

Tax Memo

2009 Manitoba Budget: Tax Highlights

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Introduction

On Wednesday, March 25, 2009, Manitoba's Minister of Finance, Greg Selinger, presented the province's 2009 budget. The budget proposes to reduce Manitoba's small business rate to nil on December 1, 2010, makes the Research and Development Tax Credit fully refundable after 2009 for corporations that work with qualifying research institutes in Manitoba on new technologies and lowers the mining tax rate. The budget also reduces the province's dividend tax credit rate on non-eligible dividends after 2010 and enhances or extends several tax incentives, including environmental incentives. These and other key measures 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 does not change Manitoba's general corporate rate (which also applies to M&P income). Nor does it provide the date for this rate to decline to 11%, as was proposed in the 2008 budget. The table to the right shows the recent decrease in this rate.

		General and M&P rate
Effective	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

Manitoba's small business limit will remain \$400,000. However, on December 1, 2010, its small business rate will drop to 0%, making Manitoba the only jurisdiction in Canada with a 0% small business rate. This and recent changes to the small business rate are shown below.

		Small business rate
Effective	January 1, 2008	2%
	January 1, 2009	1%
	December 1, 2010	0%

A concern is that corporations benefiting from the 0% tax rate may be unable to claim Manitoba's non-refundable tax credits. Manitoba will consider measures to address this issue in a discussion paper. Affected companies can provide input by December 31, 2009.

Status for accounting purposes

The 0% small business rate effective December 1, 2010 is not considered substantively enacted for Canadian accounting purposes or enacted for U.S. accounting purposes on March 25, 2009.

Combined corporate income tax rates

The following combined federal/Manitoba rates apply to December 31 year ends:

	General and M&P income ¹	CCPCs		
		Active business income up to \$400,000	\$400,000 to \$500,000	Investment income
2008	33%	13%	33%	48.16%
2009	31.5%	12%	23.5%	47.16%
2010	30%	11.92%		
2011	28.5%		23%	46.67%
2012	27%	11%		

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.

Corporate capital tax

The budget does not revise capital tax rates. Capital tax:

- was eliminated on July 1, 2008, for corporations that use more than 50% of their labour and capital in Manitoba in M&P activities; and
- will be eliminated after 2010 for other corporations.

Research and Development Tax Credit

Manitoba's 20% Research and Development Tax Credit will be fully refundable to corporations with a permanent

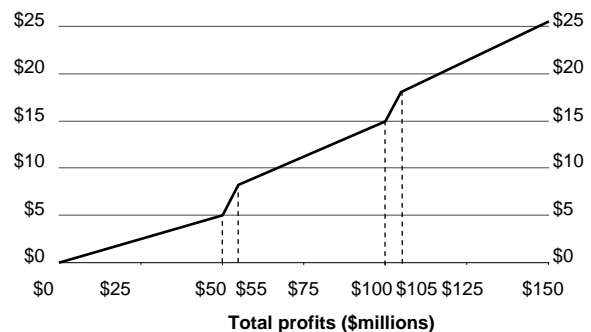
establishment in Manitoba that incur eligible expenditures for new technologies and biotechnologies after 2009. To be eligible, expenditures must be incurred in Manitoba under a contract with a qualifying research institute, which will include prescribed post-secondary institutions and research institutes in Manitoba.

Mining tax rate

Manitoba's mining tax rate will decrease as follows:

		Mining tax rate for fiscal years ending:	
		Before July 1, 2009	After June 30, 2009
Operator profits	< \$50 million	18%	10%
	\$50 million to \$55 million		65%
	\$55 million to \$100 million		15%
	\$100 million to \$105 million		57%
	> \$105 million		17%

Mining tax (\$millions)



Personal Tax Measures

Personal income tax rates

Non-eligible dividend tax rates

As a result of the decrease in the small business rate to 0%, the dividend tax credit rate on non-eligible dividends will decrease to 1.75% after 2010. This and previously announced changes follow:

	Non-eligible dividends (%)		
	2008	2009 and 2010	after 2010
Dividend gross-up	25		
Dividend tax credit (on grossed-up dividend)	3.15	2.5	1.75
Top combined rate ¹	37.40	38.21	39.15

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

Top personal tax rates

The top combined federal/Manitoba personal tax rates follow. These rates reflect previously announced federal and Manitoba changes and Manitoba's budget announcement on non-eligible dividends.

