

## Tax highlights from the 2010 Manitoba budget

Finance Minister Rosann Wowchuk tabled the 2010 Manitoba provincial budget on March 23, 2010. This is her first budget since former finance minister Greg Selinger became premier in October 2009. While Manitoba fared better economically than most other provinces this past year, the forecast deficit for the 2009-2010 fiscal year now stands at \$555 million, compared to the 2009 budget projection of a \$48 million surplus. This budget projects a deficit of \$545 million for the 2010-2011 fiscal year, with smaller deficits in each of the following three years. Current projections indicate a return to surplus in the 2014-2015 fiscal year.

A major focus of this budget is on expense restraint to eliminate the budget shortfall over the next four years. These measures include reducing spending in half of all government departments; reducing pay for cabinet ministers and freezing pay for MLAs and senior government staff; and increasing fees for a number of government services and for university tuition. In addition, the budget proposes to draw \$600 million from the Fiscal Stabilization Account over the next four years, including \$96 million this year, to pay down government debt resulting from the economic downturn.

On the income tax side, there were no increases and several previously proposed decreases have been delayed.

The following pages are a summary of the changes announced in the budget. Please note that these changes are still proposals until passed into law by the provincial government.

## PERSONAL TAX MATTERS

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### Personal income tax rates and tax brackets

The 2010 budget leaves personal income tax brackets and rates unchanged from 2009. The minister indicated that current economic circumstances dictate that the proposed 2010 tax reductions included in the 2007 budget's five-year tax reduction plan be delayed until conditions improve. The table below shows the Manitoba tax rates and brackets for 2010.

Taxable income range	2010 Tax rate
\$8,134 – \$31,000	10.8%
\$31,001 – \$67,000	12.75%
\$67,001 and over	17.4%

### Tuition fee income tax rebate advance

The 2007 budget introduced the tuition fee income tax rebate, which provides a post-graduation rebate equal to 60% of eligible post-secondary tuition fees to graduates who work and live in Manitoba. The new budget proposes to further assist students by providing an advance payment of a portion of the rebate for Manitoba resident post-secondary students while they are still in school.

The advance takes the form of a refundable 5% tax credit on tuition and ancillary fees paid after August 31, 2010. This credit will be claimable by the student even if he or she transfers their tuition and education amount to a parent or spouse. The tax credit is capped at \$250 for 2010, and \$500 for future years, with a lifetime cap of \$5,000. Amounts claimed as an advance will reduce the post-graduation lifetime maximum rebate of \$25,000. An individual claiming a rebate will not be able to claim the advance in the same year.

### **Fitness tax credit**

The budget proposes to extend the children's fitness tax credit, which is currently available in respect of qualifying expenses for children up to and including age 15, to young adults under the age of 25. Eligible fitness activity expenses are those that are defined under the federal legislation, to a maximum cost of \$500 per year. This non-refundable tax credit can be claimed by either the young adult or by a parent or spouse. Additional credit is available for persons with a disability.

### **Fertility treatment tax credit**

This budget proposes a new refundable tax credit equal to 40% of fertility treatment costs paid to an accredited clinic in Manitoba and for related non-reimbursed prescription costs. Effective October 1, 2010, annual eligible costs of \$20,000 may be claimed for a maximum credit of \$8,000. These costs must be claimable as a medical expense under federal income tax rules. The credit can be shared with a spouse or common-law partner.

## **CORPORATE TAX MATTERS**

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### **Corporate income tax rates**

The minister confirmed that the 2009 budget measure to reduce the small business tax rate from 1% to 0% effective December 1, 2010 will occur as scheduled.

The previously scheduled general corporate income tax rate decrease to 11% will be deferred until the deficit is reduced. The tax rate for 2010 will remain at 12%.

