
**A PLAN FOR GROWTH AND OPPORTUNITY:
PERSONAL TAX REFORM IN SASKATCHEWAN**

Taxation and Intergovernmental Affairs Branch
Saskatchewan Department of Finance

March 29, 2000

For further information or
additional copies contact:

Saskatchewan Finance
9th Floor, 2350 Albert Street
REGINA SK S4P 4A6
Telephone: (306) 787-6722 (Regina)

Internet Address:
<http://www.gov.sk.ca/finance/>

A PLAN FOR GROWTH AND OPPORTUNITY: PERSONAL TAX REFORM IN SASKATCHEWAN

INTRODUCTION

Saskatchewan's personal tax system requires a comprehensive reform to achieve greater simplicity, fairness and competitiveness.

The current tax system has raised a number of fairness issues. The Saskatchewan Flat Tax places an onerous tax burden on lower income earners, particularly seniors. The low level of personal tax credits results in many families paying income taxes while still relying on income support programs. As well, the income tax system provides only limited recognition of the costs incurred by families in raising children.

Saskatchewan also faces significant competitive pressures from outside the province as other jurisdictions introduce tax reduction strategies. If ignored, Alberta's introduction of an 11 per cent single-rate tax system and Ontario's significant reduction in personal income taxes could impair Saskatchewan's ability to attract and retain skilled workers and investment.

Recent intergovernmental discussions regarding the administrative arrangements for income taxation in Canada have led to a new opportunity for Saskatchewan to achieve a simple, fair and competitive personal income tax system that offers increased growth and opportunities for the province.

CONTEXT FOR REFORM

In the 1999-2000 Saskatchewan Budget, the Minister of Finance began a process to reform Saskatchewan's personal tax system. The Government's stated objectives were to achieve a simpler, fairer and more competitive tax system that would be more responsive to the needs of Saskatchewan people and would strengthen the Saskatchewan economy.

An independent committee*, chaired by Professor Jack Vicq of the University of Saskatchewan, undertook a six month study of the provincial personal tax system focusing on the Government's objective to improve:

- < fairness in the tax system;
- < support for the family;
- < simplicity for both the taxpayer and the Government; and,
- < competitiveness in attracting and retaining skilled workers.

* The Personal Income Tax Review Committee was appointed by the Government and consisted of Jack Vicq, FCA, Charlie Baldock, CA and Shelley Brown, CA.

The work of the Committee involved public consultations comprising of six public meetings held throughout Saskatchewan and a number of other discussions with interested parties. A broad spectrum of interest groups participated in this process, including business, labour, seniors and students. The Committee presented its report on November 19, 1999 to the Minister of Finance who immediately released the report for public review.

The Committee's major findings were that:

- < the current method of levying personal income tax should be replaced with a tax structure that facilitates fairness, simplicity, transparency and competitiveness;
- < a progressive tax system must be maintained, but it should not unduly impair the competitiveness of Saskatchewan's tax system;
- < greater acknowledgement of family circumstances is necessary in determining income tax levels;
- < taxes should not automatically increase as a result of inflation; and,
- < lower tax rates are required to improve economic efficiency and improve the ability to retain capital, income and consumption in Saskatchewan.

The Committee recommended the introduction of a simplified three-rate income tax structure and higher personal tax credits for the family to replace the current system's reliance on a complex array of taxes, surtaxes and a low income reduction. It further recommended a substantial expansion in the Education and Health (E&H) Tax base, combined with a rate reduction from 6 per cent to 5 per cent.

PUBLIC REACTION

Public response to the Committee's report has been widespread. Thousands of responses were received in the form of letters and petitions and through the Internet. Views were also expressed on open-line shows and through other media.

The extent of public reaction to the Government's tax review reflects the Committee's success in raising public awareness of the taxation issue and the significance of the Committee's recommendations.

Some groups and individuals fully endorsed the Committee's recommendations, maintaining they are essential if Saskatchewan is to continue to grow economically and have the necessary resources to enhance social programs.

Proponents maintained tax reductions would mean a more positive business climate, a corresponding increase in investment and more job opportunities for Saskatchewan residents.

Others had reservations about the E&H Tax recommendations, specifically the proposal to broaden the application of the Tax to a wider range of items, such as restaurant meals and family essentials like heating fuels, residential electricity, insurance and children's clothing.

Many raised two key considerations: that tax reductions must not lead to a return to deficits and that tax reductions must not jeopardize valued public services such as health care and education.

SASKATCHEWAN'S PERSONAL TAX REFORM

The Government of Saskatchewan is introducing a major reform of the personal tax system that will result in a significant reduction in personal income taxes. This reform begins immediately and will be fully implemented by January 1, 2003.

Key components of the reform include a new way of determining personal income tax and a fairer means of applying the E&H Tax that introduces the Saskatchewan Sales Tax Credit. Together, these initiatives create a simpler, fairer, more competitive tax system that lowers overall taxes for all Saskatchewan residents and provides significant support for families with children.

A New Personal Income Tax System

The current provincial income tax system relies very heavily on the federal determination of taxes payable. This system, referred to as a "tax on tax" structure*, places social and economic policy constraints on provinces.

Beginning January 1, 2001, Saskatchewan will convert its personal income tax system from a tax on tax structure to a "tax on income" structure that will provide the flexibility to choose the distribution of taxes and the extent of tax system support for the family.

* Tax on tax refers to the current income tax arrangement where provincial governments are required to levy provincial income tax as a percentage of Basic Federal Tax. Tax on income refers to the provincial income tax arrangement that permits unique provincial income tax rates applied to taxable income. (See Appendix A).

The new personal income tax system will have the following features upon full implementation.

- < Simpler, lower provincial tax rates applied to taxable income will replace the current system's Basic Saskatchewan Tax, Flat Tax, Debt Reduction Surtax, High Income Surtax and low income reduction.

Tax Rates:

- 11% - on taxable income of \$35,000 or less
- 13% - on taxable income between \$35,000 and \$100,000
- 15% - on taxable income over \$100,000

- < Higher personal tax credit amounts will focus support on the family, including:
 - a basic personal tax credit of \$8,000;
 - a spousal (or equivalent) tax credit of \$8,000;
 - a new \$2,500 per child tax credit; and,
 - a \$1,000 seniors supplement to the age credit.
- < An 11 per cent tax rate will be applied to taxable capital gains on qualified farm property and small business shares exceeding the lifetime \$500,000 capital gains deduction.
- < Inflation protection will be introduced once the tax system is fully implemented through the indexation of the provincial income brackets and personal tax credits.

A Fairer E&H Tax System

The E&H Tax is levied at a rate of 6 per cent (the lowest sales tax rate in Canada) on a very narrow tax base which exempts many goods and services taxed elsewhere, such as restaurant meals, used goods, utilities and many personal and professional services. Although Alberta has no sales tax, that province collects an annual \$816 per family health care premium.

Commencing midnight Budget night, the E&H Tax base will be expanded to apply to the following goods and services:

- < Repair services (excluding repairs to real property and exempt items);
- < Computer services;
- < Real estate fees;
- < Non-prescription drugs;
- < Maintenance contracts;
- < Bedding plants, trees and shrubs;
- < Pet food;
- < Dry cleaning;
- < Veterinary fees (excluding farm-related fees);
- < Security and investigation services;
- < Credit bureau and collection services; and,
- < Telephone answering services.

