



Budget Paper D

**TAXATION
ADJUSTMENTS**

TAXATION ADJUSTMENTS

Contents

Summary of 2002 Tax Measures	1
Education Support Levy	2
Personal Income Tax.....	2
Non-refundable tax credit amounts	2
Learning Tax Credit.....	2
Manitoba Mineral Exploration Tax Credit	3
Manitoba Equity Tax Credit.....	3
Political Contributions Tax Credit.....	4
Corporation Income Tax	4
Small business threshold	4
Film and Video Production Tax Credit.....	5
Motive Fuel Tax	5
Propane	5
Tobacco Taxes	6
Retail Sales Tax.....	6
Farm manure slurry tanks and lagoon liners	6
Mechanical and electrical contracts	6
Feminine hygiene products	6
Technical and Administrative Measures	7
Further Information	8
2002 Interprovincial Comparison of Personal Income Taxes.....	9
Manitoba Income Tax Savings for Typical Taxpayers	10
Manitoba Income Taxes Since 1997	11
Personal Tax Savings Since 1999	11
2002 Interprovincial Comparison of Tax Rates.....	12

Summary of 2002 Tax Measures

	2002/03	Full Year
	(Millions of Dollars)	
Personal Tax Measures		
Personal Income Tax adjustment	(15.3)	(15.3)
Learning Tax Credit rescinded ^(A)	10.8	10.8
Education Support Levy reduction ^(B)	(10.0)	(10.0)
RST exemption for feminine hygiene products introduced	(0.8)	(0.9)
Mineral Exploration Tax Credit introduced	(0.5)	(0.5)
Equity Tax Credit extended	(0.3)	(0.3)
Political Contributions Tax Credit compatibility ^{(A)(C)}	– ^(D)	(0.1)
Total Personal Tax Measures	(16.1)	(16.3)
Business Tax Measures		
Propane tax rates blended	0.4	0.5
Threshold increase for small business rate	0.0	(0.5)
Film and Video Production Tax Credit amendments	– ^(D)	– ^(D)
Total Business Tax Measures	0.4	0.0
Health and Green Measures		
Tobacco Tax rate increase	41.0	45.0
RST exemption for lagoon liners, slurry tanks extended	(0.6)	(0.8)
Total Health and Green Measures	40.4	44.2
Technical and Administrative Measures		
RST treatment of mechanical and electrical contracts	7.5	10.6
Miscellaneous measures	2.9	3.9
Total Technical and Administrative Measures	10.4	14.5
Net Change 2002 Budget	35.1	42.4
Ongoing Tax Reductions ^(E)		
Personal tax reductions	(45.7)	(59.2)
Business tax reductions	(22.7)	(54.6)
Net Change 2002/03 and Subsequent Years	(33.3)	(71.4)

(A) The Learning Tax Credit and Political Contributions Tax Credit are accounted for as expenditure programs.

(B) ESL revenues are not included in the Consolidated Revenue Fund.

(C) The “Full Year” cost shown is the estimated cost in an election year. The cost is minimal in a non-election year.

(D) Minimal cost.

(E) Ongoing tax reductions are those that were announced in previous Budgets to take effect in 2002 or 2003. These are: (a) increase the threshold between the middle and top Personal Income Tax (PIT) brackets from \$61,089 to \$65,000 on January 1, 2002; (b) reduce the middle bracket PIT rate from 16.2% to 15.4% on January 1, 2002; (c) reduce the middle bracket PIT rate to 14.9% on January 1, 2003; (d) increase the Corporation Income Tax (CIT) small business threshold from \$200,000 to \$300,000 on January 1, 2002; (e) reduce the small business CIT rate from 6% to 5% on January 1, 2002; and (f) decrease the general CIT rate from 17% to 15% by 0.5% decrements, commencing January 1, 2002 and ending January 1, 2005.

■ Education Support Levy

(2002/03 collections impact: -\$10.0 million)

The Education Support Levy (ESL) is a province-wide property tax. Revenue from this tax is not recorded in the Consolidated Revenue Fund; rather, it flows through to local school divisions.

