# *Provincial Budget Roundup, 1996*

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**PRÉCIS**

Cet article constitue un résumé des budgets de 1996 des neuf provinces et des deux territoires déposés au moment de la rédaction. Le gouvernement de la Colombie-Britannique a déposé son budget immédiatement avant le déclenchement des élections générales, de sorte qu'un nouveau budget sera présenté à la première séance de la nouvelle législature. Il sera résumé dans un numéro ultérieur de la *Revue fiscale canadienne*. De plus amples détails sur le budget et sur la situation financière de chaque province et territoire seront disponibles dans l'édition 1996 de la publication annuelle de l'Association, *Finances of the Nation*.

Les budgets provinciaux de 1996 étaient axés sur la réduction du déficit, principalement grâce à la compression de plus de 3 pour cent des dépenses en 1996-97. Les recettes diminueront de plus de 2 pour cent, les transferts du gouvernement fédéral continuant à chuter. Les déficits combinés des budgets résumés dans cet article baisseront à 11,5 G$.

Deux provinces ont réduit le taux de l'impôt sur le revenu des particuliers, Terre-Neuve a adopté une surtaxe sur les revenus élevés, l'Ontario a majoré le taux supérieur de la surtaxe et le Québec a resserré le régime de l'impôt sur le revenu des particuliers. Trois provinces harmoniseront leur taxe sur les ventes au détail avec la taxe fédérale sur le produits et services, mais cette mesure ne touchera pas les chiffres de l'exercice 1996-97. Les taxes sur le capital des sociétés ont été augmentées à Terre-Neuve, en Nouvelle-Écosse, au Québec et en Ontario.

**ABSTRACT**

This article summarizes the 1996 budgets of the nine provinces and two territories available at the time of writing. The British Columbia government presented its budget immediately before the general election call, so a new budget will have to be presented to the first session of the new legislature. It will be summarized in a later issue of the *Canadian Tax Journal*. Full details of the budgets and the financial positions of each province and territory will be available in the 1996 edition of the foundation's annual publication, *Finances of the Nation*.

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The provincial budgets for 1996 concentrated on deficit reduction, primarily by reducing spending by over 3 percent in 1996-97. Revenues will drop by over 2 percent, as federal transfers continue to fall. The combined deficits of the budgets summarized in this article will fall to $11.5 billion.

Two provinces reduced their provincial personal income tax rates, Newfoundland introduced a high-income surtax, Ontario raised its top surtax, and Quebec tightened up its personal income tax system. Three provinces will harmonize their retail sales tax with the federal goods and services tax, but this measure will not affect the 1996-97 fiscal year figures. Corporate capital taxes were raised in Newfoundland, Nova Scotia, Quebec, and Ontario.

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## INTRODUCTION

Although all the provincial ministers of finance or treasurers had delivered budgets by mid-May 1996, one was still outstanding at the time of writing. The election call in British Columbia followed immediately after the budget, so a new one must be presented by the re-elected government.

The provincial economies all weathered the slowdown in 1995 without slipping back into recession, as shown in table 1. The revenue projections in the 1995 budgets were conservative and held true. The original spending restraint measures, sometimes augmented by mid-year corrections, produced no major disappointments in the deficit projections. The 1996 projections indicated only slightly better economic performance. The spending restraint measures put in place in the 1996 and earlier budgets will, however, produce lower deficits for the fiscal year 1996-97 despite a trend to tax cuts instead of tax increases.

The tone of the budgets was uniform. They stressed the need for deficit reduction and continued spending restraint, but for the first time in many years, tax reductions outnumbered tax increases. The basic deficit reduction policy was frustrated in every case by projections of declining federal cash transfers under the new Canada health and social transfer (CHST), which replaced the established programs financing arrangements and the Canada Assistance Plan.

In total, revenue of the nine provinces and two territories covered in this article will fall by 2 percent in 1996-97, despite an increase of almost 1 percent in own-source revenue, as shown in table 2. Program spending—that is, all spending except interest on debt—will drop by nearly 4 percent. The increase of one-half of 1 percent in debt charges is expected to produce a reduction in total spending of slightly over 3 percent. The combined deficit will drop from $13.0 billion in 1995-96 to $11.5 billion in the current year. If the projections of Alberta's revenue from natural resources and corporate income tax exceed the conservative estimates in the budget, and the cushion is available, the combined deficit will drop to $10.9 billion.

**Table 1 Percentage Change in Gross Domestic Provincial Product (GDPP), 1994 to 1996**

| | Real change in GDPP | | |
|---|---|---|---|
| | 1994 | 1995 | 1996[a] |
| Newfoundland | 1.3 | 1.0 | −0.3 |
| Prince Edward Island | 5.0 | 3.3 | 2.5 |
| Nova Scotia | 1.3 | 1.5 | 1.0 |
| New Brunswick | 1.7 | 2.0 | 2.5 |
| Quebec | 3.6 | 2.0 | 2.8 |
| Ontario | 4.5 | 2.3 | 3.0 |
| Manitoba | 2.6 | 2.5 | 2.5 |
| Saskatchewan | 4.5 | 2.3 | 2.0 |
| Alberta | 5.7 | 2.5 | 2.8 |
| British Columbia | 4.6 | 3.3 | 3.5 |
| National average | 4.6 | 2.3 | 2.8 |

[a] Forecast.

Source: Bank of Montreal Outlook and Analysis, November 1995, as shown in *The Globe and Mail*, December 27, 1995.

The reader is cautioned that table 2 and the tables summarizing individual provincial fiscal positions are based on the figures shown in provincial budget statements, with some adjustments to make them more comparable. Sufficient data are not available to make them fully comparable. A detailed analysis of provincial financial data is, however, provided annually by Statistics Canada later in the year.

