

Provincial Budget Roundup, 1999

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PRÉCIS

Les budgets provinciaux de 1999-2000 ont tous été déposés entre le 8 décembre 1998 et le 1^{er} juin 1999. Seules deux provinces, soit l'Ontario et la Colombie-Britannique ont affiché un déficit pour l'exercice 1998-1999, et trois (Terre-Neuve et le Labrador, l'Ontario et la Colombie-Britannique) prévoient un déficit pour l'exercice 1999-2000. Plusieurs provinces ont annoncé des réductions de l'impôt des particuliers ou des taux de surtaxe. Le Nouveau-Brunswick, le Manitoba et la Colombie-Britannique ont de plus accordé un allègement sous forme de réductions d'impôt pour les petites sociétés.

La plupart des provinces envisagent maintenant la possibilité de lever l'impôt sur l'assiette fiscale plutôt que sur l'impôt fédéral. L'Alberta a indiqué qu'elle adoptera ce genre de régime à compter du 1^{er} janvier 2001.

ABSTRACT

The 1999-2000 round of provincial budgets was delivered between December 8, 1998 and June 1, 1999. Only two of the provinces (Ontario and British Columbia) were in a deficit position for the 1998-99 fiscal year, and three provinces (Newfoundland and Labrador, Ontario, and British Columbia) anticipated deficits for the 1999-2000 fiscal year. Several provinces announced cuts in personal income tax or surtax rates, and New Brunswick, Manitoba, and British Columbia also provided relief in the form of tax rate cuts for the small business sector.

Most of the provinces are now considering a move to a tax on base rather than a tax on federal tax system. Alberta has indicated that it will move to such a system effective January 1, 2001.

INTRODUCTION

Individual taxpayers fared well in the 1999-2000 round of provincial budgets as Prince Edward Island, New Brunswick, Quebec, Ontario, Manitoba, Alberta, and British Columbia announced cuts in personal tax rates or surtax rates. In three of the provinces (Quebec, Alberta, and British Columbia), however, those tax cuts will not take effect until after the 1999 taxation year.

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On the corporate side, there was less relief, as only New Brunswick, Manitoba, and British Columbia decreased their small business tax rates. A small business rate cut in Ontario that was announced as part of the 1998-99 budget took effect on January 1, 1999. Table 1 summarizes the main provincial tax rates for 1999 and, where they have been announced, the changes for 2000.

Table 2 outlines the real economic growth in the provincial economies between 1998 and 2000 and table 3 summarizes the financial position of each province, as presented in their 1999 budgets.

Most of the provinces have now indicated that they are at least considering the possibility of moving to a tax on base rather than a tax on federal tax system. Alberta has announced the implementation of such a system, effective January 1, 2001.

NEWFOUNDLAND

Finance Minister Paul Dicks delivered his 1999 budget speech on March 22. The results for 1998-99 were strong enough to allow the minister to defer \$52 million in revenue from Newfoundland and Labrador Hydro from that year to 1999-2000, prepay some expenses, and still record a surplus of \$4.2 million, as shown in table 4. The inclusion of \$82 million in revenue deferred from earlier years meant that the minister could accommodate a drop of nearly 2 percent in anticipated current revenue and virtually unchanged spending to produce an overall deficit of only \$33.3 million for 1999-2000.

Tax Changes

Newfoundland and Labrador levy a payroll tax at a rate of 2 percent. Effective January 1, 1999, the threshold for imposition of that tax is raised from \$120,000 to \$150,000. The change will represent a reduction of \$2.5 million in collections for a full year.

Last year's Newfoundland budget indicated that the Newfoundland and Labrador Film Development Corporation was to develop a competitive film tax credit for the province. Earlier this year, it was announced that a new refundable film and video industry tax credit will be implemented. The credit will be equal to 40 percent of eligible salaries for a taxation year of each eligible project of an eligible corporation. The tax credit is limited to \$1 million for each eligible project and \$2 million for each eligible corporation in any taxation year.

PRINCE EDWARD ISLAND

In her third budget, presented April 6, Provincial Treasurer and Chair of Treasury Board Patricia J. Mella focused on the provincial health-care programs. She expected the provincial economy to grow slightly below the national average again in 1999. The minister's estimates forecast a 2.1 percent drop in revenues and a 3.1 percent reduction in spending, to change the result from the previous year's deficit on current account into a small surplus, as shown in table 5. Increased capital spending produced

Table 1 Main Provincial Tax Rates, 1999 and 2000

	Personal income tax rates			Corporate income tax rates				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	58.5	10	—	7.5	7.5	16	10	6.0	13.0	
Nova Scotia ^{b,c}	57.5	10	—	5	—	16	8	4.2	13.5	
New Brunswick ^b	60	8	—	6	—	17	8	3.7	10.7	
Quebec	na	na	na	7.53 ^e	9.13 ^e	16.66 ^e	7.5	2.7	15.2	
Ontario										
1999	39.5	20/56	—	8.5	13.5	15.5	8	2.0	14.7	
2000	38.5	—	—	8	—	—	—	—	—	
Manitoba										
1999	48.5	2% of net income	2	8	—	17	7	8.0	11.5	
2000	47	—	2	—	—	—	—	—	—	
Saskatchewan	48	10/25 ^d	2	8	10.0	17	6	8.4	15.0	
Alberta	44	8	0.5% tax, inc.	6	14.5	15.5	—	7.0	9.0	
British Columbia										
1999	49.5	30/49	—	6.9 ^f	—	16.5	7	11.0	11.0	
2000	49.5	30/45	—	—	—	—	—	—	—	
Northwest Territories	45	—	—	5	—	14	—	12.4	10.5	
Nunavut	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 sales tax. ^c Budget for 1999 not presented by new government. ^d Imposed on the sum of basic provincial tax and flat tax payable. ^e The Quebec corporate anti-poverty surtax was eliminated, effective July 1, 1999. The rates shown reflect both those changes. ^f The British Columbia small business tax rate was reduced from 8.5 to 5.5 percent, effective July 1, 1999. The rate shown is the effective rate for calendar year companies for 1999.

