



# TaxNewsFlash Canada

## Highlights of the 2016 Newfoundland and Labrador Budget

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Newfoundland and Labrador Finance Minister Cathy Bennett delivered the province's 2016 budget on April 14, 2016. The budget increases both personal and corporate income tax rates along with the province's HST rate, eliminates the manufacturing and processing profits tax credit and increases the financial corporations capital tax and the insurance companies tax rate.

The budget anticipates a deficit of about \$2.2 billion for the 2015-2016 fiscal year and about \$1.8 billion for 2016-2017.

The Finance Minister stated in her budget speech that this budget will be followed by more action in a supplemental budget later this fall in conjunction with the province's fall fiscal update.

Highlights of tax measures announced in the budget are summarized below.

### **Personal tax measures**

#### *Personal income tax rates*

The budget increases personal income tax rates for all income brackets, effective July 1, 2016. The rates and brackets will be as follows:

<b>Newfoundland Personal Income Tax Rates and Brackets 2016-2017</b>			
	<b>2016</b>		<b>2017</b>
	<b>Before budget</b>	<b>After budget</b>	
\$0-\$35,148	7.7%	8.2%	8.7%
\$35,149-\$70,295	12.5%	13.5%	14.5%
\$70,296-\$125,500	13.3%	14.55%	15.8%
\$125,501-175,700	14.3%	15.8%	17.3%
Over \$175,700	15.3%	16.8%	18.3%

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

As a result of these changes, Newfoundland and Labrador's combined federal and provincial top marginal rates for income, capital gains and dividends will be as follows:

<b>Personal Combined Federal/Provincial Top Marginal Rates for 2016</b>				
	<b>2016</b>			<b>2017</b>
	<b>Before Budget</b>	<b>After Budget</b>	<b>% Increase</b>	
Interest and regular income	48.30%	49.80%	1.50%	51.30%
Capital gains	24.15%	24.90%	0.75%	25.65%
Eligible dividends				
- received before July 1, 2016	38.47%	38.47%	0.00%	42.61%
- received on or after July 1, 2016	38.47%	42.61%	4.14%	42.61%
Non-eligible dividends				
- received before July 1, 2016	39.40%	39.40%	0.00%	43.62%
- received on or after July 1, 2016	39.40%	43.62%	4.22%	43.62%

#### *Temporary deficit reduction levy*

The budget introduces a temporary deficit reduction levy based on taxable income, effective July 1, 2016. Individuals with taxable income of \$20,000 or less will be exempt from this levy. The levy increases incrementally up to \$900 for taxpayers with income over \$202,500. The budget states that this levy will be phased out beginning in 2018.

## Business tax measures

### Corporate income tax rates

The general corporate income tax rate will increase to 15% (from 14%), retroactive to January 1, 2016. Also, the budget will eliminate the manufacturing and processing profits tax credit, effective January 1, 2016. As a result, Newfoundland and Labrador's corporate income tax rates will be as follows:

Corporate Income Tax Rates - As of January 1, 2016				
	Newfoundland and Labrador		Combined Federal and Newfoundland and Labrador	
	Before budget	After budget	Before budget	After budget
General <sup>1</sup>	14.0%	15.0%	29.0%	30.0%
M&P	5.0%	15.0%	20.0%	30.0%
Small business <sup>2</sup>	3.0%	3.0%	13.5%	13.5%
<sup>1</sup> increase to the corporate general income tax rate is effective January 1, 2016 <sup>2</sup> on first \$500,000 of active business income				

### Financial corporations capital tax

The financial corporations capital tax rate will increase to 6% (from 5%), effective January 1, 2016.

### Insurance companies tax

The insurance companies tax rate will increase to 5% (from 4%), effective July 1, 2016.

## Indirect tax measures

### HST rate

Newfoundland's HST rate will increase to 15% (from 13%), effective July 1, 2016.

Also, the government will eliminate the HST point of sale rebate on books purchased by individuals.

### *Retail sales tax on insurance premiums and used vehicles*

The budget reintroduces the retail sales tax on insurance premiums, effective July 1, 2016. A 15% tax will be applied to insurance premiums for property and casualty insurance policies.

The retail sales tax on used vehicles will increase to 15% (from 14%), effective July 1, 2016.

### *Tobacco tax*

The tobacco tax will increase by one cent per cigarette and by two cents per gram of fine-cut tobacco, effective 12:01 am on April 15, 2016.

### *Gas tax*

The gasoline tax will temporarily increase by 16.5 cents per litre, effective June 2, 2016. The budget states that this tax increase will be reviewed ahead of the fall 2016 supplemental budget. A new rebate of 10 cents per litre will be provided for gasoline used in motor vehicles in the Labrador Border Zones, effective June 2, 2016.

The tax rate on diesel products will increase by 5 cents per litre.

The tax rate on aviation fuel will increase to 2.5 cents per litre (from 0.7 cents), effective June 2, 2016.

### **Other measures**

#### *Fees*

The budget introduces 50 new fees and modifies a further 300 fees for licences, permits, fines, services and inspections. These fees include the corporate annual return fee, which increases to \$100 (from \$75), effective January 1, 2017. A 10% discount is available for online filers.

#### *Programs*

The budget eliminates a wide range of government expenditures, including the home heating rebate program and the Labrador building material rebate program. The budget will modify the Newfoundland provincial drug program coverage for over-the-counter drugs and services.

## Tax review

The budget states that the Newfoundland government will complete a comprehensive independent review of the province's tax system. This review will take place after the federal government completes its tax system review and after the province's 2017-18 provincial budget.

## We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Newfoundland and Labrador budget on your personal finances or business affairs, and point out ways to take advantage of their benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

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