MANITOBA BUDGET REPORT

HIGHLIGHTS

- Deficit of $583 million projected for 2012-13
- Deficit of $518 million forecast for 2013-14
- Books to be balanced by 2016-17
- PST to increase from 7% to 8% on July 1, 2013
- Corporate small business limit to increase to $425,000 on January 1, 2014

"Focused On What Matters Most to Families"

On April 16, 2013, the Honourable Stan Struthers presented his second budget as Minister of Finance. This budget maintains its focus on families and the economy with spending priorities on infrastructure, health care and targeted investments in education and training.

The deficit reported for 2012-13 is $583 million which has increased from the $460 million deficit that was forecast last year. A deficit of $518 million is forecast for the 2013-14 fiscal year. It is expected to take an additional two years to reach a balanced budget, now predicted for 2016-17.

The government announced an increase of the provincial sales tax (PST) rate to 8% effective July 1, 2013, as a measure to work towards a balanced budget while protecting key government services. The increase is temporary as it is set to expire in 10 years. Although Manitobans will pay a higher rate of PST, exemptions from the tax will be added for a number of essential items for young families.

To protect businesses, families and the provincial economy, the government introduced a new Building and Renewal Plan to deal with the continued uncertainty of the global economy and future flooding in the province. This plan will be funded by the PST increase and funds will be used only for infrastructure spending.

Expenditure reductions will continue with measures to extend the reduction of ministerial salaries, to freeze or reduce the budgets of 11 government departments and to expand efficient management practices.

From a corporate income tax perspective, small businesses will benefit from an increase in the small business limit to $425,000 effective January 1, 2014. For individuals, the provincial dividend tax credit for ineligible dividends will be adjusted to account for federal tax changes to these dividends in order to maintain integration. It was also reconfirmed that seniors will benefit from an elimination of school property taxes by 2015. Increases in tobacco taxes and certain user fees have been announced as well.

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

Manitoba Summary Budget Projections (in millions $)			
	Original Estimate 2012/2013	Revised Forecast 2012/2013	Projected 2013/2014
Revenue	13,851	13,764	14,182
Expenditures	(14,311)	(14,347)	14,700
Summary net income (loss)	(460)	(583)	(518)

PERSONAL TAX CHANGE

Dividend Tax Credit

In March, the federal budget announced changes to the taxation of ineligible dividends, including adjusting the gross-up factor applicable to ineligible dividends paid after 2013 from 25% to 18%. In response to the change in the gross-up factor, the government announced in today's budget that the Manitoba dividend tax credit rate for ineligible dividends will be decreased from 1.75% to 0.83%. As a result of this change, the Manitoba tax rate on ineligible dividend income for a top rate individual will decrease slightly from 19.57% to 19.55%. However, the overall combined federal and provincial rate will increase from 39.15% to 40.77% due to the higher federal rate.

BUSINESS TAX CHANGES

Small Business Income Limit

Today's budget announced that the small business limit for Canadian-controlled private corporations that qualify for the 0% small business income tax rate will be increased from $400,000 to $425,000 on January 1, 2014.

Odour Control Tax Credit

The odour control tax credit provides a 10% tax credit for eligible investments in capital property that significantly reduce, prevent or eliminate odours from organic waste. Today's budget proposes to expand the credit and make it fully refundable to agricultural producers, effective for qualifying property acquired after December 31, 2012.

Data Processing Investment Tax Credit

Last year's budget introduced the data processing investment tax credit for property purchased or leased by an eligible corporation for use in Manitoba. Today's budget broadened this credit to include companies that are not engaged primarily in data processing in Manitoba. Specifically, a taxable Canadian corporation with a permanent establishment in Manitoba that acquires at least $10 million of incremental eligible data processing equipment in a taxation year will qualify for this 8% refundable investment tax credit. Eligible property includes Class 46 and Class 50 data processing equipment purchased, leased and made available for use in Manitoba after April 16, 2013 and before 2016.

For companies that are primarily engaged in data processing in Manitoba, the tax credit rate will increase from 4% to 4.5% on the capital cost of new qualified property that is a building and from 7% to 8% on the capital cost of new qualified property that is machinery or equipment.

Rental Housing Construction Tax Credit

Today's budget introduced the rental housing construction tax credit, equal to 8% of the capital cost of new rental housing in Manitoba. Eligible projects include the construction of five or more new residential rental units, with at least 10% of the units qualifying as affordable rental housing units. New rental units include existing non-residential properties being converted into residential units, in which case capital costs related to the acquisition and conversion of the property are eligible. The maximum credit is set at $12,000 per eligible rental unit.

