

Budget Paper C  
**TAX MEASURES**

# TAX MEASURES

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## FISCAL SUMMARY OF TAX MEASURES

A positive amount means an increase in revenue or a decrease in expenditure.

	<u>2017/18</u>	<u>Full Year</u>
	Millions of Dollars	
<b>On-Going Tax Measures</b>		
Personal Income Tax Brackets and Basic Personal Amount – indexation	(23.3)	(34.1) <sup>1</sup>
Manufacturing Investment Tax Credit – extension	(9.7)	(38.8)
Mineral Exploration Tax Credit – extension	(0.5)	(2.0)
Book Publishing Tax Credit – extension	(0.2)	(0.6)
Interactive Digital Media Tax Credit – extension	-	(1.3)
<b>Total Fiscal Impact of On-Going Tax Measures</b>	<u>(33.7)</u>	<u>(76.8)</u>
<b>Personal Tax Measures</b>		
Tuition Fee Income Tax Rebate – phase-out of credit	46.5	58.5
Primary Caregiver Tax Credit – adjustment to criteria	8.6	8.6
Tuition Fee Income Tax Rebate Advance – eliminated	6.4	6.9
Political Contributions Tax Credit – adjustment to amounts	*	(0.2)
	<u>61.5</u>	<u>73.8</u>
<b>Business Tax Measures</b>		
Research and Development Tax Credit – adjustment to rate	9.2	9.2
Manufacturing Investment Tax Credit – adjustment to rate	4.0	4.0
Paid Work Experience Tax Credit – excluding Crowns	2.3	1.8
Corporation Capital Tax – deduction eliminated	0.1	0.1
Co-operative Development Tax Credit – eliminated	*	0.1
Odour Control Tax Credit – eliminated	*	*
Nutrient Management Tax Credit – eliminated	*	*
Riparian Tax Credit – eliminated	*	*
Neighbourhoods Alive! Tax Credit – eliminated	-	-
Data Processing Investment Tax Credits – eliminated	-	-
	<u>15.6</u>	<u>15.2</u>
<b>Total Fiscal Impact of Personal and Business Tax Measures</b>	<u>77.1</u>	<u>89.0</u>

<sup>1</sup> This represents the anticipated full year revenue impact of indexing the personal income tax brackets and the basic personal amount in 2020 as announced in Budget 2016.

\* Estimate is less than \$70,000.

- There has been no or limited uptake of this tax measure.

## INTRODUCTION

Budget 2017 announces a number of personal and business tax measures. The government's ongoing review of provincial tax benefits, deductions, rebates and exemptions, together with pre-budget consultations and input from Manitobans, has informed the measures being implemented in this Budget.

Manitoba's tax credit system is among the most diversified and complex in Canada, and currently accounts for an annual fiscal outlay of approximately \$600 million. This is equal to approximately 15% of total income tax revenue, spread out across more than 30 provincial tax credits. These credits add to Manitobans' compliance costs and increase the administration fees paid by the province to the federal government.

In making these changes, the government is focused on ensuring an affordable and competitive tax environment that increases productivity, and encourages economic growth and job creation. In addition, the changes support the Minister of Finance's mandate to restore the fiscal integrity of the province and move to a balanced budget.

The government remains committed to making Manitoba the most improved province in family tax relief by 2020. The 2016 Manitoba Budget was the first step towards meeting this goal by indexing personal income tax brackets and the Basic Personal Amount. These measures alone remove 2,100 tax payers from the tax rolls in 2017, and save Manitobans an estimated \$21 million. In 2018, an additional 2,600 individuals will be removed from the tax rolls and Manitobans will save an additional \$28 million in that year or \$49 million cumulatively compared to 2016. Savings increase to an estimated \$113 million cumulatively by 2020 and remove a 11,100 individuals from the tax rolls.

Budget 2017 takes difficult but sensible steps to ensure fiscal sustainability with a view to more effectively meeting the needs of Manitobans and businesses. The government will continue to review the provincial tax system going forward.

