



Budget Paper D

TAXATION
ADJUSTMENTS

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Contents

- Summary of 2003 Tax Measures 1
- Personal Income Tax.....2
 - Middle bracket tax rate2
 - Community Enterprise Development Tax Credit2
- Education Property Tax Credit.....3
- Education Support Levy.....4
- Corporation Income Tax4
 - Co-operative Education Tax Credit4
 - Manufacturing Investment Tax Credit: extension.....4
 - Manufacturing Investment Tax Credit: energy conservation equipment5
 - Deposit guarantee corporations.....5
- Corporation Capital Tax.....5
- Tobacco Taxes6
- Riparian Tax Credit6
- Retail Sales Tax.....6
 - Exemption for farm manure slurry tanks, lagoon liners and straw pellets.....6
- Technical and Administrative Measures7
- Personal Tax Savings Since 19997
- Further Information8
- Manitoba Income Tax Savings for Typical Taxpayers9
- Manitoba Income Taxes Since 199910
- Provincial Education Property Taxes and Credits11
- 2003 Interprovincial Comparison of Tax Rates.....12

Summary of 2003 Tax Measures

	2003/04	Full Year
	(Millions of Dollars)	
Personal Tax Measures		
Personal Income Tax reduced	(9.8)	(39.0)
Education Support Levy reduced	(17.1)	(17.1)
Education Property Tax Credit adjusted	(1.5)	(1.5)
Community Enterprise Development Tax Credit introduced	(0.1)	(0.6)
Total Personal Tax Measures	(28.5)	(58.2)
Business Tax Measures		
Manufacturing Investment Tax Credit (MITC) extended	(13.1)	(17.5)
Corporation Capital Tax adjusted	(1.7)	(6.5)
Co-operative Education Tax Credit introduced	(0.1)	(0.1)
Deposit guarantee corporations	– ^(A)	– ^(A)
Total Business Tax Measures	(14.9)	(24.1)
Health and Green Measures		
Tobacco Tax rate increased	6.4	7.0
MITC: energy conservation equipment added	(0.5)	(1.0)
Riparian Tax Credit extended	(0.5)	(0.5)
RST exemption for slurry tanks, lagoon liners and straw pellets	(0.4)	(0.5)
Total Health and Green Measures	5.0	5.0
Net Change 2003 Budget	(38.4)	(77.3)
Ongoing Tax Reductions		
Personal tax reductions	(18.0)	(18.0)
Business tax reductions	(26.3)	(46.9)
Net Change 2003/04 and Subsequent Years	(82.7)	(142.2)

Ongoing tax reductions are those that were announced in previous Budgets to take effect in 2003 or later years. These are: (a) reduce the Personal Income Tax middle bracket rate to 14.9% on January 1, 2003; (b) decrease the general Corporation Income Tax (CIT) rate from 16.5% in 2002 to 16.0% in 2003, 15.5% in 2004 and 15.0% in 2005; and (c) raise the CIT small business threshold from \$300,000 in 2002 to \$320,000 in 2003, \$360,000 in 2004 and \$400,000 in 2005.

^(A) Minimal cost.

■ Personal Income Tax

Middle bracket tax rate

(2003/04 revenue impact: -\$9.8 million)

The tax rate in the middle bracket is reduced to 14.0% from 14.9% for the 2004 taxation year. This rate applies to taxable income between \$30,544 and \$65,000.

This change will save Manitoba taxpayers \$39.0 million in the 2004 tax year. It will reduce revenue by \$9.8 million in 2003/04.

The middle bracket rate was previously reduced from 16.6% in 1999 to 16.2% in 2000, 15.4% in 2002 and 14.9% in 2003.

Community Enterprise Development Tax Credit

(2003/04 revenue impact: -\$0.1 million)

To promote community economic development in the province, the Manitoba Community Enterprise Development (CED) Tax Credit is introduced. This innovative tax incentive encourages Manitobans to invest in opportunities in their communities, and provides community-based enterprise development projects with the means to raise necessary equity capital.

