



Budget Paper D

TAXATION
ADJUSTMENTS

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Summary of 1999 Tax Reductions and Tax Credit Measures

	1999/2000	Full Year
	(Millions of Dollars)	
Personal Income Tax		
Tax rate reduction	(50.6)	(81.0)
Reduction due to federal changes	(19.4)	(31.0)
Equity Tax Credit	(1.0)	(3.0)
Corporation Income Tax		
Small business rate reduction	(5.4)	(24.0)
Film and Video Production Tax Credit extension	0.0	(5.0)
Manufacturing Investment Tax Credit extension	0.0	(13.0)
Mining Tax		
Tax rate reduction	0.0	(1.0)
Motive Fuel Tax (Diesel)		
Exemption for fuel sold to international ocean-going ships	0.0	0.0
Oil and Gas Production		
Tax rate reduction for new wells	0.0	(0.3)*
Retail Sales Tax		
Children's clothing exemption increase	(1.0)	(1.0)
Exemption to farmers for manure slurry tanks	(1.0)	(1.0)
New home rebate for first-time buyers extension	(0.9)	(0.9)
Custom software exemption on sale of ongoing business	(0.2)	(0.2)
Net Increase/(Decrease)	<u>(79.5)</u>	<u>(161.4)</u>

* The impact of this measure is budget neutral, as the rate reduction offsets the expiration of the Petroleum Exploration Assistance Program grants.

■ PERSONAL INCOME TAX

(1999/2000 revenue impact: -\$50.6 million)

Reduction in Tax Rate

Manitoba's basic personal income tax rate, currently 50% of basic federal tax, will be reduced to 48.5% of basic federal tax for the 1999 tax year, and further reduced to 47% of basic federal tax on January 1, 2000. Income tax source deductions will be adjusted effective July 1, 1999, with tax withholdings reflecting a rate of 47% of basic federal tax for the balance of 1999.

On a tax year basis, these changes will save Manitoba taxpayers \$40.5 million in 1999, and about \$81.0 million per year in 2000 and subsequent years.

On a fiscal year basis, these changes will reduce revenue for 1999/2000 by \$50.6 million. In combination with the impact of changes to basic federal tax announced in the 1999 federal Budget, Manitoba personal income tax will decrease by \$70.0 million for 1999/2000. For 2000/01, the combined impact of the rate reduction and basic federal tax reductions will decrease Manitoba personal income tax by about \$112.0 million.

The tables below show typical income tax savings for Manitobans at various income levels for the 1999 and 2000 tax years. The column headed *Manitoba Rate Savings* shows savings due to rate reductions. *Manitoba Basic Tax Savings* are reductions in provincial tax due to changes to basic federal tax. The column headed *Manitoba & Federal Savings* is the sum of the first two columns, plus federal income tax savings. All savings are relative to the tax levels which prevailed prior to changes announced in both the Manitoba and federal 1999 Budgets.

SINGLE TAXFILER

Income	1999			2000		
	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings
	(Dollars)					
10,000	6	13	45	12	27	94
15,000	19	21	83	36	46	174
20,000	31	29	117	60	63	249
30,000	55	29	142	109	66	308
40,000	93	29	179	184	70	395
50,000	132	29	245	262	70	521
60,000	172	29	403	341	70	836
75,000	237	29	564	471	70	1,164
100,000	346	29	782	689	70	1,599

FAMILY OF FOUR

Income	1999			2000		
	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings
(Dollars)						
20,000	15	22	88	29	8	149
25,000	28	34	130	53	75	277
30,000	40	42	168	78	93	358
40,000	79	57	251	153	128	536
50,000	118	57	290	231	128	614
60,000	157	57	436	310	128	895
75,000	222	57	626	440	128	1,284
100,000	331	57	843	658	128	1,719

SENIOR COUPLE

Income	1999			2000		
	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings	Manitoba Rate Savings	Manitoba Basic Tax Savings	Manitoba & Federal Savings
(Dollars)						
25,000	*	*	74	*	*	127
30,000	22	45	158	42	94	316
40,000	59	60	240	114	129	495
50,000	102	60	283	200	131	583
60,000	143	60	387	281	130	792
75,000	206	60	602	408	130	1,233
100,000	315	60	820	625	130	1,562

In these tables, it is assumed that single and married taxpayers have earned income and pay Canada Pension Plan and Employment Insurance premiums at relevant rates. For tax purposes, the married taxpayer has a fully-dependent spouse and two dependent children. The senior citizen couple each receive Old Age Security Pension, and the principal taxpayer receives private pension and interest income, and claims the other senior as a dependent. An asterisk (*) indicates that no Manitoba income tax is payable at this income level.