Table 2 Real Economic Growth in Provincial Economies, 1998 to 2000

	1998, preliminary	1999, forecast	2000, forecast	1998, preliminary	1999, forecast	2000 forecast
	<i>percentage change</i>					
Newfoundland	4.0	3.5	3.8	3.7	4.4	4.2
Prince Edward Island ...	1.7	2.0	2.5	1.7	2.5	2.3
Nova Scotia	3.2	3.0	3.3	3.3	2.8	2.4
New Brunswick	2.2	2.1	2.6	2.2	3.2	2.7
Quebec	2.4	2.0	2.3	2.6	3.3	2.8
Ontario	3.5	2.8	3.0	4	4.7	3.3
Manitoba	3.0	2.0	2.4	2.8	2.7	2.2
Saskatchewan	2.0	1.0	2.4	1.8	0.5	2.0
Alberta	3.6	1.7	2.7	3.0	1.5	3.2
British Columbia	-0.5	-0.5	1.0	-0.5	0.0	1.5
National average	2.7	2.0	2.5	2.8	3.2	2.8

Source: TD Quarterly Economic Forecast, January 19, 1999. Toronto Dominion Bank (tdbank.ca/tdeconomics/economic_forecasts).

a combined deficit, little changed from last year. After taking into account sinking fund operations and pension adjustments, however, the budget documents showed a \$4.2 million reduction in net debt.

Tax Changes

The provincial personal income tax rate was reduced from 59.5 percent of basic federal tax to 58.5 percent, effective January 1, 1999. This will reduce collections by \$2.2 million over a full year, still less than the \$4.6 million that the 1999 federal tax cuts will save for the province’s taxpayers.

The treasurer also indicated that the PEI government will consider the merits of a change from the current provincial tax system (in which provincial tax is levied as a percentage of federal tax payable) to a tax on income system. No timetable was provided for a decision.

NOVA SCOTIA

Neil Leblanc, finance minister in the Progressive Conservative government elected July 27, 1999, brought down his first budget on October 14. He reiterated his commitment to maintain a competitive tax environment for business and announced that the promised 10 percent cut in personal income taxes would take effect by the fourth year of the mandate. Although he provided for no tax increases or decreases, he announced a one-year extension to the film development tax credit and noted that in 2000 his government will release a discussion paper on the options for change in the provincial personal income tax system. The budget revealed that all tax credits and rebates will be reviewed as a part of the government’s general commitment to review programs. The first results from this review will be incorporated into the 2000-01 budget. The minister adjusted the numbers in the earlier budget of the previous government and forecast a 1999-2000 deficit of \$408 million, up from \$261 million in the 1998-99 fiscal year, as shown in table 6.

Table 3 Financial Summary of 1999 Provincial Budgets

	Total revenue	Own-source revenue	Federal transfers	Combined spending	Debt charges	Program spending	Surplus or deficit (-)	
							1999-2000	1998-99
			<i>percentage change</i>				<i>\$ million</i>	
Newfoundland	-1.2	8.4	-13.6	-0.2	1.0	-0.4	-33.3	4.2
Prince Edward Island	-3.2	-3.2	-3.3	-3.1	-0.9	-3.3	-27.8	-27.3
Nova Scotia	1.6	4.2	-2.1	4.6	-0.3	5.8	-407.7	-260.9
New Brunswick	2.5	0.7	5.6	2.1	0.0	2.4	-190.7	-204.4
Quebec	-1.2	1.4	-13.7	-1.2	4.7	-2.3	0.0	0.0
Ontario	6.0	4.5	23.2	3.8	8.2	3.0	-2,076.0	-3,161.0
Manitoba	3.8	4.2	2.9	5.7	-6.6	6.9	-18.4	82.2
Saskatchewan	-0.5	-3.9	16.3	-0.3	-3.0	0.1	8.3	18.4
Alberta	1.6	-0.4	24.1	2.9	-21.3	5.2	463.0	672.0
British Columbia	-0.3	-1.7	10.9	1.3	7.3	1.1	-890.0	-544.0
Northwest Territories	-42.4	-31.2	-44.5	-40.7	—	-40.7	-34.1	-22.3
Yukon	-7.4	-23.2	-1.7	-3.2	—	-3.2	-21.4	-0.6
National average or total	2.0	1.9	2.5	1.8	3.6	1.6	-3,228.1	-3,443.7

