



BDO Dunwoody LLP
Chartered Accountants
and Advisors

Manitoba Budget Report

March 25, 2009

Highlights

- *Balanced Budgets Predicted for 2008-09 and 2009-10*
- *Tax on Small Business Income to be Eliminated on December 1, 2010*
- *R&D Tax Credit Becomes Refundable for Expenditures Incurred After 2009*
- *Other Corporate Tax Reductions to Proceed on Schedule*

Overview

“Steady. Balanced. Building Manitoba’s Future”

On March 25, 2009, the Honourable Greg Selinger presented his tenth budget as Minister of Finance. Despite the economic downturn, the Finance Minister tabled his tenth straight balanced budget.

The surplus for the 2008/09 fiscal year, originally budgeted at \$96 million, is now forecast to be \$316 million after a budgeted \$110 million transfer to the province’s Debt Retirement Fund. This surplus, however, did include \$98 million drawn from the province’s Fiscal Stabilization Fund (FSF). For the 2009/10 fiscal year, the province has budgeted for a surplus of \$48 million, which includes draws from the FSF of \$110 million. Budgeted payments to the Debt Retirement Fund have been reduced from \$110 million over the last 4 years to \$20 million for 2009/10.

There was good news for incorporated business owners, as the Government announced that there will be no Manitoba tax on small business income effective December 1, 2010. This is due to a reduction of the Manitoba income tax rate on small business income from 1% to 0%. It was also confirmed that the reduction to the general corporate income tax rate from 13% to 12% will proceed on schedule effective July 1, 2009. The elimination of the general corporate capital tax also remains on track, with that tax being eliminated in 2010. Corporations performing research and development (R&D) in the province under an eligible contract with a qualifying research institute will be pleased with the announcement that the 20% R&D Tax Credit will be made refundable.

For individuals, a number of tax changes were referred to in the budget papers, but most of these initiatives were announced in previous budgets. Today’s references are a confirmation that these changes will be made.

The following is a summary of the more important tax changes of interest to our clients.

Manitoba Summary Budget Projections (in millions \$)			
	Original Estimate 2008/2009	Revised Forecast 2008/2009	Projected 2009/2010
Revenue	12,261	12,779	12,729
Expenditures	(12,157)	(12,455)	(12,681)
Restatement adjustment	(8)	(8)	-
Summary net income	96	316	48
The numbers for the original estimate for 2008/2009 have been restated to reflect the current financial presentation of the government as a reporting entity.			

Personal Tax Changes

Tax-Free Savings Accounts

The Tax-Free Savings Account is a new savings plan available to Canadians beginning January 1, 2009. The Minister made the following announcements related to these plans:

- Eligible shares issued by a Manitoba-registered labour-sponsored fund, or shares approved under the Community Enterprise Development Tax Credit will continue to qualify for Manitoba tax credits when purchased through a Tax-Free Savings Account.
- Changes will be made to allow residents of Manitoba to designate the beneficiaries of their Tax-Free Savings Accounts outside of a will.

Education Property Tax Credit

The basic amount of the Education Property Tax Credit is increased from \$600 to \$650 in 2009. Homeowners with sufficient property taxes will have this amount subtracted from their 2009 property tax bills, with the Province reimbursing school divisions and municipal governments accordingly. Renters with sufficient occupancy costs will receive the increased amount when they file their 2009 income tax return.

Registered Disability Savings Plans

The taxable portion of withdrawals from Registered Disability Savings Plans (RDSPs) will be excluded from family net income for the purposes of three refundable Manitoba tax credits: the Education Property Tax Credit, the School Tax Credit for Homeowners, and the Personal Tax Credit.

RDSPs were introduced effective December 2008. Eligibility for RDSPs coincides with eligibility for the disability income tax credit, and is not restricted to minors. Anyone can contribute to a person's RDSP. However, a beneficiary must be under 51 years of age for a contribution to qualify for the additional federal Canada Disability Savings Grant or Canada Disability Savings Bond. Contributions can be made until the year in which the beneficiary turns 59, to a maximum lifetime amount of \$200,000 per beneficiary. There is no minimum age for a beneficiary to register an RDSP, but withdrawals must be made starting at age 60.

Primary Caregiver Tax Credit

Changes to the Primary Caregiver Tax Credit (PCG-TC) will ensure that caregivers of adults and children with disabilities in two major social programs will be able to access the tax credit more easily.

The PCG-TC was introduced in the 2008 Budget, commencing in the 2009 tax year, to provide recognition and financial support to individuals who serve as volunteer primary caregivers for more than three continuous months. Caregiving must be provided without remuneration to a person requiring a certain minimum level of care or supervision due to barriers caused by mental or physical health issues. The primary caregiver may be a spouse, parent, or other relative; a neighbour; or a friend of the person receiving the care.