## ON-GOING TAX MEASURES

### Indexing of Personal Income Tax Brackets and the Basic Personal Amount (BPA)

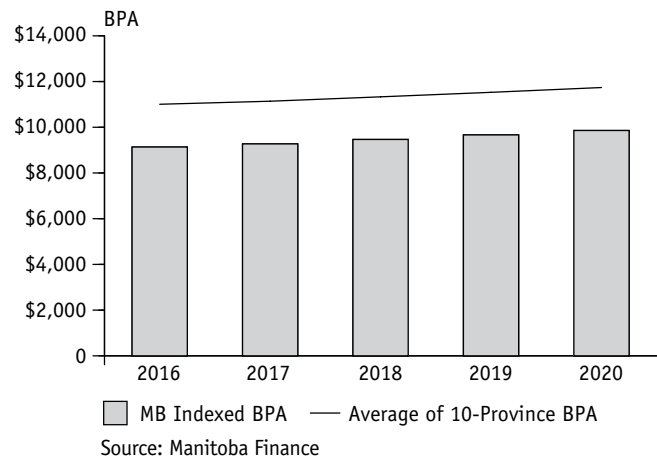
2017/18 revenue impact: -\$23.3 million

As was announced in Budget 2016, Manitoba personal income tax brackets and the BPA are indexed to inflation by the Manitoba Consumer Price Index (CPI).

Tax savings from indexing the brackets are calculated at the applicable tax rates. The tax savings from a higher first bracket is the difference between being taxed at the first rate (10.8%), versus the second rate (12.75%). The tax savings from indexing the second bracket is the difference between being taxed at the second rate (12.75%), versus the top rate (17.4%) on the higher threshold. Over 2,100 Manitobans who would have paid tax at 10.8% will be removed from the tax rolls in 2017.

The following table summarizes the combined individual savings from indexation.

The following chart provides a five-year comparison of the anticipated increase in Manitoba's BPA as a result of indexation against the forecasted provincial average BPA:



	Basic Personal Amount	First Tax Bracket	Second Tax Bracket	Combined Individual Savings
2016 Tax Year	\$9,134	\$31,000	\$67,000	
<i>Indexation Starts</i>				
2017 Tax Year (index factor 1.5%)	\$9,271	\$31,465	\$68,005	
Maximum Savings	\$15	\$9	\$47	\$71
2018 Tax Year (projected index factor 1.8%)	\$9,438	\$32,031	\$69,229	
Cumulative Maximum Savings	\$33	\$20	\$104	\$157
2019 Tax Year (projected index factor 2.0%)	\$9,627	\$32,672	\$70,614	
Cumulative Maximum Savings	\$53	\$33	\$168	\$254
2020 Tax Year (projected index factor 2.0%)	\$9,819	\$33,325	\$72,026	
Cumulative Maximum Savings	\$74	\$45	\$234	\$353

For more information, please contact Location B, page C12.

## Extensions to Existing Tax Credits

2017/18 fiscal impact: -\$10.4 million

In order to provide Manitobans and Manitoba businesses with greater planning certainty, the following tax credits are extended:

- The **Manufacturing Investment Tax Credit**, scheduled to expire on December 31, 2017, is extended to December 31, 2020. This credit supports businesses that purchase qualified plant, machinery and equipment for use in manufacturing or processing in Manitoba.
- The **Mineral Exploration Tax Credit**, scheduled to expire on December 31, 2017, is extended to December 31, 2020. This credit supports Manitobans who invest in flow-through shares of qualifying mineral exploration companies and is equal to 30% of investments in flow-through shares.
- The **Book Publishing Tax Credit**, scheduled to expire on December 31, 2017, is extended to December 31, 2018. This credit supports the development of the book publishing industry in Manitoba by providing a refundable tax credit equal to 40% of eligible Manitoba labour costs.
- The **Interactive Digital Media Tax Credit**, scheduled to expire on December 31, 2019, is extended to December 31, 2022. This credit supports and attracts companies that develop and produce eligible interactive digital media products in Manitoba.

## PERSONAL TAX MEASURES

### Tuition Fee Income Tax Rebate

2017/18 revenue impact: \$46.5 million

The Tuition Fee Income Tax Rebate is being phased out commencing in 2017.

