

BUDGET PAPER C: PERSONAL INCOME TAXES

This section details the new Provincial Personal Income Tax system, Tax on Income, which was put into effect January 1, 2001. It also includes a comparison of the new tax regimes in place in 2001 for other provinces as well as the Federal Government.

TAX ON INCOME

The 2000 Provincial Budget indicated that Prince Edward Island would adopt a new approach to calculating provincial income taxes in 2001. The Provincial Personal Income Tax is now calculated from taxable income rather than as a per cent of Federal Tax. The new system, called "Tax on Income", was partially implemented by five provinces in 2000 and fully implemented by four other provinces, including Prince Edward Island, in 2001. Quebec administers its own income taxes separately.

Prior to this change, the Tax Collection Agreement between provinces and the Federal Government provided that Canada Customs and Revenue Agency (CCRA - formerly Revenue Canada) would administer provincial income taxes only if they were expressed as a rate on the Federal Income Tax, with some minor variations. This limited the flexibility of provinces to customize their tax systems to their own needs. Under the new Agreement, Prince Edward Island, along with other provinces, has the flexibility to set provincial rates, income thresholds and credits.

Prince Edward Island's new system will be more transparent, while the benefits of the former system - single administration and common rules - will be retained. All provinces that enter into the new Tax Collection Agreement are required to accept a common definition of taxable income.

Island tax filers will continue to file a single Personal Income Tax Return under the new system. The new Tax on Income return will specify provincial income tax rates, thresholds, and non-refundable credits. Tax filers will see the new forms in the Spring of 2002 when they complete their taxes for the 2001 taxation year. **Canada Customs and Revenue Agency will continue to administer Prince Edward Island's personal income taxes, as in the past.**

Extensive amendments to the Prince Edward Island's *Income Tax Act* were passed in the fall of 2000 to provide for implementation of the Tax on Income system January 1, 2001. The Province will apply three personal income tax rates for the 2001 taxation year - a low rate of 9.8 per cent, a middle rate of 13.8 per cent and a top rate of 16.7 per cent. The rates were derived from the tax on tax rate of 57.5 per cent that was adopted in 2000, as multiplied by the federal rates of 17 per cent, 24 per cent, and 29 per cent.

Table C.1 presents the Federal and Provincial tax rates and thresholds for 2001 for all provinces except Quebec. Quebec has been excluded from the table because its personal income tax system is not comparable with the other provinces.

Table C.1: Federal and Provincial Tax Rates, Thresholds and Surtaxes for Individuals - 2001

	Tax Rates (%)	Thresholds (\$)	Surtax Rates (%)	Surtax Thresholds (\$)
Federal	16.0 22.0 26.0 29.0	7,412 – 30,754 30,755 – 61,509 61,510 – 100,000 100,000 and over		
Newfoundland	10.57 16.16 18.02	7,410 – 29,590 29,591 – 59,180 59,181 and over	9	7,032
Prince Edward Island	9.8 13.8 16.7	7,412 – 30,754 30,755 – 61,509 61,510 and over	10	5,200
Nova Scotia	9.77 14.95 16.67	7,231 – 29,590 29,591 – 59,180 59,181 and over	10	10,000
New Brunswick	9.68 14.82 16.52	7,231 – 29,590 29,591 – 59,180 59,181 and over	8	13,500
Ontario	6.20 9.24 11.16	7,412 – 30,814 30,815 – 61,629 61,630 and over	20 36	3,560 4,491
Manitoba	10.9 16.2 17.5	7,361 – 30,544 30,545 – 61,089 61,090 and over		
Saskatchewan	11.5 13.5 16.0	8,000 – 30,000 30,001 – 60,000 60,001 and over		
Alberta	10.0	12,901 and over		
British Columbia	8.4 11.9 16.7 18.7 19.7	8,000 – 30,484 30,485 - 60,969 60,970 - 70,000 70,001 - 85,000 85,001 and over		
Notes:				
1 Minimum threshold amounts refer to each province's Basic Personal Amount.				
2 All rates and brackets are current as of March 24, 2001.				

