Budget Paper C

TAXATION ADJUSTMENTS

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Contents

Summary of 1998 Tax and Tax Credit Changes

	1998/99	Full Year
	(Millions of Dollars)	
Revenue Measures		
Personal Income Tax		
Tax rate reduction	(28.0)	(45.0)
Corporation Capital Tax		
Exemption increased	(0.8)	(2.0)
Motive Fuel Tax (Diesel)		
Exemption for propane used in certain mining activities	(0.7)	(1.3)
Payroll Tax		
Tax rate reduction	(1.6)	(9.4)
Sales Tax		
Custom software and custom computer programming exemption	(5.0)	(5.0)
New home rebate for first-time buyers	(0.9)	(0.9)
Net Increase/(Decrease)	(37.0)[1]	(63.6)[1]

Expenditure Measure

Changes to the Manitoba Learning Tax Credit for 1998 and subsequent years will reduce the cost of the Credit from $17.35 million in 1997/98 to $15.0 million in 1998/99. This is reflected in the Estimates of Expenditure.

[1] Note: Manitobans will benefit by additional provincial income tax savings due to changes announced in the Federal Budget of February 24. For 1998/99, these additional savings are $14 million, bringing taxpayers' overall provincial savings to $51 million. In 1999/2000, the effect of the federal changes is estimated at $16 million, increasing taxpayers' total provincial savings to approximately $80 million, of which $61 million will be in personal income taxes.

■ PERSONAL INCOME TAX

(1998/99 Revenue Impact: $28.0 million)

Reduction in Tax Rate

Manitoba's basic Personal Income Tax rate, currently 52% of basic federal tax, will be reduced to 51% of basic federal tax for the 1998 tax year, and further reduced to 50% of basic federal tax on January 1, 1999. Income tax source deductions will be adjusted effective July 1, 1998, with tax withholdings reflecting a rate of 50% of basic federal tax for the balance of 1998.

This change will save Manitoba taxpayers $22.4 million for the 1998 tax year, and $45.0 million per year in 1999 and subsequent years.

The impact on provincial revenue for fiscal 1998/99 is $28.0 million.

The tables below show typical Manitoba income tax savings for Manitobans at various income levels for 1998 and 1999 tax years. The savings incorporate the reductions in Manitoba tax associated with the changes to federal basic tax announced in last month's federal Budget. Combined Manitoba and federal income tax savings are also shown.

SINGLE TAXFILER

	1998			1999		
Income	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings
$10,000	22	9.0	69	43	17.7	123
$15,000	21	2.4	76	42	4.9	112
$20,000	21	1.4	85	42	2.9	106
$30,000	38	1.5	150	75	2.9	188
$40,000	63	1.5	188	126	2.9	314
$50,000	89	1.5	181	178	3.0	395
$60,000	115	1.5	115	230	3.0	290
$75,000	159	1.5	159	317	3.0	317
$100,000	231	1.5	231	462	3.0	462

In this table, it is assumed that the taxfiler has employment income and pays Canada Pension Plan and Employment Insurance premiums at relevant rates. This taxfiler has no Manitoba Personal Income Tax liability up to $8,220 of income in 1998, and up to $8,391 of income in 1999. Savings are relative to the pre-1998 Budget tax levels.

FAMILY OF FOUR

	1998			1999		
Income	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings
$20,000	45	35.2	145	88	69.5	253
$25,000	44	5.9	152	87	11.8	242
$30,000	44	3.2	159	87	6.3	233
$40,000	54	1.7	179	107	3.4	268
$50,000	80	1.6	205	159	3.1	398
$60,000	106	1.5	106	212	3.0	326
$75,000	149	1.5	149	299	3.0	299
$100,000	222	1.5	222	444	3.0	444

In this table, it is assumed that the taxfiler has employment income and pays Canada Pension Plan and Employment Insurance premiums at relevant rates. For tax purposes, the married taxfiler has a wholly-dependent spouse and two dependent children. This taxfiler has no Manitoba Personal Income Tax liability up to $19,331 of income in 1998, and up to $19,685 of income in 1999. Savings are relative to the pre-1998 Budget tax levels.

