

## ***Saskatchewan Finance Backgrounder...***

### **EDUCATION AND HEALTH (E&H) TAX**

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 items taxed elsewhere. This Budget expands the E&H Tax base to include new goods and services. However, the Saskatchewan Sales Tax Credit is also being introduced that will improve the fairness of the E&H Tax for lower income earners. For families earning less than \$25,000, the overall impact will be lower overall E&H Tax.

#### **Tax Base Expansions:**

Commencing midnight Budget night, the E&H Tax base will be expanded to apply to repair services (excluding repairs to real property and exempt items), computer services, real estate fees, non-prescription drugs, maintenance contracts, bedding plants (including 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 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 personal used goods of \$300 or less (e.g. clothes, furniture, appliances) 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 -- lower-priced vehicles sold privately therefore remain tax-free.
- < 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 regarding 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.

## Introduction of the Saskatchewan Sales Tax Credit:

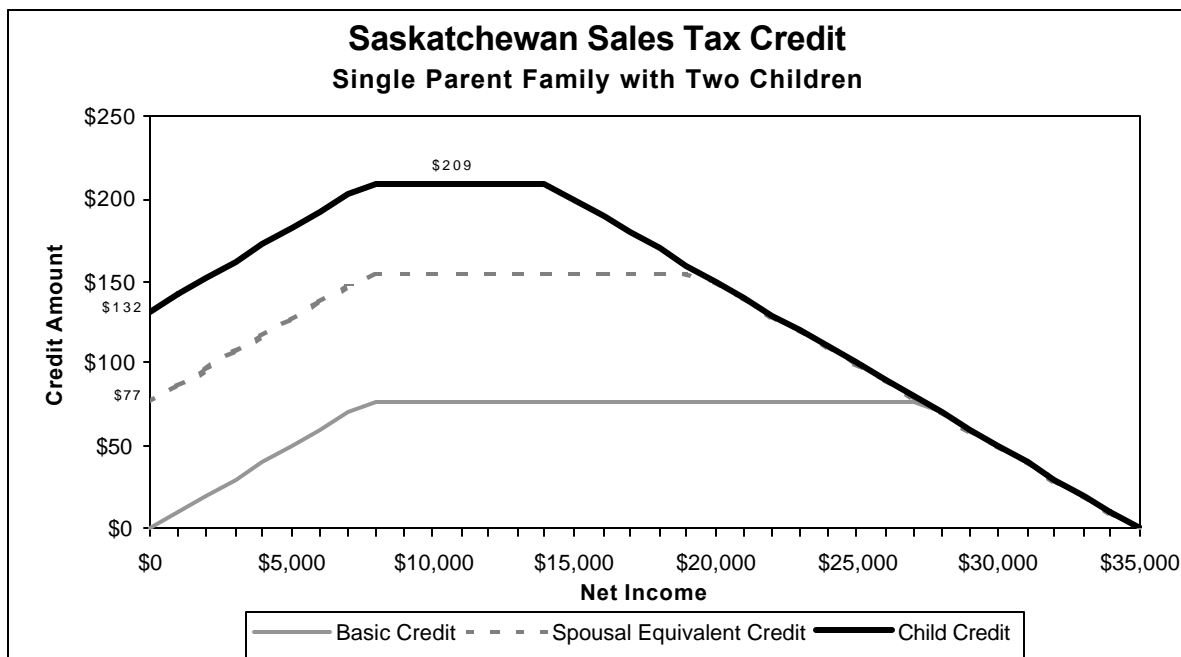
In conjunction with the E&H Tax reforms, a new \$32 million per year refundable sales tax credit is being introduced effective April 1, 2000 to offset the impact of the sales tax on lower income earners. The Saskatchewan Sales Tax Credit will consist of an adult component and a child component.

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 is equal to one per cent of individual net income to a maximum of \$77. It is 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.