For 2002 property tax statements, the residential mill rate will fall 16.2% from 7.92 to 6.64, while the commercial mill rate will fall 8.6% from 18.06 to 16.50 to help offset the impact of the 2002 re-assessment. (For technical reasons, the new rates may be slightly different in the City of Winnipeg.) The total amount of residential ESL collected will fall from \$98 million to \$88 million.

This \$10 million in ESL savings is on top of the \$53 million in annual savings delivered to Manitobans in the last two Budgets through increases in the Education Property Tax Credit. The basic annual Credit is now \$400, with higher amounts available to seniors and lower-income taxpayers.

■ Personal Income Tax

Non-refundable tax credit amounts

(2002/03 revenue impact: -\$15.3 million)

Personal non-refundable tax credit amounts are increased by 3.0% for 2002. This will save Manitobans \$15.3 million in Personal Income Tax annually, and remove 5,400 lower-income Manitobans from the tax rolls. Manitoba's average inflation rate for 2001 was 2.6%.

Learning Tax Credit

(2002/03 expenditure impact: -\$10.8 million)

Manitoba is the only province that has been providing two Personal Income Tax credits for post-secondary education: the non-refundable education credit (provided by all provinces and the federal government), and the Learning Tax Credit (LTC). In 2001, both Manitoba and the federal government significantly increased the value of the non-refundable credits. The value of the combined credits rose from \$1,150 to \$1,668 for a person with tuition costs of \$3,000 and eight months of attendance at an eligible institution – an increase of 45%. This has reduced the need for a second credit such as the LTC.

As well, student organizations have repeatedly called for the elimination of the Learning Tax Credit. In its pre-Budget presentation to the Minister of Finance in January, the Manitoba branch of the Canadian Federation of Students called for a continuation of the 10% tuition fee cut, and suggested that monies from the LTC could be re-allocated to help keep tuition costs down. "This tax credit is a back-end form of financial aid and has not helped to increase access to education, whereas the tuition fee reduction and freeze have been linked to significant enrolment increases."

Accordingly, this Budget eliminates the LTC, and continues the 10% tuition fee cut. Support to post-secondary education is further enhanced through increased operating grants to universities and colleges, the College Expansion Initiative, and additional dollars for bursary programs.

Manitoba Mineral Exploration Tax Credit

(2002/03 revenue impact: -\$0.5 million)

In order to encourage and promote exploration and development of mineral deposits in the province, the Manitoba Mineral Exploration Tax Credit (MMETC) is introduced. The Credit builds upon existing provincial incentives under the Mineral Exploration Assistance Program. MMETC will more effectively target provincial funding toward junior exploration companies in Manitoba.

The MMETC is a non-refundable 10% personal income tax credit for resident investors in eligible flow-through shares of qualifying mineral exploration companies. Earned Credits will be applied against Manitoba income tax payable. There is no cap on the maximum eligible investment by an individual investor, and no limit on the maximum amount of the Tax Credit.

MMETC will parallel and top up the 15% federal exploration tax credit, providing individual investors with a combined tax credit rate of 25%. Eligible investments and qualifying exploration activity will be tied to federal eligibility, except that substantially all of the exploration activity must be undertaken in Manitoba, and an eligible investor must be a resident of Manitoba.

The Mineral Policy and Business Development Unit, Manitoba Industry, Trade and Mines, will approve qualifying corporations and flow-through shares.

This initiative is designed to support exploration for new mineral deposits in Manitoba, leading to further development of mining activities and job creation in rural and northern regions of Manitoba.

Manitoba Equity Tax Credit

(2002/03 revenue impact: -\$0.3 million)

The Manitoba Equity Tax Credit was introduced in the 1999 Budget to assist the development of capital markets in Manitoba and to encourage Manitobans to invest in Manitoba companies. It was scheduled to expire at the end of June 2005. Since the Credit is earned over a 36-month period, no new issues would have qualified for the Tax Credit after June 2002. This Budget extends the eligibility period for three years to June 2008.