Commencing July 1, 2000, the E&H Tax base will be expanded to include the following services:

- < Professional services (including legal, accounting, architectural, consulting and engineering services);
- < Building services;
- < Advertising services; and,
- < Employment services.

In addition, a number of related adjustments will be made to provincial consumption taxes. Unless otherwise noted, these adjustments are effective Budget night.

- < Used goods will be added to the E&H Tax base. However, personal acquisitions of used goods, other than vehicles, will be permitted a \$300 per item deduction applied against the sales price in determining the tax owing. This deduction means that most used goods for personal consumption will continue to be tax-free.
- < Dealers of new and used vehicles will be permitted to deduct the value of vehicle trade-ins in determining the E&H Tax on their vehicle sales. Private sales of used vehicles will be subject to the E&H Tax, with a \$3,000 deduction applied against the sales price in determining the tax owing.

- < Status Indian purchases occurring off-reserve will be subject to the E&H Tax, unless the taxable items are delivered to a reserve. This change is being introduced as a consequence of recent legal challenges being brought against the Government's tobacco and fuel tax policies respecting on-reserve purchases by First Nations people. Beginning immediately, First Nations will be given the opportunity to enter into administrative arrangements with the Province respecting the effective removal of provincial tobacco and fuel taxes on on-reserve Status Indian purchases of these products.
- < The Insurance Premiums Tax rate will increase by one percentage point effective April 1, 2000, but insurance premiums will not be added to the E&H Tax base.
- < The Canada Customs and Revenue Agency will begin collecting the E&H Tax on taxable items purchased outside Canada as soon as administrative arrangements are completed with the federal government.

Appendix B provides a description of the E&H Tax changes.

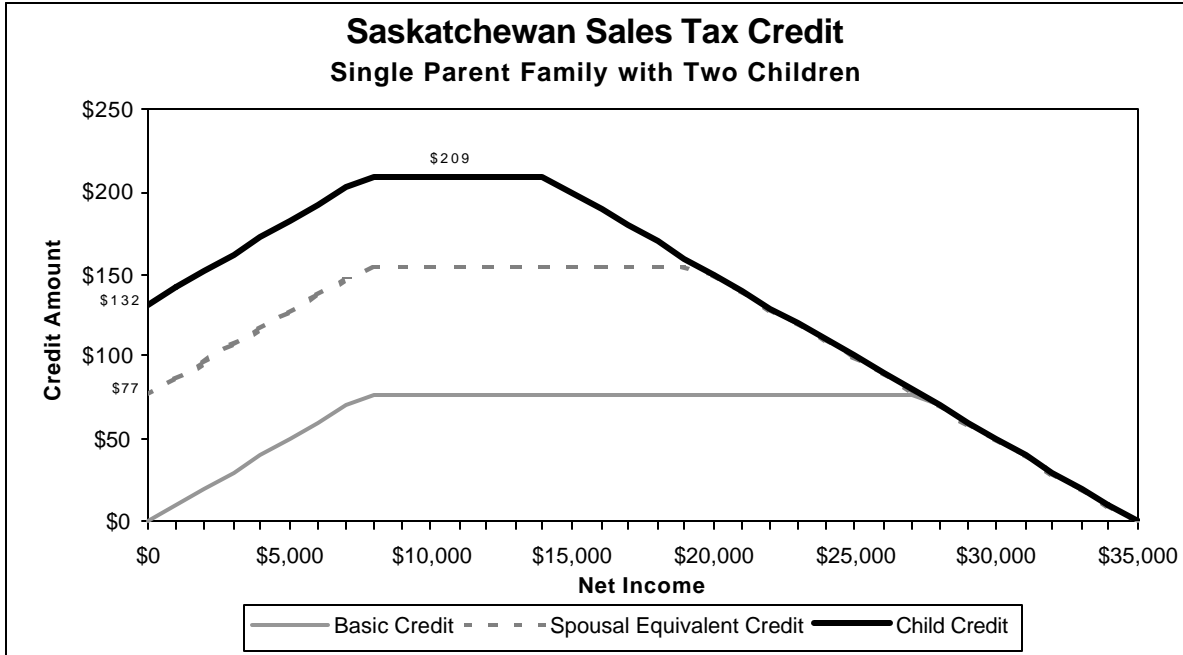
Introduction of the Saskatchewan Sales Tax Credit

In conjunction with the E&H Tax reforms, a new \$32 million per year refundable sales tax credit is being introduced effective April 1, 2000 to offset the effect of sales taxes on lower income earners. The Saskatchewan Sales Tax Credit will consist of an adult component and a child component.

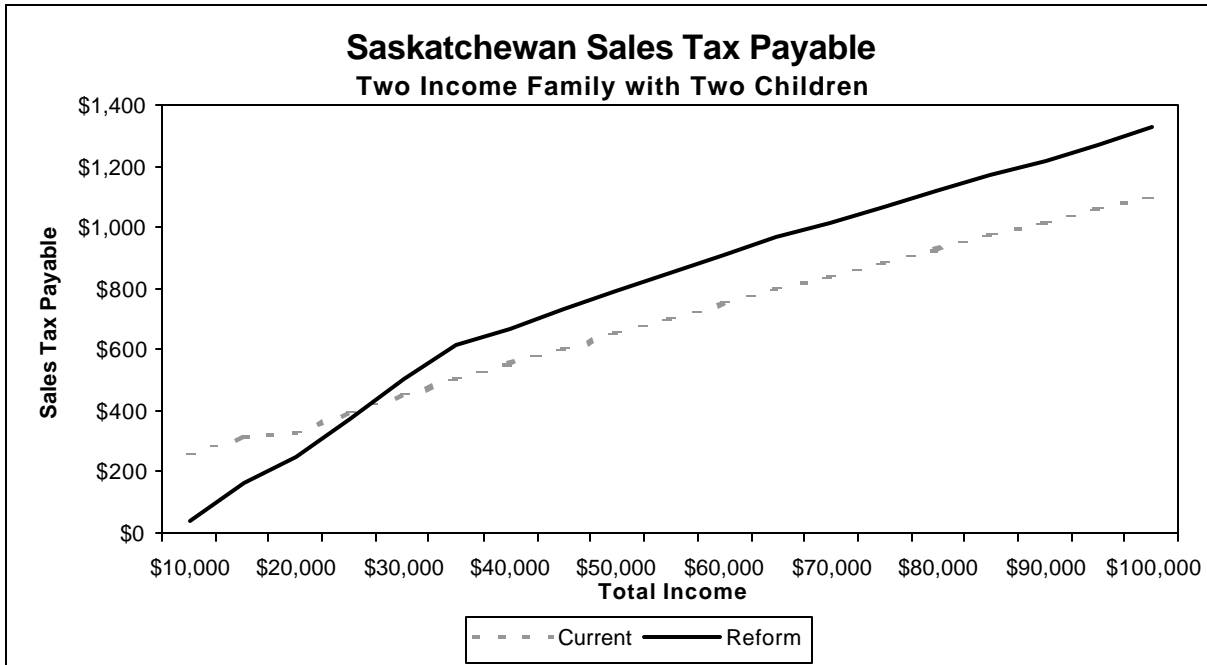
The Saskatchewan Sales Tax Credit will be fully refundable, meaning that a person does not have to pay income tax in order to receive benefits. A recipient must file an income tax return as a resident of Saskatchewan and meet the income and family criteria to be eligible for a cheque. The Credit will be paid quarterly.