Only Prince Edward Island, the Northwest Territories, and Yukon introduced no tax changes. A new personal income surtax was introduced in Newfoundland, the existing surtax was increased in Ontario, and the Quebec personal income tax system was tightened up to increase the tax load on some individuals with incomes over $26,000, but the basic personal provincial income tax rates were reduced in Nova Scotia and Ontario. The retail sales tax rates were not changed in the provincial budgets, but Newfoundland, Nova Scotia, and New Brunswick agreed to harmonize their taxes with the federal goods and services tax (GST), effective April 1, 1997. The new rate will be 8 percent, a significant reduction from the existing rates. Quebec effectively postponed full harmonization from December 1, 1996, to April 1, 1997. The corporate capital tax was increased in Newfoundland, Nova Scotia, Quebec, and Ontario. A number of provinces continued to introduce new tax incentives or enhance existing ones for industrial expansion.

Table 3 summarizes the main provincial tax rates for 1996.

## NEWFOUNDLAND

In his May 16 budget speech, Minister of Finance Paul D. Dicks forecast an overall deficit of $14.9 million for 1996-97, before the contingency fund allowance of $30 million (see table 4). This change from the small surplus in 1995-96 came about because of a 3 percent decrease in current revenues and virtually unchanged current spending. Net capital spending

**Table 2 Summary of 1996 Provincial Budgets, Excluding British Columbia, Percentage Change from 1995-96 to 1996-97, and Surpluses or Deficits[a]**

| | Own-source revenue | Federal transfers | Total revenue | Program spending | Debt charges | Total spending | Surplus or deficit (−) 1996-97 | Surplus or deficit (−) 1995-96 |
|---|---|---|---|---|---|---|---|---|
| | *percentage change* | | | | | | *millions of dollars* | |
| Newfoundland | −2.7 | −3.1 | −2.9 | −2.7 | −0.2 | −2.3 | 4 | −15 |
| Prince Edward Island | 7.1 | −6.2 | 1.6 | 1.2 | 2.2 | 1.3 | −35 | −33 |
| Nova Scotia | 3.3 | −7.9 | −1.5 | −6.6 | −0.2 | −5.3 | −298 | −119 |
| New Brunswick | −10.3 | 20.5 | 1.0 | 1.6 | −3.6 | 0.9 | −91 | −87 |
| Quebec | 2.8 | −18.9 | −1.8 | −3.6 | −1.5 | −3.3 | −3,969 | −3,275 |
| Ontario | 1.3 | −21.9 | −2.4 | −5.1 | 5.1 | −3.6 | −9,098 | −8,180 |
| Manitoba | −5.3 | −6.0 | −5.5 | −2.9 | −11.2 | −3.8 | 120 | 22 |
| Saskatchewan | 4.0 | −4.4 | 2.4 | −4.4 | −4.4 | −4.4 | 1 | 358 |
| Alberta | −2.5 | −19.5 | −4.6 | −1.1 | −6.1 | −1.6 | 372 | −56 |
| Northwest Territories | 2.3 | −8.6 | −6.6 | −5.5 | — | −5.5 | −31 | −43 |
| Yukon | −18.6 | −6.8 | −11.5 | −6.4 | — | −6.4 | 1 | −25 |
| Average or total | 0.8 | −13.8 | −2.3 | −3.9 | 0.5 | −3.3 | −13,023 | −11,453 |

— nil.

[a] Figures may not be comparable between provinces. See text.

Sources: 1996 provincial budgets.

**Table 3 Main Provincial Tax Rates, 1996 and 1997**

| | Personal income tax | | | Corporate income tax | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Basic rate % of basic fed. tax | Surtax, % of prov. basic tax | Flat tax % of net income | Small business rate,[a] % income | Pref. rate for large corps., % income | Top rate, % income | Retail sales tax, % | Tax on cigarettes, cents/cig. | Tax on unleaded gasoline, cents/litre |
| Newfoundland | | | | | | | | | |
| 1996 | 69 | 10 | — | 5 | 5 | 14 | 12 | 10.3 | 16.5 |
| 1997 | | | | | | | 8 | | |
| Prince Edward Island | 59.5 | 10 | | 7.5 | 7.5 | 15 | 10 | 5.7 | 12.0 |
| Nova Scotia | | | | | | | | | |
| 1996 | 59.5 | 10 | 5 | 16 | 11 | | | 3.3 | 13.5 |
| 1997 | 58.5 | 8 | | | | | | | |
| New Brunswick | | | | | | | | | |
| 1996 | 64 | 8 | 7 | 17 | 11 | 3.3 | 10.7 | | |
| 1997 | 8 | | | | | | | | |
| Quebec | na | na | na | 5.75 | 8.9 | 16.25 | 6.5 | 2.2 | 15.2 |
| Ontario | | | | | | | | | |
| 1996 | 56 | 20/33 | 9.5 | 13.5 | 15.5 | 8 | 2.0 | 14.7 | |
| 1997 | 49 | 20/44 | | | | | | | |
| Manitoba | 52 | 2% net income | 2 | 9 | 17 | 7 | 8.0 | 11.5 | |
| Saskatchewan | 50 | 10/25[b] | 2 | 8 | 17 | 9 | 8.0 | 15.0 | |
| Alberta | 45.5 | 8 | 0.5% tax. inc. | 6 | 14.5 | 15.5 | — | 7.0 | 9.0 |
| British Columbia[c] | 52.5 | 30/50 | 10 | 16.5 | 7 | 11.0 | 11.0 | | |
| Northwest Territories | 45 | 5 | 14 | 12.4 | 10.5 | | | | |
| Yukon | 50 | 5 | 6 | 2.5 | 15 | 8.2 | 6.2 | | |

— nil. na not applicable.

[a] Some provinces provide tax holidays for new small businesses. [b] Imposed on the sum of provincial basic tax and flat tax payable. [c] Before adoption of 1996 budget changes.

