

TAXATION CHANGES - 1998 BUDGET

The following taxation changes were announced by Manitoba Finance Minister Eric Stefanson in his Budget Address on March 6, 1998.

PERSONAL INCOME TAX

- Tax Rate Reduced**
- Manitoba's basic Personal Income Tax rate, currently 52% of basic federal tax, will be reduced to 51% of basic federal tax for the 1998 tax year, and further reduced to 50% of basic federal tax on January 1, 1999. Income tax source deductions will be adjusted effective July 1, 1998, with tax withholding reflecting a rate of 50% of basic federal tax for the balance of 1998.
- Manitoba Learning Tax Credit**
- Effective for the 1998 and later taxation years, the Manitoba Learning Tax Credit will be available on a maximum of \$10,000 of eligible amounts (tuition, ancillary fees, and education amount) per student, and the rate of the credit will be adjusted from 10% to 7% of eligible amounts.

Inquiries regarding the Personal Income Tax reduction and changes to the Learning Tax Credit should be directed to:

Manitoba Tax Assistance Office
309 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone: (204) 948-2115
Manitoba Toll free: 1-800-782-0771
E-mail: TAO@gov.mb.ca

RETAIL SALES TAX

- Custom-Developed Software and Custom Computer Programming**
- Effective March 7, 1998, custom software that is designed and developed to meet the requirements of a specific person, and programming services related to custom software are exempt from Retail Sales Tax. **All pre-written software (also referred to as pre-packaged, canned, shrink-wrap or off-the-shelf) continues to be taxable.** While modifications to pre-written software are generally taxable, the charges are exempt if the modifications are so extensive that the charges for the modifications are greater than the cost of the software itself.

For custom software contracts that were in progress on March 7, 1998, programming and development services performed before that date are subject to tax. The portion of the work completed after March 6, 1998 will be

eligible for the exemption.

Service contracts and maintenance agreements relating to custom software are tax exempt. However, these types of services continue to be taxable when they relate to pre-written software.

**Extension of
Tax Rebate to
First-Time
Homebuyers**

- The Retail Sales Tax rebate to first-time homebuyers who purchase a new home in Manitoba has been extended for a further 12 months, to March 31, 1999. Qualifying persons will have until December 31, 1999 to file their rebate claim.

The rebate of up to \$2,500 applies to new, previously unoccupied homes purchased or built by the owner, and occupied, after April 20, 1994 and before April 1, 1999. If occupancy is taken during the period April 1 to July 31, 1999, a reduced rebate amount may be allowed.

For further information to determine eligibility for rebate, or to get the rebate claim form, please contact the Taxation Division.

**Trade-in
Provision
Clarified**

- The trade-in provision under Retail Sales Tax will be clarified to maintain that tax is payable on the difference between the fair value of the property sold and the credit allowed for the item accepted in trade, only if the purchaser has paid the Manitoba Retail Sales Tax on the item being traded-in. This clarification will not affect transactions where the tax has not been paid by the purchaser on the trade-in item because of an exemption otherwise provided in the Act, e.g. a gift from a family member.

PAYROLL TAX

**Tax Rate
Reduction**

- Effective January 1, 1999, the Payroll Tax rate on annual payrolls exceeding \$2 million will be reduced from 2.25% to 2.15%. The Payroll Tax rate on annual payrolls between \$1 million and \$2 million (notch provision) will be reduced from 4.5% to 4.3%, payable on the amount of payroll exceeding \$1 million.

Associated corporations and associated partnerships will still be required to add all their annual payrolls together to determine if the tax exemption or notch provision applies.

CORPORATION CAPITAL TAX

**Increased
Exemption**

- Effective for taxation years ending after January 1, 1999, the Corporations Capital Tax exemption will be increased from \$3 million to \$5 million of taxable capital.

Associated corporations will still be required to add all their taxable capital together for a calendar year to determine if the tax exemption applies.

**Goodwill
Allowance
Reduced**

- Effective for taxation years ending after January 1, 1999, the amount of goodwill allowance that may be deducted from paid up capital will be reduced from 50% to 25% of the eligible goodwill. This change will

complement the goodwill allowance increase from 50% to 75% implemented by Revenue Canada for income tax purposes.

**Investment
Allowance
Clarified**

- Amendments will be made to clarify that only term and similar deposits with a financial institution, that were outstanding for more than 90 days at the close of the fiscal year, may be included for purposes of calculating the investment allowance deduction.

MOTIVE FUEL

**Propane Fuel
Exemption For
Certain Uses
In Metal Mining**

- Propane fuel purchased after September 30, 1998, by metal mining companies for drying mineral ore concentrates or heating replacement air for processing plants and underground mines, will be exempt from the Motive Fuel Tax. Propane dealers may sell the propane to the metal mining companies on a tax exempt basis by recording the exempt fuel usage on the sale invoice.

Further information on taxes other than Income Tax may be obtained from:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll Free 1-800-782-0318
Fax (204) 948-2087
E-mail: MBTax@gov.mb.ca
Web Site: www.gov.mb.ca/finance/taxation

Westman Regional Office

Manitoba Finance
Taxation Division
311, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Telephone (204) 726-6153
Manitoba Toll Free 1-800-275-9290
Fax (204) 726-6763

For specific wording of the law, please refer to the applicable Act and Regulations.