The adult component of the Credit will rise at a rate of one per cent of individual net income (reaching its \$77 maximum at an income of \$7,700). It will be reduced at a rate of one per cent as family net income increases above \$27,300. An individual will also be eligible for \$77 in additional benefits for a dependent spouse or equivalent. This amount will be reduced at a rate of one per cent as family net income rises over \$19,600, so that the entire adult component will be eliminated at a family net income of \$35,000.

The child component of the Credit will provide an additional \$55 per child. For two-parent families, the maximum child component will be \$110, resulting in a maximum annual Saskatchewan Sales Tax Credit of \$264. For single parent families, the first child will be eligible for the adult benefit of \$77 and the maximum child component will be \$55, for a maximum annual Credit of \$209. The child component of the Credit will be reduced at a rate of one per cent as family net income rises over \$14,100 (\$8,600 if there is more than one qualifying child).



The Saskatchewan Sales Tax Credit significantly improves the fairness of the E&H Tax. As the following table illustrates, families earning below \$25,000 will pay less sales tax even after the impact of the base expansions are considered.



IMPACTS OF THE REFORM

Saskatchewan Residents Will Pay Lower Taxes

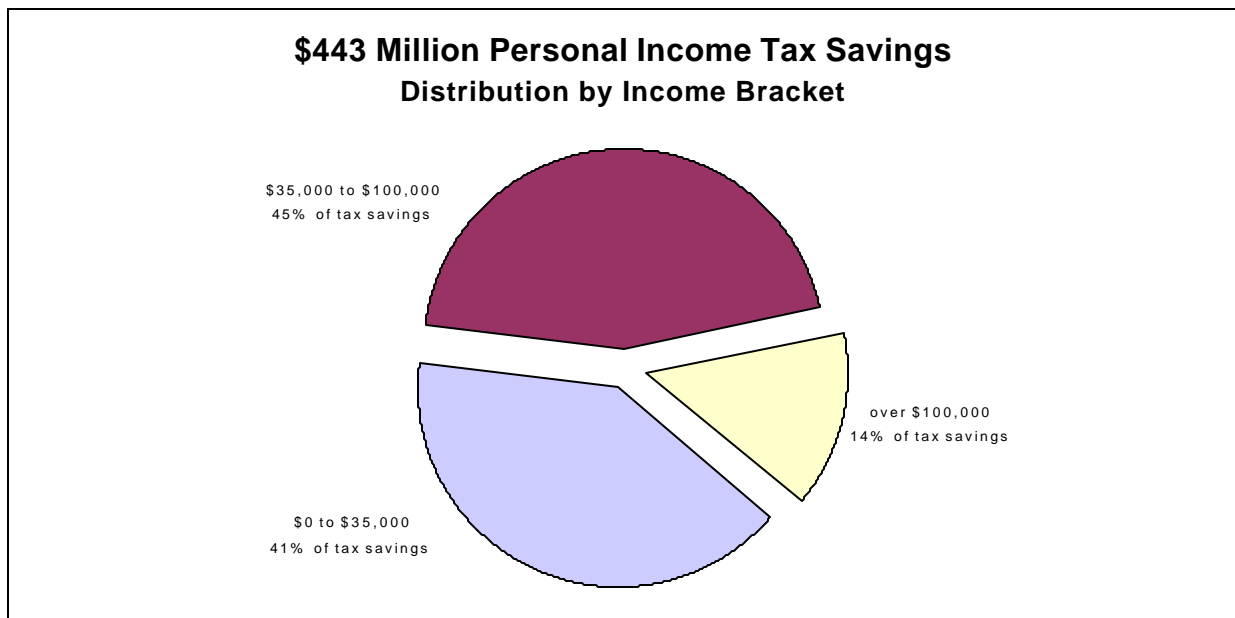
Under the reform, provincial residents will see their combined income and sales taxes reduced by about \$260 million per year once the reform is fully implemented.

- < Higher personal tax credits, including the introduction of a \$2,500 per child tax credit, and the Saskatchewan Sales Tax Credit ensure that taxes will be reduced for all Saskatchewan taxpayers.
- < The replacement of the Basic Saskatchewan Tax, Flat Tax, Debt Reduction Surtax and High Income Surtax with a progressive three-rate tax structure ensures a simple and fair application of tax.
- < Provincial indexation of the personal tax credits and income brackets ensures that tax increases will not automatically occur as a result of inflation.

Lower taxes under the reform:

- < provide greater disposable income for individuals and families, thereby creating greater spending power and choice for people in their daily activities;
- < improve the ability of Saskatchewan-based businesses to attract and retain qualified labour, as taxes represent a significant element in a prospective employee's compensation decision; and,
- < ensure a higher standard of living for Saskatchewan residents.

Once fully implemented, the reform will lower personal income taxes by more than \$440 million per year. The distribution of this reduction is weighted in favour of taxpayers earning less than \$35,000 per year. These taxpayers currently pay about 34 per cent of total provincial income tax, but will receive about 41 per cent of the income tax savings.



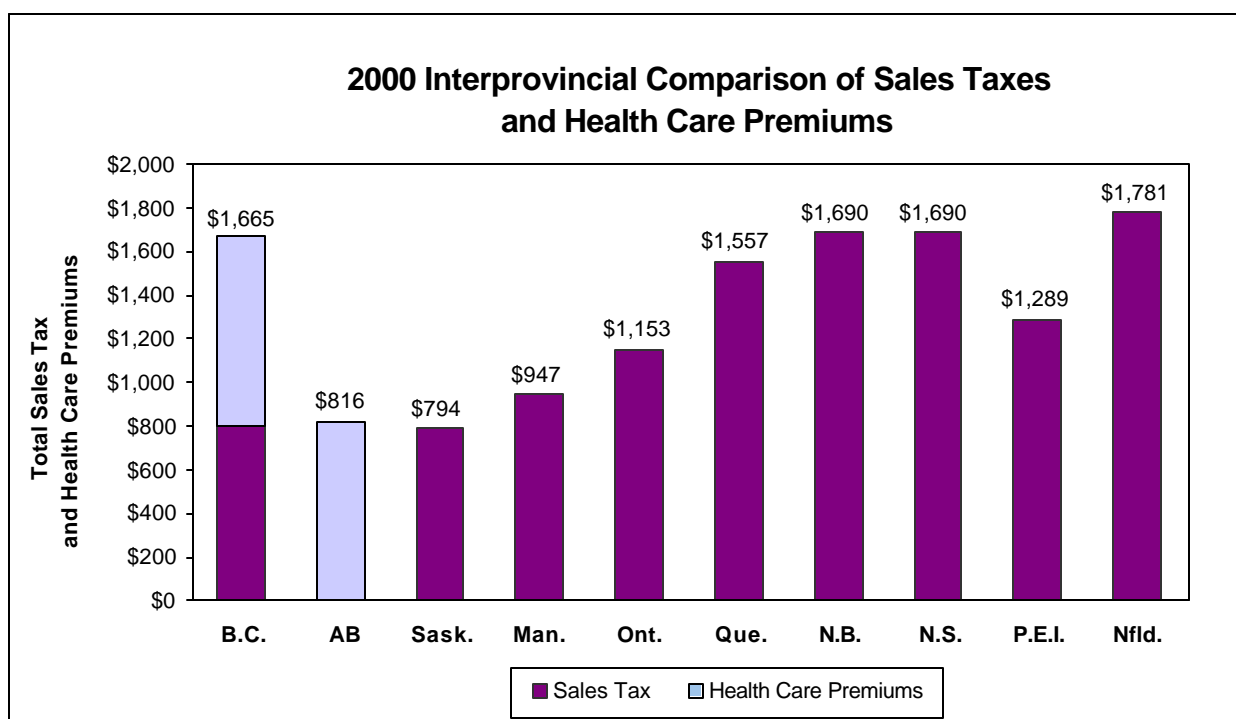
Aggregate income and sales tax savings, as a percentage of current taxes, are largest for lower income families. For example, for a one income family earning \$25,000, combined income and sales taxes will be reduced by more than half, from \$1,526 to \$662.