**Table 4 Financial Highlights—Newfoundland**[a]

| | 1996-97 (est.) | 1995-96 (prelim.) |
|---|---|---|
| | *millions of dollars* | |
| *Current account* | | |
| Gross revenue | 3,268.7 | 3,372.4 |
| Gross expenditure | 3,207.4 | 3,214.9 |
| Surplus or deficit (–) | 61.3 | 157.5 |
| *Capital account* | | |
| Gross revenue | 124.3 | 120.2 |
| Gross expenditure | 200.5 | 273.9 |
| Deficit (–) | –76.2 | –153.7 |
| Combined surplus or deficit (–) | –14.9 | 3.8 |
| Debt redemption and sinking fund | 356.4 | 101.1 |
| Total borrowing requirements | 401.3 | 97.3 |
| *Main revenue sources* | | |
| Personal income tax | 583.0 | 553.6 |
| Corporate income tax | 50.5 | 62.8 |
| Sales tax | 541.0 | 565.4 |
| Gasoline tax | 120.6 | 121.9 |
| Federal government transfers | | |
| Equalization | 938.5 | 911.6 |
| Canada health and social transfer | 340.7 | na |
| Established programs financing | na | 221.8 |
| Shared-cost programs | 73.7 | 88.4 |
| Other | 52.6 | 229.0 |
| *Principal expenditure functions* | | |
| Education | 715.0 | 739.8 |
| Health | 915.1 | 925.3 |
| Social services | 368.7 | 363.9 |
| Public works and transportation | 218.3 | 253.8 |
| Debt expenses | 546.6 | 547.8 |

na not applicable.

[a] Public Accounts for 1994-95 were not available at time of publication.

was cut in half. While the minister did not have the luxury of the one-time revenue items that pushed his 1995-96 budget into surplus, he included as current revenue $50 million from the federal government as an accelerated payment of the annual $8 million federal subsidy provided under the terms of Confederation. Another $30 million will come in the following two years, but the annual payments will not resume for 20 years.

## Tax Changes

The budget was presented after the announcement of the terms of the proposed harmonization of the retail sales tax with the federal GST next April. While no specific tax measures were attributed to the change, the increase in the capital tax on financial corporations, from 3 to 4 percent, effective June 1, 1996, is similar to the move made in Nova Scotia.

Beginning in the 1996 tax year, personal income tax payers will pay a surtax of 10 percent on provincial tax in excess of $7,900 (about $60,000 of taxable income).

The budget also contained a list of new or increased fees and licences. There were no estimates of the additional revenue to be derived from these tax and fee changes. The reduced rate of provincial sales tax under the harmonized system is expected to reduce Newfoundland's revenues by $100 million annually, but the federal subsidy will provide $348 million over the first four years.

## PRINCE EDWARD ISLAND

Provincial treasurer Wayne Cheverie delivered his 1996 budget on March 14, 1996. It contained no tax changes. In 1996-97, an increase of 1.1 percent in current account spending will be offset by an increase of 1.3 percent in corresponding revenues to produce a deficit of $0.3 million (as shown in table 5). Since net capital spending will be virtually unchanged, the overall deficit before provision for sinking funds will drop slightly to $33.3 million.

## NOVA SCOTIA

The last of the first round of provincial budgets was presented by Nova Scotia's minister of finance, J. Bernard Boudreau, on April 25, two days after the announcement that his province had agreed in principle to harmonize its retail sales tax with the GST. By reducing current spending by 2 percent and net capital spending by 50 percent, the minister was able to produce a surplus on current account and reduce the overall deficit from $298 million last year to $119 million in 1996-97 (before inclusion of sinking fund operations), despite a decline of over 1 percent in budgetary revenue. See table 6.

### Tax Changes

On April 23, Newfoundland, Nova Scotia, and New Brunswick announced plans to harmonize their retail sales taxes with the GST, effective April 1, 1997, at a combined rate of 15 percent—that is, 8 percent for each province. This represents a drop from the present rate of 11 percent in Nova Scotia which is applied to the selling price including the GST. The minister forecast that the change will provide a $120 million reduction in a full year. The federal subsidy to Nova Scotia for harmonization is forecast at $249 million over four years. The combined rate on new motor vehicles will be phased in gradually, at 17 percent as of April 1, 1997, 16 percent the following year, and 15 percent by 1999, to avoid distortions in sales patterns. To offset part of the loss of sales tax collected from business purchases, the province will introduce a corporate capital tax of 0.25 percent for companies with capital in excess of $10 million, effective April 1, 1997. The rate will be phased in gradually for those with taxable capital between $5 and $10 million. Companies below that threshold will be exempt. The tax is expected to yield $45 million in a full year.

**Table 5 Financial Highlights—Prince Edward Island**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| *Current account* | | | |
| Total revenue | 754.2 | 744.6 | 762.2 |
| Total expenditure | 754.5 | 746.3 | 773.5 |
| Surplus or deficit (−) | −0.3 | −1.7 | −11.3 |
| *Capital account* | | | |
| Total revenue | 9.9 | 7.3 | 13.5 |
| Total expenditure | 42.9 | 40.5 | 45.5 |
| Deficit (−) | −33.0 | −33.2 | −32.0 |
| Combined surplus or deficit (−) | −33.3 | −34.9 | −43.3 |
| *Non-budgetary transactions* | | | |
| Sinking fund appropriations and interest | 36.7 | 38.0 | 36.7 |
| New long-term public debt issues, Canada Pension Plan | 40.0 | 100.0 | |
| *Main revenue sources* | | | |
| Personal income tax | 137.9 | 120.1 | 105.4 |
| Corporate income tax | 17.4 | 17.9 | 19.9 |
| Retail sales tax | 126.9 | 124.3 | 113.2 |
| Gasoline tax | 27.2 | 26.6 | 25.9 |
| Property tax | 37.6 | 37.4 | 42.0 |
| Federal government transfers | | | |
| Equalization | 191.1 | 188.5 | 158.0 |
| Canada health and social transfer | 70.3 | na | na |
| Established programs financing | na | 52.4 | 50.9 |
| Development plans and agreements | 10.9 | 9.0 | 19.2 |
| Canada Assistance Plan | 3.0 | 35.9 | 35.0 |
| Other | 15.9 | 24.5 | 69.3 |
| *Principal expenditure functions* | | | |
| Health and social services | 274.7 | 272.7 | 286.1 |
| Education | 167.2 | 160.1 | 174.7 |
| Transportation and public works | 87.6 | 82.9 | 74.2 |
| Public debt charges | 83.9 | 82.1 | 118.2 |

na not applicable.