Inquiries regarding the personal income tax rate reduction should be directed to:

Manitoba Tax Assistance Office
309 – 401 York Avenue
Winnipeg, Manitoba
R3C 0P8

Telephone: (204) 943-3401 in Winnipeg;
Toll Free 1-800-782-0771
E-mail: cosmith@gov.mb.ca

■ MANITOBA EQUITY TAX CREDIT

(1999/2000 revenue impact: -\$1.0 million)

In order to encourage and assist further development of capital markets in Manitoba, the Manitoba Equity Tax Credit is introduced effective midnight tonight. The non-refundable Credit is available to individual Manitoba investors who purchase qualifying shares of an eligible, Manitoba-based company. For any 12-month period, the maximum Credit is 5% of the base price of the security, and may not exceed \$1,500. The Credit may be claimed for a total of up to 36 months, so the maximum Credit that can be claimed for any security is 15%. The Credit may be claimed for shares that are held for only part of a year, but in such cases the 5% Credit will be prorated on a daily basis. The Credit expires at midnight on June 30, 2005.

The Credit is available for equities that are listed exclusively on the Winnipeg Stock Exchange. The companies issuing the creditable securities may have other securities listed on other stock exchanges.

The Credit is deductible only against Manitoba personal income tax. Qualifying shares for which the individual earns a Credit may also be held in a self-directed RRSP.

Eligible corporations must have less than \$50 million in assets and no more than 500 employees, of whom at least 25% are located in Manitoba. At least 25% of the corporation's wages must be paid to Manitoba residents. Corporations that are primarily engaged in the business activity of a professional practice, mineral resource exploration, crop production or real property development, sales or leasing are not eligible. A corporation may not issue more than \$10 million in qualifying shares. A maximum of \$20 million in qualifying shares for all corporations will be eligible for the Credit in any year.

Inquiries regarding the Manitoba Equity Tax Credit should be directed to:

Financial Services Branch	Telephone: (204) 945-2916
Department of Industry, Trade and Tourism	Facsimile: (204) 945-1193
555 – 155 Carlton Street	E-mail: jkilgour@gov.mb.ca
Winnipeg, Manitoba	
R3C 3H8	

■ CORPORATION INCOME TAX

(1999/2000 revenue impact: -\$5.4 million)

Small Business Rate

(1999/2000 revenue impact -\$5.4 million)

Manitoba's small business income tax rate is reduced from 9% of taxable income to 8% of taxable income effective July 1, 1999. The rate will drop to 7% of taxable income on January 1, 2000, to 6% on January 1, 2001, and to 5% on January 1, 2002.

This rate applies to the first \$200,000 of annual taxable income of Canadian-controlled private corporations which qualify for the federal small business deduction, and to credit unions and caisses populaires. The rate will be applied *pro rata* for taxation years straddling July 1, 1999 or January 1 of the following years. Approximately 8,600 firms will benefit from this reduction.

At maturity, in 2002, the cost of this measure is expected to be \$24 million per year, on a full-year basis.

Extension of the Film and Video Production Tax Credit

The Manitoba Film and Video Production Tax Credit, introduced in the 1997 Budget and scheduled to expire on the 60th day of 2000, will be extended for two years. The Credit is equal to 35% of eligible salaries paid to residents after 1996, and up to the 60th day of the year 2002 for work performed in Manitoba. Manitoba Film and Sound Recording Development Corporation and the Manitoba Department of Finance process applications, and the Tax Credit is administered by Revenue Canada. Since its introduction, Tax Credits worth \$3.5 million have been earned by 33 productions.

Prior to the introduction of the Credit, there were one or two film and video production projects per year in Manitoba. In 1997, there were nine projects representing \$17 million in production expenditures. This increased again to 24 projects in 1998, representing \$50 million in production expenditures. As a result of this expansion, the Manitoba film industry now has the capacity to support simultaneous productions, and activity is now spread throughout the year instead of being confined to the spring and summer months. A growing number of Manitobans have been trained as skilled production crew members, and Winnipeg's first studio facility was announced late last year. The Tax Credit is providing the film production sector in Manitoba with the opportunity to mature into a long-term, self-sustaining industry.

