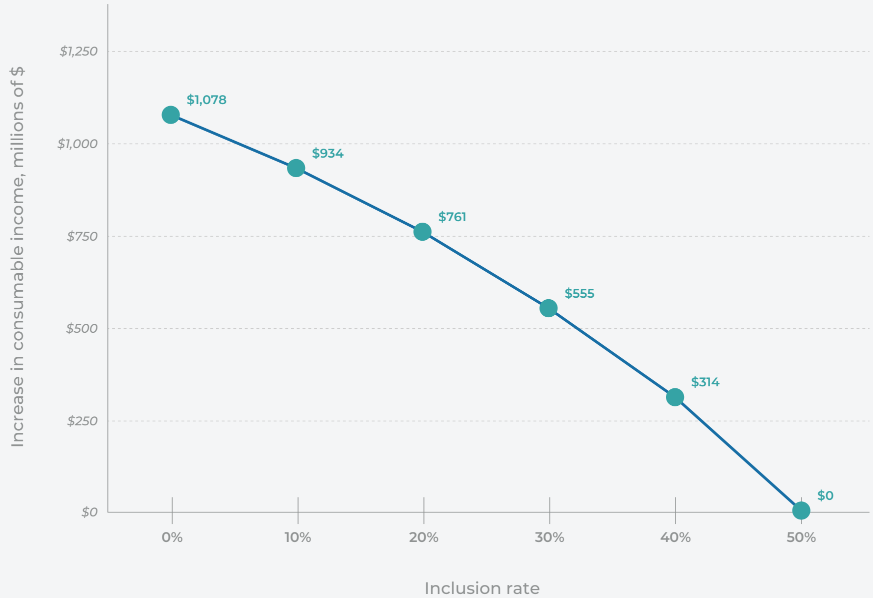
Using the above results from the SPSD/M modeling estimation, we were able to estimate a linear model that can be used to predict the potential increase in total consumable income resulting from a decrease in the inclusion rate. In this model, *Y* represents the change in total income for Albertans and *IR* denotes the inclusion rate.

$$Y = 1140 - 2130\ IR \quad (4.3)$$

55 Consumable income is an economic term that represents actual purchasing power. It is calculated by taking disposable income (money left over after income taxes and mandatory payroll deductions) and subtracting all commodity and consumption taxes.

FIGURE 4-3

Increase of consumable income vs. inclusion rates (Alberta)



Source: Estimations based on SPSD/M data for 2025 taxation regime.

FEDERAL ESTIMATES OF INCREASED CAPITAL REALIZATION

The federal government has estimated that increasing the capital gains inclusion rate from 50% to 66.67% (an increase of 16.67 percentage points) would generate between $19 billion and $32 billion in taxes from capital gains over five years. Using their estimates, this would yield approximately $4.28 billion to $6.4 billion per year. Based on a marginal tax rate of 38% and a 66.67% inclusion rate, which constitutes the effective tax rate (or a multiplier of ~3.947), this implies that Canadians would need to realize between $17 billion and $25.5 billion per year in capital gains. Model 4.4 shows the relationship between capital realizations, R, the marginal tax rate, MTR, the inclusion rate, IR, and the amount of capital gain taxes paid, $CGT.

$$R = \{{}^{1}\!/(\text{MTR x IR})\}\ \$CGT \qquad (4.4)$$

Holding the $CGT constant, any reduction in IR will increase the R. For example, using the broad estimates from above, if we were to decrease the inclusion rate from 66% down to 40%, based on (4.4) this would increase the multiplier from 3.947 to 6.578. Holding annualized tax revenues ($CGT) constant at $4.28 billion to $6.4 billion per year, would require capital gains realizations (R) to be $28.1 billion to $42.1 billion per year. This change would free up somewhere between $11.1 billion and $16.6 billion for Canadian taxpayers to reinvest or spend per year, the equivalent of 0.4221% to 0.6312% of Canada's 2025 GDP.

In the case of a reduction in the inclusion rate from 50% to 40%, based on (4.4) the multiplier would increase from 5.263 to 6.578. Holding annualized tax revenues ($CGT) constant at $4.28 billion to $6.4 billion per year, we would again see the required capital gains realizations (R) range from $28.1 billion to $42.1 billion per year. However, the result would be smaller than a change from 66%. Changing from 50% to 40% would free up between $5.6 billion and $13.9 billion for Canadian taxpayers to reinvest or spend per year, the equivalent of 0.213% to 0.529% of Canada's 2025 GDP.

