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2016 Newfoundland and Labrador budget summary

April 2016

On April 14, 2016, Newfoundland and Labrador Finance Minister Cathy Bennett tabled the province's 2016-17 budget. The budget forecasts a deficit of \$2.2 billion for 2015-16—up dramatically from the \$1.1 billion deficit that was projected in last year's budget. The government expects the deficit for 2016-17 to be \$1.83 billion. It is also projecting multi-billion-dollar deficits for the rest of the decade. The government does not expect to get into a surplus position until 2022/23.

The increase in the deficit is mainly due to the decline in revenue from plunging oil prices and reduced production. Last year's budget was based on a US \$62 barrel of oil, as well as a five year plan that provided for a steady rebound in the price of oil (to US \$71 a barrel for 2016/17 and then climbing all the way to US \$90 by 2020/21). For the past month, Brent crude has been trading at an average of around US \$40 per barrel.

As expected, this is a very tough budget for taxpayers and almost everyone will be impacted. It's estimated that the additional fees and taxes will cost an average household in Newfoundland and Labrador nearly \$3,000 more per year. The public service will shrink by hundreds of positions, classroom sizes will increase, subsidies are being reduced, some government offices will close and significant infrastructure projects have either been deferred or cancelled.

The government is also eliminating the "baby bonus"¹ and will roll back its decision from two years ago to scrap student loans in favour of grants.

Although a number of measures to address the deficit were announced in this budget, the government stated that it will include more actions in a supplemental budget later this year, followed by longer-term actions in Budget 2017.

Following is a summary of the tax measures in the budget.

¹ A \$1,000 lump sum payment to residents of the province who give birth to a baby or have a child placed with them for adoption, plus an additional benefit of \$100 per month for the next 12 months (total benefit of \$2,200).

Business tax measures

Corporate tax rates

Effective January 1, 2016, the general corporate tax rate of 14% will increase to 15%, and the manufacturing and processing profits tax credit will be eliminated. No changes are proposed to the small business corporate tax rate or the \$500,000 small business limit.

Effective January 1, 2016, the financial corporations capital tax rate will also increase by 1%.

Newfoundland and Labrador's corporate tax rates for 2016 are summarized in Table A below:

Table A

Newfoundland corporate tax rates

Year	Small business tax rate	General corporate tax rate	Manufacturing and processing tax rate
2016	3%	15%	15%

Insurance Companies Tax

Effective July 1, 2016, the Insurance Companies Tax will increase from 4% to 5%.

Personal tax measures

Personal income tax rates

Effective July 1, 2016, personal income tax rates will increase for all income ranges. Table B illustrates the new rates.

Table B

Taxable income	Current	2016 ²	2017
First \$35,148	7.7%	8.2%	8.7%
Over \$35,148 up to \$70,295	12.5%	13.5%	14.5%
Over \$70,295 up to \$125,500	13.3%	14.55%	15.8%
Over \$125,500 up to \$175,700	14.3%	15.8%	17.3%
Over \$175,700	15.3%	16.8%	18.3%

Dividend tax credit

The dividend tax credit rate will be reduced for non-eligible dividends from 4.1% to 3.5% for dividends received on or after July 1, 2016.

Table C illustrates the top (federal and provincial combined) marginal rate of tax on various types of income for 2016 (pre-budget), 2016 (post-budget) and 2017.

Table C

Type of income	2016 (old)	2016 (new)	2017
Interest	48.3%	49.8%	51.3%

² The 2016 rate is an annualized rate based on an implementation date of July 1 for the increase.

Capital gains	24.15%	24.9%	25.65%
Eligible dividends	38.47%	38.47%/40.54% ³	42.61%
Regular dividends	39.4%	39.4%/41.86% ⁴	43.62%

Deficit reduction levy

Effective July 1, 2016, a temporary deficit reduction levy is being introduced. This levy will be based on taxable income, but individuals with a taxable income of \$20,000 or less will be exempt. For example, where taxable income is more than \$74,500 but not more than \$200,000, the levy will be \$750. Where taxable income is more than \$202,500, the levy will be \$900. This levy will start to be phased out over a three-year period starting in 2018.⁵

Newfoundland and Labrador income supplement

A new Newfoundland and Labrador income supplement will be paid to those eligible in quarterly installments. Eligibility will be based on family net income. This supplement is replacing two previous programs for low income taxpayers.

The government is also investing \$12.7 million to enhance the existing Seniors' Benefit.

Sales tax measures

Harmonized sales tax (HST)

The government had initially cancelled a 2% provincial rate increase (from 8% to 10%) that was supposed to commence in January of this year. However, with this budget, effective July 1, 2016, the HST rate will go up from 13% to 15% , with the provincial portion of the HST increasing from 8% to 10%.

Retail sales tax

Effective July 1, 2016, a tax of 15% will be applied to insurance premiums for property and casualty insurance policies, and the tax on used vehicles will go up from 14% to 15%.

Other measures

Tobacco tax

Effective April 15, 2016, tobacco taxes will increase by one cent per cigarette and by two cents per gram on fine-cut tobacco products.

Gasoline tax

Effective June 2, 2016, gasoline tax will temporarily increase by 16.5 cents per litre up to 33 cents per litre. This tax increase will be reviewed ahead of the fall 2016 supplemental budget. The tax rate on diesel products will also increase by 5 cents per litre and the tax rate on aviation fuel will go up by 1.8 cents per litre. Taxes on home heating fuels will not change.

Effective June 2, 2016, a new rebate of 10 cents per litre will be provided for gasoline used in motor vehicles in the Labrador Border Zones.

³ For dividends received before July 1, 2016 and after June 30, 2016 respectively.

⁴ see above

⁵ Additional details on the implementation of this levy have yet to be provided.

Fee increases

The government has also introduced 50 new fees and proposed increases to a further 300.

Please contact us if you have any questions about any of the tax measures discussed in this release.

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