

MANITOBA BUDGET REPORT

“CORRECTING THE COURSE”

HIGHLIGHTS

- Deficit of \$1.011 billion projected for 2015-16
- Deficit of \$911 million forecast for 2016-17
- Personal tax brackets and basic credit to be indexed
- Seniors' School Tax Rebate to be subject to a clawback

On May 31, 2016, the Honourable Cameron Friesen presented his first budget as Minister of Finance and the first budget of the newly elected Progressive Conservative government that was elected on April 19, 2016.

The new government reports that the financial situation for the province has worsened and the revised budget deficit for the 2015-16 fiscal year is now \$1.011 billion which is up from the \$422 million deficit predicted in last year's budget. The deficit for the 2016-17 fiscal year is now projected to be \$911 million. The Finance Minister also stated that the province's debt has grown from \$10 billion to \$21 billion during the last eight years. The government predicts that with a careful approach, it will be able to balance the books during its second term in office.

In terms of fiscal initiatives, the government does make it clear that it will take time to enhance key areas such as health care, education, family assistance and building a stronger economy due to the province's fiscal position.

On the health care front, measures will be introduced to cut ambulance fees in half, reduce wait times and address the shortage of personal care home beds. Overall, the budget provides for a 3.8% increase in health care expenditures. Funding for families and education will also increase.

From a tax perspective, there were relatively few changes. The main changes announced were the indexing of the personal tax brackets and basic personal credit beginning in 2017 and a clawback of the Seniors' School Tax Rebate where household income exceeds \$40,000 per year.

The government will also work to identify ways to reduce duplication and waste. For example, the government announced that property tax credits and rebates for seniors will now be delivered through the income tax system administered by the Canada Revenue Agency. It was also announced that the province will 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.

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

Manitoba Summary Budget Projections			
(in millions \$)			
	Original Estimate <u>2015/2016</u>	Revised Forecast <u>2015/2016</u>	Projected <u>2016/2017</u>
Revenue	14,963	14,769	15,230
Expenditures	15,385	15,780	16,141
Summary net loss	(422)	(1,011)	(911)

PERSONAL TAX CHANGES

Personal Tax Brackets Indexed

Today's budget introduces the indexation of the personal tax brackets starting in 2017. For 2017, the personal tax brackets for Manitoba will be increased by the Manitoba Consumer Price Index (CPI) for the 12-month period from October 2015 to September 2016. The Manitoba CPI will be known by November 2016 following the release of provincial inflation figures by Statistics Canada. The personal tax brackets will continue to be indexed in subsequent years.

Basic Personal Amount Indexed

The Manitoba Basic Personal Amount (BPA) will also be increased in 2017 by the Manitoba CPI for the 12-month period from October 2015 to September 2016. The BPA will continue to be indexed in subsequent years. The budget documents have indicated that based on current estimates, the 2016 BPA of \$9,134 will increase to approximately \$9,292 in 2017 when using a projected index factor of 1.73% for Manitoba.

Seniors' School Tax Rebate Amended

In today's budget, the government confirms that the maximum Seniors' School Tax Rebate (Rebate) limit of \$470 for eligible seniors remains the same for the 2016 and subsequent property tax years. The Rebate will now be calculated on net school taxes paid after the Basic and Seniors' Education Property Tax Credits are taken into account. In addition, the Rebate will be reduced by 2% of net family income for senior households over \$40,000. Eligible seniors below the \$40,000 income-tested threshold will still be eligible for a full Rebate depending on net school tax paid. Senior households with a family net income of \$63,500 and over will no longer receive the Rebate.

Previously, an application form for the Rebate had to be completed and submitted to claim the amount. Starting with the 2016 Rebate, Rebates will be processed through the personal income tax return system. The 2016 Rebate will be claimed on the 2016 personal income tax return when it is filed next spring. This administrative change means that retroactive claims of up to three years (but no further back than the 2016 Rebate) will be permitted.