The Manitoba CED Tax Credit is a non-refundable, 30% personal income tax credit for resident investors in eligible community enterprise development projects. The maximum credit that an individual investor can earn in a year is \$9,000, based on a maximum \$30,000 eligible investment. Any credits earned but unused in a given year are available to be carried forward for up to seven years and carried back up to three years. Investors are expected to maintain their investments in qualified community enterprises for a prescribed period of time in order to fully benefit from the tax credit. Investors can claim the CED Credit on their Manitoba Personal Income Tax returns.

There are two types of qualified investments: specific community enterprises, and community development investment pools. The latter will serve as a conduit for investments in qualifying Manitoba community enterprises.

The Department of Intergovernmental Affairs approves eligible community enterprise development projects and pools, and determines eligible investments in individual projects.

■ Education Property Tax Credit

(2003/04 expenditure impact: \$1.5 million)

The maximum Education Property Tax Credit for seniors rises from \$775 to \$800 for 2003, providing additional property tax relief to 61,500 senior households. This change has the effect of raising from \$37,500 to \$40,000 the income level above which seniors are only eligible for the \$400 basic Credit.

The Education Property Tax Credit provides assistance based on property taxes and income. For tenants, 20% of rental payments is used as a proxy for property taxes paid. The Credit is equal to the lesser of:

- (a) property taxes above \$250, or
- (b) \$675 (\$800 for seniors) less 1% of family net income.

The minimum Credit is \$400, which most homeowners receive as a deduction on their municipal property tax statement. Tenants, and those who qualify for more than the minimum amount, claim the Credit on the Manitoba Income Tax return.

In 2000 and 2001, the minimum amount was increased in two steps from \$250 to \$400. The maximum amount for non-seniors was raised from \$525 to \$675, and the maximum amount for seniors was raised from \$625 to \$775. The following table shows the value of the Credit for seniors at several income levels.

VALUE OF THE EDUCATION PROPERTY TAX CREDIT FOR SENIORS, 1999 AND 2003

Income	1999	2003	Increase
\$15,000	\$475	\$650	\$175
\$20,000	\$425	\$600	\$175
\$25,000	\$375	\$550	\$175
\$30,000	\$325	\$500	\$175
\$35,000	\$275	\$450	\$175
\$40,000 and over	\$250	\$400	\$150

■ Education Support Levy

(2003/04 collections impact: -\$17.1 million)

The Education Support Levy (ESL) is a province-wide property tax. In Budget 2002, Manitoba made a commitment to eliminate the residential ESL over a period of five years, without affecting revenue to school divisions.

For 2003 property tax statements, the residential mill rate falls 20.5% from 6.64 mills to 5.28 mills. (For technical reasons, the new rate may be slightly different in the City of Winnipeg.)

The total amount of residential ESL collected falls from \$88.9 million to \$71.8 million – a decrease of \$17.1 million. These annual savings are on top of the \$10 million ESL reduction in 2002 and the \$53 million in annual savings delivered to Manitobans in previous Budgets through increases in the Education Property Tax Credit.

■ Corporation Income Tax

Co-operative Education Tax Credit

(2003/04 revenue impact: -\$0.1 million)

Employers who provide work placements for students enrolled in a recognized, post-secondary co-operative education program may claim a 10% credit against Corporation Income Tax of up to \$1,000 for each student so hired.

The value of co-op programs has been demonstrated, both for employers – who can hire promising students with relevant education – and for students – who can find jobs more readily after they graduate because of their work experience. As a result, graduates of co-op programs are more likely to find work and stay in Manitoba. This new Credit will help promote the development of co-op education programs in this province.

Manufacturing Investment Tax Credit: extension

(2003/04 revenue impact: -\$13.1 million)

The Manufacturing Investment Tax Credit is renewed for a further three years beyond its scheduled expiry date of June 30, 2003. Due to its success in promoting the continued expansion and renewal of Manitoba's manufacturing sector, the Credit is now available until June 30, 2006. The cost of this measure is expected to be \$17.5 million annually.

The Credit is deductible against Corporation Income Tax. Unused investment Credits can be carried forward for up to seven years and carried back up to three years.