EMPLOYMENT ELASTICITY

The economic relationship between GDP growth and job creation, known as employment elasticity[56] (EE) can be re-expressed as the following function:

$$\Delta J = EE \times \%\Delta Y \times \text{total employment} \qquad (4.5)$$

where ΔJ represents the number of jobs created, EE is the jobs creation factor (employment elasticity), and %ΔY is the percentage change in GDP.

In Canada, the EE ranges from 0.44[57] to 0.66.[58] This means a change in the inclusion rate from 50% to 40% would increase Canada's GDP between 0.213% to 0.529%, thereby creating between 17,674 and 65,816 jobs.[59]

THE ALBERTA CONTEXT – CALCULATING CAPITAL GAINS AND TAXES BASED ON INDIVIDUAL TAXPAYER DATA

Using the above methodology, we can now estimate the impact that reducing the inclusion rate will have on employment. Using the most recent data, for tax year 2023, there were 336,800 Alberta tax filers that reported realized capital gains of $7.1 billion.[60] The inclusion rate was 50%, so the actual total realized capital gains can be estimated at approximately $14.2 billion. Note that this figure does not include corporate capital gains, capital gains earned from the sale of an individual's primary residence, or unreported capital gains. This is therefore a conservative estimate of actually realized capital gains. If Alberta were to eliminate capital gains taxation altogether (both federal and provincial), the $7.1 billion claimed as capital gains would not be subject to taxation.

Table 4-1 shows the number of tax filers by income increments, how much each cohort reported as capital gains in 2023, and the percentages thereof. There is also a calculated column estimating the average annual capital gain realization for each income cohort.

> **Eliminating the capital gains tax would result in an increase of $1.1 billion in the disposable income of Albertans.**

Using a weighted average across the cohorts, we find the average income of tax filers was approximately $121,200. Using the 2023 federal and Alberta tax brackets, the approximate combined tax rate is 28.8%. We estimate that the total taxes paid by Alberta taxpayers, who reported the $7.1 billion in capital gains, would be approximately $2 billion ($7.1 billion x 28.8%), with $1.3 billion going to the federal government ($7.1 billion x 18.5%) and the remaining $0.7 billion going to the Alberta government ($7.1 billion x 10.3%). If there were no tax on capital gains, then this $2 billion would have remained with the taxpayers in the form of disposable income, increasing Alberta's GDP by 0.55% ($2 billion / $361.5 billion).[61]

With the estimate of an increase in GDP of 0.55% and an even more conservative EE for Alberta of 0.3 to 0.5 (to account for the fact that Alberta tends to be more capital

56 Employment elasticity measures the responsiveness of job growth to changes in economic output (GDP) or wages. It indicates the percentage change in employment associated with a 1% change in GDP. For example, a value of 0.5 means that a 1% increase in GDP generates a 0.5% increase in employment. See Fiveable, Intro to Public Policy, Key Terms, Employment elasticity, consulted June 2, 2026.

57 Calculated by taking the average EE over the three periods. See Steven Kapsos, "The Employment Intensity of Growth: Trends and Macroeconomic Determinants," Employment Strategy Papers, 2005/12, p. 31.

58 Victoria Morén and Elias Wändal, "The Employment Elasticity of Economic Growth: A Global Study of Trends and Determinants for the Years 2000-2017," Department of Economics, School of Business, *Economics and Law*, University of Gothenburg, September 2019, p. 40.

59 Statistics Canada, Home, The Daily, Labour Force Survey, December 2024, consulted June 2, 2026.

60 Canada Revenue Agency, *Individual Income Tax Return Statistics (2023 Tax Year) Table 2: Tax return line items by income ranges (Alberta)*, Government of Canada, PDF, 2024, p. 1.

