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Tax Alert – Canada

Prince Edward Island budget 2023-24

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“[T]he budget I present today has three key areas of focus: healthcare, housing, and affordability.”

“It’s a plan that is balanced and responsible.”

“The investments in this budget are purposely interconnected - with the ultimate goal of making lives better for all Islanders.”

*Prince Edward Island Finance Minister Jill Burridge
2023-24 budget speech*

On 25 May 2023, Prince Edward Island’s new Finance Minister, Jill Burridge, tabled the province’s fiscal 2023-24 budget. The budget contains several tax measures affecting individuals.

The minister anticipates a deficit of \$66.2m for 2022-23 and projects a deficit of \$97.6m for 2023-24, followed by further reduced deficits for each of the next two fiscal years (\$58.0m for 2024-25 and \$31.5m for 2025-26).

Following is a brief summary of the key tax measures.

Business tax measures

Corporate income tax rates

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

Prince Edward Island’s 2023 corporate income tax rates are summarized in Table A.

Table A - 2023 Prince Edward Island corporate income tax rates¹

	PEI	Federal and PEI combined
Small-business tax rate ²	1.00%	10.00%
General corporate tax rate ^{2, 3}	16.00%	31.00%

¹ The rates represent calendar-year-end rates unless otherwise indicated.
² The federal corporate income tax rates for manufacturers of qualifying zero-emission technology are reduced to 7.5% for eligible income otherwise subject to the 15% federal general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% federal small-business corporate income tax rate. These reductions are not reflected in the combined federal and Prince Edward Island rates above.
³ An additional tax applies to banks and life insurers at a rate of 1.5% on taxable income (subject to a \$100 million exemption to be shared by group members), effective for taxation years ending after 7 April 2022 (prorated for taxation years straddling this effective date).

Personal tax

Personal income tax rates

The minister proposes that, beginning in 2024, the current three brackets and personal income tax rates, plus the surtax, be replaced with a five-bracket system with higher bracket thresholds and lower rates in the current brackets, as outlined in Table B.

The minister also committed to review these brackets and rates on an annual basis.

Table B - 2023 and 2024 Prince Edward Island personal income tax rates

First bracket rate ¹		Second bracket rate		Third bracket rate		Fourth bracket rate	Fifth bracket rate
2023	2024 (Proposed)	2023	2024 (Proposed)	2023	2024 (Proposed)	2024 (Proposed)	2024 (Proposed)
\$0 to \$31,984	\$0 to \$32,656	\$31,985 to \$63,969	\$32,657 to \$64,313	Above \$63,969	\$64,314 to \$105,000	\$105,001 to \$140,000	Above \$140,000
9.80%	9.65%	13.80%	13.63%	16.70%	16.65%	18.00%	18.75%

¹ Following proposed changes in the budget to the low-income tax reduction and the basic personal amount (see below), individuals resident in Prince Edward Island on 31 December 2023 with taxable income up to \$16,321 will pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction will be clawed back for income in excess of \$20,750 until the reduction is eliminated, resulting in an additional 5% of provincial tax on income between \$20,751 and \$27,750. Similarly, individuals resident in Prince Edward Island on 31 December 2024 with taxable income up to \$17,127 will pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction will be clawed back for income in excess of \$21,500 until the reduction is eliminated, resulting in an additional 5% of provincial tax on income between \$21,501 and \$28,500.

As mentioned above, the current additional 10% surtax on provincial income tax in excess of \$12,500, which in effect is the equivalent of a fourth bracket rate of 18.37% on taxable income above \$100,661 (or \$101,101 if the proposed increase in the basic personal amount for 2023 is taken into account - see below), will be eliminated for 2024.

For taxable income in excess of \$106,717, the 2023 combined federal-Prince Edward Island personal income tax rates are outlined in Table C.

Table C - Combined 2023 federal and Prince Edward Island personal income tax rates

Bracket	Ordinary income ¹	Eligible dividends	Non-eligible dividends
\$106,718 to \$165,430	44.37%	24.56%	38.99%
\$165,431 to \$235,675 ²	47.69%	29.14%	42.80%
Above \$235,675	51.37%	34.22%	47.04%

¹ The rate on capital gains is one-half the ordinary income tax rate.

² The federal basic personal amount comprises two elements: the base amount (\$13,521 for 2023) and an additional amount (\$1,479 for 2023). The additional amount is reduced for individuals with net income in excess of \$165,430 and is fully eliminated for individuals with net income in excess of \$235,675. Consequently, the additional amount is clawed back on net income in excess of \$165,430 until the additional tax credit of \$222 is eliminated; this results in additional federal income tax (e.g., 0.32% on ordinary income) on net income between \$165,431 and \$235,675.

Personal tax credits and other amounts

This budget proposes changes to the following personal credits and other amounts:

- ▶ **Basic personal amount** - Increase from \$12,000 to \$12,750 in the basic personal amount for 2023, and to \$13,500 for 2024.
- ▶ **Low-income tax reduction** - Similar \$750 increases to the income threshold for the low-income tax reduction to \$20,750 for 2023 and \$21,500 for 2024.
- ▶ **Age credit amount** - Increase in the age credit amount and income threshold to, respectively, \$4,679 (from \$3,764) and \$30,879 (from \$28,019) for 2023, and to \$5,595 and \$33,740 for 2024.
- ▶ **Spousal and equivalent amounts** - Increase in the spouse or common-law partner amount, as well as in the amount for an eligible dependent, from \$10,192 to \$10,829 for 2023 and \$11,466 for 2024, and increase in the income threshold from \$1,020 to \$1,083 for 2023 and \$1,147 for 2024.
- ▶ **Children's wellness tax credit** - Increase in the children's wellness tax credit amount from \$500 to \$1,000 for 2024.

Other tax measures

Property tax

The budget proposes to reset assessment rates to levels equivalent to 2020 to prevent a sharp increase in 2024.

Tax on vaping products

The budget proposes that the provincial portion of a coordinated tax on vaping products for 2024 be as follows:

- ▶ \$1 per 2 ml(g), or fraction thereof, for the first 10 ml of vaping liquid (solids)
- ▶ \$1 per 10 ml(g), or fraction thereof, for volumes beyond 10 ml of vaping liquid (solids)

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