For information, contact:

Manitoba Film and Sound Recording
Development Corporation
333 - 93 Lombard Avenue
Winnipeg, Manitoba
R3B 3B1

Telephone: (204) 947-2040

Facsimile: (204) 956-5261

E-mail: explore@mbfilmsound.mb.ca

Extension of the Manufacturing Investment Tax Credit

Since 1992, capital investment in Manitoba's manufacturing sector has surged, thanks in part to the temporary Manufacturing Investment Tax Credit. The Tax Credit is set to expire on June 30, 2000. Due to its success in promoting the continued expansion and renewal of Manitoba's manufacturing sector, the Credit will be extended for a further period of 36 months, to June 30, 2003. The cost of this measure is expected to be \$13 million annually.

The Credit is deductible against Manitoba corporation income tax. Unused investment Credits can be carried forward for up to seven years, and carried back for a maximum of three taxation years ending after March 11, 1992.

The Credit is administered on behalf of the Province by Revenue Canada. For information please contact:

Corporation Services
Revenue Canada
(204) 983-8091

■ MINING TAX

(1999/2000 revenue impact: -\$40,000)

The mining sector in Manitoba is a major employer throughout the province, and especially in the North. The current low world commodity prices have placed significant pressures on the industry, but the medium- and longer-term outlook is favourable. To maintain the health of Manitoba's mineral extracting sector, and to ensure that Manitoba's mining tax regime remains competitive, the mining tax rate will be reduced from 20% to 18% of mining profits, effective for taxation years commencing after December 31, 1998.

The cost of this measure is expected to be about \$40,000 per year for the next two years, rising to about \$1 million per year over the subsequent five years as commodity prices improve.

■ MOTIVE FUEL TAX

(1999/2000 revenue impact: nil)

Manitoba's international seaport at Churchill accommodates an increasing number of international ships. These ships do not currently purchase fuel at Churchill, since they may purchase it tax-free at other international ports. In support of Churchill's development as a tourism and transportation centre, motive fuel sold to international ocean-going ships refueling at Churchill will be exempt from the motive fuel tax, effective midnight tonight.

■ OIL AND GAS PRODUCTION TAX

(1999/2000 revenue impact: nil)

As announced in January 1999, rates of tax under *The Oil and Gas Production Tax Act* have been decreased by approximately 44% on production from new vertical wells drilled after April 1, 1999. In addition, Crown royalty rates on these new wells have been reduced by approximately 14.5%. The new third-tier rates will also apply to re-activated wells and incremental production from enhanced recovery projects implemented after April 1, 1999.

At the same time, the Government announced that the Manitoba Drilling Incentive Program was extended by two years, to January 1, 2004.

These rate reductions are designed to be fiscally neutral over time – the taxes foregone will be about equal to the reduction in program expenditures due to the discontinuation of the Petroleum Exploration Assistance Program after March 31, 1999.

Inquiries regarding Oil and Gas Production Tax should be directed to:

Petroleum and Energy Branch
Department of Energy & Mines
1395 Ellice Avenue, Suite 360
Winnipeg, Manitoba
R3G 3P2

Telephone: (204) 945-6577

Facsimile: (204) 945-0586

E-mail: cmartiniuk@gov.mb.ca

Information is also available on the Internet
at www.gov.mb.ca/em/petroleum

■ RETAIL SALES TAX

(1999/2000 revenue impact: -\$3.1 million)

Exemption for children's clothing and footwear

Clothing and footwear purchased for children under age 15, with a value of up to \$100 per item, is exempt from sales tax. Many items, such as children's winter coats, snowsuits and winter boots, often now exceed this level. Effective midnight tonight, the sales tax exemption limit for children's clothing and footwear is increased to \$150 per item.

This increased exemption limit is expected to reduce sales tax revenue by \$1.0 million per year.

Exemption for farm manure slurry tanks and lagoon liners

With increased livestock production in Manitoba, it has become even more important to ensure that animal wastes are handled effectively, and the environment is protected. Effective midnight tonight, and until December 31, 2000, manure slurry tanks and lagoon liners for use in farm livestock operations will be exempt from the retail sales tax.

This exemption is expected to reduce sales tax revenue by \$1.0 million per year.

First-time homebuyers program

The sales tax rebate for first-time buyers of a new home in Manitoba is extended for another 12 months. A first-time buyer of a new (never occupied) home, purchased before April 1, 2000, is eligible for a rebate of the provincial sales tax paid on the materials used in construction of the home. The maximum rebate is \$2,500.

The rebate is payable after the owner has occupied the home. Rebates will be prorated for homes purchased in the period of eligibility, which are occupied after March 31, 2000, and before August 1, 2000. Eligibility for this program is determined by application to the Taxation Division of the Department of Finance.

Since its inception in 1994, a total of \$3.4 million has been rebated to 1,568 homebuyers qualifying under the program.

The program is expected to rebate \$900,000 in the 1999/2000 fiscal year.