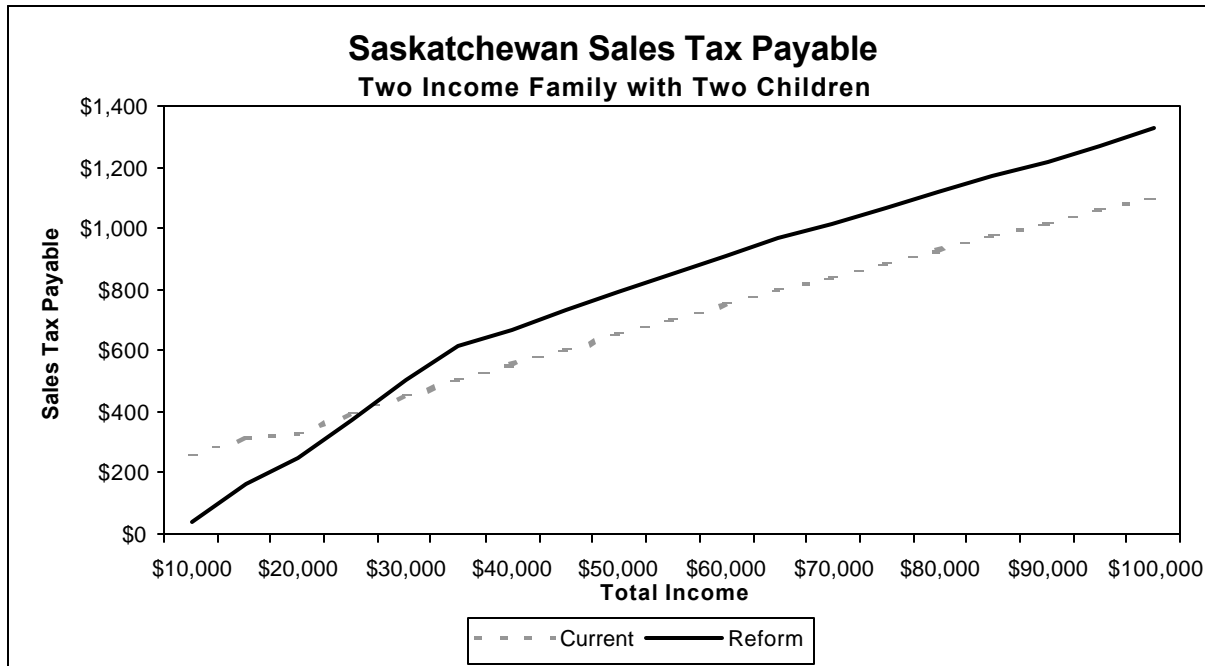
The child component of the Credit will provide an additional \$55 per child. For two-parent families, the maximum child component will be \$110, resulting in a maximum annual Saskatchewan Sales Tax Credit of \$264. For single parent families, the first child will be eligible for the adult benefit of \$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 following table presents how benefits from the Tax Credit are distributed to a single parent family with two children.



## Impact of the E&H Tax Reform:

The Saskatchewan Sales Tax Credit significantly improves the fairness of the E&H Tax. As the following table illustrates, lower income families will experience a significant reduction in E&H Tax even after the impact of the base expansions are considered.



## **FISCAL STABILIZATION FUND**

The Government will introduce legislation in 2000-01 to create a Fiscal Stabilization Fund (FSF). The FSF will help the Government stabilize the province's fiscal position from year-to-year.

### **Stabilization is critical for the achievement of long-term goals**

Long-term planning is critical to responsible fiscal management. However, year-to-year volatility in revenues and expenditures can impede the achievement of long-term objectives. Revenue volatility arises from fluctuations in commodity prices, changes in federal transfers and economic booms and slumps. On the expenditure side, unanticipated events, such as extreme forest fires, create exceptional circumstances to which the Government must respond.

Short-term drops in revenue and exceptional expenditures lead to pressure for tax increases and program reductions, which may be inappropriate over the long-term. A fiscal stabilization mechanism helps governments pursue long-term objectives in the best interests of the public by reducing the pressure for stopgap solutions to short-term volatility.

### **Changing role for the Saskatchewan Liquor and Gaming Authority**

Since 1925, the Province has used transfers from the Saskatchewan Liquor and Gaming Authority (SLGA) and its predecessor, the Saskatchewan Liquor Board, for fiscal stabilization.

With the creation of the Fiscal Stabilization Fund, transfers from the SLGA will no longer be used for stabilization. In 2000-01, the General Revenue Fund (GRF) will receive the final SLGA retained earnings dividend. From 2001-02 onward, the SLGA will pay a dividend equal to the SLGA's annual profits to the GRF. The GRF budget will include all of the SLGA's annual profits.

### **The role of the Fiscal Stabilization Fund**

The move to a formal stabilization fund means the Province's ability to stabilize its financial position will no longer be tied to the operating profits generated by the SLGA. Instead, in years when the Province's economy and finances are strong, the Government will transfer funds to the FSF. In years when the Province faces fiscal challenges, the GRF will draw against the FSF balance.

Over the long-term, the Government will target an FSF balance equal to five per cent of the previous year's GRF revenue. A five per cent target balance will provide the flexibility required to manage revenue volatility and meet requirements for exceptional expenditures.

Although the initial FSF balance will be higher than the target level, the Government's four-year financial plan adjusts the FSF balance to the target. Over the four-year period, the FSF will serve as a cushion for fiscal stabilization while facilitating investment in long-term initiatives.

<b>Fiscal Stabilization Fund Forecast</b>				
<b>(Millions of Dollars)</b>	<b>2000-01 Forecast</b>	<b>2001-02 Forecast</b>	<b>2002-03 Forecast</b>	<b>2003-04 Forecast</b>
Fiscal Stabilization Fund, Beginning of Year	-	405	350	320
Transfer from the General Revenue Fund	405	-	-	-
Transfers to the General Revenue Fund:				
Centenary Capital Fund	-	(30)	(30)	(30)
Agricultural Initiatives	-	(25)	-	-
<b>Fiscal Stabilization Fund, End of Year</b>	<b>405</b>	<b>350</b>	<b>320</b>	<b>290</b>
<b>Share of Prior Year's Forecast Revenue</b>	<b>7.0%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.0%</b>

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