Provincial Budget Roundup, 2002

Deborah L. Ort* and David B. Perry**

PRÉCIS

Les budgets provinciaux et territoriaux de cette année ont été présentés entre le 1er novembre 2001 et le 17 juin 2002. Dans l'ensemble, très peu de changements importants aux régimes provinciaux et territoriaux d'impôt sur le revenu des sociétés et des particuliers ont été annoncés dans les budgets, la plupart des provinces et territoires s'étant limités à la bonification ou au prolongement des programmes de crédit d'impôt existants. Le Manitoba a instauré un nouveau crédit d'impôt à l'exploration minière.

La tendance à la réduction des taux d'impôt sur le revenu des sociétés se maintient, le Nouveau-Brunswick, le Manitoba, la Saskatchewan, l'Alberta et la Colombie-Britannique ayant toutes annoncé une baisse du taux d'impôt général et du taux de petite entreprise en 2002. Les mêmes provinces ont également haussé leur seuil pour les petites entreprises pour 2002, bien que l'Alberta ait jugé nécessaire de repousser certaines baisses de taux et hausses du seuil annoncées à l'origine dans un communiqué de presse en septembre 2000. Le Québec a annoncé qu'il prévoyait réduire de façon significative ses taux d'impôt général et d'impôt sur le capital des institutions financières, les réductions devant s'opérer progressivement sur une période de cinq ans.

Les budgets contenaient relativement peu de changements au régime d'impôt des particuliers. Le Manitoba, la Colombie-Britannique, les Territoires du Nord-Ouest et le Nunavut ont tous annoncé des majorations des crédits d'impôt personnels, et le Nunavut a modifié ses fourchettes et taux d'impôt des particuliers pour 2002. Les contribuables du Québec qui produisent leur déclaration selon le régime simplifié pourront transférer certains crédits à leur conjoint.

Les recettes requises proviendront des majorations des droits sur le tabac annoncées par la plupart des provinces. L'Alberta et la Colombie-Britannique ont également haussé les cotisations au régime d'assurance-maladie, et la Colombie-Britannique a augmenté le taux de sa taxe de vente. La taxe sur le capital de la Nouvelle-Écosse, qui devait venir à échéance cette année, a plutôt été prolongée et elle s'appliquera jusqu'au 31 mars 2004.

La plupart des provinces et territoires affichaient des surplus à la fin de l'exercice 2001-2002. La Nouvelle-Écosse, la Colombie-Britannique et le Yukon ont cependant

* Tax lawyer, Ancaster, Ontario.

** Of the Canadian Tax Foundation, Toronto.

annoncé des déficits, et la Saskatchewan a jugé nécessaire de transférer 225 millions de dollars de son Fonds de stabilisation fiscale afin d'équilibrer son budget.

ABSTRACT

This year's provincial and territorial budgets were brought down between October 18, 2001 and June 17, 2002. Overall, there were few significant changes to the provincial and territorial personal and corporate income tax systems announced in the budgets, as most of the provinces and territories limited themselves to previously announced rate reductions and enhancements to or extensions of existing tax credit programs.

The trend toward reductions in provincial corporate tax rates continues, as New Brunswick, Manitoba, Saskatchewan, Alberta, and British Columbia have all indicated that their general or small business tax rates are reduced for 2002. The same provinces have also increased their small business limits for 2002, although Ontario and Alberta have found it necessary to defer some of the rate reductions or business limit increases previously announced. Quebec announced that it is planning significant reductions to its general and financial institution capital tax rates, with the reductions to be phased in over a five-year period.

There were relatively few personal tax changes in the budgets: Manitoba, British Columbia, the Northwest Territories, and Nunavut all announced increases in personal tax credits for 2002, and Nunavut amended its personal tax brackets and rates for 2002. Beginning in 2003, Quebec taxpayers who file under the general system will be allowed to transfer certain tax credits between spouses.

Needed revenue will come from tobacco tax increases imposed by most of the provinces: Alberta and British Columbia also levied increases in provincial health insurance premiums, and British Columbia increased its sales tax rate. The Nova Scotia capital tax, which was scheduled to expire this year, has instead been extended to apply until March 31, 2004.

Most of the provinces and territories were in a surplus position at the end of the 2001-2 fiscal year. Nova Scotia, British Columbia, and Yukon announced deficits and Saskatchewan found it necessary to transfer $441 million from its fiscal stabilization fund in order to balance its budget.

KEYWORDS: BUDGETS ■ COMMODITY TAXES ■ CORPORATE INCOME TAXES ■ PERSONAL INCOME TAXES ■ PROVINCIAL TAXES ■ SMALL BUSINESS

INTRODUCTION

Overall, few significant changes to the provincial tax systems were announced in the 2002-3 budgets, which were brought down between October 18, 2001 and June 17, 2002. In general, the provincial treasurers and ministers of finance contented themselves with making enhancements to existing credit programs and raising needed revenue through increases in commodity taxes, particularly tobacco taxes. Alberta and British Columbia also announced increases in provincial health insurance premiums, and British Columbia raised its general provincial sales tax rate from 7 to 7.5 percent.

The provinces continue to lower corporate tax rates, as New Brunswick, Manitoba, Saskatchewan, Alberta, and British Columbia all reduced their general or small business rates for 2002. Each of these provinces has also increased the corporate income threshold for eligibility for the preferential small business tax rate for 2002. Quebec has announced that its general and financial institution capital tax rates will be reduced to less than one-half current rates over the next five years.

Overall, there were relatively few personal tax changes, although Manitoba, British Columbia, the Northwest Territories, and Nunavut increased personal tax credits and Nunavut revamped its personal tax brackets and rates for 2002.

Table 1 shows the federal, provincial, and territorial personal income tax rates for 2002 and table 2 outlines the 2002 corporate income tax, retail sales tax, tobacco tax, and gasoline tax rates for the provinces and territories. Table 3 summarizes the real economic growth in the provincial economies between 2001 and 2003. Most of the provinces have now balanced their budgets or are in a surplus position. The financial positions of the provinces and territories, as presented in their 2002-3 budgets, are summarized in table 4.

NEWFOUNDLAND AND LABRADOR

The 2002-3 Newfoundland and Labrador budget was delivered on March 21, 2002 by Minister of Finance and President of Treasury Board Joan Marie Aylward. The province posted a surplus of $96.2 million for the 2001-2 fiscal year and indicated that a surplus of $13.3 million is expected for the upcoming 2002-3 fiscal year (see table 5).

The only tax measures contained in the budget were an increase in the province's tobacco tax and a decrease in the provincial dividend tax credit rate. Low-income taxpayers in the province will benefit from a grant program relating to the replacement of household fuel oil tanks and from a small increase in the income threshold for child tax benefit payments.

Tax Changes

Effective for dividends paid on or after March 21, the dividend tax credit rate is reduced from 9 percent to 5 percent. The change to the 5 percent rate will allow for full integration on income received by way of dividends from Newfoundland and Labrador corporations eligible for the small business rate. The change in the credit rate will, however, apply to all dividends received from taxable Canadian corporations.

Effective March 22, 2002, the province's tobacco tax rate is increased by 2.5 cents per manufactured cigarette ($5.00 per carton), and by 3.67 cents per gram of fine-cut tobacco. The tobacco tax increases will, however, not apply in designated Labrador border zones. In those areas, the tobacco tax rate is linked to the rate imposed in the neighbouring province of Quebec, in order to mitigate the cross-border shopping problem. The lower tobacco tax rates for the designated zone are administered by means of a rebate program, and those rebate rates will be adjusted to compensate for the tobacco tax increases announced in the budget.

Two budget measures will benefit low-income families. Effective April 1, 2002, households with family net income of less than $22,397 who use home heating fuel

TABLE 1 Provincial and Federal Personal Income Tax Rates, 2002

	First bracket	Second bracket	Surtax	Third bracket	Surtax	Fourth bracket	Fifth bracket
Newfoundland and Labrador							
Threshold	$0	$29,590		$59,180	$60,050		
Rate	10.57%	16.16%		18.02%	19.64%		
Prince Edward Island							
Threshold	$0	$30,754	$53,550	$61,510			
Rate	9.8%	13.8%	15.18%	18.37%			
Nova Scotia							
Threshold	$0	$29,590		$59,180	$80,925		
Rate	9.77%	14.95%		16.67%	18.34%		
New Brunswick							
Threshold	$0	$31,677		$63,354		$103,000	
Rate	9.68%	14.82%		16.52%		17.84%	
Quebec							
Threshold	$0	$26,700		$53,405			
Rate	16%	20%		24%			
Ontario							
Threshold	$0	$31,893	$55,250	$63,786	$64,700		
Rate	6.05%	9.15%	10.98%	13.392%	17.41%		
Manitoba							
Threshold	$0	$30,544		$65,000			
Rate	10.9%	15.4%		17.4%			
Saskatchewan							
Threshold	$0	$30,000		$60,000			
Rate	11.25%	13.25%		15.5%			

(Table 1 is concluded on the next page.)