Impact of Tax Reform on Families					
Family Income	Current System		Tax Reform		% Reduction in Tax
	Combined Tax	Tax as a % of Income	Combined Tax	Tax as a % of Income	
One Income Families:					
\$10,000	\$257	2.6%	\$38	0.4%	85.2%
\$20,000	\$722	3.6%	\$249	1.2%	65.5%
\$30,000	\$2,385	8.0%	\$1,308	4.4%	45.2%
\$40,000	\$4,048	10.1%	\$2,621	6.6%	35.3%
\$50,000	\$5,858	11.7%	\$4,044	8.1%	31.0%
\$75,000	\$10,901	14.5%	\$7,570	10.1%	30.6%
\$100,000	\$16,093	16.1%	\$11,078	11.1%	31.2%
Two Income Families:					
\$25,000	\$841	3.4%	\$345	1.4%	59.0%
\$35,000	\$2,182	6.2%	\$1,560	4.5%	28.5%
\$50,000	\$4,195	8.4%	\$3,348	6.7%	20.2%
\$75,000	\$7,875	10.5%	\$6,454	8.6%	18.0%
\$100,000	\$12,247	12.2%	\$9,747	9.7%	20.4%

Saskatchewan's E&H Tax Will Be Lower Than Other Provinces

The continued exemption of most family essentials, like heating fuels, residential electricity, insurance and children's clothing, and the introduction of the Saskatchewan Sales Tax Credit ensure that the E&H Tax reforms result in an overall reduction of tax for lower income earners.

When combined with the lowest provincial sales tax rate in Canada, Saskatchewan's reliance on sales tax is still the lowest of all provinces which levy a sales tax. Furthermore, the amount of E&H Tax paid by a family earning \$50,000 will still be less than the health care premiums paid in Alberta and British Columbia.



Saskatchewan's Tax System Will Be Fairer

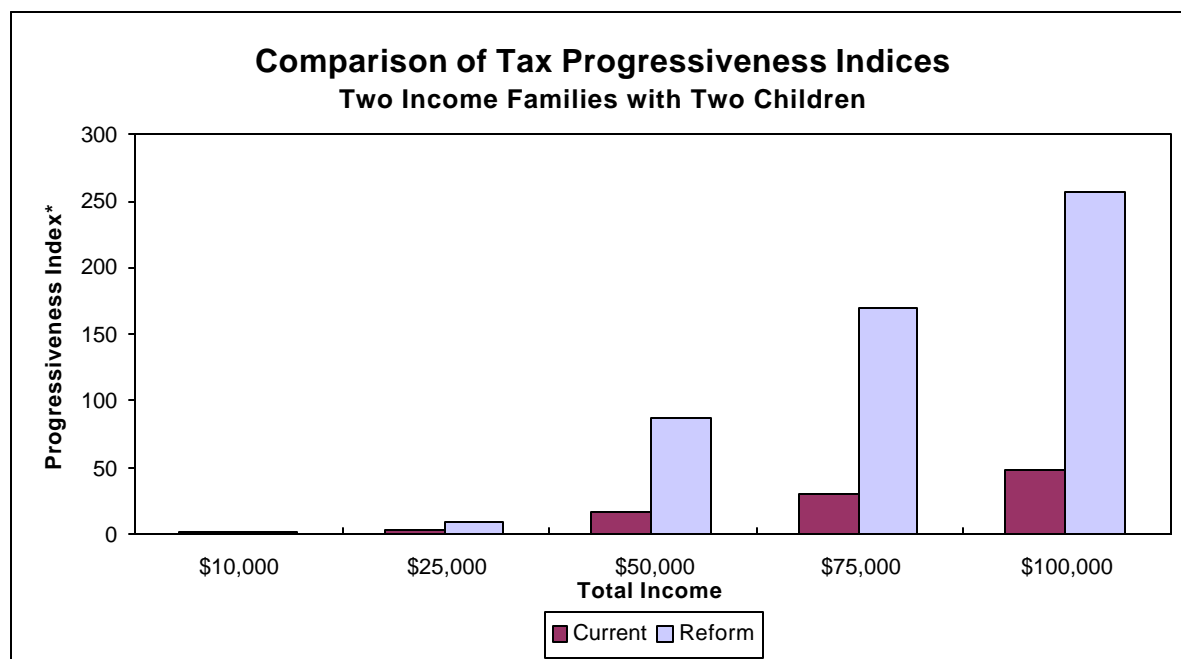
The personal tax reform will address a number of fairness issues which exist with the current tax system.

- < The Flat Tax places an onerous burden on lower income people. In particular, seniors and students who incur higher medical and education expenses are unable to deduct these costs against the Flat Tax.

- < The personal tax credit amounts under the federal tax system have created a situation where social assistance recipients are subject to income tax, placing a difficult financial load on these individuals and families and adding to the financial disincentives to entering the work force.
- < A large disparity in the tax treatment of one income and two income families exists as a result of the differing treatment of such families under the federal tax system.
- < The federal tax system does not acknowledge dependent children in determining income taxes payable.