An eligible corporation must not have assets in excess of \$50 million, have no more than 500 employees, have at least 25% of its employees located in Manitoba, and pay at least 25% of its wages and salaries to Manitoba residents. All eligible securities must be listed on the Winnipeg Stock Exchange. The maximum issuance permitted by an individual corporation is \$5 million in qualifying common shares. The total value of all shares issued by eligible corporations in a given year cannot exceed \$20 million.

The Credit for a given taxation year is calculated at 5% of the base price of an eligible investment, up to a maximum Credit of \$1,500. The Equity Tax Credit may be claimed for up to 36 months where the share is retained for the full period. The effective rate of the Credit is 15% if the share is held for the maximum allowable period. If a share is not held for a complete 12-month period, the amount of the Credit is prorated on a daily basis.

Political Contributions Tax Credit

(2002/03 expenditure impact: minimal)

For eligible political contributions made in 2002 and subsequent years, an individual may claim a Tax Credit equal to 75% of the first \$200, an increase from \$100. Contributions above \$200 and up to \$550 continue to be eligible for a 50% Credit, and contributions above \$550 continue to be eligible for a 33.33% Credit. The Manitoba Credit is now comparable to the federal Credit.

In an election year, this measure will increase expenditure by approximately \$85,000 to \$95,000. This is more than offset by the savings from the 2001 legislation banning political contributions by corporations and trade unions. In the 1999 election year, corporations claimed Political Contributions Tax Credits of \$116,735.

■ Corporation Income Tax

Small business threshold

(2002/03 revenue impact: nil)

Canadian-controlled private corporations that qualify for the federal small business deduction pay a lower rate of Manitoba Corporation Income Tax. For many years, up to and including 2001, the lower rate applied on the first \$200,000 of active business income (which was and remains the federal threshold). The 2001 Budget increased this threshold to \$300,000 effective January 1, 2002.

This Budget increases Manitoba's small business threshold to \$400,000 in three steps: \$320,000 on January 1, 2003; \$360,000 on January 1, 2004; and \$400,000 on January 1, 2005. When fully implemented, this measure will save smaller Manitoba firms \$500,000 annually.

As of January 1, 2002, the small business Corporation Income Tax rate is 5%, and the general Corporation Income Tax rate is 16.5%. The general rate will continue to fall by 0.5% each January 1 until it reaches 15% in 2005.

REDUCTIONS IN CORPORATION INCOME TAX RATES SINCE 1999

	1999	2002	2005
Taxable Income			
Up to \$200,000	8%	5%	5%
\$200,000 to \$300,000	17%	5%	5%
\$300,000 to \$400,000	17%	16.5%	5%
Over \$400,000	17%	16.5%	15%

Film and Video Production Tax Credit

(2002/03 revenue impact: minimal)

The Manitoba Film and Video Production Tax Credit, introduced in the 1997 Budget and extended in the 1999 and 2001 Budgets, will be broadened to include equivalent New Media productions that parallel the traditional film and video formats. The changes recognize the uniqueness of the New Media industry while also ensuring continued support for the growing provincial film industry.

The Tax Credit has been equal to the lesser of 35% of eligible salaries paid to Manitoba residents, or 22.5% of total production costs. The production cost cap of 22.5% will now be eliminated. Instead, a qualifying corporation applying for the Tax Credit will have two options: (a) to have the Tax Credit calculated using 35% of eligible salaries paid to Manitoba residents, as is currently the case, or (b) to make an irrevocable election to calculate the Tax Credit as 10% of production costs incurred in Manitoba.

In addition, new enforcement measures and set-off provisions will be introduced to ensure that any overpayment of the Tax Credit can be recovered.

Since its introduction in 1997, Tax Credits totalling \$8.5 million have been paid to 62 productions in Manitoba.

■ Motive Fuel Tax

(2002/03 revenue impact: \$0.4 million)

Propane

The three existing propane tax rates (5.7¢ per litre for vehicles, 1.6¢ for commercial heating and 2.15¢ for barbecue tanks) will be blended into a common tax rate of 3.0¢ per litre, effective July 1, 2002.