Effective for the 2017 tax year, the annual cap an individual graduate can claim for this rebate is the lesser of Manitoba income tax payable, 10% of eligible tuition fees, or \$500 (reduced from \$2,500). The average claim amount was \$1,100 in 2015.

The rebate is fully eliminated for the 2018 tax year at which time no rebate credits will be claimable. Any unclaimed rebate credits will lapse.

The government is reprofiling the Manitoba Bursary Program to better serve students' needs while in school.

*For more information, please contact Location B, page C12.*

### Tuition Fee Income Tax Rebate Advance

2017/18 expenditure impact: -\$6.4 million

The Tuition Fee Income Tax Rebate Advance is eliminated effective for tuition and ancillary fees paid in relation to a school term that begins after April 2017.

Manitoba students will continue to benefit from the Education Amount and a basic tax credit on eligible tuition and ancillary fees. The federal government and some provinces have eliminated their Education Amount.

*For more information, please contact Location B, page C12.*

### Primary Caregiver Tax Credit

2017/18 revenue impact: \$8.6 million

This credit is a refundable individual income tax credit recognizing the support unpaid caregivers provide in assisting care recipients – including spouses, relatives, neighbours or friends – to stay in their own homes longer. Manitoba is one of only two provinces offering this type of support.

The Primary Caregiver Tax Credit is amended as follows:

- The annual credit claimable by a caregiver is capped at a maximum of \$1,400 in 2017 and future years. The limit of three care recipients is removed but the maximum credit cannot exceed \$1,400. Over 90% of caregivers who benefit from this credit are not impacted by this change.
- Eligibility for this credit now begins in the year that the application is submitted to the assessing authority (i.e., a Regional Health Authority or the Department of Families). Starting this year, retroactive claims for years prior to 2017 are not permitted. However, if an application is submitted in 2017 but the credit is not claimed until 2019, the caregiver may still claim the credit for 2017 and 2018.

*For more information, please contact Location B, page C12.*

## Political Contributions Tax Credit

2017/18 revenue impact: negligible

Effective starting with the 2018 tax year, the Political Contributions Tax Credit is enhanced by increasing the maximum eligible contribution from \$1,275 to \$2,325. This will result in an increase in the total available annual credit from \$650 to \$1,000.

This credit is earned on eligible contributions made to a recognized provincial political party or candidate for election to the Manitoba Legislature. The credit offsets Manitoba personal income tax otherwise payable and is delivered through the income tax system.

*For more information, please contact Location B, page C12.*

	<b>Contribution</b>	<b>Tax Credit</b>	<b>Maximum Credit</b>	<b>Cumulative Credit (and Maximum)</b>
2017 (current)	\$0 to \$400	75.0%	\$300	\$300
	\$401 to \$750	50.0%	\$175	\$475
	\$751 to \$1,275	33.3%	\$175	\$650
Effective 2018	\$0 to \$400	75.0%	\$300	\$300
	\$401 to \$750	50.0%	\$175	\$475
	<b>\$751 to \$2,325</b>	<b>33.3%</b>	<b>\$525</b>	<b>\$1,000</b>



## BUSINESS TAX MEASURES

### Research and Development Tax Credit

2017/18 revenue impact: \$9.2 million

Effective for eligible expenditures made after April 11, 2017, the Research and Development Tax Credit is reduced from 20% to 15%. This will more closely align Manitoba's support with other provinces for qualifying scientific research and development expenditures made by a corporation while maintaining Manitoba's competitive position.

The credit is 100% refundable for research and development performed under contract with a prescribed Manitoba institution, including post-secondary institutions, and 50% refundable otherwise.

This change does not impact eligible expenditures made by corporations before April 12, 2017.

*For more information, please contact Location A, page C12.*

### Paid Work Experience Tax Credit

2017/18 revenue impact: \$2.3 million

Effective starting with the 2017 tax year, Crown corporations and other provincial government entities are no longer eligible for the Paid Work Experience Tax Credit. This does not affect the eligibility of other entities.

*For more information, please contact Location B, page C12.*

### Corporation Capital Tax

2017/18 revenue impact: \$0.1 million

The capital tax deduction is eliminated effective for fiscal years ending after April 30, 2017.

