

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>2018/19</u>	<u>Full Year</u>
	Millions of Dollars	
Carbon Tax	143.0	248.0
Personal Tax Measures		
Basic Personal Amount– <i>increased</i>	-19.0	-156.0
Primary Caregiver Tax Credit– <i>red tape reduction</i>	-0.2	-0.2
Education Property Tax Credit– <i>red tape reduction</i>	-0.1	-0.1
Tobacco tax– <i>aligned</i>	7.0	7.0
	<u>-12.3</u>	<u>-149.3</u>
Business Tax Measures		
Small Business Deduction– <i>increased</i>	-1.8	-7.0
Child Care Centre Development Tax Credit– <i>introduced</i>	-0.4	-0.4
Small Business Venture Capital Tax Credit– <i>enhanced</i>	-0.2	-0.2
Credit Unions and Caisses Populaires Profits Tax– <i>eliminated</i>	-0.3	-1.0
Retail Sales Tax– <i>exemptions</i>	-1.4	-1.5
Credit Unions Special Deduction– <i>phased elimination</i>	0.8	15.0
Rental Housing Construction Tax Credit– <i>eliminated</i>	0.0	3.1
Labour-Sponsored Funds Tax Credit– <i>eliminated</i>	0.1	0.1
	<u>-3.2</u>	<u>8.1</u>
Tax Credit Extensions		
Manitoba Book Publishing Tax Credit– <i>extended</i>	-0.2	-0.6
Cultural Industries Printing Tax Credit– <i>extended</i>	-0.2	-0.8
	<u>-0.4</u>	<u>-1.4</u>
On-going Tax Measures		
Personal income tax brackets– <i>indexation</i>	-9.4	-10.1
Total Fiscal Impact	<u>117.7</u>	<u>95.3</u>

INTRODUCTION

Budget 2018 announces personal and business tax measures that continue the government's efforts toward making Manitoba the most improved province in Canada on tax relief by 2020.

As government focuses on addressing our fiscal challenges through this Budget and in the years ahead, we have continued to listen to Manitobans so that their priorities and suggestions inform government direction. Budget 2018 is informed first and foremost by pre-budget consultations that engaged close to 35,000 Manitobans. This is almost double the number of citizens that participated in the most extensive pre-budget consultation Manitobans had ever seen in preparation for Budget 2017, which had included over 18,000 interactions with Manitobans. Consultations included an online survey, community engagement and three telephone town halls. In addition, hundreds of Manitobans wrote the Minister of Finance to offer their input and highlight their priorities for Budget 2018.

The tax measures announced in this Budget will continue to grow our economy, creating jobs and encouraging new investment, and will also serve to more efficiently provide the benefits and services that Manitobans expect and deserve.

These measures also support the Minister of Finance's mandate to restore the fiscal integrity of the province and move to a balanced budget.

CARBON TAX

2018/19 revenue impact: +\$143.0 million

Manitoba's carbon tax will impose a \$25 tax per tonne of greenhouse gas emissions beginning on September 1, 2018 and will apply to gas, liquid, and solid fuel products intended for combustion (referred to as fuels) in Manitoba. The carbon tax is estimated to generate \$248 million in government revenue during the first twelve months.

Households and businesses will be impacted by the carbon tax in different ways, proportional to their use of carbon-emitting fuels. The majority of the costs incurred by the tax come from space heating and transportation fuels. Figure 1 illustrates the increased costs for the main types of fuel consumed in Manitoba, with the full list of fuels to be outlined in legislation.

The existing International Fuel Tax Agreement (IFTA) rules for commercial transportation and trucking that prorate fuel-use charges to a jurisdiction will also apply to the carbon tax in Manitoba.

Certain fuel uses will not be subject to the carbon tax. Exemptions are provided to protect Manitoba sectors and industries that are trade-exposed to jurisdictions which do not have a comparable carbon price, to protect Manitoba's agricultural sector, and to only apply the carbon tax on emissions occurring in Manitoba. In addition to these fossil fuel exemptions, other emissions, including from agricultural processes, as well as from landfills and other sources, will also be exempted. An overview of the main exemptions is outlined below.

Agricultural process emissions: All agricultural process-related emissions are exempted from the carbon tax (e.g., emissions from soil and animals).