TABLE 1 Concluded

	First bracket	Second bracket	Surtax	Third bracket	Surtax	Fourth bracket	Fifth bracket
Alberta							
Threshold	$0						
Rate	10%	10%		10%			
British Columbia							
Threshold	$0	$31,124		$62,249		$71,470	$86,785
Rate	6.05%	9.15%		11.7%		13.7%	14.7%
Northwest Territories							
Threshold	$0	$31,677		$63,354		$103,000	
Rate	7.2%	9.9%		11.7%		13.05%	
Nunavut							
Threshold	$0	$31,677		$63,354		$103,000	
Rate	4%	7%		9%		11.5%	
Yukon							
Threshold	$0	$31,677		$63,354	$81,235	$103,000	
Rate	7.04%	9.68%		11.44%	12.01%	13.40%	
Federal							
Threshold	$0	$31,677		$63,354		$103,000	
Rate	16%	22%		26%		29%	

TABLE 2 Main Provincial Tax Rates, 2002

	Corporate income tax rates					
	Small business rate,[a] % of income	Pref. rate for large corps., % of income	Top rate, % of income	Retail sales tax, %	Tax on cigarettes, cents/cig.	Tax on gasoline, cents/litre
Newfoundland[b]	5	5	14	8	13.50	16.5
Prince Edward Island	7.5	7.5	16	10	11.45	14
Nova Scotia[b]	5	16	16	8	10.52	15.5
New Brunswick[b]	3.75	15.25	15.25	8	9.75	13
Quebec	9.04	9.04	16.51	7.5	9.05	15.2
Ontario	6	11.0	12.5	8	8.60	14.7
Manitoba	5	16.5	16.5	7	14.50	11.5
Saskatchewan	6	10	17	6	16.00	15
Alberta	4.63	13.13	13.13		16.00	9
British Columbia[c]	4.5	13.5	13.5	7.5	15.00	11
Northwest Territories	5	14	14		13.60	10.7
Nunavut	4	12	12		15.60	10.7
Yukon	6	2.5	15		12.20	13.2

[a] Some provinces provide tax holidays for new small businesses.
[b] Provincial component of harmonized sales tax.
[c] Tax on gasoline in Vancouver area is 17 cents per litre and in Victoria area, 12.5 cents per litre.

TABLE 3 Real Economic Growth in Provincial Economies, 2001 to 2003

	2001, preliminary	2002, forecast	2003, forecast
		percentage change	
Newfoundland	1.6	6.0	3.4
Prince Edward Island	0.9	1.6	2.8
Nova Scotia	1.0	1.3	3.2
New Brunswick	0.4	1.0	2.9
Quebec	0.7	1.2	3.3
Ontario	0.4	1.4	3.6
Manitoba	1.2	1.6	3.1
Saskatchewan	—	1.4	3.2
Alberta	2.7	2.0	3.4
British Columbia	0.8	0.9	2.9
National average	0.8	1.3	3.4

— nil.
Source: TD Provincial Economic Outlook, December 20, 2001. Toronto Dominion Bank (tdbank.ca/tdeconomics/economic_forecasts).

as their primary heat source will be eligible for a grant of 50 percent of the installed cost of a new domestic fuel tank, to a maximum of $300. The income threshold for entitlement to the full Newfoundland and Labrador child benefit is increased to $17,397. Partial benefits will be available to those with income of up to $22,397.

PRINCE EDWARD ISLAND

Prince Edward Island Provincial Treasurer Patricia Mella brought down the province's 2002-3 budget on March 26, 2002. The minister was able to announce that the province had enjoyed a surplus of $4.9 million for the fiscal year ended March 31, 2002; projections for the 2003-3 fiscal year, however, call for an $11.6 million deficit (see table 6).

Tax Changes

There were only two tax changes announced in the 2002-3 budget, both in the indirect tax field. Effective midnight on budget night, the health tax on tobacco products was increased by $5.00 per carton on cigarettes, with proportionate increases imposed on other related tobacco products. At the same time, the tax on gasoline was increased by 1 cent per litre.

NOVA SCOTIA

Nova Scotia Minister of Finance Neil LeBlanc brought down the province's first balanced budget in 40 years on April 4, 2002. While the province ran a combined deficit of $106.4 million for the fiscal year ended March 31, 2002, the forecast for the upcoming fiscal year calls for a small surplus of $1.4 million, as shown in table 7.

TABLE 4 Financial Summary of 2002 Provincial Budgets

	Total revenue	Own-source revenue	Federal transfers	Combined spending	Debt charges	Program spending	Adjusted surplus or deficit (–)	
							2001-2	2002-3
	percentage change						*$ million*	
Newfoundland	–0.6	–1.4	0.7	1.5	–1.4	1.9	–47.3	–135.2
Prince Edward Island	–0.4	5.2	–8.5	1.3	0.4	1.4	4.9	–11.6
Nova Scotia	3.0	2.7	3.5	0.9	–0.2	1.1	–106.4	1.4
New Brunswick	1.2	5.6	–6.0	4.4	4.7	4.4	107.1	–58.7
Quebec	1.7	3.1	–4.8	1.7	–2.4	2.4	—	—
Ontario	4.9	4.8	5.2	5.0	—	5.8	58.0	—
Manitoba	0.6	–2.4	6.9	2.2	–5.7	2.7	24.7	–83.1
Saskatchewan	2.3	1.5	5.2	–0.8	2.0	–1.1	–410.3	–225.0
Alberta	–5.6	–5.9	–2.4	–8.8	–22.0	–8.3	35.0	724.0
British Columbia	–1.7	–2.7	5.5	8.5	15.3	8.3	–1,964.0	–4,400.0
Northwest Territories	–12.5	–31.5	23.0	4.9	—	4.9	159.6	–12.1
Nunavut	–2.5	10.6	–3.6	4.1	—	4.1	50.7	1.6
Yukon	–2.4	–10.1	–0.2	–3.5	—	–3.5	–49.3	–41.5
National average or total	1.4	1.5	0.8	2.5	–1.0	2.9	–2,137.2	–4,240.1

— nil.

TABLE 5 Financial Highlights—Newfoundland[a]

	2002-3 (est.)	2001-2 (prelim.)
	millions of dollars	
Current account		
Gross revenue	3,840.2	3,809.7
Gross expenditure	3,826.9	3,713.5
Surplus or deficit (–)	13.3	96.2
Capital account		
Gross revenue	118.6	120.8
Gross expenditure	225.2	280.5
Deficit (–)	–106.6	–159.7
Combined surplus or deficit (–)	–93.3	–63.5
Debt redemption and sinking fund	146.6	203.0
Pension contributions	148.5	143.5
Total borrowing requirements	388.4	410.1
Main revenue sources		
Personal income tax	611.0	611.8
Corporate income tax	58.2	54.7
Sales tax	561.5	535.1
Gasoline tax	132.7	130.0
Federal government transfers		
Equalization	1,158.0	1,162.4
Canada health and social transfer	340.9	331.1
Shared-cost programs	66.1	61.1
Other	1.8	1.8
Principal expenditure functions, net		
Education	764.8	786.4
Health and community services	1,495.2	1,481.6
Public works and transportation	175.1	171.2
Debt expenses	565.4	573.5

[a] The data for 2000-1 are not available.

The government was able to achieve the surplus position with minimal tax increases. Most of the increases are in the indirect tax sector, although the minister did indicate that the provincial corporate capital tax will be extended.

Tax Changes

The province levies a general corporate capital tax that was originally imposed on April 1, 1997 and was scheduled to expire on March 31, 2002. However, the minister announced prior to the budget, and confirmed in the budget speech, that application of the tax will be extended to March 31, 2004.

The province also extended its film tax credit program to December 31, 2005. The program, which was scheduled to expire at the end of 2002, provides a refundable tax credit to qualifying corporations with respect to salaries paid to Nova Scotia residents employed in film production in the province. The credit is

TABLE 6 Financial Highlights—Prince Edward Island

	2002-3 (est.)	2001-2 (prelim.)	2000-1[a]
		millions of dollars	
Total revenue	968.4	972.2	951.7
Total expenditure	980.0	967.3	957.3
Surplus or deficit (–)	–11.6	4.9	–5.6
Non-budgetary transactions	–17.2	–19.4	–6.0
Increase in net debt	5.6	24.3	0.4
Main revenue sources			
Personal income tax	168.5	156.4	
Corporate income taxes	33.0	22.6	
Retail sales taxes	159.1	157.3	
Property taxes	50.2	48.3	
Federal government transfers			
Equalization	255.0	282.3	
Canada health and social transfer	89.1	86.6	
Other	22.0	31.0	
Principal expenditure functions			
Health and social services	398.2	352.3	
Education	201.9	200.3	
Transportation and public works	69.4	71.8	
Public debt charges	106.5	106.1	

[a] Details for 2000-1 are not available on a comparable basis.

equal to 30 or 35 percent of salaries paid for film productions produced in, respectively, urban or rural areas of the province, to a specified ceiling.