Manitoba is the only province with more than one tax rate on propane. The blended rate facilitates tax reporting and reduces the administrative burden for business. The reduced rate on vehicle propane will encourage the use of a fuel that is more environmentally friendly.

■ Tobacco Taxes

(2002/03 revenue impact: \$41.0 million)

For both health and revenue reasons, the Tobacco Tax rate is increased effective midnight, April 22, 2002 as follows:

	<u>TO</u>	<u>FROM</u>
Cigarettes (each)	14.5¢	9.6¢
Fine cut (per gram)	13.2¢	8.3¢
Raw leaf (per gram)	11.9¢	7.0¢

■ Retail Sales Tax

Farm manure slurry tanks and lagoon liners

(2002/03 revenue impact: -\$0.6 million)

To promote environmentally safe handling of animal waste on farms, this Budget extends to June 30, 2003 the exemption for manure slurry tanks and lagoon liners for use in farm livestock operations.

Mechanical and electrical contracts

(2002/03 revenue impact: \$7.5 million)

The administration of Retail Sales Tax for mechanical and electrical contractors will be simplified by consistently applying the tax to the labour component of all contracts.

Feminine hygiene products

(2002/03 revenue impact: -\$0.8 million)

Effective May 1, 2002, feminine hygiene products will be exempted from Retail Sales Tax.

■ Technical and Administrative Measures

(2002/03 revenue impact: \$2.9 million)

Amendments to the various taxation statutes will be made as part of *The Budget Implementation and Tax Statutes Amendment Act, 2002*. These amendments include:

- reducing the tax administration burden for small businesses by raising thresholds for reduced filing frequencies, and providing quarterly and annual filing options;
- levelling the playing field for Manitoba businesses by requiring non-resident vendors to collect Retail Sales Tax on goods delivered into Manitoba;
- increasing the interest rate on arrears under all provincially administered tax statutes to encourage the timely payment of taxes due;
- enhancing collection measures under various statutes;
- calculating Retail Sales Tax on the taxable use of demonstrator vehicles using current vehicle values;
- eliminating commissions paid to large businesses; and
- establishing a processing fee on vehicle Retail Sales Tax refunds.

■ Further Information

For further information, view Tax Bulletin #102 at the Manitoba Finance web site: www.gov.mb.ca/finance/taxation. Or contact the appropriate office as listed below.

Non-Refundable Tax Credit Amounts, Political Contributions Tax Credit:

Manitoba Tax Assistance Office

Manitoba Finance

Telephone: (204) 948-2115 in Winnipeg

Toll-free: 1-800-782-0771

Facsimile: (204) 948-2263

E-mail: TAO@gov.mb.ca

Education Support Levy:

Schools Finance Branch

Education, Training and Youth

Telephone: (204) 945-6910

Facsimile: (204) 948-2000

E-mail: mbedu@merlin.mb.ca

Corporation Income Tax:

*Federal-Provincial Relations
and Research Division*

Manitoba Finance

Telephone: (204) 945-3757

Facsimile: (204) 945-5051

E-mail: fedprov@gov.mb.ca

Retail Sales Tax, Motive Fuel Tax, Tobacco Tax and Technical Administrative Measures:

Taxation Division

Manitoba Finance

Telephone: (204) 945-5603 in Winnipeg

(204) 726-6153 in Brandon

Toll free: 1-800-782-0318 (Winnipeg)

1-800-275-9290 (Western Region)

Facsimile: (204) 945-0896

E-mail: MBTax@gov.mb.ca

Manitoba Film and Video Production Tax Credit:

Manitoba Film and Sound Recording

Development Corporation

Telephone: (204) 947-2040

Facsimile: (204) 956-5261

E-mail: explore@mbfilmsound.mb.ca

Equity Tax Credit:

Financial Services Branch

Manitoba Industry, Trade and Mines

Telephone: (204) 945-7343

Facsimile: (204) 945-1193

E-mail: kbenton@gov.mb.ca

Manitoba Mineral Exploration Tax Credit:

Minerals Policy and

Business Development Unit

Manitoba Industry, Trade and Mines

Telephone: (204) 945-6564

Facsimile: (204) 945-8427

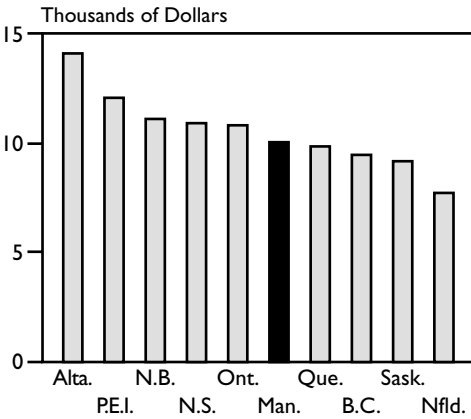
E-mail: minesinfo@gov.mb.ca

2002 Interprovincial Comparison of Personal Income Taxes

The Manitoba Advantage includes a table showing taxes and other costs for typical families in each province. Another useful comparison of provincial tax systems is the income level at which provincial income tax becomes payable. The “No Children” chart shows that Manitoba has the sixth-best ranking for a single person with no dependents. The “Two Children” chart shows that Manitoba has the fourth-best ranking for a one-income family of four. The “Seniors” chart shows that Manitoba has the second-best ranking for a single senior.

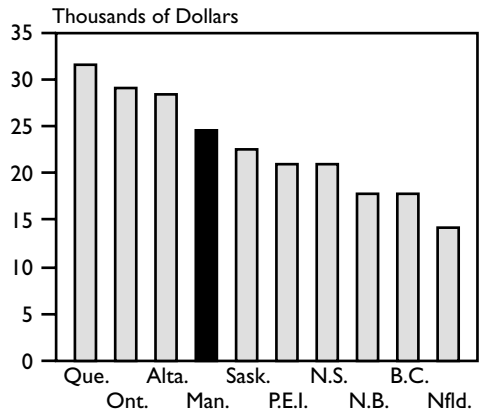
Another useful comparison is the top marginal tax rate, or the highest tax rate charged by each province. In 2001, Manitoba ranks fourth-best.

