

Provincial Budget Roundup, 1998

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PRÉCIS

Tous les budgets provinciaux pour 1998 ont été déposés durant la période de six mois terminée le 4 juin 1998. Selon huit des douze budgets, les résultats financiers devraient s'améliorer pour l'année 1998-99. Fondées sur des estimations prudentes de la croissance économique et des recettes, ces prévisions supposent un contrôle rigoureux des dépenses. De nouvelles réductions de l'impôt des particuliers ont été adoptées pour 1998 et/ou 1999 par quatre provinces, qui se joignent ainsi aux quatre autres provinces ayant déjà réduit leur taux d'imposition. L'Ontario et la Colombie-Britannique ont réduit le taux d'imposition des petites sociétés, tandis que le Québec a majoré ce taux tout en réduisant les charges sociales de ces sociétés. Trois autres provinces ont annoncé une réduction des charges sociales, et deux provinces ont élevé les seuils de l'impôt sur le capital. La plupart des provinces ont adopté de nouveaux incitatifs fiscaux ou amélioré ceux qui étaient déjà en place. Aucune province n'a majoré ses taux d'imposition sans offrir une réduction compensatoire dans un autre secteur.

ABSTRACT

All the provincial budgets for 1998 were delivered over a six-month period ending June 4, 1998. Using conservative estimates of economic growth and revenue, 8 of the 12 budget statements showed an improved financial outcome in 1998-99 by maintaining strict control over spending. New personal income tax cuts for 1998 and/or 1999 were introduced in 4 provinces, in addition to the 4 provinces that had previously cut their rates. Ontario and British Columbia reduced the corporate income tax rate paid by small businesses; Quebec raised it while reducing the payroll tax rate for those firms. Payroll tax reductions were announced in 3 other provinces and the capital tax thresholds were raised in 2. Most provinces added new tax incentives for business or enriched existing ones. No province increased tax rates without offering an offsetting reduction in another area.

INTRODUCTION

The 1998 provincial budget round featured tax cuts and improved financial results. The differences in emphasis in the budgets reflected the differences in approach as well as the substantial differences in fiscal health.

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Economic Setting

The economic outlook for 1998 as seen late in 1997 when budget policies were first set, as summarized in table 1, was rosy despite the first signs of weakness in the Asian countries. The 1997 results were better than had been anticipated a year earlier, producing financial results for the fiscal year 1997-98 that were more favourable than first forecast. The unexpected strength in the provincial economies complemented the common practice among ministers of finance and treasurers of using the most pessimistic forecasts possible. This ensured that pleasant surprises would abound in the review of preliminary results for the 1997-98 fiscal year.

Although the tone of most 1998 provincial budgets reflected a combination of cautious forecasts within a rosy environment, subsequent events may prove that the caution was justified. As the year progressed, the economic forecasts became less optimistic.

Financial Summary

Spending programs continued to be restrained, as shown in table 2. On average, provincial spending in 1998-99 is expected to grow by 1.0 percent, about the expected inflation rate. Only in three provinces does the growth exceed the average. The average conceals the fact that debt charges will again grow faster than all other spending—about 4.9 percent in 1998-99; program spending will increase by only 0.4 percent. Taxes and other revenues raised by the provinces are expected to be 0.6 percent higher in 1998-99, but the transfers from the federal government will reverse the previous trend and increase by 3.6 percent. The result is that total provincial revenue will increase at the same rate as spending, to produce the aggregate deficit of \$5.4 billion, as shown in table 2, virtually unchanged from the preliminary results for 1997-98. Only four provinces or territories expect their 1998-99 results to be worse than the preliminary results for 1997-98.

The figures shown in table 2 summarize the information shown in provincial budget statements, and include the pessimistic figures for Alberta revenue. If the cushion built into that province's budget forecasts was removed, total provincial revenue would increase by 1.3 percent, and the aggregate deficit would decline to \$5.0 billion in 1998-99.

The reader is cautioned that the provincial budget figures have not been adjusted to bring them to a uniform accounting system. Comparisons between provinces based on these figures may not be accurate. Such comparisons and aggregation must wait for Statistics Canada's annual compilation of provincial budget figures adjusted to bring all figures to a common accounting system. For the purposes of this article, however, the year-to-year changes are valid.

Tax Changes

Tax changes in the 1998 provincial budgets were either across-the-board personal income tax cuts or new incentives for business. Most budgets also touched on the provincial responses to the enriched federal child

Table 1 Real Economic Growth in Provincial Economies, 1997 to 1999

	1997, preliminary	1998, forecast	1999, forecast
	<i>percentage change</i>		
Newfoundland	1.3	3.8	4.0
Prince Edward Island	0.4	2.8	2.4
Nova Scotia	2.5	3.4	3.1
New Brunswick	2.3	3.3	2.6
Quebec	2.6	3.8	2.9
Ontario	5.0	5.0	3.2
Manitoba	4.2	3.7	3.2
Saskatchewan	3.4	2.9	2.8
Alberta	4.8	4.5	3.0
British Columbia	2.4	3.4	2.5
National average	3.8	4.3	3.0

Source: Economic Outlook, Bank of Montreal, as quoted in *The Globe and Mail*, December 20, 1997, page A12.

benefits, either increasing the assistance available to families or adding provincial geared-to-income payments to supplement the federal program.

