Meeting The Challenge
Provincial Budget 2017-18

REVENUE / TAX BACKGROUNDER

Budget 2017-18 introduces a number of revenue initiatives to address the fiscal challenges facing the province. These initiatives modernize and simplify many aspects of the provincial tax system and shift the revenue base away from its reliance on non-renewable resource revenues, while ensuring taxes remain fair and competitive. The Budget also supports the Government's Growth Agenda by reducing income tax rates and improving incentives for business investment in the province.

Provincial Sales Tax (PST)

The Budget increases the **PST rate** from 5% to 6%, effective March 23, 2017.This measure will increase revenue in 2017-18 by an estimated $242.1M.

The Budget also eliminates a number of PST exemptions. However, the Budget maintains many of the current PST exemptions for basic necessities, including basic groceries, heating fuels, residential electricity, prescription drugs and reading materials.

Expansions to the PST base

- **Children's clothing** will become taxable effective April 1, 2017, matching the current federal Goods and Services Tax (GST) treatment. This measure will eliminate a source of significant tax abuse and will result in tax compliance and administration efficiencies for retail businesses. This measure will increase 2017-18 PST revenue by an estimated $15.6M.
- **Restaurant meals and snack foods** will become taxable as of April 1, 2017, adding an estimated $94.5M to PST revenue and matching the tax treatment of most other jurisdictions.
- **Value of a trade-in allowance** will no longer be deductible in determining the PST on the purchase of vehicles that are new or have not been previously taxed in Saskatchewan. This measure takes effect as of April 1, 2017 and is expected to generate $17.8M in PST revenue.
- The Budget reforms the taxation of **contracts for the repair, renovation or improvement of real property**. New contracts entered into on or after April 1, 2017 will be subject to PST on the total contract price to the purchaser. However, contractors will now be eligible to acquire tax-free building materials for use in fulfilling a contract. This measure impacts residents and businesses and is expected to increase 2017-18 PST revenue by $344.6M.

- The PST base is expanded to **insurance premiums** effective for premium payment due dates on or after July 1, 2017. This measure impacts residents and businesses and is expected to increase PST revenue by $157.9M in 2017-18.
- The exemption for permanently mounted equipment in the oil and gas sector no longer effectively incents exploration and will be repealed, resulting in $16.7M in incremental PST revenue.

To help mitigate the impact of these PST changes on lower income residents, the Budget also provides a $34M enhancement to the Saskatchewan Low-Income Tax Credit. This refundable credit is administered by the Canada Revenue Agency and will take effect July 1, 2017.

<u>Other Tax Expenditure Changes</u>

In addition to the elimination of these PST exemptions, the Budget also makes changes to tax expenditures related to several other taxes.

- **Fuel tax exemption** for bulk purchases of gasoline is eliminated and for bulk purchases of marked diesel is reduced to 80% of the purchase (equal to a tax on marked diesel of 3¢/ litre), effective April 1, 2017. This measure impacts farmers and other primary producers and increases Fuel Tax revenue by $40.2M.
- The Personal Income Tax **credits for post-secondary tuition and education expenses** are being eliminated effective July 1, 2017, for $28.2M in revenue in 2017-18. In addition, the **Employee's Tools Tax Credit** is eliminated for the 2017 taxation year ($1M incremental revenue in 2018-19) and the **Labour-sponsored Venture Capital Tax Credit** rate will be reduced from 20% to 15% for the 2018 taxation year ($4M in 2019-20). Finally, **indexation** of the Personal Income Tax system is being suspended starting for the 2018 taxation year ($1.9M in 2017-18).
- The special provision which allows **credit unions** to apply the small business tax rate to income above the $500,000 small business income limit is being phased out over four years starting in 2017. This measure will increase revenue by $3.3M in 2017-18.

<u>Tax Rate Increases</u>

In addition to the increase to the PST rate, the Budget also increases:

- **Tobacco Tax** rates by 2¢ per cigarette effective March 23, 2017 ($10M in 2017-18);
- The **Corporation Capital Tax** rate on large financial institutions from 3.25% to 4.0% effective April 12, 2017 ($13M in 2017-18); and,
- **Liquor mark-ups** as of April 1, 2017 to generate an incremental $5M of revenue. Wholesale mark-up rates will increase 6.8% for most beer products, 6% per cent for most coolers, 5.3% for most wines and 4% for most spirits.

The Budget also adjusts the 2017 **Education Property Tax** mill rates to bring the contribution level to 40% of school funding, an increase of $54M (base growth provides a further $13M).

Economic Growth

The Budget also supports Saskatchewan's Growth Agenda by reducing provincial income tax rates and improving tax incentives to encourage innovation investments.

- **Personal Income Tax rates** will be reduced in half-point increments effective July 1, 2017 and July 1, 2019 to foster greater productivity and investment within the provincial economy. This change will save Saskatchewan taxpayers $82.2M in 2017-18.
- The **general Corporation Income Tax rate** will be reduced in half-point increments effective July 1, 2017 and July 1, 2019, saving Saskatchewan businesses $25.3M in 2017-18. This tax rate will be the lowest in the country; and Saskatchewan will also have the lowest tax rate on manufacturing and processing income in the country.
- The **Saskatchewan Commercial Innovation Incentive** will offer a 6% corporate income tax rate on income earned from the commercialization of qualifying intellectual property in Saskatchewan.
- Reforms to the **Research and Development Tax Credit**, effective April 1, 2017, will target smaller and medium-sized innovation companies with a refundable tax credit, while putting a cap on the existing non-refundable tax credit.
- In conjunction with the increase in the PST rate, the rate of the **Investment Tax Credit** for capital acquisitions for use in manufacturing and processing is increased to 6%, effective March 23, 2017, at a cost of $6M.

The revenue measures contained in the 2017-18 Budget provide increased revenue to fund important public services, while ensuring that Saskatchewan's taxes remain fair and competitive. They result in a greater reliance on consumption taxes and a shift away from income taxes and the more volatile non-renewable resource revenues. And they support the Government's Growth Agenda by reducing income taxes and improving incentives for investment in innovation development and commercialization by Saskatchewan businesses. These measures will help Saskatchewan to meet the current challenge.