

## Canadian tax alert

### 2016-2017 Newfoundland and Labrador budget highlights



On April 14, 2016, Finance Minister and President of the Treasury Board, the Honourable Cathy Bennett, presented the 2016 Newfoundland and Labrador budget, “Restoring Fiscal Confidence and Accountability”.

The government estimates that the forecasted deficit for 2015–2016 will be \$2.2 billion against a previously budgeted \$1.1 billion deficit. This is largely due to the continued decline in offshore oil royalties from both decreased production and the large drop in commodity prices. The budget has various measures designed to increase annual revenue and reduce expenditures such that the government is targeting a small surplus by 2022–2023, as opposed to a deficit of \$1.9 billion if no action was taken. The measures include changes to personal income tax, corporate income tax, the harmonized sales tax (HST), gasoline tax, retail sales tax, and tobacco tax. As well, the budget will adjust approximately one third of all of the various fees that the government collects, with an expected annualized revenue of \$19.3 million.

The budget is robust - as expected - with measures that affect every person living in Newfoundland and Labrador. This is a direct consequence of the falling commodity prices and uncertainty about levels of oil revenues in the future.

The following is a summary of the tax highlights contained in the budget.

## Measures concerning business

### Corporate income taxes

The general corporate income tax rate will increase from 14% to 15%, retroactive to January 1, 2016. There was no change to the small business rate and it remains at 3%.

The manufacturing and processing profits tax credit has been eliminated, effective January 1, 2016. This credit allowed companies that were engaged in manufacturing and processing from a permanent establishment in Newfoundland and Labrador to be eligible for a reduced tax rate on a portion of their taxable income.

### Financial corporations capital tax

The financial corporations capital tax rate will increase from 5% to 6%. This measure will be retroactive to January 1, 2016. This tax applies to banks and loan and trust companies with permanent establishments in Newfoundland and Labrador.

### Insurance companies tax

The insurance companies tax will increase from 4% to 5%, effective July 1, 2016. This tax applies to premiums generated by insurance companies in Newfoundland and Labrador.

## Measures concerning individuals

### Personal income tax

The budget introduces tax rate increases across all five income brackets for both the 2016 and 2017 taxation years, as follows:

Income Bracket	Current tax rate	2016 tax rate	2017 tax rate
\$0 - \$35,148	7.7%	8.2%	8.7%
\$35,149 - \$70,295	12.5%	13.5%	14.5%
\$70,296 - \$125,500	13.3%	14.55%	15.8%
\$125,501 - \$175,700	14.3%	15.8%	17.3%
Over \$175,700	15.3%	16.8%	18.3%

The dividend tax credit rate will be reduced from 4.1% to 3.5% for non-eligible dividends received on or after July 1, 2016.

The budget introduces a “temporary deficit reduction levy” that will be applied to individuals based on the amount of taxable income they earn. The levy, which is progressive based on 10 income brackets starting at \$20,000, will reach the maximum amount of \$900 when taxable income exceeds \$202,500. Individuals with taxable income of less than \$20,000 will be exempt from the levy. The levy will come into effect on July 1, 2016 and may begin to be phased out over three years beginning in 2018 if the government is on target with its seven-year plan to return to surplus.

## Sales tax measures

### Harmonized sales tax

The HST rate will increase from 13% to 15%, effective July 1, 2016. This increases the provincial portion of the HST from 8% to 10%.

### **Retail sales tax**

The budget brings back the retail sales tax on insurance premiums, beginning July 1, 2016. The tax will be 15% on insurance premiums for property and casualty insurance policies. The retail sales tax on used vehicles will increase from 14% to 15%, effective July 1, 2016.

### **Other tax measures**

#### **Gasoline tax**

Gasoline tax will temporarily increase by 16.5 cents per litre, effective June 2, 2016. There will be a review of this increase ahead of the fall 2016 supplemental budget. Also effective June 2, 2016 will be a rebate of 10 cents per litre for gasoline used in motor vehicles in the Labrador Border Zones. The tax rate on diesel products will increase by 5 cents per litre. The tax rate on aviation fuel will increase from .7 cents per litre to 2.5 cents per litre, as of June 2, 2016. There will be no changes to taxes on home heating fuel.

#### **Tobacco tax**

As of April 15, 2016, the tax per cigarette will go up by one cent and the tax per gram of fine-cut tobacco will go up by two cents.

For further details, we refer you to the [Ministry of Finance website](#).



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