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# Tax Alert – Canada Prince Edward Island budget 2018-19

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“Our plan, centred on people, prosperity and engagement, is succeeding for Islanders. We all have reason to be optimistic, given the resourcefulness and ingenuity of our people. However, we should never be complacent. The continuing commitment of our government is to support and invest in the people of Prince Edward Island and to work together to grow an economic and social prosperity that we all share in – now and in the future.”

*Prince Edward Island Finance Minister Heath MacDonald  
2018-19 budget speech*

On 6 April 2018, Prince Edward Island Finance Minister Heath MacDonald tabled the province's fiscal 2018-19 budget. The budget contains several tax measures affecting individuals and corporations.

The minister anticipates a surplus of \$1.2m for 2017-18 (up from \$600,000 projected in Budget 2017-18), a surplus of \$1.5m for 2018-19, and surpluses for the 2019-20 and 2020-21 fiscal years.

Following is a brief summary of the key tax measures.

## **Business tax measures**

### **Corporate tax rates**

No changes are proposed to the general corporate tax rate or the \$500,000 small-business limit.



The budget proposes to reduce the small-business corporate income tax rate by 0.5% to 4% in this fiscal year, with a commitment to reducing it further in future years (no further details were given and no effective date was specified).

In Table A below, we have shown the 0.5% reduction as if it is to take effect at the beginning of the calendar year, 1 January 2018, as indicated in discussions with government officials.

Prince Edward Island's current and estimated proposed future corporate income tax rates are summarized in Table A.

**Table A: Corporate tax rates**

	Current PEI rate	Estimated proposed rates			
		2018		2019	
		PEI	Federal and PEI combined	PEI	Federal and PEI combined
Small-business tax rate*, **, ***	4.50%	4.00%	14.00%	4.00%	13.00%
General corporate tax rate	16.00%	16.00%	31.00%	16.00%	31.00%

\* The small-business rate is prorated based on a 31 December year end.

\*\* On 24 October 2017, the federal government tabled a notice of ways and means motion to implement reductions in the small-business corporate income tax rate, which were announced on 16 October 2017. The federal small-business rate is reduced from 10.5% to 10.0% effective 1 January 2018 and will be further reduced to 9.0% effective 1 January 2019.

\*\*\* The table assumes, based on discussions with government officials, that the reduction is effective 1 January 2018, the beginning of the calendar year. If the reduction is effective after this date, the estimated 4.00% PEI small-business tax rate may be increased to a maximum of 4.50%, depending on the effective date of the change. The rates for 2019 do not take into consideration any potential future rate reductions by Prince Edward Island.

## Other business tax measures

The minister also proposed the following business tax measures:

- ▶ The government will introduce this year a Small Business Investment Grant that will provide companies with a 15% rebate on direct investments they make to improve their business of up to \$25,000, resulting in savings of up to \$3,750. No further details were provided.

## Personal tax

### Personal income tax rates

The budget does not include any changes to personal income tax rates, except an announcement that consequential changes will be made to the non-eligible dividend tax credit, resulting from the proposed change to the PEI small-business corporate income tax rate. No further details were provided.

The 2018 Prince Edward Island personal income tax rates are summarized in Table B.

**Table B: 2018 Prince Edward Island personal income tax rates**

First bracket rate	Second bracket rate	Third bracket rate
\$0 to \$31,984	\$31,985 to \$63,969	Above \$63,969
9.80%	13.80%	16.70%

In addition, there is a 10% surtax on provincial tax in excess of \$12,500.

For taxable income in excess of \$98,408, the 2018 combined federal-Prince Edward Island pre-budget personal income tax rates are outlined in Table C.

**Table C: Combined 2018 federal and Prince Edward Island pre-budget personal income tax rates**

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends**
\$98,409 to \$144,489	44.37%	24.56%	36.14%
\$144,490 to \$205,842	47.37%	28.70%	39.62%
Above \$205,842	51.37%	34.22%	44.26%

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

\*\*Pre-budget rate, see comment below.

The budget proposes that the dividend tax credit will be adjusted as a consequential amendment resulting from the change to the small-business corporate income tax rate (as described above). The rates in Table C do not reflect this proposal.

## Personal tax credits

This budget proposes changes to the following personal credits/amounts:

- ▶ Increase in the basic personal tax exemption by \$500 for the current taxation year and a further increase of \$500 effective 1 January 2019
- ▶ Increase in the spouse and equivalent-to-spouse amounts by a proportionate amount (no further details were provided)

## Harmonized sales tax

The minister announced that the provincial portion of the harmonized sales tax (HST) on the first block of residential electricity will be rebated directly on the electricity bills of Prince Edward Island households each month. The provincial portion of HST will also be rebated for these taxpayers on lower-emitting heat sources, such as firewood, pellets and propane through a point of sale credit or rebate.

## Other tax measures

### Carbon tax

Although the government announced that it will release its Climate Change Action Plan later this month, negotiations with the federal government are continuing for a made-in-

Prince Edward Island carbon pricing plan that will also ensure as much regional coherence as possible.

The expectation is that the carbon pricing plan will be confirmed later in 2018.

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