



2018 Prince Edward Island budget summary

April 2018

Tax alert

On April 6, 2018, Minister of Finance Heath MacDonald tabled Prince Edward Island's (PEI) 2018-19 budget. This budget sees the province experiencing strong economic and population growth and presents the second balanced budget in a row for the province's Liberal government. As a result of the province's growth, the 2018 provincial budget presents large spending increases to invest in the province's frontline services and address the challenges facing the people of PEI. Notable expenditures include \$32.5 million in new budgetary allocation towards health care; \$17 million towards the development of new affordable housing solutions across the province; \$17 million in additional spending towards education and early learning; and \$3.3 million in additional funding for post-secondary students, including the development of a new Island Advantage bursary and increased debt reduction grants available to students who reside in PEI within three years post-graduation.

Additionally, through partnerships with the federal government, PEI is investing in its agriculture and fisheries sectors. \$38 million is being allocated from the Atlantic Fisheries Fund over the next seven years to encourage innovation, productivity, automation and new product development in the seafood industry and \$164 million is being allocated from the Canadian Agricultural Partnership over five years to support programs focused on markets and trade, science, research and innovation, risk management, value-added agriculture and agri-food processing, environmental sustainability, climate change and public trust.



With the province's GDP exceeding a healthy 2% for the second year in a row, the government is continuing to estimate balanced budgets to 2020-21. Fiscal results for the next three years are projected as follows:

Year	Projected surplus
2017-18	\$1.2 million
2018-19	\$1.5 million
2019-20	\$3.1 million
2020-21	\$4.2 million

Over this same period, the province's net debt is expected to increase by approximately \$100 million, from \$2.2 billion in 2017-18 to 2.3 billion in 2020-21. As a percentage of GDP though, net debt is expected to decrease from 33.1% in 2017-18 to 31.6% in 2020-21.

Business tax measures

Corporate tax rates

A reduction to the provincial small business tax rate has been announced as part of this budget. The rate will decrease from 4.5% to 4.0% this fiscal year, resulting in savings of up to \$2,500, and the province has announced that it is committed to further reducing this rate in future years. No changes to the \$500,000 small business limit are proposed. PEI's corporate tax rates for 2018 are summarized in Table A below:

Table A

Prince Edward Island corporate tax rates

	Provincial	Combined federal and provincial
Small business tax rate	4.00%	14.00%
General corporate tax rate	16.00%	31.00%
Manufacturing and processing tax rate	16.00%	31.00%

Small Business Investment Grant

A Small Business Investment Grant will also be introduced this year that would provide companies with a 15% rebate on up to \$25,000 in direct investments made to improve their businesses. At the maximum investment amount, this grant has the potential to provide businesses with \$3,750 in savings.

At the time of the budget's release, no further information was provided as to the types of expenditures that might qualify for this grant, or whether there would be any restrictions as to the types of companies that would be eligible.

Personal tax measures

Personal income tax rates

No changes to personal income tax rates have been proposed as a result of this budget. The relevant rates for 2018 are as follows:

- 9.8% on the first tax bracket (first \$31,984)
- 13.8% on the second tax bracket (over \$31,984 up to \$63,969)
- 16.7% on the third tax bracket (over \$63,969)

Table B illustrates the top combined federal-PEI marginal rate of tax on various types of income for 2018.

Table B

Prince Edward Island combined marginal personal tax rates

Taxable income	2018
Interest	51.37% ¹
Capital gains	25.69%
Eligible dividends	34.22%
Regular dividends	44.25% ²

Basic personal amount

It has been announced that the basic personal amount will increase from \$8,160 in 2017 to \$9,160 as of January 1, 2019. This increase will be staggered over the two year period and will increase by \$500 for the 2018 taxation year and by another \$500 effective January 1, 2019. As a result of this increase, the spouse and equivalent-to-spouse amounts will increase proportionately.

Other measures

Carbon pricing

While the province's carbon plan was not announced as part of this budget, it was indicated that the province is continuing to work with the federal government on the development of this plan and that further details would be provided later this year.

Cannabis tax

The 2018 provincial budget notes that PEI has agreed to enter into a coordinated framework with the federal government regarding the taxation of cannabis, with legislation to be released later this spring. The province has also announced that it is estimating \$7.5 million in revenues to be obtained from the taxation of cannabis in the first year of legalization and that it has committed \$200,000 in funding for public information and education that will support informed choice among residents of PEI.

Harmonized Sales Tax (HST)

To promote clean energy initiatives and reduce electricity costs (by an estimated \$120 per household per year), PEI will provide a point-of-sale rebate of the provincial portion of HST on

- residential electricity (first block only); and
- certain heat sources, including firewood, pellets and propane.

¹ Includes the 10% PEI surtax applied to basic provincial income taxes payable above \$12,500.

² Rate will increase during the year, as a result of the decrease to the small business tax rate, to preserve current levels of integration.