

**Manitoba** 

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**Budget Paper D**

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**TAXATION  
ADJUSTMENTS**

# TAXATION ADJUSTMENTS

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## SUMMARY OF 2006 TAX MEASURES

	2006/07	Full Year
	(Millions of Dollars)	
<b>Ongoing Tax Reductions<sup>1</sup></b>		
Personal tax reductions	(30.0)	(30.0)
Business tax reductions	(19.9)	(36.9)
	<b>(49.9)</b>	<b>(66.9)</b>
<b>Personal Tax Measures</b>		
Residential Education Support Levy eliminated	(34.0)	(34.0)
Middle bracket rate reduced and Basic personal amount increased	(8.2)	(32.3)
Dividend Tax Credit increased	(7.5)	(7.5)
Children's Physical Activity Tax Credit introduced	(0.8)	(3.0)
Adoption Expenses Tax Credit introduced	(0.1)	(0.1)
Personal Tax Credit eligibility age increased	1.0	1.0
	<b>(49.6)</b>	<b>(75.9)</b>
<b>Business Tax Measures</b>		
Corporation Income Tax rate reduction accelerated in 2006	(3.0)	0.0 <sup>2</sup>
Small business rate reduced	(1.8)	(7.0)
Co-operative Education Tax Credit enhanced	(0.5)	(3.5)
Capital Tax deduction increased	(0.4)	(2.5)
Manufacturing Investment Tax Credit enhanced	(1.8)	(1.8)
Oil and gas exploration Retail Sales Tax exemption introduced	(1.3)	(1.3)
Fuel tax exemption introduced	(0.8)	(0.8)
Liquor markups reduced	(0.2)	(0.2)
	<b>(9.8)</b>	<b>(17.1)</b>
<b>Farm and Green Measures</b>		
Farmland School Tax Rebate increased	(4.6)	(4.6)
Odour Control Tax Credit enhanced	(0.5)	(0.5)
Biodiesel incentive introduced	(0.1)	(0.2)
Riparian Tax Credit, new intake	(0.1)	(0.1)
	<b>(5.3)</b>	<b>(5.4)</b>
<b>Technical and Administrative Measures</b>	<b>(0.4)</b>	<b>(0.4)</b>
<b>Net Change 2006 Budget</b>	<b>(65.1)</b>	<b>(98.8)</b>
<b>Net Change 2006/07 and Subsequent Years</b>	<b>(115.0)</b>	<b>(165.7)</b>

<sup>1</sup> Ongoing tax reductions are those that were announced in previous budgets to take effect in 2006 and subsequent years. These are (a) the decrease in the general CIT rate to 14.5% on January 1, 2006 and to 14.0% on July 1, 2007; (b) the decrease in the small business CIT rate to 4.5% on January 1, 2006 and to 4.0% on January 1, 2007; and (c) the decrease in the middle bracket PIT rate to 13.5% and the increase in the basic personal amount by \$100 on January 1, 2006.

<sup>2</sup> Revenue reductions in years after 2006/07 are included in Ongoing Business Tax Reductions, above.

## ■ EDUCATION SUPPORT LEVY

(2006/07 collections impact: \$-34.0 million)

The Education Support Levy (ESL) is a province-wide property tax. In Budget 2002, Manitoba made a commitment to eliminate the residential ESL over a period of five years, without affecting revenue to school divisions.

In each of the previous four budgets, the rate was reduced. Now the tax is eliminated for residential properties for 2006. The amount collected in 2001 was \$98 million. The amount collected in 2005 was \$34 million.

*For more information, contact Location D, page 9.*

## ■ PERSONAL INCOME TAX

### Middle Bracket Tax Rate and Basic Personal Amount

(2006/07 revenue impact: \$-8.2 million)

The middle bracket of Personal Income Tax was reduced to 13.5% on January 1, 2006. It is now further reduced to 13.0% effective January 1, 2007, saving Manitoba taxpayers \$26.3 million annually. The middle bracket has been reduced in stages from 16.6% in 1999. Please see the graph “History of Middle Bracket Rate Reductions” on page D12.

The basic personal amount is increased by \$100 to \$7,834 in 2007, saving taxpayers another \$6.0 million annually and eliminating income tax for 2,000 Manitobans.

*For more information, contact Location A, page 9.*

### Dividend Tax Credit

(Estimated 2006/07 revenue impact: \$-7.5 million)

Manitoba will introduce separate credits for taxable dividends distributed by Canadian-controlled private corporations and publicly traded corporations. The changes to the Manitoba Dividend Tax Credit will be announced once details of federal changes are confirmed.

*For more information, contact Location A, page 9.*

### Children’s Physical Activity Tax Credit

(Estimated 2006/07 revenue impact: \$-0.8 million)

The new federal government has proposed a tax credit in support of families with children enrolled in physical activities. Manitoba will parallel this credit once it is introduced.