61 Government of Alberta, Alberta Economic Dashboard, Indicators, GDP at basic prices, consulted June 2, 2026.

TABLE 4-1

Capital gains claimed by Alberta taxpayers – T1 line items

Income Cohort	Number of Taxfilers (A)	% of Taxfilers	Capital Gains Reported ($000s) (B)	% of Capital Gains Reported	Total Capital Gains Realized per taxpayer ((B x 1000) x 2)/A
Less than $4,999	5,380	1.60%	$9,507	0.13%	$3,534
$5,000 - $9,999	3,740	1.11%	$5,973	0.08%	$3,194
$10,000 - $14,999	5,400	1.60%	$9,456	0.13%	$3,502
$15,000 - $19,999	7,060	2.10%	$13,530	0.19%	$3,833
$20,000 - $24,999	8,770	2.60%	$19,378	0.27%	$4,419
$25,000 - $29,999	10,720	3.18%	$22,179	0.31%	$4,138
$30,000 - $34,999	11,300	3.36%	$27,798	0.39%	$4,920
$35,000 - $39,999	10,760	3.19%	$28,502	0.40%	$5,298
$40,000 - $44,999	11,450	3.40%	$33,681	0.47%	$5,883
$45,000 - $49,999	11,160	3.31%	$35,423	0.50%	$6,348
$50,000 - $54,999	13,070	3.88%	$43,458	0.61%	$6,650
$55,000 - $59,999	12,150	3.61%	$43,977	0.62%	$7,239
$60,000 - $69,999	21,680	6.44%	$87,116	1.17%	$7,668
$70,000 - $79,999	20,160	5.99%	$92,888	1.31%	$9,215
$80,000 - $89,999	20,490	6.08%	$110,705	1.56%	$10,806
$90,000 - $99,999	17,180	5.10%	$105,850	1.49%	$12,322
$100,000 - $149,999	56,580	16.80%	$472,752	6.67%	$16,711
$150,000 - $249,999	48,720	14.47%	$708,688	9.99%	$29,092
$250,000 plus	41,030	12.18%	$5,226,179	73.68%	$254,749
Totals	**336,800**	**100.00%**	**$7,097,039**		

Source: Canada Revenue Agency, Individual Income Tax Return Statistics (2023 Tax Year): Table 2.

intensive), the creation of jobs in Alberta is estimated at from 4,646 to 7,745 jobs.[62] Note that this estimate does not include the additional jobs that would be created as the capital freed up is re-invested into business. It is interesting to note that the estimate of job creation above closely matches what the province has predicted it needs in terms of jobs.

REMOVING CAPITAL GAINS TO MEET EXPECTED LABOUR SHORTAGES

The Alberta Occupational Demand Model (AODM) predicts that new job openings will increase between 2023 and 2033 due to economic growth, retirements, out-migration, and deaths. Economic growth over this interval will account for 670,000 job openings (45.7%, an average of about 61,000 per year) and replacement needs will create another 795,000 openings (54.3%, an average of 72,000 per year). Furthermore, from 2026 onward, the AODM predicts a shortage of approximately 8,000 jobs per year.[63] The elimination of taxes on capital gains could potentially alleviate between 58% and 96.8% of these projected job shortages in Alberta.

INCREASING INVESTMENT AND ALBERTANS' DISPOSABLE INCOME: THE REALIZATION PRINCIPLE

It is important to note that "unreported" income can come from earnings derived from realized capital gains. Despite the demonization and taxpayer fear surrounding the word, "unreported" income simply means untaxed income. Granted, if you are supposed to report the income and you fail to do so, that is illegal. However, if you are *not* required to report the income—as is the case for the other 50% of realized capital gains—then this income goes straight into the taxpayer's pocket for either consumption or savings purposes.

When capital gains are taxed at a higher rate than dividends (i.e. payments companies make to shareholders), investors are more likely to choose stocks that pay dividends. As a result, companies may focus more on paying out dividends than on reinvesting in the business.[64] On the other hand, if taxes on capital gains are lower than taxes on dividends, investors will prefer companies that boost their retained earnings, thereby reinvesting in the business (e.g., by paying off debt, or expanding the business via capital expenditures or other investments) instead of paying dividends to investors.

In Canada, a change in the inclusion rate from 50% to 40% would increase GDP between 0.213% to 0.529%, thereby creating between 17,674 and 65,816 jobs.

The Joint Committee on Taxation (JCT),[65] a committee of the U.S. Congress, studied the impact that capital gains tax has on taxpayers' decisions to realize those gains, a concept known as *the realization principle*. Taxpayers were found to have a tendency to defer capital gains in an attempt to allow time to minimize the resulting taxes, contributing to the lock-in effect. The realization principle is the sensitivity (or elasticity) of taxpayers to decreasing

62 Government of Alberta, *Alberta Labour Force Statistics December 2023*, Public Package – December 2023, PDF report, December 2023.