SENIOR COUPLE

	1998			1999		
Income	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings	Manitoba $ Savings	Manitoba % Savings	Manitoba & Federal $ Savings
$25,000	32	13.0	103	63	25.6	182
$30,000	32	3.6	111	63	7.1	173
$40,000	41	1.6	163	81	3.2	204
$50,000	69	1.5	194	139	3.0	346
$60,000	96	1.5	147	191	3.0	368
$75,000	131	1.5	131	262	3.0	262
$100,000	197	1.5	197	394	3.0	394

In this table, it is assumed that the senior citizen couple each receive Old Age Security Pension; the principal taxfiler also receives private pension and interest income, and claims the other senior as a dependent. This couple has no Manitoba Personal Income Tax liability up to $22,977 of combined income in 1998, and up to $23,285 of combined income in 1999. Savings are relative to the pre-1998 Budget tax levels.

■ MANITOBA LEARNING TAX CREDIT

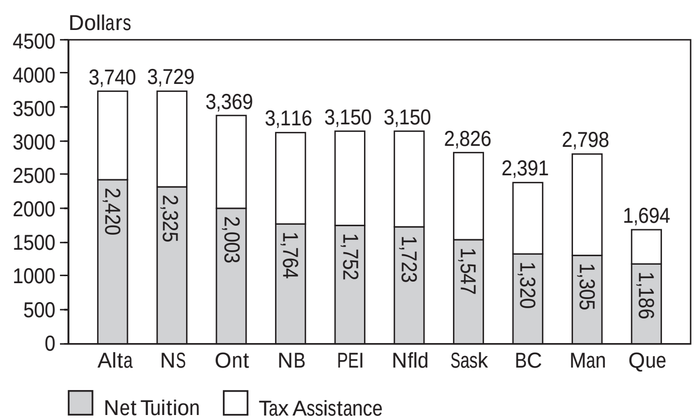
(1998/99 Expenditure Impact: $2.35 million)

The Manitoba Learning Tax Credit, introduced in 1996, provides refundable assistance to post-secondary students or their families based on the monthly education amount, and eligible tuition and ancillary fees paid to colleges, universities and technical training centres. Eligible tuition fees are those claimed in the year for the federal non-refundable tax credit, and may include tuition paid to institutions in other jurisdictions.

Effective for the 1998 and later taxation years, the Manitoba Learning Tax Credit will be available on a maximum of $10,000 of eligible amounts (tuition, ancillary fee, and education amount) per student, and the rate of the credit will be adjusted from 10% to 7% of eligible amounts. Together, these changes will reduce the cost of the Manitoba Learning Tax Credit from the $17.35 million budgeted last year to $15.0 million in benefits in 1998/99.

Overall, Manitoba Government support for post-secondary education will increase by more than $20 million in 1998/99. Of this sum, almost $6 million will be delivered in enhanced direct student support, including bursaries, scholarships, loan interest rate relief and debt reduction; and $10 million in additional operating grants to Manitoba universities and colleges. The balance of the increased support is through Manitoba's reduced income taxes, which result from the expanded education amounts and other tax relief for students announced in last month's federal Budget. These initiatives are designed to better target available resources. No other province provides the same level of support to students through the tax system.

Average University Tuition Before and After Income Tax Considerations



Tax Assistance based on 1998 tax year, for a family with $60,000 of income, supporting a post-secondary student. It includes provincial and federal income tax savings and, for Manitoba, the Learning Tax Credit. The family consists of the taxfiler, dependent spouse, two dependent children under 18, and the student who is over 18. Average tuition is for 1997/98.