Effective midnight budget night, the following indirect tax increases are levied.

- The tobacco tax is increased by $5.00 per carton of cigarettes, by $7.86 per carton of tobacco sticks, and by $7.06 per 200 grams of fine-cut tobacco.
- The fuel tax on gasoline is increased by 2 cents per litre, to 15.5 cents per litre.

Finally, on March 26, 2002, the minister announced a number of revenue measures intended to assist in balancing the budget. Those measures, which generally took effect on April 1, 2002, consisted mainly of additions and changes to various licensing and administrative fees collected by provincial government departments.

NEW BRUNSWICK

On March 26, 2002, New Brunswick Minister of Finance Peter Mesheau brought down New Brunswick's third consecutive balanced budget. Government figures released with the budget and summarized in table 8 indicate that the province will enjoy a combined current and capital account surplus of $37.1 million for the fiscal year ended March 31, 2002 and a somewhat smaller $21.3 million combined surplus for the upcoming 2002-3 fiscal year.

TABLE 7 Financial Highlights—Nova Scotia

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Total revenue	5,306.7	5,147.6	5,090.9
Total expenditure	5,327.8	5,280.8	5,047.3
Surplus or deficit (–)	–21.1	–133.2	43.6
Net profit or loss (–) from government businesses	22.5	26.8	246.1
Other adjustments			–142.4
Combined surplus or deficit (–)	1.4	–106.4	147.3
Main revenue sources			
Personal income tax	1,315.1	1,274.5	1,228.7
Corporate income tax	183.6	188.2	169.2
Sales tax	888.9	852.8	804.3
Gasoline tax	239.4	216.6	201.7
Federal government transfers			
Equalization	1,320.2	1,326.35	1,395.5
Canada health and social transfer	591.4	558.1	526.1
Prior year's adjustments		–37.2	21.8
Other	2.3	2.3	2.3
Principal expenditure functions			
Education, net	1,125.5	1,119.0	1,078.1
Health, net	2,014.6	1,943.1	1,806.7
Social services, net	614.1	608.3	561.0
Transportation, net	201.3	193.5	196.2
Debt expenses, gross	1,009.9	1,011.7	1,020.6

Tax Changes

New Brunswick continues on its program of corporate tax cuts and threshold increases. Effective July 1, 2002, the general provincial corporate tax rate is reduced from 16.0 percent to 14.5 percent. A further reduction to 13.0 percent is planned to take effect January 1, 2003.

New Brunswick will also increase the provincial small business limit and reduce the tax rate applicable to qualifying income below that threshold. Effective July 1, 2002, the small business limit will increase from $300,000 to $350,000 and the small business tax rate will be reduced from 4.0 percent to 3.5 percent. On January 1, 2003, the small business tax rate will be further reduced to 3.0 percent and the small business limit increased to $400,000.

Low-income individuals in the province will benefit from a series of enhancements to the province's low-income tax reduction, as follows:

- For 2002, single taxfilers with incomes up to $11,000 and families earning up to $18,000 will not pay provincial income tax.
- For 2003, single taxfilers with incomes up to $12,500 and families with income up to $20,000 will not be subject to provincial income tax.

TABLE 8 Financial Highlights—New Brunswick[a]

	2002-3 (est.)	2001-2 (prelim.)
	millions of dollars	
Ordinary account		
Total revenue	5,067.4	5,040.5
Total expenditure	5,156.3	4,979.0
Surplus or deficit (–)	–88.9	61.5
Capital account		
Recoveries	48.0	21.1
Expenditures	257.8	205.5
Net capital expenditures	209.8	184.4
Sinking fund earnings	240.0	230.0
Transfer to (–) or from fiscal stabilization fund	80.0	–70.0
Combined surplus	21.3	37.1
Main revenue sources		
Personal income tax	922.5	909.6
Corporate income tax	142.3	179.9
Sales tax	699.0	660.0
Motive fuel tax	210.0	188.0
Federal government transfers		
Equalization	1,202.0	1,321.3
Canada health and social transfer	494.4	494.9
Shared-cost programs	189.3	190.5
Other	1.9	1.9
Principal expenditure functions		
Education	957.1	
Health and wellness	1,436.9	
Family and community services	699.9	
Transportation	305.1	
Debt expenses	685.0	654.0

[a] The data for 2000-1 and some detail for 2001-2 are not available on a comparable basis.

QUEBEC

In a departure from its usual practice, Quebec brought down its 2002-3 budget on November 1, 2001 and followed it with a supplementary statement to the government's budgetary policy on March 19, 2002. The Quebec budget for the 2002-3 fiscal year is balanced, as shown in table 9.

Tax Changes

In the budget brought down on November 1, 2001 and the supplementary statement issued March 19, 2002, Quebec Minister of State for the Economy and Finance Pauline Marois announced a number of enhancements to existing provincial corporate tax credits and a significant reduction in the Quebec capital tax, as well as additional details on the income and capital tax instalment deferral available to small and medium-sized enterprises in the province.

TABLE 9 Financial Highlights—Quebec

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Total revenue	51,907.0	50,093.0	51,040.0
Total expenditure	51,907.0	51,043.0	49,663.0
Allocation to or from (–) reserves	—	–950.0	950.0
Surplus or deficit (–)	—	—	427.0
Non-budgetary surplus or deficit (–)	–872.0	–655.0	–943.0
Net financial surplus or requirements	–872.0	–655.0	–516.0
Main revenue sources			
Personal income tax	16,342.0	15,722.0	17,107.0
Corporate taxes	4,350.0	4,015.0	42,107.0
Health services levy	4,594.0	4,426.0	4,488.0
Consumption taxes	10,290.0	9,882.0	9,393.0
Sales tax	7,938.0	7,630.0	7,374.0
Fuel	1,600.0	1,572.0	1,536.0
Federal government transfers			
Equalization	5,339.0	5,337.0	5,650.0
Canada health and social transfer	2,455.0	2,993.0	1,597.0
Other	1,048.0	957.0	898.0
Principal expenditure functions			
Education	11,144.0	10,540.0	10,130.0
Health and social services	17,451.0	17,110.0	16,098.0
Transportation	1,362.0	1,364.0	1,507.0
Debt expenses	7,194.0	7,372.0	7,606.0

— nil.

In 1998, Quebec introduced an optional simplified individual tax-filing system for taxpayers who made limited use of tax preferences. That system offered such taxpayers the option of claiming a single flat amount instead of a number of tax deductions and non-refundable tax credits, as well as the ability to transfer to a spouse who also used the simplified system the portion of non-refundable tax credits that could not be used to reduce the individual's tax payable. Effective with the 2003 taxation year, that transfer option will also be available under the general tax-filing system. Specifically, the existing tax credit for spouses and the transfer of the unused portion of the tax credit for a spouse's impairment will be replaced with a mechanism to transfer the unused portion of non-refundable tax credits from one spouse to the other, whether the spouses calculate their income tax payable under the general or the simplified system. This change will necessitate a number of consequential amendments and technical changes: new rules will address non-residents, part-year residents, and bankrupts, as well as the death of an individual or his or her spouse during a taxation year.

As of the 2003 taxation year, changes will also be made to the simplified tax system. Under the current rules, taxpayers who opt to file under the simplified system and claim the flat amount must forgo a number of specific deductions.

Beginning with the 2003 taxation year, the computation of net income under the simplified system will be standardized with the general system. In addition, taxpayers who file under the simplified system will be entitled to claim the following deductions in addition to the flat amount:

- deductions for support payments;
- deductions for residents of designated remote areas;
- non-refundable tax credits for medical expenses; and
- certain deductions and credits intended to prevent double taxation, including both the deduction for an amount exempt from income under a tax treaty or agreement and the foreign tax credit.

Minor changes will also be made to the method of computing source deductions for employees in the province. Effective for pay periods ending after April 30, 2002, employers will be required to take into account, in computing the amount of an employee's remuneration for source deduction purposes, amounts withheld to acquire a qualifying investment in a cooperative investment plan to a specified maximum. In addition, employees who make deductible support payments or who live in designated remote areas will no longer be required to make a specific calculation to determine the amount by which their remuneration is to be reduced as a result of those circumstances or expenditures. Instead, such employees will simply indicate to their employer an amount to be taken into account. This change will apply to pay periods ending after December 31, 2002.