New measures were announced that reduce the personal income tax rate in Manitoba, Saskatchewan, Alberta, and British Columbia, adding to the reductions introduced in previous budgets in Nova Scotia, New Brunswick, Quebec, Ontario, and British Columbia. The top surtax rate was also lowered in British Columbia. The 1998 budget advanced the final stage of the Ontario personal income tax cut by six months.

The corporate income tax rate for small business was reduced in Ontario and British Columbia, while the concessionary rate for small business was raised in Quebec. The threshold for capital taxes was raised in Manitoba and British Columbia. The threshold for payroll taxes was raised in Newfoundland and Ontario, and the rate was lowered in Quebec (for small business) and Manitoba.

Nova Scotia and New Brunswick introduced measures to relieve the burden of the provincial element of the harmonized sales tax on home heating fuels.

Most provinces introduced incentives to promote the expansion of business activities and investment, including tax concessions for research and development and film production.

Table 3 summarizes the main provincial tax rates for 1998 and shows the changes for 1999 where they have been announced.

NEWFOUNDLAND

The 1998 budget was delivered on March 26 by Paul Dicks, QC, minister of finance and chair of the treasury board. The province remains on track to eliminate its combined deficit by 1999-2000. Its target of a \$20 million deficit for 1997-98 was achieved as current account spending fell short of

Table 2 Financial Summary of 1998 Provincial Budgets

	Total revenue	Own-source revenue	Federal transfers	Combined spending	Debt charges	Program spending	Surplus or deficit (-)	
							1998-99	1997-98
				<i>percentage change</i>			<i>\$ million</i>	
Newfoundland	1.6	8.2	-6.6	1.3	-0.3	1.6	-10	-20
Prince Edward Island	-0.8	-1.5	0.4	-2.2	-3.3	-2.0	-31	-42
Nova Scotia	-1.3	-0.3	-2.8	-0.5	2.3	-1.1	1	37
New Brunswick	-0.3	-2.4	3.5	-0.5	—	-0.5	-174	-182
Quebec	5.1	4.6	7.6	2.5	9.2	1.4	-1,127	-2,069
Ontario	2.5	2.7	-0.2	0.5	5.6	-0.4	-4,224	-5,203
Manitoba	-1.7	-3.3	2.4	-0.5	-1.0	-0.4	-53	19
Saskatchewan	3.6	-2.0	50.7	2.0	-4.1	3.0	106	21
Alberta	-11.3	-12.8	8.0	0.5	-6.4	1.1	204	2,204
British Columbia	1.1	0.9	3.6	0.8	4.9	0.6	-95	-169
Northwest Territories	-1.6	-2.9	-1.2	-0.8	—	-0.8	2	12
Yukon	-3.7	-7.4	-1.8	-6.4	—	-6.4	-9	-23
National average or total	1.0	0.6	3.6	1.0	4.9	0.4	-5,409	-5,415

— nil.

Table 3 Main Provincial Tax Rates, 1998 and 1999

	Personal income tax			Corporate income tax			Retail sales tax, %	Tax on cigarettes, cents/cig.	Tax on unleaded gasoline, cents/litre
	Basic rate, % of basic fed. tax	Surtax, % of basic prov. tax	Flat tax, % of net income	Small business rate, % of income	Pref. rate for large corps., % of income	Top rate, % of income			
Newfoundland ^b	69	10	—	5	5	14	8	11.0	16.5
Prince Edward Island	59.5	10		7.5	7.5	16	10	6.0	13.0
Nova Scotia ^b	57.5	10		5		16	8	4.2	13.5
New Brunswick ^b	61.5	8		7		17	8	3.7	10.7
Quebec	na	na	na	5.75	8.9	16.25	7.5	2.7	15.2
Ontario									
1998	42.75	20/53		9	13.5	15.5	8	2.0	14.7
1999	40.5	20/56		8.5					
Manitoba									
1998	51	2% of net income	2	9		17	7	8.0	11.5
1999	50								
Saskatchewan									
1998	49	10/25 ^c	2	8		17	7	8.4	15.0
1999	48								
Alberta	44	8	0.5% tax, inc.	6	14.5	15.5	—	7.0	9.0
British Columbia									
1998	50.5	30/56		9		16.5	7	11.0	11.0
1999	49.5	30/49		8.5					
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 Provincial component of harmonized tax. ^c Imposed on the sum of basic provincial tax and flat tax payable.

the budget estimate and provided room to cover additional capital spending. Although current account spending will increase faster than revenue, a reduction in net capital spending from 1998-99 will enable the province to reduce its overall deficit to \$10 million. Non-budgetary transactions will push borrowing up by 28 percent, as shown in table 4.

Tax Changes

The exemption for the provincial payroll tax was increased from \$100,000 to \$120,000 annually per employer, effective with the 1998 tax year. This measure is expected to save businesses \$1 million in a full year. The government will introduce a tax credit for film production after consultation with the industry.