Table 4 Financial Highlights—Newfoundland^a

	1999-2000 (est.)	1998-99 (prelim.)
<i>millions of dollars</i>		
<i>Current account</i>		
Total revenue	3,377.0	3,443.6
Total expenditure	3,277.2	3,283.8
Surplus or deficit (-)	99.8	159.8
<i>Capital account</i>		
Total revenue	155.3	132.8
Total expenditure	258.5	288.3
Deficit (-)	-103.1	-155.5
Contingency reserve	30.0	—
Combined surplus or deficit (-)	-33.3	4.2
Non-budgetary requirements	301.4	572.5
Total borrowing requirements	334.7	568.3
<i>Main revenue sources</i>		
Personal income tax	568.9	545.1
Corporate income taxes	52.0	82.7
Sales tax	461.6	457.0
Gasoline tax	122.5	121.5
Federal government transfers		
Equalization	1,012.0	1,165.3
Canada health and social transfer	279.6	275.2
Sales tax assistance	63.0	127.0
Other	1.8	1.8
<i>Principal expenditure functions</i>		
Education	687.0	719.6
Health	942.5	922.8
Social welfare	482.3	506.2
Transportation	227.7	214.3
Debt expenses	552.5	546.8

^a Public accounts for 1997-98 were not available at time of publication.

NEW BRUNSWICK

In keeping with New Brunswick's practice of presenting its budget about three months before the beginning of the fiscal year, Finance Minister Edmond P. Blanchard delivered his budget speech to the legislative assembly on December 8, 1998. The preliminary results for 1998-99, after taking sinking fund earnings of \$203 million into account, indicated that the forecast overall surplus would be close to the 1998 budget forecast, as shown in table 7. He predicted that although revenue would rise by about 3.7 percent in 1999-2000, and spending by a lesser amount, the overall surplus would decline to \$12 million because of declining sinking fund earnings. Spending priorities continue to be health care and education.

Tax Changes

The minister could not afford the planned reduction in income taxes from 61 to 57.5 percent of basic federal tax for 1999. Instead, the provincial

Table 5 Financial Highlights—Prince Edward Island

	1999-2000 (est.)	1998-99 (prelim.)	1997-98 ^a
<i>millions of dollars</i>			
<i>Current account</i>			
Total revenue	794.7	811.6	757.1
Total expenditure	789.7	815.2	753.3
Surplus or deficit (-)	5.0	-3.7	3.8
<i>Capital account</i>			
Total revenue	1.4	11.0	9.1
Total expenditure	34.3	34.7	50.7
Deficit (-)	-32.8	-23.7	-41.6
Combined surplus or deficit (-)	-27.8	-27.3	-37.8
<i>Non-budgetary transactions</i>			
Sinking fund interest	23.1	21.2	21.6
Pension plan adjustment	9.0	9.0	9.3
Change in net debt	4.2	2.9	-6.9
<i>Main revenue sources</i>			
Taxes ^b	393.5	389.4	
Federal government transfers			
Equalization	241.9	254.7	
Canada health and social transfer ..	69.0	62.3	
Development plans and agreements	3.6	4.3	
Other	11.4	15.5	
<i>Principal expenditure functions</i>			
Health and social services	296.5	296.9	
Education	177.0	182.5	
Transportation and public works	86.0	92.3	
Public debt charges	100.6	101.5	

^a Details for 1997-98 are not available. ^b Includes revenue from personal and corporate income taxes, retail sales taxes, and property taxes.

rate was only reduced to 60 percent for 1999. The measure is expected to save provincial taxpayers \$17 million in 1999-2000. The corporate rate for small businesses dropped from 7 to 6 percent as of January 1, 1999, at an annual cost to the treasury of \$3.4 million. The budget speech outlined the equity tax credit which, effective January 1, 1999, provides a credit equal to 30 percent of the purchase price of shares of small businesses in the province, to a maximum of \$9,000.

QUEBEC

Bernard Landry, deputy prime minister and minister of state for the economy and finance, presented his 1999 budget on March 9. The minister's preliminary results for 1998-99 showed a balanced budget and, despite the forecast of a small drop in revenue and spending for 1999-2000, another balanced budget for 1999-2000. The overall borrowing requirements will drop to \$240 million in the latter fiscal year, as shown in table 8.

Table 6 Financial Highlights—Nova Scotia

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Total revenue	4,623.0	4,550.6	4,446.8
Total expenditure	5,030.7	4,811.5	4,408.3
Surplus or deficit (-)	-407.7	-260.9	38.5
<i>Main revenue sources</i>			
Personal income tax	1,044.7	992.2	997.6
Corporate income taxes	127.1	119.4	121.7
Sales tax	759.5	723.4	716.9
Motor vehicle and fuel tax	219.9	211.6	204.1
Federal government transfers			
Equalization	1,257.6	1,260.7	1,194.4
Canada health and social transfer ..	414.4	426.9	438.7
Sales tax assistance	52.7	77.7	118.6
Other	111.5	110.6	79.3
<i>Principal expenditure functions</i>			
Education	1,067.2	1,054.4	942.0
Health	1,800.8	1,654.3	1,472.8
Transportation	192.2	189.9	216.4
Social services	568.3	561.6	570.9
Debt expenses	949.3	952.4	797.8

Tax Changes

The minister announced his commitment to a \$400 million reduction in personal income taxes by July 1, 2000. The government will begin a consultative process to review an extensive discussion paper tabled with the budget and determine where the cuts should be made and what other reductions should be introduced. Full details of the reduction will be provided in the 2000 budget.