The budget also contained further details regarding the instalment payment deferral for small and medium-sized corporations, which was first announced in information bulletins issued by the Ministry of Finance in the fall of 2001. The deferral program allows qualifying corporations to defer payment of income tax, capital tax, compensatory tax, and Quebec youth fund contribution instalments for October, November, and December 2001. In order to qualify, a corporation must have had \$15 million or less in paid-up capital in its preceding taxation year and must have a taxation year ending after September 30, 2001 and before April 1, 2002. The budget papers outline in detail the new instalment deadlines for corporations with particular year-ends.

Small employers in the province will also benefit from a reduction in the number of instalments to be made with respect to payroll deductions on remuneration paid after December 31, 2001. Specifically, employers whose average monthly withholding is not more than \$1,000 for the year preceding that in which the remuneration is paid and who are not in default of their obligations will be allowed to make quarterly instalments of source deductions. The quarterly deadlines will fall on April 15, July 15, October 15 and January 15 for amounts deducted during the previous quarter.

Quebec currently imposes a capital tax on the paid-up capital of corporations having an establishment in the province. The applicable rate and calculation method for the tax depend on whether the corporation is a financial institution.

The current rate for general corporations is 0.64 percent; the rate applicable to financial institutions is 1.28 percent. Those rates will be reduced over the next five years as follows:

	Current	*2003*	*2004*	*2005*	*2006*	*2007*
General capital tax rate	0.64%	0.6%	0.525%	0.45%	0.375%	0.3%
Financial institutions capital tax rate	1.28%	1.2%	1.05%	0.9%	0.75%	0.6%

In addition to the rate reductions, most corporations generally, other than financial institutions and corporations that are exempt from income tax) will benefit from a $1 million deduction in the computation of paid-up capital for capital tax purposes. The new deduction will be phased in as follows:

	2003	*2004*	*2005*	*2006*
Amount	$250,000	$500,000	$750,000	$1,000,000

Because the new deduction is primarily intended to benefit small corporations, the maximum deduction that a corporation may claim may be reduced over the period 2003 to 2005. Specifically, the deduction will be reduced by one dollar for each three dollars by which the paid-up capital of a corporation determined for the preceding taxation year exceeds the maximum deduction that the corporation could otherwise claim for the given taxation year.

Technical rules will address the computation of the deduction for corporations whose fiscal year-end does not coincide with the calendar year-end and for associated corporations. Finally, the existing minimum capital tax of $250 ($125 for farm or fishing corporations) will be eliminated for corporate taxation years ending after December 31, 2002.

In its March 2001 budget, Quebec introduced a 10-year tax holiday for small and medium-sized manufacturing businesses operating in remote resource regions of the province. Generally, in a particular taxation year, a qualifying corporation is eligible for a holiday from income tax, capital tax, and the employer contribution to the health services fund (HSF) if its paid-up capital for the year is less than $10 million. A partial holiday is available if paid-up capital is between $10 million and $15 million. Effective for taxation years ending after March 29, 2001, those eligibility thresholds are raised to $20 million and $30 million respectively. Consequently, the full holiday will be available to qualifying corporations with less than $20 million in paid-up capital; a partial holiday may be claimed by corporations with between $20 million and $30 million in paid-up capital; and no holiday is available where corporate paid-up capital exceeds $30 million. The tax holiday is administered as a deduction in the calculation of taxable income and paid-up capital. The computation of that deduction is outlined in the budget documents.

In the March 29, 2001 budget, the province announced the creation of a refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitan. The credit was originally to be available for five years, from 2001 to 2005, but was extended for a further period of one year in the November 1, 2001 budget speech. The program provides a 40 percent refundable tax credit for year-over-year increases in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in a designated site in the field of biotechnology and human health.

The program has now been reworked and renamed the refundable tax credit for biotechnology development in certain designated sites. The new credit, which will be granted beginning in the 2002 taxation year, will provide eligible corporations with a 40 percent tax credit in respect of any increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology in a designated site. The credit will be available for three years; however, corporations that have already received a credit under the former program will be eligible for the new credit for only an additional two years. To be eligible for the credit, a corporation must be carrying on a certified business at a designated site in the province. Corporations seeking the credit must obtain an eligibility certificate issued by Investissement Québec. Certain areas have already been identified as designated sites; the minister of finance may designate other sites in the future. The budget papers outline the rules respecting the definition of an eligible employee, the definition of salary, and the computation of the tax credit. Rules have also been developed to deal with excluded corporations, associated corporations, mergers and windups, the treatment of government assistance, and other application details.

Quebec will also provide a five-year tax holiday for foreign experts employed by an eligible corporation that carries on a certified business in a designated biotechnology site. To be eligible for the holiday, the duties of the foreign expert must be attributable almost exclusively to activities of an eligible business, and the expert must be engaged almost exclusively in training, research and development, or specialized tasks at the management level in the field of innovation, commercialization, technology transfer or innovation financing, or a combination of these activities. Definitions and deadlines applicable to the holiday are outlined in detail in the budget papers.

Both the 40 percent credit for qualifying increases in payroll and the tax holiday for foreign experts will be made available to eligible corporations and employees in two other sectors of the economy. Specifically, eligible corporations and foreign experts operating in the nutraceuticals and functional foods sector will be allowed to claim the 40 percent credit and the tax holiday, respectively. Eligible corporations and foreign experts engaged in activities related to information technology in identified industries at designated innovation centres in the province can also claim the 40 percent credit and tax holiday. The 40 percent credit will, however, be available for five years for companies carrying on qualifying activities at designated innovation centres, rather than the three years allowed for companies engaged in qualifying activities in the biotechnology and nutraceuticals sectors.

Quebec provides three refundable tax credits intended to encourage job creation in the resource regions of the province: the refundable tax credit for Gaspésie and certain maritime regions of Quebec; the refundable tax credit for the Vallée de l'aluminium; and the refundable tax credit for processing activities in the resource regions. These credits target specific processing activities and are granted for a period of five years with respect to increases in payroll attributable to eligible employees of an eligible corporation operating in one of the target regions. Changes to these credits were announced in both the November 2001 and the March 2002 releases. The changes are intended to mitigate the effects of the 2001 economic downturn on corporations eligible for the credit.

First, corporations that possess an eligibility certificate for any of the affected credits will be entitled to have the certificate revoked for 2001. Such a revocation would normally be sought by a corporation that was forced to reduce its payroll for 2001. An eligibility certificate that is revoked under this measure may be reinstated in a subsequent year without affecting the number of years for which the corporation may benefit from the credit. As well, corporations eligible for any of these credits will be allowed, for purposes of computing the credit, to reduce their payroll amount by 10 percent for the 2000 or 2001 calendar years. The reduced amount will then be used in calculating the year-over-year increase in payroll in the two subsequent calendar years, thereby increasing the amount of credit that the corporation receives.

In addition, effective as of the 2001 calendar year, the definition of an eligible employee for the credits will be amended to ensure that the aggregate of all qualifying activities of the employee in respect of all certified businesses carried on by an eligible corporation are considered in determining eligibility for the credit.

In addition, the definition of "certified business" for the purposes of the processing activities credit will be broadened to cover additional types of activities, including printing or publishing, drying and planing of structural lumber, and processing activities involving precious stones or jewels.

In 2000, the Quebec government announced the creation of E-commerce Place, consisting of buildings constructed within particular geographic boundaries within the city of Montreal. Eligible corporations that locate their businesses within E-commerce Place may receive a number of tax benefits in relation to salaries paid to eligible employees before December 31, 2010, including a refundable tax credit and a tax holiday for foreign specialists. Effective for eligible salaries paid after December 31, 2000, the rate of the refundable credit is increased from 25 percent to 35 percent. In addition, the maximum annual tax credit claimable per employee will increase from $10,000 to $12,500.

Technical changes will also ensure that corporations that conclude a lease for space in E-commerce Place after 2000 will also be able to benefit from the credit for a similar period of time (that is, subsequent to December 31, 2010). Similar changes will be made with respect to the rules regarding the tax holiday for foreign specialists.

Beginning in 2001, a new 35 percent refundable credit will also be offered for five consecutive calendar years, for increases in payroll incurred by eligible corporations that move into designated premises in the Zone de commerce electronique du centre-ville de Montréal or the Centre National des nouvelles techologies de Québec (CNNTQ). To receive an eligibility certificate, a corporation must show that it will contribute to the creation of a minimum of 25 full-time jobs at one of the designated sites. The activities of the business must involve the development and supply of products and services relating to e-business, activities relating to the operation of e-business solutions, or activities of a customer-contact centre that support a sales and marketing service. Detailed rules respecting the definition of eligible corporations, excluded corporations, certified businesses, eligible employees, designated sites, and the computation of the credit are outlined in the budget, and guidelines on certain of these will be published by the Bureau du commerce électronique.

