

TAXATION CHANGES – 2006 BUDGET

The following taxation changes were announced by Manitoba Finance Minister Greg Selinger in his Budget Address on March 6, 2006.

PERSONAL INCOME TAX

- Middle Bracket Tax Rate reduced** The middle bracket rate is reduced from 13.5% to 13.0% for the 2007 taxation year.
- Basic Personal Amount Tax Credit increased** The basic personal amount tax credit increases by \$100 to \$7,834 for the 2007 taxation year.
- Dividend Tax Credit modified** Separate credits for taxable dividends distributed by Canadian-controlled private corporations and publicly-traded corporations will be introduced. The changes to the Manitoba Dividend Tax Credit will be released once details of the federal changes are confirmed.
- Children's Physical Activity Tax Credit introduced** Manitoba will introduce legislation corresponding in purpose to the new federal government's promised tax credit in support of families with children enrolled in physical activities. Details will be announced once particulars of the federal program are known.
- Adoption Expenses Tax Credit introduced** Where a taxpayer is eligible to claim a federal adoption tax credit in 2006 and subsequent tax years, Manitoba will provide a parallel non-refundable Adoption Expenses Tax Credit. Eligible expenditures, based on federal criteria and up to a maximum of \$10,000 per adoption, will receive a non-refundable 10.9% Manitoba tax credit. More information is available at the CRA website at www.cra-arc.gc.ca/agency/budget2005/changes-e.html
- Personal Tax Credit modified** In order to align Manitoba's Personal Tax Credit with the federal GST tax credit and with comparable credits in other provinces, the eligibility age increases to 19 in 2006 and subsequent tax years. Previously, taxpayers could claim this credit in their own right in the year they turned 18. Since parents may claim the Credit for children up to age 18, the change will remove confusion about when the parent and child may claim the Credit.

Further information on personal income tax rate reductions or other non-refundable tax credit amounts may be obtained from Manitoba Finance – Tax Assistance Office:

809 – 386 Broadway
Winnipeg, Manitoba R3C 3R6
Telephone (204) 948-2115 in Winnipeg
Manitoba Toll Free 1-800-782-0771
Fax (204) 948-2263
E-mail TAO@gov.mb.ca

EDUCATION SUPPORT LEVY

Education Support Levy eliminated for residential properties The Education Support Levy is a province-wide property tax. The tax is eliminated for residential properties for 2006.

Further information on the Education Support Levy may be obtained from Manitoba Education, Citizenship and Youth – Schools' Finance Branch:

511 – 1181 Portage Avenue
Winnipeg, Manitoba R3G 0T3
Telephone (204) 945-6910
Fax (204) 948-2000
E-mail SFB@gov.mb.ca

PROPERTY AND SCHOOL TAXES

Farmland School Tax Rebate increased The Farmland School Tax Rebate, introduced in 2004, provided a 33% rebate of the school division special levy on farmland. The rebate increased to 50% in 2005. In 2006, the rebate is increased to 60%.

Odour Control Property Tax Credit eligibility expanded Effective with the 2006 property tax year, agricultural landholders are eligible for a new Odour Control Property Tax Credit to offset 10% of the purchase price of an eligible odour control investment, provided the asset remains available for use on their land over the course of several years. This will make all farm landholders eligible to receive support for investment in odour control. A taxpayer will be eligible to claim either the Odour Control Property Tax Credit or the Odour Control corporation tax credit, but not both.

Riparian Tax Credit – new intake The Riparian Tax Credit promotes environmentally sound management of lakeshore and riverbanks in agricultural areas. There will be fifth intake of agricultural operator participants in the Riparian Tax Credit program, with an application deadline of March 31, 2007. Further, the program will be enhanced to provide additional recognition for the costs of meeting riparian management conditions, such as off-site water facilities for livestock.

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CORPORATION INCOME TAX

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| Small Business Tax Rate reduced | The small business income tax rate is reduced from 4.5% to 3.0%, effective January 1, 2007. This change supersedes the previously announced reduction to 4.0% for 2007. |
| Manufacturing Investment Tax Credit extended and enhanced | The Manufacturing Investment Tax Credit is renewed for a further three years to June 30, 2009.