The provincial personal income tax rate will drop from 59.5 to 57.5 percent of basic federal tax effective July 1, 1997. For 1997 and subsequent years, the low-income tax reduction will increase from $200 to $300 for adults and from $105 to $165 for children.

Machinery and equipment will be removed from the property tax base over 3 years (instead of the originally scheduled 10 years). The corporate income tax credit for prospectuses for small businesses can now be carried over for 7 years. The province will parallel the federal changes in the tax credit for investment in labour-sponsored venture capital corporations. Investments to bring companies up to ISO 14000 standards, up to $150,000, will qualify for a 25 percent tax credit.

**Table 6 Financial Highlights—Nova Scotia**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| *Current account* | | | |
| Total revenue | 4,178.1 | 4,241.5 | 4,131.2 |
| Total net expenditure | 4,138.0 | 4,224.0 | 4,215.9 |
| Deficit (−) | 40.1 | 17.5 | −84.7 |
| *Capital account* | | | |
| Total net expenditure | 159.2 | 315.7 | 260.2 |
| Combined deficit (−) | −119.1 | −298.2 | −344.9 |
| Sinking fund revenues | 121.9 | 117.1 | 129.8 |
| *Main revenue sources* | | | |
| Personal income tax | 902.0 | 887.9 | 883.2 |
| Corporate income taxes | 106.2 | 88.6 | 107.9 |
| Sales and tobacco taxes | 834.2 | 811.2 | 795.8 |
| Motive fuel tax | 199.4 | 197.1 | 195.6 |
| Federal government transfers | | | |
| Equalization, current year | 1,147.9 | 1,162.5 | 1,091.5 |
| Canada health and social transfer | 529.0 | na | na |
| Established programs financing | na | 357.4 | 392.3 |
| Other general purpose | 3.9 | 304.1 | 272.4 |
| *Principal expenditure functions* | | | |
| Education | 949.1 | 977.6 | 1,003.1 |
| Health | 1,195.8 | 1,264.4 | 1,273.6 |
| Transportation and communications | 215.9 | 244.1 | 220.6 |
| Social services | 550.4 | 558.6 | 526.5 |
| Public debt expense | 896.9 | 898.1 | 911.6 |

na not applicable.

As of April 26, the tax rate on propane used in motor vehicles dropped from 13.5 cents to 7 cents per litre. The sales tax rebate for the purchase of new homes by first-time buyers will be extended to March 31, 1997.

## NEW BRUNSWICK

The budget presented on February 15 by Finance Minister Edmond P. Blanchard predicted a surplus of $92.9 million for 1996-97 after taking into account $183.5 million in sinking fund earnings, an improvement over 1995-96, as shown in table 7. Ordinary revenues and expenditures will be virtually unchanged from the previous year, but net capital spending will be 6 percent lower in 1996-97.

### Tax Changes

The budget was delivered well before the agreement to harmonize the provincial retail sales tax with the GST. The minister extended the sales tax exemption for equipment purchased for telephone and telecommunication services, to begin the day after the budget. He provided no estimate of the revenue cost. He announced that the province will reform the provincial property tax treatment of transportation facilities such as airports, cargo ports, and railway rights of way.

**Table 7 Financial Highlights—New Brunswick**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| *Ordinary account* | | | |
| Total revenue | 4,122.7 | 4,111.1 | 4,015.6 |
| Total expenditure | 3,974.6 | 3,952.1 | 3,924.8 |
| Surplus or deficit (−) | 148.1 | 159.0 | 90.8 |
| *Capital and special purpose accounts* | | | |
| Total revenue | 182.5 | 152.0 | 97.0 |
| Total expenditure | 417.3 | 401.5 | 407.9 |
| Deficit (−) | −234.8 | −249.5 | −310.9 |
| Combined deficit (−) | −86.7 | −90.5 | −220.1 |
| Sinking fund earnings | 183.5 | 167.7 | 157.5 |
| Decrease or increase (−) in net debt | 92.9 | 75.9 | −64.0 |
| *Main revenue sources* | | | |
| Personal income tax | 814.0 | 789.0 | 697.7 |
| Corporate income tax | 120.0 | 111.0 | 159.6 |
| Provincial property tax | 255.0 | 244.5 | 241.6 |
| Sales tax | 752.0 | 730.0 | 690.6 |
| Motor vehicle and fuel tax | 168.0 | 163.0 | 161.4 |
| Federal government transfers | | | |
| Equalization | 968.0 | 959.0 | 925.9 |
| Canada health and social transfer | 407.0 | na | na |
| Established programs financing | na | 253.0 | 263.8 |
| Other | 502.2 | 345.5 | 351.8 |
| *Principal expenditure functions* | | | |
| Health and community services | 1,269.0 | [a] | [a] |
| Education | 787.8 | [a] | [a] |
| Transportation | 440.4 | [a] | [a] |
| Debt charges | 596.0 | [a] | [a] |

na not applicable.

[a] Detailed data not available.

## QUEBEC

Bernard Landry, deputy prime minister and minister of state for the economy and finance, presented his first budget on May 9. By reducing spending by 3 percent, he was able to reduce the deficit from $4.0 billion in 1995-96 to $3.3 billion in 1996-97 (as shown in table 8), despite a 2 percent drop in revenues. Tax increases to reduce the deficit amounted to $700 million, offset partly by new or enhanced tax incentives in key areas that provided $50 million of tax relief in 1996-97.

