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PEI Budget Report

Highlights

- ***Deficit of \$41.4 million now forecast for 2008-09 fiscal year***
- ***Deficit of \$85.3 million projected for 2009-10 fiscal year***
- ***No new income tax changes announced***
- ***Corporate and personal tax reductions will continue despite deficits***
- ***PEI Small Business Limit increases to \$500,000***

“Investing in Islanders”

On April 16, 2009, the Honourable Wesley J. Sheridan tabled his third budget as Treasurer of Prince Edward Island. The Treasurer has again presented a budget with large deficits. The deficit for the 2008-2009 fiscal year is now estimated to be \$41.4 million. In 2009-2010, the deficit is projected to double, to approximately \$85.3 million. This increase appears to be due primarily to a \$39.4 million pension adjustment to reflect a loss in value due to the downturn in capital markets. According to the Treasurer, it is hoped that improvements in financial markets will help mitigate this difficulty. Despite these numbers, the Treasurer did point out that the PEI deficit per capita is still lower than the budget projections presented earlier this year by New Brunswick and Newfoundland and Labrador.

Despite the economic downturn, the Treasurer predicts that the Island economy will grow by 0.5% in 2009. This follows growth of 1.2% in 2008. Also, although there will be some growth in overall employment, the unemployment rate will increase somewhat due to immigration to the Island. A strong tourism season is predicted, due in part to the 2009 Canada Games.

As has been a common theme with the federal and provincial budgets so far this year, there will be a focus on infrastructure and capital spending. The government has proposed a new Tourism and Convention Centre for the capital area as well as a new Summerside wind farm. Other spending increases were announced, including targeted health care initiatives such as a new 10-bed stroke unit in Charlottetown.

In what appears to be the only revenue measure, the cost of a carton of cigarettes will be increased by \$5 (this follows a similar increase in last year's budget). This change is effective at midnight on April 16th.

The following is a summary of tax changes of interest to our clients that will apply for 2009.

Prince Edward Island Consolidated Projection			
<i>(in millions \$)</i>			
	Budget Estimate 2008/2009*	Revised Forecast 2008/2009*	Projected 2009/2010
Revenue	1,353.6	1,340.2	1,429.7
Program expenditures	(1,224.3)	(1,232.6)	(1,359.5)
Interest charges on debt	(117.3)	(110.1)	(114.3)
Net amortization	(40.9)	(38.9)	(41.2)
Consolidated Deficit	(28.9)	(41.4)	(85.3)
* Including a \$6 million restatement to the capital budget.			

Personal Tax Changes

Personal Tax Credits and Rates

No new personal tax changes were announced, so tax rates for 2009 will remain at the same level as 2008 (since PEI tax brackets are not indexed), as follows:

2009 Tax Bracket Thresholds and Rates	
Income Range	Tax Rate
\$0 to \$31,984	9.8%
\$31,984 to \$63,969	13.8%
\$63,969 and over	16.7%
Surtax rate (applies on basic PEI Tax in excess of \$12,500)	10%

Personal tax credit amounts will also remain unchanged – key amounts are set out below.

Non-Refundable Tax Credit Amounts	2009 Amount
Basic Personal Amount	\$7,708
Spousal Amount	6,546
- Income Threshold	655
Age Amount	3,764
- Income Threshold	28,019

Business Tax Changes

Small Business Income Tax Cuts Continue

Despite the increased deficits announced this year, the final stage of the reduction to the PEI small business corporate income tax rate will proceed on schedule as noted in the chart below. In addition, as the limit for the PEI small business rate is tied to the federal amount, active business income of up to \$500,000 will be eligible for the small business rate effective January 1, 2009.

Effective Date	Tax Rate for Canadian-Controlled Private Corporations on Active Business Income
April 1, 2008	3.2%
April 1, 2009	2.1%
April 1, 2010	1.0%

How PEI Compares

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to April 16, 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	13.1⁽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 was reduced from 14.2% 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).

Prince Edward Island Budget Report is a publication of BDO Dunwoody LLP and BFM Chartered Accountants on developments in the area of taxation. This material is general in nature and should not be relied upon to replace the requirement for specific professional advice. Additional informational can be obtained from BFM.

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