PRINCE EDWARD ISLAND

Provincial Treasurer and Chair of the Treasury Board Patricia Mella presented her budget on March 26, 1998. Preliminary results for 1997-98 indicated that current revenues would be \$31 million higher than anticipated a year ago, offsetting nearly \$23 million in additional spending while reducing the overall deficit from \$50 million to \$42 million. The treasurer forecast a reduction in the current account deficit of nearly \$3 million, assuming almost no change in revenues and spending. A reduction in net capital spending will bring the overall deficit down to \$31 million in 1998-99, before provision for sinking funds, as shown in table 5. Next year the treasurer expects to see a reduction in the province's net debt, after taking into account sinking fund provisions.

The treasurer attached a paper to her budget speech that details the impact of changes in federal fiscal policies on the province's fiscal position, especially cuts in federal transfers.

Tax Changes

The budget contained no tax changes.

NOVA SCOTIA

The last provincial budget of 1998 was presented in the Nova Scotia House of Assembly by Finance Minister Donald Downe on June 4. For the third consecutive year combined revenue exceeded spending, although by a small amount, as shown in table 6. The personal income tax cuts announced earlier were fully phased in for the current tax year. The province will provide a supplemental payment for children under the Nova Scotia child tax benefit program.

Tax Changes

The province will rebate to residential customers of electricity the equivalent of 5 percent of the cost of power consumed between November 1, 1997 and March 31, 1998. Although no permanent proposals were put forward to continue the rebate, the province is hoping that arrangements can be made with the federal government to extend similar relief once the formulas

Table 4 Financial Highlights—Newfoundland^a

	1998-99 (est.)	1997-98 (prelim.)
<i>millions of dollars</i>		
<i>Current account</i>		
Gross revenue	3,289.7	3,252.4
Gross expenditure	3,196.3	3,143.2
Surplus or deficit (–)	93.4	109.2
<i>Capital account</i>		
Gross revenue	138.7	121.9
Gross expenditure	242.2	251.2
Deficit (–)	–103.4	–129.3
Combined surplus or deficit (–)	–10.0	–20.1
Non-budgetary requirements	645.1	493.7
Total borrowing requirements	655.0	513.8
<i>Main revenue sources</i>		
Personal income tax	627.0	543.9
Corporate income tax	77.9	78.1
Sales tax	450.0	444.9
Gasoline tax	119.5	119.0
Federal government transfers		
Equalization	896.0	995.8
Canada health and social transfer	272.0	280.0
Shared-cost programs	61.5	53.9
Sales tax assistance	127.0	127.0
Other	41.8	41.0
<i>Principal expenditure functions</i>		
Education	681.7	692.1
Health	866.3	833.7
Social welfare	486.0	478.6
Transportation	217.2	198.8
Debt expenses	536.8	538.6

^a Public accounts for 1996-97 were not available at time of publication.

for calculating payments to the provinces under the sales tax harmonization program are finalized.

The minister raised the rate for the tax credit for film production from 30 to 32.5 percent. He re-instated the farm land tax exemption and extended the home ownership savings plan for one more year.

NEW BRUNSWICK

Traditionally, New Brunswick leads off the budget round in Canada with a budget speech delivered before the end of the year. On December 4, 1997, Finance Minister Edmond Blanchard, QC, presented the province's fourth consecutive surplus budget for fiscal year 1998-99. Ordinary revenues will not rise as fast as spending, thereby producing a lower surplus; net capital spending will decline, as shown in table 7, to yield a lower combined deficit than in 1997-98. The province will augment the new federal child tax benefit with its own as well as a working income supplement for parents.

Table 5 Financial Highlights—Prince Edward Island^a

	1998-99 (est.)	1997-98 (prelim.)	1996-97
<i>millions of dollars</i>			
<i>Current account</i>			
Total revenue	745.9	748.8	752.0
Total expenditure	753.3	759.5	766.1
Surplus or deficit (-)	-7.4	-10.6	-14.1
<i>Capital account</i>			
Total revenue	5.7	9.0	7.9
Total expenditure	28.9	40.4	44.1
Deficit (-)	-23.3	-31.5	-36.2
Combined surplus or deficit (-)	-30.7	-42.1	-50.3
<i>Non-budgetary transactions</i>			
Sinking fund interest	21.2	26.9	40.2
Pension plan adjustment	6.0	6.0	6.6
Change in net debt	-3.4	-9.2	-3.5
<i>Main revenue sources</i>			
Personal income tax	130.6		
Corporate income tax	25.3		
Retail sales tax	127.3		
Property tax	40.2		
Federal government transfers			
Equalization	209.0	201.6	
Canada health and social transfer ..	60.0	62.4	
Development plans and agreements	4.1	4.6	
Canada Assistance Plan	0.4	4.5	
Other	14.1	14.1	
<i>Principal expenditure functions</i>			
Health and social services	280.1	285.3	
Education	171.4	167.9	
Transportation and public works	84.8	96.2	
Public debt charges	102.2	105.7	

^a Details for 1996-97 are not available.

