

Manitoba Budget Report

On April 11, 2017, the Honourable Cameron Friesen presented his second budget as Minister of Finance. In many respects, this is the first true budget of the Progressive Conservative government as last year's budget was presented so soon after the provincial election.

The revised budget deficit for the 2016-17 fiscal year is now \$872 million which is down slightly from the \$911 million deficit predicted a year ago. The deficit for the 2017-18 fiscal year is projected to be \$840 million.

While the fiscal situation is improving, the government believes that the current deficit levels are not sustainable and will not reverse without making significant changes. However, rather than making drastic changes immediately, the province has opted to phase-in the changes needed to balance the budget over time. Last year, the Minister stated that the government will pursue measures that will balance the province's books before the end of the government's second term. It was confirmed in this year's budget that the province remains on track to meet this goal.

On the expenditure side, total expenditures will increase by 3.3% for the coming year. The increased spending will focus on health care and education, children and families, and community protection. In particular, the increases for health and families will be 3.2% and 6.0% respectively. On education, the Tuition Fee Income Tax Rebate and Tuition Fee Income Tax Rebate Advance will be eliminated as expected, and more direct grants and bursaries will be provided to students that need financial assistance the most.

In last year's budget, the province announced that it would undertake a review of the province's personal and business tax credit system to ensure that the system is effectively serving the needs of Manitobans and their businesses. As a result of this review, the government has concluded that a number of boutique tax credits have had little uptake or failed to meet their original policy objectives. Many of these credits, both corporate and personal, have been eliminated. Other credits are making a positive contribution to the province and these credits will be retained or extended where necessary. Otherwise, no new taxes or tax increases were announced.

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



HIGHLIGHTS

- Deficit of \$872 million projected for 2016-17
- Deficit of \$840 million forecast for 2017-18
- Many boutique tax credits eliminated
- Personal tax brackets and basic credit remain indexed

| Manitoba Summary Budget Projections | | | |
|--|--------------------------|-------------------------|-------------------------|
| (in millions \$) | | | |
| | Original Estimate | Revised Forecast | Projected |
| | <u>2016/2017</u> | <u>2016/2017</u> | <u>2017/2018</u> |
| Revenue | 15,230 | 15,643 | 16,101 |
| Expenditures | 16,291 | 16,515 | 17,056 |
| In-Year Adjustments/Lapse | (150) | – | (115) |
| Summary net loss | (911) | (872) | (840) |

PERSONAL TAX CHANGES

Personal Income Tax Brackets and Basic Personal Amount

As announced in last year's budget, the personal income tax brackets and Basic Personal Amount are indexed to inflation by the Manitoba Consumer Price Index starting in 2017. The index factor is 1.5% for 2017. The projected index factor is 1.8% for 2018 and 2.0% for each of 2019 and 2020.

Political Contributions Tax Credit

The Political Contributions Tax Credit is earned on eligible contributions made to a recognized provincial political party or candidate for election to the Manitoba Legislature. The tax credit is 75% on the first \$400 of contributions, 50% on the next \$350 of contributions and 33.3% on the next \$525 of contributions. The budget proposes to enhance this credit, beginning in 2018, by increasing the maximum eligible contribution from \$1,275 to \$2,325. This will result in an increase in the total available annual credit from \$650 to \$1,000.

Tuition Fee Income Tax Rebate

This budget proposes to phase-out the Tuition Fee Income Tax Rebate. For the 2017 tax year, the annual maximum amount an individual graduate can claim for this rebate will be the least of Manitoba income tax payable, 10% of eligible tuition fees or \$500. This is a reduction from a maximum amount of \$2,500 available in 2016. The rebate will be fully eliminated for the 2018 tax year at which time no rebate credits will be claimable, and any unclaimed rebate credits will lapse.

Tuition Fee Income Tax Rebate Advance

The Tuition Fee Income Tax Rebate Advance is eliminated effective for tuition and ancillary fees paid in relation to a school term that begins after April 2017.

Manitoba Education Amount

In contrast to the federal government's move to eliminate the education amount for students, Manitoba students will continue to benefit from the Manitoba Education Amount. The Manitoba government plans to introduce technical amendments to maintain the provincial education amount following the elimination of the federal education amount.