*For more information, contact Location B, page 9.*

## **Adoption Expenses Tax Credit**

(2006/07 revenue impact: \$-0.1 million)

Where a taxpayer is eligible to claim a federal adoption tax credit in 2006 and subsequent tax years, Manitoba will provide a parallel tax credit. Eligible expenditures, based on federal criteria and up to a maximum of \$10,000 per adoption, will receive a non-refundable 10.9% Manitoba credit.

*For more information, contact Location B, page 9.*

## **Personal Tax Credit**

(2006/07 expenditure impact: \$-1.0 million)

In order to align Manitoba's Personal Tax Credit with the federal GST tax credit and with comparable credits in other provinces, the eligibility age increases to 19 in 2006 and subsequent tax years. Previously, taxpayers could claim this credit in their own right in the year they turned 18. Since parents may claim the Credit for children up to age 18, the change will remove confusion about when the parent and the child may claim the Credit. Funds will be redirected to improve shelter benefits for low-income Manitobans.

*For more information, contact Location A, page 9.*

## **■ FARMLAND SCHOOL TAX REBATE**

(2006/07 expenditure impact: \$4.6 million)

In 2004, the Farmland School Tax Rebate was introduced as a 33% rebate of school division special levies on farmland, saving the farm community \$13 million. In 2005, the Rebate was increased to 50%, bringing annual tax savings to \$20 million. In 2006, the Rebate is increased to 60%, bringing total annual savings to \$24.6 million. The Rebate does not reduce the amount of revenue collected for school divisions.

*For more information, contact Location B, page 9.*

## **■ ODOUR CONTROL TAX CREDITS**

(2006/07 revenue impact: \$-0.5 million)

Effective with the 2006 property tax year, agricultural landholders are eligible for a new Odour Control Property Tax Credit to offset 10% of the purchase price of an eligible odour control investment, provided the asset remains available for use on their land over the course of several years. This will make all farm landholders eligible to receive support for investment in odour control. A taxpayer will be eligible to claim either the Odour Control Property Tax Credit or the odour control corporation income tax credit, but not both.

Both property tax and corporation income tax credits are broadened by prescribing anaerobic digesters as eligible capital investments. Also, approval is made easier for an investment where odour control is a significant, but not necessarily the primary, purpose.

*For more information, contact Location A, page 9.*

## ■ BIODIESEL INCENTIVE

(2006/07 revenue impact: \$-40,000)

Effective March 7, 2006, for a period of five years, Manitoba-produced biofuel that meets the ASTM D-6751 standard (American Society for Testing and Materials) and that is sold as biodiesel will be exempt from both Retail Sales Tax and the Motive Fuel Tax. The exemption will apply to both 100% pure biofuel and the biofuel portion of blended biodiesel. For example, in 100 litres of B20 (a blend of 20% pure biofuel and 80% regular diesel) fuel tax is payable on the 80 litres of regular diesel in the blend. No tax applies to the 20 litres of pure biofuel in the blend.

*For more information, contact Location C, page 9.*

## ■ RIPARIAN TAX CREDIT

(2006/07 expenditure impact: \$0.1 million)

The Riparian Tax Credit promotes environmentally sound management of lakeshore and riverbanks in agricultural areas. There will be a fifth intake of agricultural operator participants in the Riparian Tax Credit program, with an application deadline of March 31, 2007. Further, the program will be enhanced to provide additional recognition for the costs of meeting riparian management conditions, such as off-site watering facilities for livestock.

*For more information, contact Location B, page 9.*

## ■ CORPORATION INCOME TAX

### General Rate

(2006/07 revenue impact: \$-3.0 million)

Budget 2005 announced the reduction in the general rate to 14.5% on July 1, 2006. This rate reduction is advanced to January 1, 2006.

The 2005 Budget announced the further reduction of the general rate to 14.0% on July 1, 2007.

Subject to balanced budget requirements, the rate will be reduced to 13.0%, effective July 1, 2008.

*For more information, contact Location A, page 9.*

### Small Business Rate

(2006/07 revenue impact: \$-1.8 million)

In Budget 2005, the small business income tax rate was reduced to 4.5% on January 1, 2006, and to 4.0% on January 1, 2007. This budget supersedes the latter change by further reducing the rate to 3.0%, effective January 1, 2007. This ties Manitoba for the second-lowest rate in Canada.