Tax Changes

Low-income seniors who receive the federal guaranteed income supplement will receive \$100 annually to offset the cost of home heating. The minister also announced several property tax measures designed to provide relief for specific types of property. The budget contained no estimates of the costs of these changes.

QUEBEC

Finance Minister Bernard Landry's 1998 budget, delivered on March 31, built on previous efforts to control spending to lower the deficit and incorporated the personal income tax reform and sales tax increase introduced in his 1997 budget. The 1997-98 deficit target, although threatened by the severe ice storm that cost the province \$601 million in 1997-98, came in at \$2.1 billion, as shown in table 8, about \$0.1 billion lower than

Table 6 Financial Highlights—Nova Scotia

	1998-99 (est.)	1997-98 (prelim.)	1996-97
	<i>millions of dollars</i>		
Total revenue	4,382.7	4,441.0	4,246.0
Total net expenditure	4,381.6	4,403.7	4,237.8
Surplus or deficit (-)	1.2	37.4	8.3
<i>Main revenue sources</i>			
Personal income tax	980.8	996.9	951.5
Corporate income taxes	122.6	121.7	112.3
Sales and tobacco taxes	813.9	787.5	826.2
Motive fuel tax	207.3	202.8	198.7
<i>Federal government transfers</i>			
Equalization, current year	1,183.5	1,194.4	1,115.7
Canada health and social transfer ..	440.6	438.7	536.4
Harmonization	77.7	118.6	—
Other general purpose	4.1	3.3	2.3
<i>Principal expenditure functions</i>			
Education	999.3	938.6	953.6
Health	1,474.1	1,464.9	1,318.9
Transportation and communications ...	193.3	216.6	210.2
Social services	556.1	571.1	547.9
Public debt expense	821.9	803.6	811.1
— nil.			

anticipated. The budgetary deficit for 1998-99 will drop to \$1.1 billion, to be offset by a surplus in non-budgetary transactions of \$0.9 billion. The minister predicted a balanced budget for 1999-2000.

The minister accompanied his budget with a joint report from the provincial auditor general, his own ministry, and the comptroller of finance that described changes in the province's financial reporting: (1) obligations under the public sector retirement plans will be included in government debt; (2) capital spending will be amortized over the life of the asset instead of being included in general expenditure as it is acquired; and (3) operations of all government entities will be included in the financial statements. The revised system, which will produce a \$1.1 billion deficit for 1998-99, is incorporated into table 8.

Tax Changes

The province is revising its taxation of corporations, and therefore issued a paper, "Corporate Tax Reform," with the budget documents. The payroll tax rate on small and medium-sized businesses will be reduced by 12 percent on July 1, 1999, but the small business deduction and the refundable credit for losses will be eliminated, thus keeping the revenue effect for 1999-2000 neutral. The following July, the payroll tax will be reduced by a further 25 percent, yielding a net benefit to the targeted businesses of \$225 million in 2000-1.

Table 7 Financial Highlights—New Brunswick^a

	1998-99 (est.)	1997-98 (prelim.)
<i>millions of dollars</i>		
<i>Ordinary account</i>		
Total revenue	4,183.1	4,088.2
Total expenditure	4,146.4	4,038.3
Surplus or deficit (–)	36.7	49.9
<i>Capital and special purpose accounts</i>		
Total revenue	242.2	351.4
Total expenditure	453.0	582.9
Deficit (–)	–210.8	–231.5
Combined deficit (–)	–174.1	–181.6
Sinking fund earnings	192.6	185.9
Decrease or increase (–) in net debt	18.5	4.3
<i>Main revenue sources</i>		
Personal income tax	842.0	833.0
Corporate income tax	117.0	200.0
Provincial property tax	263.4	256.6
Sales tax/harmonized sales tax	631.8	595.8
Motor vehicle and fuel tax	171.0	169.0
Federal government transfers		
Equalization	969.7	885.3
Canada health and social transfer	331.0	337.0
Other	303.4	327.5
<i>Principal expenditure functions</i>		
Health and community services	1,307.1	b
Education	870.7	b
Transportation	326.5	b
Debt charges	603.0	b

^a Details for 1996-97 are not available. ^b Data are not available.

The minister extended and expanded the tax concessions available for international financial centres, with a view to increasing the extent to which mutual funds are managed and invested in the province.

The tax credits for film and TV production will be enriched and extended to assist the production of foreign films and TV programs in the province.

As usual, the budget contained a number of smaller tax changes and technical amendments, including a tax credit for interest paid on student loans, and a refundable tax credit for residents of far northern areas of the province. In total, the changes will reduce 1998-99 provincial revenues by \$25.0 million and 1999-2000 revenues by \$129.0 million.