The Government of Prince Edward Island also introduced the Low Income Tax Reduction program in 2000, which will continue for the 2001 and future taxation years. In addition, the previously existing Political Contribution Credit and the High-Income Surtax will be maintained.

The 2000 Prince Edward Island Budget committed the Government to pass through the provincial effect of the federal tax reductions that were in the 2000 Federal Budget. This included the indexation of thresholds and non-refundable credits for the 2001 taxation year. Provincial income tax thresholds and non-refundable credit values have been increased to match the Federal increases to account for inflation. The Basic Personal Amount, below which no personal tax is payable, increases from \$7,231 to \$7,412, and the middle income rate is lowered from 25 per cent to 24 per cent, which the Province has mirrored by reducing the provincial middle rate from 14.4 per cent to 13.8 per cent for 2001. Table C.2 presents Prince Edward Island's non-refundable credits values for the 2001 taxation year.

Table C.2: Non-refundable tax credit values for PEI for 2001 tax year

Credit	Value
Basic personal amount	\$7,412
Age amount	\$3,619
<i>Income threshold</i>	<i>\$26,941</i>
Spousal amount	\$6,294
<i>Income threshold</i>	<i>\$629</i>
Equivalent to spouse amount	\$6,294
<i>Income threshold</i>	<i>\$629</i>
Amount for infirm dependants	\$2,446
<i>Income threshold</i>	<i>\$4,966</i>
Pension income amount	\$1,000
Caregiver amount	\$2,446
<i>Income threshold</i>	<i>\$11,953</i>
Disability amount	\$4,400
Disability supplement	\$3,015
Full-time education amount	\$200/month
Part-time education amount	\$60/month
<i>Transfer limit for tuition and education amounts</i>	<i>\$5,000</i>
<i>Medical expense threshold</i>	<i>\$1,678</i>

The incorporation of the tax rates, income thresholds and non-refundable tax credit values shown in Tables C.1 and C.2 reduces the tax payable in 2001 by \$4 million. The Federal Government's Economic Statement and Budget Update on October 18, 2000 included further changes to Federal income tax rates, thresholds, and non-refundable credits for the 2001 Taxation year. Incorporating these additional measures

into the Prince Edward Island Tax on Income system would have cost the Province an additional \$12 million in 2001-02.

Taxation reductions introduced in the 1999 and 2000 Provincial Budgets have kept Prince Edward Island's taxation levels competitive with our Atlantic neighbours, but the Province has not been able to match the more aggressive personal income tax reductions of other provinces, most notably Ontario and Alberta. Table C.3 presents estimates of Federal and Provincial taxes payable for a range of family types and incomes levels in 2001.

Table C.3: Federal and Provincial Personal Income Tax Payable: Examples by Family type and Income for the 2001 Taxation Year

	Example 1 Single person with no children	Example 2 Single parent with one child	Example 3 Family with two children	Example 4 Single senior with no dependants
Income	\$25,000	\$35,000	\$50,000	\$15,000
Basic Federal Tax	\$2,576	\$3,319	\$6,582	\$475
Newfoundland	\$1,702	\$2,352	\$4,752	\$329
Prince Edward Island	\$1,578	\$2,047	\$4,094	\$41
Nova Scotia	\$1,591	\$2,184	\$4,404	\$16
New Brunswick	\$1,576	\$2,164	\$4,365	\$313
Ontario	\$997	\$1,313	\$2,685	\$57
Manitoba	\$1,761	\$2,159	\$4,189	\$32
Saskatchewan	\$1,784	\$2,039	\$3,692	\$226
Alberta	\$1,061	\$706	\$2,183	\$0
British Columbia	\$1,303	\$1,671	\$3,436	\$203
Notes:				
1 Calculations reflect the Prince Edward Island Low Income Tax Reduction and similar credit programs in other provinces.				
2 Calculations reflect provincial tax regimes effective March 24, 2001.				

Source: Provincial Treasury estimate