*For more information, contact Location A, page 9.*

## Reduction of Corporation Income Tax Rates since 1999

Taxable Income	1999	2006	2007	2008
Up to \$200,000	8.0% <sup>1</sup>	4.5%	3.0%	3.0%
\$200,000 to \$400,000	17.0%	4.5%	3.0%	3.0%
Over \$400,000	17.0%	14.5%	14.0% <sup>2</sup>	13.0% <sup>3</sup>

<sup>1</sup> Rate reduced from 9.0% July 1, 1999

<sup>2</sup> Effective July 1, 2007

<sup>3</sup> Effective July 1, 2008, subject to balanced budget requirements

### Manufacturing Investment Tax Credit

(2006/07 revenue impact: \$-1.8 million)

The Manufacturing Investment Tax Credit (MITC) is renewed for a further three years to June 30, 2009.

The refundable portion of the MITC is increased from 20% to 35%. This Credit was first made partially refundable in the 2005 Budget. It allows firms without taxable income in the current year to take immediate advantage of the MITC.

*For more information, contact Location A, page 9.*

### ■ CORPORATION CAPITAL TAX

(2006/07 revenue impact: \$-0.4 million)

Effective for fiscal years commencing after January 1, 2007, the \$5 million deduction is doubled to \$10 million. This will benefit all 2,600 corporations that currently pay capital tax and eliminate the tax for approximately 500 of these corporations. With the increased deduction, the capital tax rate for corporations with taxable paid-up capital between \$10 million and \$20 million is 0.3% and the rate for corporations with taxable paid-up capital over \$20 million is 0.5%, with the result that less than 4% of corporations in Manitoba pay Corporation Capital Tax.

Subject to balanced budget requirements, the Corporation Capital Tax rate will be reduced from 0.5% to 0.4% for corporations with taxable paid-up capital over \$20 million, and from 0.3% to 0.2% for corporations with taxable paid-up capital between \$10 million and \$20 million, effective for fiscal years commencing after July 1, 2008.

*For more information, contact Location C, page 9.*

## ■ CO-OPERATIVE EDUCATION TAX CREDIT AND CO-OP GRADUATES HIRING INCENTIVE

(2006/07 revenue impact: \$-0.5 million)

The Co-operative Education Tax Credit (CETC), announced in the 2003 Budget, provides a 10% credit of up to \$1,000 against Corporation Income Tax for each student hired for a work placement as part of a recognized post-secondary co-operative education program. For co-op education work placements starting on or after March 7, 2006, a parallel incentive is offered to unincorporated employers and to corporations and other organizations that are exempt from income tax, including Manitoba Crown entities and employers in the not-for-profit and voluntary sectors.

In addition, a new Co-op Graduates Hiring Incentive (COGHI) is introduced. Employers, including unincorporated and tax-exempt entities, will be eligible for an incentive to hire and retain, in full-time employment in Manitoba, students who graduate after March 6, 2006 from a recognized post-secondary co-operative education program in a field of study related to the employment. The benefit will total 5% of wages and salaries paid to the graduate in each of the first two full years of employment, to a maximum of \$2,500 for each year, where the employment commences within 18 months of graduation.

For taxable corporations, COGHI is fully refundable, and the CETC becomes fully refundable with respect to work placements ending in 2006 and subsequent years.

*For more information, contact Location A, page 9.*

## ■ RETAIL SALES TAX

### Oil and Gas Exploration and Development Equipment

(2006/07 revenue impact: \$-1.3 million)

Effective April 1, 2006, geophysical survey equipment, drill rigs, and well-servicing equipment, used in oil and gas exploration and development are exempt from Retail Sales Tax. This includes equipment purchased for use in Manitoba and equipment brought into Manitoba on a temporary basis.

*For more information, contact Location C, page 9.*



## ■ MOTIVE FUEL TAX AND GASOLINE TAX

### Commercial Logging

(2006/07 revenue impact: \$-0.8 million)

Effective March 7, 2006, the fuel tax exemption for commercial logging operations is expanded to include off-highway uses of fuel. Additional activities now eligible to use tax-exempt fuel include all processing activities, the off-highway transportation of forestry products, and the construction and maintenance of logging roads.

*For more information, contact Location C, page 9.*

## ■ LIQUOR MARKUPS

(2006/07 revenue impact: \$-0.2 million)

The Manitoba Liquor Control Commission will reduce its markup rates for beer produced by micro-breweries, defined as those producing less than 35,000 hectolitres per year. Similar changes will be introduced for cottage wineries, defined as those producing less than 100,000 litres per year. The changes take effect as of March 7, 2006, and are expected to provide eligible brewers and wineries with savings of \$200,000 in 2006/07.