63 Government of Alberta, *Alberta's occupational outlook highlights, 2023-2033*, Jobs, Economy and Trade, PDF report, June 2024.

64 Increasing Retained Earnings which becomes available to the company to reinvest back into the business by paying off debt, making capital expenditures, or other investments to expand the business. See Investopedia, Terms, Retained Earnings, Retained Earnings in Accounting and What They Can Tell You, consulted June 2, 2026.

65 The Joint Committee on Taxation is a nonpartisan committee of the United States Congress, originally established under the Revenue Act of 1926. The Joint Committee operates with an experienced professional staff of Ph.D. economists, attorneys, and accountants, who assist Members of the majority and minority parties in both houses of Congress on tax legislation. See Joint Committee on Taxation, About Us, Overview, consulted June 4, 2026.
Note: the closest organization to JCT in Canada is the Joint Committee on Taxation of the CBA and CPA, which is a collaborative effort involving Chartered Professional Accountants of Canada (CPA Canada) and the Canadian Bar Association (CBA) in which they regular input to the Department of Finance on the technical aspects of new and existing tax legislation.

their capital gains realizations when taxation on capital gain increases. The JCT estimated the realization elasticity for the American taxpayer at –0.70.[66] This simply means that every 10% increase in taxes on capital gains would lead to a 7% decrease in capital gains realization. This relationship can be expressed as follows, where *R* represents the change in capital gains realization and CGT represents the change in the capital gains tax rate:

$$R = -0.70\ CGT \qquad (4.6)$$

While Canada's rules and tax rates differ from those of the United States, we can resolve this difference by expressing the capital gains tax (CGT) as the inclusion rate (IR) multiplied by the realization amount (R) multiplied by the individual's tax rate (T), as follows:

$$CGT = IR \times R \times T \qquad (4.7)$$

Furthermore, CGT can be restated as the actual dollar amount of capital gains tax paid ($CGT) divided by the amount of capital gains realized (R)

$$\$CGT/R = CGT \qquad (4.8)$$

$$\$CGT/R = CGT = IR \times R \times T \qquad (4.9)$$

Dividing both sides by R, we arrive at a CGT similar to the rate in the JCT model.

$$CGT = (IR)(T) \qquad (4.10)$$

This shows that the JCT realization rate model is applicable in the Canadian context and that the realization rate (ΔR) and the capital gains tax rate ΔCGT, are inversely related (negative elasticity). In addition, the inclusion rate is negatively related to the realization rate. It follows that any decrease in the inclusion rate will result in an increase in the realization rate. While the elasticity provided by the JCT is based on the behaviour of an American taxpayer, the important factor here is that the realization elasticity shows a strong inverse relationship between the realization rate and changes in capital gains tax rates.

$$\uparrow \Delta R = -(0.70)\ \Delta CGT \downarrow \qquad (4.11)$$

The elimination of taxes on capital gains could potentially alleviate between 58% and 96.8% of projected job shortages in Alberta.

Higher realization rates lead in turn to more capital freedom, which allows capital to be reinvested into more profitable investments, or to be used to increase taxpayers' disposable incomes. More capital freedom and disposable income results in increased GDP, which reduces unemployment by creating more jobs. The more jobs, the more income taxes are received by the government from employment income, especially if investment is guided toward labour-intensive industries, such as building infrastructure, railways, and pipelines.

66 The Budget Lab, Research, Behavioral Responses: Capital Gains Realizations, consulted June 4, 2026.

Chapter 5

Reclaiming the Alberta Advantage

"Unlike some others, my government will not try to buy prosperity through higher taxes. Instead, it will build on Alberta's existing advantage of low taxes and its free enterprise spirit to develop the most competitive economy in North America."

– Ralph Klein, Speech from the Throne, August 31, 1993.[67]

Ralph Klein's 1993 throne speech did not just outline the fiscal policy of his new government; it articulated the "Alberta Advantage." No mere political slogan, nor just a catch phrase of the day, it captured a philosophy that is still deeply entrenched in Alberta's culture and economic mindset. The Alberta Advantage is about much more than just oil revenues or tax cuts. It is about capital formation, competitiveness, and economic freedom.

Since 1905, Alberta's identity has been shaped by western values of independence, entrepreneurship, and practicality. For many Albertans, economic freedom is not an abstract concept; rather, it is embedded in the very fabric of Albertan society, which cherishes the ideas of self-reliance, private enterprise, and resource development as pathways to prosperity. In this sense, it is as culturally significant to Alberta as language and identity are to Quebec.