Source: Council on Post-Secondary Education, October 1997 and Manitoba Department of Finance

Inquiries regarding the Personal Income Tax reduction and changes to the Learning Tax Credit should be directed to:

Manitoba Tax Assistance Office
309 - 401 York Avenue
Winnipeg, Manitoba
R3C 0P8

Telephone: (204) 943-3401 in Winnipeg

Toll Free: 1-800-782-0771

■ CORPORATION CAPITAL TAX

(1998/99 Revenue Impact: $0.8 million)

Exemption increased to $5 Million

The Corporation Capital Tax exemption will be increased from $3 million of taxable capital to $5 million effective for taxation years ending after January 1, 1999.

The increase in this exemption will eliminate the tax for about 900 of the 4,000 corporations presently paying the Corporation Capital Tax.

This measure will reduce revenue by about $2.0 million on a full-year basis.

The Corporation Capital Tax exemption was increased from $1 million to $2 million in 1994, and increased again to $3 million in 1998.

■ MOTIVE FUEL TAX

(1998/99 Revenue Impact: $0.7 million)

An exemption from Motive Fuel Tax will be allowed on propane fuel used in drying mineral ore concentrates, and for heating processing plants and underground mines.

This exemption will reduce motive fuel tax revenue by about $1.3 million on a full-year basis.

This measure takes effect October 1, 1998.

■ PAYROLL TAX

(1998/99 Revenue Impact: $1.6 million)

Rate reduction

The Health and Post Secondary Education Tax Levy (Payroll Tax) rate will be reduced from 2.25% of taxable payroll to 2.15% of taxable payroll effective January 1, 1999.

This measure will cut payroll taxes by about $9.4 million on a full-year basis.

Since 1988, the payroll tax exemption was increased four times, from $100,000 of annual payroll to $300,000 effective for 1989; to $600,000 for 1990-1993; to $750,000 for 1994-1997; and to $1,000,000 from January 1, 1998. Over this period, the tax has been eliminated for 6,200 or 78% of the 8,000 employers who paid this tax in 1988. Of the 1,800 employers who now pay this tax, 200 pay at a reduced rate. More than 95% of Manitoba's 43,000 employers are not required to pay the payroll tax.

■ SALES TAX

(1998/99 Revenue Impact: $5.9 million)

Custom-developed software and custom computer programming

Custom-developed software and custom computer programming services will be exempted from sales tax effective midnight tonight. This change will help Manitoba businesses cope with the substantial costs associated with the Year 2000 computer problem, and will place Manitoba businesses on a level playing field with businesses in other provinces.

This exemption is expected to reduce sales taxes by about $5.0 million per year.

Pre-written software will continue to be taxable.

New home rebate program extended

The sales tax rebate for first-time buyers of a new home in Manitoba is extended for another twelve months. First-time buyers of a new (never occupied) home purchased before April 1, 1999 will be eligible for a rebate of the provincial sales tax paid on the materials used in the construction of their home. The maximum rebate is $2,500.

The rebate will be payable after the owner has occupied the home. Rebates will be prorated for homes purchased in the period of eligibility which are occupied after March 31, 1999 and before August 1, 1999. Eligibility for this program will be determined by application to the Taxation Division of the Department of Finance.

From its inception in 1994 to January 31, 1998, a total of $2.65 million has been rebated to more than 1,200 homebuyers qualifying under the program.

The program is expected to rebate $900,000 in the 1998/99 fiscal year.

■ TECHNICAL AMENDMENTS

Amendments to various taxation statutes will be made as part of the Statute Law Amendment (Taxation) Act, 1998. These amendments include:

- clarifying Retail Sales Tax provisions pertaining to trade-ins and tax on purchases;
- providing for vehicles purchased from a registered leasing company to be treated the same for sales tax as a vehicle purchased from a motor vehicle dealer;
- clarifying Corporation Capital Tax provisions pertaining to loan corporations, goodwill allowances, and investment allowances, to enhance compliance and to be in step with other jurisdictions; and
- clarifying the definition of debtor under various taxation statutes.