*For more information, contact Location E, page 9.*

## ■ TECHNICAL AND ADMINISTRATIVE MEASURES

(2006/07 revenue impact: \$-0.4 million)

- The Manufacturing Investment Tax Credit, the Research and Development Tax Credit, and the Odour Control Tax Credit are changed to recognize multi-tiered partnership arrangements. *For more information, contact Location A, page 9.*
- MITC-qualified property includes Class 43.1 renewable energy and energy conservation equipment. The 2005 federal budget moved most Class 43.1 property into Class 43.2. The MITC is amended to ensure property previously classified as Class 43.1 and now reclassified as Class 43.2 will continue to qualify for the tax credit. *For more information, contact Location A, page 9.*
- *The Income Tax Act* will be amended to correct errors and address difficulties with provisions in the legislation. *For more information, contact Location A, page 9.*
- The Retail Sales Tax exemption for diabetic supplies is expanded to include lancets, lancing devices and blood glucose monitors purchased by diabetics for their own use. *For more information, contact Location C, page 9.*
- Retail Sales Tax refunds available on the residential purchase of a mobile or ready-to-move home are now provided as a point of sale exemption. This eliminates the refund requirements, as Retail Sales Tax will be applied by the vendor at 4% of the selling price of these homes. *For more information, contact Location C, page 9.*
- Similar to other provinces, the possession limit for cigarettes, without a valid Tobacco Dealer's Licence, is now five cartons. *For more information, contact Location C, page 9.*
- Enhanced collection measures are implemented under *The Tax Administration and Miscellaneous Taxes Act*. *For more information, contact Location C, page 9.*

## ■ FURTHER INFORMATION

For further information, please consult Bulletin No. 106 at the Manitoba Finance Web site:  
[www.gov.mb.ca/finance/taxation](http://www.gov.mb.ca/finance/taxation)  
 or contact the appropriate office, as listed below:

**Co-operative Education Tax Credit and  
 Co-op Graduates Hiring Incentive;  
 Manufacturing Investment Tax Credit;  
 Odour Control Tax Credit and  
 Odour Control Property Tax Credit;  
 Personal and Corporation Income Taxes:**

**A: *Federal-Provincial Relations  
 and Research Division  
 Manitoba Finance***

Telephone: 204-945-3757  
 Facsimile: 204-945-5051  
 e-mail: [fedprov@gov.mb.ca](mailto:fedprov@gov.mb.ca)

**Adoption Expenses Tax Credit;  
 Children's Physical Activity Tax Credit;  
 Farmland School Tax Rebate;  
 Riparian Tax Credit:**

**B: *Manitoba Tax Assistance Office  
 Manitoba Finance***

Telephone: 204-948-2115 in Winnipeg  
 Toll-free: 1-800-782-0771  
 Facsimile: 204-948-2263  
 e-mail: [tao@gov.mb.ca](mailto:tao@gov.mb.ca)

**Corporation Capital Tax;  
 Motive Fuel Tax; Retail Sales Tax:**

**C: *Taxation Division  
 Manitoba Finance***

Telephone: 204-945-5603 in Winnipeg  
 Telephone: 204-726-6153 in Brandon  
 Toll-free: 1-800-782-0318 (to Wpg)  
 Fax: 204-945-0896  
 e-mail: [mbtax@gov.mb.ca](mailto:mbtax@gov.mb.ca)

**Education Support Levy:**

**D: *Schools Finance Branch  
 Manitoba Education,  
 Citizenship and Youth***

Telephone: 204-945-6910  
 Facsimile: 204-948-2000  
 e-mail: [mbedu@merlin.mb.ca](mailto:mbedu@merlin.mb.ca)  
[www.edu.gov.mb.ca/ks4/finance/](http://www.edu.gov.mb.ca/ks4/finance/)

**Liquor Markups:**

**E: *Manitoba Liquor Control Commission***

Director, Purchasing  
 Telephone: 204-474-5512  
 e-mail: [contact@mlcc.mb.ca](mailto:contact@mlcc.mb.ca)

## ■ PERSONAL TAX SAVINGS SINCE 1999

Personal Income Taxes, Education Property Tax Credits, Residential Education Support Levy and Farmland School Tax Rebate

	Implemented in Tax Year:								Cumulative
	2000	2001	2002	2003	2004	2005	2006	2007	Annual Totals
	(Millions of Dollars)								(Millions of Dollars)
<b>Income Tax Reductions</b>									
2000 Budget	9	68	34						111
2001 Budget		29	7	18					54
2002 Budget			15						15
2003 Budget					39				39
2005 Budget							30		30
2006 Budget							8	34	42
Total									291
<b>Property Tax Reductions<sup>1</sup></b>									
2000 Budget	26								26
2001 Budget		27							27
2002 Budget			10						10
2003 Budget				19					19
2004 Budget					23				23
2005 Budget						37			37
2006 Budget							39		39
Total									181
<b>Annual Totals</b>	<b>35</b>	<b>124</b>	<b>67</b>	<b>37</b>	<b>62</b>	<b>37</b>	<b>77</b>	<b>34</b>	
<b>Cumulative Annual Totals</b>	<b>35</b>	<b>159</b>	<b>226</b>	<b>262</b>	<b>324</b>	<b>361</b>	<b>438</b>	<b>472</b>	<b>472</b>

Totals may not add due to rounding.