The threshold for taxation of the self-employed under the health services tax was raised from \$5,000 to \$11,000 in the year 2000 to save taxpayers \$44 million in a full year. The tax changes include the introduction of a new tax credit for incapacitated elderly living at home; the enrichment of the tax credits for the disabled and for those incurring adoption-related expenses; and an increase of the maximum deduction for child-care expenses from \$5,000 to \$7,000 for children under 7 and from \$3,000 to \$4,000 for other children. These measures were expected to cost \$30 million in a full year.

Relieving amendments will also be implemented with respect to the computation of the alternative minimum tax (AMT) for individuals, effective for the 1999 and subsequent taxation years. Specifically, the method for calculating the AMT will be modified to allow a deduction for Quebec business investment corporation and Quebec stock savings plan investments and the 25 percent deduction for the taxable benefit related to the exercise of a stock option.

Table 7 Financial Highlights—New Brunswick^a

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
<i>millions of dollars</i>			
<i>Ordinary account</i>			
Total revenue	4,355.6	4,202.1	
Total expenditure	4,297.6	419.0	
Surplus or deficit (–)	58.0	12.1	
<i>Capital and special purpose accounts</i>			
Total revenue	220.6	264.5	
Total expenditure	469.3	481.0	
Surplus or deficit (–)	–248.7	–216.5	
Combined deficit (–)	–190.7	–204.4	
Sinking fund earnings	203.0	203.0	
Decrease or increase (–) in net debt ...	12.3	19.6	61.7
<i>Main revenue sources</i>			
Personal income tax	855.0	865.0	
Corporate income taxes	157.0	124.0	
Provincial property tax	268.5	255.2	
Sales tax	641.7	597.0	
Motor vehicle and fuel tax	173.0	171.0	
<i>Federal government transfers</i>			
Equalization	1,035.0	1,026.0	
Canada health and social transfer ..	324.0	335.0	
Sales tax assistance	181.0	89.0	
Other	178.1	177.4	
<i>Principal expenditure functions</i>			
Health and community services	1,379.4	b	
Education	783.7	b	
Transportation	332.4	b	
Debt expenses	610.0	b	

^a Public accounts for 1997-98 were not available at time of publication. ^b Data are not available.

Quebec currently provides a two-year tax holiday for non-residents who move to Quebec to work as part of a scientific research and experimental development project. That holiday has been extended to five years. A four-year income tax exemption for specialists in international financial transactions who move to the province to work has been extended to five years.

The minister announced the creation of the Montreal foreign trade zone in Mirabel to provide incentives for the shipping and distribution industries, aircraft maintenance and repair, and training for navigational and airport support staff. The incentives include a 10-year holiday from income, capital, and payroll taxes; an exemption from income tax for specialized foreign employees; and assistance for construction and enterprises wishing to operate in a customs-free zone. The incentives begin in 1999 and the cost will rise to \$10 million per year.

Quebec provides a number of tax credits for corporations involved in research and development (R & D) activities. Amendments to the tax

Table 8 Financial Highlights—Quebec

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
<i>millions of dollars</i>			
<i>Budgetary transactions</i>			
Total revenue	45,192.0	45,740.0	41,805.0
Total expenditure	45,192.0	45,740.0	43,982.0
Surplus or deficit (–)	—	—	–2,177.0
<i>Non-budgetary transactions</i>			
Investments, loans, and advances	–1,258.0	–1,341.0	–1,315.0
Surplus in pension accounts	1,440.0	919.0	1,888.0
Other accounts	58.0	807.0	229.0
Net financial requirements (–)	240.0	385.0	–1,375.0
<i>Main revenue sources</i>			
Personal income tax	15,293.0	15,038.0	14,389.0
Corporate taxes	3,325.0	3,265.0	3,443.0
Payroll taxes	4,083.0	4,057.0	3,893.0
Sales tax	6,369.0	6,231.0	5,488.0
Motor vehicle fuel tax	1,618.0	1,562.0	1,486.0
Federal government transfers			
Equalization	4,385.0	5,296.0	4,229.0
Canada health and social transfer ..	1,682.0	1,697.0	1,660.0
Other	841.0	1,009.0	101.0
<i>Principal expenditure functions</i>			
Education	9,525.1	9,446.0	9,524.0
Health and social services	13,703.9	14,332.0	12,997.0
Transportation	1,423.8	1,526.0	1,376.0
Debt expenses	7,599.0	7,258.0	7,360.0
— nil.			

legislation will, effective for taxation years beginning after June 30, 1999, allow corporations to claim “superdeductions” in lieu of refundable tax credits for R & D activities. The province will also make available a new, temporary 15 percent refundable tax credit for corporations that are otherwise entitled to the refundable 40 percent tax credit on R & D wages.

The government will set up *carrefours de la nouvelle économie* (CNE) to provide tax assistance to enterprises in the knowledge-based industries. Total assistance is expected to amount to \$30 million in a full year.

The budget provided the details of tax credits for the promotion of music productions and sound recordings, at an annual cost of \$4 million, and for business information-gathering and liaison and transfer services.

The total cost of the measures outlined in the budget documents will amount to less than \$100 million in 1999-2000.