Inquiries regarding Sales Tax, Corporation Capital Tax, Motive Fuel Tax and Payroll Tax should be directed to:

Taxation Division
Department of Finance
415 - 401 York Avenue
Winnipeg, Manitoba
R3C 0P8

Telephone: (204) 945-5603 in Winnipeg
(204) 726-6153 in Brandon

Toll Free: (Winnipeg) 1-800-782-0318
(Westman Region) 1-800-275-9290

Interprovincial Comparison of Major Tax Rates, 1987 and 1998

	BC 1987	BC 1998	Alta* 1987	Alta* 1998	Sask 1987	Sask 1998	Man** 1987	Man** 1998	Ont 1987	Ont 1998
Personal Income Tax (A,B)	51.50	50.50	46.50	44.00	50.00	50.00	**54.00**	**51.00**	50.00	45.00
Flat Income Tax (C)	—	—	1.00	0.50	1.50	2.00	**2.00**	**2.00**	—	—
Surtax	No	Yes	Yes	Yes	Yes	Yes	**Yes**	**Yes**	Yes	Yes
Top Marginal Rate (D)	52.53	54.17	53.09	45.60	55.74	51.95	**58.05**	**50.11**	52.53	50.90
Corporation Income Tax (E)										
Small	11.00	9.00	5.00	6.00	10.00	8.00	**10.00**	**9.00**	10.00	9.50
Large	15.00	16.50	15.00	15.50	17.00	17.00	**17.00**	**17.00**	15.50	15.50
Capital Tax (F)	0.00	0.30	—	—	0.50	0.60	**0.30**	**0.30**	0.30	0.30
Banks	0.00	1.00	0.00	2.00	3.00	3.25	**3.00**	**3.00**	0.80	1.12
Employer Payroll Tax	—	—	—	—	—	—	**2.25**	**2.25**	0.00	1.95
Small Firms (G)	—	—	—	—	—	—	**2.25**	**0.00**	0.00	0.00
Health Care Premiums ($)	456	864	432	816	—	—	—	—	714	0.00
Sales Tax (H)	6.00	7.00	—	—	7.00	7.00	**7.00**	**7.00**	7.00	8.00
Diesel Fuel (¢/l) (I)	8.08	11.50	5.00	9.00	7.00	15.00	**9.90**	**10.90**	9.90	14.30
Gasoline (¢/l) (I)	7.64	11.00	5.00	9.00	7.00	15.00	**8.00**	**11.50**	8.30	14.70
Tobacco Tax (¢/cigarette)	3.88	11.00	4.00	7.00	4.68	8.40 (L)	**4.60**	**8.00** (L)	2.83	2.35 (L)

Tax went up Tax went down — Not applicable

All figures are percentages unless otherwise indicated.

* These provinces have presented 1998/99 budgets.

** **Manitoba will reduce its basic Personal Income Tax rate to 50% of basic federal tax on July 1, 1998. In addition, the employer payroll tax rate will decrease to 2.15% of payroll on January 1, 1999.**

(A) For 1999, the following basic rates have been announced: Manitoba 50%, Ontario 40.5% and New Brunswick 57.5%.Québec has its own provincially administered personal income tax system. All other provinces' personal income taxes are collected and administered by the federal government. They are shown here as percentages of basic federal tax.

(B) Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia provide tax reductions at low-income levels.

(C) Manitoba and Saskatchewan assess the flat tax on "net income," and Alberta assesses the flat tax on "taxable income."

(D) Top Marginal Rate is combined federal/provincial tax rate, including surtaxes, paid by taxpayers in the highest tax bracket.

(E) Some provinces apply special rates to certain types of business income.

(F) Manitoba imposes a 0.2% surtax on taxable paid-up capital in excess of $10 million. Saskatchewan applies a 3.6% surcharge on specified resource sales of large corporations. Banks and trust companies in British Columbia with paid-up capital in excess of $750 million pay at a rate of 3%.