<sup>1</sup> Property Tax Reductions result from increases to the Education Property Tax Credit, reductions to the Residential Education Support Levy, and the Farmland School Tax Rebate.

## ■ MANITOBA INCOME TAX SAVINGS FOR TYPICAL TAXPAYERS

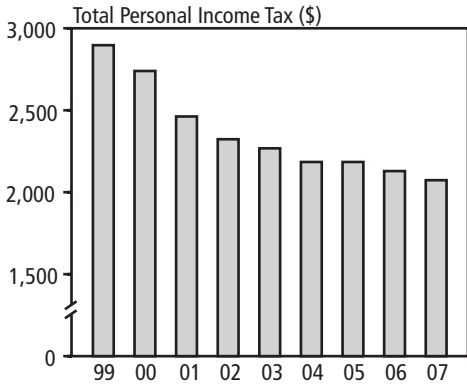
Income	Tax in 1999	Tax Savings		Cumulative Savings over 7 Years	2007 Savings over 1999
		in 2006	in 2007		
	(Dollars)			(Dollars)	(Percentage)
<b>SINGLE PERSON</b>					
10,000	178	112	123	746	69.1
20,000	1,369	189	198	1,318	14.5
40,000	4,012	529	584	3,134	14.6
70,000	9,153	1,431	1,616	7,879	17.7
100,000	14,572	1,630	1,815	9,405	12.5
<b>SENIOR COUPLE</b>					
30,000	571	513	535	3,485	93.7
40,000	1,632	489	511	3,379	31.3
60,000	4,542	742	791	4,854	17.4
80,000	7,844	1,078	1,194	6,398	15.2
<b>FAMILY OF FOUR – ONE EARNER</b>					
25,000	591	385	393	2,674	66.5
40,000	2,891	765	819	4,780	28.3
60,000	6,625	1,604	1,765	9,422	26.6
75,000	9,435	1,849	2,034	10,828	21.6
100,000	13,951	1,765	1,951	10,351	14.0
<b>FAMILY OF FOUR – TWO EARNERS</b>					
30,000	691	333	343	2,349	49.6
40,000	1,453	427	435	2,992	29.9
60,000	4,107	777	821	5,117	20.0
80,000	7,169	1,269	1,377	7,814	19.2
100,000	10,188	1,663	1,845	9,679	18.1

For the senior couple example, it is assumed that both spouses receive private pension income and the Old Age Security Pension, with the principal taxfiler receiving 60% of the total private pension amount and the other taxfiler receiving 40%.

It is assumed that taxfilers in the single and family examples have earned income and pay Canada Pension Plan and Employment Insurance premiums. In the two-earner family, it is assumed one taxfiler earns 60% of the income and the other earns 40%.

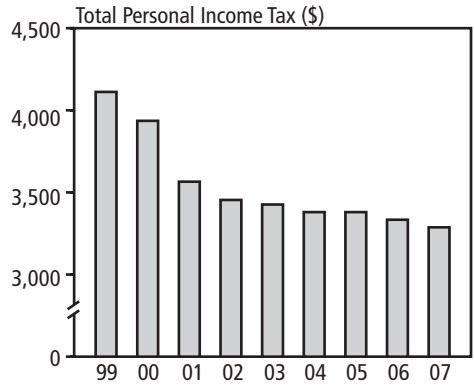
## MANITOBA INCOME TAXES SINCE 1999

### One-Earner Family of Four at \$40,000



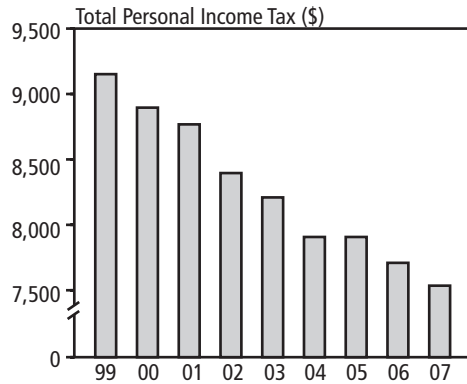
Source: Manitoba Finance

### Two-Earner Family of Four at \$60,000



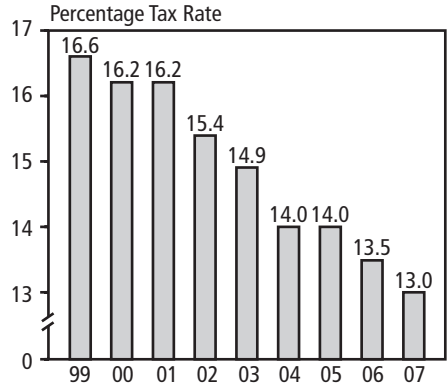
Source: Manitoba Finance

### Single Individual at \$70,000



Source: Manitoba Finance

### History of Middle Bracket Rate Reductions



Source: Manitoba Finance

## ■ ALTERNATIVE INTERPROVINCIAL TAX RANKINGS

It is common practice to compare provinces' basic personal amounts, and other non-refundable tax credits, as a measure of interprovincial tax competitiveness. However, this is not an accurate reflection of the tax savings to taxpayers. It neglects provinces' tax reduction credits and does not factor in the credit rates.

