



## TAX HIGHLIGHTS FROM THE 2020-2021 PRINCE EDWARD ISLAND BUDGET

Finance Minister Darlene Compton tabled the 2020-2021 Prince Edward Island provincial budget on June 17, 2020. The budget projects a deficit of \$172.7 million for the 2020-2021 fiscal year – a result of both the economic shock and increased expenditures as a result of COVID-19. At the same time, net debt to GDP is expected to increase with a projected ratio of 35.0% for 2020-2021, decreasing to 33.4% in 2022-2023.

On the income tax side, there were no changes to personal income tax rates. The budget did, however, propose a change to the small business tax rate, effective January 1, 2021. Also included in the budget was a change to the low-income tax reduction threshold aimed at lower-income families.

The following pages are a summary of the changes announced in the budget. Please note that these changes are proposals until passed into law by the provincial government.

### PERSONAL TAX MATTERS

#### Personal income tax rates and tax brackets

The 2020-2021 budget leaves personal income tax rates unchanged from 2019. Prince Edward Island does not index its tax brackets to reflect the impact of inflation. The table below shows Prince Edward Island tax rates and brackets for 2020.

Taxable income range	2020 tax rates
First \$31,984	9.8%
\$31,985 - \$63,969	13.8%
\$63,970 and over	16.7%

In addition to the tax rates noted in the above table, there is a surtax equal to 10% of provincial tax payable in excess of \$12,500.

The table below shows the 2020 combined federal and provincial highest marginal tax rates for various types of income.

Type of income	2020 combined tax rates
Regular income	51.37%
Capital gains	25.69%
Eligible dividends	34.22%
Non-eligible dividends	45.23%

#### Personal tax credits

As noted above, the Prince Edward Island government does not index personal income tax brackets. In order to provide some inflation protection, the budget proposes to increase the basic personal amount from \$10,000 to \$10,500 for 2021 and subsequent taxation years. In addition, the spouse amount and equivalent to spouse amount will both be increased by a proportionate amount.

## Children's wellness tax credit

To assist families with the cost of organized activities, the budget also proposes a new \$500 non-refundable children's wellness tax credit.

## Low-income tax reduction threshold

The low-income tax reduction threshold limits the extent to which families can claim certain credits aimed at lower-income families. Budget 2020-2021 proposes to increase the threshold from \$18,000 to \$19,000, effective January 1, 2021.

# CORPORATE TAX MATTERS

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## Corporate income tax rates

The budget proposes a reduction to the small business tax rate from 3.0% to 2.0%, effective January 1, 2021. The table below shows Prince Edward Island tax rates and the small business limit for 2020.

Category	2020 tax rates
General rate	16%
Manufacturing and processing rate	16%
Investment income rate	16%
Small business rate	3.0%
Small business limit	\$500,000

The table below shows the 2020 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

Type of income	2020 combined tax rates
Small business income	12.0%
Active income over \$500,000	31.0%
Manufacturing and processing income	31.0%
Investment income	54.7%



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