ONTARIO

Finance Minister Ernie Eves delivered his budget on May 4. Before the budget could be approved, the legislature was dissolved for a general election. The Progressive Conservative party was successful in the election,

Table 9 Financial Highlights—Ontario

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Total revenue	58,150	54,859	52,518
Total expenditure ^a	60,226	58,020	56,484
Deficit (–)	–2,076	–3,161	–3,966
Cash timing differences	3,200	2,900	200
Cash requirements	5,276	6,061	4,166
Maturities	8,100	6,400	5,800
Total financial requirements	12,000	12,600	14,100
<i>Main revenue sources</i>			
Personal income tax	15,670	16,750	16,293
Corporate taxes	7,820	7,435	7,456
Payroll taxes	2,990	2,880	2,851
Retail sales tax	12,110	11,525	10,843
Motor vehicle fuel tax	2,750	2,667	2,591
<i>Federal government transfers</i>			
Canada health and social transfer ..	3,727	3,579	3,970
Other	1,829	929	1,128
<i>Principal expenditure functions</i>			
Health	20,677	19,097	18,390
Education	11,993	11,296	8,081
Community and social services	7,699	7,737	8,098
Transportation	1,363	1,556	2,774
Public debt charges	9,818	9,072	8,729

^a Includes \$500 million in reserves in 1999-2000.

but had not, at the time of writing, introduced a new budget. The May budget showed that despite the additional tax cuts, 1999-2000 revenue should rise by 6 percent. After allowing for a 4 percent increase in spending, the minister was able to reduce his deficit to \$2.1 billion in 1999-2000, as shown in table 9, and to produce a balanced budget for the following year.

Tax Changes

The minister promised a 20 percent reduction in provincial personal income tax over four years, with a 5 percent reduction in the first year. In the absence of enabling legislation, the first step, a reduction from 40.5 percent of basic federal tax to 39.5 percent for the 1999 tax year, was implemented by regulation.

Payroll deductions were changed as of July 1, 1999 to reflect a drop for the second half of the year to 38.5 percent—the rate that will also apply for 2000 and beyond. The two-tier surtax is increased to 20 percent of Ontario tax over \$3,750 plus 36 percent of Ontario tax over \$4,681. The low-income tax relief measure was unchanged, which allowed for a reduction of tax at higher levels than was previously the case. Details of the next three stages of the current personal income tax cut were not

announced and will depend on the changes that may be introduced if Ontario switches to a tax-on-base system or even leaves the federal-provincial tax collection agreement. The first-year changes described above will reduce personal income tax collections by \$525 million in 1999-2000.

The budget promised to cut the uniform provincial residential education property tax, equivalent to 0.46 percent of assessed value, by 20 percent over five years, and started the process by reducing the burden by 10 percent for 1999. The property tax cut will cost \$248 million in 1999-2000. The minister also enriched and extended the refund of the land transfer tax for first-time homebuyers, to save them \$24 million in the current fiscal year.

The minister outlined a proposal to allow a personal income tax credit to employees of companies engaged in research and development who exercise options to buy their employers' stock. The proposal was not implemented, but the government planned to hold consultations over the summer. No estimate of the tax savings was provided in the budget documents.

The minister announced his intention to extend and enrich the community small business investment fund and the labour-sponsored investment fund programs.

The budget proposed increasing the exemption from the corporation capital tax to \$2 million and providing a more generous phase-in for firms with capital of less than \$4 million. Credit unions and caisses populaires will be exempt from the provincial capital tax. The changes will be effective for tax years ending after budget night, and will amount to \$14 million in 1999-2000 and \$39 million when fully implemented.

The 1999 gross receipts tax levied on telephone and telegraph companies will drop from 5 to 4 percent, at a cost to the provincial treasury of \$40 million.

The budget outlined enrichments to the film and television credit, the computer animation and special effects credit, the interactive digital media credit, and the innovation credit for research and development.

In the 1997 budget, the province excluded certain royalties paid to non-residents from the required $5/15.5$ addback where those royalties were exempted from federal withholding taxes under a tax treaty. Effective for royalties incurred after May 4, 1999, the government proposed that such royalties be excluded from the addback whether or not they are excluded from federal withholding under a tax treaty.

The minister announced the creation of a business tax review panel to examine the role of the current provincial personal, corporate, and property tax systems in job creation.

In total, the tax measures outlined in the budget will reduce revenues by \$928 million in 1999-2000. The full year benefit, including the additional cuts outlined for the personal income and property taxes, will amount to \$4,715 million in a full year.

MANITOBA

Harold Gilleshammer, minister of finance, presented his first budget in the Manitoba legislative assembly on April 29, 1999. Continued economic growth will help push up revenues by 3.8 percent in 1999-2000, while spending will grow by 5.7 percent. The minister was able to show a \$21 million surplus for the current year—the province's fifth consecutive balanced budget. As shown in table 10, however, the net effect of additional spending from the fiscal stabilization fund was to produce a deficit of \$18 million, a change from the \$82 million surplus shown for the previous year.

The minister reviewed the mandate of the Manitoba Lower Tax Commission—that is, to study the provincial tax system with a view to reducing the total tax burden and enhancing fairness, simplicity, and competitiveness.

The budget also included an appendix discussing and summarizing the social union framework agreement reached between the federal and provincial governments in February 1999.

