

MNP Tax Alert



2009 Saskatchewan Budget Summary

March 2009

Saskatchewan Region Tax

NORTH SK

Dave Boyko
306.664.8301

Les Wall
306.664.8306

Ron Friesen
306.664.8324

SOUTH SK

Viviane Barber
306.790.7906

Carol Hanney
306.790.7930

Cindy Heinrichs
306.770.3627

Wayne Paproski
306.790.7941

Finance Minister Rod Gantfoer delivered the provincial government's budget on March 18, 2009. Budget 2008's theme was "Ready for Growth" and the Budget 2009 theme of "Strong and Steady" builds on that theme and is intended to allow Saskatchewan to maintain its economic growth while being fiscally responsive to the needs of individuals and businesses under the current economic conditions.

The Budget forecasts revenues of \$10.6 billion and expenditures of \$10.2 billion for an anticipated surplus of \$425 million without any transfers to or from the "Growth and Financial Security Fund".

The Budget does not anticipate any further significant debt reductions this year in light of the \$2 billion of debt that was paid down last year. Anticipated debt at year end will be \$9 billion including the debt of the Crown Corporations.

Highlights of the key proposals and tax measures announced in Budget 2009 are summarized below.

Initiatives

EDUCATION PROPERTY TAX RELIEF

As promised during the last provincial election campaign, the provincial government will increase its share of funding for education from 51% (2008-2009) to 63% (for 2009-2010) and 66% (or 2010-2011). As part of this percentage increase, the province's funding to school divisions will increase by \$241 million. Essentially this proposal reduces the education portion of property tax paid by individuals and corporations. The changes are expected to provide the largest reduction in the education portion of property taxes in the province's history.

The percentage reduction in the amount of the education portion of each property

tax bill will depend on the assessed value of that property and the prior utilization of mill rate factors.

Examples of reductions in the education portion of property taxes will vary across the province and is estimated as follows:

| Region | Average Reduction |
|-------------------------|-------------------|
| Regina – Residential | 15% |
| Saskatoon – Residential | 9% |
| Rural – Residential | 36% - 51% |
| Agricultural Land | 56% |

In order to ensure fiscal equity and tax fairness across the province, Budget 2009 also proposes that the provincial government be responsible for setting province-wide education property tax rates (mill rates). These rates were previously set by the individual school boards. Additional funding for education over and above these province wide mill rate assessments will come from the General Revenue Fund.

AGRICULTURAL FUNDING INITIATIVES

Overall, the Ministry of Agriculture's budget for 2009-2010 is \$483 million (\$305 million in Budget 2008-2009) which benefits farmers and ranchers in Saskatchewan.

Most of this additional funding will be geared towards Risk Management Programs:

| | 2009-2010 (Million\$) |
|---------------------------------------|-----------------------|
| Crop Insurance | \$155 |
| 2009 AgriStability Program | \$160 |
| AgriInvest | \$ 39 |
| Move AgriStability admin to Saskatoon | \$ 22 |
| Total | \$376 |



Improvements to the 2009 Crop Insurance Program will cost \$20 million, while improvements to the AgriStability program will cost \$160 million and the AgriInvest program (the new NISA) will cost \$40 million.

MUNICIPAL FUNDING INITIATIVES

The Budget includes \$266 million for municipal financial assistance in 2009-2010. This is an increase of 39% over the 2008-09 Budget.

A new Municipal Operating Grants (MOG) program is proposed to replace the former Revenue Sharing Formula. The MOG program will help provide much needed operational assistance. In 2009-2010, it is anticipated that \$167 million will be distributed to the municipalities under the MOG, which amounts to a full 1% of the annual PST collected by the Province.

In addition, the Budget includes \$75 million for municipal capital investment, \$3 million for Transit Assistance for the Disabled, \$13 million for Grants in Lieu of Taxes, \$7 million for the Saskatchewan Assessment Management Agency, and \$60 million in the Federal Gas Tax Program for municipalities.

HEALTH FUNDING INITIATIVES

The total health budget for 2009-2010 is \$4.075 billion or 40% of the total provincial budget. This represents an increase of \$330 million (8.8%) from Budget 2008-2009 which will maintain health services for Saskatchewan residents.

The Budget also includes funding of \$200 million over 2 years for a new Children's Hospital in Saskatoon. \$153 million is provided to replace 13 long-term care facilities throughout the province. Further, regional health authorities will receive \$2.4 billion which is a 13% increase from Budget 2008-09.

The largest portion of funding (71% of the total health budget) goes toward paying health care providers including Doctor's, Nurses and Administrative staff.

HIGHWAYS AND INFRASTRUCTURE INITIATIVES

The total 2009-2010 Budget for Highways and Infrastructure is \$630 million or a 19% increase from Budget 2008-2009 and the largest transportation budget in Saskatchewan's history.

Key investments include: \$224 million (10% increase over Budget 2008-2009) for maintenance and repaving, \$140 million for an Integrated Rural Highway Strategy, \$45 million for bridges and culverts, \$37 million to support economic growth in northern Saskatchewan.

