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Canadian tax alert

2018-2019 Saskatchewan budget highlights

April 10, 2018

The Minister of Finance, Donna Harpauer, tabled a budget that did not contain significant fiscal or tax moves for residents of Saskatchewan. It is the first budget after the departure of Brad Wall and with new Premier Scott Moe at the helm.

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

Fiscal/economic outlook

Unlike many provinces, the government projects a return to balanced budgets as of the 2019-2020 fiscal year. The current deficit for 2018-2019 is estimated to be $365 million.

The budget estimates that all government debt, including that of Crown corporations, will be $20 billion by March 2019. Current estimates of debt as a ratio of GDP for 2018 is 26.1% (this is the third lowest of Canadian provinces).

Noticeably absent from the Budget is any discussion of the impact of carbon taxes. Saskatchewan continues to hold out against the federal concept of a carbon tax. As the implementation of the federal tax is still as uncertain, it is not yet known how the federal rules would impact Saskatchewan coffers going forward.

The government expects employment to improve from 2017 when employment declined. However, no robust job growth is forecast (approximately 2,500 net job increase in 2018 and 4,600 in 2019).

There are several key indicators of importance as the province looks to continue to diversify its economy in the hopes of smoothing out the cycles experienced by any jurisdiction with significant royalty or resource revenues. For 2018, these include the following estimates:

- Population growth of 1.2%;
- Crop production of 34.4 million tonnes;
- 2,600 new oil wells drilled; and
- Potash sales at 12.5 million metric tonnes.

Personal tax measures

The tax rate reduction that was announced in the 2017-2018 budget will not continue as planned for the current year, and the second half of the 1% reduction in personal income tax rates will be stayed for the time being. In addition, there will be a small adjustment to the provincial dividend tax credit on non-eligible dividends to align with changes in the federal taxation of dividends.

A high-rate taxpayer in Saskatchewan will be taxed at marginal rate of 47.5% (when combined with federal income tax rate) on employment income and interest income. In comparison, Alberta's highest marginal tax rate is 48% and Ontario's is 53.5%.

Saskatchewan will not mirror the federal changes in the consolidation of caregiver income tax credits, but will maintain the existing provincial Infirm Dependent Tax Credit and Caregiver Tax Credit regimes.

Business tax measures

Small businesses will be able to earn $600,000 of taxable income subject to the small business rate of 2% – up from $500,000 – effective January 1, 2018.

There was no amendment to the previously announced rollback of the general corporate rate to 12%.

The budget proposes two incentives to stimulate the economic diversification plan:

- For the agriculture sector, a Saskatchewan Value-added Agriculture Incentive (SVAI) will provide a 15% non-refundable provincial tax credit on qualifying farm capital expenditures. Eligible activities will involve transforming an existing agricultural product or waste from farming into a new marketable product. The government provides several examples, including processing pea protein or cannabis oil (i.e., a new product from another farm product). The capital expenditures must reach $10 million and there is a detailed application and rebating process.

- Investors in new technology may also qualify for a non-refundable tax credit equal to up to 45% of the expenditure in an eligible small business. The Saskatchewan Technology Start-up Incentive is intended for Saskatchewan headquartered companies with fewer than 50 employees that is developing new technology (or creating a new product from existing technology). The business must go through an application process in order to be eligible to issue the tax credit to investors.

Indirect tax measures

The Saskatchewan provincial sales tax rate remains unchanged at 6%.

Elimination of the exemption for eligible used light vehicles

Effective April 11, 2018, the provincial sales tax (PST) exemption for eligible used light vehicles (such as cars, sport utility vehicles, light vans and light trucks of one ton or less) is eliminated.

Saskatchewan is also reintroducing the trade-in allowance that was eliminated in the 2017-2018 budget. Effective April 11, 2018, when trading a vehicle, PST is paid only on the difference in the price between the value of the trade-in and the total selling price of the vehicle being purchased. This will be the case regardless of whether or not the purchased vehicle or the traded vehicle is a light vehicle.

Changes to the credit for private sales of vehicles

Individuals purchasing a used vehicle privately for personal or farm use were previously permitted to deduct $3,000 from the purchase price for PST calculation. The budget converts this deduction to a $5,000 exemption, which creates a PST exemption for the private sale of used vehicles with a purchase price of up to $5,000. However, PST will apply fully to vehicles with a purchase price of more than $5,000. Vehicles registered for commercial use, as well as dealer sales of used vehicles, are fully taxable. This amendment is effective April 11, 2018.

Elimination of the PST exemption for ENERGY STAR® appliances

Effective April 11, 2018, the PST exemption for ENERGY STAR® certified refrigerators, freezers, dishwashers, clothes washers, residential furnaces, boilers and ground and air source heat pumps is eliminated.

Cannabis tax

Saskatchewan intends to enter into a two year agreement with the federal government regarding the taxation of cannabis. Under the agreement, Saskatchewan will receive 75% of the federal excise tax revenue on cannabis generated in Saskatchewan. The province will also receive a proportionate share of any revenue generated in Canada above the $100 million cap on the federal revenues from the cannabis excise tax. PST will also apply to all retail sales of cannabis products in Saskatchewan. In addition, for sales in Saskatchewan, the excise tax rate will be increased to account for the differentials in interprovincial sales tax rates, and the federal government will pass on this revenue to Saskatchewan.

The budget does not incorporate any revenue from the sale of cannabis in the fiscal year due to uncertainty with respect to the exact date of legalization and the size of the market.

For further details, we refer you to the Ministry of Finance website.

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