CORPORATE Newsletter

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2015 Budget Measures (Part 2)

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Budget Details

Now that all of the provinces having presented their budgets for 2015, we can now complete our roundup of new tax measures affecting corporations. This issue concentrates on measures announced by Newfoundland and Labrador, Prince Edwards Island, and Manitoba, as budgets from these provinces have not been covered in our previous articles.

Newfoundland in particular, in view of its dependence on oil royalties which represented more than 30% of government revenues (according to Budget 2014 figures) was hit the hardest by the more than 40% decline in oil prices resulting in approximately $900 million of lost revenue as suggested by 2015 Budget documents. In fact, the Conference Board of Canada stated that Newfoundland and Labrador is the second largest "victim" of the impact of declining oil revenue after Alberta. The shortfall could represent close to $2 billion for Newfoundland in 2015.

Nevertheless, all provinces have been affected by the economic slowdown, which has characterized the Canadian economy in 2015. The Bank of Canada has again cut its overnight lending rate by 0.25% to 0.5% on July 15, 2015 after surprising with a similar cut in January. This quasi-governmental intervention affects businesses more than announced changes in tax policy by the government because of the consequential impact of the drop, which results in a lowering of the value of the Canadian dollar. Clearly, the Bank of Canada hoped that lowering the value of the dollar would spur economic growth by increasing exports.

However, the faltering world economy, led by anemic growth in the US and China has resulted in dropping prices for resources; this also impacted Canada's economic growth which was already damaged by the abrupt decrease in oil prices. Accordingly, it is no surprise that the Bank of Canada's actions have not brought about the intended results. The first quarter of the year, itself qualified by the Governor of the Bank of Canada, Stephen Poloz, as "atrocious", could not recover much in the second quarter, with Canada arguably being in recession at mid-year. There is still hope down the road as the Bank of Canada expects growth to resume in the third and fourth quarters, led by the non-resource sectors of Canada's economy. Indeed, outside the energy-producing regions, consumer confidence remains high and labour markets continue to improve. The Bank now projects Canada's real GDP will grow by just over 1 percent in 2015 and about 2 ½ percent

in 2016 and 2017. Unfortunately, economic forecasting is not an exact science and only time will tell if this somewhat optimistic outlook is warranted.

In the meantime, provincial finance ministers must deal with declining revenues and juggle with expenditures and revenue measures while attempting to remain fiscally responsible. Let's see how the latest provincial fiscal measures impact businesses.

Newfoundland and Labrador

To compensate for the loss of oil revenues, the government announced an increase in the HST from 13% to 15% as of January 1, 2016. This will affect both individuals and corporations.

A few measures targeting specific industrial sectors were also announced.

- The financial corporations' capital tax rate increased from 4% to 5%, effective April 1, 2015.
- An **Interactive Digital Media Tax Credit** is introduced for fiscal years beginning on or after January 1, 2015. The refundable credit will be calculated at 40% of eligible wages and remuneration paid by an interactive digital media company.
- A tobacco tax rebate is offered to tobacco retailers in Labrador West, to help them compete with retailers across the border in Quebec. Effective May 1, 2015, this rebate reduces the effective tobacco tax rate in this area from 23.5 cents per cigarette to 12.75 cents. The rate for other tobacco, excluding cigars, is also eligible for the rebate which reduces the effective tax rate from 38 cents per gram to 14.64 cents.
- The province will share provincial gasoline tax revenues with municipalities beginning with 0.5 cents per litre in fiscal 2015-2016, increasing to 0.75 cents in 2016-2017, and 1 cent per litre for 2017-2018 and subsequent years.
- The Budget announced numerous increases to government fees for services such as vehicle registration, licences and permits, and use of provincially owned land and facilities.

Prince Edward Island

Canada's smallest province isn't "burdened" by dependence on oil revenue and was not affected by the decrease in oil prices as Newfoundland and Labrador was. The Budget announced very few new measures and none of them related specifically to corporations. The only new measure announced was an increase in tobacco tax. Previously announced income tax reductions for low-income Islanders were also announced.

Manitoba

Manitoba's 2015 Budget was presented on April 30, 2015 by Finance Minister Greg Dewar. The Budget announced numerous tax changes, many specifically targeting corporations; these are summarized below.

- The threshold for Manitoba's **Small Business Corporate Income Tax Rate** will increase from $425,000 to $450,000, effective January 1, 2016.
- The co-op student hiring incentive is expanded to include high school vocational programs such as health care, child care, business, and hospitality. This component will provide a credit worth 25% of eligible wages and salaries, up to a lifetime maximum of $5,000 per student.
- The rate for post-secondary co-op students will increase from 10% to 15%, and the maximum credit will increase to $5,000 per student.
- The rate for co-op graduates will increase from 5% to 15%, although the maximum credit will remain at $2,500 per graduate.
- The benefit for high school apprentices will increase from 15% to 25%, with a maximum of $5,000 per apprentice per level.
- The **Data Processing Investment Tax Credit** is extended to the end of 2018 and broadened to include data processing centres built in Manitoba and leased to an unaffiliated Manitoba company. The credit is also extended to include taxpayers investing through non-corporate business structures.
- The **Green Energy Equipment Tax Credit** is expanded to include a 15% credit for biomass fuel energy equipment that is installed in Manitoba and used in a business.

- The eligibility criteria for the **Small Business Venture Capital Tax Credit** is amended to increase the maximum number of employees to 100, and to include non-traditional farming ventures and brew pubs. These changes apply to shares issued after April 30, 2015.
- As previously announced, the eligible investment period for the **Community Enterprise Development Tax Credit** will be extended to include the first 60 days following the end of the calendar year. This change will be effective January 1, 2015, with respect to 2014 taxation year. This means that eligible shares purchased after Dec. 31, 2014, and no later than March 1, 2015, including shares purchased through a registered retirement savings plan (RRSP), may be claimed for the purposes of this credit in either 2014 or 2015.
- The carryforward period for the **Research and Development Tax Credit** will be extended to 20 years.

Furthermore, the following tax credits are extended until the end of **2018**:

- cultural industries printing tax credit; and
- nutrient management tax credit.

The following tax credits will be extended until the end of **2019**:

- film and video production tax credit;
- rental housing construction tax credit; and
- interactive digital media tax credit.

Alberta

Alberta's previously announced March 30, 2015 Budget was never enacted in view of the surprise May 5 election requested by newly-elected Progressive Conservative leader Jim Prentice. The election followed dissolution of Parliament on April 7, 2015. Surprising many, the New Democratic Party (NDP) was elected to a majority under new leader Rachel Notley.

The changes to Alberta's income tax system announced by the new NDP government are being brought into force by Bill 2, *An Act to Restore Fairness to Public Revenue*. Bill 2 received Royal Assent on June 29, 2015.

As a result, corporate taxes in Alberta increased from 10% to 12%, effective July 1, 2015.