*For more information, please contact Location D, page C12.*

### Manufacturing Investment Tax Credit

2017/18 revenue impact: \$4.0 million

Effective for qualifying property acquired after April 11, 2017, the non-refundable portion of the Manufacturing Investment Tax Credit (MITC) is reduced from 2% to 1%.

This change does not impact the tax credit on qualified property acquired before April 12, 2017.

The 8% refundable MITC is not impacted by this change.

The following table provides an example of the impact of this change on \$1,000 for qualified property.

	<u>Before</u> <u>April 12, 2017</u>	<u>After</u> <u>April 11, 2017</u>
Capital Cost	\$1,000	\$1,000
Manitoba PST (8%)	<u>\$80</u>	<u>\$80</u>
Total Capital Cost	\$1,080	\$1,080
Refundable MITC (8%)	\$(86)	\$(86)
Non-Refundable MITC (down from 2% to 1%)	<u>\$(22)</u>	<u>\$(11)</u>
	\$(108)	\$(97)
<b>Net Capital Cost</b>	<u><u>\$972</u></u>	<u><u>\$983</u></u>

*For more information, please contact Location A, page C12.*

### **Co-operative Development Tax Credit**

2017/18 expenditure impact: negligible

The Co-operative Development Tax Credit is eliminated for contributions made after April 11, 2017.

This does not impact unused credits on eligible contributions previously made by co-operatives and credit unions towards co-operative development in Manitoba, which are available to be carried forward.

*For more information, please contact Location C, page C12.*

### **Odour Control Tax Credit**

2017/18 revenue impact: negligible

The Odour Control Tax Credit is eliminated for expenditures made after April 11, 2017.

This does not impact unused credits on eligible expenditures made by businesses before April 12, 2017 that invested in capital property to control nuisance odours from the use or production of organic waste, which are available to be carried forward.

*For more information, please contact Location B, page C12.*

### **Nutrient Management Tax Credit**

2017/18 revenue impact: negligible

The Nutrient Management Tax Credit is eliminated for expenditures made after April 11, 2017.

This does not impact the carry forward of unused credits for eligible expenditures made before April 12, 2017.

*For more information, please contact Location B, page C12.*

### **Riparian Tax Credit**

2017/18 revenue impact: negligible

The Riparian Tax Credit is eliminated effective immediately.

This does not impact eligibility for unused credits on five-year commitments made before April 12, 2017 by farm operators and livestock producers to protect a strip along a waterway on agricultural land.

*For more information, please contact Location B, page C12.*

### **Neighbourhoods Alive! Tax Credit**

2017/18 revenue impact: nil

The Neighbourhoods Alive! Tax Credit is eliminated effective immediately.

There have been no claimants since the inception of the credit in 2011.

*For more information, please contact Location A, page C12.*

### **Data Processing Investment Tax Credits**

2017/18 revenue impact: nil

The Data Processing Investment Tax Credits are eliminated effective immediately.

This does not impact credits earned but which remain unused and eligible to be carried forward by corporations or partnerships for qualified property purchased or leased before April 12, 2017.

*For more information, please contact Location A, page C12.*

## TECHNICAL AND ADMINISTRATIVE TAX MEASURES

Changes are made to the accounting of tax expenditures, whereby the provincial government department responsible for the policy area will also be assigned the relevant tax expenditures in their appropriation, including:

- Education and Training
  - Education Property Tax Credit
  - School Tax Credit for Homeowners
  - Tuition Fee Income Tax Rebate Advance
- Growth, Enterprise and Trade
  - Interactive Digital Media Tax Credit
- Sport, Culture and Heritage
  - Film and Video Production Tax Credit – Book Publishing Tax Credit
  - Cultural Industries Printing Tax Credit

Technical updates are required for the following programs that were phased out by Canada in the 2016 Federal Budget but for which Manitoba is maintaining its support:

- the Children’s Arts and Cultural Activity Tax Credit;
- the Fitness Tax Credit; and
- the Manitoba Education Amount.