During the Klein era, then-Deputy Premier Ken Kowalski described Alberta as having "the lowest income tax in the country of Canada, the only place in Canada without a sales tax, the lowest corporate income tax, the lowest fuel tax, a tremendously beautiful environment with infrastructure built throughout this province."[68] Jack Mintz, former director of the University of Calgary's School of Public Policy, would later describe the Alberta Advantage as "a great life with rising incomes and reasonable public services."[69] These definitions emphasize competitiveness and opportunity, not merely low taxation.

The Alberta Advantage is about much more than just oil revenues or tax cuts. It is about capital formation, competitiveness, and economic freedom.

Alberta's substantial oil and gas revenues have undeniably supported this idea of the Alberta Advantage as, over the years, they would at times account for more than a quarter of total provincial income.[70] This allowed Alberta to fund public services while imposing lower overall tax burdens on both individuals and businesses. Critics have argued that this reliance on resource revenues has led to a boom-and-bust fiscal cycle in which tax cuts and spending increases occur when oil prices are high, only to be followed by deficits and austerity measures when prices return to lower levels.

To conclude, however, that the Alberta Advantage is a mere byproduct of oil booms is to misunderstand the deeper economic logic behind it. While resource wealth may have created fiscal breathing space, the policy choice

67 Legislative Assembly of Alberta, Alberta Hansard, *Tuesday, August 31, 1993, 3:00 p.m.*, Legislative transcript, August 31, 1993, p. 9.

68 Chris Zdeb, "July 2, 1993: Klein and Kowalski form tag-team to sell the 'Alberta Advantage'," *Edmonton Journal*, July 2, 2015.

69 Jack Mintz, "Opinion: Voters should consider who will maintain the Alberta advantage," *Edmonton Journal*, April 28, 2015.

70 Elise von Scheel, "Oil delivers big for Alberta's budget, but what does it say about the road ahead for energy?" *CBC News*, March 2, 2023.

of translating that space into structural tax competitiveness is well rooted in economic theory.

The intellectual foundation for such a policy can be traced to a variety of classical liberal economic thinkers such as Bastiat, Hazlitt, Mises, and Sowell. In *Ce qu'on voit et ce qu'on ne voit pas* (1850), Frédéric Bastiat warned against focusing only on the "seen" effects of government spending and taxation, while ignoring the "unseen" costs, that is, what taxpayers *would have done* with their money had it not been taken away. Similarly, in *Economics in One Lesson* (1946), Henry Hazlitt argued that government taxation and subsequent expenditure do not create wealth, but merely redirect it, for every dollar taxed and spent publicly is a dollar removed from private use, where it might have been saved, invested, used to expand a business, or simply spent.

Investment is essential when considering capital formation.[71] In *Human Action* (1949), Ludwig von Mises emphasized that sustainable industrial progress depends on the accumulation of capital. Heavy taxation reduces the funds available for investment and slows economic development. In *Economic Facts and Fallacies* (2008), Thomas Sowell argues that high taxes and excessive regulation drive capital to other jurisdictions where returns are higher. In other words, in a world of mobile investment, capital does not stay where it is penalized.

These ideas help clarify why it is a mistake to view Alberta's low-tax model as a mere windfall dividend distributed during boom cycles. The idea is rather to create a structural advantage that will attract and retain capital. Lower taxation, particularly on capital gains, increases the return on risk-taking. This encourages entrepreneurs to expand businesses, investors to deploy funds, and innovators to pursue new ventures. The result is higher productivity, more jobs, rising incomes, and a higher quality of life.

International comparisons reinforce this point. Among the jurisdictions with low or no capital gains taxation are several resource-dependent states that include Kuwait, Qatar, Brunei, Oman, Bahrain, and the United Arab Emirates. In these countries, government revenues are heavily supported by non-renewable resources. While the remaining majority of jurisdictions without capital gains taxes are not resource-dependent, many have become hubs for international finance. These include Luxembourg and Switzerland, two countries which do not tax gains on publicly traded shares, whose government revenues come primarily from strong financial sectors and high-income populations rather than from resource rents. In either case, whether resource-driven or finance-driven, policymakers have recognized the importance of maintaining competitive tax treatment of capital in order to attract investment.

