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Tax Alert – Canada

Yukon budget 2017-18

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“Coming into office we understood that Yukon had a surplus budget. Yet, there was no surplus. There was a deficit.

“Decisions we make now will reverberate in decades to come. That is why our government will focus relentlessly on making decisions that are credible and stand up to scrutiny.”

*Yukon Premier and Minister of Finance Sandy Silver
2017-18 budget speech*

On 27 April 2017, Yukon Premier and Finance Minister Sandy Silver tabled the territory's fiscal 2017-18 budget. The budget contains corporate income tax rate reductions and tobacco tax rate increases.

The minister anticipates a deficit of \$8.3m for 2016-17 (down from a \$9.5m surplus projected in Budget 2016-17), but projects a surplus of \$6.5m for 2017-18 followed by substantial deficits in the next three fiscal years.

Following is a brief summary of the key tax measures.

Business tax measures

Corporate tax rates

The budget includes the following changes in the corporate tax rates effective 1 July 2017:

- ▶ The general corporate tax rate will decrease to 12% from 15%.
- ▶ The small-business corporate tax rate will decrease to 2% from 3%.

These rate reductions will be prorated for taxation years straddling the effective date, and are substantively enacted for financial reporting purposes as of 27 April 2017, given the introduction of Bill No. 3, *Budget Measures Implementation Act, 2017*, on that day.

No changes are proposed to be made to the manufacturing and processing tax rates.

The budget further states that while the government is committed to decreasing the small-business corporate tax rate to 0%, as promised during the 2016 general election, the reduction will be made once the government is convinced that it is the best action towards achieving its overarching goal of ensuring sound public finances.

No changes are proposed to the \$500,000 small-business limit.

Yukon's current and proposed corporate tax rates are summarized in Table A.

Table A: Corporate tax rates (based on a calendar year end)

	Current Yukon rates	Proposed rates 2017		Proposed rates 2018	
		Yukon	Federal and Yukon combined	Yukon	Federal and Yukon combined
Small-business manufacturing and processing tax rate	1.5%	1.5%	12.0%	1.5%	12.0%
Small-business tax rate	3.0%	2.5%	13.0%	2.0%	12.5%
General manufacturing and processing tax rate	2.5%	2.5%	17.5%	2.5%	17.5%
General corporate tax rate	15%	13.5%	28.5%	12.0%	27.0%

Personal tax

Personal income tax rates

The budget does not include any changes to the five personal income tax bracket rates. However, as a result of the corporate tax rate reductions, the Yukon dividend tax credit rates (as a percentage of a grossed-up dividend) are reduced from 15% to 12.02% for eligible dividends and from 3.14% to 2.30% for non-eligible dividends.

The 2017 Yukon personal tax rates are summarized in Table B.

Table B: Yukon personal tax rates 2017

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$45,916	\$45,917 to \$91,831	\$91,832 to \$142,353	\$142,354 to \$500,000	Above \$500,000
6.40%	9.00%	10.90%	12.80%	15%

For taxable income in excess of \$142,353, the 2017 and 2018 combined federal-Yukon personal income tax rates are outlined in Table C.

Table C: Combined federal and Yukon personal tax rates 2017 and 2018

2017 Bracket	Ordinary income*	Eligible dividends		Non-eligible dividends	
		2017	2018	2017	2018
\$142,354 to \$202,800	41.80%	19.29%	20.37%	32.92%	33.90%
\$202,801 to \$500,000	45.80%	24.81%	25.89%	37.60%	38.58%
Above \$500,000	48.00%	24.81%	28.92%	40.17%	41.16%

*The rate on capital gains is one-half the ordinary income tax rate.

Tobacco tax

The budget includes the following tobacco tax increases on cigarettes and loose tobacco:

- Increase from 21 cents per cigarette or gram to 25 cents, effective 1 July 2017, and to 30 cents, effective 1 April 2018

This tobacco tax rate will be indexed to inflation effective 1 January 2019.

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