Quebec's tax legislation includes a set of measures that favour businesses that carry out scientific research and experimental development (SR & ED) and other forms of innovation in certain activity sectors, particularly those related to the knowledge-based economy. Such measures can apply to corporations that carry out eligible activities in designated sites, including information technology development centres (CDTIs), the Cité du multimedia, the CNNTQ, and new economy centres (CNEs). The benefits include a refundable tax credit based on eligible salaries paid by qualifying corporations, as well as a tax holiday for foreign specialists employed by such corporations. In order to encourage corporations to move into designated sites in Quebec, a number of changes will be made to the legislation to extend the eligibility periods for both the salary tax credit and the tax holiday for foreign specialists where qualifying corporations conclude leases for such sites after 2000.

Corporations that carry on business within the Montreal foreign trade zone at Mirabel in the fields of international logistics, aircraft maintenance and repair, supplementary professional training in aviation, or light manufacturing may receive a number of tax benefits, including an exemption from income tax, capital tax, and the employer contribution to the HSF until December 31, 2010. Certain specialized foreign employees of such businesses may also receive a five-year tax holiday. The eligibility period for these benefits will be extended where a corporation receives an eligibility certificate after the year 2000. Details of the allowable extensions are outlined in the budget papers.

Three existing corporate tax credits are to be extended to the end of 2006. They are as follows.

- The refundable tax credit for the Cité de l'optique, which provides a 40 percent refundable credit for year-over-year increases in payroll attributable to production or commercialization employees of eligible corporations operating in the optics, photonics, or laser sector in the Quebec City region, was scheduled to apply from 1999 to 2003.
- The refundable tax credit for the Technopôle Angus, which provides a 40 percent tax credit for year-over-year increases in payroll attributable to production or commercialization employees of an eligible corporation operating

in the field of manufacturing or processing goods or in the environmental field, was originally announced to be available from 2000 to 2003.

- The refundable tax credit for the Cité de la biotechnologie, which provides a 40 percent tax credit for year-over-year increases in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology and human health, was scheduled to apply from 2001 to 2005.

Taxpayers who enter into a university research contract with an eligible university entity regarding research and development (R & D) are eligible for a refundable tax credit equal to 40 percent of 80 percent of the amount of the eligible expenditure paid to the university. In some cases, however, eligibility for the credit is lost because, for example, the research work contemplated by the contract is carried out by an affiliated prescribed university hospital medical research centre rather than by the university itself due to concerns about intellectual property related to R & D work. The legislation will be clarified to ensure that the subcontracted portion of a research contract entered into by an eligible university entity is considered to be part of a university research contract.

In 2001, Quebec introduced a temporary tax credit intended to encourage the participation of investment dealers on the NASDAQ stock market. The refundable tax credit covers administrative expenses, acquisition and leasing of technological equipment, and the hiring and training of personnel. The budget papers indicate that the application period for the administrative and training components of the tax credit will be extended for an additional two years, to December 31, 2003. The component of the credit relating to the acquisition and leasing of technological equipment is also extended: the new rules for the computation of the time period applicable to such expenditures is outlined in the budget papers. Finally, a new component to the credit has been introduced. That component will provide investment dealers with a 50 percent tax credit for expenditures incurred, to a maximum expenditure of $300,000, for the installation and maintenance of eligible transaction management systems. Generally, such systems are defined to mean electronic communications equipment and software used to manage and monitor transactions in accordance with NASDAQ regulatory standards. Other conditions that apply to the installation and operation of such systems are outlined in the budget papers.

Quebec provides a number of tax benefits to businesses that qualify as international financial centres (IFCs), including tax exemptions and various tax credits. To qualify as an IFC, the activities of a business must pertain entirely to qualified international financial transactions (QIFTs), which are defined as international financial transactions carried out for a person who does not reside in Canada. The budget papers indicate that a number of amendments will be made to the definition of a QIFT, in particular to include discount transactions involving letters of credit and documentary collection transactions. As well, the legislation will be amended to provide that certain outsourced back office activities (that is, administrative and clerical tasks) that do not currently qualify as QIFTs will be included in the definition of that term. Finally, the tax legislation is amended to ensure that specified activities carried out by the operator of an IFC in the course of his or her participation in the immigrant investor program will qualify as QIFTs.

Operators of IFCs are also eligible for a 50 percent refundable tax credit with respect to solicitation expenditures incurred, to a specified maximum, in relation to persons who are not residents of Canada. Under existing rules, in order to qualify as an eligible solicitation expense, such an expense must be related to a solicitation activity carried out by an employee of the IFC partnership or corporation with a person outside Canada. A technical change will be made to the rules to ensure that such expenditures incurred by eligible partners of an IFC, as well as by employees of the IFC partnership, qualify as an eligible solicitation expense.

Quebec provides a refundable tax credit equal to 40 percent of eligible expenses incurred by an eligible corporation in relation to a promotional tour or "road show" for financial market professionals and investors to a specified ceiling. In order to be eligible for the credit, a corporation must have market capitalization or assets of less than $1 billion and more than 50 percent of its salaries paid must be paid to employees of an establishment located in the province. In some cases, the salary criterion may not apply or may not be representative of the corporation's actual attachment to the province. Amendments to the legislation will enable the minister of finance, when determining the eligibility of a corporation for the credit, to study the relative strength of the corporation's attachment to Quebec and to make a decision on its eligiblity for the credit on that basis. These amendments will apply as of March 20, 2002.

In 2001, the Montreal Stock Exchange was restructured to transfer the trading of financial derivatives from the floor of the exchange to an entirely electronic trading platform. To assist in this transition, the government offered a deduction of up to $200,000 per year from income attributable to eligible activities relating to eligible financial derivatives carried out during the year. The temporary measure was intended to apply after December 31, 2000 and before January 1, 2004. However, many independent traders of financial derivatives were unable to reorganize before July 2001, thereby losing the benefit of the deduction for six months. In recognition of this, the availability of the deduction is being extended for such traders for a period of six months, to July 1, 2004. The maximum amount claimable under this deduction incentive remains $600,000.

In 2001, it was announced that shareholders of a special joint stock company, the Capital régional et cooperatif Desjardins would be eligible for a non-refundable tax credit. The company, whose purpose was to raise venture capital for the resource regions of the province and the cooperative sector, will be required to meet certain related investment targets. In its 2002 budget, the government announced the creation of a special tax that will be payable by the Capital régional et cooperatif Desjardins should it fail to meet those investment targets. The rules respecting the computation of the tax, which applies to fiscal years beginning after December 31, 2005, are outlined in the budget papers.

Finally, the government indicated in the budget that it will adopt the following federal tax measures:

- the proposal to make permanent the special tax assistance for charitable donations of publicly traded securities, announced on October 12, 2001;
- the notice of ways and means motion to amend the Income Tax Act to limit the deduction of expenditures matchable with a right to receive production, when those expenditures related to a tax shelter, tabled September 18, 2001; and
- the measures with respect to current deductions for advertising expenses in Canadian publications, as set out in the agreement between Canada and the United States, dated June 3, 1999, and subsequently incorporated into the Income Tax Act.

ONTARIO

The 2002-3 Ontario budget, the last of this year's provincial and territorial budgets to be released, was brought down by Minister of Finance Janet Ecker on June 17, 2002. This year's budget marks the fourth consecutive balanced budget for the Ontario government, as shown in table 10.

Most of the budgetary announcements dealt with new or increased government expenditures on health, education, and the environment. The budget contained relatively few tax changes, most of which involved the deferral of previously announced personal or corporate tax rate cuts or credit programs. Needed revenue will also come from increases in the provincial tobacco tax.

Tax Changes

In its 2000 and 2001 budgets, the Ontario government announced a series of cuts in the provincial small business, manufacturing and processing (M & P), and general corporate tax rates. The small business rate reductions will proceed as planned. Reductions in the general corporate rate and the M & P rate will, however, be deferred for one year. Ontario small business, general corporate, and M & P tax rates for the next five years will therefore be as follows:

	Current	*2003*	*2004*	*2005*	*2006*
Small business rate	6.0%	5.5%	5.0%	4.0%	4.0%
General corporate rate ..	12.5%	12.5%	11.0%	9.5%	8.0%
M & P rate	11.0%	11.0%	10.0%	9.0%	8.0%

Each of the rate changes takes effect on January 1 of the particular year, and proration is provided for corporations with non-calendar-year year-ends.