Que 1987	Que 1998	NB* 1987	NB* 1998	NS 1987	NS 1998	PEI 1987	PEI 1998	Nfld 1987	Nfld 1998	
—	—	58.00	61.00	56.50	57.50	55.00	59.50	60.00	69.00	**Personal Income Tax** (A, B)
—	—	—	—	—	—	—	—	—	—	**Flat Income Tax** (C)
No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	**Surtax**
56.57	52.53	54.74	50.43	54.23	49.66	53.72	50.30	55.42	53.33	**Top Marginal Rate** (D)
										Corporation Income Tax (E)
3.22	5.75	9.00	7.00	10.00	5.00	10.00	7.50	10.00	5.00	**Small**
5.90	8.90	15.00	17.00	15.00	16.00	15.00	16.00	16.00	14.00	**Large**
0.48	0.64	0.00	0.30	0.00	0.25	—	—	—	—	**Capital Tax** (F)
0.97	1.28	2.00	3.00	1.50	3.00	0.00	3.00	2.00	4.00	**Banks**
3.22	4.26	—	—	—	—	—	—	0.00	2.00	**Employer Payroll Tax**
3.22	4.26	—	—	—	—	—	—	0.00	0.00	**Small Firms** (G)
—	—	—	—	—	—	—	—	—	—	**Health Care Premiums ($)**
9.00	7.50	11.00	8.00	10.00	8.00	10.00	10.00	12.00	8.00	**Sales Tax** (H)
12.45	16.20 (K)	8.00	13.70 (K)	9.10	15.40 (K)	10.40	13.50	12.10	16.50 (K)	**Diesel Fuel (¢/l)** (I)
14.40	15.20 (K)	8.40	10.70 (K)	8.70	13.50 (K)	8.90	13.00	9.80	16.50 (K)	**Gasoline (¢/l)** (I)
4.52	3.07 (L)	4.12	3.85 (L)	4.50	4.52 (L)	3.50	6.33	4.78	11.00 (L)	**Tobacco Tax (¢/cigarette)**

(G) Firms with payroll of $100,000 or less in Newfoundland, $300,000 ($400,000 in 1999) or less in Ontario, $1 million or less in Manitoba. Newfoundland's payroll tax is 1% in fishing, forestry and agriculture industries. Manitoba's payroll tax rate will decrease to 2.15% on January 1, 1999.

(H) Retail Sales Tax refers to general rate only. Québec and Prince Edward Island apply the sales tax on top of GST-inclusive prices.

(I) Petroleum taxes are for regular gasoline and highway diesel fuel. Gasoline and diesel are also subject to a transit levy of 4¢/litre in Vancouver, and 1.5¢/litre in Montréal and Victoria.

(K) QST applies to these rates in Québec; HST applies to these rates in New Brunswick, Nova Scotia and Newfoundland.

(L) These provinces also apply sales taxes to tobacco products.

1998 Comparison of Annual Personal Costs and Taxes

Single Person: $20,000	BC	Alta	Sask	**Man**	Ont
Provincial Income Tax	1,071	1,033	1,460	**1,127**	954
Retail Sales Tax	643	0	592	**639**	769
Health Premiums	432	408	0	**0**	0
Provincial Levies	2,146	1,441	2,052	**1,766**	1,723
Rent	8,064	6,132	5,112	**5,352**	8,220
Electricity	301	382	458	**320**	494
Transit Fares	648	576	480	**670**	996
Telephone	289	270	228	**215**	261
Living Costs	9,302	7,360	6,278	**6,557**	9,971
Total Costs	11,448	8,801	8,330	**8,323**	11,694

