

MANITOBA BUDGET GOOD FOR BUSINESS, IGNORES STORM CLOUDS

Provincial Budget Commentary

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The Manitoba Provincial Budget, announced on March 25, 2009 largely confirmed last year's tax initiatives, but little else new, as outlined by Knowledge Bureau President Evelyn Jacks in her report from yesterday's Budget Lockup, commentary on province-wide CJOB radio and the Mapping Manitoba Post-Budget budget analysis:

TAX PROVISIONS IN THE BUDGET

The very best that can be said about this year's Manitoba provincial budget is its continued support of lower tax rates for Manitoba businesses; the worst that it continues to subject individual taxpayers to bracket creep, a high tax rate on incomes over \$67,000 and a tax free zone that continues to tax non-discretionary income for the working poor at a time when an economic stimulus is desired for all. Details follow:

Personal Tax Brackets and Rates (Line 428 on the Federal Return): For individuals there are no new changes over those announced last year. Noteworthy is that by 2010 the lowest provincial tax rate will be **10.70%** and by **2011--10.50%**. But it is in the failure to move on the indexation of tax brackets that Manitobans really lose out, a situation that can worsen if we are subjected to higher inflation rates in the future. This is in fact, a hidden tax on the poor and in a time when economic stimulus is desired to aid ailing economies, counter-productive. Here's how Manitoba compares with other provinces:

Provincial Tax Brackets and Rates for 2009			
Province	Tax Brackets	Rate	Surtax
British Columbia	\$0 to \$35,716	5.06%	
	\$35,717 to \$71,433	7.70%	
	\$71,434 to \$82,014	10.5%	
	\$82,015 to \$99,588	12.29%	
	Over \$99,588	14.7%	
Alberta	Flat tax of	10%	
Saskatchewan	Up to \$40,113	11.0%	
	\$40,114 to \$114,610	13.0%	
	Over \$114,610	15.0%	
Manitoba	\$0 to \$31,000	10.8%	
	\$31,001 to \$67,000	12.75%	
	Over \$67,000	17.4%	
Ontario	\$0 to \$36,848	6.05%	20% > \$4,257

\$36,849 to \$73,698	9.15%	36% > \$5,370
Over \$73,698	11.16%	

Lagging Tax Free Zones. As mentioned, Manitoba continues to tax non-discretionary income of the working poor sooner than any province in Canada, as demonstrated below. The zero provincial tax rate represents the maximum income with no provincial tax for a single person, and includes all refundable and non-refundable credits that don't rely on other actions – like rent or property taxes, etc.

Prov	BPA	Zero-Tax
BC	\$ 9,373.00	\$17,200
AB	\$16,775.00	\$16,775
SK	\$13,269.00	\$13,269
MB	\$ 8,134.00	\$10,020
ON	\$ 8,881.00	\$12,010
NB	\$ 8,605.00	\$14,020
NS	\$ 7,981.00	\$11,150
PE	\$ 7,708.00	\$10,260
NL	\$ 7,778.00	\$12,450
YT	\$10,100.00	\$10,100
NT	\$12,664.00	\$12,664
NU	\$11,644.00	\$11,644

Refundable Tax Credits (Line 479 on the Federal Return): Following the comments above, Manitoba's refundable tax credit system has featured a series of refundable tax credits that are income tested; now a new one will be added and it will not be income tested.

The Primary Caregiver Tax Credit will take effect in 2009 and provide volunteer primary caregivers, who are in that role for more than three consecutive months, will receive a refundable credit of \$85 a month to a maximum of \$1020 for the year. The credit may be earned for no more than three qualifying dependants in the year. Qualifying dependants are a spouse, other relative, neighbour or friend who qualifies for Manitoba Home Care. Only one person may be the primary caregiver at any one time.

Other refundable Tax Credits. The following modest increases were announced to take effect in 2009, and in the only significant personal tax change over last year's announcements, the **Education Property Tax Credit** is increased from \$600 in 2008 to \$650 in 2009:

Provision	2008	2009
Basic Personal Credit for Self or Spouse	\$190	\$195
Age Credit for Self or Spouse	\$110	\$113
Disability Credit for self, spouse or dependant	\$110	\$113
Disability Credit for Dependants	\$60	\$62

Credit for Dependent Children	\$25	\$26
Education Property Tax Credit	\$600	\$650

Good News for Business. For Corporations, the **general corporate tax** rate will fall from 14% to **13% on July 1, 2008** and again to **12% on July 1, 2009**. The goal is to drop the rate to 11% sometime after this, but that was not confirmed in this budget.

The Small Business Rate charged on taxable income under \$400,000 will be reduced from 3% to **2% in 2008** and then to **1% in 2009, falling to 0% in 2010**.