Primary Caregiver Tax Credit

The Primary Caregiver Tax Credit is amended to cap the annual credit claimable by a caregiver at a maximum of \$1,400 in 2017 and future years, while removing the limit of three care recipients. In addition, it is proposed that eligibility for this credit begin in the year that the application is submitted to the assessing authority (i.e. a Regional Health Authority or the Department of Families).

Also, starting in 2017, retroactive claims for years prior to 2017 are not permitted. If an application is submitted in 2017 but the credit is not claimed until 2019, the caregiver may still claim the credit for 2017 and 2018.

Children's Arts and Cultural Activity Tax Credit and the Fitness Tax Credit

The Manitoba government plans to introduce technical amendments to maintain the provincial Children's Arts and Cultural Activity Tax Credit and the Fitness Tax Credit following the elimination of the corresponding federal tax credits.

Seniors' School Tax Rebate and the Volunteer Firefighter and Search & Rescue Tax Credits

The Manitoba government plans to introduce legislation to ensure that the Seniors' School Tax Rebate and the Volunteer Firefighter and Search & Rescue Tax Credits are targeted to Manitoba residents only.

BUSINESS TAX CHANGES

Research and Development Tax Credit

Corporations that carry on eligible scientific research and experimental development in Manitoba are eligible for a Research and Development Tax Credit. The rate of this tax credit is reduced from 20% to 15%, effective for eligible expenditures made after April 11, 2017.

Manufacturing Investment Tax Credit

Corporations can earn the Manufacturing Investment Tax Credit on eligible investments in manufacturing plant and equipment. The non-refundable portion of the credit is reduced from 2% to 1% effective for qualifying property acquired after April 11, 2017. This measure does not impact the 8% refundable portion of the credit. This credit is also extended to December 31, 2020.

Paid Work Experience Tax Credit

The Paid Work Experience Tax Credit is a family of tax credits that provides qualified employers with a percentage of the wages and salaries paid to certain types of trainee employees and recent graduates working in Manitoba. Beginning with the 2017 tax year, Crown corporations and other provincial government entities are no longer eligible for the credit.

Corporation Capital Tax

The Corporation Capital Tax (CCT) is a tax on the annual paid-up capital of banks, trust and loan corporations, and crown corporations that have a permanent establishment in Manitoba. Taxable corporations do not pay tax on their first \$10 million of taxable paid-up capital, and associated corporations are required to share one \$10 million deduction. The budget eliminates the capital tax deduction, effective for fiscal years ending after April 30, 2017.

However, administrative relief was announced in the budget. Specifically, corporations with less than \$5,000 in tax payable for a fiscal year that remit an annual instalment for CCT will no longer be required to do so. Instead, any tax owing is to be remitted when filing their annual CCT Return.

Tax Credit Extensions

The following tax credits are extended to provide greater planning certainty to Manitoba businesses:

Mineral Exploration Tax Credit – This non-refundable tax credit provides individuals with a 30% credit on their investments in eligible flow-through shares of qualifying mineral exploration companies. This credit was scheduled to expire on December 31, 2017. The budget proposes to extend this credit to December 31, 2020.

Book Publishing Tax Credit – This credit is designed to assist the development of the book publishing industry in Manitoba by providing a 40% refundable tax credit on eligible Manitoba labour costs. This credit was scheduled to expire on December 31, 2017. The budget proposes to extend this credit to December 31, 2018.

Interactive Digital Media Tax Credit – Companies may claim either a 40% or 35% refundable tax credit on eligible project costs they incur and pay to develop an eligible interactive digital media product in Manitoba. This credit was scheduled to expire on December 31, 2019. The budget proposes to extend this credit to December 31, 2022.

Tax Credit Eliminations

Manitoba offers a number of specialty income tax credits to businesses. The following credits have had little uptake or failed to meet their objectives and are being eliminated in the budget:

Co-operative Development Tax Credit – This partially refundable tax credit is available for co-operatives and credit unions that make financial contributions towards co-operative development in Manitoba. The credit is eliminated for expenditures made after April 11, 2017. This will not impact unused credits on eligible contributions previously made which are available to be carried forward.