Starting in 2009, the Department of Family Services and Housing (FSH) will be authorized to assess participants of two of its major programs to determine whether the participants' caregivers may be eligible for the PCG-TC. The FSH programs are the Supported Living Program, which assists adults with intellectual disabilities to live independently, and the Children's Special Services Program, which supports families who care for children with developmental or physical disabilities living at home. FSH will proactively seek to identify and assess program participants so that eligible caregivers may take advantage of the tax credit.

For the caregivers to be eligible for the credit, the PCG-TC qualification criteria will still apply to these FSH program participants.

Community Enterprise Development Tax Credit

Commencing in 2009, the maximum value of issuable shares that a business can apply for under this program is doubled from \$500,000 to \$1,000,000.

The Community Enterprise Development Tax Credit was introduced in Budget 2003 and encourages Manitobans to invest in community-based enterprise development projects. This non-refundable personal income tax credit is equal to 30% on a maximum \$30,000 investment in equity capital.

Mineral Exploration Tax Credit

The rate of the Mineral Exploration Tax Credit (METC) is increased and the program is extended to cover share agreements entered into before April 1, 2012.

The METC was introduced in Budget 2002 as a 10% non-refundable personal income tax credit that reduced Manitoba income tax otherwise payable. The credit is earned when a Manitoba taxpayer purchases flow-through shares in qualifying exploration companies to finance Manitoba mineral exploration projects.

The credit will increase in two steps: to 20% on flow-through share agreements entered into from April 1, 2009 until March 31, 2010, and to 30% on flow-through share agreements entered into from April 1, 2010 until March 31, 2012.

Business Tax Changes

Elimination of Income Tax on Small Business Income

In what will be seen as a historic event, the small business income tax rate will be reduced from 1% to 0% effective December 1, 2010. This will mean that once the cut is fully implemented, there will be no tax payable on the first \$400,000 of active business income earned by a Canadian-controlled private corporation (CCPC). CCPCs will still pay tax on investment income and business income in excess of the provincial small business limit.

Given that such a change could mean that previously earned provincial credits could go unused, and these incentives may have been previously included in taxable income for Federal purposes, Manitoba will investigate the impact of this result in a discussion paper that will be released once the elimination of taxes on small business income is enacted. One possibility suggested was the ability to renounce credits.

With the elimination of taxes on small business income, the dividend tax credit on ineligible dividends for individuals will be reduced from 2.5% (for 2009 and 2010) to 1.75% (expressed as a percentage of the taxable dividend) effective January 1, 2011.

Co-op Education & Apprenticeship Tax Credits (CEATC)

The Co-op Education & Apprenticeship Tax Credits (CEATC) is a family of programs that provide incentives to employers who offer work experience to young Manitobans. In December 2008, the government announced a new component, the Advanced-Level Apprentices Hiring Incentive, would be added to the system. This new component is intended to ease bottlenecks in high-demand trades. It was also announced that all CEATC components will be extended to December 31, 2011.

Research and Development (R&D)**Tax Credit**

It was announced today that the 20% R&D Tax Credit will be made refundable for eligible expenditures incurred after 2009 by a corporation with a permanent establishment in Manitoba. Eligible scientific research and experimental development expenditures must be carried on in Manitoba under an eligible contract with a qualifying research institute, which will include post-secondary institutions and research institutes in Manitoba, as prescribed. This change will ensure that corporations qualifying for the elimination of tax on small business income can still fully benefit from Manitoba R&D credits.

Community Enterprise Investment**Tax Credit**

This credit is a non-refundable income tax credit equal to 30% on a maximum \$450,000 investment in equity capital. It is available to both individual and corporate investors who acquire equity capital in emerging enterprises that require larger amounts of capital than community ownership can provide. It is available on eligible securities acquired after 2007 and before 2011. The maximum annual approved limit for this program was doubled, from \$16.667 million to \$33 million, commencing in 2009.

Book Publishing Tax Credit

The Minister announced changes to the refundable Book Publishing Tax Credit that was introduced in 2008. Initially, books for which contracts were entered into after April 9, 2008 and before 2012 were eligible for the credit. This condition has changed to books published between the same dates. As well, books will be recognized when the authors are paid by fee rather than by royalty.

Mining Tax Rate Cut

The mining tax rate will be reduced from 18% to 17% effective July 1, 2009. In addition, a 15% rate will apply when operator profits are between \$55 and \$100 million and a 10% rate will apply when operator profits are under \$50 million. Transitional tax rates will apply when operator profits are between \$50 and \$55 million or between \$100 and \$105 million.