> **Heavy taxation reduces the funds available for investment and slows economic development.**

The lesson for Alberta is clear: capital is mobile. Provinces compete for it, not only with one another, but with U.S. states and other jurisdictions around the world. Taxing capital gains makes Alberta less attractive, causing investment to flow elsewhere. Economic growth is not guaranteed by natural resources alone; it also depends on the incentives embedded within fiscal policy.

This perspective also reframes the boom-and-bust critique. Oil prices will continue to influence Alberta's fiscal position, but tax competitiveness influences long-term diversification. When investors evaluate where to locate operations, they consider not only resource access, but also tax stability, regulatory predictability, and after-tax returns. A province that consistently signals a commitment to keeping taxation low and competitive sends a powerful message to global capital markets.

71 Capital formation is the process of increasing a society's stock of real capital—the tools, machinery, infrastructure, technology, and productive assets that help produce goods and services. See Business Case Studies, Home, Business Dictionary, What is Capital Formation, consulted June 4, 2026.

Albertans have seen the Alberta Advantage fade considerably in recent years.[72] Rising fiscal pressures, policy shifts, and economic uncertainty have weakened the province's once-clear competitive identity. The Alberta Advantage has been reduced to expected distributions during temporary windfalls, rather than remaining a coherent economic philosophy.[73]

To reassert the Alberta Advantage, the province needs to once again embrace the principles that defined it: competitive taxation, fiscal prudence, entrepreneurial freedom, and confidence in private enterprise.

Lower taxes should not be viewed as rewards handed out when oil prices are high, like dividends distributed to citizens during prosperous years. They should instead be understood as structural incentives designed to foster reinvestment and long-term growth. Similar to a successful business that reinvests profits to expand operations, a competitive tax jurisdiction promotes capital formation to ensure future prosperity. Wealth must first be created before it can be shared. Creation requires risk, risk requires capital, and capital requires incentives.

To reassert the Alberta Advantage, the province needs to once again embrace the principles that defined it: competitive taxation, fiscal prudence, entrepreneurial freedom, and confidence in private enterprise. Resource revenues will always rise and fall with global markets, but the commitment to creating a favourable environment for investment should remain constant. By eliminating capital gains taxation, Alberta can demonstrate to the rest of Canada that the Alberta Advantage is not just some slogan or catch phrase; it is a blueprint for prosperity.

72 Alberta Primetime, "'That Alberta Advantage has largely disappeared': Wages lag behind other provinces in growth, report shows," *CTV News*, February 3, 2025.

73 Derek Craddock, "What is 'The Alberta Advantage' and can it be restored?" *City News*, November 16, 2019.

Conclusion

This paper presents a comprehensive and compelling case for abolishing capital gains taxation in Alberta, and by extension in the rest of Canada as well. The conclusion is clear: eliminating capital gains taxation would increase capital freedom, stimulate investment, strengthen entrepreneurship, and ultimately reassert the Alberta Advantage. The objective throughout this paper has been not just to criticize the taxation of capital gains, but to provide irrefutable evidence—through economic reasoning, comparative analysis, and statistical estimation—that the abolition of taxation will deliver measurable benefits to the province of Alberta and to Albertans themselves.

The argument rests on simple but powerful premises: capital is mobile, incentives matter, and tax policy shapes economic behaviour. Tax systems influence when assets are sold, where capital flows, and whether entrepreneurs choose to build and expand, or simply to leave. If Alberta seeks to remain competitive in an increasingly mobile and global economy, its fiscal framework must reflect these realities.

The historical rationale for capital gains taxation in Canada was framed in terms of fairness. This paper has argued that taxing capital gains has little to do with fairness, and more to do with political maneuvering and short-term government revenues. Given the complex layers of preferential treatment, exemptions, special rules, and qualifications, it is clear that any sort of fairness measurement is mere fantasy. Bluntly put, the taxation of capital gains distorts capital markets and has negative consequences for all Canadians.

The manipulation of capital loss carry-backs and carry-forwards provides additional illustration, revealing how governments prioritize short-term revenue objectives over long-term growth by restricting which gains can be offset, or by setting different time limits for loss recognition. If businesses cannot reliably deduct losses, they face higher immediate tax liabilities and reduced cash flow. This discourages capital investment and impairs long-term growth prospects.