Effective for corporate tax years ending after June 17, 2002, Ontario will parallel Canada's income tax treaties in order to determine whether a non-resident corporation has a permanent establishment in Ontario.

For capital tax purposes, financial institutions prescribed federally will automatically be deemed to be financial institutions for Ontario purposes. A corporation that is prescribed federally, but does not wish to be deemed a financial institution for Ontario purposes, will be entitled to request that the provision not apply.

TABLE 10 Financial Highlights—Ontario

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Total revenue	66,544	63,463	64,682
Total expenditure	65,544	63,405	61,357
Reserve	1,000		
Surplus or deficit (–)	—	58	3,325
Main revenue sources			
Personal income tax	19,085	19,195	18,624
Corporations tax	6,150	6,690	9,200
Sales tax	14,230	13,753	13,735
Motive fuel tax	2,915	5,825	2,820
Employer health tax	3,695	3,518	3,424
Federal government transfers			
Canada health and social transfer	6,808	6,211	4,895
Other	1,382	1,573	1,234
Principal expenditure functions			
Education	12,493	11,756	10,609
Health and long-term care	25,794	24,102	22,993
Community and social services	7,841	7,812	7,634
Transportation	1,790	1,472	1,429
Debt expenses	9,070	9,073	9,416

In its 1997 budget, Ontario introduced the community small business investment fund (CSBIF) program. CSBIFs are funds that are sponsored by municipalities or universities and invest in qualifying small businesses. Investors in such funds are entitled to receive a tax credit in respect of their investments. The deadline for registration of such funds will be extended from the end of 2002 to December 31, 2003.

The final stage of the Ontario personal tax rate reduction program has been deferred for one year. Personal tax rates under the Ontario tax-on-income system will therefore be as follows for the next three years:

Taxable income	*2002 tax rate*	*2003 tax rate*	*2004 tax rate*
\$0-\$30,892	6.05%	6.05%	5.65%
\$30,893-\$63,786	9.15%	9.15%	8.85%
Over \$63,786	11.16%	11.16%	11.16%

Ontario will continue to index its tax brackets to the Ontario inflation rate: consequently, the 2002 brackets and surtax threshold may change in subsequent taxation years.

The minister indicated in the budget speech that she will, over the next several months, be consulting on a multi-year tax reduction plan that will include the elimination of both the surtax and Ontario's capital tax. The changes to the Ontario surtax announced in last year's budget have also been deferred for one year. Surtax rates over the next three years will therefore be as follows:

	2002	*2003*	*2004*
First-level surtax	20% of Ontario tax over $3,685	20% of Ontario tax over $3,685	—
Second-level surtax . . .	36% of Ontario tax over $4,648	36% of Ontario tax over $4,648	56% of Ontario tax over $4,648

Lower-income taxpayers in the province will benefit from increases to the Ontario tax reduction. Specifically, the reduction will be increased, effective January 1, 2003, from $161 to $178, plus an increase for inflation.

Implementation of the equity in education tax credit will also be deferred for one year. The tax credit for tuition paid to independent schools in the province, first announced in the 2001 provincial budget, was to be implemented in stages between 2001 and 2006. The implementation schedule has now been deferred by one year, as shown in the following table.

Taxation year	*Percentage credit*
2002	10
2003	10
2004	20
2005	30
2006	40
2007 and subsequent years	50

The credit is available on the first $7,000 of tuition paid per child per year.

Tobacco tax rates in the province are increased, effective June 18, 2002, by 2.5 cents per cigarette or gram of cut tobacco. The new rates are 8.6 cents per cigarette, tobacco stick, or gram of cut tobacco and 56.5 percent of the retail price of cigars. In addition, the structure of tobacco taxes in the province will be altered by exempting tobacco products from the Retail Sales Tax Act and recovering revenues through an equivalent increase in rates under the Tobacco Tax Act.

The budget also contained a number of technical amendments to a variety of statutes, including the Assessment Act, the Fuel Tax Act, the Retail Sales Tax Act, and the Corporations Tax Act.

MANITOBA

When Manitoba Minister of Finance Gregory Selinger brought down the province's 2001-2 budget on April 22, 2002, he announced that the province had enjoyed a surplus of $24.7 million for the fiscal year ended March 31, 2002 and was expected to be in a surplus position once again at the end of the 2002-3 fiscal year, as shown in table 11.

The economic good news enabled the minister to provide tax relief in a number of areas and to extend several provincial tax credit programs that would otherwise have expired. Both individuals and the corporate sector will benefit from budgetary announcements: the only "losers" are smokers who face a 50 percent increase in provincial tobacco taxes.

Tax Changes

Unlike some of the other provinces, Manitoba does not automatically increase its non-refundable personal tax credits to reflect changes in the national or provincial inflation rate. However, the budget papers indicate that, for 2002, such credits have been generally increased by 3.0 percent: the intent is that the amounts for Manitoba non-refundable credit amounts for 2002 will be equal to their federal counterparts. Source deductions will be adjusted beginning in July 2002 to give effect to the change.

A number of changes have been made to provincial individual tax credits. The equity tax credit, which provides investors in eligible corporations an annual credit of 5 percent (to a maximum of $1,500) of the base amount of an eligible investment (for a maximum three-year period), will be extended from its scheduled expiry date of June 2005 to June 2008.

Manitoba will also increase its political contribution tax credit to match federal amounts. Specifically, effective for contributions made in 2002 and later years, the credit will be equal to 75 percent of the first $200 contributed, 50 percent of the next $350, and 33.33 percent on amounts over $550. With these changes, the Manitoba political contribution tax credit is now comparable to the federal credit.

Since 1996, Manitoba has offered a learning tax credit (LTC), a refundable provincial credit based on federal tuition and education credit amounts claimed. As a result of increases in both federal and provincial tuition and education credit amounts, Manitoba has determined that the learning tax credit is no longer necessary, and that moneys from the LTC should instead be used to continue a 10 percent tuition fee cut. Accordingly, the LTC has been eliminated.

Investors in the mining sector will benefit from a new Manitoba mineral exploration tax credit. The credit, which will parallel and top up the existing 15 percent federal exploration tax credit, will provide individuals resident in the province who invest in eligible flowthrough shares of qualifying mineral exploration companies with a non-refundable 10 percent credit against personal income tax. In general, the eligibility criteria for investments and exploration activity will parallel the federal requirements, except that substantially all of the exploration activity must be undertaken in Manitoba. No limit is placed on either the amount that an individual may invest or the amount of the tax credit that may be earned by the investment.

For corporations, the province will broaden and enhance its film and video production tax credit. The credit provides corporations engaged in film and video production with a credit equal to the lesser of 35 percent of eligible salaries paid to Manitoba

TABLE 11 Financial Highlights—Manitoba

	2002-3 (est.)	2001-2 (prelim.)	2000-1[a]
		millions of dollars	
Total revenue	6,941.0	6,900.0	6,752.0
Total expenditure	6,928.1	6,779.3	6,615.0
Surplus or deficit (–)	12.9	120.7	137.0
Debt/pension repayments	–96.0	–96.0	–96.0
Drawdown of fiscal stabilization fund	93.0	—	—
Net overall balance	9.9	24.7	41.0
Main revenue sources			
Personal income tax	1,682.3	1,649.6	
Corporate income tax	146.5	303.4	
Sales tax	1,032.5	976.5	
Motive fuel tax	67.7	67.0	
Federal government transfers			
Equalization	1,481.3	1,390.3	
Canada health and social transfer	728.8	683.9	
Other	152.2	135.4	
Principal expenditure functions			
Education	1,519.3	1,485.5	
Health	2,770.9	2,685.9	
Family services and housing	839.0	812.3	
Highways and government services	341.2	319.1	
Debt expenses	368.3	390.6	

— nil.

[a] Details for 2000-1 are not available on a comparable basis.

residents and 22.5 percent of total production costs. The production cost cap will be eliminated and corporations will choose from two options. They may calculate the credit in the current fashion, as 35 percent of eligible salaries paid to Manitoba residents, or they may make an irrevocable election to calculate the credit as 10 percent of production costs incurred in the province. In addition, eligibility criteria for qualifying activities will be broadened to include equivalent new media productions that parallel the traditional film and video formats. The budget papers did not indicate when the changes will become effective.

