

2008 Manitoba Budget: Tax Highlights

Contents

Introduction	1	Personal Tax Measures	3
Business Tax Measures	1	Personal income tax rates.....	3
Corporate income tax rates	1	Personal tax credits.....	3
Corporation capital tax.....	2	Other Tax Measures	4
Manufacturing Investment Tax Credit.....	2	Community Enterprise Investment Tax Credit.....	4
Film and Video Production Tax Credit.....	2	Retail sales tax.....	4
Interactive Digital Media Tax Credit.....	2	Emissions tax on coal	4
Book Publishing Tax Credit	2	Technical and administrative measures	4
Co-op Education and Apprenticeship Tax Credits.....	3	Federal harmonization	4

Introduction

On April 9, 2008, Manitoba's Minister of Finance, Greg Selinger, presented the province's 2008 budget. The budget does not change corporate or personal income tax rates for 2008, but does eliminate capital tax for qualifying manufacturing and processing (M&P) corporations on July 1, 2008. For other corporations, the budget phases out the capital tax in two additional stages and confirms that the tax will be eliminated on December 31, 2010.

The budget also introduces or enhances several targeted tax incentives. For example, it enhances the Manitoba Film and Video Production Tax Credit and introduces an Interactive Digital Media Tax Credit and a Book Publishing Tax Credit. These and other 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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Business Tax Measures

Corporate income tax rates

The budget confirms that Manitoba's general corporate rate (which also applies to M&P income) will be reduced from 13% to 12% on July 1, 2009. This change had been subject to balanced budget requirements. As well, the budget announces that this rate will drop to 11%, at a date to be determined, also subject to balanced budget requirements. Decreases in Manitoba's general corporate rate are outlined in the table to the right.

		General and M&P rate
Effective	Before July 1, 2008	14%
	July 1, 2008	13%
	July 1, 2009	12%
	To be determined	11% ¹

1. This change is subject to balanced budget requirements.

Small business income tax rate

The budget confirms that Manitoba's small business tax rate (which applies to active business income of \$400,000 or less) will be reduced from 2% to 1% on January 1, 2009. This change had been subject to balanced budget requirements. As a result, Manitoba's small business tax rate will decline, as the table shows.

		Small business rate
Effective	Before January 1, 2008	3%
	January 1, 2008	2%
	January 1, 2009	1%

The changes mean that companies to which the small business tax rate applies will save up to \$4,000 in provincial tax in 2008, compared to 2007, and a further \$4,000 in 2009, compared to 2008.

Status for accounting purposes

The decrease in Manitoba's general corporate rate to 12% on July 1, 2009, and in its small business rate to 1% on January 1, 2009, are not considered substantively enacted for Canadian accounting purposes or enacted for U.S. accounting purposes on April 9, 2008.

Corporation capital tax

Manufacturing and processing corporations

Capital tax will be eliminated on July 1, 2008, instead of on December 31, 2010, for corporations that use more than 50% of their labour and capital in Manitoba in M&P activities.

Other corporations

For other corporations (i.e., those that do not qualify for the July 1, 2008 elimination of capital tax), the budget confirms that the province's corporation capital tax will be eliminated on December 31, 2010. This change had been subject to balanced budget requirements. The budget also phases in capital tax reductions for taxation years commencing after January 1, 2009, as well as for taxation years commencing after January 1, 2010. The following table details these and previously announced changes.

	Taxation year commencing after	Taxation year commencing after				After 2010 ¹
		Jan. 1, 2007	Jan. 1, 2008 ²	Jan. 1, 2009 ³	Jan. 1, 2010 ¹	
Taxable capital ² employed in Manitoba	First \$10 million	Nil				Nil ³
	> \$10 million and ≤ \$20 million	0.3%	0.2%	0.1%	Nil	
	> \$20 million and ≤ \$21 million	2.5%	2.4%	2.3%	2.2%	
	> \$21 million	0.5%	0.4%	0.3%	0.2%	

1. These changes do not apply to Crown corporations.

2. Before Manitoba's capital tax deduction.

3. Pro-rated for taxation years straddling December 31, 2010.

Manufacturing Investment Tax Credit

The budget confirms the previous announcement that the refundable portion of the Manufacturing Investment Tax Credit (MITC) would increase from 35% to 70% (instead of to 50%, as previously announced), for qualified property acquired after December 31, 2007. This credit will expire on December 31, 2011, instead of on June 30, 2009, as previously announced.