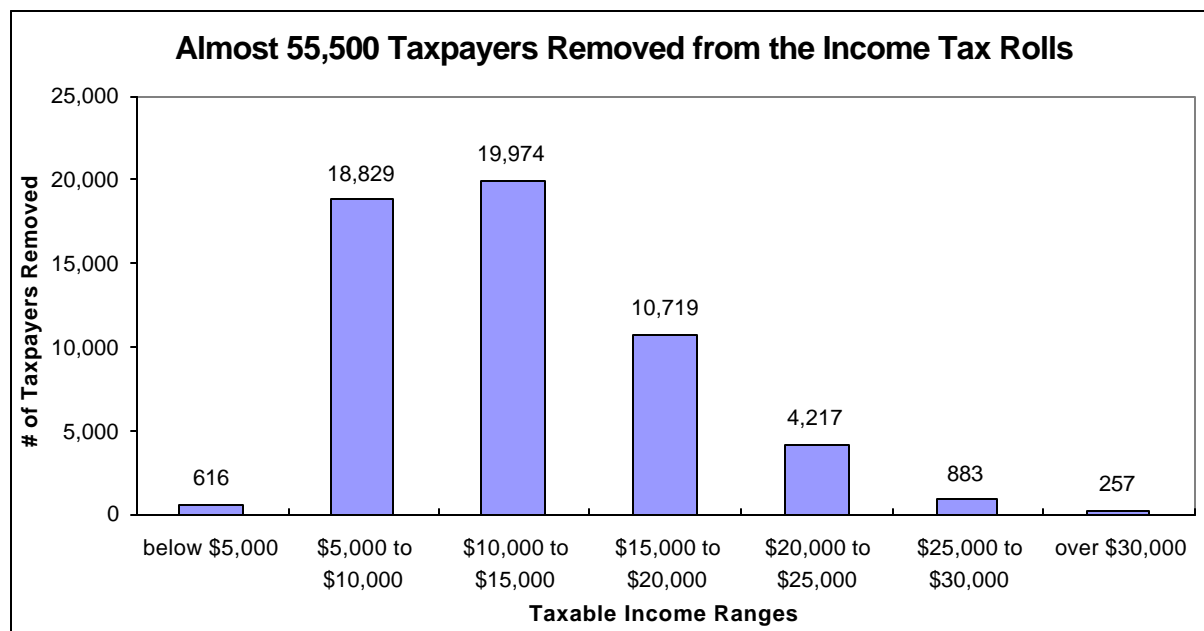
Saskatchewan's new tax strategy will address these issues as well as enhance the progressiveness of the tax system. The combined effect of the progressive tax rate structure, the higher personal tax credits, including a new child tax credit, and the introduction of the Saskatchewan Sales Tax Credit creates a very progressive application of tax.

Under tax reform, the relative differential in taxes payable between lower income and higher income taxpayers will widen since lower income taxpayers receive a proportionately greater tax reduction than higher income taxpayers. This improvement in the tax system's progressiveness is demonstrated in the following chart, which depicts the amount of tax payable at particular income levels as an index based on the amount of tax payable by a family earning \$10,000.



* The Progressiveness Index is determined by dividing the combined income and sales taxes payable by a family at a particular income level by the combined income and sales taxes payable by a family earning \$10,000, which represents the base index of 1.

The introduction of higher personal tax credit amounts will remove about 55,500 lower income earners from the income tax rolls, many of whom are currently receiving some form of income support from the Government.



Families with children receive special consideration under tax reform. In particular, lower income families will see dramatic reductions in their taxes payable due to the combined impact of the \$2,500 per child income tax credit and the family-sensitive Saskatchewan Sales Tax Credit.

Tax Reform Savings for Families					
Family Income	Income Tax Savings	Sales Tax Impact	Sales Tax Credit	Net Tax Savings	Savings as a % of Tax*
One Income Families:					
\$10,000	\$0	(\$31)	\$250	\$219	85.2%
\$20,000	\$391	(\$68)	\$150	\$473	65.5%
\$30,000	\$1,127	(\$100)	\$50	\$1,077	45.2%
\$40,000	\$1,546	(\$119)	\$0	\$1,427	35.3%
\$50,000	\$1,953	(\$139)	\$0	\$1,814	31.0%
Two Income Families:					
\$25,000	\$448	(\$82)	\$130	\$496	59.0%
\$35,000	\$672	(\$110)	\$60	\$622	28.5%
\$50,000	\$986	(\$139)	\$0	\$847	20.2%

* Equal to Net Tax Savings divided by combined provincial income and sales taxes payable in 1999.

For a minimum wage earner, tax reform will provide significant tax savings.

- < Under the current tax system, an individual working at the \$6 per hour minimum wage would earn \$12,480 in a year, would pay provincial income taxes of \$575 (4.6 per cent of income) and face a marginal tax rate for provincial income tax of 15.2 per cent on any incremental income.
- < Under the reformed tax system, this individual will pay provincial income taxes of \$423 (3.4 per cent of income) and face a marginal tax rate of 11.0 per cent. The reform provides a \$152 income tax reduction and a net sales tax reduction of \$43 after receiving a Saskatchewan Sales Tax Credit of \$77, for a total tax reduction of \$195, or a 25.9 per cent decline in taxes.

A minimum wage earner supporting a dependent spouse and child currently pays no provincial income taxes. However, this family's sales taxes will decrease by \$169 because of the offsetting effects of a \$209 Saskatchewan Sales Tax Credit, resulting in a 58.9 per cent decline in taxes.

Saskatchewan's Recognition of Family Expenditures Will Increase

Saskatchewan provides considerable financial support for families through the non-refundable tax credits. The current tax system's support relies on the interaction between the federal and Saskatchewan tax systems. The basic Saskatchewan tax credit rate equates to 8.2 per cent.

Under the reform, Saskatchewan's tax credit rate will increase to 11 per cent. This results in a significant increase in provincial support for all personal tax credits, including those which acknowledge family costs like medical and educational expenses, and charitable donations.

Saskatchewan Personal Tax Credits* (millions)			
	Current	Tax Reform	Increase
Age amount	\$28.5	\$34.9	\$6.4
CPP contributions	30.3	37.1	6.8
El premiums	17.9	21.9	4.0
Pension income	8.1	9.9	1.8
Tuition and Education	15.3	18.7	3.4
Student loan interest	2.0	2.5	0.5
Medical expenses	9.0	11.0	2.0
Charitable contributions	16.5	18.5	2.0
Care givers	1.4	1.7	0.3
Total Credits	\$129.0	\$156.2	\$27.2

* Value of personal tax credits as estimated by Saskatchewan Finance.

Finally, the tax reform reduces the disincentives to moving from social assistance into the work force. The income threshold at which residents become subject to provincial income tax increases significantly under the tax reform structure. When combined with the general overall lowering of provincial income tax rates under the reform, the incentive to work is improved.

Income Thresholds at Which Income Tax Becomes Payable*				
	Single	Senior	Single Parent	One Income Family
1999 Threshold for Federal Tax	\$7,370	\$11,430	\$13,730	\$13,730
Threshold for 1999 Saskatchewan Tax	\$7,910	\$12,080	\$17,370	\$17,370
Threshold for Reformed Saskatchewan Tax	\$9,290	\$14,990	\$21,630	\$24,330

* Assumes that all income is derived from employment, that only the basic deduction and CPP/EI credits have been claimed, and that the families have two children but have not claimed child care expenses.