Tax-Free Income – No Children, 2002



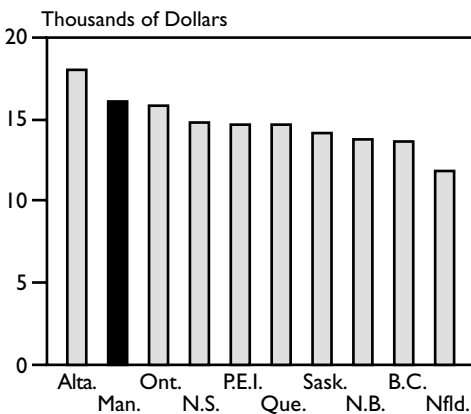
Source: Manitoba Finance

Tax-Free Income – Two Children, 2002



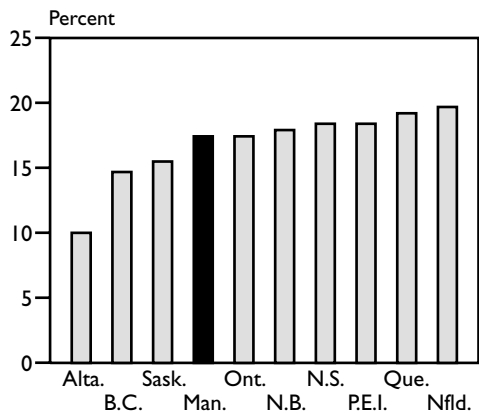
Source: Manitoba Finance

Tax-Free Income – Seniors, 2002



Source: Manitoba Finance

Top Marginal Tax Rate, 2002



Source: Manitoba Finance

Manitoba Income Tax Savings for Typical Taxpayers

Income	Tax in 1999	Tax Savings since 1999			4-Year Total	2003 Savings over 1999
		In 2001	In 2002	In 2003		
		(Dollars)				(Percentage)
SINGLE PERSON						
10,000	178	88	115	116	345	65.2
20,000	1,369	148	179	181	575	13.2
40,000	4,012	218	335	388	1,073	9.7
70,000	9,153	391	755	933	2,334	10.2
100,000	14,572	591	955	1,133	3,064	7.8
SENIOR COUPLE*						
30,000	438	185	221	221	675	50.5
40,000	1,634	397	469	469	1,451	28.7
60,000	4,480	500	621	643	1,949	14.4
80,000	7,855	448	698	792	2,206	10.1
FAMILY OF FOUR - ONE EARNER						
25,000	591	322	375	378	1,151	64.0
40,000	2,891	432	570	623	1,778	21.5
60,000	6,625	726	1,024	1,177	3,158	17.8
75,000	9,435	789	1,174	1,352	3,611	14.3
100,000	13,951	705	1,090	1,268	3,468	9.1
FAMILY OF FOUR - TWO EARNERS						
30,000	691	294	324	326	1,026	47.2
40,000	1,453	359	417	420	1,299	28.9
60,000	4,107	542	654	689	2,059	16.8
80,000	7,169	691	907	1,004	2,847	14.0
100,000	10,188	677	1,017	1,189	3,201	11.7

Increased Education Property Tax Credits are not included in the above examples.

* In previous Budgets, it was assumed that the lower-income spouse in a senior couple only received the Old Age Security Pension. To reflect the increasing prevalence of two-income families, in this table it is assumed that both spouses receive Canada Pension Plan, private pension income and the OAS Pension, with the principal taxfiler receiving 60% of the total private pension amount and the other taxfiler receiving 40% of the total private pension amount.

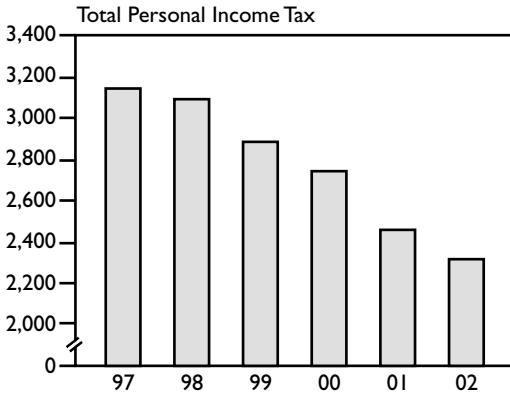
In these tables, it is assumed that single and married taxfilers have earned income and pay Canada Pension Plan and Employment Insurance premiums. In the two-earner couples, it is assumed one earner earns 60% of the income while the other earner earns 40%.

Totals may not add due to rounding.

Manitoba Income Taxes Since 1997

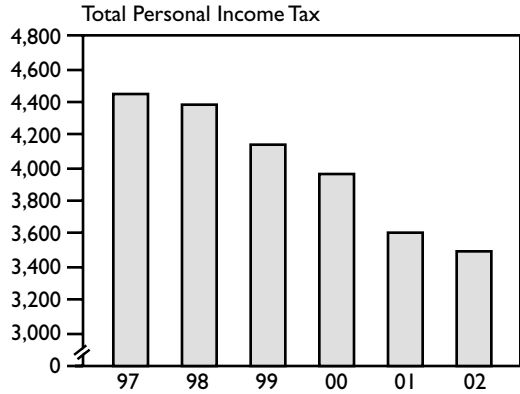
Manitobans have seen their provincial Personal Income Tax fall for five consecutive years.

One-Earner Family of Four at \$40,000



Source: Manitoba Finance

Two-Earner Family of Four at \$60,000



Source: Manitoba Finance

Personal Tax Savings Since 1999

Personal Income Taxes, Education Property Tax Credits, Education Support Levy

	Implemented in:				Cumulative Annual Total
	2000	2001	2002	2003	
	(Millions of Dollars)				(Millions of Dollars)
Income Tax Reductions:					
2000 Budget	9	68	34		111
2001 Budget		29	7	18	54
2002 Budget			15		15
Total					181
EPTC Increases; ESL Decrease					
2000 Budget	26				26
2001 Budget		27			27
2002 Budget			10		10
Total					63
Annual Totals	35	124	67	18	
Cumulative Annual Totals	35	159	226	244	244

Totals may not add due to rounding.