Marked fuels: All marked fuels, including marked gasoline and marked diesel, will be exempted from the carbon tax. It's estimated that 90 per cent of marked fuels in Manitoba are consumed in the agricultural sector, with the remainder consumed by the fishing, forestry, mining and other sectors. Exempting all eligible marked fuel uses from the tax will ease the compliance requirement on fuel providers and users.

Output-Based Pricing System (OBPS) Entities: Until 2019, all entities that are to be included by the government in the OBPS will receive an exemption or a refund from the carbon tax on all their emissions from fuels consumed on-site and process emissions. The OBPS will apply to entities emitting at least 50,000 tonnes of CO₂eq per year with smaller emitters able to opt-in upon review and approval by the government.

The carbon tax on transportation fuels will be collected and remitted to the province through the existing fuel tax system. The carbon tax on natural gas will be collected by Manitoba Hydro. Carbon levies on other carbon-intensive fuels will be required to be collected and remitted by the purchaser to the province.

Additional administrative guidance will be made available on the collection of the carbon tax.

The estimated full-year revenue impact in 2020 is +\$248.0 million.

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

Figure 1. Carbon Tax Rates by Select Fuel Type (2018–2022)

<u>Fuel Type</u>	<u>Carbon Tax Rate Per Unit</u>
Gasoline	5.32 ¢/L
Diesel	6.71 ¢/L
Natural Gas	4.74 ¢/m ³
Propane	3.87 ¢/L

PERSONAL TAX MEASURES

Basic Personal Amount

2018/19 revenue impact: -\$19.0 million

Budget 2018 announces the largest ever enhancement to the Basic Personal Amount (BPA) over the coming two years. Effective for the 2019 tax year, the BPA will be increased from \$9,382 to \$10,392, equal to \$109 tax savings for an individual. Effective for the 2020 tax year, the BPA will be increased from \$10,392 to \$11,402, equal to another \$109 tax savings for an individual. This increases the BPA by a combined \$2,020 by 2020.

This measure will remove over 31,000 taxpayers from the tax rolls and save Manitobans over \$77 million in 2019 and an additional \$78 million in 2020.

The \$2,020 by 2020 plan advances the savings of indexation to Manitobans. By having the benefit of this higher BPA in 2020, Manitobans will save an estimated \$675 million between 2018 and 2028.

The BPA is one of the non-refundable tax credits every Manitoba resident is entitled to claim on their income tax return. Budget 2016 announced indexing of the BPA and personal income tax brackets starting in 2017. Indexing of the BPA removed an estimated 2,170 Manitobans from the tax rolls and saved Manitobans \$10 million in 2017. Indexing the BPA in 2018 will remove another 1,730 Manitobans off the tax rolls and will have saved Manitobans a cumulative \$18 million over two years.

The estimated full-year revenue impact in 2020 is -\$156.0 million.

Figure 2. Cumulative Impacts of Increases to the BPA

<u>Year</u>	<u>BPA</u>	<u>Individual Taxpayer Savings¹</u>	<u>Incremental Taxpayer Savings²</u>	<u>Taxes Saved by Manitobans</u>	<u>Individuals no Longer Paying Tax</u>
2017	\$9,271	\$1,001	\$15	\$10 million	2,170
2018	\$9,382	\$1,013	\$27	\$18 million	3,900
2019	\$10,392	\$1,122	\$136	\$95 million	19,700
2020	\$11,402	\$1,231	\$245	\$173 million	35,500

¹ Savings calculated as the value of the BPA times the lowest personal income tax rate of 10.8%.

² Savings for an individual resulting from the increase to the higher BPA alone.

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

Primary Caregiver Tax Credit

2018/19 and full-year revenue impact: -\$0.2 million

Effective immediately, the process for claiming the Primary Caregiver Tax Credit will be simplified by removing complicated paperwork. The requirement to complete an application for pre-approval by the Regional Health Authorities or Manitoba Families is eliminated. Instead of seeking approval of an application, caregivers will now only be required to complete a registration form, submit a copy of the form to Manitoba Finance, and continue to claim the credit on the income tax return. Individual caregivers who applied to Manitoba Health or Families between January 1, 2018 and March 12, 2018 will have their forms forwarded to Manitoba Finance for registration.

The claim process will also be significantly simplified by implementing a flat \$1,400 annual credit available to all eligible caregivers. This eliminates the requirement to calculate the credit based on the number of days that care was provided. The requirement to provide a minimum of 90-days of care before eligibility commences remains in place.