Manufacturing Investment Tax Credit: energy conservation equipment

(2003/04 revenue impact: -\$0.5 Million)

To promote conservation of energy and the use of renewable energy sources, the Manufacturing Investment Tax Credit is extended to include Class 43.1 equipment.

Class 43.1 includes (for the firm's own consumption): (a) equipment used to produce energy from renewable sources such as bio fuels or wind, and (b) equipment which uses energy more efficiently. The Tax Credit will help Manitoba companies reduce production costs and become more competitive. It will also help them to reduce harmful emissions, consistent with Canada's commitments under the Kyoto Accord.

The Tax Credit may be carried forward for up to seven years and carried back up to three years for tax years ending after April 22, 2003.

The full-year cost is expected to be no more than \$1 million.

Deposit guarantee corporations

(2003/04 revenue impact: minimal)

Commencing with the 2003 taxation year, credit union and caisse populaire deposit guarantee corporations in Manitoba have access to the Manitoba small business Corporation Income Tax rate on their income. This change conforms to the federal treatment of provincial deposit guarantee corporations, and with the tax treatment in other provinces with significant credit union and caisse populaire memberships.

■ Corporation Capital Tax

(2003/04 revenue impact: -\$1.7 million)

The Corporation Capital Tax \$5 million exemption will be converted to a \$5 million deduction for corporation fiscal years commencing after January 1, 2004.

Corporations with taxable capital under \$5 million are currently exempt from paying Corporation Capital Tax, while larger corporations pay the tax on their entire capital. This creates a sharp increase in tax for smaller firms when they first cross the \$5 million threshold. By converting the exemption to a deduction, all firms will only pay the tax on that part of their capital that exceeds \$5 million. All 2,800 corporations currently subject to this tax will benefit.

The full-year cost of this measure will be \$6.5 million.

■ Tobacco Taxes

(2003/04 revenue impact: \$6.4 Million)

For health and revenue reasons, effective midnight April 22, 2003, the Tobacco Tax rates increase as follows:

	<u>To</u>	<u>From</u>
Cigarettes (each)	15.5¢	14.5¢
Fine cut (per gram)	14.5¢	13.2¢
Raw leaf (per gram)	13.0¢	11.9¢

Manitoba's tax rate on cigars has been unchanged since 1992. To bring it more into line with the tax rates on other tobacco products, the levy on cigars increases from 45% of the retail price to 60%.

■ Riparian Tax Credit

(2003/04 expenditure impact: \$0.5 million)

To promote environmentally sound management of river and stream banks in agricultural areas, the Riparian Tax Credit is extended for one year, allowing agricultural operators to apply for the Credit during the 2003 calendar year. New participants will make commitments to maintain specific management practices on riparian land throughout the calendar years 2004 through 2006, and will receive Tax Credit benefits in each of those years. Eligibility is extended to include land adjacent to Order 7 drains (i.e. the Red and Assiniboine Rivers).

■ Retail Sales Tax

Exemption for farm manure slurry tanks, lagoon liners and straw pellets

(2003/04 revenue impact: -\$0.4 million)

To promote environmentally safe handling of animal waste on farms, this Budget announces a two-year extension, to June 30, 2005, for the exemption on manure slurry tanks and lagoon liners for use in farm livestock operations.

To promote the use of straw as a value-added resource and make productive use of a farm by-product, the exemption for firewood used for heating and cooking is expanded to include straw pellets effective midnight, April 22, 2003.

■ Technical and Administrative Measures

Amendments to various statutes will be introduced, including:

- introducing refund provisions for the Gasoline Tax, Motive Fuel Tax, and Land Transfer Tax, consistent with other tax statutes;
- rectifying provisions governing the Manitoba Small Business Deduction in response to the 2003 Federal Budget;
- clarifying liabilities subject to Corporation Capital Tax; and
- adjusting certain provisions governing Labour-Sponsored Investment Funds.

