

Tax Memo

2009 Saskatchewan Budget: Tax Highlights

On Wednesday, March 18, 2009, Saskatchewan's Minister of Finance, Rod Gantefoer, presented the province's 2009 budget. The budget preserves the province's 11% dividend tax credit rate on eligible dividends and makes its research and development tax credit fully refundable. This *Tax Memo* discusses these and other tax changes. For more information, please contact your PricewaterhouseCoopers adviser or:

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Personal Tax Measures

Dividend tax rates

Legislative amendments will be made to preserve the province's 11% dividend tax credit rate on eligible dividends. Without these amendments, reductions to the federal gross-up for eligible dividends would automatically reduce Saskatchewan's eligible dividend tax credit rates after 2009.

The change to the eligible dividend tax credit rate and previously announced corporate income tax rate changes will make it more attractive to earn and retain income in a corporation. For an individual who is taxed at the top tax bracket, the following table shows:

- the income tax deferral if \$10,000 of income that is subject to the general corporate or manufacturing and processing (M&P) rate is earned and retained in a corporation as opposed to being paid out of the corporation as salary to the shareholder;
- the income tax prepayment if \$10,000 of portfolio dividends (i.e., eligible dividends) are earned and retained in a corporation as opposed to being earned directly by an individual; and
- the tax saving (cost) if the after-tax corporate income is paid out as a dividend to the shareholder in the same year.

	General Income		M&P Income		Portfolio Dividends	
	Deferral	(Cost)	Deferral	Saving	(Prepayment)	(Cost)
2008	\$1,200	(\$184)	\$1,450	\$15	(\$1,298)	Nil
2009	\$1,300	(\$104)	\$1,500	\$55		
2010	\$1,400	(\$115)	\$1,600	\$42	(\$1,169)	
2011	\$1,550	(\$120)	\$1,750	\$33	(\$997)	
2012	\$1,700	(\$111)	\$1,900	\$39	(\$852)	

Top personal tax rates

Top combined federal/Saskatchewan personal tax rates follow. These rates reflect previously announced federal changes and Saskatchewan's budget announcement on eligible dividends.

	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
2008	44%	22%		30.83%
2009			20.35%	
2010			21.64%	
2011			23.36%	
2012			24.81%	

Labour-sponsored Venture Capital Corporations

The province's tax credit for investments in federal Labour-sponsored Venture Capital Corporations (LSVCCs) is enhanced as follows:

	2008	2009
Tax credit rate	15%	20%
Maximum annual Investment	\$3,500	\$5,000
annual Credit	\$525	\$1,000

Business Tax Measures

Corporate tax rates

The budget does not change Saskatchewan's corporate tax rates, which will remain as follows:

- General rate: 12%
- Manufacturing and processing rate: 10%
- Small business rate: 4.5%

In addition, the small business threshold will remain \$500,000.

Combined corporate income tax rates

As a result of previously announced federal and Saskatchewan changes, the following combined federal/Saskatchewan rates apply to December 31 year ends:

- General and manufacturing income:

	General ¹	M&P
2008	32%	29.5%
2009	31%	29%
2010	30%	28%
2011	28.5%	26.5%
2012	27%	25%

1. The rates do not apply to the income of credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

- Canadian controlled private corporations:

	Active business income				Investment income
	To \$400,000	\$400,000 to \$450,000	\$450,000 to \$500,000 Non-M&P	\$450,000 to \$500,000 M&P	
2008	15.5%	24%	28.23%	26.73%	47.16%
After 2008	15.5%				46.67%

Research and Development tax credit

Saskatchewan's 15% Research and Development tax credit will be fully refundable for qualifying expenditures made after March 18, 2009.

Financial institutions capital tax

A new deduction in determining Saskatchewan taxable paid-up capital of financial institutions is intended to remove a disincentive for financial institutions to acquire general corporations and locate them in Saskatchewan. The deduction equals Saskatchewan taxable paid-up capital of general corporations acquired by financial institutions after June 30, 2008. It arises because general corporations are no longer subject to Saskatchewan general capital tax (which was eliminated on July 1, 2008).

Other Tax Measures

Education property taxes

Saskatchewan will reduce and cap education property tax rates by setting province-wide tax rates for each of the three major property classes – residential, agricultural and commercial.

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