2002 Interprovincial Comparison of Tax Rates

	<u>B.C.</u>	<u>Alta.</u>	<u>Sask.</u>	<u>Man.</u>	<u>Ont.*</u>
Personal Income Tax					
Top Marginal Rate (%) ^(A)	14.70	10.00	15.50	17.40	17.41
Health Care Premiums (\$)	1,296	1,056	–	–	–
Corporation Income Tax (%) ^(B)					
Small Rate	4.50	4.63	6.00	5.00	6.00
Large Rate	13.50	13.13	17.00	16.50	12.50
Capital Tax (%) ^(C)					
Banks	1.00	–	3.25	3.00	0.90
Employer Payroll Tax (%)					
Small Firms ^(D)	–	–	–	–	–
Sales Tax (%) ^(E)	7.50	–	6.00	7.00	8.00
Diesel Fuel Tax (¢/l) ^(F)	11.50	9.00	15.00	10.90	14.30
Gasoline Tax (¢/l) ^(F)	11.00	9.00	15.00	11.50	14.70
Tobacco Tax (¢/cigarette) ^(G)	15.00	16.00	16.00	14.50	4.45

* Ont. has not yet presented a Budget for 2002.

- (A) Top marginal provincial rates on taxable income include surtaxes paid by taxpayers in the highest bracket. For more detailed interprovincial comparisons of personal income taxes, see the Manitoba Advantage.
- (B) Some provinces apply special rates to certain types of business income. Que. applies a 1.6% Youth Fund surtax on their corporation income tax rate of 8.9%. Alta.'s small business rate was reduced from 5.0% to 4.5% and its general rate was reduced from 13.5% to 13.0% effective April 1, 2002. N.B.'s small business rate will be reduced from 4.0% to 3.5% and its general rate will be reduced from 16.0% to 14.5% effective July 1, 2002.
- (C) Man. has a \$5 million exemption and imposes a 0.2% surtax on taxable paid-up capital in excess of \$10 million. Sask. applies a 3.6% surcharge on specified resource sales of large corporations. Banks and trust companies in B.C. with paid-up capital in excess of \$1 billion and without a head office in B.C. pay at a rate of 3.0%.
- (D) Firms with payroll of \$500,000 or less in Nfld., \$400,000 or less in Ont., \$1 million or less in Man.
- (E) Retail Sales Tax refers to general rate only. Que. and P.E.I. apply the sales tax on top of GST-inclusive prices. Sales taxes in N.B., N.S., and Nfld. are harmonized with the federal GST.
- (F) Petroleum taxes are for regular gasoline and highway diesel fuel. Gasoline and diesel fuel are subject to a transit levy of **6 cents** per litre in Vancouver and **1.5 cents** per litre in Victoria and Montréal.
- (G) Provinces, except B.C., Alta. and P.E.I., also apply sales taxes to tobacco products. In addition, QST applies in Que. and HST applies in N.B., N.S., Nfld.

<u>Que.</u>	<u>N.B.</u>	<u>N.S.</u>	<u>P.E.I</u>	<u>Nfld.</u>	
					Personal Income Tax
19.22	17.84	18.34	18.37	19.64	Top Marginal Rate (%) ^(A)
-	-	-	-	-	Health Care Premiums (\$)
					Corporation Income Tax (%) ^(B)
9.04	3.75	5.00	7.50	5.00	Small Rate
9.04	15.25	16.00	16.00	14.00	Large Rate
0.64	0.30	0.25	-	-	Capital Tax (%) ^(C)
1.55	3.00	3.00	3.00	4.00	Banks
4.26	-	-	-	2.00	Employer Payroll Tax (%)
2.70	-	-	-	-	Small Firms ^(D)
7.50	8.00	8.00	10.00	8.00	Sales Tax (%) ^(E)
16.20	15.40	15.40	13.50	16.50	Diesel Fuel Tax (¢/l) ^(F)
15.20	13.00	15.50	14.00	16.50	Gasoline Tax (¢/l) ^(F)
6.55	7.25	10.52	11.45	13.50	Tobacco Tax (¢/cigarette) ^(G)