Personal Tax Savings Since 1999

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

	Implemented in Tax Year:					Cumulative Annual Totals
	2000	2001	2002	2003	2004	
	(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
2003 Budget					39	39
Total						220
EPTC Increases; ESL Decreases						
2000 Budget	26					26
2001 Budget		27				27
2002 Budget			10			10
2003 Budget				19		19
Total						82
Annual Totals	35	124	67	37	39	
Cumulative Annual Totals	35	159	226	262	301	301

Totals may not add due to rounding.

■ Further Information

For further information, view Bulletin 103 at the Manitoba Finance web site: www.gov.mb.ca/finance/taxation, or contact the appropriate office as listed below.

Personal Income Tax, Education Property Tax Credit, Riparian 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

www.gov.mb.ca/finance/tao

Education Support Levy:

Schools Finance Branch

Manitoba Education, Training and Youth

Telephone: (204) 945-6910

Facsimile: (204) 948-2000

E-mail: mbedu@merlin.mb.ca

www.edu.gov.mb.ca/ks4/feedback.html

Manufacturing Investment Tax Credit:

*Federal-Provincial Relations
and Research Division*

Manitoba Finance

Telephone: (204) 945-3757

Facsimile: (204) 945-5051

E-mail: fedprov@gov.mb.ca

www.gov.mb.ca/finance/fedprov

Co-operative Education Tax Credit:

Council on Post-Secondary Education

Telephone: (204) 945-4720

Facsimile: (204) 945-1841

E-mail: dsmith@copse.mb.ca

www.copse.mb.ca

Corporation Capital Tax, Retail Sales Tax, Tobacco Tax, Motive Fuel Tax and Gasoline Tax:

Taxation Division

Manitoba Finance

Telephone: (204) 945-5603 in Winnipeg

Telephone: (204) 726-6153 in Brandon

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

1-800-275-9290 (Brandon)

Facsimile: (204) 945-0896

E-mail: MBTax@gov.mb.ca

www.gov.mb.ca/finance/taxation

Community Enterprise Development Tax Credit:

Economic Development Initiatives

Manitoba Intergovernmental Affairs

Telephone: (204) 945-2427

Facsimile: (204) 948-2362

E-mail: lprince@gov.mb.ca

www.gov.mb.ca/ia

Labour-Sponsored Investment Funds Tax Credit:

Financial Services Branch

Manitoba Industry, Trade and Mines

Telephone: (204) 945-5839

Facsimile: (204) 945-1193

E-mail: kjohnson@gov.mb.ca

www.gov.mb.ca/itm/financial

Manitoba Income Tax Savings for Typical Taxpayers

Tax Savings since 1999

Income	Tax in 1999	Tax Savings since 1999			5-Year Total	2004 Savings over 1999
		In 2002	In 2003	In 2004		
		(Dollars)				(Percentage)
SINGLE PERSON						
10,000	178	115	116	116	473	65.2
20,000	1,369	179	181	179	755	13.1
40,000	4,012	335	388	473	1,550	11.8
70,000	9,153	755	937	1,243	3,582	13.6
100,000	14,572	955	1,137	1,443	4,511	9.9
SENIOR COUPLE*						
30,000	438	221	221	221	897	50.7
40,000	1,634	469	469	469	1,920	28.7
60,000	4,480	621	644	684	2,369	15.3
80,000	7,855	698	792	963	3,118	12.3
FAMILY OF FOUR - ONE EARNER						
25,000	591	375	378	375	1,525	63.5
40,000	2,891	570	627	708	2,340	24.5
60,000	6,625	1,024	1,181	1,442	4,454	21.8
75,000	9,435	1,174	1,356	1,662	5,126	17.6
100,000	13,951	1,090	1,272	1,578	4,900	11.3
FAMILY OF FOUR - TWO EARNERS						
30,000	691	324	326	324	1,351	46.9
40,000	1,453	417	420	417	1,715	28.7
60,000	4,107	654	689	732	2,741	17.8
80,000	7,169	907	1,008	1,157	3,957	16.1
100,000	10,188	1,017	1,197	1,478	4,638	14.5

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

* For the senior couple, 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.