### Tax Changes

Large companies will not qualify for full input tax credits on certain purchases until April 1, 1997, a delay from December 1 1996, as originally planned. This measure is expected to save $150 million in revenue in 1996-97. The complementary changes to the sales tax system planned for the end of November have also been postponed to April 1.

**Table 8 Financial Highlights—Quebec**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| *Budgetary transactions* | | | |
| Total revenue | 37,589 | 38,295 | 36,437 |
| Total expenditure | 40,864 | 42,264 | 42,147 |
| Deficit (−) | −3,275 | −3,969 | −5,710 |
| *Non–budgetary transactions* | | | |
| Investments, loans, and advances | −598 | −287 | −1,142 |
| Surplus in pension accounts | 1,939 | 1,742 | 1,509 |
| Other accounts | −366 | −449 | 467 |
| Net financial requirement (−) | −2,300 | −2,963 | −4,876 |
| Net increase in long-term debt | 1,257 | 2,172 | 5,444 |
| *Main revenue sources* | | | |
| Personal income tax | 13,133 | 12,452 | 11,903 |
| Corporate taxes | 2,707 | 2,415 | 2,124 |
| Payroll taxes | 3,762 | 3,650 | 3,299 |
| Retail sales tax | 5,491 | 5,771 | 5,432 |
| Motor vehicle fuel taxes | 1,418 | 1,396 | 1,340 |
| Federal government transfers | | | |
| Equalization | 3,729 | 4,321 | 3,543 |
| Canada health and social transfer | 2,588 | na | na |
| Established programs financing | 3 | 1,689 | 1,880 |
| Specific purpose (welfare) | −6 | 2,031 | 2,092 |
| Other | 307 | 118 | 5 |
| *Principal expenditure functions* | | | |
| Education | 9,049 | 9,365 | 9,440 |
| Health and social services | 12,893 | 13,136 | 13,171 |
| Transportation | 1,667 | 1,896 | 1,970 |
| Debt servicing | 5,976 | 6,066 | 5,874 |

na not applicable.

The refundable credit of capital tax for loss companies is restricted to those with paid-up capital of less than $15 million, effective for tax years ending after May 9, 1996. The budget tightens up the treatment of the federal scientific research and experimentation tax credit, meals and entertainment expenses (limited to 1 percent of gross income), and home office expenses. These measures will produce additional revenue of $10 million in the current fiscal year and $44 million in a full year.

The capital tax will be extended to savings and credit unions and labour-sponsored venture capital funds to produce $3 million this year and $5 million in a full year. The capital tax on life insurance companies will be increased to raise an additional $15 million in 1996-97 and $20 million in 1997-98.

Stumpage dues will be increased to raise $55 million this year and $70 million next year.

Additional enforcement and collection activities by the Revenue department are expected to produce an additional $313 million in 1996-97 and $295 million the following year.

A number of changes in the personal income tax system for the 1997 tax year will raise $122 million in 1997-98 and $253 million the next year. They include lowering the basic threshold under the minimum income tax from $40,000 to $25,000; reducing the value of the tax credits for those living alone, seniors, and pension income by 15 percent of net income in excess of $26,000; substituting a credit for the deduction for union and professional dues; and reducing the credit for labour-sponsored venture capital corporations.

The tax incentives include enhancing and providing full refundability for large companies qualifying for tax credits for research and development, on-the-job training, and design. New small and medium-sized businesses will qualify for a three-year holiday from the payroll tax, in addition to that already in place for income and capital taxes. Additional new or enhanced incentives are provided for multimedia productions and ship building. The province will match the federal initiatives to extend the flowthrough share incentive, to provide tax assistance for environmental trust funds, and for investments in renewable energy.

The province will introduce the service employment paycheque system so that individuals hiring self-employed service people can pay through the Revenue department, guaranteeing that the workers get full benefit of insurance for occupational accident and unemployment insurance and the Quebec Pension Plan. This is also expected to cut down on tax evasion in the service sector.

## ONTARIO

Finance Minister Ernie Eves presented his government's first budget on May 7. He predicted that stringent spending cuts will reduce current expenditures by nearly 4 percent and capital spending by 23 percent in 1996-97, while revenues, reflecting the first stage of a long-term personal income tax cut, will fall by over 2 percent. The deficit will drop to $8.2 billion, down from $9.1 billion the previous year (as shown in table 9). Because the main spending cuts had been announced in the second half of 1995, the budget speech was able to concentrate on the tax changes.

### Tax Changes

By the 1999 tax year, the provincial basic tax rate will be reduced by 30.2 percent. The rate dropped to 54 percent of basic federal tax as of July 1, 1996, producing an average rate for the year of 56 percent. It will drop to 49 percent as of January 1, 1997 and the remainder of the cut, to 40.5 percent, will be in place by 1999. The fair share health care levy will take the form of a higher rate for the high-income surtax: 20 percent on provincial income tax between $5,310 and $7,635 and 33 percent on the remainder for 1996; 20 percent on provincial basic tax between $4,650 and $6,360 and 44 percent on the remainder for 1997; and 20 percent on provincial basic tax between $3,845 and $4,800 and 56 percent on the remainder thereafter. Both the rate reduction and the additional surtaxes will be reflected in payroll deductions beginning July 1, 1996. The rate