ONTARIO

Finance Minister Ernie Eves delivered his 1998 budget on May 5. The 1997 budget projection of the 1997-98 deficit was \$1.4 billion higher than now anticipated, thanks to unexpected revenues of \$3.7 billion. The

Table 8 Financial Highlights—Quebec

	1998-99 (est.)	1997-98 (prelim.)	1996-97
<i>millions of dollars</i>			
<i>Budgetary transactions</i>			
Total revenue	40,715	38,750	37,806
Total expenditure	41,842	40,819	41,023
Deficit (-)	-1,127	-2,069	-3,217
<i>Non-budgetary transactions</i>			
Investments, loans, and advances	-1,070	-420	-792
Surplus in pension accounts	1,729	1,789	1,928
Other accounts	268	-280	-55
Net financial requirement (-)	-200	-980	-2,136
<i>Main revenue sources</i>			
Personal income tax	14,588	14,216	13,139
Corporate taxes	3,046	3,092	2,931
Payroll taxes	4,010	3,886	3,768
Retail sales tax	6,264	5,658	5,218
Motor vehicle fuel taxes	1,506	1,465	1,454
Federal government transfers			
Equalization	3,726	4,187	4,103
Canada health and social transfer ..	1,778	1,660	2,554
Other	593	-181	62
<i>Principal expenditure functions</i>			
Education	9,676	9,645	10,110
Health and social services	12,994	12,616	12,934
Transportation	1,071	994	930
Debt servicing	6,398	5,858	5,860

additional taxes more than offset spending overruns of \$0.4 billion and restructuring costs of \$2.6 billion.

Despite an acceleration of the personal income tax cuts, revenue will grow by 2.5 percent, faster than spending—including a \$650 million reserve—which will rise by less than 0.5 percent in 1998-99. The province's deficit is expected to drop to \$4.2 billion, as shown in table 9. The minister expects a balanced budget by the end of the fiscal year 2000-1.

The major restructuring of local responsibilities took effect on January 1, 1998: the province will continue to provide a number of the services to be devolved to the local level until the transfer arrangements can be finalized. In 1998-99, about \$2 billion of such provincial spending will be financed from recoveries and charges paid by the local level.

Tax Changes

The final phase of the 30 percent personal income tax reduction was advanced from January 1, 1999 to July 1, 1998. The basic rate moved from 45 percent of basic federal tax to 42.75 percent for 1998 and to 40.5 percent for 1999. The threshold for the first surtax, at 20 percent, dropped to \$4,057.50 for 1998 and to \$3,845 for 1999. The top surtax rate rose to

Table 9 Financial Highlights—Ontario

	1998-99 ^a (est.)	1997-98 (prelim.)	1996-97
	<i>millions of dollars</i>		
Total revenue	53,390	52,110	49,450
Total expenditure	57,614	57,313	56,355
Deficit (–)	–4,224	–5,203	–6,905
Cash timing differences	3,800	–900	–1,600
Maturities	5,800	5,800	6,500
Borrowing on behalf of agencies	300	–200	700
Total financial requirements	14,124	9,903	12,505
Financed by borrowing	9,200	11,300	6,500
<i>Main revenue sources</i>			
Net personal income tax	14,635	16,192	16,357
Corporate tax	7,600	7,375	5,852
Retail sales tax	11,435	10,785	9,964
Gasoline and motor vehicle fuel tax ...	2,645	2,578	2,491
Federal government transfers			
Canada health and social transfer ..	3,950	3,937	4,814
Other	978	999	964
<i>Principal expenditure functions</i>			
Health	19,153	19,333	18,905
Education	10,761	10,435	8,957
Community and social services	7,868	8,041	8,081
Transportation	1,348	2,748	2,708
Public debt charges	9,214	8,728	8,607

^a Includes \$650 million in reserves.

53 percent of provincial tax over \$5,217.50 in 1998 and to 56 percent on tax over \$4,800 in 1999. These changes, as well as the commensurate changes in the low-income tax relief measure, are expected to cost the province \$914 million in 1998-99. The total cost of the promised 30 percent cut in personal income tax is estimated at \$4.6 billion for a full year.

The exemption under the employer health tax (the payroll tax) was raised from \$300,000 to \$350,000 for the 1998 taxation year, and will be raised again to \$400,000 on January 1, 1999. The equivalent tax on the self-employed will begin at \$350,000 in 1998 and will be eliminated as of January 1, 1999.

The small business income tax rate will drop from 9.5 to 9.0 percent immediately, and by 0.5 percentage point every year until 2006, when it will drop to 4.75 percent. This measure will cost the province \$30 million in 1998-99 and \$280 million when fully implemented.

The province will reduce commercial and industrial property tax rates over eight years where they are above the provincial average. The plan will provide a reduction of \$64 million in 1998 and \$128 million in the following year. The full effect of the cut will be to reduce provincial revenue by \$510 million.

The child care supplement for working families, Ontario's response to the federal child tax benefit initiative, will provide up to \$1,020 for each child under age seven. In addition, employers will be eligible for tax credits of 30 percent of the capital cost of child care facilities.

Tax incentives will be added or enriched to encourage investment in small business, the construction of farm buildings, the creation of interactive media, computer animation and special effects, and improved workplace accessibility for the physically challenged.

The budget contained a number of measures to reduce abusive tax avoidance opportunities, to enhance efforts to fight evasion, and to simplify compliance.