For added certainty, legislation respecting the following credits is amended to ensure they are targeted to Manitoba residents:

- the Seniors’ School Tax Rebate; and
- the Volunteer Firefighter and Search & Rescue Tax Credits.

*For more information, please contact Location B, page C12.*

Corporations with less than \$5,000 in tax payable in a fiscal year that file an annual instalment for Corporation Capital Tax will no longer be required to do so. As a result of this change, any tax owing is to be remitted when filing their annual Corporation Capital Tax Return.

Enforcement and administration measures will be enhanced under *The Tax Administration and Miscellaneous Taxes Act* and *The Retail Sales Tax Act*.

The administration of *The Insurance Corporations Tax Act* will be transferred to Taxation Division as of January 1, 2018. As a result of this change, taxpayers will only be required to pay their taxes when filing their annual return and be able to do so using Taxation Division’s online tax filing system. Further information will be provided later this year prior to the transfer in administration of the tax.

*For more information, please contact Location D, page C12.*

## OTHER FINANCIAL MEASURES


*The Financial Administration Act* is being amended to account for federal changes to the calculation methodology of the Bank of Canada’s foreign exchange rates.

*The Affordable Utility Rate Accountability Act* is repealed for fiscal years after 2016/17.

## INTERPROVINCIAL COMPARISON OF TAX RATES

Figures are pre- and post-2017 provincial budgets. Data as of March 28, 2017.

	CAN		BC		AB		SK		MB	
	2017	Pre	Post	Pre	Post	Pre	Post	Pre	Post	
<b>Personal Income Tax</b>										
Top Marginal Rate (%)	33.00	14.70	14.70	15.00	15.00	15.00	15.00	17.40	17.40	
Basic Personal Amount (\$)	11,474	10,027	10,208	18,451	18,690	15,843	16,065	9,134	9,271	
<b>Health Care Premiums (\$)</b>										
	-	900	900 <sup>1</sup>	1000	1000	-	-	-	-	
<b>Health and Education Tax (%)</b>										
	-	-	-	-	-	-	-	2.15	2.15	
<b>Corporation Income Tax (%)</b>										
Small	10.5	2.5	2.0 <sup>2</sup>	2.0	2.0	2.0	2.0	0.0	0.0	
Large	15.0	11.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	
Manufacturing	-	11.0	11.0	12.0	12.0	10.0	10.0	12.0	12.0	
Small Business Limit (\$'000)	500.0	500.0	500.0	500.0	500.0	500.0	500.0	450.0	450.0	
<b>Capital Tax (%)</b>										
Banks	-	-	-	-	-	3.25	4.00	6.00	6.00	
Small Financial Institutions	-	-	-	-	-	0.70	0.70	-	-	
<b>Sales Tax (%)</b>										
	5.0	7.0	7.0	-	-	5.0	6.0	8.0	8.0	
<b>Gasoline Tax (¢/L)</b>										
	10.0	21.17	21.17 <sup>4</sup>	17.49	19.73 <sup>5</sup>	15.0	15.0	14.0	14.0	
<b>Diesel Fuel Tax (¢/L)</b>										
	4.0	22.67	22.67 <sup>6</sup>	18.35	21.03 <sup>7</sup>	15.0	15.0	14.0	14.0	
<b>Tobacco Tax (¢/cigarette)</b>										
	10.780	23.90	24.70 <sup>8</sup>	25.00	25.00	25.00	27.00	29.50	29.50	
<b>Corporation Income Tax Credits</b>										
Manufacturing (%)	-	-	-	10.0	10.0 <sup>9</sup>	5.0	6.0	10.0	9.0	
Research and Development (%)	35.0	10.0	10.0	10.0	10.0	10.0	10.0	20.0	15.0	
<b>Political Contributions Tax Credit</b>										
Maximum Eligible Contribution (\$)	1,275	1,150	1,150	2,300	2,300	1,275	1,275	1,275	2,325	
Maximum Credit (\$)	650	500	500	1,000	1,000 <sup>10</sup>	650	650	650	1,000	

 Rate increased or tax credit decreased

 Rate decreased or exemption/credit increased

- Not applicable

<sup>1</sup> BC full premium for one adult is \$900; full premium for a couple is \$1,800; and children are exempt.