The tables below illustrate the impact of these factors on provincial rankings. The table on the left compares provinces' basic personal amounts only, and the table on the right compares the tax savings when all three factors are taken into account.

<b>2006 Basic Personal Amount</b>		<b>2006 Ranking with Basic Personal Tax Credit and applicable credit rate and provincial tax reductions</b>	
Province	Basic Credit \$	Province	Tax Savings \$
Alberta	14,799	Québec	1,866
Québec	9,330	Alberta	1,480
British Columbia	8,858	New Brunswick	1,248
Saskatchewan	8,589	Newfoundland and Labrador	1,199
Ontario	8,377	<b>Manitoba</b>	<b>1,068</b>
New Brunswick	8,061	Prince Edward Island	976
<b>Manitoba</b>	<b>7,734</b>	Saskatchewan	945
Prince Edward Island	7,412	Nova Scotia	936
Newfoundland and Labrador	7,410	British Columbia	896

## 2006 INTERPROVINCIAL COMPARISON OF TAX RATES

	BC*	AB	SK	MB*	ON
<b>Personal Income Tax</b>					
Top Marginal Rate (%) <sup>1</sup>	14.70	10.00	15.00	<b>17.40</b>	17.41
Health Care Premiums (\$) <sup>2</sup>	1,296	1,056	–	–	0 to 900
<b>Corporation Income Tax (%)</b>					
Small Rate <sup>3</sup>	4.50	3.00	5.00	<b>4.50</b>	5.50
General Rate	12.00	11.50	17.00	<b>14.50</b>	14.00
<b>Capital Tax (%) <sup>4</sup></b>					
Banks	3.00	–	3.25	<b>3.00</b>	0.90
Employer Payroll Tax (%) <sup>5</sup>	–	–	–	<b>2.15</b>	1.95
Sales Tax (%) <sup>6</sup>	7.00	–	7.00	<b>7.00</b>	8.00
Diesel Fuel Tax (¢/l) <sup>7</sup>	15.00	9.00	15.00	<b>11.50</b>	14.30
Gasoline Tax (¢/l) <sup>8</sup>	14.50	9.00	15.00	<b>11.50</b>	14.70
Tobacco Tax (¢/cigarette) <sup>9</sup>	17.90	16.00	17.50	<b>17.50</b>	12.35

\* Table reflects 2006 Budgets for BC and MB only.

<sup>1</sup> Top marginal rates include surtaxes paid by taxpayers in the highest bracket. For more detailed interprovincial comparisons of personal income taxes, see The Manitoba Advantage.

<sup>2</sup> The premiums for the QC prescription drug plan are based on income and are a maximum of \$521 for a single person and \$1,042 for a family. The premiums for BC and AB are the family rates; lower rates apply for individuals. ON calculates premiums based on taxable income: for incomes of \$20,000 or less the premium is zero and the maximum premium of \$900 is reached at an income of \$200,600.

<sup>3</sup> NB rate will decrease from 2.0% to 1.5% on July 1, 2006.

<sup>4</sup> MB has a \$5 million deduction and a 0.2% surtax on taxable paid-up capital in excess of \$10 million. SK has a \$10 million deduction, a \$10 million supplemental deduction based on a company's wage allocation to SK, and a 3.6% surcharge for resource companies. NB and NS have a \$5 million exemption. QC has a \$1 million exemption and graduated rate reductions for the range between \$1 million and \$4 million. ON has a \$7.5 million deduction. NS's rate will decrease from 0.275% to 0.25% on July 1, 2006.

## FEDERAL AND MANITOBA INCOME TAX RATES, 2006

### Personal Income Tax Rates

Federal Rate	Taxable Income Range	Manitoba Rate	Taxable Income Range
16%†	\$0 - \$36,378	10.9%	\$0 - \$30,544
22%	\$36,379 - \$72,756	13.5%	\$30,545 - \$65,000
26%	\$72,757 - \$118,285	17.4%	over \$65,000
29%	over \$118,285		

