

PRINCE EDWARD ISLAND BUDGET REPORT

HIGHLIGHTS

- Deficit of \$27.7 million now forecast for 2015-16 fiscal year
- Deficit of \$9.6 million projected for 2016-17 fiscal year
- Balanced budget by 2017-18
- HST rate increased
- No corporate or personal tax rate changes

On April 19, 2016, the Honorable Allen F. Roach tabled his second budget as Minister of Finance and Chair of Treasury Board for Prince Edward Island. The budget focuses on the resources needed to continue in a difficult economic climate.

The deficit expected for the 2015-16 fiscal year is \$27.7 million, which is significantly higher than the original forecast of \$19.9 million, but lower than the 2014-15 deficit of \$34.7 million. The government is now forecasting a deficit of \$9.6 million for 2016-17, and a surplus of \$9.2 million in 2017-18.

The government projects that economic growth will be 1.2% for the 2016-17 fiscal year and such growth will continue to be modest. In order to continue to provide essential public services, and to further invest in healthcare and education, the province will increase the provincial portion of the harmonized sales tax (HST) by 1% for an HST rate of 15% effective October 1, 2016.

This budget focuses on helping the economy grow through supports to increase immigration, exports, entrepreneurship and tourism. Initiatives to increase immigration include funding to a new PEI Connectors office in Summerside to assist new immigrants to establish businesses in western PEI, and support to entrepreneurs who have applied to expand their businesses to PEI under the federal Start Up Visa Program. New funding will assist the Food Island Partnership with food exports. New entrepreneurs could benefit under four new business start up programs. Tourism PEI, along with the Atlantic Canada Opportunities Agency and the Tourism Industry Association of PEI, is developing a new five-year strategy to increase tourism.

Today's budget contains no other tax rate changes. Changes to personal tax credits will help all Islanders, but particularly those living in low and modest income households. The basic personal, dependant spouse and dependant credits have increased, as have credits in the low-income tax reduction program. The refundable Sales Tax Credit amounts will also increase.

In addition, first-time home buyers will no longer be subject to the Real Property Transfer Tax after September 30, 2016.

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

Prince Edward Island Consolidated Projection (in millions \$)			
	Budget Estimate 2015/2016	Revised Forecast 2015/2016	Projected 2016/2017
Revenue	1,648.9	1,654.6	1,710.2
Program expenditures	(1,476.1)	(1,487.8)	(1,524.5)
Interest charges on debt	(127.0)	(128.0)	(126.7)
Net amortization	(65.7)	(66.5)	(68.6)
Consolidated Deficit	(19.9)	(27.7)	(9.6)

PERSONAL TAX CHANGES

Non-Refundable Credit Amounts Increased

The government announced an increase in non-refundable credit amounts, including an increase in the Basic Personal Amount from \$7,708 to \$8,000, the Spousal Amount from \$6,546 to \$6,795, and the Dependant Amount from \$6,294 to \$6,795 for the 2016 and subsequent years.

Low Income Tax Reduction Enhanced

The Low Income Tax Reduction Program provides targeted personal income tax relief to low and modest income individuals and families. Residents of PEI can claim the reduction if they are over 18 years old, have a spouse or common-law partner or have a child. The basic, spousal or equivalent to spouse, and child amounts will all be increased by \$50 effective for the 2016 and subsequent years. This brings the basic, spouse and equivalent to spouse reduction amounts to \$350, and the additional amount for each dependent child to \$300. No changes to the current threshold for the reduction based on adjusted family income were announced.

Prince Edward Island Sales Tax Credit (PEISTC) Increased

The PEISTC is a non-taxable amount paid to help offset the increase in sales tax for households with low and modest incomes. In today's budget, the government proposed to increase the refundable PEISTC by 10% effective July 2016. As a result, the basic credit amount will be increased to \$110; the spouse, equivalent to spouse, and supplement amounts will be increased to \$55; and the maximum amount under the enhanced credit will be \$220.

SALES TAX CHANGE

Harmonized Sales Tax (HST) Increased

Today's budget proposed a 1% increase to the HST rate. Effective October 1, 2016, the HST rate will increase from 14% to 15%, with the provincial portion of the HST increasing from 9% to 10%.

OTHER CHANGE

Real Property Transfer Tax for First Time Home Buyers

In today's budget, the government proposed to eliminate the Real Property Transfer Tax to all first-time home buyers effective October 1, 2016.

HOW PRINCE EDWARD ISLAND COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to April 19, 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 April 19, 2016.

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