<sup>2</sup> BC CIT small business rate down from 2.5% to 2.0% effective April 1, 2017.

<sup>3</sup> NB CIT small business rate down from 3.5% to 3.0% effective April 1, 2017.

<sup>4</sup> BC fuel tax rate includes a carbon tax on gasoline of 6.67¢/L.

<sup>5</sup> AB fuel tax rate includes a carbon tax on gasoline of 4.49¢/L in 2017 and another 2.24¢/L in 2018.

<sup>6</sup> BC fuel tax rate includes a carbon tax on diesel of 7.67¢/L.

ON		QC		NB		NS		PE		NL	
Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
13.16	13.16	25.75	25.75	20.30	20.30	21.00	21.00	18.37	16.70	16.80	18.30
10,011	10,171	11,550	11,635	9,758	9,895	8,481	8,481	8,000	8,000	8,802	8,978
900	900	1,625	1,625	-	-	-	-	-	-	-	-
1.95	1.95	4.26	4.26	-	-	-	-	-	-	2.00	2.00
4.5	4.5	8.0	8.0	3.5	3.0 <sup>3</sup>	3.0	3.0	4.5	4.5	3.0	3.0
11.5	11.5	11.9	11.9	14.0	14.0	16.0	16.0	16.0	16.0	15.0	15.0
10.0	10.0	11.9	11.9	12.0	12.0	16.0	16.0	16.0	16.0	15.0	15.0
500.0	500.0	500.0	500.0	500.0	500.0	350.0	350.0	500.0	500.0	500.0	500.0
-	-	-	-	5.00	5.00	4.00	4.00	5.00	5.00	6.00	6.00
8.0	8.0	9.975	9.975	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
14.7	14.7	19.2	19.2	15.5	15.5	15.5	15.5	13.1	13.1	33.0	33.0
14.3	14.3	20.2	20.2	21.5	21.5	15.4	15.4	20.2	20.2	21.5	21.5
15.475	15.475	14.90	14.90	22.26	25.52	27.52	27.52	25.0	25.0	24.50	24.50
-	-	4.0	4.0	-	-	-	-	10.0	10.0	-	-
14.5	11.5	37.5	37.5	15.0	15.0	15.0	15.0	-	-	15.00	15.0
3,026	3,026	200	200	1,075	1,075	1,000	1,000	1,150	1,150	1,150	1,150
1,330	1,330	155	155	500	500	750	750	500	500	500	500

<sup>7</sup> AB fuel tax rate includes a carbon tax on diesel of 3.35¢/L in 2017 and another 2.68¢/L in 2018.

<sup>8</sup> BC tobacco tax will rise to 24.7¢/cigarette effective on October 1, 2017.

<sup>9</sup> The AB Capital Investment Tax Credit (CITC) is a two year non-refundable tax credit (2017 and 2018) for eligible capital expenditures on manufacturing, processing and tourism infrastructure.

<sup>10</sup> AB, this amount can be claimed for each of two different types of receipts (provincial elections, senatorial).

**CONTACTS FOR FURTHER INFORMATION**

<b>A</b>	<b>Finance Research Division Manitoba Finance</b>	Telephone	204-945-3757
		Fax	204-945-5051
		E-mail	feedbackfin@gov.mb.ca
<b>B</b>	<b>Manitoba Tax Assistance Office Manitoba Finance</b>	Telephone	204-948-2115 in Winnipeg
		Toll-free	1-800-782-0771 in Manitoba
		Fax	204-948-2263
		E-mail	tao@gov.mb.ca
<b>C</b>	<b>Manitoba Growth, Enterprise and Trade</b>	Telephone	204-945-8468 in Winnipeg
		Toll-free	1-800-282-8069 in Manitoba
		Fax	204-945-1193
		E-mail	kristine.seier@gov.mb.ca
<b>D</b>	<b>Taxation Division Manitoba Finance</b>	Telephone	204-945-5603 in Winnipeg
		Toll-free	1-800-782-0318 in Manitoba
		Fax	204-945-0896
		E-mail	mbtax@gov.mb.ca