† Based on the rate proposed by the new federal government



QC	NB	NS	PE	NL	
					<b>Personal Income Tax</b>
19.22	17.84	19.25	18.37	19.64	Top Marginal Rate (%) <sup>1</sup>
0 to 1,042	–	–	–	–	<b>Health Care Premiums (\$) <sup>2</sup></b>
					<b>Corporation Income Tax (%)</b>
8.50	1.50	5.00	6.50	5.00	Small Rate <sup>3</sup>
9.90	13.00	16.00	16.00	14.00	General Rate
0.53	0.30*	0.25	–	–	<b>Capital Tax (%) <sup>4</sup></b>
1.05	3.00	4.00	5.00	4.00	Banks
4.26	–	–	–	2.00	<b>Employer Payroll Tax (%) <sup>5</sup></b>
7.50	8.00	8.00	10.00	8.00	<b>Sales Tax (%) <sup>6</sup></b>
16.20	16.90	15.40	11.50	16.50	<b>Diesel Fuel Tax (¢/l) <sup>7</sup></b>
15.20	14.50	15.50	11.50	16.50	<b>Gasoline Tax (¢/l) <sup>8</sup></b>
10.30	11.75	15.52	17.45	17.00	<b>Tobacco Tax (¢/cigarette) <sup>9</sup></b>

\* Erratum: the correct New Brunswick rate for 2006 is 0.25.

<sup>5</sup> NL exempts firms with payrolls of less than \$600,000. ON exempts payrolls of less than \$400,000. MB exempts firms with payrolls of less than \$1 million. QC has graduated rates for firms with payrolls of under \$5 million.

<sup>6</sup> Sales Tax refers to general rate only. PE applies the sales tax on top of GST-inclusive prices. Sales taxes in NB, NS and NL are harmonized with the federal Goods and Services Tax.

<sup>7</sup> Vancouver and Victoria levy an additional 6 cents and 2.5 cents per litre, respectively. QC applies QST, and NB, NS and NL apply HST. PE applies provincial sales tax on the wholesale price.

<sup>8</sup> Vancouver, Victoria and Montréal levy an additional 6 cents, 2.5 cents and 1.5 cents per litre, respectively. QC applies QST, and NB, NS and NL apply HST. PE applies provincial sales tax on the wholesale price.

<sup>9</sup> SK, MB, NB, NS and NL apply sales tax to all tobacco products.

### Corporation Income Tax Rates

	Federal	Manitoba
Basic Rate*	21.00%	14.50%
Surtax	1.12%	
Total	22.12%	

### Small Business Income Tax Rates

	Federal	Manitoba
Basic Rate	12.00%	4.5%
Surtax	1.12%	
Total	13.12%	
Threshold	\$300,000	\$400,000

\* After provincial abatement and general rate reduction

## ■ Appendix: TAX EXPENDITURES 2005/06

### Introduction

Governments use the tax system to pursue social, cultural and economic objectives in two ways: by direct spending of the revenue raised, and by providing targeted tax preferences to promote specific types of activity or behaviour. The targeted tax preferences can be thought of as tax expenditures since they have much the same effect as direct government spending. For example, direct grants for small businesses, and tax credits for people who invest in small businesses, could have quite similar costs and results.

A tax expenditure is measured as a deviation from a benchmark tax base. The expenditure can be in the form of a deduction, credit, preferential rate, deferral, or exemption. Tax expenditures may target taxpayers (ex: individuals, corporations); activities (ex: farming, film production, manufacturing); property (ex: machinery, equipment); sources of income (ex: pensions); transactions (ex: RRSP contributions); or events (ex: involuntary dispositions).

### Accounting for Tax Expenditures

Tax expenditure accounts promote accountability and transparency in government programming. Direct expenditure programs are subject to review and approval by the Legislature and are published annually in the public accounts. Tax expenditures, on the other hand, are not recorded as individual line items but are absorbed into revenue estimates. Tax expenditures reduce government revenues that would otherwise have been available for various direct expenditures. Therefore, tax expenditure accounts not only help to enhance the visibility of programs, but promote public accountability as well.

Departments routinely estimate and evaluate the cost of various tax incentives as part of the annual budget process. It is generally understood that tax expenditure accounting in no way evaluates tax policy, nor does it address the desirability of the tax provisions, or their usefulness in achieving tax policy objectives. Tax expenditure accounts should not be associated with identifying tax loopholes or areas where reform is needed.

## Limitations of Tax Expenditure Accounting

Tax expenditure accounting has important limitations that must be kept in mind when interpreting results.

1. There are no formal accounting guidelines for tax expenditures.
2. The value of each tax expenditure is estimated individually. Interactions between provisions are not taken into account. This has two effects. First, estimates for two or more tax expenditures cannot be added together to arrive at a combined value. Second, changing any one tax expenditure might affect the value of other tax expenditures.
3. The values in the account are estimates.

Point 2 can best be illustrated by example. Changing something that is a deduction from income (ex: RRSP contributions) would change reported net income. This in turn would change the value of tax credits, such as Manitoba's Personal Tax Credit, that depend on net income. The combined value of the tax expenditures listed in the account is substantially less than the sum of the individual items.

