

2007 Manitoba Budget: Tax Highlights

On April 4, 2007, Manitoba's Minister of Finance, Greg Selinger, presented the province's 2007 budget. The budget does not change corporate or personal income tax rates for 2007, but does reduce corporate and capital taxes and personal income tax rates in future years. It also extends some existing tax credits and introduces several new tax credits. The key changes are discussed below.

For help determining how these changes affect you or your company, please contact your PricewaterhouseCoopers adviser or:

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Corporate Tax Measures

Small business tax rate

Manitoba's small business rate, which applies to active business income of \$400,000 or less, will be reduced from 3% to 2% on January 1, 2008 and, subject to balanced budget requirements, to 1% on January 1, 2009. For companies to which the small business rate applies, this change will save up to \$4,000 in tax in 2008, compared to 2007. The personal dividend tax credit rate on non-eligible dividends will be reduced correspondingly to maintain integration of personal and corporation income tax.

General tax rate

The budget confirms that Manitoba's general corporate rate (which also applies to manufacturing and processing income) will be reduced from 14% to 13% on July 1, 2008. The budget further reduces the general rate to 12% on July 1, 2009, subject to balanced budget requirements.

Corporation capital tax

Previous announcements reducing the capital tax rates from 0.3% to 0.2% for total paid-up capital between \$10 million and \$20 million, and from 0.5% to 0.4% for total paid-up capital over \$21 million (with a notch provision for total paid-up capital between \$20 million and \$21 million), will be effective for taxation years commencing after January 1, 2008, instead of after July 1, 2008. In most cases, these changes will not apply until taxation years ending in 2009.

Subject to balanced budget requirements, the budget further commits to eliminate the general corporation capital tax, except for Crown corporations, as of December 31, 2010.

The budget also eliminates quarterly instalments for corporations that pay capital tax of \$5,000 or less per year.

Temporary CCA acceleration for M&P machinery and equipment

The 2007 federal budget significantly enhanced the annual capital cost allowance (CCA) deduction for investments in eligible manufacturing and processing (M&P) machinery and equipment made after March 18, 2007 and before 2009. This measure will be restricted to businesses engaged in M&P in Canada of goods for sale or lease. The following table summarizes the changes.

		Existing rule	Proposed rule
M&P machinery and equipment	CCA rate	30%	50%
	Method of calculating annual CCA	Declining balance	Straight-line
	Half-year rule applicable	Yes	

Subject to the passage of federal legislation, Manitoba will parallel this proposal.

Enhanced CCA rates

The 2007 federal budget enhanced the CCA rates for certain other depreciable assets acquired after March 18, 2007, as outlined in the following table:

		Existing rate	Proposed rate with additional allowance
Type of asset	Buildings used for M&P in Canada	4%	10% ^{1,2}
	Other non-residential buildings	4%	6% ^{1,2}
	Computer equipment	45%	55% ³
	Natural gas distribution lines	4%	6%
	Liquefied natural gas facilities	4%	8%

- 1 To be eligible for the additional allowance (6% for M&P buildings and 2% for other non-residential buildings), the building must be placed into a separate class. Failure to do this will result in the application of the current 4% CCA rate. The half-year rule will apply to the additional allowance.
- 2 To qualify for the additional 6% or 2% allowance, at least 90% of the building (measured by square footage) must be used for the designated purpose at the end of the taxation year. Buildings used for M&P purposes that do not meet this requirement will be eligible for the additional 2% CCA allowance if at least 90% of the building is used for non-residential purposes at the end of the taxation year.
- 3 The federal budget extends the current exemption for computers from the specified leasing property rules to computer equipment eligible for the higher CCA rate, excluding any individual item with a capital cost exceeding \$1 million. The federal budget also extends the computer software tax shelter property rules to computer equipment that is eligible for the 55% CCA rate.

Subject to the passage of federal legislation, Manitoba will parallel this proposal.

Manitoba Investment Tax Credit

The refundable portion of the Manitoba Investment Tax Credit (MITC) is increased from 35% to 50%, for qualified property acquired after December 31, 2007. This means that the MITC effectively pays back a minimum of 76% of the 7% PST on qualified equipment in the first year.