Around the world, countries acknowledge that they provide preferential treatment for capital gains in order to encourage savings, investment, and entrepreneurship. Countries such as Singapore, Hong Kong, Switzerland, the Bahamas, and the United Arab Emirates have deliberately chosen to minimize or eliminate capital gains taxation as part of broader strategies to attract global capital and entrepreneurial talent.

> **The argument rests on simple but powerful premises: capital is mobile, incentives matter, and tax policy shapes economic behaviour.**

Closer to home, Missouri has recently eliminated its capital gains tax for individuals and is planning to phase out corporate capital gains taxes by 2029. The reasoning behind the state's decision is to attract entrepreneurs and capital investment. They have recognized that capital is not static and that it will flow to jurisdictions with more favourable frameworks.

Lowering the inclusion rate in Alberta from 50% to 0% has been estimated to decrease provincial revenues by $431 million while increasing Albertans' total disposable income by $1.1 billion.. Granted, these numbers are estimated using SPSD/M, a simulation model, but the benefits for Albertans are far from abstract—they represent real increases in purchasing power and investment capacity.

The economic logic is straightforward. Growth is driven by investment. Investment is driven by incentives. Incentives are shaped by tax policy. While Alberta's resource wealth has historically provided fiscal wiggle room, translating that room into structural tax competitiveness is not an accident of fortune—it is a deliberate policy choice.

If Alberta wants to reassert the Alberta Advantage, it must recommit to the principles that originally defined it: competitive taxation, fiscal prudence, entrepreneurial freedom, and confidence in private enterprise. Resource revenues will fluctuate with global markets, but the structural commitment to investment competitiveness must be steadfast.

Eliminating capital gains taxation is not a reckless experiment; it is a calculated strategy to improve growth, attract capital, and strengthen economic resilience.

Eliminating capital gains taxation is not a reckless experiment; it is a calculated strategy to improve growth, attract capital, and strengthen economic resilience. The projected revenue losses are manageable and partially offset by economic expansion. The long-term gains in income, employment, and competitiveness are substantial.

Alberta now faces a pivotal choice. In a world of mobile capital and rising fiscal competition, standing still is not neutrality, but stagnation. Capital will flow to the jurisdictions that reward risk, investment, and entrepreneurship. By eliminating capital gains taxation, Alberta would send a clear message: it is open for investment, committed to growth, and confident in the capacity of its citizens to create prosperity. The Alberta Advantage is not a slogan. It is a philosophy grounded in economic freedom and disciplined governance.

The opportunity is real and the economic logic is sound. The question is not whether Alberta can afford to abolish capital gains taxation; the question is whether it can afford not to.

About the Author

GERARD LUCYSHYN,

Vice President of Research & Senior Economist

Gerard is an economist, author, and lecturer. He has lectured on microeconomics, macroeconomics, globalization, and engineering economics over the last two decades at Mount Royal University in Calgary, Alberta. Gerard has a varied educational background and an even richer life experience, both professionally and personally. He holds college diplomas in Masonry and Paralegal Studies (specializing in litigation and commercial law). He holds a Bachelor of Arts (Hons) in Economics from the University of Winnipeg and a Master of Arts degree in Economics from Carleton University in Ottawa.

Over the last 30 years, Gerard has also worked in business and economic consulting, litigation, public policy research, and academia. He has served in several capacities for various volunteer committees and boards in western Canada.

Gerard has extensive involvement in municipal, provincial, and federal politics within Alberta, and has earned the respect of those he worked with on several constituency associations and electoral districts associations. Gerard has volunteered for several community-based organizations including Prospect Human Services, Boy Scouts Canada, Rotary Club of Chestermere (founding member), and Langdon Chamber of Commerce (founding member).

As an author, Gerard has published numerous papers, commentaries, infographics, and videos regarding various municipal, provincial, economics and policy issues in Canada. Gerard has presented his research at conferences in Alberta, Saskatchewan, Manitoba, Nova Scotia, and Rio De Janeiro. He consults regularly on these topics and provides media interviews. Gerard has been involved in the publication of several books as either a co-author, author, researcher, or publisher.

Montreal Economic Institute
910 Peel Street, Suite 600, Montreal (QC) H3C 2H8 - T 514.273.0969
150 9th Avenue SW, Suite 2010, Calgary (AB) T2P 3H9
170 Laurier Avenue W, Suite 716, Ottawa (ON) K1P 5V5
iedm.org

ISBN 978-2-925043-36-2