Tax Changes

The federal budget initiative to enlarge the basic allowance will cost Manitoba \$19 million in reduced personal income tax collections in 1999-2000 and \$31 million in a full year. In his speech, the minister lowered the basic provincial tax rate from 50 percent to 48.5 percent in 1999 and to 47.0 percent in 2000, at a cost of \$51 million in 1999-2000 and \$81 million for a full year.

The income tax rate for small corporations will drop from 9 to 8 percent and then by 1 percent in each of the next three years to 5 percent by January 1, 2002. The full effect of this reduction is to reduce corporate income tax collections by \$5.4 million this year and \$24 million when fully implemented.

The minister eased the burden of the retail sales tax by immediately raising the exemption for children's clothes to \$150 from \$100, at a cost to the provincial treasury of \$1 million. He also added an exemption for manure slurry tanks and lagoon liners used in livestock operations, to run from budget night to December 31, 2000, at a further cost of \$1 million.

He extended the investment tax credit for investment in manufacturing for a further three years to June 2003 at a cost to the treasury of \$13 million per year. The film and video production tax credit was extended to March 1, 2002, at a cost of \$5 million per year. The budget extended the sales tax rebate program for first-time new home buyers, which is expected to cost \$0.9 million per year.

The minister reduced the mining tax rate from 20 to 18 percent, effective December 31, 1998. While this measure will reduce provincial revenues by less than \$50,000 per year at present, it is expected to cost \$ 1 million per year when international commodity prices recover.

He also announced the introduction of the equity tax credit of 5 percent per year for up to three years. Each resident of the province will be allowed

Table 10 Financial Highlights—Manitoba^a

	1999-2000 (est.)	1998-99 (prelim.)
<i>millions of dollars</i>		
<i>Budgetary</i>		
Total revenue	5,898.6	5,682.2
Total expenditure	5,917.0	5,600.0
Surplus or deficit (–)	–18.4	82.2
Debt retirement deposit	75.0	150.0
<i>Main revenue sources</i>		
Personal income tax	1,646.3	1,480.2
Corporate income taxes	205.0	228.2
Retail sales taxes	909.9	846.1
Payroll tax	230.0	225.4
Motor fuel tax	223.7	221.3
Federal government transfers		
Equalization	970.0	1,061.0
Canada health and social transfer	499.2	498.0
Other	224.2	87.2
<i>Principal expenditure functions</i>		
Health	2,119.3	1,925.3
Education and training	1,179.0	1,130.0
Family services	707.8	668.0
Highways and transportation	238.7	232.8
Public debt charges	480.8	515.0

^a Data for 1997-98 on a comparable basis are not available.

a tax credit of up to \$1,500 per year on the purchase of new shares of small and medium-sized businesses listed on the Winnipeg stock exchange. This measure is expected to cost \$1 million this year and \$3 million in a full year.

In total, the tax changes announced in the budget are expected to cost \$80 million in 1999-2000 and \$161 million when fully implemented.

SASKATCHEWAN

Eric Cline, minister of finance, delivered Saskatchewan's 1999 budget on March 26. Despite smaller revenues and spending in 1999-2000, he was able to produce a balanced budget, as shown in table 11, little changed from the previous year. Spending in the main priority areas, such as education and health, was increased by more than the rate of inflation, but overall spending was reduced by 0.3 percent.

Tax Changes

The budget lowered the sales tax rate from 7 to 6 percent as of budget night, to reduce collections by \$100 million. To prevent a reduction in tobacco prices, the provincial tobacco tax was increased from 8.4 to 8.6 cents per cigarette. The rate for cut tobacco will also rise, but not the rate for cigars.

Table 11 Financial Highlights—Saskatchewan

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Budgetary revenue	5,578.6	5,607.0	5,162.5
Budgetary expenditure	5,570.3	5,588.6	5,127.3
Surplus or deficit (-)	8.3	18.4	35.2
Net non-budgetary transactions	162.8	45.3	-27.9
Net cash requirements—new borrowing	171.2	63.7	7.3
<i>Main revenue sources</i>			
Personal income tax	1,361.0	1,398.1	1,327.6
Corporate income and capital taxes	420.2	408.4	484.9
Sales tax	669.5	758.6	753.0
Resource revenues	551.0	598.3	781.5
<i>Federal government transfers</i>			
Canada health and social transfer ..	510.7	431.2	8.3
Equalization	479.7	423.9	446.4
Other	110.0	91.3	98.5
<i>Principal expenditure functions</i>			
Health	1,915.1	1,775.5	1,677.2
Education	1,025.6	1,001.0	929.8
Social services	578.1	568.9	536.0
Highways	234.6	229.7	212.9
Interest on public debt	724.0	746.6	754.6

The reductions in personal income taxes introduced in the 1999 federal budget will cost the province \$20 million in 1999-2000.

The investment tax credit for the purchase of manufacturing and processing equipment was reduced from 7 to 6 percent to keep it equal to the sales tax payable. The royalty structure for gold and base metal production was reduced to allow for a return on capital of 1.5 times investment before royalties become payable. The flat 12.5 percent rate was changed to a sliding scale ranging from 5 to 10 percent of net profits.

The rate of corporation capital tax on small financial institutions (those with taxable capital of \$400 million or less) was reduced to 0.7 percent for tax years commencing after June 30, 1999. More generous treatment of the provincial scientific research and experimental development expense pools and exploration and development pools will lower the capital tax burden for companies and enhance the attractiveness of the incentives.