Film and Video Production Tax Credit

Enhancements to the Manitoba Film and Video Production Tax Credit apply to productions commencing principal photography after 2007. These changes:

- increase the percentage of eligible salaries paid to non-residents for work performed in Manitoba that qualifies for this credit from 20% to 30% of eligible salaries paid to Manitobans;
- introduce a 5% Manitoba Producer bonus on eligible salaries when a Manitoba resident receives credit as a producer on an eligible film;
- increase the Frequent Filming bonus for returning producers from 5% to 10%; and
- redesign the requirement that non-residents train Manitobans working on an eligible film to emphasize the transfer of skills to Manitoba technical crew members, regardless of the residency of the trainer.

Manitoba has stated that it will examine its film tax credit with the goal of better serving the needs of local producers.

Interactive Digital Media Tax Credit

Corporations that develop and produce interactive digital media projects in Manitoba can claim a new refundable income tax credit equal to 40% of remuneration paid to Manitobans on eligible projects. The maximum tax credit for each eligible project is \$500,000. Projects must be approved by Manitoba Science, Technology, Energy and Mines and must begin prototyping and product development after April 9, 2008 and before 2011.

The tax credit replaces the Manitoba New Media Production Grant and is available to taxable Canadian corporations with a permanent establishment in Manitoba. It will be administered by the Canada Revenue Agency in conjunction with the corporation's annual income tax return.

Book Publishing Tax Credit

A new refundable tax credit available to book publishers is equal to 40% of eligible Manitoba labour costs incurred and paid after April 9, 2008, and before 2012. The maximum credit that can be claimed by a publisher is \$100,000 per year. The book must be a qualifying book for which a contract was entered into after April 9, 2008, and that is published before 2012.

To qualify, the taxpayer must:

- be engaged primarily in the business of publishing books;
- have a permanent establishment or be resident in Manitoba;
- pay at least 25% of its wages and salaries to employees who are residents of Manitoba; and

- have recently published at least two qualifying books.

A publisher can receive an additional bonus equal to 10% of the Manitoba printing costs if a qualifying book is printed on paper with a minimum of 30% recycled content.

Co-op Education and Apprenticeship Tax Credits

The Co-operative Education Tax Credit is renamed the Co-op Education and Apprenticeship Tax Credits and is expanded to include a Journeypersons Hiring Incentive. Under this new incentive, for the first two 12-month periods, employers can earn refundable tax credits equal to 5% of wages and salaries paid to permanent, full-time journeypersons. The work must be performed in the journeyperson's certified trade primarily in Manitoba. The maximum credit is \$2,500 per 12 months of employment for each journeyperson.

Eligible employers include taxable corporations, not-for-profit agencies, schools, hospitals and unincorporated entities. The journeyperson must receive a Certificate of Qualification in Canada after April 9, 2008, and must be hired by the employer within 18 months of certification.

Personal Tax Measures

Personal income tax rates

Top personal tax rates

The budget does not change Manitoba's 2008 top personal income tax rates. The top combined federal/Manitoba personal tax rates follow.

	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible ¹
2007	46.40%	23.20%	23.83%	36.75%
2008				37.40%

1. For 2007 and 2008, Manitoba's top combined non-eligible dividend tax rate is the highest of all the provinces and territories in Canada.

Personal income tax rates and thresholds

The budget confirms that changes to Manitoba's 2009 personal income tax rates and brackets that had been subject to balanced budget requirements will proceed.

The results follow.

		2007	2008	2009	2010 ¹	2011 ¹
Manitoba income tax rates and thresholds	Top	17.4%				
		\$65,000	\$66,000	\$67,000	\$68,000	\$70,000
	Middle	13%	12.75%			
		\$30,544	\$31,000	\$32,000	\$35,000	
	Bottom	10.9%	10.8%		10.7%	10.5%
		\$0				

1. Changes for 2010 and 2011 are subject to balanced budget requirements.

Dividend tax rates

Eligible dividends

The budget does not revise Manitoba's eligible dividend tax credit rate. However, as a result of federal changes that are effective after 2009, the top combined federal/Manitoba tax rate on eligible dividends will increase as follows:

	Eligible dividends (%)					
	2007	2008	2009	2010	2011	After 2011
Dividend gross-up	45			44	41	38
Dividend tax credit (on grossed-up dividend)	11					
Top combined rate ¹	23.83		25.09	26.74	28.12	

1. Assumes top federal/Manitoba marginal income tax rate remains 46.40%.

Non-eligible dividends

The budget decreases the province's non-eligible dividend tax credit rate for 2009. The rates are shown below.

