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2018 Saskatchewan budget summary

April 2018

Tax alert

On April 10, 2018, Minister of Finance Donna Harpauer tabled Saskatchewan's 2018-19 budget. This budget sees the province focusing on fiscal responsibility to achieve its target of balancing the budget by 2019. Spending is being controlled through a focus on the province's compensation costs, the largest single governmental budgetary expense, as well as through the creation of a single Saskatchewan Authority.

While reducing expenditures is paramount, notable investments in health care, social services and agriculture have also been included in this budget. A record breaking $5.77 billion is being allocated to health care spending; social services and assistance spending is being increased by $25 million to a record $1.38 billion; and $378 million is being invested in the agriculture sector, including record investment in agricultural research with more than $258 million to fully fund business-risk management programs such as Crop Insurance, AgriStability, AgriInvest and Western Livestock Price Insurance.

One notable absence in this budget is Saskatchewan's carbon tax plan and the province's government remains committed to opposing this tax.

Saskatchewan's new premier ran on a platform of balancing the province's budget by 2019. The estimates provided in the 2018 budget show that the government is on track to achieve this goal, with a $6 million surplus being projected for the 2019-20 fiscal year. Fiscal results for the next four years are projected as follows:

Year	Projected surplus/(deficit)
2017-18	($595 million)
2018-19	($365 million)
2019-20	$6 million
2020-21	$108 million
2021-22	$212 million

The province was able to reduce its deficit in part through a large savings in pension liability and reduced expense for the Teachers' Superannuation Plan as a result of higher interest rates and other changes in actuarial assumptions.

The province's net debt is forecasted to be $11.8 billion for the 2017-18 fiscal year and to increase to $12.6 billion by the 2018-19 fiscal year. As a percentage of its GDP, Saskatchewan's net debt at March 31, 2018 rests at 15%, which is the second lowest in Canada.

Business tax measures

Corporate tax rates

No changes to the province's corporate tax rates, or the small business limit, are proposed. Saskatchewan's corporate tax rates for 2018 are summarized in Table A.

Table A

Saskatchewan corporate tax rates

	Provincial	Combined federal and provincial
Small business tax rate (income up to $500,000)	2.00%	12.00%
Small business tax rate (income between $500,000 and $600,000)	2.00%	17.00%
General corporate tax rate	12.00%	27.00%
Manufacturing and processing tax rate	10.00%	25.00%

In November 2017, legislative amendments were introduced to increase the province's small business limit from $500,000 to $600,000 effective January 1, 2018.

Saskatchewan Value-added Agriculture Incentive

As part of its efforts to diversify the provincial economy in Saskatchewan, the new Saskatchewan Value-added Agriculture Incentive (SVAI) has been introduced to provide a 15% non-refundable tax credit on qualifying new capital expenditures until December 31, 2022. Such qualifying expenditures would include the development of new or existing value-added agriculture facilities that make a minimum capital investment of $10 million to create or expand productive capacity.

For the purposes of this credit, eligible value-added agriculture activities are defined as the physical transformation or upgrading of any raw or primary agricultural product or any agricultural by-product or waste into a new or upgraded product.

To access the credit, potential applicants must first receive conditional approval from the Saskatchewan Ministry of Trade and Export Development. To receive conditional approval, it must be demonstrated that the project will meet the qualifying criteria.

A certificate of eligibility indicating the amount of the company's qualifying capital expenditures will be issued by the Ministry at the point that construction has been completed, operations have been initiated and the new or expanded value-added production of the investment is evident. It is only once the certificate of eligibility is received that the company will be able to claim the credit. The redemption of the credit is limited to 20% in the first year of the facilities operations, 30% in the second year and 50% in the third year. Any unused amounts will carry forward for 10 years from the first year of operations.

Saskatchewan Technology Start-up Incentive

Further to the diversification efforts, the Saskatchewan Technology Start-up Incentive (STSI) is being introduced to further encourage business investment in early stage technology start-ups. The STSI is being created as a two-and-a-half-year pilot project offering a 45% non-refundable tax credit for individual and corporate equity investments in eligible technology start-up businesses, to a maximum annual benefit of $140,000 per investor. The tax credit is available to accredited or non-accredited investors, as well as to eligible venture capital corporations that invest in eligible technology start-ups. Non-accredited investors will be permitted to invest within the confines of the Saskatchewan securities legislation.