Family of 4: $40,000	BC	Alta	Sask	**Man**	Ont
Provincial Income Tax	2,709	2,560	3,530	**3,056**	2,414
Retail Sales Tax	1,136	0	1,047	**1,130**	1,264
Gasoline Tax	300	180	300	**230**	294
Health Premiums	864	816	0	**0**	0
Provincial Levies	5,009	3,556	4,877	**4,416**	3,972
Mortgage Costs	7,323	4,419	2,603	**2,534**	6,222
Property Tax	1,044	1,148	1,600	**1,258**	1,800
Home Heating	475	611	621	**846**	676
Auto Insurance	1,402	1,150	862	**987**	1,475
Electricity	561	658	773	**552**	862
Telephone	578	540	456	**430**	522
Living Costs	11,383	8,525	6,915	**6,607**	11,557
Total Costs	16,392	12,081	11,792	**11,023**	15,529

Family of 4: $60,000	BC	Alta	Sask	**Man**	Ont
Provincial Income Tax	5,347	5,052	7,218	**6,950**	4,864
Retail Sales Tax	1,418	0	1,299	**1,410**	1,609
Gasoline Tax	300	180	300	**230**	294
Health Premiums	864	816	0	**0**	0
Provincial Levies	7,929	6,048	8,817	**8,590**	6,767
Mortgage Costs	11,936	6,060	3,936	**4,469**	8,508
Property Tax	1,730	1,709	2,350	**2,493**	2,500
Home Heating	475	611	621	**846**	676
Auto Insurance	1,402	1,150	862	**987**	1,475
Electricity	734	842	960	**707**	1,108
Telephone	578	540	456	**430**	522
Living Costs	16,855	10,912	9,185	**9,932**	14,788
Total Costs	24,784	16,960	18,002	**18,522**	21,555

Que	NB	NS	PEI	Nfld	**Single Person: $20,000**
1,354	1,294	1,220	1,262	1,463	Provincial Income Tax
844	991	998	842	973	Retail Sales Tax
0	0	0	0	0	Health Premiums
2,198	2,285	2,218	2,104	2,436	Provincial Levies
5,172	5,736	6,072	5,160	5,748	Rent
348	468	504	556	486	Electricity
540	504	660	560	600	Transit Fares
261	245	300	267	239	Telephone
6,321	6,953	7,536	6,543	7,073	Living Costs
8,519	9,238	9,754	8,647	9,509	Total Costs

Que	NB	NS	PEI	Nfld	**Family of 4: $40,000**
1,960	3,272	3,084	3,192	3,701	Provincial Income Tax
1,525	1,767	1,780	1,498	1,747	Retail Sales Tax
399	214	270	260	330	Gasoline Tax
0	0	0	0	0	Health Premiums
3,884	5,253	5,134	4,950	5,778	Provincial Levies
3,386	3,238	4,487	2,836	2,850	Mortgage Costs
1,800	1,200	1,300	1,000	525	Property Tax
1,290	1,150	1,069	1,131	1,298	Home Heating
1,218	1,065	947	878	1,257	Auto Insurance
558	781	876	976	785	Electricity
522	491	600	534	479	Telephone
8,773	7,925	9,279	7,355	7,194	Living Costs
12,657	13,178	14,413	12,305	12,972	Total Costs

Que	NB	NS	PEI	Nfld	**Family of 4: $60,000**
6,658	6,459	6,088	6,410	7,306	Provincial Income Tax
2,141	2,379	2,396	2,014	2,355	Retail Sales Tax
399	214	270	260	330	Gasoline Tax
0	0	0	0	0	Health Premiums
9,198	9,052	8,754	8,684	9,991	Provincial Levies
5,249	4,466	5,672	5,079	5,460	Mortgage Costs
2,300	1,522	1,988	1,800	1,100	Property Tax
1,290	1,150	1,069	1,131	1,298	Home Heating
1,218	1,065	947	878	1,257	Auto Insurance
712	990	1,128	1,256	997	Electricity
522	491	600	534	479	Telephone
11,291	9,684	11,404	10,678	10,590	Living Costs
20,489	18,736	20,158	19,362	20,581	Total Costs

NOTES

Taxes, charges and living costs are based on information available on February 16, 1998, for the following major urban centres in each province: Vancouver, Calgary, Regina, Winnipeg, Toronto, Montréal, Halifax, Fredericton, Charlottetown and St. John's.