## Reporting Tax Expenditures

Manitoba's tax expenditure accounts are separated into six sections: personal income tax, corporation income tax, payroll tax, retail sales tax, fuel taxes, and corporation capital tax. The estimates are calculated from tax collection and departmental data. The estimates provided are for the 2005/06 fiscal year. They do not include measures announced in the 2006 Budget, or measures announced in previous budgets for implementation after 2005.

Certain Manitoba personal income tax credits have the characteristics of tax expenditures but are, in fact, accounted for in Manitoba's *Estimates of Expenditure*. These credits are not included in the tax expenditure table. For the sake of comparison, these credits are listed below.

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	2005/06 (Millions of Dollars)
<b>CREDITS (actually accounted for as expenditure items)</b>	
Education Property Tax Credit (including the Homeowner's Advance).....	182.5
Personal Tax Credit .....	48.8
Farmland School Tax Rebate .....	24.6
School Tax Credit for Homeowners.....	2.7
Political Contribution Tax Credit (for individuals only) .....	0.7
Community Enterprise Development Tax Credit.....	0.6
Riparian Tax Credit.....	0.1

## ■ MANITOBA TAX EXPENDITURES, 2005/06

(Millions of Dollars)

### PERSONAL INCOME TAX

#### (a) Deductions from Income (federal legislation – mandatory under tax collection agreements)

Contributions to RRSPs .....	124.4
Contributions to RPPs .....	62.1
Capital gains inclusion rate .....	53.7
Lifetime capital gains exemption .....	23.2
Social assistance, WCB, and OAS/GIS (non-taxable income) .....	16.9
Union dues and professional fees .....	14.1
Child-care expenses .....	9.7
Northern residents deduction .....	5.8
Moving expenses .....	1.6

#### (b) Non-refundable tax credits (basic credits provided federally and by all provinces)

Basic personal .....	545.9
CPP/EI .....	95.8
Charitable donations .....	57.0
Age .....	26.2
Tuition fees and education amount .....	22.8
Spousal .....	21.3
Medical expenses .....	21.2
Eligible dependent .....	12.9
Private pension .....	10.7
Disability .....	8.4
Foreign tax credit .....	2.3
Caregiver .....	1.3
Student loan interest .....	0.9
Infirm dependents .....	0.1

#### (c) Other Manitoba Tax Measures

Labour-sponsored Fund Tax Credit .....	2.6
Mineral Exploration Tax Credit .....	0.6
Overseas Employment Tax Credit .....	0.3
Manitoba Equity Tax Credit .....	0.01

### CORPORATION INCOME TAX

Low rate for small business .....	117.1
Manufacturing Investment Tax Credit .....	30.5
Research and Development Tax Credit .....	15.0
Film and Video Production Tax Credit .....	14.1
Odour control Tax Credit .....	0.5
Co-operative Education Tax Credit .....	0.2

### PAYROLL TAX

\$1 million exemption .....	111.0
Exemption for extra-provincial commercial carriers .....	11.8

**RETAIL SALES TAX**

Exemptions	(Millions of Dollars)
Groceries .....	185.6
Farm machinery and repairs .....	39.2
Farm and organic fertilizer .....	20.0
Prescription drugs and medicine .....	17.6
Farm pesticides and herbicides.....	15.2
Books, free magazines and newspapers, and school yearbooks.....	15.2
Natural gas for residential heating.....	15.2
Electricity for residential heating.....	12.7
Electricity used for manufacturing or mining.....	11.2
Medical supplies, appliances and equipment.....	11.1
Purchased water.....	9.9
Children’s clothing and footwear .....	9.2
Custom software & computer programming.....	6.0
Vehicle trade-ins.....	5.7
Toll-free calls .....	4.7
Vehicle private buy/sell refunds.....	3.1
Direct agents (manufacturing & service industries, drill bits & explosives used in mining industry) .....	2.2
Municipal exemptions (including ambulances, fire trucks and related equipment, gravel/sand for own use).....	1.4
Feminine hygiene products.....	1.0
Mobile, ready-to-move and modular homes refunds.....	0.6
Films for public broadcast.....	0.4
Farm manure slurry tanks and lagoon liners .....	0.3
Qualifying geophysical survey and exploration equipment and prototype mining equipment .....	0.1

**FUEL TAX**

Marked gasoline and diesel.....	46.0
Gasohol taxed at lower rate .....	2.2

**CORPORATION CAPITAL TAX**

\$5 million deduction .....	30.1
Credit unions and caisses populaires exemption.....	14.0
Co-operatives exemption.....	0.7

All estimates are based on information available at the time of publication.  
 In some cases new information may revise estimates, which may not be consistent with previous estimates.