These improvements are a result of a continuous improvement Lean exercise that was undertaken by government with the goal of making it easier for caregivers to access the credit.

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

Education Property Tax Credit

2018/19 and full-year fiscal impact: -\$0.1 million

Effective for 2019, the calculation of the Education Property Tax Credit will be based on school taxes and the \$250 deductible will be eliminated. The Seniors' Education Property Tax Credit would also be calculated on the school tax portion. This change makes all property tax credits, including the Education Property Tax Credit, Farmland School Tax Rebate, Seniors' School Tax Rebate, and the School Tax Credit for Homeowners based on school taxes.

Annual school taxes that are equal to or greater than \$700 receive the full rebate amount. A renter paying at least \$3,500 of rent per year will be eligible for the full \$700 basic credit. Prior to the elimination of the deductible, this amount was over \$4,700.

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

Tobacco Tax

2018/19 and full-year revenue impact: +\$7.0 million

Effective midnight, March 12, 2018, the Tobacco Tax rate for fine cut tobacco is increased from 28.5¢ per gram to 45¢ per gram. The Tobacco Tax rate on cigarettes, cigars and raw leaf tobacco remains unchanged.

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

BUSINESS TAX MEASURES

Small Business Deduction

2018/19 revenue impact: -\$1.8 million

Budget 2018 increases the small business income limit eligible for the small business deduction from \$450,000 to \$500,000 on January 1, 2019. Canadian-controlled private corporations that qualify for the small business deduction pay a 0% rate of Manitoba corporation income tax. The savings for a corporation as a result of this enhancement are up to \$6,000 per year.

The estimated additional full-year savings for corporations is \$7 million.

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

Child Care Centre Development Tax Credit

2018/19 and full-year revenue impact: -\$0.4 million

A new refundable corporation income tax credit is introduced to stimulate the creation of licensed child care centres in work places.

The tax credit will be available for private corporations that create new child care centres for a total benefit of \$10,000 per new infant or preschool space created, claimable over five years. The credit would be available for licensed spaces created by a taxable corporation that is not primarily engaged in child care services, effective after Budget day and before 2021. The total number of spaces will initially be limited to 200 under this program, but may be increased over time.

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

Small Business Venture Capital Tax Credit

2018/19 and full-year revenue impact: -\$0.2 million

Effective March 12, 2018, the \$15 million revenue cap on the size of an eligible corporation is eliminated and the investment minimum is lowered from \$20,000 to \$10,000. These enhancements will allow larger corporations to access the credit while also allowing for smaller investments by shareholders.

The Small Business Venture Capital Tax Credit promotes, among Manitoba-resident individuals and companies, the acquisition of equity capital in emerging enterprises that require larger amounts of capital. This 45 per cent investment tax credit offsets Manitoba income tax otherwise payable.

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

Credit Unions and Caisses Populaires Profits Tax

2018/19 revenue impact: -\$0.3 million

Credit unions and caisses populaires in Manitoba are currently subject to a 1 per cent profits tax on taxable income over \$400,000. Effective January 1, 2019, the Credit Unions and Caisses Populaires Profits Tax is eliminated.

The estimated full-year revenue impact is -\$1 million.

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

Retail Sales Tax

2018/19 revenue impact: -\$1.4 million

The following exemptions will be applied effective May 1, 2018:

- Drill bits designed specifically for oil or gas exploration or development; and
- Fertilizer bins used in a farming operation.

The estimated full-year revenue impact is -\$1.5 million.

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

Credit Unions Special Deduction

2018/19 revenue impact: +\$0.8 million

The special tax deduction which currently allows credit unions and caisses populaires to pay a lower rate of tax on a portion of their income is being phased out over five years beginning on January 1, 2019. Some provinces and the federal government have also eliminated or are currently phasing out this tax benefit. Credit unions will continue to have access to the small business deduction, as do Canadian-controlled private corporations.

The estimated full-year revenue impact when fully implemented in 2023 is +\$15.0 million.

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

Labour-Sponsored Funds Tax Credit

2018/19 and full-year revenue impact: +\$0.1 million

The Labour-Sponsored Funds Tax Credit is eliminated for shares acquired after 2018. The credit was first introduced in 1991-92 and is virtually unused by Manitobans.