**Table 9 Financial Highlights—Ontario**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | *millions of dollars* | | |
| *Operating fund* | | | |
| Total revenue | 46,660 | 47,819 | 46,039 |
| Total expenditure | 51,486 | 53,407 | 52,485 |
| Deficit (–) | −4,826 | −5,588 | −6,446 |
| *Capital fund* | | | |
| Total expenditure | 2,704 | 3,510 | 3,831 |
| Combined deficit (–) | −8,180[a] | −9,098 | −10,277 |
| *Non-budgetary transactions* | −607 | 22,202 | 18,928 |
| Total budgetary and non-budgetary deficit (–) | −607 | 13,104 | 8,651 |
| CPP and teachers' superannuation fund retirements | −1,150 | −982 | −766 |
| Net public debt issues | 5,064 | 10,869 | 9,763 |
| *Main revenue sources* | | | |
| Net personal income tax | 15,213 | 15,443 | 14,758 |
| Corporate tax | 5,370 | 5,110 | 4,557 |
| Retail sales tax | 9,520 | 9,355 | 9,090 |
| Gasoline and motor vehicle fuel tax | 2,505 | 2,460 | 2,434 |
| Federal government transfers | | | |
| Canada health and social transfer | 5,260 | na | na |
| Established programs financing | na | 3,921 | 4,059 |
| Canada Assistance Plan | na | 2,508 | 2,577 |
| Stabilization | na | 367 | 184 |
| Other | 770 | 928 | 787 |
| *Principal expenditure functions* | | | |
| Health | 17,885 | 17,814 | 17,848 |
| Education | 8,725 | 9,527 | 9,525 |
| Community and social services | 8,238 | 8,795 | 9,436 |
| Transportation | 1,899 | 2,262 | 2,355 |
| Public debt charges | 8,745 | 8,324 | 7,832 |

na not applicable.

[a] Includes $650 million in reserves.

reduction is expected to cost the province $1,175 million in the current fiscal year and $4,851 million when fully implemented. The increased surtaxes will produce $90 million in 1996-97 and $260 million when fully implemented.

The employer health tax will not apply to the first $200,000 of annual payroll in 1997, the first $300,000 in 1998, and the first $400,000 thereafter. Complementary changes will be made to the levy on the self-employed. This will cost the province $65 million in the current year and $290 million when fully implemented. The minister also reiterated his plans to reduce workers' compensation levies by 5 percent.

The province will impose a 10 percent surtax on the federal capital tax paid by banks, effective May 8, 1996 to October 31, 1997. Taxpayers will be able to reduce or eliminate the tax by crediting it against 10 percent of their "patient" investment in the equity of small businesses. The province expects to net $10 million from these changes in 1996-97.

The budget contained a number of specific tax incentives that, in total, will cost $135 million in 1996-97 and $190 million in a full year, as follows:

• The tax on parimutuel betting pools will be reduced from 7 percent or 9 percent to 0.5 percent when the horse-racing industry has a plan in place to share the additional resources fairly.

• First-time home buyers of new houses will receive a refund of the land transfer tax that they pay, up to a maximum of $1,725 for sales made between budget day and March 31, 1997.

• Commercial farming operations will qualify for a rebate of the retail sales tax paid on building materials purchased between budget day and March 31, 1997.

• The business purchase of 1-800 and 1-888 telephone service will be exempt from the retail sales tax, effective July 1, 1996.

• Employers will able to claim cooperative education tax credits of 10 percent of the cost of hiring students in co-op programs, up to $1,000 per placement, effective September 1, 1996.

• The province will parallel the changes in tax credits for film production presented in the 1995 federal budget and will double the credit—to 30 percent—for first-time productions.

• The province will permit public hospitals, public libraries, and a number of specified institutions to set up Crown foundations to benefit from the more generous treatment of charitable donations in the income tax system.

• The province will parallel the changes in the tax treatment of labour-sponsored venture capital corporations introduced in the 1996 federal budget.

The minister announced plans to stiffen tax enforcement and collection practices. Provincial policy will conform to the federal treatment of interest on unpaid taxes and refunds. The minister is exploring ways to harmonize provincial capital taxes with the federal system. He will parallel recent federal changes in the corporate income tax system.

## MANITOBA

The budget presented by Minister of Finance Eric Stefanson on April 2 provided an overall surplus without drawing down accumulated lottery revenues from earlier years. Because of lower federal transfers and other non-tax revenue, increased tax collections were not enough to prevent a drop of 5.5 percent in budgetary revenues in 1996-97. Spending was reduced by 3.8 percent so that the surplus was $22 million. Last year, a transfer of $145 million from the lottery fund produced an overall surplus of $120 million. For 1996-97, the surplus is expected to be $22 million (as shown in table 10). The budget contained a projection of increasing surpluses to the turn of the century.

**Table 10 Financial Highlights—Manitoba**

| | 1996-97 (est.) | 1995-96[a] (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| *Budgetary* | | | |
| Total revenue[b] | 5,323.1 | 5,633.2 | 5,205.0 |
| Total expenditure | 5,301.3 | 5,512.9 | 5,401.0 |
| Surplus or deficit (–)[b] | 21.8 | 120.3 | −196.0 |
| Net transfer from fiscal stabilization fund | — | — | — |
| *Main revenue sources*[b] | | | |
| Personal income tax | 1,340.0 | 1,311.0 | 1,177.9 |
| Corporate income tax | 172.7 | 164.0 | 144.6 |
| Retail sales tax | 745.0 | 700.7 | 695.1 |
| Payroll tax | 206.5 | 193.0 | 192.2 |
| Motor fuel tax | 216.2 | 213.5 | 214.3 |
| Federal government transfers | | | |
| Equalization | 1,054.8 | 1,040.0 | 1,080.1 |
| Canada health and social transfer | 599.4 | na | na |
| Established programs financing | na | 416.0 | 461.9 |
| Other | 36.5 | 342.1 | 353.1 |
| *Principal expenditure functions*[b] | | | |
| Health | 1,811.8 | 1,848.8 | 1,828.2 |
| Education and training | 1,000.8 | 1,003.9 | 980.4 |
| Family services | 654.8 | 664.9 | 655.9 |
| Highways and transportation | 222.1 | 225.3 | 227.3 |
| Public debt charges | 575.0 | 647.8 | 597.0 |

— nil. na not applicable.

[a] For 1995-96, total figures are preliminary, but detail figures are based on original estimates. [b] Excludes transactions of budget stabilization fund.

## Tax Changes

The proposed tax changes will reduce 1996-97 revenues by nearly $3 million and a full year's revenues by $7 million. In addition, changes to the personal income tax credits will provide taxpayers with an additional $4 million.