Green Energy Manufacturing Tax Credit

The budget introduces the Green Energy Manufacturing Tax Credit, a refundable tax credit equal to 10% of the value of qualifying property produced in Manitoba and sold for residential or commercial use in Manitoba before 2019. Qualifying property will initially include equipment for wind power, solar energy, geothermal energy and hydrogen fuel cells.

Film and Video Production Tax Credit

The Film and Video Production Tax Credit is extended three years from March 1, 2008 to March 1, 2011.

Personal Tax Measures

Personal tax rates

On January 1, 2008, the province's middle personal tax rate is reduced from 13% to 12.75% and the top tax bracket threshold increases from \$65,000 to \$66,000, resulting in an annual tax saving of up to \$133 in 2008, compared to 2007.

Subject to balanced budget requirements, the budget proposes starting after 2008 and in stages by 2011 to:

- reduce the lowest tax bracket rate from 10.9% to 10.5%;
- increase the middle tax bracket threshold from \$30,544 to \$35,000; and
- increase the top tax bracket threshold from \$66,000 to \$70,000.

Basic personal credit

The budget increases the basic personal amount and the spouse/equivalent to spouse (or wholly dependent relative) personal amount, as follows:

		2007	2008
Personal amounts	Basic	\$7,834	\$8,034
	Spousal	\$6,482	

Pension income splitting

If proposed federal legislation is enacted, couples will automatically be allowed to split certain types of pension income for Manitoba income tax purposes, commencing 2007.

Tuition Fee Income Tax Rebate

As previously announced, commencing 2007, Manitoba residents who graduate after January 1, 2007 from a post-secondary institution recognized by the Canada Revenue Agency (including many located outside of Manitoba or Canada) can claim a tuition fee income tax rebate on up to 60% of eligible tuition fees paid after January 1, 2004.

The maximum annual rebate is the least of:

- Manitoba income tax payable for the year;
- 10% of eligible tuition fees; and
- \$2,500.

The rebate is payable over a minimum of 6 years. Unused rebates can be carried forward up to 20 years. The maximum lifetime rebate is \$25,000 (equivalent to a 60% rebate on tuition fees of \$41,667).

Education Property Tax Credit

The base amount of the Education Property Tax Credit will increase from \$400 to \$525 for 2007 residential property tax bills.

Mineral Exploration Tax Credit

The 10% Mineral Exploration Tax Credit is extended one year for flow-through share agreements entered into before April 1, 2008.

Other personal tax measures

Manitoba will parallel several measures recently announced or enacted by the federal government, including:

- the Children's Fitness Tax Credit—maximum combined federal/Manitoba credit of \$132 per eligible child, on eligible payments of up to \$500 per year or \$264 for a child with a disability, commencing 2007;

- the lifetime capital gains exemption limit on dispositions of qualifying farm and fishing property or qualified small business corporation shares—increased from \$500,000 to \$750,000, for dispositions after March 18, 2007;
- the meal expense deduction for long-haul truckers—increased from 50% to 80% over the next five years, starting March 19, 2007;
- the age limit for maturing RRSPs and RPPs—increased from 69 to 71, commencing 2007; and
- the tax benefit of donating securities to public charities—extended to gifts to private foundations made after March 18, 2007.

Other Tax Measures

Health and Post-Secondary Education Tax Levy

Effective January 1, 2008, associated employers with total annual payroll of:

- \$1.25 million or less (up from \$1 million) will no longer be subject to the payroll tax; and
- \$1.25 million to \$2.5 million (up from \$1 million and \$2 million) will be subject to the notch payroll tax rate of 4.3%.

Hybrid Electric Vehicles

The budget provides for a \$2,000 rebate to support Manitobans who purchase qualifying hybrid electric vehicles.

Community Enterprise Development Tax Credit

The Community Enterprise Development Tax Credit is enhanced by introducing a 30% non-refundable credit for individuals and corporations who acquire eligible securities after December 31, 2007. Eligible securities include investments in emerging companies that require more investment capital than community ownership could provide.

A minimum investment of \$20,000 is required and the maximum annual credit that can be claimed is \$45,000. The lifetime limit on qualifying investments is \$450,000.

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