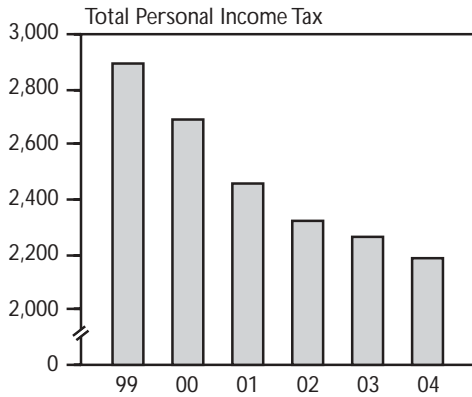
In these tables, it is assumed that single and married taxfilers have earned income and pay Canada Pension Plan and Employment Insurance premiums. In the two-earner couples, it is assumed one earner earns 60% of the income while the other earner earns 40%.

The tax savings drop in 2004 for a single person at \$20,000 and a two-earner family at \$40,000 because falling Employment Insurance premiums reduce the value of the EI Non-Refundable Tax Credit.

Totals may not add due to rounding.

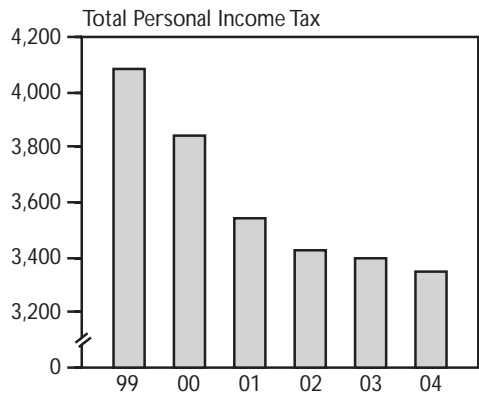
Manitoba Income Taxes Since 1999

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



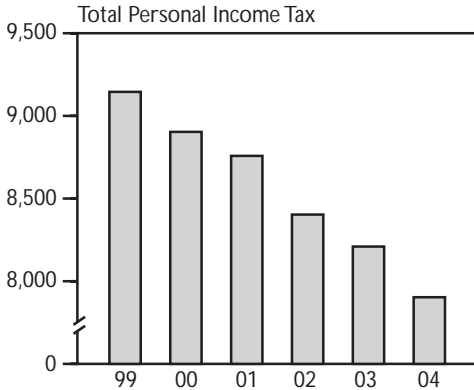
Source: Manitoba Finance

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



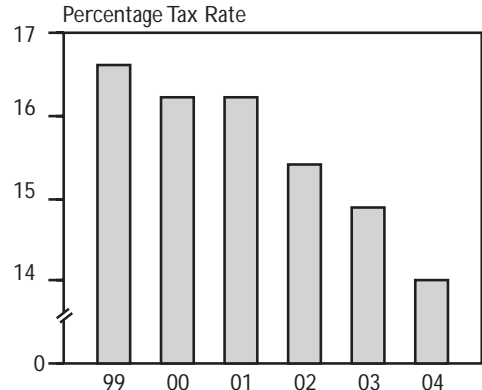
Source: Manitoba Finance

Single Individual at \$70,000



Source: Manitoba Finance

History of Middle Bracket Rate Reductions



Source: Manitoba Finance

Provincial Education Property Taxes and Credits

Residential Education Support Levy (ESL) has been cut.

Education Property Tax Credit (EPTC) has been increased.

Examples of savings for homes assessed at \$100,000 in 2002

School Division	ESL Reductions			Combined EPTC Increases in 2000 and 2001	Total Education Property Tax Savings
	in 2002	in 2003	Combined		
	(Dollars)				
Winnipeg	49	61	110	150	260
Seven Oaks	50	61	111	150	261
Seine River	35	61	96	150	246
St. James Assiniboia	33	61	94	150	244
Interlake	25	61	86	150	236
Portage La Prairie	37	61	98	150	248
Brandon	16	61	77	150	227
Flin Flon	59	61	120	150	270
Prairie Spirit	37	61	98	150	248
Evergreen	19	61	80	150	230
Turtle River	16	61	77	150	227
River East Transcona	36	61	97	150	247
Sunrise	33	61	94	150	244
Louis Riel	32	61	93	150	243
Pembina Trails	38	61	99	150	249

Source: Manitoba Education and Youth

In 2002, ESL savings varied by division due to the impact of reassessment in that year. The above chart reflects actual savings for homeowners with homes valued at \$100,000 in 2002.