Custom software

Custom software included in the sale of an ongoing business, or sold to a wholly-owned subsidiary, will be exempt from sales tax effective midnight tonight. This change complements the sales tax exemption for custom software introduced in the 1998 Budget, and will place Manitoba businesses on a level playing field with businesses in other provinces.

This exemption is expected to reduce sales tax revenue by about \$200,000 per year.

■ TECHNICAL AMENDMENTS

Technical amendments to various taxation statutes will be made as part of *The Statute Law Amendment (Taxation) Act, 1999*. These amendments:

- clarify that the retail sales tax exemption for 1-800 telephone numbers includes other equivalent numbers for toll free service;
- clarify the application of the retail sales tax on maintenance and warranty service contracts;
- clarify the corporation capital tax provisions respecting a receiver's responsibility where a corporation ceases to exist in Manitoba; and
- make the corporation capital tax provisions for policy reserves consistent for both resident and non-resident insurance companies.

Inquiries regarding retail sales tax, corporation capital tax, mining tax, and motive fuel tax should be directed to:

Taxation Division
 Department of Finance
 415 – 401 York Avenue
 Winnipeg, Manitoba
 R3C 0P8

Telephone: (204) 945-5603 in Winnipeg
 (204) 726-6153 in Brandon
 Toll Free: 1-800-782-0318 (Winnipeg)
 1-800-275-9290 (Westman Region)

Facsimile: (204) 948-2087
 E-mail: rlabossier@gov.mb.ca

■ LOWER TAX COMMISSION

A Lower Tax Commission is being established to generate ideas, consult with Manitobans, and then provide options for a tax system for Manitoba that not only reduces the tax burden, but is fairer, simpler, and competitive.

The Commission will consider how Manitoba's tax environment compares with other relevant jurisdictions, and suggest which taxes most influence Manitoba's competitiveness. It will examine whether Manitoba's structure and mix of taxes is appropriate for Manitoba's economy, and advise on the relative merits of targeted and general tax reductions.

Provinces will soon be able to levy personal income taxes directly on taxable income, rather than on basic federal tax. Such a system will give Manitoba the opportunity to simplify our income tax system by doing away with the net income tax and the surtax. The Commission will provide similar advice on the design of a tax on income system for Manitoba, including:

- the number and level of tax brackets (including the possibility of a flat tax);
- refundable and non-refundable tax credits;
- the levels for the basic personal and spousal exemptions; and
- the tax treatment of families where one parent stays home with their children.

Interprovincial Comparison of Major Tax Rates, 1987 and 1999

	B.C.*		Alta.*		Sask.*		Man.**		Ont.	
	1987	1999	1987	1999	1987	1999	1987	1999	1987	1999
Personal Income Tax ^(1,2)	51.50	49.50	46.50	44.00	50.00	48.00	54.00	48.50	50.00	40.50
Flat Income Tax ⁽³⁾	—	—	1.00	0.50	1.50	2.00	2.00	2.00	—	—
Surtax	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Top Marginal Rate ⁽⁴⁾	52.53	52.27	53.09	45.17	55.74	50.79	58.05	48.95	52.53	49.21
Corporation Income Tax ⁽⁵⁾										
Small ⁽⁶⁾	11.00	5.50	5.00	6.00	10.00	8.00	10.00	8.00	10.00	8.50
Large	15.00	16.50	15.00	15.50	17.00	17.00	17.00	17.00	15.50	15.50
Capital Tax ⁽⁷⁾	0.00	0.30	—	—	0.50	0.60	0.30	0.30	0.30	0.30
Banks	0.00	1.00	0.00	2.00	3.00	3.25	3.00	3.00	0.80	1.12
Employer Payroll Tax	—	—	—	—	—	—	2.25	2.15	0.00	1.95
Small Firms ⁽⁸⁾	—	—	—	—	—	—	2.25	0.00	0.00	0.00
Health Care Premiums (\$)	456	864	432	816	—	—	—	—	714	0.00
Sales Tax ⁽⁹⁾	6.00	7.00	—	—	7.00	6.00	7.00	7.00	7.00	8.00
Diesel Fuel (¢/l) ⁽¹⁰⁾	8.08	11.50	5.00	9.00	7.00	15.00	9.90	10.90	9.90	14.30
Gasoline (¢/l) ⁽¹⁰⁾	7.64	11.00	5.00	9.00	7.00	15.00	8.00	11.50	8.30	14.70
Tobacco Tax (¢/cigarette)	3.88	11.00	4.00	7.00	4.68	8.60 ⁽¹²⁾	4.60	8.00 ⁽¹²⁾	2.83	2.35 ⁽¹²⁾

Tax went up
 Tax went down
— Not applicable

All figures are percentages unless otherwise indicated.