In addition the following provisions were announced:

A New Interactive Digital Media Tax Credit. This new Credit is available to corporations which produce interactive digital media projects in Manitoba, including videos and games and educational media/webcasts. The maximum credit on an eligible project is \$500,000 and it is calculated as 40% of the remuneration paid to Manitobans on eligible projects as approved by Manitoba Science, Technology, Energy & Mines.

A New Book Publishing Tax Credit will provide 40% of eligible Manitoba labour costs including non-refundable author advances, salaries for editing, design and project management, fees paid to freelancers for editing, design, research, artwork and development of prototypes. A maximum of \$100,000 credit is available and at least 2 books must be published after April 9, 2008 and before 2012. When paper with a 30% recycled content is used a further 10% of Manitoba printing costs qualifies for the credit. This budget confirmed that books *published* in the time period April 9, 2008 to 2012 will qualify as well as those for which agreements had been entered into in this period.

Co-Op Education and Apprenticeship Tax Credits. A new journeypersons Hiring Incentive became available last year for hirings after April 9, 2008 amounting to 5% of wages and salaries paid up to \$2500. A Certificate of Qualification must have been received after this date and the employee must have been hired within 18 months of certification. A new component, called the Advanced-Level Apprentices Hiring Incentive was introduced in December 2008 to ease bottlenecks in high demand trades. To be eligible the employer must hire an apprentice enrolling at an advanced level on January 1, 2009 or later and before the end of 2011. This is a fully refundable credit.

Film and Video Production Tax Credit. After 2007 a 5% Producer bonus is introduced as well as a Frequent Filming bonus. Eligible salaries paid to non-residents for work in Manitoba is increased from 20% to 30%.

Manufacturing Investment Tax Credit. A generous increase from 35% to 70% comes into effect retroactively on January 1, 2008 and this credit will be available until December 31, 2011.

The Community Enterprise Investment and Development Tax Credits. These credits have been enhanced based on their fully subscribed status last year. The Community Enterprise Investment Tax Credit is a non-refundable one equal to 30% on a maximum \$450,000 investment in equity

capital, available to both individual and corporate investors who acquire equity capital in emerging enterprises after 2007 and 2011. The maximum annual approval limit for this program has been doubled to \$33,000,000 starting in 2009.

The value of issuable shares that a business can apply for under the Community Enterprise Development Tax Credit has doubled from \$500,000 to \$1 Million, starting in 2009. This is a non-refundable personal income tax credit equal to 30% on a maximum \$30,000 investment.

Other significant provisions:

The Home Buyer's Plan withdrawal limit from RRSPs will increase to \$25,000 to mirror the federal tax changes.

CCA Rate On Manufacturing And Processing Machinery And Equipment is written off on a 50% straight line basis if acquired after March 18, 2007 and this rate change will continue as per the federal budget changes, on acquisitions before 2012.

CCA on computer hardware and systems software acquired in 2009 and 2010 will qualify for 100% CCA rates.

Corporation Capital Tax for manufacturing and processing companies will be eliminated effective July 1, 2008. There are phased in reductions in the tax from 2009 to December 31, 2010 when the tax will be eliminated for those corporations as well.

New Retail sales tax exemptions: Service to direct agents (manufacturing process), welding tips & nozzles, rolls used in pulp and paper industries. Starting May 1, 2009 the sales tax exemption for books is expanded to include educational workbooks.

New Tax on Coal Emissions: will be effective July 1, 2011.

Fuel Tax Changes; Effective July 1, 2009 the aviation fuel tax rate for domestic cargo flights will be reduced from 3.2 cents to .5 cents per litre and the fuel tax exemption for international flights is expanded to include direct and indirect cargo flights to and from the US, starting July 1, 2009. The fuel tax exemption for forestry companies is expanded effective May 1, 2009 to include fuel used for forest renewal.

SOME FUTURE BUDGET CONSIDERATIONS

There little mention of the global financial crisis in the March 25, 2009 Manitoba provincial budget, which theme was steady, balanced. In Part 2 of the budget coverage, some future considerations which will affect Manitobans are outlined in the editorial by Evelyn Jacks, below:

Our aging population. The decline in the share of the population of working age is common to most industrialized countries, but projections by the United Nations show that **over the next 25 years, Canada will experience the second largest decline among G7 countries and the fourth largest among all OECD countries.** An aging population will add to the shortages of labour that are already developing in our economy, putting downward pressure on living standards. At the same time, the aging of our society will create additional demand for health and social services.

How does this relate to our specific standards of living? Tax patterns tell the story:

In Manitoba we collect just under \$12 Billion in Revenues with 21% of this coming from Personal income taxes, 26% from Retail sales, education property taxes and other taxes, 12 % from other fees and 6.5% from Government Business Enterprises.