The tax changes other than the personal income tax cuts will reduce 1998-99 provincial revenue by \$193 million. When fully implemented, the cuts will be worth \$1,183 million.

MANITOBA

Minister of Finance Eric Stefanson delivered Manitoba's 1998 budget on March 6, his fourth consecutive balanced budget. Special spending initiatives, including flood recovery and prevention programs and new capital spending, were financed by transfers from the budget stabilization fund. These transfers are not considered as revenue in table 10, which shows a revenue shortfall instead of the \$23 million surplus shown in the budget statement. Total spending for 1998-99 will drop slightly, but revenues will decline more, to change the 1997-98 surplus of \$18.5 million to a deficit of \$53.0 million in 1998-99.

Tax Changes

The payroll tax rate will be reduced from 2.25 to 2.15 percent, effective January 1, 1999, at a cost of \$9.4 million in a full year. The corporate capital tax exemption will be raised from \$3 million to \$5 million, effective for tax years ending after January 1, 1999. The retail sales tax was removed from purchases of custom-developed software, as of budget day, to provide tax savings of \$5 million per year. The provincial personal income tax rate will drop from 52 percent of basic federal tax to 51 percent effective January 1, 1998 and to 50 percent the following year, which will reduce 1998-99 collections by \$28.0 million and a full year's collections by \$45.0 million. In total, the tax changes will reduce collections by \$37.0 million in 1998-99 and by \$63.6 million in a full year.

SASKATCHEWAN

On March 19, Finance Minister Eric Cline presented Saskatchewan's fifth consecutive balanced budget. The outlook for natural resource activities and related provincial revenues was not good. To ensure that the province continued to enjoy a surplus, the minister brought into budgetary revenue a special \$100 million dividend from the Crown Investment Corporation as the government's share of proceeds from the sale of the bi-provincial

Table 10 Financial Highlights—Manitoba

	1998-99 (est.)	1997-98 ^a (prelim.)	1996-97 ^b
<i>millions of dollars</i>			
<i>Budgetary</i>			
Total revenue	5,578.8	5,677.2	5,763.6
Total expenditure	5,631.8	5,658.7	5,407.9
Surplus or deficit (-) ^b	-53.0	18.5	355.7
Net transfer to (+) or from (-) fiscal stabilization fund	-60.0	-100.0	
Debt retirement deposit	150.0	75.0	
<i>Main revenue sources^b</i>			
Personal income tax	1,480.2	1,436.1	
Corporate income tax	228.2	190.1	
Retail sales tax	846.1	785.0	
Payroll tax	225.4	209.4	
Motor fuel tax	221.3	215.4	
Federal government transfers			
Equalization	1,061.0	1,021.3	
Canada health and social transfer ..	498.0	499.0	
Other	32.9	34.8	
<i>Principal expenditure functions</i>			
Health	1,925.6	1,825.7	
Education and training	1,076.1	1,030.3	
Family services	667.4	664.2	
Highways and transportation	231.5	224.9	
Public debt charges	515.0	520.0	

^a For 1997-98, total figures are preliminary, but detail figures are based on original estimates. ^b Revenue includes \$264.6 million from sale of Manitoba Telephone System.

upgrader. The budget contained plans to reduce outstanding provincial debt by over \$100 million, as indicated in table 11.

The minister outlined plans for a monthly employment supplement (for parents) and a monthly child benefit to complement the revised federal child benefit program, beginning July 1, 1998. The province will also extend family health benefits to low-income working families.

Tax changes highlighted the government's efforts to stimulate a diversified economy in the province.

Tax Changes

The provincial personal income tax rate was reduced from 50 percent of basic federal tax to 49 percent for the 1998 tax year and to 48 percent for subsequent years. This measure is expected to reduce provincial revenue by \$28 million in 1998-99 and \$45 million in the following fiscal year. The sales tax was removed from exploration equipment used in the mining industry as of budget night. At the same time, the petroleum research tax incentive became effective. It provides a 30 percent credit against royalties for field projects and 15 percent for laboratory or institutional projects. A general 15 percent credit for research and development also took effect

Table 11 Financial Highlights—Saskatchewan^a

	1998-99 (est.)	1997-98 (prelim.)
<i>millions of dollars</i>		
Budgetary revenue	5,339.1	5,152.1
Budgetary expenditure	5,233.4	5,131.2
Surplus or deficit (-)	105.7	20.9
Net non-budgetary transactions	22.0	-127.5
Net cash requirements—new borrowing	127.7	-106.6
<i>Main revenue sources</i>		
Personal income tax	1,262.7	1,327.7
Corporate income tax and capital taxes	439.2	493.9
Sales tax	768.6	737.6
Resource revenue	611.5	788.3
<i>Federal government transfers</i>		
Equalization	309.9	30.0
Canada health and social transfer	421.5	430.0
Other	103.5	94.0
<i>Principal expenditure functions</i>		
Health	1,720.2	1,681.2
Education	1,001.2	930.8
Social services	540.8	529.9
Highways	198.8	172.4
Interest on public debt	725.0	756.0

^a Public accounts for 1996-97 were not available at time of publication.

as of budget night. The minister announced a tax credit for local salary expenses in film production, effective January 1, 1998. The budget documents provided no estimates of the costs of these business incentives.