Eligible landlords can operate as a for-profit or not-for profit entity, but must be residents of Manitoba or have a permanent establishment in Manitoba. Eligible not-for-profit projects will receive a fully refundable tax credit in the year in which the tax credit is earned, as qualifying units are rented. The tax credit on for-profit projects will be claimable over a minimum of five years, and is non-refundable.

Landlords are required to file an annual attestation for five years identifying the affordable units and the total new rental units constructed.

Research and Development Tax Credit

With the goal of protecting the base from the changes to the federal Scientific Research and Experimental Development Tax Credit, the Manitoba research and development tax credit is being amended. Specifically, Manitoba is adjusting the tax credit to maintain eligibility of capital in the Manitoba tax credit base when it is removed from the federal base. Contract payments to eligible institutes will remain eligible at 100% when all contract payments in the federal base are reduced to 80%. The 80% rule will apply to other contract payments.

Manitoba will follow the federal changes to reduce the 65% prescribed proxy amount for overhead to 60% of direct labour costs in 2013 and to 55% starting in 2014.

Manufacturing Investment Tax Credit

Today's budget proposes to amend the manufacturing investment tax credit by increasing the refundable portion from seven-tenths to eight-tenths on qualifying property acquired after June 30, 2013.

Film and Video Production Tax Credit

The film and video production tax credit, which was set to expire on March 1, 2014, is extended to December 31, 2016. This refundable corporation income tax credit is attributable to companies that develop and produce eligible film and video projects in Manitoba.

Interactive Digital Media Tax Credit

The interactive digital media tax credit, which was set to expire December 31, 2013, is extended to December 31, 2016. For eligible projects that commence productions after January 1, 2013, the tax credit is enhanced to: allow up to $100,000 in marketing and distribution costs directly attributable to an eligible project; eliminate the Canada Media Fund grind for repayable or recoupable funding; and clarify product sale requirements.

Small Business Venture Capital Tax Credit

The small business venture capital tax credit, which was set to expire on December 31, 2013, is extended to December 31, 2016. This credit is a non-refundable, 30% income tax credit for investors who acquire equity capital in emerging enterprises that require larger amounts of capital than community ownership can provide.

Corporation Capital Tax on Financial Institutions

The 4% corporation capital tax on financial institutions is increased to 5%, commencing with taxation years ending after April 16, 2013.

SALES TAX CHANGES

Likely the most significant change announced in this year's budget is the proposed increase to the retail sales tax rate. Effective July 1, 2013, the following retail sales tax rate increases will apply for a ten year period (ending June 30, 2023):

- The general sales tax rate will increase from 7% to 8%.
- The sales tax rate on mobile, modular and ready-to-move homes will increase from 4% to 4.5%.
- The reduced sales tax rate for electricity used by qualifying manufacturers, mining companies and oil well operators will increase from 1.4% to 1.6%.

The Prorate Vehicle Tax (PVT) rates will also increase on July 1, 2013 for the same ten year period. The new rates are set out in RST Information Notice 13-04. Note that the reduced sales tax rate for home heating, heating and cooling farm buildings, and operating farm grain dryers remains at 1.4%.

Transitional rules were also announced. For goods, the 7% rate applies to taxable goods purchased before July 1, 2013, including goods purchased on credit or by deferred payment arrangements where payment is made after June 30, 2013. In addition, the 7% rate will apply on goods that are fully paid for prior to July 1, 2013, but delivery is taken on or after that date. The 8% rate applies to goods purchased after June 30, 2013, including goods for which the purchaser has made only a deposit on the purchase. Similar rules apply for mobile, modular and ready-to-move homes.

For services, the 7% rate will apply to services completed prior to July 1, 2013, regardless of the billing and payment date. Contracts for services that commence after June 30, 2013 are taxable at 8%. However, prepaid service arrangements bought and paid for prior to April 17, 2013 are taxable at 7%, regardless of when the service is performed. Otherwise, RST Information Notice 13-05 generally suggests that the 7% or 8% rate will apply based on when the service is provided.

A number of new sales tax exemptions were also announced for the following goods, all effective July 1, 2013:

- Baby supplies such as diapers, strollers, cribs, gates and monitors, as well as items used for nursing, feeding or bathing.
- Child safety restraint systems used in vehicles, such as car seats and booster seats.
- Helmets designed for use while riding a bicycle, for cyclists of any age.

The exemption for municipalities on sand/salt mixtures (containing at least 80% sand) will be expanded from flood related activities to include any municipal works effective July 1, 2013.

OTHER TAX CHANGES

Tobacco Tax

The tobacco tax is increased effective at midnight on April 16, 2013. The rate will rise on cigarettes from 25 cents to 29 cents per cigarette, on fine cut tobacco from 24 cents to 28 cents per gram and on raw leaf tobacco from 22.5 cents to 26.5 cents per gram.