### **Research and development**

The 2009 budget changed certain non-refundable corporate income tax credits for qualifying research and development (R&D) expenditures in the province, to a fully refundable 20% tax credit. This budget proposes to extend refundability of this credit to in-house R&D expenditures, as follows:

- one-quarter of the credit for in-house R&D will be refundable, starting in 2011; and
- one-half of the credit for in-house R&D will be refundable, starting in 2012.

### **Co-op education and apprenticeship tax credits**

The budget proposes to expand the co-op education and apprenticeship tax credit in 2011. Employers who hire high school and post-secondary level 1 and 2 apprentices who are not eligible for the federal apprenticeship job creation tax credit will be able to claim under this provincial program. This includes tax-exempt employers as well as taxable employers of non-red seal apprentices. The credit will be equal to 10% of salaries and wages paid to an apprentice, up to a maximum \$2,000 credit.

### **Small business venture capital tax credit**

The community enterprise investment tax credit is renamed the small business venture capital tax credit. This credit, which was scheduled to expire on December 31, 2010, is extended to December 31, 2013.

## Film tax credits

The following changes apply to productions with principal photography beginning after March 2010:

- the Manitoba film and video production tax credit, which was to expire on March 1, 2011, is extended to March 1, 2014;
- production companies will have the ability to elect to claim either the maximum 65% film 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;
- the interactive digital media tax credit, which was to expire on December 31, 2010, is extended to December 31, 2013; and
- various other administrative changes relating to filing and compliance obligations.

## Credit union and caisses populaires profits tax

Effective January 1, 2011, the budget proposes that credit unions and caisses populaires with a permanent establishment in Manitoba be subject to a profits tax of 1% on taxable income in excess of \$400,000. The profits tax will be reduced by any Manitoba income tax otherwise payable in respect of the year.

## Co-operative development tax credit

As an initiative to grow the co-operative sector, the budget proposes a new tax credit for co-operatives that make financial contributions to a fund managed by the Manitoba Cooperative Association, in respect of co-operative development in Manitoba. Contributions made after September 2010 will be eligible for the tax credit. Further details will be announced later this year.

## OTHER PROPOSALS

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### Education property tax credit

The budget proposes to delay any further increases to this credit until the economy strengthens.

### Farmland school tax rebate

The rate for 2010 remains at 75%, effectively delaying the previously scheduled 2010 increase to 80%.

### Tobacco tax

The budget increases the tobacco tax effective at midnight March 23, 2010. The rates will increase as follows:

- on cigarettes, from 18.5 cents to 20.5 cents per cigarette;
- on fine-cut tobacco, from 17.5 cents to 19.5 cents per gram; and
- on raw leaf tobacco, from 16 cents to 18 cents per gram.

### Retail sales tax

- Effective July 1, 2010, retail sales tax will be applied to tanning services.
- The budget proposes to eliminate the requirement for small businesses with under \$10,000 in annual taxable sales to register and collect retail sales tax.
- The budget also proposes an exemption from sales tax for shredded tires purchased by municipalities.

## Riparian tax credit

The riparian tax credit provides incentives to farmers to commit themselves to five-year periods of specific land management practices on riverbanks and lakeshores. The budget proposes to extend the application deadline for the intake group running from 2010 through 2014.

## Measures relating to the 2010 federal budget

Manitoba's tax legislation and regulations will be amended to incorporate the following measures announced in the March 4, 2010 federal budget:

- allowing single parents the option of having the universal child care benefit treated as income of a dependent child;
- allowing a deceased person's registered plan proceeds to roll over to the registered disability savings plan of a financially dependent infirm child or grandchild;
- revising the tax treatment of employee stock options to disallow double deductions, limit deferrals, and, in certain cases, to limit the tax liability to the value of proceeds received on disposition; and
- reducing the interest paid by the province on overpaid corporate income taxes by 2%.

## WE CAN HELP

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Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs, and show you ways to take advantage of their benefits or ease their impact. Among the tools at their disposal to assist you, your advisor can access United Financial's Wealth Planning Group, a multi-disciplinary group of accountants, lawyers, and financial planners, who are available to assist them in serving your needs.

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