

Tax Memo

2010 Manitoba Budget: Tax Highlights

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Introduction

On Tuesday, March 23, 2010, Manitoba's Minister of Finance, Rosann Wowchuk, presented the province's 2010 budget. The budget makes Manitoba's Research and Development Tax Credit partially refundable for in-house R&D expenses, and extends and enhances the Film and Video Production Tax Credit and Interactive Digital Media Tax Credit. It also extends the Fitness Tax Credit to individuals aged 16 to 24 and introduces a 5% advance for the Tuition Fee Income Tax Rebate. 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 revise Manitoba's general corporate rate, which also applies to manufacturing and processing (M&P) income. Nor does it provide the date for this rate to decline to 11%, as was proposed in the 2008 budget. However, the budget does confirm that this reduction will be implemented when the economy strengthens. 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. The budget confirms that the following previously announced change to its small business rate will proceed.

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

The budget does not address the concern that corporations benefiting from the 0% tax rate may be unable to claim Manitoba's non-refundable tax credits.

Combined corporate income tax rates

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

	General and M&P income ¹	Canadian-controlled private corporations (CCPCs)		Investment income
		Active business income to \$400,000	\$400,000 to \$500,000	
2009	31.5%	12%	23.5%	47.16%
2010	30%	11.92%		
2011	28.5%	11%	23%	46.67%
2012	27%			

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

The budget phases in partial refundability for Manitoba's 20% Research and Development (R&D) Tax Credit for in-house R&D expenses. The credit will be 25% refundable for these expenditures in 2011 and 50% refundable after 2011. The credit is already fully refundable for R&D expenditures incurred under a contract with a qualifying research institute in Manitoba.

Film and Video Production Tax Credit

The Manitoba Film and Video Production Tax Credit is extended by three years to March 1, 2014. Furthermore, if principal photography on a production commences after March 2010, production companies can claim either:

- the maximum 65% tax credit based on eligible labour costs; or
- a new 30% tax credit based on production costs incurred and paid for labour, goods and services provided in Manitoba that are directly attributable to the eligible film.

The following additional changes apply commencing March 24, 2010:

- production companies can file Form T2029, "Waiver in Respect of the Normal Reassessment Period," to extend their application deadline by 18 months;
- Manitoba will have greater flexibility to respond to external changes; and
- federal limitation periods will apply when filing a Manitoba film tax credit certificate with the Canada Revenue Agency.

Interactive Digital Media Tax Credit

The Interactive Digital Media Tax Credit is extended by three years to December 31, 2013. In addition, for certificates of eligibility and tax credit certificates issued after March 23, 2010:

- tax credit certificates can be issued on a taxation-year basis instead of at the end of a project;
- repaid or repayable government assistance will no longer reduce eligible labour costs; and
- when a government or public authority purchases an interactive digital media product, the amount paid by the purchaser and the amount of the Interactive Digital Media Tax Credit cannot exceed 100% of the project's costs.

Co-op Education and Apprenticeship Tax Credits

Commencing 2011, the Co-op Education and Apprenticeship Tax Credits can be claimed by employers that hire high school and post-secondary Level 1 and 2 apprentices, but are not eligible for the federal Apprenticeship Job Creation Tax Credit. Therefore, tax-exempt employers and taxable employers of non-Red-Seal apprentices will qualify. The tax credit will equal 10% of net wages and salaries paid to an apprentice, to a maximum credit of \$2,000.

Co-operative Development Tax Credit

Co-operatives that make financial contributions toward co-operative developments in Manitoba after September 2010 will be eligible for a new tax credit. Details are forthcoming.

Credit unions and caisses populaires

Commencing January 1, 2011, credit unions and caisses populaires with a permanent establishment in Manitoba will be subject to a 1% profits tax on taxable income (as determined for federal income tax purposes) exceeding \$400,000. The tax will be reduced by any Manitoba income tax paid or payable in the year. It will be pro-rated for taxation years that straddle January 1, 2011.

The profits tax is being introduced because Manitoba's small business income tax will be eliminated on December 1, 2010. Credit union centrals, caisses populaires federations and deposit guarantee corporations will be exempt.

Small Business Venture Capital Tax Credit

The Small Business Venture Capital Tax Credit will replace the Community Enterprise Investment Tax Credit and will expire December 31, 2013. This new program will prioritize economic developments in accordance with provincial objectives and its administration will correspond to other tax credit programs.

Personal Tax Measures

Personal income tax rates

Top personal tax rates

The top combined federal/Manitoba personal tax rates follow. These rates reflect previously announced federal and Manitoba changes.

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

Personal income tax thresholds and rates

Planned changes for 2010 to Manitoba's highest and middle income tax thresholds and its lowest income tax rate were not implemented because balanced budget requirements were not met. As a result, these thresholds and the rate will remain at their 2009 levels.

Personal tax credits

The budget enhances or introduces the following personal tax credits:

- **Fitness Tax Credit** – Commencing 2011, individuals aged 16 to 24 can claim the Fitness Tax Credit. The maximum tax credit is \$54 (\$108 for individuals with a disability).
- **Tuition Fee Income Tax Rebate Advance** – Students who reside in Manitoba and attend a post-secondary institution can claim this Advance, which is a refundable 5% tax credit on tuition and ancillary fees paid after August 31, 2010. The maximum annual tax credit will be \$250 in 2010 and \$500 thereafter. The maximum lifetime tax credit is \$5,000. The tax credit is claimable by the student regardless of who claims the tuition and education amount. Amounts claimed as an Advance will reduce the \$25,000 lifetime maximum under the Tuition Fee Income Tax Rebate. The Advance and Rebate cannot be claimed in the same year.
- **Fertility Treatment Tax Credit** – This new refundable credit equals 40% of payments for qualifying fertility treatments and prescription drugs, net of reimbursements. Up to \$20,000 in annual eligible costs incurred and paid after September, 2010 qualify, yielding a maximum credit of \$8,000. Eligible costs must be claimable as medical expenses for income tax purposes. The credit can be shared with a spouse or common-law partner.

Other Tax Measures

Retail sales tax

The budget states that Manitoba has declined invitations to harmonize its sales tax with the federal goods and services tax. It proposes the following retail sales tax (RST) changes:

- **Tanning services** – Effective July 1, 2010, RST will be applied to tanning services.
- **Shredded tires** – Shredded tires will be exempt from RST if purchased by a municipality.
- **Small businesses** – Businesses with under \$10,000 in annual taxable sales will not be required to register and collect RST.

Tobacco Tax

Effective midnight, March 23, 2010, the tobacco tax rate will increase by 2¢ per cigarette and by 2¢ per gram on fine-cut tobacco and raw leaf tobacco.

Farmland School Tax Rebate

The Farmland School Tax Rebate will remain at 75%. The scheduled increase to 80% is deferred.

Technical and administrative measures

Technical and administrative measures will affect the rules for:

- Manitoba-made biodiesel;
- transfers of real property between a registered charity and its wholly-controlled non-profit organization;
- the Book Publishing Tax Credit;
- the Vehicle Valuation Program; and
- the Riparian Tax Credit.

The budget also states that legislative amendments will retain restrictions that prohibit increases to major taxes without a referendum.

Federal harmonization

2010 federal budget measures that Manitoba will parallel include:

- changes to the treatment of employee stock options; and
- the decrease in the interest rate on overpaid income taxes.

See our *Tax Memo*, "2010 Federal Budget: Focus on Fairness" at www.pwc.com/ca/budget for more information.

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