The last 2 provincial budgets have seen a total of \$ 2.5 billion spent or committed to spend on capital and infrastructure projects including roads, hospitals and schools.

Income Tax Initiatives

No new personal or corporate income tax rate changes have been announced in this year's budget. A number of enhancements to existing tax credits initiated to promote Saskatchewan's tax competitiveness are proposed.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT ("SR&ED") TAX CREDIT

Budget 2009 proposes to convert the existing non-refundable SR&ED Tax Credit to a 15% **refundable** tax credit for all qualifying expenditures occurring after March 18, 2009 in Saskatchewan. All existing rules (eligibility, tax credit rates and definitions) remain unchanged. This change significantly improves accessibility to the SR&ED Tax Credit, especially for smaller and medium sized companies who would benefit from the financial assistance the refundable credit offers.

LABOUR-SPONSORED VENTURE CAPITAL CORPORATIONS (LSVCC's)

Effective for the 2009 taxation year, the tax credit for an investment in a **nationally** registered LSVCC is equalized to an investment in a provincially registered LSVCC (maximum annual investment limit of \$5,000). See table below for a summary of the LSVCC tax credit. This proposal helps to expand the potential

capital pool available for investment into Saskatchewan-based and potential non-Saskatchewan based small and medium sized businesses.

The provincial LSVCC tax credit continues to be supplemented by a federal tax credit equal to 15% of investments in either a provincial or national LSVCC (maximum annual investment limit of \$5,000).

LSVCC TAX CREDIT - SUMMARY

| | | Annual Investment Limit | Maximum Credit Available |
|-------------------------|--|--------------------------------|---------------------------------|
| Current (Provincial) | • 20% of investments in provincially registered LSVCC | \$5,000 | \$1,000 |
| | • 15% of investments in nationally registered LSVCC | \$3,500 | \$525 |
| Proposed | • 20% of investments in provincially registered LSVCC | \$5,000 | \$1,000 |
| | • 20% of investments in nationally registered LSVCC | \$5,000 | \$1,000 |

CORPORATION CAPITAL TAX (FINANCIAL INSTITUTIONS ONLY)

Saskatchewan eliminated the Corporation Capital Tax (CCT) on general corporations effective July 1, 2008, however the CCT still applies to financial institutions (at a rate of 3.5% of aggregate taxable paid-up capital in excess of \$1.5B, including all associated corporations; 0.7% for all other financial institutions that fall below this threshold).

Budget 2009 proposes to introduce a new deduction in computing taxable paid-up capital for financial institutions. This deduction takes into account instances where a financial institution acquires a general corporation (which is no longer subject to CCT). The deduction is equal to the Saskatchewan taxable paid-up capital of an acquired corporation as determined on its last fiscal year prior to being acquired by the financial institution and is effective for all acquisitions occurring on or after July 1, 2008.

DIVIDEND TAX CREDIT – ELIGIBLE DIVIDENDS

In the Federal 2008 Budget, the government announced a reduction in the gross-up factor and dividend tax credit for eligible dividends in order to be consistent with the reduction in corporate tax rates. As a result, these changes automatically apply for provincial income tax purposes and results in a decline in the value of the provincial dividend tax credit.

Saskatchewan Budget 2009 proposes to increase the statutory dividend tax credit on the value of the gross-up in conjunction with the phased reduction in the federal gross-up factor as summarized below, in order to maintain the current 11% effective dividend tax credit rate.

The result is lower corporate taxes and higher personal taxes even though the combined taxes remain relatively close to 2009 levels; however there has been a shift in the proportionate taxes paid between corporations and individuals.

ABOUT MNP

Founded in 1945, Meyers Norris Penny has grown from a single office in Manitoba to over 75 full and part-time locations across Canada. MNP is now the seventh largest chartered accountancy and advisory firm in Canada.

Our roots in our communities are a big part of how we do business. Because we live and work in the same communities as our clients, we understand the markets they deal with. When they talk, we listen. And we provide clear, straightforward business advice to help get you where you want to go.

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| | 2009 | 2010 | 2011 | 2012 |
|--|--------|--------|--------|--------|
| Federal Gross-Up | 45% | 44% | 41% | 38% |
| SK: Enhanced DTC (% of grossed-up dividend) | 11% | 11% | 11% | 11% |
| Proposed SK Enhanced DTC as a % of Gross-Up | 35.40% | 36.00% | 37.83% | 39.95% |

The combined federal provincial marginal tax rate (top rate) on eligible dividends will be as follows:

COMBINED FEDERAL / PROVINCIAL MARGINAL TAX RATE (TOP RATE) ON ELIGIBLE DIVIDENDS

| Year | Federal | Saskatchewan | |
|------|---------|--------------|---------------|
| | | Current | Proposed |
| 2012 | 19.29% | 20.35% | 24.81% |
| 2011 | 17.72% | 20.35% | 23.36% |
| 2010 | 15.88% | 20.35% | 21.64% |
| 2009 | 14.55% | 20.35% | 20.35% |

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