Saskatchewan remains one of the few provinces that provides a tax expenditure account in the budget documents.

ALBERTA

In his budget speech of March 11, 1999, Alberta's Treasurer Stockwell Day outlined his fiscal plan for the coming three years and forecast a balanced budget for each year. The revenue forecasts included cushions against a downturn in the economy that amounted to \$617 million for

Table 12 Financial Highlights—Alberta

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Budgetary revenue ^a	16,888	16,628	17,854
Budgetary expenditure	16,271	15,956	15,214
Contingency reserve	154	—	—
Surplus or deficit (–)	463	672	2,640
<i>Main revenue sources</i>			
Personal income tax	4,334	4,601	3,877
Corporate income taxes	1,745	1,639	1,849
Non-renewable resource revenues	2,672	2,506	4,003
Less royalty tax credit	256	242	225
Net non-renewable resource revenues	2,416	2,264	3,778
<i>Federal government transfers</i>			
Canada health and social transfer ..	1,086	969	903
Other	571	366	277
<i>Principal expenditure functions</i>			
Health	4,851	4,465	4,235
Social services	1,470	1,401	1,423
Education	3,197	2,993	2,932
Transportation and utilities	696	665	667
Debt-servicing costs	1,089	1,383	1,322

— nil.

^a After deducting cushion for economic uncertainty of \$617 million in 1999-2000.

1999-2000. If the cushion is not needed, \$463 million will be devoted to debt repayment—thus eliminating net debt—and the remaining \$154 million will be allocated to a contingency reserve. Even with the pessimistic forecast, the minister has allowed for revenue growth of 1.6 percent and expenditure growth of 2.0 percent in 1999-2000, as the data in table 12 illustrate.

Tax Changes

The minister outlined a three-year plan to lower and reform personal income taxation in Alberta. In 1999, the government will simply pass along the automatic tax reductions that stemmed from the 1999 federal budget, at a cost to the provincial treasury of \$55 million in 1999-2000. On July 1, 2000, the provincial surtax of 8 percent will be reduced to 4 percent. (The government subsequently announced that the surtax will be eliminated, effective January 1, 2000.) Provided that the provincial economy holds firm, the provincial personal income tax structure will change dramatically on January 1, 2001: Alberta was the first to respond to the joint agreement reached in October 1998 to change the basis of the tax collection agreements from a tax on tax to a tax on base. (The budget papers indicated that the change would be implemented on January 1, 2002. The government, however, subsequently announced that its tax reform plan would be brought forward one year to January 1, 2001.) The provincial rate will then be set at a single rate of 11 percent of taxable income, instead of 44 percent of basic federal tax (which in effect includes

the federal rate schedule). The first \$11,620 of income will be exempt for all taxpayers, and married or equivalent taxpayers will enjoy an additional exemption of \$11,620. The federal government will continue to collect tax on behalf of the province.

The minister also announced that, effective for taxation years beginning after October 31, 1999, the financial institutions capital tax rate will be lowered from 2 to 0.7 percent on the first \$400 million of capital and 1 percent on the remaining capital. In addition, the capital tax base will be harmonized with the federal large corporations tax base.

BRITISH COLUMBIA

The budget delivered by Minister of Finance and Corporate Relations Joy MacPhail on March 30 contained a larger deficit for 1999-2000 than was expected for 1998-99. Despite the downturn in the provincial economy, which, with the tax cuts outlined below, will reduce revenue by 0.3 percent in 1999-2000, the minister allowed for a 1.3 percent increase in spending, especially in health care and education. This will increase the deficit to \$890 million, as shown in table 13, up from the preliminary \$544 million deficit for 1998-99. Non-budgetary transactions will result in net debt increasing by \$1.4 billion in the year, up from \$715 million the previous year.

Tax Changes

The tax rate on the income of small businesses was reduced from 8.5 to 5.5 percent, effective July 1, 1999. The minister committed her government to keeping their small business tax rate lower than Alberta's by matching any further rate reductions introduced by Alberta. The threshold for capital taxes will be increased to \$3.5 million as of January 1, 2000, and the tax holiday will be doubled to four years for qualifying investments made after March 31, 1999.

Effective January 1, 2000, British Columbia's high-income surtax will be reduced to 15 percent of provincial tax over the \$8,660 threshold (the current rate is 19 percent of provincial tax over the threshold amount). The minister noted that the personal income tax cuts introduced in the federal budget reduced British Columbia's collections by \$120 million in a full year.

NORTHWEST TERRITORIES

Finance Minister Charles Dent presented his 1999 budget for the newly defined Northwest Territories on April 19. The removal of the Nunavut Territory took place on April 1, making all of the previous year's financial information not comparable to the figures for 1999-2000, as shown in table 14. In addition to the challenge of working with a newly formed territory, the government was faced with negotiating with the federal government to devise a better financing formula that would match the contribution of natural resource activities to the economic health of the region with their contribution to local revenues. The importance of the negotiations with the federal Finance Department can be seen from table 14, which