BUSINESS TAX CHANGES

Small Business Venture Capital Tax Credit Extended

The Small Business Venture Capital Tax Credit was introduced in 2007 to promote ownership by Manitoba resident individuals and companies in emerging enterprises. This credit was set to expire on December 31, 2016. Today's budget proposes to extend the credit for three years to the end of 2019. In addition, the province will be reviewing the program parameters to improve accessibility for companies.

Green Energy Equipment Tax Credit Expanded

The Green Energy Equipment Tax Credit is a refundable tax credit aimed at the production and purchase of machinery and equipment used to generate renewable energy in Manitoba. Today's budget will expand its eligibility to include gasification equipment and equipment for co-generation of energy using biomass fuel. These types of equipment are eligible for a 15% tax credit.

Interactive Digital Media Tax Credit to be Reviewed

The Interactive Digital Media Tax Credit is a refundable tax credit provided to companies that develop and produce eligible interactive digital media projects in Manitoba. Qualifying companies can claim a 40% tax credit on eligible labour costs paid on projects approved by the Department of Growth, Enterprise and Trade. This credit will be reviewed for enhancements to the eligibility criteria, especially for larger digital media companies that achieve a significant job-creating presence in the province.

Small Business Income Limit Increase Maintained

The 2015 Manitoba budget increased the small business income limit eligible for the small business deduction from \$425,000 to \$450,000 effective on January 1, 2016. Today's budget confirms this increase. Canadian-controlled private corporations that qualify for the small business deduction are subject to a 0% rate of Manitoba corporation income tax.

HOW MANITOBA COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to May 31, 2016.

	Top 2016 Personal Rates %	2016 Corporate Rates			2016 Provincial Sales Tax %
		General %	M&P %	Small Business %	
B.C.	47.70	26.00	26.00	13.00	7.00
Alta.	48.00	27.00	27.00	13.50	-
Sask.	48.00	27.00	25.00	12.50	5.00
Man.	50.40	27.00	27.00	10.50	8.00
Ont.	53.53	26.50	25.00	15.00	8.00 ⁽⁵⁾
Qué.	53.31	26.90	26.90	18.50 ⁽³⁾	9.975 ⁽⁶⁾
N.B.	53.30	29.00 ⁽¹⁾	29.00 ⁽¹⁾	14.00 ⁽¹⁾	8.00 ⁽⁷⁾
N.S.	54.00	31.00	31.00	13.50	10.00 ⁽⁵⁾
P.E.I.	51.37	31.00	31.00	15.00	9.00 ⁽⁸⁾
N.L.	49.80	30.00 ⁽²⁾	30.00 ⁽²⁾	13.50	8.00 ⁽⁷⁾
Yukon	48.00	30.00	17.50	13.50 ⁽⁴⁾	-
N.W.T.	47.05	26.50	26.50	14.50	-
Nunavut	44.50	27.00	27.00	14.50	-

- (1) Effective April 1, 2016, the general corporate tax rate increased from 27% and the small business tax rate decreased from 14.5%.
- (2) Effective January 1, 2016, the general corporate tax rate increased from 29%, and the M&P rate increased from 20% due to the elimination of the Manufacturing and Processing Profits Tax Credit.
- (3) Québec provides a rate reduction for manufacturing SMEs. Where certain conditions are met, the maximum reduction available is 4%, for a combined rate of 14.5%. Note that a lesser reduction may be available to certain manufacturing SMEs where not all conditions are met.
- (4) The tax rate for M&P profits eligible for the small business deduction is 12%.
- (5) As part of the HST (combined rates are 15% in Nova Scotia and 13% in Ontario).
- (6) The QST system is harmonized with the GST, though two separate tax systems remain – the GST and the amended QST.
- (7) Effective July 1, 2016, the provincial portion of the HST in New Brunswick and Newfoundland & Labrador will increase to 10%, which will increase the combined HST rate from 13% to 15%.
- (8) Effective October 1, 2016, the provincial portion of the HST in Prince Edward Island will increase to 10%, which will increase the combined HST rate from 14% to 15%.

The information in this publication is current as of May 31, 2016.

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