ALBERTA

On February 12, Treasurer Stockwell Day introduced a budget that combined tax cuts with a surplus, even with the modest forecasts that are now required of Alberta budgets. The 1998-99 consolidated surplus of \$165 million, as shown in table 12, is based on significantly lower oil prices than those prevailing for the previous fiscal year and is further hedged with a \$420 million reduction in resource revenue and corporate income tax from prudent projections. Revenue will drop by \$1.9 billion in 1998-99 from the preliminary forecasts, and spending will rise by about \$0.1 billion, producing a much smaller surplus than in the previous year. If the assumptions for 1998-99 are extended to 2000-1, the surplus rises to \$570 million.

The personal income tax cut was complemented by the enrichment of the family employment tax credit at a cost of \$42 million, a discussion paper on the proposed change in the federal-provincial tax collection agreements, and the premier's announcement of the tax review committee to examine the need for extensive changes to the provincial income tax system to lighten the tax load, simplify the system, and enhance the province's competitive position.

Table 12 Financial Highlights—Alberta

	1998-99 (est.)	1997-98 (prelim.)	1996-97
<i>millions of dollars</i>			
Budgetary revenue ^a	15,159.0	17,089.0	16,747.0
Budgetary expenditure	14,955.0	14,885.0	14,258.0
Surplus or deficit (-)	204.0	2,204.0	2,489.0
Decrease in capital assets	-39.0	-5.0	38.0
Consolidated surplus or deficit (-)	165.0	2,199.0	2,527.0
<i>Main revenue sources</i>			
Personal income tax	3,835.0	3,840.0	3,445.0
Corporate income tax	1,642.0	1,709.0	1,407.0
Non-renewable resource revenues	2,790.0	3,907.0	4,274.0
Less royalty tax credit	233.0	240.0	240.0
Net non-renewable resource revenues	2,557.0	3,667.0	4,034.0
<i>Federal government transfers</i>			
Canada health and social transfer ..	940.0	919.0	1,129.0
Other	355.0	280.0	222.0
<i>Principal expenditure functions (gross)</i>			
Health	4,206.0	4,054.0	3,835.0
Education	3,030.0	2,860.0	2,720.0
Social services	1,375.0	1,353.0	1,333.0
Transportation and utilities	546.0	584.0	619.0
Debt-servicing costs	1,093.0	1,168.0	1,328.0

^a After deducting cushion for resource revenue and corporate income tax of \$420 million in 1998-99.

Tax Changes

Effective for the 1998 tax year, the basic provincial income tax rate will drop from 45.5 to 44.0 percent of basic federal tax. This is expected to cost the provincial treasury \$123 million in a full year.

Provincial property taxes will also be lowered and, as previously announced, the special tax on machinery and equipment will finally be phased out and the tax on locomotive fuel reduced by 3 cents per litre in 1998 and again in 1999. The total cost of all changes is estimated at \$285 million in 1998.

BRITISH COLUMBIA

Joy McPhail, minister of finance and corporate relations, delivered her first budget on March 30, 1998. Budgetary and non-budgetary outlays in 1997-98 fell short of last year's budget estimates, enabling the province to end the year with a lower deficit (\$169 million) and by borrowing less than expected. The estimates for 1998-99 include a reduction of \$130 million in the revenue forecasts to minimize the possibility of final results falling short of expectations. With revenue conservatively estimated to increase by 1 percent, and spending by a smaller amount, the deficit for 1998-99 will drop to \$95 million (as shown in table 13), and the net

Table 13 Financial Highlights—British Columbia

	1998-99 (est.)	1997-98 (prelim.)	1996-97
	<i>millions of dollars</i>		
Budgetary revenue	20,441.0	20,210.0	20,126.9
Budgetary expenditure	20,536.0	20,379.0	20,479.1
Surplus or deficit (-)	-95.0	-169.0	-352.2
Non-budgetary receipts	-180.0	-252.8	-441.2
Net increase (-) or decrease in net debt	-275.0	-421.8	-793.4
<i>Main revenue sources</i>			
Personal income tax	5,432.0	5,409.0	5,289.8
Corporate income tax	975.0	1,140.0	1,347.3
Sales tax	3,283.0	3,242.0	3,076.4
Motor vehicle and fuel oil tax	643.0	643.0	688.1
Natural resource revenue	1,963.0	2,152.0	2,185.1
<i>Federal government transfers</i>			
Canada health and social transfer ..	1,720.0	1,620.0	1,775.0
Other	166.0	201.0	180.0
<i>Principal expenditure functions</i>			
Health	7,415.7	7,219.4	7,064.0
Social services	2,950.7	3,076.4	3,020.5
Education	5,953.8	5,819.2	5,758.4
Transportation	783.4	787.1	863.9
Public debt charges	880.0	839.0	869.1

debt will increase by only \$275 million. The government expects a balanced budget by 1999-2000.