	Non-eligible dividends (%)		
	2007	2008	After 2008
Dividend gross-up	25		
Dividend tax credit (on grossed-up dividend)	3.67	3.15	2.5
Top combined rate ¹	36.75	37.40	38.21

1. Assumes top federal/Manitoba marginal income tax rate remains 46.40%.

The changes correspond to the reduction in the small business rate and are intended to maintain integration of personal and corporate income tax.

Personal tax credits

The budget increases or introduces the following personal tax credits:

- **Personal amounts** – The basic personal amount, as well as the spousal and eligible dependent amounts, will increase from \$8,034 to \$8,134 on January 1, 2009.
- **Primary Caregiver Tax Credit** – Commencing 2009, the voluntary primary caregiver of a spouse, other relative, neighbour or friend who is a "Manitoba Home Care client" can claim a refundable tax credit of \$85 per month (after a qualifying period of three consecutive months). Only one caregiver at a time

can claim this credit for a client. A caregiver can claim the credit for a maximum of three clients in a month.

- **Personal Tax Credit** – This refundable tax credit, which is generally available to low-income individuals, will increase on January 1, 2009.
- **Education Property Tax Credit** – For 2008, the basic Education Property Tax Credit will increase from \$525 to \$600.
- **Community Enterprise Development Tax Credit** – This 30% non-refundable tax credit of up to \$9,000 on investments in community-based enterprise-development projects is extended three years to December 31, 2011.
- **Manitoba Mineral Exploration Tax Credit** – This 10% non-refundable tax credit for individuals who purchase flow-through shares is extended by one year, to include flow-through share agreements entered into before April 1, 2009.

Other Tax Measures

Community Enterprise Investment Tax Credit

The maximum annual investment limit by an investor that qualifies for the Community Enterprise Investment Tax Credit is increased from \$150,000 to \$450,000, retroactive to January 1, 2008. Although this increases the maximum tax credit earned by an investor in a year from \$45,000 to \$135,000, the maximum tax credit deductible in a year will remain \$45,000.

Retail sales tax

The budget extends or introduces the following retail sales tax exemptions:

- **Smoking cessation products** – The exemption for prescription smoking cessation products is extended to non-prescription products, starting May 1, 2008.
- **Manufacturers and pulp and paper industry** – Services to direct agents (items consumed in a manufacturing process), welding tips and nozzles, and rolls used in the pulp and paper industry are exempt effective May 1, 2008.
- **Shipping supplies exemption** – This exemption is expanded to included non-returnable stabilizing supplies, effective May 1, 2008.

Emissions tax on coal

A new tax of \$10 per tonne of carbon-dioxide-equivalent emissions will apply to coal, commencing July 1, 2011. The rate will increase to \$30 per tonne on a schedule to be announced.

Technical and administrative measures

The following technical and administrative measures were announced:

- **Tobacco Tax Act** – This act will be amended to require tobacco manufacturers to have a permit for all equipment used in Manitoba to manufacture tobacco products, and to update the marking provisions.
- **Capital gains refund provisions** – These provisions, which apply to mutual fund trusts, will be extended to mutual fund corporations, retroactive to 2006.
- **Riparian Tax Credit** – This credit will be extended to permit another intake group, running from 2009 through 2013.

Federal harmonization

The budget states that Manitoba will automatically adopt several 2008 federal budget measures, once the relevant federal legislative and regulatory changes are enacted. Measures that will be paralleled include:

- the Tax-Free Savings Account (the budget confirms that withdrawals from this account will not reduce income-tested provincial benefits); and
- capital cost allowance enhancements.

See our *Tax Memo*, “2008 Federal Budget – Treading Softly in Old Shoes” at www.pwc.com/ca/budget for more information.

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