Odour Control Tax Credit – This is a 10% non-refundable corporate tax credit for businesses that invest in capital to control nuisance odours that arise or may arise from the use or production of organic waste. The credit is eliminated for expenditures made after April 11, 2017, but this does not impact unused credits on eligible expenditures made by businesses before April 12, 2017.

Nutrient Management Tax Credit – This 10% refundable credit available to farmers and corporations who purchase prescribed nutrient management equipment that is designed to meet Manitoba water quality standards is eliminated for expenditures made after April 11, 2017. This will not impact the carry forward of unused credits for eligible expenditures made before April 12, 2017.

Riparian Tax Credit – This property tax credit was designed to encourage farm operators to upgrade their management of lakeshores and river and stream banks. The credit is eliminated effective immediately. However, this will not impact eligibility for unused credits on five-year commitments made before April 12, 2017.

Neighbourhoods Alive! Tax Credit – This 30% non-refundable tax credit was available to corporations that partnered with charitable organizations to establish new social enterprises in Manitoba. There have been no claimants since the credit was introduced in 2011, and the credit is eliminated effective immediately.

Data Processing Investment Tax Credits – These refundable tax credits include the Data Processing Centre Investment Tax Credit and the Data Processing Equipment Investment Tax Credit. The credits were introduced to position Manitoba as a location for investment in high-technology data processing; however, they are being eliminated effective immediately. This does not impact credits earned but unused and eligible for carryforward by corporations or partnerships for qualified property purchased or leased before April 12, 2017.

HOW MANITOBA COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to April 11, 2017.

| | 2017 Corporate Rates | | | | 2017 Provincial Sales Tax % |
|-------------|---------------------------|----------------------|----------------------|----------------------|-----------------------------|
| | Top 2017 Personal Rates % | General % | M&P % | Small Business % | |
| B.C. | 47.70 | 26.00 | 26.00 | 12.50 ⁽²⁾ | 7.00 |
| Alta. | 48.00 | 27.00 | 27.00 | 12.50 | - |
| Sask. | 47.75 | 27.00 ⁽¹⁾ | 25.00 ⁽¹⁾ | 12.50 | 6.00 ⁽⁶⁾ |
| Man. | 50.40 | 27.00 | 27.00 | 10.50 | 8.00 |
| Ont. | 53.53 | 26.50 | 25.00 | 15.00 | 8.00 ⁽⁷⁾ |
| Qué. | 53.31 | 26.80 | 26.80 | 18.50 ⁽³⁾ | 9.975 ⁽⁸⁾ |
| N.B. | 53.30 | 29.00 | 29.00 | 13.50 ⁽⁴⁾ | 10.00 ⁽⁷⁾ |
| N.S. | 54.00 | 31.00 | 31.00 | 13.50 | 10.00 ⁽⁷⁾ |
| P.E.I. | 51.37 | 31.00 | 31.00 | 15.00 | 10.00 ⁽⁷⁾ |
| N.L. | 51.30 | 30.00 | 30.00 | 13.50 | 10.00 ⁽⁷⁾ |
| Yukon | 48.00 | 30.00 | 17.50 | 13.50 ⁽⁵⁾ | - |
| N.W.T. | 47.05 | 26.50 | 26.50 | 14.50 | - |
| Nunavut | 44.50 | 27.00 | 27.00 | 14.50 | - |

- (1) The general business tax rate will decrease to 26.5% and the M&P tax rate will decrease to 24.5% effective July 1, 2017.
- (2) The small business tax rate decreased from 13% effective April 1, 2017.
- (3) Québec provides a rate reduction from the small business rate for eligible manufacturing small and medium-sized enterprises (SMEs). Where certain conditions are met, the maximum reduction available is 4%, for a combined rate of 14.5%. Note that a lesser reduction from the small business rate may be available to certain manufacturing SMEs where some, but not all conditions are met.
- (4) The small business tax rate decreased from 14% effective April 1, 2017.
- (5) The tax rate for M&P profits eligible for the small business deduction is 12%.
- (6) The PST increased from 5% effective March 23, 2017.
- (7) As part of the HST (combined rates are 15% in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland & Labrador and 13% in Ontario).
- (8) The QST system is harmonized with the GST, though two separate tax systems remain – the GST and the amended QST. The combined rate is 14.975%.

The information in this publication is current as of April 11, 2017.

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