Table 13 Financial Highlights—British Columbia

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
<i>millions of dollars</i>			
Budgetary revenue	20,155.0	20,224.0	20,216.1
Budgetary expenditure	21,045.0	20,768.0	20,368.5
Surplus or deficit (–)	–890.0	–544.0	–152.4
Non-budgetary receipts	–542.0	–543.5	–15.2
Net increase (–) or decrease in net debt	–1,432.0	372.5	–289.9
<i>Main revenue sources</i>			
Personal income tax	5,374.0	5,493.0	5,362.0
Corporate income taxes	847.0	1,100.0	1,137.7
Sales tax	3,190.0	3,148.0	3,243.2
Motor vehicle and fuel tax	436.0	635.0	641.6
Federal government transfers			
Canada health and social transfer ..	2,208.0	1,948.0	1,637.0
Other	144.0	172.0	199.5
<i>Principal expenditure functions</i>			
Health	7,941.8	7,614.9	7,271.3
Social services	2,946.0	3,003.5	3,090.0
Education	6,063.9	5,917.5	5,774.2
Transportation	626.0	775.8	789.9
Public debt charges	940.0	876.2	833.8

shows that about 70 percent of the territory’s revenues come from the federal government. The minister also noted that the aboriginal land claims will have a significant impact on the strength of his government.

Tax Changes

There were no tax changes in the 1999 budget.

NUNAVUT

The first budget of the new territory of Nunavut was presented by Finance Minister Kelvin Ng on May 14, 1999. He presented a cautious set of spending estimates and, to ensure a balanced budget, as shown in table 15, provided \$10 million in contingency reserves. The bulk of the territory’s revenue (over 90 percent) comes from the federal government, and the minister announced his intention to negotiate with the federal government to improve the formula financing arrangements when they come up for renewal in two years. The tax structure is unchanged from that of the Northwest Territories.

Tax Changes

There were no tax changes in the 1999 budget.

YUKON

Finance Minister Piers McDonald delivered his 1999 budget on February 22. By reducing spending by 3.2 percent, he was able to hold the deficit to

Table 14 Financial Highlights—Northwest Territories

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Operating and capital revenue	708.3	1,228.9	1,310.6
Operating and capital expenditure	742.4	1,251.2	1,205.2
Surplus or deficit (–)	–34.1	–22.3	105.4
<i>Main revenue sources</i>			
Personal income tax	44.7	51.8	70.5
Corporate income taxes	14.2	6.4	36.5
Fuel taxes	7.4	17.7	18.8
Tobacco taxes	9.9	16.0	16.0
Payroll taxes	8.9	12.1	12.2
Federal government transfers	571.6	1,030.2	1,066.5
<i>Principal expenditure functions</i>			
Education, culture, and employment . . .	167.6	318.8	314.0
Public works	38.3	62.8	57.1
Health and social services	166.4	269.0	260.1
Municipal and community affairs	60.0	115.8	101.9
Housing	43.3	105.1	98.4

Note: Data for 1999-2000 are not comparable to previous years because of the carving out of Nunavut Territory. See text.

Table 15 Financial Highlights—Nunavut

	1999-2000 (est.)
	<i>millions of dollars</i>
Operating and capital revenue	610.1
Operating and capital expenditure	610.1
Surplus or deficit (–)	—
<i>Main revenue sources</i>	
Personal income tax	16.0
Corporate income taxes	2.7
Fuel taxes	3.6
Tobacco taxes	6.1
Payroll taxes	3.9
Federal government transfers	
Formula financing	498.9
Other	53.7
<i>Principal expenditure functions</i>	
Education	132.1
Health and social services	117.4

— nil.

\$21 million, as shown in table 16, despite the 7.4 percent reduction in revenues. Like his counterpart in the Northwest Territories, the minister was able to draw on accumulated surpluses to finance the deficit instead of borrowing in capital markets.

Table 16 Financial Highlights—Yukon

	1999-2000 (est.)	1998-99 (prelim.)	1997-98
	<i>millions of dollars</i>		
Operating and capital revenue	459.3	495.8	454.8
Operating and capital expenditure	480.7	496.5	454.6
Surplus or deficit (-) ^a	-21.4	-0.6	0.3
<i>Main revenue sources</i>			
Personal income tax	34.5	32.8	42.6
Corporate income taxes	6.2	10.2	10.3
Fuel taxes	6.4	6.6	6.3
Federal government transfers			
Formula financing	294.1	308.2	281.9
Canada health and social transfer . .	17.0	16.7	14.9
Other	47.0	39.3	43.6
<i>Principal expenditure functions</i>			
Health and social services	118.7	115.7	114.2
Community and transportation services			
.	105.1	106.1	98.3
Education	94.7	97.4	98.0

^a Figures may not add to total due to rounding.

Tax Changes

The minister announced the Yukon small business investment tax credit, beginning July 1, 1999, to provide a non-refundable credit equivalent to 25 percent of a qualifying investment in Yukon businesses, up to a maximum investment of \$200,000 per business. He also announced that the government planned to introduce labour-sponsored venture capital corporations with credits of \$1,500 per year on investments of \$5,000. The credit will be divided equally between federal and territorial governments. He anticipated that the program will begin January 1, 2000.

Effective April 1, 1999 and for a period of two years, Yukon will provide a refundable tax credit of 22 percent of eligible expenditures incurred for Yukon mineral exploration on new sites.

The minister also announced details of a non-refundable family tax credit of up to \$300 per year and a child tax benefit, parallel to the federal benefit, of \$300 for the first child, \$200 for the second, and \$150 for each additional child. The combined cost of the programs was estimated at \$1 million per year.