In common with a number of other provinces, Manitoba has increased its small business threshold and reduced its corporate and small business tax rates. As announced in the 2001 budget, the general corporate rate will be reduced by 0.5 percent each January 1, beginning January 1, 2002, until it reaches 15 percent on January 1, 2005. Over the same time period, the small business threshold will be raised to $400,000. The first step in that increase took place on January 1, 2002, when the threshold increased from $200,000 to $300,000. At the same time, the small business rate was reduced from 6 percent to 5 percent. Subsequent increases in the threshold will take place as follows:

Implementation date	*Small business threshold*
January 1, 2003	$320,000
January 1, 2004	$360,000
January 1, 2005	$400,000

A number of changes were made to the indirect taxes as follows:

- Effective midnight April 22, 2002, the tobacco tax is increased to 14.5 cents per cigarette, 13.2 cents per gram of fine-cut tobacco, and 11.9 cents per gram of raw-leaf tobacco.
- Effective July 1, 2002, the three existing propane tax rates (that is, for vehicles, commercial heating, and barbecue tanks) will be blended into a single rate of 3.0 cents per litre.
- Changes to the application of the retail sales tax to a variety of products and services will be implemented, effective on different dates.

SASKATCHEWAN

Saskatchewan Minister of Finance Eric Cline brought down the province's 2002-3 budget on March 27, 2002. As a result of both global economic conditions and more local concerns, revenues for both the fiscal year ended March 31, 2002 and the upcoming fiscal year will be lower than originally projected. As shown in table 12, $225 million will be transferred from the province's fiscal stabilization fund for the 2002-3 fiscal year.

Tax Changes

The tax changes announced in this year's budget were generally in the nature of enhancements to existing provincial credits and programs, particularly on the corporate side. In addition, a number of changes that were announced in previous budgets took effect on January 1, 2002.

This year's budget provided for an increase in the exemption threshold for the provincial corporate capital tax. Effective for corporate taxation years beginning on or after January 1, 2002, the current exemption level of $10 million is increased to as high as $15 million. The amount of increase available to a particular corporation will depend on the proportion of salaries and wages paid by the corporation (and any associated companies) in Saskatchewan. The full increase will be available to taxable corporations that pay all their salaries and wages in the province, while those paying only a portion of such amounts in the province will see their increase reduced accordingly.

Changes will be made to the Saskatchewan scientific research and experimental development tax credit. The 15 percent credit, which reduces Saskatchewan corporate income tax payable in the year that eligible expenditures are made, can be carried forward for 7 years and back for 3 years. The carryforward period will be extended

TABLE 12 Financial Highlights—Saskatchewan

	2002-3 (est.)	2001-2 (prelim.)	2000-1[a]
		millions of dollars	
Total revenue	6,094.3	5,957.8	6,753.6
Total expenditure	6,319.3	6,368.1	5,920.9
Surplus or deficit (–)	–225.0	–410.3	832.7
Transfer to (–) or from (+) fiscal stabilization fund	225.0	410.7	–775.0
Net overall balance	—	0.4	57.7
Main revenue sources			
Personal income tax	1,165.5	1,197.4	
Corporation taxes	458.7	506.6	
Sales tax	826.9	775.5	
Motive fuel tax	357.7	355.0	
Natural resources	710.8	824.7	
Federal government transfers			
Equalization	530.7	492.0	
Canada health and social transfer	638.3	608.9	
Other	132.4	136.6	
Principal expenditure functions			
Education	1,074.6	1,092.4	
Health	2,335.0	2,204.2	
Social services	614.3	623.8	
Highways and transportation	300.3	311.1	
Debt expenses	633.0	620.5	

[a] Details for 2000-1 are not available on a comparable basis.

to 10 years (thereby matching the carryforward period for the parallel federal credit). The change will be retroactive to March 20, 1998.

The definition of manufacturing and processing for purposes of the province's manufacturing and processing profits tax reduction and its investment tax credit for manufacturing and processing will be expanded to include the production or processing of electrical energy or steam for sale.

As announced in the 2001 budget, the province's small business tax rate was reduced on July 1, 2001 from 8 percent to 6 percent, translating into an effective rate of 6 percent for 2002. In addition, the small business income threshold was increased from $200,000 to $300,000, effective January 1, 2002.

Also effective January 1, 2002, the tax rate on taxable capital gains on dispositions of qualified farm property and small business shares that exceed the capital gains deduction will be taxed at 11.25 percent (reduced from 11.50 percent) with a further reduction to 11.00 percent planned for 2003.

The Saskatchewan petroleum research incentive, which provides a credit against provincial royalties equal to 30 percent of eligible petroleum field pilot project research and development expenditures incurred in the province, is being extended for a period of five years. The extension is effective April 1, 2002.

The budget also contained a number of indirect tax measures, as follows.

- The fuel tax on ethanol that is both produced in Saskatchewan and sold in the province as part of a motive fuel blend will be eliminated. No effective date for this measure was provided.
- Effective midnight budget night, the tax rate on cigarettes increased from 8.6 cents per cigarette to 16.0 cents per cigarette. The tax rate on cut or loose tobacco increases from 7.7 cents per gram to 16 cents per gram. The minimum level of tax on cigars increases from $2.50 per cigar to $5.00 per cigar.
- Effective April 1, 2002, the liquor consumption tax rate increases from 7 percent to 10 percent.

Finally, an administrative change is to be made to the compliance requirements imposed on small businesses. Effective July 1, 2002, the filing thresholds for remitting provincial sales tax and liquor consumption tax collections will be doubled. Specifically, the monthly filing threshold will increase from $300 per month to $600 per month, with similar increases provided for quarterly and annual filing thresholds.

ALBERTA

Minister of Finance Patricia Nelson delivered the 2002-3 Alberta budget on March 19, 2002. Despite a significant drop in resource revenues, as shown in table 13, the budget was balanced.

Tax Changes

There were no personal tax changes in the budget, and Alberta continues to be the only province without a sales tax. The government did, however, find it necessary to defer certain of the corporate tax rate and threshold changes that were originally announced in September 2000. The revised implementation schedule for the changes follows, the changes to take effect on April 1 of each year.

	2001-2	*2002-3*	*2003-4*	*2004-5*
General rate	13.5%	13.0%	12.5%	11.5%
Small business rate	5.0%	4.5%	4.0%	3.0%
Small business threshold	$300,000	$350,000	$400,000	

Additional revenue will be raised from increases in the province's tobacco tax. Tax payable on a package of cigarettes will increase from $1.75 to $4.00, while the tax on cigars is increased from 80 percent to 183 percent of the retailers' cost plus markup. The maximum tax per cigar is raised from $2.50 to $8.00. All the tobacco tax changes are effective midnight budget night. Liquor markups in the province will also increase, but those changes did not take effect until April 1, 2002.

TABLE 13 Financial Highlights—Alberta

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Budgetary revenue	19,973	21,148	25,597
Budgetary expenditure	19,249	21,113	19,209
Surplus or deficit (–)	724	35	6,388
Main revenue sources			
Personal income tax	4,708	4,328	3,943
Corporate income tax	1,550	1,815	2,023
Non-renewable resource revenues	3,883	7,660	10,730
Less royalty tax credit	169	124	144
Net non-renewable resource revenues	3,714	7,536	10,586
Federal government transfers			
Canada health and social transfer	1,739	1,608	1,411
Other	429	614	402
Principal expenditure functions			
Health	6,899	6,808	5,897
Social services	2,024	1,917	1,790
Education	5,339	5,978	5,040
Transportation and utilities	637	971	1,648
Debt charges	585	750	980

Alberta's monthly health-care premiums also increased effective April 1, by $10.00 for individuals and $20.00 for families, making the individual premium $44.00 and the family premium $88.00.

Finally, the province will, at the request of Alberta's NHL teams, create a special tax to be collected from all NHL hockey players who play in the province. The temporary tax, in effect from 2002 to 2005, will be levied at a rate of 12.5 percent of the portion of a player's base salary that is attributable to playing in Alberta. The budget papers indicate that net revenue raised by the tax will be used to support NHL teams in the province.

BRITISH COLUMBIA

The 2002-3 British Columbia budget was brought down on February 19, 2002 by Minister of Finance Gary Collins. The BC budget contained an announcement of a $4.4 billion deficit for the 2002-3 fiscal year, as shown in table 14. The government announced in the budget that it intends to reduce that deficit through a combination of revenue-raising measures and expenditure reductions, until a balanced budget is achieved in the 2004-5 fiscal year.

TABLE 14 Financial Highlights—British Columbia

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Operating account			
Budgetary revenue	22,038	22,853	24,027
Budgetary expenditure	25,556	25,637	22,463
Surplus or deficit (–)	–3,518	–2,784	1,564
Net surplus or deficit (–) of taxpayer-supported agencies	–206	–94	–210
Net contributions from self-supported Crown agencies	74	–480	157
Forecast allowance	–750	–70	
One-time adjustment		1,464	–52
Surplus or deficit (–)	–4,400	–1,964	1,459
Main revenue sources			
Personal income tax	4,854	5,355	5,976
Corporate income tax	779	1,520	1,054
Sales tax	3,802	3,535	3,617
Gasoline tax	395	400	443
Federal government transfers			
Canada health and social transfer	2,805	2,660	2,619
Other	181	169	178
Principal expenditure functions			
Health	10,380	9,964	8,745
Education	6,871	6,862	6,357
Social services	3,197	3,369	3,126
Transportation	734	709	611
Debt charges	920	798	889

Tax Changes

As is customary for the BC budget, this budget contained a large number of technical and administrative changes, especially in the commodity tax area, together with some substantive tax measures.

