



2018 Newfoundland and Labrador budget summary

March 2018

Tax alert

On March 27, 2018, Minister of Finance Tom Osborne tabled Newfoundland and Labrador's 2018-19 budget. This budget sees the province's Liberal government focusing on reducing expenditures as part of an overall approach to address the province's economic, social and fiscal challenges. The government has indicated that these challenges need to be addressed in a balanced manner, without massive job reductions or cuts to services, to avoid a compounding effect on an already challenged economy. The province plans to work towards fiscal balance over the next five years by reducing the government's overall footprint, achieving operational efficiencies through the use of technology and shared services, and continuing to focus on expenditure control.

While the tax measures presented in this budget are minor, it does show that the government is taking positive steps towards reducing certain austere taxation measures that were implemented as part of the 2016 provincial budget to raise revenues during a challenging economic time. Furthermore, an independent review of the province's taxation system is currently under way, with a final report of recommendations expected to be submitted by November 2018 for consideration in the province's 2019 provincial budget.



Through its efforts to reduce expenditures, the government of Newfoundland and Labrador is projecting a surplus by the 2022-23 fiscal year. Fiscal results for the next five years are projected as follows:

Year	Projected surplus/(deficit)
2017-18	(\$812 million)
2018-19	(\$683 million)
2019-20	(\$507 million)
2020-21	(\$654 million)
2021-22	(\$243 million)
2022-23	\$56 million

These fiscal projections are based on key estimates that the price of oil will approximate \$63 per barrel and the US to Canada exchange rate will approximate US \$0.79 in both 2018-19 and 2019-20. Additionally, the projected deficits in 2017-18 and 2018-19 are impacted by the payment of severance expenses agreed to under recent collective agreements with public sector employees.

Net debt as a percentage of the province's GDP is expected to increase until 2020-21 and then begin to decrease.

Furthermore, net borrowing for the duration of the government's 2022-23 fiscal plan is now projected to increase by \$1.4 billion, with \$1.1 billion of this resulting from changes in cash flows relating to Nalcor Energy.

Business tax measures

Corporate tax rates

No changes to the province's corporate tax rates, or the \$500,000 small business limit, are proposed. Newfoundland and Labrador's corporate tax rates for 2018 are summarized in Table A:

Table A

Newfoundland & Labrador corporate tax rates

	Provincial	Combined federal and provincial
Small business tax rate	3.00%	13.00%
General corporate tax rate	15.00%	30.00%
Manufacturing and processing tax rate	15.00%	30.00%

Health and Post-Secondary Education Tax

The province currently imposes a 2% payroll tax on employers whose annual remuneration exceeds a threshold of \$1.2 million. The 2018 provincial budget increases this exemption threshold to \$1.3 million effective January 1, 2019. Employers that have been subject to this tax will pay up to \$2,000 less in tax starting in 2019.

Personal tax measures

Personal income tax rates

No changes to personal income tax rates, or the temporary deficit reduction levy applying to taxpayers with taxable income over \$50,000, have been proposed as a result of this budget. The relevant rates for 2018 are as follows:

- 8.7% on the first tax bracket (first \$36,926)
- 14.5% on the second tax bracket (over \$36,926 up to \$73,852)
- 15.8% on the third tax bracket (over \$73,852 up to \$131,850)
- 17.3% on the fourth bracket (over \$131,850 up to \$184,590)
- 18.3% on the fifth bracket (over \$184,590)

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

Table B

Newfoundland & Labrador combined marginal personal tax rates

Taxable income	2018
Interest	51.30%
Capital gains	25.65%
Eligible dividends	42.61%
Regular dividends	43.81%

Search and Rescue Volunteer Tax Credit

Effective January 1, 2019, a \$3,000 non-refundable Search and Rescue Volunteer Tax Credit has been introduced to provide personal tax relief to eligible search and rescue volunteers.

Home Purchase Program

A new Home Purchase Program has been introduced as part of the 2018 provincial budget that will provide taxpayers with \$3,000 in grants to put towards the purchase of a newly constructed or never before purchased home costing under \$400,000.

Other measures

Retail sales tax on insurance premiums

As part of the 2016 provincial budget, a 15% retail sales tax was imposed on taxable premiums for insurance contracts relating to property, risk, peril or events in the province. The 2018 provincial budget announces that the retail sales tax levies on automobile insurance premiums specifically will be reduced by a minimum of 5% over the next four years. As of January 1, 2019, this tax will decrease by 2%, with further reductions of 1% on each of January 1, 2020, 2021 and 2022.

Carbon tax

It has also been announced that the province is currently in the process of finalizing its approach to carbon pricing, making it among the last of the provinces to announce its carbon pricing plan. It is expected that once this plan becomes effective, the temporary gas tax that was introduced in 2016 will be phased out.

Further details surrounding the carbon pricing plan are expected to be released later in the spring of this year.