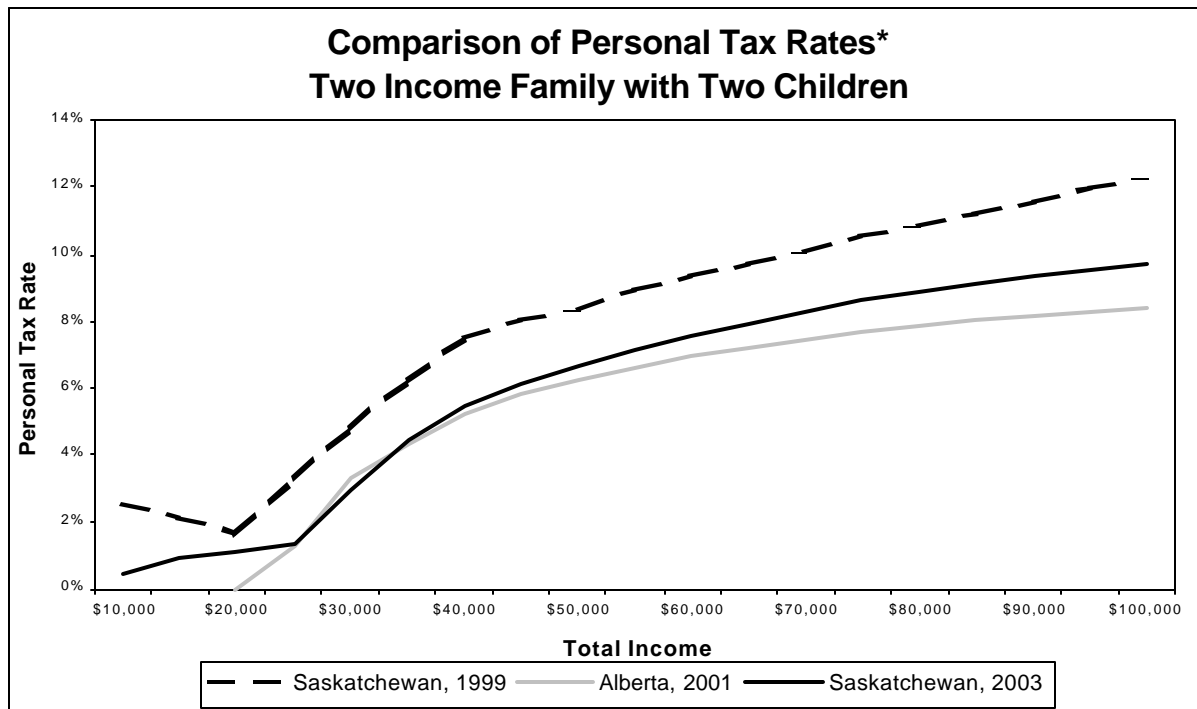
Saskatchewan's Tax System Will Be More Competitive

Taxation levels are an essential element in a jurisdiction's competitive make-up. Reducing taxes has therefore become necessary to compete for jobs and investment.

The current trend in Canada and elsewhere is to reduce personal income taxes. Larger provinces like Ontario, Quebec and Alberta have all introduced significant income tax reduction strategies. All provinces are committed to the tax on income structure.

Ignoring these pressures from other jurisdictions would put at risk Saskatchewan's ability to attract and retain both jobs and capital investment. While other factors also influence locational decisions, the level of taxation is an element that escalates in importance as tax differentials with competing jurisdictions increase.

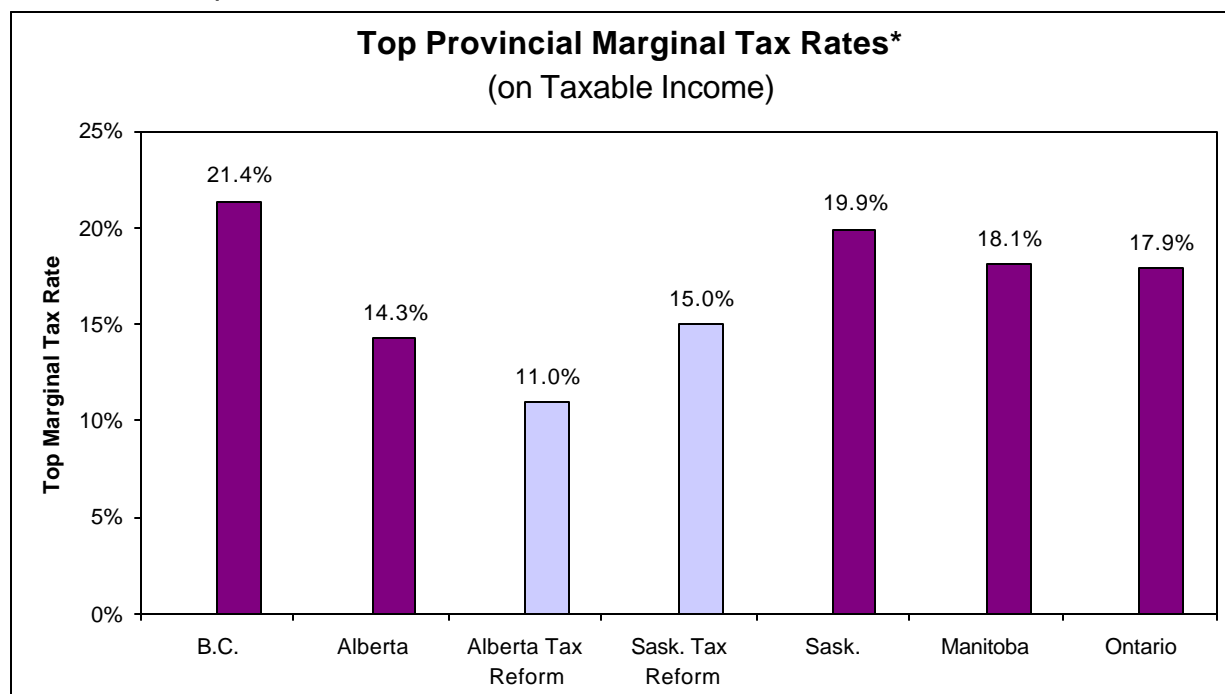
The tax changes introduced in Saskatchewan's 2000-01 Budget result in a major improvement in the competitiveness of Saskatchewan's tax system. Following reform, tax rate differentials with neighbouring jurisdictions will decline and, when combined with Saskatchewan's locational advantages, will improve the province's ability to attract and retain skilled labour.



* Personal Tax Rates are determined by dividing combined provincial income and sales taxes and health care premiums payable by total income.

One of the most significant improvements in competitiveness is the reduction which will occur in the marginal tax rate, which is the rate at which the taxpayer pays income tax on the last dollar of income earned. Saskatchewan's current top marginal tax rate is equal to 19.9 per cent. Under reform, this rate will decline by 4.9 percentage points to 15.0 per cent, the second lowest in Canada.

While this improvement is dramatic, a similar reduction in marginal tax rates occurs for taxpayers earning much lower incomes. For example, a taxpayer earning \$30,000 will experience a 4.9 percentage point marginal tax rate reduction to 11 per cent, and a taxpayer earning \$50,000 will experience a 5.1 percentage point marginal tax rate reduction to 13 per cent.



* Top Provincial Marginal Tax Rates for the 1999 taxation year. Alberta's tax reform will lower its top marginal tax rate to 11%. Saskatchewan's tax reform will lower its top marginal tax rate to 15%.

