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Tax Alert – Canada

Prince Edward Island budget 2020-21

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“Budget 2020-21 is an important step on the path to recovery from COVID-19. While taking a measured response to the pandemic, with this budget we are also advancing the mandate we have been committed to since last year. We have heard from Islanders and collaborated with all parties in order to frame this budget.

We know that this is not where anyone wants to be in terms of a budget bottom line or in the current economic reality for our Island. But we also know this is where we all want to be to respond to the current circumstances.

Our plan (...) is certainly focused on short-term recovery in this year. But it also sets in motion an ambition for true growth and sustained success... for many years to come.”

*Prince Edward Island Finance Minister Darlene Compton
2020-21 budget speech*

On 17 June 2020, Prince Edward Island Finance Minister Darlene Compton tabled the province’s fiscal 2020-21 budget. The budget contains tax measures affecting individuals and corporations.

The minister anticipates a deficit of \$172.7m for 2020-21 and projects reduced deficits for each of the next two fiscal years (\$69.5m for 2021-22 and \$38.4m for 2022-23).

Following is a brief summary of the key tax measures.



Business tax measures

Corporate tax rates

No changes are proposed to the general corporate tax rate. However, the minister announced a reduction in the small-business rate to 2% from 3%, effective 1 January 2021. The \$500,000 small-business limit remains unchanged.

Prince Edward Island's current and proposed future corporate income tax rates are summarized in Table A.

Table A - Corporate tax rates

	Current PEI rate	Proposed 2021 rates	
		PEI	Federal and PEI combined
Small-business tax rate* **	3%	2%	11%
General corporate tax rate	16%	16%	31%

* The small-business rate is based on a 31 December year-end.

** Prince Edward Island reduced its small business rate from 3.50% to 3.00% effective 1 January 2020.

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2020 Prince Edward Island personal tax rates are summarized in Table B.

Table B - 2020 Prince Edward Island personal tax rates

First bracket rate	Second bracket rate	Third bracket rate
\$0 to \$31,984	\$31,985 to \$63,969	Above \$63,969
9.80%	13.80%	16.70%

In addition, there is a 10% surtax on provincial income tax in excess of \$12,500.

For taxable income in excess of \$99,488, the 2020 combined federal-Prince Edward Island personal income tax rates are outlined in Table C.

Table C - Combined 2020 federal and Prince Edward Island personal tax rates

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
\$99,489 to \$150,473	44.37%	24.56%	37.18%
\$150,474 to \$214,368**	47.59%	29.01%	40.88%
Above \$214,368	51.37%	34.22%	45.23%

* The rate on capital gains is one-half the ordinary income tax rate.

** The basic personal amount comprises two basic elements: the existing personal amount (\$12,298 for 2020) and an additional amount (\$931 for 2020). The additional amount is gradually phased out for individuals with taxable income in excess of \$150,473 and is fully eliminated for individuals with taxable income in excess of \$214,368. Consequently, the additional amount is clawed back on taxable income in excess of \$150,473 until the additional tax credit of \$140 is eliminated; this results in additional federal income tax (e.g., 0.22% on ordinary income) on taxable income between \$150,474 and \$214,368.

Personal tax credits

This budget proposes changes to the following personal credits/amounts:

- ▶ Increase in the basic personal income tax exemption to \$10,500 from \$10,000 as of 1 January 2021
- ▶ Increase in the low-income tax reduction threshold to \$19,000 from \$18,000 as of 1 January 2021

Other personal tax measures include the introduction of a new \$500 non-refundable Children's Wellness tax credit to assist families with the cost of organized activities related to their children's well-being, effective 1 January 2021.

Other tax measures

Tobacco tax

The minister announced the increase of the tobacco tax rates to 27.52 cents per gram of tobacco and to 75% of the retail price for cigars. These increases will be effective the day following the Royal Assent of the implementing legislation.

Gasoline tax

The minister also announced that the marked fuel program will be extended to all farm plated vehicles.

Learn more

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