Beginning in the 1996 tax year, the refundable learning tax credit, which will be integrated with other provincial credits, will be equal to 10 percent of the education amount and tuition fees allowed under the federal system. The credit can be transferred when the federal credits are transferred to spouses or parents. The cost is expected to be $12 million.

Property and cost-of-living tax credits will be tightened up in 1996 to save the province nearly $8 million.

The province will parallel the changes in the credit for labour-sponsored venture capital corporations introduced in the 1996 federal budget, at a saving of $1 million.

The temporary manufacturing investment tax credit introduced in the 1992 budget is extended for one year to June 30, 1997, at a cost to the province of nearly $7 million in the current year.

The sales tax rebate for first-time buyers of new homes is reinstated, effective January 1996 to March 31, 1997, at a cost of $1 million this year. Sales tax exemptions were introduced for geophysical survey and exploration equipment and research and development equipment for the mining industry. The capital tax will be changed to aid mining companies.

### SASKATCHEWAN

Finance Minister Janice MacKinnon's budget of March 28 contained few tax changes but predicted another surplus. Budgetary spending will fall by 4.4 percent and revenues will rise by 2.4 percent over preliminary figures for 1995-96, producing a surplus of $357.8 million for 1996-97 (as shown in table 11).

#### Tax Changes

The temporary reduction in the tax on aviation fuel introduced in the 1995 budget was made permanent. The second stage of the reduction in the debt-reduction surtax took effect in 1996, lowering tax collections by $55 million. The minister promised a review of the provincial tax system to be included in next year's budget.

### ALBERTA

Treasurer Jim Dinning presented his budget on February 22. He forecast a surplus for 1996-97 and future years, and called for consultations with Albertans to determine the course of future fiscal policy. As the surplus grows, the options are (1) reduce taxes, (2) increase spending in key areas, (3) reduce the outstanding provincial debt, or (4) use a combination of all three. The budget documents outlined the tax options under consideration, including reductions in personal income, property, and fuel taxes. Using conservative forecasts of growth, he predicted that revenue would drop by 5 percent (or by less than 1 percent if the cushion of $545 million for resource revenues and corporate income tax is added back). With a drop of nearly 2 percent in spending, the 1996-97 deficit of $56 million will be more than offset by adjustments to convert the accounts to an accrual basis, producing an overall surplus of $23 million (using the lowest estimate of resource revenue and corporate income tax), down from $573 million in the previous year. See table 12.

#### Tax Changes

In addition to a list of increases to premiums, fees, and licences, the treasurer outlined reductions in the provincial property tax for 1996, and a 20 percent reduction in the property tax on machinery and equipment in 1996. A further 20 percent reduction is planned for next year, and the remaining 60 percent will be eliminated if there is substantial new investment in response to the tax reduction.

### NORTHWEST TERRITORIES

The Minister of Finance John Todd tabled his 1996 budget on May 2. He forecast a larger deficit for 1996-97 than in 1995-96, despite stringent

**Table 11 Financial Highlights—Saskatchewan**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| Budgetary revenue | 5,345.4 | 5,218.0 | 5,225.4 |
| Budgetary expenditure | 4,987.6 | 5,217.4 | 5,097.0 |
| Surplus or deficit (−) | 357.8 | 0.6 | 128.4 |
| Net non-budgetary transactions | 415.1 | −336.9 | −151.5 |
| Net cash requirements—new borrowing | −772.9 | 336.3 | 271.5 |
| *Main revenue sources* | | | |
| Personal income tax | 1,177.5 | 1,115.6 | 1,057.5 |
| Corporate income tax and capital taxes | 432.5 | 421.2 | 358.5 |
| Sales tax | 798.8 | 778.0 | 728.8 |
| Resource revenue | 568.9 | 590.5 | 717.7 |
| Federal government transfers | | | |
| Equalization | 314.7 | 221.0 | 540.2 |
| Canada health and social transfer[a] | 508.0 | 621.5 | 621.8 |
| Other | 99.2 | 122.3 | 103.0 |
| *Principal expenditure functions* | | | |
| Health | 1,560.3 | 1,568.1 | 1,533.9 |
| Education | 887.6 | 876.6 | 902.3 |
| Social services | 524.3 | 531.8 | 526.7 |
| Highways | 168.8 | 173.1 | 177.6 |
| Interest on public debt | 813.2 | 850.8 | 881.6 |

[a] The Canada Assistance Plan and established programs financing programs were replaced by the Canada health and social transfer in 1996. The 1995-96 forecast and 1994-95 actual revenue have been restated for comparative purposes.

spending restraint, but he refrained from making any tax changes. He expects to balance the budget in 1997-98. Budgetary revenue for 1996-97 will drop by nearly 7 percent, and spending by 6 percent, to produce an overall deficit of $43 million (shown in table 13). There were no tax changes.

On April 1, 1999, the Northwest Territories will be divided into the independent Nunavut and Western territories.

## YUKON

John Ostashek presented his budget on February 15. Although he was able to reduce 1996-97 spending by over 6 percent, a drop of nearly 12 percent in revenue forced him to project a deficit of $25 million (shown in table 14), a change from the balanced budget for the previous year. There were no tax changes.