To qualify as an eligible technology start-up business, it is required that the corporation:

- be developing new technologies, or applying existing technologies in a new way, to create proprietary new products, services or processes that are repeatable and scalable;
- have less than 50 employees;
- be incorporated and headquartered in Saskatchewan; and
- maintain a majority of staff and operations in the Saskatchewan area.

Prior to being able to claim the credit, an eligibility certificate must be obtained from Innovation Saskatchewan. Unused credit amounts may be carried forward for up to four years post-investment. A two-year minimum hold period has also been instated and the eligible technology start-up may not be acquired, become publicly traded, or leave the province during that time.

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:

- 10.5% on the first tax bracket (first $45,225)
- 12.5% on the second tax bracket (over $45,225 up to $129,214)
- 14.5% on the third tax bracket (over $129,214)

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

Table B

Saskatchewan combined marginal personal tax rates

Taxable income	**2018 (pre-budget)**	**2018 (post-budget)**
Interest	47.50%	47.50%
Capital gains	23.75%	23.75%
Eligible dividends	29.64%	29.64%
Regular dividends	39.76%	39.59%

Freeze on personal tax rate reductions

As part of the 2017 provincial budget, it was announced that Saskatchewan's personal tax rates would be reduced in two stages. The first stage occurred on July 1, 2017 and the second stage was scheduled for July 1, 2019. The 2018 provincial budget has temporarily frozen this tax reduction plan and current personal tax rates will remain as is for the time being.

The indexation of personal income tax brackets has also been temporarily suspended starting in 2018, as announced in the 2017 provincial budget.

Non-eligible dividend tax credit

In line with the changes made to the small business tax rate at the federal level in fall of 2017, Saskatchewan will be adjusting its provincial non-eligible dividend tax credit rate to preserve integration. The province's non-eligible dividend tax credit rate will be

- 3.333% of taxable non-eligible dividend income for the 2018 taxation year; and
- 3.362% of taxable non-eligible dividend income for the 2019 and subsequent taxation years.

Caregiver tax credits

Effective for the 2017 taxation year, the federal caregiver credits have been consolidated into one Canada Caregiver Credit. As part of the 2018 provincial budget, it has been noted that Saskatchewan will not introduce legislation to mirror the federal changes and will instead maintain the existing provincial Infirm Dependant Tax Credit and Caregiver Tax Credit.

Other measures

Cannabis taxation

The 2018 provincial budget notes that Saskatchewan has agreed to enter into a coordinated framework with the federal government regarding the taxation of cannabis that will cover the first two years of legalization. As part of this framework, the province will receive 75% of the federal cannabis excise duty revenue that is generated in Saskatchewan, as well as a proportionate share of revenues that have been generated in Canada and are above the $100 million federal revenue cap on cannabis excise duty.

It has also been noted that Provincial Sales Tax will apply to all retail sales of cannabis products in Saskatchewan. To account for interprovincial sales tax rate differentials, the federal cannabis excise duty rate will be increased on sales that occur in Saskatchewan and the province will receive this revenue from the federal government.

Provincial Sales Tax

While there is no change to the Saskatchewan Provincial Sales Tax (PST) rate of 6%, effective April 11, 2018 Saskatchewan has opted to align the tax treatment of used light vehicles with other PST provinces by removing the exemption related to these. PST will now apply to all classes of new and used vehicles.

Other PST changes include:

- The province has reinstated the trade-in allowance deduction when determining PST on all sales of vehicles. Therefore, PST will now be calculated on the difference in price between the trade-in and purchased vehicle.
- Whereas a **deduction** of $3,000 was previously allowed on private sales, this is eliminated and replaced with an **exemption** on personal use vehicles with a purchase price of under $5,000. Excluded from this exemption are dealer sales, commercial use vehicles and any vehicles (personal or commercial) purchased from outside Canada.
- Subject to meeting certain criteria, PST will not be charged for used vehicles gifted between qualifying family members—spouses, parents or legal guardians, children, grandparents, grandchildren or siblings.
- The PST exemption for ENERGY STAR® appliances is removed.
- The PST exemption on life, health and agricultural insurance will be reinstated retroactive to August 1, 2017.

The above will be subject to specific transitional rules.