

Provincial Insurance Premiums Tax: A Barrier to Investment and Responsible Decisions (2023)

Issue

Provincial insurance premiums taxes are a growing barrier to business growth and put Alberta enterprises at a competitive disadvantage relative to other regions in Canada.

Background

Market research conducted by the Alberta Chambers of Commerce (ACC) network indicates the provincial insurance premiums tax (IPT) is a major barrier to business growth and competitiveness. According to a recent survey from November 2022, 38 per cent of more than 540 respondents cited this tax as a barrier to business growth and competitiveness – more than any other provincial or municipal costs ACC surveyed. Only 3 per cent indicating this tax benefited their growth, signaling it provided the lowest value proposition as a cost for doing business in Alberta.²²⁴

Alberta’s IPT rates were increased by one per cent in each taxable category in 2015, bringing Alberta’s IPT rates at or above the average for taxes levied on insurance consumers across Canada:

Insurance coverage	IPT rates average	Alberta IPT rates
Life, Accident, and Sickness	3.0 %	3 %
Property and Casualty	3.6 %	4 %

Taxing Albertans and businesses for seeking (or providing) the protections afforded through these types of insurance coverage is counterintuitive. According to the C.D. Howe Institute, one percentage point in the provincial IPT rate leads to a 10 per cent decrease in the number of life insurance contracts sold. Reduced insurance coverage for natural disasters [and pandemics such as COVID-19], or relief of the financial burden of illness and disability, may also increase cost pressures on future provincial budgets.²²⁵

IPT rates also have negative implications for the provincial economy and economic growth. The insurance market has recently been going through a correction, resulting in higher premium costs for business. When premiums increase, the cost levied to consumers through IPT also increases, layering compounding the additional costs on Alberta businesses and making them less competitive.

For many years in Canada, insurance premium taxes were collected from insurers as an alternative to taxing their profits. This is no longer the case as all Canadian governments tax the corporate income of insurance companies in addition to premium taxes and other taxes and levies. Additional

²²⁴ Municipal Red Tape and Business Supports (10/2022) <https://www.abchamber.ca/wp-content/uploads/2022/12/ACC-2022-Municipal-Red-Tape-Report-Dec-18-FINAL.pdf>

²²⁵ Piling On – How Provincial Taxation of Insurance Premiums Costs Consumers, 2018, https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary 522.pdf

costs should not be layered onto business for purchasing insurance coverage which benefits workers and the public, nor should government be enriched as a result of premium increases.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Immediately remove the provincial insurance premiums tax on life, accident and sickness insurance;
2. Ensure that Alberta insurance premiums tax rates on property and casualty applicable to Canadian- controlled private corporations does not exceed the lowest tax rates in other Canadian provinces or territories; and
3. Index property and casualty insurance premium tax rates to the rate of premium increases so that increases in premiums do not inflate the burden of tax collected on those premiums.