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

Rental Housing Construction Tax Credit

No revenue impact in 2018/19

Effective for January 1, 2019, the Rental Housing Construction Tax Credit is eliminated. Projects currently under provincial review or with provincial approvals are not affected. No new project applications will be processed after 2018 and any future projects must be available for use before 2021.

The estimated full-year revenue impact is +\$3.1 million.

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

TAX CREDIT EXTENSIONS

2018/19 fiscal impact: -\$0.4 million

The following tax credits are extended:

The **Manitoba Book Publishing Tax Credit**, scheduled to expire on December 31, 2018, is extended for one year to December 31, 2019. This program assists the development of Manitoba's book publishing industry.

The **Cultural Industries Printing Tax Credit**, scheduled to expire on December 31, 2018, is extended for one year to December 31, 2019. This program assists the development of Manitoba's printing industry.

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

ON-GOING TAX MEASURES

Indexing of Personal Income Tax Brackets

2018/19 revenue impact: -\$9.4 million

Entrenched in legislation in 2016, Manitoba personal income tax brackets have been indexed to inflation by the Manitoba Consumer Price Index (CPI) beginning in the 2017 tax year. The tax brackets will continue to be indexed in future years as forecasted in the table below.

The table illustrates the savings for taxpayers that result from indexation under each of Manitoba's three tax brackets.

The estimated full-year revenue impact is -\$10.1 million.

Figure 3.

<u>Tax Year</u>	<u>Tax Rates</u>	10.80%	12.75%	17.40%
2016	Brackets	\$0 to \$31,000	\$31,000 to \$67,000	over \$67,000
2017		\$0 to \$31,465 <i>savings of \$9</i>	\$31,465 to \$68,005 <i>savings of \$56</i>	over \$68,005 <i>savings of \$56</i>
2018	<i>Maximum taxpayer savings from indexation</i>	\$0 to \$31,843 <i>savings of \$7</i>	\$31,843 to \$68,821 <i>savings of \$45</i>	over \$68,821 <i>savings of \$45</i>
2019f		\$0 to \$32,448 <i>savings of \$12</i>	\$32,448 to \$70,129 <i>savings of \$73</i>	over \$70,129 <i>savings of \$73</i>
2020f		\$0 to \$33,129 <i>savings of \$13</i>	\$33,129 to \$71,601 <i>savings of \$82</i>	over \$71,601 <i>savings of \$82</i>
Total savings by 2020		\$42	\$255	\$255

f = forecasted indexation based on CPI projections

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

ADMINISTRATIVE AND TECHNICAL TAX MEASURES

Tax Administration and Miscellaneous Taxes Act

Streamlining tobacco tax enforcement measures and administration of the insurance corporations tax.

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

Income Tax Act

The process that allows new or first time homeowners who are eligible to apply the basic \$700 **Education Property Tax Credit** on the property tax statement for their principal residence is being streamlined, reducing costs for Manitobans and the province. Instead of applying to Manitoba Finance during a limited period of the year, homeowners will be able to self-assess and notify their municipal office at any time throughout the year.

- Homeowners who notify their municipality before the printing of the municipal property tax statement for the year will have the credit applied starting in that year.
- Homeowners who notify their municipality after the printing of the municipal property tax statement for the year may claim the credit on their personal income tax return for that year and will receive the credit on their property tax statement in subsequent years.

A new or first time homeowner could include, for example, someone moving to Manitoba, someone leaving rental accommodations and moving into a home, or someone in a newly constructed home. Homeowners who already receive the tax credit on their property tax statement are not impacted.

These enhancements are made as the result of a Lean continuous improvement exercise.

Community Enterprise Development Tax Credit regulations will be amended to remove ambiguity respecting Cooperative's access to the program and improve administration.

Research and Development Tax Credit provisions will be updated to ensure consistency with changes that have been made to the federal *Income Tax Act*.

Small business deduction for credit union provisions are being amended retroactively to ensure that the administration of this credit reflects Manitoba's legislation and policy.

Right-of-recovery provisions are amended to reflect the federal administration of the deduction of Manitoba tax credits from taxpayers who have taxes owing in other provinces.

Green Energy Equipment Tax Credit regulation making powers are amended to allow the Minister of Finance to create retroactive regulations for this tax credit.

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

Chiropractors Act

Amendments will be made to allow chiropractors to provide their professional services through a professional corporation.