Some of the tax changes to be implemented this year were announced, not as part of the budget, but by way of press release. In July 2001, the government announced that the province's general corporate capital tax would be phased out in a two-step process. The second step of that process takes effect on September 1, 2002, when the tax is eliminated. In the same press release, the government indicated that British Columbia's general corporate tax rate would be reduced from 16.5 percent to 13.5 percent, effective January 1, 2002.

Small businesses in the province will benefit from an increase in the province's small business limit. Like the federal government and of most the other provinces, British Columbia taxes active business income of Canadian-controlled private corporations (CCPCs) below a specified threshold at a preferential rate. In recent years the federal government and a number of the provinces increased that threshold and British Columbia has now followed their lead. Effective April 1, 2002, the BC small business limit is increased from $200,000 to $300,000.

On the personal tax side, the budget contained an announcement of increases in the province's disability credit amounts for 2002, as follows:

Tax credit	*2002 amount*
Infirm dependant credit	$3,574
Caregiver (in-home care of relative)	$3,574
Credit for mental or physical impairment	$6,126
Credit for mental or physical impairment for child under 18	$3,574

Each of these amounts is converted to a credit by multiplying by the 2002 conversion rate of 6.05 percent.

The provincial sales tax rate is increased from 7.0 percent to 7.5 percent, effective February 20, 2002. Low-income taxpayers in the province will, however, benefit from an increase in the provincial sales tax credit, from $50 to $75 per adult. The credit increase means that single individuals with up to $18,750 in net income and families with up to $25,500 in net income will receive at least a partial credit.

All BC taxpayers will see a significant increase in their health-care insurance costs as, effective May 1, 2002, premiums levied under the BC medical services plan are increased by 50 percent. Low-income taxpayers who currently qualify for premium assistance will continue to do so.

Press releases issued in June and November 2001 indicated that the following personal tax brackets and rates will apply for the 2002 taxation year:

Taxable income	*Tax rate*
0-$31,124	6.05%
$31,125-$62,249	9.15%
$62,250-$71,470	11.70%
$71,471-$86,785	13.70%
Over $86,785	14.70%

The budget also contained a number of technical changes to the province's Social Services (Sales) Tax Act, the Tobacco Tax Act, the Hospital District Act, the Assessment Authority Act, the School Act, the Taxation (Rural Area) Act, the Home Owner Grant Act, and the Motor Fuel Tax Act.

NORTHWEST TERRITORIES

The Northwest Territories 2002-3 budget was brought down on February 20, 2002 by Minister of Finance Joseph Handley. The minister was able to announce good economic news in the form of a $160 million operating surplus for the 2001-2 fiscal year, as shown in table 15. The good news was, however, tempered by the fact that the surplus, which resulted from an increase in corporate income tax collections, would not be repeated next year. Instead, the government anticipates a $12 million dollar deficit for the upcoming 2002-3 fiscal year.

As announced by press release on June 6, 2001, the Northwest Territories moved, effective January 1, 2001, to a personal tax-on-income system. The budget contained announcements of a number of changes to that system in the area of personal tax credits and changes to the existing territorial cost-of-living credit supplement.

TAX CHANGES

The Northwest Territories will change the amounts on which certain of its non-refundable personal tax credits are calculated. The changes will be effective July 1, 2002. The full year amounts on which the 2002 credits are based are as follows:

Tax credit	*Amount*	*Value in 2002*
Basic personal	$9,342	$673
Spousal	$8,766	$631
Age 65	$4,566	$329
Disability	$7,570	$545

In 2003, the increased amounts will be effective for the full year, and the amounts on which the 2003 credits are based will be as follows:

Tax credit	*Amount*	*Value in 2003*
Basic personal	$11,050	$796
Spousal	$11,050	$796
Age 65	$5,405	$389
Disability	$8,961	$645

Concurrent with the move to a personal tax-on-income system, the Northwest Territories established an Advisory Committee on Personal Income Taxation. One of the recommendations made by the committee was the provision of a minimum cost of living tax credit. Specifically, the committee recommended, and the government will implement, a credit providing low-income families with a minimum cost-of-living credit amount of $250 per taxfiler over the age of 18. The minimum credit of $250 per individual and $500 per couple will be based on household income and will be claimed by one spouse only. The budget documents indicate that the credit will be paid to eligible taxfilers in early 2003, when 2002 income tax returns are assessed.

TABLE 15 Financial Highlights—Northwest Territories

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Total revenue	901.9	1,031.1	924.4
Total expenditure	914.0	871.5	806.6
Surplus or deficit (–)	–12.1	159.6	117.8
Main revenue sources			
Personal income tax	46.5	41.8	60.4
Corporate income tax	263.9	483.3	102.7
Motive fuel tax	13.8	13.6	10.8
Federal government transfers	441.5	359.1	615.5
Principal expenditure functions			
Education, culture, and employment	210.4	200.2	180.1
Health and social services	223.5	227.9	186.5
Transportation	109.7	116.3	89.4

NUNAVUT

On April 30, 2002, Minister of Finance Kelvin Ng brought down a surplus budget for the Territory's 2001-2 fiscal year and forecast a surplus for the upcoming 2002-3 fiscal year, as shown in table 16. The good economic news allowed the minister to announce both individual and corporate tax cuts, as well as increases in several non-refundable personal tax credits. The only tax increase contained in the budget was an increase in tobacco taxes.

Tax Changes

Effective for the 2002 and subsequent taxation years, Nunavut's personal income tax brackets and rates are as follows:

Taxable income	*Tax rate*
$0-$31,677	4.0%
$31,678-$63,354	7.0%
$63,355-$103,000	9.0%
Over $103,000	11.5%

A number of non-refundable personal tax credits will also be increased. The basic personal credit increases from $7,634 to $10,000; the spousal or equivalent-to-spouse credit, from $6,483 to $10,000; the age credit, from $3,728 to $7,500; and the long-term disability credit, from $6,180 to $10,000. Nunavut has also increased its cost-of-living credit: the maximum credit is raised from $645 to $750.

TABLE 16 Financial Highlights—Nunavut[a]

	2002-3 (est.)	2001-2 (prelim.)
	millions of dollars	
Total revenue	745.5	765.0
Total expenditure	743.9	714.3
Surplus or deficit (–)	1.6	50.7
Main revenue sources		
Personal income tax	10.2	10.3
Corporate income tax	1.5	1.6
Motive fuel tax	4.0	3.3
Federal government transfers		
Formula financing arrangement	632.6	655.0
Other	49.2	52.4
Principal expenditure functions		
Education	172.0	180.6
Health and social services	159.9	151.6
Community government and transportation	86.8	92.3

[a] The data for 2000-1 are not available.

Corporations will also benefit from tax rate reductions for 2002 and subsequent years. The general corporate rate is reduced from 14 percent to 12 percent, and the small business rate is reduced from 5 percent to 4 percent.

Finally, tobacco taxes are increased, effective midnight budget day, from 12.6 cents to 15.6 cents per cigarette, or $6.00 per carton of cigarettes.

YUKON

The Yukon operations and maintenance budget for the 2002-3 fiscal year was brought down by Minister of Finance Pat Duncan on April 4, 2002. The minister announced that the Territory would run a deficit for both the fiscal year ended March 31, 2002 and the upcoming 2002-3 fiscal year, as outlined in table 17.

Tax Changes

The only tax change announced in the budget was an increase in the Territorial tobacco tax of 4 cents per cigarette, or $1.00 per package of 25 cigarettes.

TABLE 17 Financial Highlights—Yukon

	2002-3 (est.)	2001-2 (prelim.)	2000-1
		millions of dollars	
Total revenue	529.2	542.0	552.6
Total expenditure	570.7	591.3	517.4
Surplus or deficit (–)	–41.5	–49.3	35.2
Main revenue sources			
Personal income tax	30.2	29.0	37.1
Corporate income tax	4.5	9.7	8.4
Motive fuel tax	6.4	6.2	5.8
Federal government transfers			
Formula financing arrangement	346.0	344.6	366.6
Other	78.1	80.5	71.1
Principal expenditure functions			
Education	102.7	109.1	98.8
Health and social services	140.4	144.5	134.7
Infrastructure	114.8	119.5	102.3