	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
2008	46.40%	23.20%		37.40%
2009			23.83%	38.21%
2010			25.09%	
2011			26.74%	39.15%
2012			28.12%	

Personal tax credits

The budget enhances the following personal tax credits:

- **Primary Caregiver Tax Credit** – Commencing 2009, caregivers of adults and children in the Supported Living Program or the Children's Special Services Program will have easier access to this credit.
- **Community Enterprise Development Tax Credit** – The maximum value of issuable shares that a business can apply for under this program will increase from \$500,000 to \$1,000,000, starting 2009.
- **Education Property Tax Credit, School Tax Credit for Homeowners and Personal Tax Credit** – The taxable portion of withdrawals from Registered Disability Savings Plans will be excluded from family net income for purposes of these credits.
- **Education Property Tax Credit** – For 2009, the basic amount of this tax credit will increase from \$600 to \$650.
- **Mineral Exploration Tax Credit** – This program is extended by three years so that it will apply to flow-through share agreements entered into before April 1, 2012. In addition, the rate of the credit will increase from 10%:
 - to 20% on share agreements entered into after March 31, 2009 and before April 1, 2010; and
 - to 30% on share agreements entered into after March 31, 2010 and before April 1, 2012.

Other Tax Measures

Community Enterprise Investment Tax Credit

Commencing 2009, the maximum annual approval limit for this program will increase from \$16,667,000 to \$33,000,000.

Co-op Education and Apprenticeship Tax Credits

All components of the Co-op Education and Apprenticeship Tax Credits are extended to December 31, 2011. Furthermore, a new credit, Advanced-Level Apprentices Hiring Incentive (ALA-HI) will broaden eligibility to higher level apprentices. The ALA-HI will equal 5% of wages paid to the advanced-level apprentice, up to \$2,500 for each level completed by the apprentice. There is no limit on the number of apprentices an employer can hire to earn the credit. To be eligible, the apprentice must be enrolled in an advanced level (Level 3, 4 or 5) in Manitoba after 2008 and before 2012.

Retail sales tax

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

- **Manure slurry tanks and lagoon liners** – This exemption, which was to expire June 30, 2009, was made permanent.
- **Educational Workbooks** – The sales tax exemption for books is expanded to include educational workbooks, effective May 1, 2009.

Environmental incentives

The budget enhances the following environmental incentives:

- **Odour-control Tax Credit** – This credit, which was to expire December 31, 2009, has been extended to December 31, 2011.
- **Green Energy Equipment Tax Credit** – Starting 2009, this 10% refundable tax credit is extended to specified solar thermal heating equipment purchased for use in Manitoba. The equipment must be new and must be conventional active solar heating equipment that is or will be used primarily to heat liquid or gas.
- **Waste reduction and recycling support levy** – Licensed municipal and private landfill operators will be subject to this levy, which will apply starting July 1, 2009, to the largest Class 1 operators, in 2010 to other Class 1 operators and no later than 2011 for Class 2 and Class 3 operators.
- **Riparian Tax Credit** – This tax credit, which is intended to encourage farm operators to upgrade their management of river and stream banks, has been enhanced and the application deadline for the intake group running from 2009 through 2013 has been extended.

Tobacco tax

Tobacco taxes will increase on cigarettes and tobacco, commencing March 26, 2009. Fines and penalties for tobacco tax offences will increase and enforcement measures will be enhanced.

Gasoline and motive fuel tax

The following relieving measures are introduced:

- **Cargo flights** – Commencing July 1, 2009, the aviation fuel tax rate for domestic cargo flights will be reduced and the fuel tax exemption for international cargo flights will be expanded to include direct and indirect flights to and from the United States.
- **Forestry companies** – The fuel tax exemption is expanded effective May 1, 2009, to include fuel used for forest renewal.

Technical and administrative measures

Technical and administrative measures will affect the rules for:

- the Book Publishing Tax Credit;
- Class A shares for Manitoba registered labour-sponsored venture capital corporations;
- individuals who, through a Tax-Free Savings Account, acquire shares issued by a Manitoba-

registered labour-sponsored fund or shares approved under the Community Enterprise Development Tax Credit; and

- individuals who designate, outside of a will, the beneficiaries of their Tax-Free Savings Account.

Federal harmonization

2009 federal budget measures that Manitoba will parallel include:

- increasing the amount that can be withdrawn from a Registered Retirement Savings Plan (RRSP) by first-time home buyers without incurring tax;
- capital cost allowance enhancements in respect of manufacturing machinery and equipment and computer hardware and system software; and
- repeal of the proposed non-deductibility of interest payments by Canadian companies respecting foreign affiliates.

See our *Tax Memo*, “2009 Federal Budget: Big Spending, Little Tax Relief” at www.pwc.com/ca/budget for more information.

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