Sales Tax Changes

Retail Sales Tax

Effective May 1, 2009, the sales tax exemption for books will be expanded to include educational workbooks.

In another announcement in today's budget, the temporary sales tax exemption for manure slurry tanks and lagoon liners, originally scheduled to expire on June 30, 2009, has been made permanent.

Other Changes

Tobacco Tax

The tobacco tax is increased effective today at midnight. The rate will rise on cigarettes from 17.5 cents to 18.5 cents per cigarette, on fine-cut tobacco from 16.5 cents to 17.5 cents per gram, and on raw leaf tobacco from 15 cents to 16 cents per gram. As well, fines and penalties for tobacco tax offences will be increased and enforcement measures will be enhanced.

Waste Reduction and Recycling Support Levy

A new waste reduction and recycling support levy on licensed municipal and private landfill operators was introduced in today's budget. The largest operators of Class 1 landfills will be required to pay \$10 per tonne of waste delivered to their landfills beginning on July 1, 2009. The remaining Class 1 licensed landfill operators will be required to pay the weight-based levy on waste delivered after 2009. Class 2 and Class 3 operators will begin to pay the weight-based fee no later than 2011.

***Green Energy Equipment
Tax Credit***

The Green Energy Equipment Tax Credit, introduced in the 2007 budget, is a refundable income tax credit for prescribed renewable energy resource equipment manufactured or purchased for use in Manitoba. Today's budget extended the credit to include solar thermal energy systems purchased for use in Manitoba starting in 2009. Purchasers who install specified new solar heating equipment in Manitoba will qualify for a refundable 10% Green Energy Equipment Tax Credit on the eligible capital costs. Regulations implementing these changes will be enacted in 2009.

Riparian Tax Credit

The Riparian Tax Credit provides incentives to agricultural operators to commit themselves for five-year benefit periods to specific riparian management practices on the banks of waterways and on the shores of lakes. Today's budget enhanced this credit and extended the application deadline for the intake group running from 2009 through 2013. The same enhancements to the credit will also be made available to participants of previous intake groups whose benefit period is not yet expired.

Gasoline & Motive Fuel Tax

The following fuel tax measures were announced:

- The aviation fuel tax rate for domestic cargo flights will be reduced from 3.2 cents to 1.5 cents per litre. The fuel tax exemption for international cargo flights will be expanded to include direct and indirect cargo flights to and from the United States and will be provided through a rebate program. These changes are effective July 1, 2009.
- Effective May 1, 2009, the fuel tax exemption for forestry companies will be expanded to include fuel used for forest renewal.

Odour Control Tax Credit

The Odour Control Tax Credit was introduced in the 2004 budget to encourage businesses to control nuisance odours that arise or may arise from the use or production of organic waste. This credit, which was scheduled to expire at the end of 2009, is extended to the end of 2011.

***Labour-Sponsored Venture
Capital Corporations***

Changes will be made for Manitoba registered labour-sponsored venture capital corporations to accommodate one or more series of Class A shares.

How Manitoba Compares

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to March 25, 2009.

	Top 2009 Personal Rates %	2009 Corporate Rates			Retail Sales Tax %
		General %	M&P %	Small Business %	
BC	43.70	30.0	30.0	13.5	7.0
Alta.	39.00	29.0	29.0	14.0	-
Sask.	44.00	31.0	29.0	15.5	5.0
Man.	46.40	32.0⁽¹⁾	32.0⁽¹⁾	12.0	7.0
Ont.	46.41	33.0	31.0	16.5	8.0
Qué.	48.22	30.9	30.9	19.0	7.5 ⁽⁴⁾
NB	46.00	32.0 ⁽¹⁾	32.0 ⁽¹⁾	16.0	8.0 ⁽⁵⁾
NS	48.25	35.0	35.0	16.0	8.0 ⁽⁵⁾
PEI	47.37	35.0	35.0	14.2 ⁽²⁾	10.0 ⁽⁴⁾
Nfld.	44.50	33.0	24.0	16.0	8.0 ⁽⁵⁾
Yukon	42.40	34.0	21.5	15.0 ⁽³⁾	-
NWT	43.05	30.5	30.5	15.0	-
Nunavut	40.50	31.0	31.0	15.0	-

- (1) The general business and M&P rates will be reduced to 31.0% on July 1, 2009.
- (2) The small business rate will be reduced to 13.1% on April 1, 2009.
- (3) The tax rate for M&P profits eligible for the small business deduction is 13.5%.
- (4) Provincial sales tax applies on GST. Effective combined rate is 12.875% in Québec and 15.5% in PEI.
- (5) As part of the HST (combined rate is 13% with GST).

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