Provincial Income Tax is calculated for a single renter with $20,000 employment income, and two homeowners with $40,000 and $60,000 of employment income, respectively. Families include one income earner, a spouse and two dependent children. Personal non-refundable credits used include the CPP/QPP and EI contribution credits. Gross Québec personal income tax has been reduced by the 16.5% abatement from federal income tax. Refundable sales tax credits or rental credits and provincial tax reductions have been deducted from income tax payable. Tax credits related to property taxes have been deducted from property taxes.

Retail Sales Tax is based upon an average expenditure basket at the selected gross income levels from the *Survey of Family Expenditures in 1992* (Statistics Canada).

Gasoline Tax is based on annual consumption of 2,000 litres; this includes the 4.0 cents per litre transit levy imposed in Vancouver, and the 1.5 cents per litre imposed in Montréal.

Health Premiums are annual premiums for hospital insurance and medical services, in provinces which levy them.

Mortgage Costs are based on one-half the average home prices for a standard townhouse for the family with $40,000 of income, and a standard two-storey for the family with $60,000 of income, per the *Royal LePage Summer 1997 Survey*, amortized over 25 years, at a five-year interest of 6.85%.

Rent is from Canada Mortgage and Housing Corporation's *Rental Market Survey, October 1997*, and is based on average one-bedroom apartment rents for each urban centre.

Auto insurance is based on a 1996 Taurus GL. Coverage includes $1 million third party liability, and $200 all perils deductible in Manitoba and Saskatchewan; $200 collision and comprehensive deductibles in British Columbia; $250 collision and comprehensive deductibles in Alberta, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland; $250 deductible collision and $100 deductible comprehensive in Québec; and $300 collision and comprehensive deductibles in Ontario. The driver is married, age 30, has been accident-free for seven or more years; the auto is driven to work (15km, one way). Rates for British Columbia, Saskatchewan and Manitoba supplied by Manitoba Public Insurance; rates in other urban centres are the average of between 10 and 12 of the larger insurers.

Transit Fares are based on adult (single zone) monthly pass rates in effect in January 1998. Fredericton and Charlottetown fares are based on adult tickets for 240 working days.

Home Heating charges are from Canada Mortgage and Housing Corporation's *Canadian Housing Markets, Third Quarter 1997*, which uses the average starter homes in metropolitan areas. For New Brunswick, Saint John data was used in lieu of Fredericton data, which was not available.

Electricity charges are based on annual consumption of 9,000 kWh and 12,000 kWh respectively for the families at $40,000 and $60,000 of income; 4,500 kWh of usage for the tenant. Bill calculations for Regina, for a single person and for a family at $40,000 of income, includes a Reconstruction Charge for SaskPower. Rates do not include municipal taxes or charges, and are based on residential rates in effect from May 1997.

Telephone charges are the basic service rates for individual residences. The single taxfiler uses a single phone; the families use two telephone lines.

Sums may not add due to rounding.

■ TAX ON INCOME PROPOSAL SUMMARY

Income taxation is a shared taxation field under the Constitution. However, the federal government exerts a significant control over income tax policy and administration in Canada. Under the federal-provincial tax collection agreements in place today, Revenue Canada administers and collects both governments' personal income taxes in all provinces except Québec.

This arrangement offers taxpayers several important benefits, including:

- a common definition of taxable income;
- a common set of deductions and credits such as Registered Retirement Savings Plans, child care expenses, tuition, medical expenses and charitable donations;
- a common set of rules to determine the tax paying unit (including who must file and who can be claimed as a dependent) and matters like residency; and
- a single tax administration agency which generally allows Manitobans to file only one annual income tax return for both federal and provincial income tax purposes.

Our Government is committed to preserving these positive aspects of the current system which provide important benefits to taxpayers.

Over the last several decades, provincial governments' responsibilities for delivering public services have grown significantly. Individual provinces' circumstances — income levels, demographics and economies — vary significantly across Canada. Provinces require the flexibility to tailor their tax systems to the various challenges faced in each province.