INTERPROVINCIAL COMPARISON OF TAX RATES (applicable to end of 2018/19)

Data as of March 1, 2018

	CAN	BC	AB	SK	MB	ON
Personal Income Tax						
Basic Personal Amount ^A	\$11,809	\$10,412	\$18,915	\$16,065	\$10,392	\$10,354
Top Rate (%)	33	16.8	15	14.5	17.4	20.53
Health Care Premiums (\$)		450				900
Health and Education Tax (%)		1.95			2.15	1.95
Corporation Income Tax (%)						
Small	10	2	2	2	0	3.5
Large	15	12	12	12	12	11.5
Manufacturing	15	12	12	10	12	10
Small business limit (\$000)	500	500	500	600	500	500
Capital Tax on Banks (%)				4	6	
Sales Tax (%)	5	7		6	8	8
Fuel Tax						
Gasoline (¢/l)	10	14.5	13	15	14	14.7
Diesel (¢/l)	4	15	13	15	14	14.3
Carbon Tax						
Gasoline (¢/l)	2.33	6.67	6.73	0	5.32	
Diesel (¢/l)	2.74	7.67	8.03	0	6.71	
Tobacco Tax (¢/cigarette)	11.927	27.5	25	27	29.5	16.475 ^D

^A Reflects MB Basic Personal Amount (BPA) effective January 1, 2019.

^B BC carbon tax will be increased annually to reflect a \$5 per tonne of CO₂ emissions until \$50 per tonne is reached in April 2021.

^C ON, QC and NS indicated a cap and trade system. PE and NL unknown.

^D ON 2018 and 2019 tobacco taxes will be increased by an additional 2 cents per cigarette or gram of tobacco each year.

^E NB announced 2.33 cents per litre of existing gasoline taxes and 2.76 cents per litre of existing fuel taxes would be transferred to the Climate Change Fund.

QC	NB	NS	PE	NL	
					Personal Income Tax
\$15,012	\$10,043	\$8,481	\$8,160	\$9,247	Basic Personal Amount ^A
25.75	20.3	21	16.7	18.3	Top Rate (%)
					Health Care Premiums (\$)
4.26					Health and Education Tax (%)
					Corporation Income Tax (%)
8	2.5	3	4.5	3	Small
11.6	14	16	16	15	Large
11.6	14	16	16	15	Manufacturing
500	500	500	500	500	Small business limit (\$000)
	5	4	5	6	Capital Tax on Banks (%)
9.975	10	10	10	10	Sales Tax (%)
					Fuel Tax
19.2	15.5 ^E	15.5	13.1	20.5	Gasoline (¢/l)
20.2	21.5	15.4	20.2	21.5	Diesel (¢/l)
c		c	c	c	Carbon Tax
					Gasoline (¢/l)
					Diesel (¢/l)
14.9	25.52	27.52	25	24.5	Tobacco Tax (¢/cigarette)

CONTACTS FOR FURTHER INFORMATION

A	Finance Research Division Manitoba Finance	Telephone Fax E-mail	204-945-3757 204-945-5051 feedbackfin@gov.mb.ca
B	Manitoba Tax Assistance Office Manitoba Finance	Telephone Toll-free Fax E-mail	204-948-2115 in Winnipeg 1-800-782-0771 204-948-2263 tao@gov.mb.ca
C	Enterprise, Innovation and Trade Division Manitoba Growth, Enterprise and Trade	Telephone Fax E-mail	204-945-2700 204-945-1193 EnterpriseBranchGeneral@gov.mb.ca
D	Taxation Division Manitoba Finance	Telephone Toll-free Fax E-mail	204-945-5603 in Winnipeg 1-800-782-0318 204-945-0896 mbtax@gov.mb.ca
E	Early Learning and Child Care Program Manitoba Families	Telephone Toll-free E-mail	204-945-0776 in Winnipeg 1-888-213-4754 cdcinfo@gov.mb.ca
F	Manitoba Housing Manitoba Families	Telephone Toll-free E-mail	204-945-5566 in Winnipeg 1-866-689-5566 housing@gov.mb.ca
G	Arts Branch Manitoba Sports, Culture and Heritage	Telephone E-mail	204-945-3847 artsbranch@gov.mb.ca
H	Climate Change and Air Quality Branch Manitoba Sustainable Development	Telephone E-mail	204-945-7084 ccinfo@gov.mb.ca

For information on government programs, individuals can contact Manitoba Government Inquiry by calling 204-945-3744 in Winnipeg or toll-free 1-866-626-4862.