Saskatchewan's Tax System Will Be Simpler

Saskatchewan's current reliance on the federal tax system and the Province's efforts to achieve its social and economic goals through the provincial tax system have resulted in a complex tax structure where three surtaxes are added to the basic provincial income tax and a complex low income reduction is deducted. The result is a tax system that is complex to administer and comply with, and one which fosters confusion and suspicion about its fairness.

Tax reform promotes a simpler, more transparent tax system by replacing all of the surtaxes and the reduction with a simplified three-rate tax structure. For about 70 per cent of all taxpayers, the new system will amount to a single tax rate of 11 per cent on taxable income, the same rate as in Alberta following that province's reform.

The new structure will promote greater transparency and confidence in the fairness of the tax system. An example of how the tax calculation under the reform compares to the current tax system is presented overleaf.

Saskatchewan Income Tax - Current vs. Reform One Income Family Earning \$50,000 with Two Children

Determination of Taxable Income (federal calculation)

\$50,000



Calculation of Saskatchewan Tax - Current (1999)

Taxable Income	\$50,000
Preliminary Federal Tax:	
Bracket 1 Tax	\$ 5,030
<i>Lesser of Taxable Income and \$29,590 x 17%</i>	
Bracket 2 Tax	5,307
<i>Taxable Income over \$29,590, but not over \$59,180 x 26%</i>	
Bracket 3 Tax	0
<i>Taxable Income over \$59,180 x 29%</i>	
Preliminary Federal Tax	\$10,337
Federal Non-Refundable Tax Credits:	
Basic Amount	\$ 6,794
Spousal Amount	5,718
Other Amounts (EI/ CPP)	<u>2,181</u>
Total Amounts	\$14,693
Total Credits (<i>Total Amounts x 17%</i>)	\$ 2,498
Basic Federal Tax:	
Preliminary Federal Tax	\$10,337
Minus: Federal Tax Credits	<u>- 2,498</u>
Basic Federal Tax (BFT)	\$ 7,839
Saskatchewan Income Tax:	
Saskatchewan Tax (48% of BFT)	\$ 3,763
Add: 2% Flat Tax	<u>1,000</u>
Basic Saskatchewan Tax	\$ 4,763
Add: Debt Reduction Surtax	326
Add: High Income Surtax	<u>114</u>
Total Saskatchewan Tax	\$ 5,203
Minus: Saskatchewan Tax Reduction	<u>0</u>
Saskatchewan Income Tax - Current	\$ 5,203

Calculation of Saskatchewan Tax - Reform

Taxable Income	\$50,000
Preliminary Saskatchewan Tax:	
Bracket 1 Tax	\$ 3,850
<i>Lesser of Taxable Income and \$35,000 x 11%</i>	
Bracket 2 Tax	1,950
<i>Taxable Income over \$35,000 but not over \$100,000 x 13%</i>	
Bracket 3 Tax	0
<i>Taxable Income over \$100,000 x 15%</i>	
Preliminary Saskatchewan Tax	\$ 5,800
Sask. Non-Refundable Tax Credits:	
Basic Amount	\$ 8,000
Spousal Amount	8,000
Child Amounts	5,000
Other Amounts (EI/ CPP)	<u>2,181</u>
Total Amounts	\$23,181
Total Credits (<i>Total Amounts x 11%</i>)	\$ 2,550
Total Saskatchewan Tax:	
Preliminary Saskatchewan Tax	\$ 5,800
Minus: Saskatchewan Tax Credits	<u>- 2,550</u>
Saskatchewan Income Tax - Reform	\$ 3,250

Tax Savings:

Saskatchewan Income Tax - Current	\$5,203
Saskatchewan Income Tax - Reform	<u>\$3,250</u>
Tax Saving	\$1,953

Saskatchewan's Tax Reform Will Be Affordable

Taxation levels must be sufficient to finance key public services like health care, education and social programs. As a result, a tax reduction strategy that lowers taxation levels to the extent that services are reduced or deficits occur is not effective or sustainable.

When fully implemented in 2003, personal tax reform will result in an affordable overall reduction in tax revenues of about \$260 million annually. The upcoming fiscal year is a transitional period that contains significant personal tax reductions as a result of the phase-out of the Saskatchewan Flat Tax and the introduction of the Saskatchewan Sales Tax Credit.

Fiscal Impact of Tax Reform (millions)		
Fiscal Year	2000-01	Mature Tax System
Income Tax Reform	(\$206.4)	(\$442.6)
Sales Tax Reform	\$142.7	\$160.9
Other Measures*	\$20.0	\$21.2
Subtotal	(\$43.7)	(\$260.5)

* Includes a 1 point increase in the Insurance Premiums Tax and an increase in the tax rate on cut tobacco and cigars.

TRANSITION TO TAX REFORM

The year 2000 will provide a transition to the new tax reform structure. To ensure that taxpayers will benefit from lower taxes in the current year, a series of tax measures are being introduced:

- < the Flat Tax will be reduced from 2 per cent to 1 per cent effective July 1, 2000;
- < the E&H Tax will be expanded in two stages -- Budget night for most items and July 1, 2000 for professional, building, advertising and employment services; and,
- < the Saskatchewan Sales Tax Credit will be paid in full during 2000-01, so that lower income earners will experience an offsetting tax reduction.

The combined impact of all tax measures introduced for 2000 will be a substantial reduction in combined sales and income taxes for lower income families.

Transition to Tax Reform			
Tax Savings in 2000 for Two Income Families			
Income Level	Income Tax Savings*	E&H Tax Impact**	Total Tax Savings
\$15,000	-	\$124	\$124
\$25,000	\$105	\$16	\$121
\$35,000	\$222	(\$65)	\$157
\$50,000	\$349	(\$139)	\$210
\$75,000	\$640	(\$182)	\$458
\$100,000	\$952	(\$223)	\$729

* Includes the provincial impact of the federal budget measures.

** Includes the impact of the Saskatchewan Sales Tax Credit.

Beginning in the 2001 taxation year, Saskatchewan will phase-in its new personal income tax system. As illustrated below, the three-year transition will see tax rates reduced, income brackets expanded and personal tax credits increased in each year.

2001 Taxation Year:

<u>Tax Rate</u>	<u>Income Brackets</u>	<u>Personal Credit Amounts</u>	
11.5%	Up to \$30,000	Basic/Spousal	\$8,000
13.5%	\$30,000 - \$60,000	Per Child	\$1,500
16.0%	Over \$60,000	Senior supplement	\$500

2002 Taxation Year:

<u>Tax Rate</u>	<u>Income Brackets</u>	<u>Personal Credit Amounts</u>	
11.25%	Up to \$30,000	Basic/Spousal	\$8,000
13.25%	\$30,000 - \$60,000	Per Child	\$2,000
15.50%	Over \$60,000	Senior supplement	\$750

2003 Taxation Year:

<u>Tax Rate</u>	<u>Income Brackets</u>	<u>Personal Credit Amounts</u>	
11.0%	Up to \$35,000	Basic/Spousal	\$8,000
13.0%	\$35,000 - \$100,000	Per Child	\$2,500
15.0%	Over \$100,000	Senior supplement	\$1,000

CONCLUSION

Saskatchewan's personal tax reform successfully addresses the Government's objective of improving fairness, simplicity, competitiveness and support for the family.