2003 Interprovincial Comparison of Tax Rates

	<u>BC</u>	<u>AB</u>	<u>SK</u>	<u>MB</u>	<u>ON</u>
Personal Income Tax					
Top Marginal Rate (%) ^(A)	14.70	10.00	15.00	17.40	17.41
Health Care Premiums (\$) ^(B)	1,296	1,056	–	–	–
Corporation Income Tax (%) ^(C)					
Small Rate	4.50	4.13	6.00	5.00	5.50
Large Rate	13.50	12.63	17.00	16.00	12.50
Capital Tax (%) ^(D)	–	–	0.60	0.30	0.30
Banks	3.00	–	3.25	3.00	0.90
Employer Payroll Tax (%)	–	–	–	2.15	1.95
Small Firms ^(E)	–	–	–	–	–
Sales Tax (%) ^(F)	7.50	–	6.00	7.00	8.00
Diesel Fuel Tax (¢/l) ^{(G) (I)}	15.00	9.00	15.00	10.90	14.30
Gasoline Tax (¢/l) ^{(G) (I)}	14.50	9.00	15.00	11.50	14.70
Tobacco Tax (¢/cigarette) ^(H)	16.00	16.00	16.00	15.50	8.60

^(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) In QC, Prescription Drug Plan premiums are a maximum of \$422 for a single person and \$844 for a couple, based on income. In prior Budgets, these premiums were included in income tax calculations.

^(C) Some provinces apply special rates to certain types of business income. QC applies a 1.6% Youth Fund surtax on its corporation income tax rate of 8.9%. AB's small business rate was reduced from 4.5% to 4.0% and its general rate was reduced from 13.0% to 12.5%, effective April 1, 2003.

^(D) MB has a \$5 million exemption and imposes a 0.2% surtax on taxable paid-up capital in excess of \$10 million. SK has a \$15 million deduction and applies a 3.6% surcharge on resource corporations. Banks and trust companies in BC with paid-up capital less than \$1 billion and with a head office in BC pay at a rate of 1.0%.

^(E) Firms with payrolls of \$500,000 or less in NL, \$400,000 or less in ON, \$1 million or less in MB and QC.

^(F) Retail Sales Tax refers to general rate only. QC and PE apply the sales tax on top of GST-inclusive prices. Sales taxes in NB, NS and NL are harmonized with the federal Goods and Services Tax.

^(G) 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, 2.5 cents per litre in Victoria and 1.5 cents per litre in Montréal.

^(H) Provinces, except BC, AB, and PE, also apply sales taxes to tobacco products.

^(I) In addition, QST applies in QC, and HST applies in NB, NS and NL.

<u>QC</u>	<u>NB</u>	<u>NS</u>	<u>PE</u>	<u>NL</u>	
					Personal Income Tax
19.22	17.84	18.34	18.37	19.64	Top Marginal Rate (%) ^(A)
844	-	-	-	-	Health Care Premiums (\$) ^(B)
					Corporation Income Tax (%) ^(C)
9.04	3.00	5.00	7.50	5.00	Small Rate
9.04	13.00	16.00	16.00	14.00	Large Rate
0.60	0.30	0.25	-	-	Capital Tax (%) ^(D)
1.20	3.00	3.00	3.00	4.00	Banks
4.26	-	-	-	2.00	Employer Payroll Tax (%)
2.70	-	-	-	-	Small Firms ^(E)
7.50	8.00	8.00	10.00	8.00	Sales Tax (%) ^(F)
16.20	16.90	15.40	13.50	16.50	Diesel Fuel Tax (¢/l) ^{(G) (I)}
15.20	14.50	15.50	14.00	16.50	Gasoline Tax (¢/l) ^{(G) (I)}
9.05	11.75	13.02	14.95	15.00	Tobacco Tax (¢/cigarette) ^(H)