**Table 12 Financial Highlights—Alberta**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| Budgetary revenue[a] | 13,622.0 | 14,276.0 | 15,084.0 |
| Budgetary expenditure | 13,678.0 | 13,904.0 | 14,578.0 |
| Surplus or deficit (−) | −56.0 | 372.0 | 506.0 |
| Decrease in capital assets | 79.0 | 201.0 | 452.0 |
| Consolidated surplus or deficit (−) | 23.0 | 573.0 | 958.0 |
| *Main revenue sources* | | | |
| Personal income tax | 3,289.0 | 3,180.0 | 3,063.0 |
| Corporate income tax | 1,100.0 | 1,100.0 | 1,073.0 |
| Non-renewable resource revenues | 2,906.0 | 2,918.0 | 3,669.0 |
| Less royalty tax credit | 260.0 | 275.0 | 291.0 |
| Net non-renewable resource revenues | 2,646.0 | 2,643.0 | 3,378.0 |
| Federal government transfers | | | |
| Canada health and social transfer | 1,251.0 | na | na |
| Established programs financing | na | 969.0 | 1,021.0 |
| Canada Assistance Plan | na | 521.0 | 489.0 |
| Other | 128.0 | 224.0 | 345.0 |
| *Principal expenditure functions (gross)* | | | |
| Health | 3,705.0 | 3,668.0 | 3,835.0 |
| Education | 2,700.0 | 2,707.0 | 2,748.0 |
| Social services | 1,394.0 | 1,368.0 | 1,353.0 |
| Transportation and utilities | 671.0 | 769.0 | 783.0 |
| Debt-servicing costs | 1,401.0 | 1,492.0 | 1,535.0 |

na not applicable.

[a] Excludes cushion for resource revenue and corporate income tax of $545 million in 1996-97.

**Table 13 Financial Highlights—Northwest Territories**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| Operating and capital revenue | 1,168.1 | 1,250.4 | 1,218.0 |
| Operating and capital expenditure | 1,211.0 | 1,281.2 | 1,244.4 |
| Surplus or deficit (−) | −42.9 | −30.8 | −26.4 |
| *Main revenue sources* | | | |
| Personal income tax | 64.7 | 65.6 | 61.1 |
| Corporate income tax | 26.0 | 27.7 | 23.4 |
| Fuel taxes | 15.0 | 14.9 | 12.2 |
| Tobacco taxes | 16.9 | 17.0 | 16.7 |
| Payroll taxes | 12.1 | 12.0 | 11.8 |
| Federal government transfers | | | |
| Formula financing | 829.9 | 896.5 | 888.7 |
| Established programs financing | na | 21.3 | 22.7 |
| Other transfers | 103.7 | 103.3 | 92.6 |
| *Principal expenditure functions* | | | |
| Education, culture, and employment | 294.8 | 311.4 | 297.0 |
| Public works | 98.6 | 113.7 | 114.5 |
| Health and social services | 294.8 | 311.4 | 297.0 |
| Municipal and community affairs | 106.2 | 114.0 | 101.5 |
| Housing | 105.2 | 112.0 | 101.3 |

na not applicable.

**Table 14 Financial Highlights—Yukon**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| Operating and capital revenue | 449.5 | 507.9 | 477.2 |
| Operating and capital expenditure | 474.3 | 506.6 | 453.0 |
| Surplus or deficit (−) | −24.8 | 1.3 | 24.2 |
| *Main revenue sources* | | | |
| Personal income tax | 33.0 | 29.2 | 26.1 |
| Corporate income tax | 7.5 | 10.9 | 15.3 |
| Fuel taxes | 7.5 | 7.2 | 6.7 |
| Federal government transfers | | | |
| Formula financing | 267.3 | 294.5 | 286.7 |
| Canada health and social transfer | 17.6 | na | na |
| Established programs financing | na | 11.3 | 12.1 |
| *Principal expenditure functions* | | | |
| Health and social services | 114.6 | 116.4 | 100.1 |
| Community and transportation services | 120.4 | 148.0 | 133.5 |
| Education | 89.3 | 88.3 | 80.2 |
| Housing | 22.0 | 19.5 | 19.3 |

na not applicable.

# *PLEASE NOTE:*

**CORRECTION** to the article by David B. Perry and Karin Treff, “Provincial Budget Roundup, 1996” (1996), vol. 44, no. 3 *Canadian Tax Journal* 760-78, at 778:

In Table 13, the figures for health and social services were inadvertently repeated with those for education, culture, and employment. The table should read as follows:

**Table 13 Financial Highlights—Northwest Territories**

| | 1996-97 (est.) | 1995-96 (prelim.) | 1994-95 |
|---|---|---|---|
| | | *millions of dollars* | |
| Operating and capital revenue | 1,168.1 | 1,250.4 | 1,218.0 |
| Operating and capital expenditure | 1,211.0 | 1,281.2 | 1,244.4 |
| Surplus or deficit (−) | −42.9 | −30.8 | −26.4 |
| *Main revenue sources* | | | |
| Personal income tax | 64.7 | 65.6 | 61.1 |
| Corporate income tax | 26.0 | 27.7 | 23.4 |
| Fuel taxes | 15.0 | 14.9 | 12.2 |
| Tobacco taxes | 16.9 | 17.0 | 16.7 |
| Payroll taxes | 12.1 | 12.0 | 11.8 |
| Federal government transfers | | | |
| Formula financing | 829.9 | 896.5 | 888.7 |
| Established programs financing | na | 21.3 | 22.7 |
| Other transfers | 103.7 | 103.3 | 92.6 |
| *Principal expenditure functions* | | | |
| Education, culture, and employment | 294.8 | 311.4 | 297.0 |
| Public works | 98.6 | 113.7 | 114.5 |
| Health and social services | 248.4 | 258.9 | 238.3 |
| Municipal and community affairs | 106.2 | 114.0 | 101.5 |
| Housing | 105.2 | 112.0 | 101.3 |

na not applicable.

# *PLEASE NOTE:*

**CORRECTION** to the article by David B. Perry and Karin Treff, "Provincial Budget Roundup, 1996" (1996), vol. 44, no. 3 *Canadian Tax Journal* 760-78, at 764:

Many of the figures in table 3 were inadvertently shifted into the wrong columns. A correct and updated version of the table appears as table 1 in the article by David B. Perry and Karin Treff, "British Columbia Budget Roundup, 1996" (1996), vol. 44, no. 4 *Canadian Tax Journal* 1078-81, at 1080.

Insert: *Canadian Tax Journal* (1996), vol. 44, no. 5.