The refundable portion of the tax credit is increased from 20% to 35%. |
| Co-operative Education Tax Credit expanded | For co-op education work placements starting on or after March 7, 2006, a parallel incentive is offered to unincorporated employers and other organizations that are exempt from income tax, including Crown entities and employers in the not-for-profit and voluntary sectors. |
| Co-op Graduates Hiring Incentive introduced | A new Co-op Graduates Hiring Incentive is introduced. Employers, including unincorporated and tax-exempt entities, will be eligible for an incentive to hire and retain, in full-time employment in Manitoba, students who graduate after March 6, 2006 from a recognized post-secondary co-operative education program in a field of study related to the employment. The benefit will total 5% of wages and salaries paid to the graduate in each of the first two years of employment, to a maximum of \$2,500 for each year, where the employment commences within 18 months of graduation. |

Further information on Corporate Income Tax rates, the Manufacturing Investment Tax Credit, the Cooperative Education Tax Credit and Co-op Graduates Hiring Incentive may be obtained from Manitoba Finance – Federal-Provincial Relations and Research Division:

910 – 386 Broadway
Winnipeg, Manitoba R3C 3R6
Telephone (204) 945-3757
Fax (204) 945-5051
E-mail fedprov@gov.mb.ca
Website www.gov.mb.ca/finance/fedprov

CORPORATION CAPITAL TAX

Deduction increased

Effective for fiscal years commencing after January 1, 2007, the capital tax deduction will increase from \$5 million to \$10 million. Associated corporations are required to share one deduction.

The capital tax rate for corporations with taxable paid up capital between \$10 million and \$20 million will be 0.3% and the rate for corporations with taxable paid up capital over \$20 million will be 0.5%.

The tax rate for banks, trust and loan corporations remains at 3.0%.

RETAIL SALES TAX

Expanded exemption for diabetic supplies

Effective April 1, 2006, the sales tax exemption for diabetic supplies will be expanded to include lancets, lancing devices, and blood glucose monitors and meters. Diabetic supplies may be purchased exempt from tax by diabetics for their own use without a prescription.

Exemption for oil and gas exploration and development equipment

Effective April 1, 2006, geophysical survey equipment, drill rigs and well-servicing equipment used in oil and gas exploration and development will be exempted from sales tax. This includes equipment purchased for use in Manitoba and equipment brought into Manitoba on a temporary basis.

Geophysical survey and exploration equipment includes magnetometers, gravimeters and seismic survey gear. Well-servicing equipment includes perforating and stimulating equipment used for oil well production.

Point of sale exemption for mobile and ready-to-move homes

Effective April 1, 2006, sales tax refunds available on the residential purchase of a mobile, modular or ready-to-move home will be provided as a point-of-sale exemption. This eliminates the need for purchasers to pay sales tax of 7% on their purchase of these homes and then apply for a partial refund.

Vendors will apply sales tax at point of sale at a rate of 4% of the basic selling price of these homes.

BIODIESEL INCENTIVE

Tax exemptions for biofuel

Effective March 7, 2006, for a five year period ending March 31, 2011, Manitoba-produced biofuel is exempt from both sales tax and motive fuel tax.

Only biofuel that meets the American Association for Testing and Materials D-6751 standard qualifies for exemption.

On biodiesel blends (less than 100% biofuel), only the diesel fuel portion of the blend will be subject to motive fuel tax. For example, if 100 litres of B20 (20% biofuel and 80% diesel fuel) are purchased, motive fuel tax only applies on the 80 litres of diesel fuel included in the blend and the 20 litres of biofuel is exempt.

GASOLINE AND MOTIVE FUEL TAXES

Expanded fuel tax exemptions for commercial logging operations Effective March 7, 2006, the gasoline and motive fuel tax exemptions for commercial logging operations are expanded to include off-highway uses of fuel. Additional activities now eligible to use tax-exempt marked fuel include all harvesting and processing activities, the off-highway transportation of forestry products, and the construction and maintenance of logging roads.

TOBACCO TAX

Tobacco possession limit Similar to other provinces, effective March 7, 2006, the possession limit for tobacco without a valid Tobacco Dealer's License or Permit is 5 cartons of cigarettes or 1,000 grams of tobacco.

Further information on corporation capital tax, retail sales tax, motive fuel tax, gasoline tax and tobacco tax may be obtained from Manitoba Finance – Taxation Division:

Winnipeg Office

101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll Free 1-800-782-0318
Fax (204) 948-2087
E-mail: MBTax@gov.mb.ca
Web Site: www.gov.mb.ca/finance/taxation

Westman Regional Office

349, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Telephone (204) 726-6153
Manitoba Toll Free 1-800-275-9290
Fax (204) 726-6763

For specific wording of the law, please refer to the applicable Act and Regulations, which can be viewed on the Statutory Publications web site at www.gov.mb.ca/chc/statpub.