* These provinces have presented 1999/2000 Budgets.

** Manitoba will reduce its basic personal income tax rate to 47% of basic federal tax on July 1, 1999.

- (1) Québec has its own provincially administered personal income tax system. All other provinces' personal income taxes are collected and administered by the federal government. They are shown here as percentages of basic federal tax.
- (2) Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia provide tax reductions at low-income levels.
- (3) Manitoba and Saskatchewan assess the flat tax on "net income," and Alberta assesses the flat tax on "taxable income."
- (4) Top marginal rate is combined federal/provincial tax rate, including surtaxes, paid by taxpayers in the highest tax bracket.
- (5) Some provinces apply special rates to certain types of business income.
- (6) The following small business rate changes will occur on July 1, 1999: Manitoba 8.0%; B.C. 5.5%. Manitoba's rate will decrease to 7% in 2000, 6% in 2001, and 5% in 2002. Ontario's rate will decrease to 8.0% for 2000, and will decrease 0.5% per year until 2006, when it will be further reduced to 4.75%.

Que.*		N.B.*		N.S.		P.E.I.*		Nfld.*		
1987	1999	1987	1999	1987	1999	1987	1999	1987	1999	
—	—	58.00	60.00	56.50	57.50	55.00	58.50	60.00	69.00	Personal Income Tax ^(1,2)
—	—	—	—	—	—	—	—	—	—	Flat Income Tax ⁽³⁾
No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	Surtax
56.57	52.10	54.74	49.68	54.23	49.23	53.72	49.55	55.42	52.90	Top Marginal Rate ⁽⁴⁾
										Corporation Income Tax ⁽⁵⁾
3.22	5.75	9.00	6.00	10.00	5.00	10.00	7.50	10.00	5.00	Small ⁽⁶⁾
5.90	8.90	15.00	17.00	15.00	16.00	15.00	16.00	16.00	14.00	Large
0.48	0.64	0.00	0.30	0.00	0.25	—	—	—	—	Capital Tax ⁽⁷⁾
0.97	1.28	2.00	3.00	1.50	3.00	0.00	3.00	2.00	4.00	Banks
3.22	4.26	—	—	—	—	—	—	0.00	2.00	Employer Payroll Tax
3.22	4.26	—	—	—	—	—	—	0.00	0.00	Small Firms ⁽⁸⁾
—	—	—	—	—	—	—	—	—	—	Health Care Premiums (\$)
9.00	7.50	11.00	8.00	10.00	8.00	10.00	10.00	12.00	8.00	Sales Tax ⁽⁹⁾
12.45	16.67 ⁽¹¹⁾	8.00	13.70 ⁽¹¹⁾	9.10	15.40 ⁽¹¹⁾	10.40	13.50	12.10	16.50 ⁽¹¹⁾	Diesel Fuel (¢/l) ⁽¹⁰⁾
14.40	18.45 ⁽¹¹⁾	8.40	10.70 ⁽¹¹⁾	8.70	13.50 ⁽¹¹⁾	8.90	13.00	9.80	16.50 ⁽¹¹⁾	Gasoline (¢/l) ⁽¹⁰⁾
4.52	4.00 ⁽¹²⁾	4.12	3.85 ⁽¹²⁾	4.50	4.52 ⁽¹²⁾	3.50	6.33	4.78	11.00 ⁽¹²⁾	Tobacco Tax (¢/cigarette)

(7) Manitoba imposes a 0.2% surtax on taxable paid-up capital in excess of \$10 million. Saskatchewan applies a 3.6% surcharge on specified resource sales of large corporations. Banks and trust companies in British Columbia with paid-up capital in excess of \$750 million pay at a rate of 3%.

(8) Firms with payroll of \$150,000 or less in Newfoundland, \$400,000 or less in Ontario, \$1 million or less in Manitoba. Newfoundland's payroll tax is 1% in fishing, forestry and agriculture industries.

(9) Retail sales tax refers to general rate only. Québec and Prince Edward Island apply the sales tax on top of GST-inclusive prices.

(10) Petroleum taxes are for regular gasoline and highway diesel fuel. Gasoline and diesel are also subject to a transit levy of 4¢/litre in Vancouver, and 1.5¢/litre in Montréal and Victoria.

(11) QST applies to these rates in Québec; HST applies to these rates in New Brunswick, Nova Scotia and Newfoundland.

(12) These provinces also apply sales taxes to tobacco products.