When fully implemented in 2003, Saskatchewan's tax reform will:

- < lower personal taxes by \$260 million annually;
- < ensure that Saskatchewan families continue to pay the lowest sales taxes in Canada;
- < introduce inflation protection to the provincial income tax system once the reform is fully implemented;
- < improve the progressiveness of provincial personal taxes;
- < increase the tax system's support for families through the new \$2,500 per child tax credit;
- < enhance the tax system's recognition of family expenditures through increased support for personal tax credits;
- < simplify tax compliance and administration; and,
- < achieve a competitive tax system.

The reform:

- < provides greater disposable income for individuals and families, thereby creating greater spending power and choice for people in their daily activities;
- < improves the ability of Saskatchewan-based businesses to attract and retain qualified labour, as taxes represent a significant element in a prospective employee's compensation decision; and,
- < ensures a higher standard of living for Saskatchewan residents.

APPENDIX A FEDERAL-PROVINCIAL INCOME TAX ARRANGEMENTS

Current Income Tax System

Under the terms of the existing Tax Collection Agreements with the federal government, provincial income tax is generally based on a single provincial tax rate applied to Basic Federal Tax. This system is commonly referred to as “tax on tax”. The Agreements also permit provinces to apply special surtaxes and low income reductions but require provincial governments to accept the federal government’s definition of taxable income, income brackets, federal taxation rates and non-refundable tax credits.

For the 1999 taxation year, Saskatchewan levied:

- < a 48 per cent basic rate on Basic Federal Tax;
- < a 2 per cent Flat Tax levied on Net Income;
- < a 10 per cent Debt Reduction Surtax levied on basic provincial tax; and,
- < a 15 per cent High Income Surtax on basic provincial tax in excess of \$4,000.

In addition, a low income tax reduction is deducted to finally determine provincial income tax payable. The net result is that Saskatchewan generated approximately \$1.4 billion of revenue from personal income taxes in 1999-2000, or about 25 per cent of total provincial revenue.

The Opportunity for a Tax on Income Structure

In response to the growing complexity of the income tax system at the provincial level and in recognition of the lack of flexibility in the current system, the federal government has agreed to changes in the Tax Collection Agreements that allow the provinces the option of adopting tax on income rather than using the current provincial tax as a percentage of Basic Federal Tax. The Canada Customs and Revenue Agency would still act as the collection agency and the definition of taxable income continues to be defined by the federal government.

A tax on income structure allows Saskatchewan to determine income brackets and tax rates separate from the federal system. This permits a significant improvement in the simplicity and transparency of Saskatchewan’s tax structure through the elimination of the current system’s flat tax, surtaxes and low income reduction. It also allows for both an increase in the Province’s support for existing non-refundable tax credits and the creation of new tax credits to meet the Province’s social and economic goals.

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX B E&H TAX MEASURES

The Education and Health (E&H) Tax rate remains at 6 per cent, the lowest sales tax rate in Canada.

As part of the 2000 tax reform to improve the fairness of Saskatchewan's tax system, the Government of Saskatchewan is:

- < expanding the tax base of the E&H Tax in two steps; and,
- < introducing the Saskatchewan Sales Tax Credit to reduce the impact of the sales tax on Saskatchewan's lower income taxpayers.

The Government will also be entering into an agreement with the Canada Customs and Revenue Agency to collect the E&H Tax on taxable commodities entering Saskatchewan from outside Canada. Both the travellers' stream, and the postal and courier streams of taxable commodities will be subject to the E&H Tax. The current federal exemption limits will apply for provincial tax purposes.

TAX BASE EXPANSIONS EFFECTIVE MARCH 30, 2000

Effective March 30, 2000, the E&H Tax will apply to the following categories (with exemptions within certain categories noted).

Repair Services

Repair services to items such as vehicles, business equipment, appliances, and furniture.

- < Repairs to real property, such as house painting, roofing or driveway repairs remain exempt. Repairs to exempt items, such as farm equipment, also remain exempt.

Dealer Sales of New and Used Vehicles

The application of the E&H Tax to dealer sales of vehicles is being changed to take into consideration the value of trade-in vehicles. Effective March 30, 2000, the E&H Tax will apply to the cash difference on sales of all new and used vehicles by dealers.

Private Sales of Used Vehicles

The private sale of a used vehicle (i.e. by someone other than a licensed vendor).

- < The purchaser will be allowed a deduction of \$3,000 in calculating the amount on which tax is owing.

Used Goods

Used goods, including appliances and business assets.

- < On the purchase of used personal goods, the tax will apply to the selling price of the goods less a deduction of \$300 per item to ensure that lower-priced goods remain tax exempt. "Personal goods" (other than vehicles) means any item purchased by an individual for personal, non-commercial use (e.g. items such as appliances, adult clothing, furniture, computers, jewellery, sporting goods and household items).

Computer Services

Pre-written and custom programs, including charges for software modifications, installation, configuration, accessing a database, data entry, and other computer-related services.

Off-reserve Purchases by Status Indians

Purchases made off reserve by Status Indians.

- < Goods that are delivered to a reserve by the retailer remain exempt from tax upon presentation of a Certificate of Indian Status identification card number issued under the federal *Indian Act*.

Non-prescription Drugs and Medicines

Non-prescription drugs and medicines (e.g. pain relievers, vitamins, and ointments).

- < Drugs and medicines prescribed by a medical practitioner remain exempt.

Maintenance Contracts

Maintenance contracts that provide for regular servicing of equipment.

- < The parts, labour, materials and supplies used to repair or service the equipment under the terms of the contract will be exempt from tax.

Bedding Plants, Trees and Shrubs

Bedding plants, grass seed, garden seed, flower bulbs, trees, shrubs, and sod.

Veterinary Fees, Veterinary Drugs and Medicines and Pet Food

Veterinary fees, drugs and medicines and pet food, including vitamins and dietary supplements.

- < Livestock veterinary fees and drugs and medicines administered to farm livestock by a veterinarian remain exempt from tax. Drugs and medicines purchased by a farmer for livestock also remain exempt.

Dry Cleaning and Laundry Services

Dry cleaning and laundry services excluding coin-operated laundering.

Real Estate Fees

Fees and commissions paid to real estate agencies for selling real property. The tax will not apply to appraisal fees and property inspection fees.

Other Services

Telephone answering services; credit bureau and collection agency fees, including charges to collect accounts; and security and investigation services including monitoring commercial buildings, private investigations, guard dog services, patrol services, armoured security services and alarm monitoring services.

Other Tax Changes Effective March 30, 2000

The E&H Tax will apply to:

- < Flyers and advertising materials inserted into newspapers;
- < Business use aircraft, including repair parts and labour (but excluding aircraft used for crop-spraying); and,
- < Oilfield chemicals, including demulsifiers, desulfurizers, dehydrators, dispersants, and antifoamers.

TAX BASE EXPANSIONS EFFECTIVE JULY 1, 2000

Effective July 1, 2000, the E&H Tax will apply to the following services consumed in Saskatchewan:

- < Professional services, including legal, accounting, architectural, consulting and engineering services;
- < Commercial building cleaning services;
- < Advertising services; and,
- < Employment placement services.