To zero in on the taxation side, here is how this shakes out for individuals: From 2007 data we know that 855,000 Manitobans filed income tax returns, and of these, 556,000 (65%) actually paid MB tax.

But who contributes the most to individual tax coffers? Based on a department of finance calculation last done in 2006, using 2003 tax year data, the breakdown looked like this:

- taxable income up to \$30,000: 42% of taxpayers, paying 12% of tax;
- taxable income \$30,000 to \$60,000: 42% of taxpayers, paying 39% of tax;
- taxable income over \$60,000: **16% of taxpayers, paying 50% of tax.**

These folks—young professionals and top-of-career baby boomers represent a potentially diminishing tax base, without whose powerful tax dollars our standard of living will be affected. It is important to shore up this tax base to continue the revenue patterns this province has come to rely on.

Changes To Transfer Payments. By far the largest revenue line item for government however is federal transfer payments at 32% of total. This reliance on federal transfer payments can represent a large problem we are heading into with full knowledge in the near future, but one that we are seemingly unprepared for. Equalization measures a province's ability to raise revenues and in Manitoba we have previously received the 4th highest amount after PEI, New Brunswick, Newfoundland and Nova Scotia.

Specifically, changes announced by the federal government on November 3, 2008 would permanently change the Equalization Payment formula by imposing a ceiling on the program. This could be particularly significant here, because Manitoba has enjoyed relatively stronger economic performance in the past several years than most provinces. As a result, Equalization Payments would begin to decline in future years—at the same time when tax revenues are expected to decline due to our global economic slowdown. While the impact will be tempered with a protection payment this fiscal year, there appears to be no vision for the longer term impact of such changes.

With federal transfers representing almost 32% of provincial revenues, (as compared to personal tax revenues which represent only **21%**) Manitoba's standard of living may be at risk in the future in the wake of a disappearing boomer tax base. At the same time, the net per capita debt has risen from **\$8846 in 2008 to \$9142 in 2009**—an increase of over 3%.

Finally, tax revenues are projected to decline as a result of world economic events. Businesses deal with these scenarios by drastically cutting costs. Government have not done so yet, raising a potential debate between stimulating economies today at the expense of deficits tomorrow.

Baby boomers planning for retirement are certainly forward looking, and concerned about their wealth, and that of the country poised to cover their needs in old age. For them, the question to consider is whether temporary tax reductions and deficit spending serve them and their heirs well in the long run? This issue was not addressed in the budget.

WHAT CAN WE DO ABOUT THIS: BUILDING SUCCESSFUL NEW ECONOMIES

Provincial budgets coming down in difficult times make the job of Finance Minister even more interesting. The question of how to build successful new economies is often the most difficult one moving forward. The federal government posted a paper on the issue before the financial crisis. Entitled *Advantage Canada* (Finance Canada) the paper boldly pronounced that the modern world economy has changed and that from Canada's perspective, the new ground rules for success can be summarized in three core, fundamental truths:

- **People and capital are mobile.**
- **Talented, creative people are the most critical asset to a successful national economy.**
- **A favourable business environment is essential to retaining, attracting and growing high-quality, innovative enterprises and encouraging them to compete with the very best.**

According to this document, the fundamental determinants of long-term economic growth in developed countries are:

- **A skilled and highly educated workforce.**
- **High rates of private and public investment in research and innovation.**
- **Modern infrastructure.**
- **High rates of business investment in machinery and equipment.**

In turn, private investments in these key determinants of growth are encouraged by:

- **Low public debt and low and stable inflation.**
- **Low taxes on work, savings and business investment.**
- **A high-quality and accessible education system.**
- **A competitive business environment, including effective regulation and competition policies.**
- **Stability and efficiency in the financial system.**
- **Openness to trade and investment.**
- **Flexible labour markets.**

Finally, the paper suggests that there are barriers and challenges to address if we are to improve our quality of life and become a world leader for today and future generations. These barriers and challenges include:

- **High taxes that are discouraging investment and initiative.** Income taxes on individuals and businesses in Canada remain high by international standards. Personal and corporate income taxes as a percentage of GDP are higher in Canada than in all other G7 countries.
- **Business investment in equipment, innovation and training.** Businesses in other OECD countries are investing on average more in research and development, and machinery and equipment than do our businesses. Participation in workplace training is also higher in other leading OECD countries.
- **The need for skilled labour.** There are shortages of skilled labour in a number of provinces and territories. These shortages are particularly acute in Alberta and Saskatchewan, where more than one-quarter of manufacturers report that labour scarcity is limiting operations.

Now, your turn. What are your thoughts? If you were Finance Minister would reducing taxes in conjunction with limited spending be preferable to steady tax rates and more aggressive spending to stimulate economies?