However, adapting the existing Personal Income Tax system to the unique needs of each province has proven increasingly cumbersome. The current taxation agreements require provinces to use the basic federal tax as the base on which their own income tax is levied. This arrangement is known as tax on tax. As a result, provincial income taxes are automatically tied to the federal government's tax decisions.

Almost every federal budget introduces changes to the Personal Income Tax system that automatically impact provincial as well as federal revenues. Too often, these changes are made unilaterally by the federal government with minimal consultation or agreement from provinces. The income tax reform of 1988 illustrates this concern. At that time, the federal government introduced numerous changes which reduced the basic federal tax, and automatically reduced provincial Personal Income Tax revenues. Then in 1989, the federal government imposed new surtaxes on individuals in a manner explicitly designed to ensure provincial tax revenues did not increase.

To address these concerns, some provinces have indicated that they would consider creating their own, independent, provincial income tax system. This would require taxpayers to file two returns. It would increase deduction and remittance requirements for all employers, and jeopardize the other benefits of the tax collection agreements.

A much better alternative, in our Government's view, is to change the tax collection agreements to allow provinces to levy tax directly on taxable income. The "tax on income" approach is not a new concept. In fact, Manitoba was one of the first proponents of this approach. In the 1989 Manitoba Budget, our Government proposed "applying provincial tax rates directly on taxable income in much the same way as federal taxes are calculated."

Last December, Finance Ministers reviewed a proposal that would permit provinces to levy Personal Income Tax directly on taxable income, rather than as a percentage of basic federal tax. Under this approach, provinces could, if they chose, implement a schedule of rates applied to taxable income. They would also be allowed to institute, with some restrictions, additional non-refundable credits. This tax on income approach would preserve the benefits of the current system, most importantly, a single tax administrator.

Our Government believes the proposal would provide Manitoba with the flexibility it has sought in the past but in a more transparent, direct fashion. The tax on income proposal would:

- simplify the way personal income taxes are calculated and allow Manitoba to abolish the net income tax and surtax;
- allow Manitoba to set provincial tax brackets directly;
- allow Manitoba to co-ordinate tax and other policies more effectively;
- improve transparency and help taxpayers identify more readily the taxes imposed by each order of government; and
- preserve the tax collection agreements, the common tax base (taxable income), and common rules in all provinces and territories, except Québec.

The tax on income approach will not entirely eliminate the impact of federal tax changes on provincial income taxes. For that reason, provinces are also pressing the federal government to co-operate in developing a process that ensures meaningful provincial input into decisions that affect the shared income tax base.

Discussions with the federal government indicate that a tax on income system will be generally available to provinces for the 2001 taxation year. The public is invited to provide input as discussions between the federal government and provinces proceed.

Does the proposal mean higher taxes?

The proposal does not mean higher taxes. Manitoba's base tax, flat tax and surtax will be replaced with a straightforward set of brackets and rates that would generate the same revenue that the present system does. One of our Government's key objectives is to keep Manitoba's taxes competitive and leave more money in the hands of Manitobans. We have committed not to increase Personal Income Tax rates. In fact, *The Balanced Budget, Debt Repayment and Taxpayer Protection Act* prohibits income tax increases unless Manitobans give their approval in a referendum.

Will the new system be more complex?

The new system will not be more complex. The benefits of the current system, such as a single annual income tax return and one administration agency, would be retained. The tax on income approach would also mean the elimination of the 2% flat tax and surtax, which apply to net income, and would simplify the Manitoba Tax Reduction. Refundable provincial tax credits, such as the Manitoba Property and Cost of Living Tax Credits, would not be affected by the new structure.

When would Manitoba move to a tax on income system?

Manitoba would not move to a tax on income system before 2001. This timeframe allows interested individuals and organizations time to familiarize themselves with the proposal and to provide meaningful input. More detail on the tax on income proposal will be released later this year.