The province is exposed to the economic downturn in Asia and to depressed world prices for natural resources. The budget policy uses a combination of tax cuts, spending restraint, and additional capital spending to provide economic stimulus while maintaining fiscal balance.

Tax Changes

The personal income tax will be reduced to 49.5 percent of basic federal tax as of January 1, 1999, at which time the first level of surtax will drop from 26 percent to 19 percent of provincial tax payable. These measures will reduce 1998-99 collections by \$37 million and a full year's collections by \$152 million.

The corporate income tax rate paid by small business will drop from 9 percent to 8.5 percent on January 1, 1999, and to 8 percent the following year. This will reduce collections by \$3 million in the current fiscal year and by \$20 million in a full year. The threshold for capital tax will be raised from \$1.5 million of paid-up capital to \$2.5 million on January 1, 1999, to \$3.5 million the following year, and to \$5 million on January 1, 2001. This measure will reduce collections by \$5 million in the current year and by \$46 million when fully implemented. Stumpage fees for the

Table 14 Financial Highlights—Northwest Territories

	1998-99 (est.)	1997-98 (prelim.)	1996-97
	<i>millions of dollars</i>		
Operating and capital revenue	1,163.0	1,181.6	1,181.9
Operating and capital expenditure	1,160.6	1,169.7	1,194.1
Surplus or deficit (–)	2.4	12.0	–12.2
<i>Main revenue sources</i>			
Personal income tax	69.6	66.1	69.6
Corporate income tax	40.5	35.8	25.0
Fuel taxes	15.7	16.2	14.3
Tobacco taxes	16.6	15.5	16.5
Payroll taxes	12.6	12.1	11.8
Federal government transfers			
Formula financing	826.3	839.4	855.0
Other transfers	99.8	98.1	107.6
<i>Principal expenditure functions</i>			
Education, culture, and employment . . .	303.6	313.3	299.4
Public works	61.4	62.0	69.8
Health and social services	261.4	265.1	252.4
Municipal and community affairs	106.1	109.6	108.6
Housing	98.8	98.4	105.2

forest industry will be reduced. The fuel tax on coloured diesel fuel used on farms was eliminated on budget night. The province eliminated retail sales taxes on 1-800 telephone numbers and equivalent lines as of April 1, 1998. A system of incentives for film production was to be in place by April 1, 1998.

In total, the measures outlined above and other smaller changes announced in the budget will reduce provincial revenues by \$52 million in 1998-99 and by \$237 million when fully implemented.

NORTHWEST TERRITORIES

John Todd, minister of finance, delivered his 1998 budget on January 22, predicting the second consecutive but last surplus for the Northwest Territories. By reducing spending for the fourth consecutive year, he was able to show a small surplus despite a reduction in revenue for 1998-99, as shown in table 14. On April 1, 1999, the region will be split into two new entities, the Nunavut and Western territories. A special committee on financial arrangements has been drawing up funding levels and financing mechanisms, as well as a method of dividing the present government's assets and liabilities.

The present government planned to introduce a child tax benefit to complement the enriched federal program on July 1, 1998. It is cooperating with the federal government to revise the tax and royalty structure on proposed diamond mines in the area to redress the balance, which now favours the federal government by a factor of 10 or more.

Table 15 Financial Highlights—Yukon

	1998-99 (est.)	1997-98 (prelim.)	1996-97
	<i>millions of dollars</i>		
Operating and capital revenue	437.2	454.0	461.1
Operating and capital expenditure	445.9	476.6	471.8
Surplus or deficit (-)	-8.7	-22.6	-10.7
<i>Main revenue sources</i>			
Personal income tax	39.6	37.1	37.8
Corporate income tax	10.3	5.9	9.9
Fuel taxes	6.6	6.9	7.3
Federal government transfers			
Formula financing	277.9	281.9	268.0
Canada health and social transfer	15.9	16.7	18.7
Other	4.0	4.8	-0.7
<i>Principal expenditure functions</i>			
Health and social services	111.9	118.2	111.4
Community and transportation services	86.5	105.1	125.1
Education	93.3	99.5	92.0
Housing	26.3	21.9	16.4

Tax Changes

The minister outlined a system of investment tax credits that began with the 1998 tax year. Labour-sponsored mutual funds and venture capital funds will qualify the investor for credits of 15 percent against territorial personal income tax, along with the 15 percent credit already available against federal tax. Other qualified funds investing in venture capital or community development projects will produce credits of 30 percent against the territorial tax. The government will limit the total available under this system to \$1 million for the 1998 tax year, rising to \$5 million by 2000; the maximum investment eligible for credit by an individual taxpayer in any year is \$100,000.

YUKON

Finance Minister Piers McDonald presented his budget on February 23. The government is working to implement the terms of the First Nations' self-government agreements, and has joined with the federal and First Nation governments to carry out the transfer of Northern Affairs programs from the federal government to Yukon. Despite a decline in revenue, the government was able to reduce the deficit from \$22.6 million to \$8.7 million, including a contingency reserve of \$4.5 million, by cutting capital spending, as shown in table 15.

Tax Changes

There were no tax changes.