Fuel Tax

Natural Gas Used in Motor Vehicles

Natural gas is now being used in motor vehicles in Manitoba. The fuel tax rate to be applied to natural gas used in motor vehicles will be phased in over the next two years as follows:

- 3 cents per cubic meter for sales after April 16, 2013 and up to March 31, 2014;
- 6 cents per cubic meter from April 1, 2014 to March 31, 2015; and
- 10 cents per cubic meter after March 31, 2015.

Fuel Tax License Requirement Eliminated for Retailers

The budget includes measures to reduce red tape and administration costs associated with the sale of fuel by retailers. Fuel dealers that strictly sell fuel retail will no longer be required to register and hold a fuel tax license. A license will still be required for fuel tax collectors and vendors of marked fuel. Eligible fuel retailers will be contacted regarding the implementation of this change.

Farmland School Tax Credit

The farmland school tax credit currently allows a rebate of up to 80% of the school tax levies charged on agricultural land. The budget proposes to restrict this rebate only to eligible farmland owners who are Manitoba residents, and to cap the rebate at $5,000. As well, the budget contains measures to set the application deadline to March 31 of the following year. These measures are effective for the 2013 property tax year.

OTHER TECHNICAL AND ADMINISTRATIVE CHANGES

The budget papers discussed a number of technical changes, which include the following:

- The manufacturing investment tax credit and the research and development tax credit will be amended to ensure they operate as intended, particularly where a corporation elects to renounce tax credits.
- Enforcement and collection measures under The Tax Administration and Miscellaneous Taxes Act will be enhanced.
- The land transfer tax will be amended to provide the Registrar-General authority to:
    - exempt property subject to retail sales tax from land transfer tax;
    - provide tax relief for court ordered rescissions, or mutually agreed-upon sales reversals;
    - issue an assessment notice under General Anti-Avoidance Rules where the conveyance of title is registered in order to reduce or eliminate tax in a manner that is an avoidance transaction; and
    - exempt a statutory easement the first time it is registered.

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 16, 2013.

	Top 2013 Personal Rates %	2013 Corporate Rates			2013 Provincial Sales Tax %
		General %	M&P %	Small Business %	
B.C.	43.70	26.00(1)	26.00(1)	13.50	7.00(7)
Alta.	39.00	25.00	25.00	14.00	-
Sask.	44.00	27.00	25.00	13.00	5.00
Man.	***46.40***	***27.00***	***27.00***	***11.00***	***7.00***(8)
Ont.	49.53/46.41(2)	26.50	25.00	15.50	8.00(9)
Qué.	49.97	26.90	26.90	19.00	9.975(10)
N.B.	45.07	25.00(3)	25.00	15.50	8.00(9)
N.S.	50.00	31.00	31.00	14.50(4)	10.00(9)
P.E.I.	47.37	31.00	31.00	15.5(5)	9.00(11)
N.L.	42.30	29.00	20.00	15.00	8.00(9)
Yukon	42.40	30.00	17.50	15.00(6)	-
N.W.T.	43.05	26.50	26.50	15.00	-
Nunavut	40.50	27.00	27.00	15.00	-

(1) The general and M&P rate for B.C. increased to 26% from 25% effective April 1, 2013.

(2) The top rate includes the additional tax on taxable income in excess of $509,000. The combined tax rate on regular taxable income over $135,054, but not exceeding $509,000 remains at 46.41%.

(3) The general rate for New Brunswick will increase to 27% effective July 1, 2013.

(4) The small business rate for Nova Scotia was reduced to 14.50% from 15.00% effective January 1, 2013.

(5) The small business rate for P.E.I. increased to 15.5% from 12% effective April 1, 2013.

(6) The tax rate for M&P profits eligible for the small business deduction is 13.5%.

(7) The PST rate of 7% was re-implemented effective April 1, 2013 to replace the HST of 12% (which consisted of a 5% GST component and a 7% provincial component).

(8) The PST rate of 7% will increase to 8% effective July 1, 2013.

(9) As part of the HST (combined rates are 15% in Nova Scotia and 13% in Ontario, New Brunswick and Newfoundland & Labrador).

(10) The QST system became harmonized with the GST effective January 1, 2013, though two separate tax systems remain – the GST and the amended QST. Note that effective January 1, 2013, while QST no longer applies on GST, the QST rate increased to 9.975%.

(11) An HST rate of 14% (consisting of a 5% GST component and 9% provincial component) was implemented effective April 1, 2013 to replace the PST rate of 10%).