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STILL HOPE FOR LOWER PROVINCIAL TAXATION OF DIVIDEND INCOME

An air of pessimism is settling around the prospects for lower provincial taxation of dividend income on the basis of the provincial budgets so far. That is not an appropriate take. True, only Alberta has proposed cutting its corporate income tax rate, limiting the scope of this avenue for leveling the playing field on taxation between corporate dividends and trusts. But Quebec has specified the details of a new dividend tax regime that is fully consistent with that described by former Finance Minister Goodale last November. The new Conservative Government in Ottawa has promised to act upon the Liberal's intent to raise the gross up factor from 1.25 to 1.45 and the federal dividend tax credit from 13.33 to 19 per cent. Quebec has said it will raise its gross up factor to 1.45 as well and set the provincial dividend tax credit rate to 11.9 per cent. That in fact is higher than the current provincial corporate tax rate so for a few years achieves "over-integration" of the personal and corporate income tax systems for dividend income. Further, the Quebec actions are not conditional upon federal legislation. For advocates of lower taxation on dividend income it doesn't get better than that.

British Columbia and Manitoba have committed to raising their dividend tax credit rates with details pending the federal legislation. Realistically, that is all that could have been reasonably expected at this time. With the exception of Quebec, which is not in the Federal-Provincial Tax Collection Account, the provinces refer to the federal Income Tax Act in order to operate their own provincial dividend tax credits. So the explanation that they cannot give a detailed response to the federal proposal until they see the federal legislation is legitimate. While somewhat vague, the wording in the B.C. and Manitoba budgets is

consistent with an intent to raise their dividend tax credit rates to levels approximately equal to their corporate tax rates, thus fully eliminating double taxation.

Alberta and Ontario followed a third model in their budgets. Neither gave a commitment to raising their dividend tax credit rates, but rather said they would respond once they see the federal legislation. This should not be interpreted as an unwillingness to act. First, as indicated above, they cannot specify details at this time. Second, in Alberta's case they commended the proposed federal changes because of the effect on addressing double taxation of dividend income. Maybe there's an element of wishful thinking involved, but the wording in the Ontario Budget – "...Ontario will review the federal legislation when it is introduced and will respond at that time" is somewhat encouraging. They have at least committed to respond. In fact, they will have to respond in some manner because the federal government will undoubtedly alter the section of its Income Tax Act that the provincial legislation refers to.

Unfortunately, the sequence of events unfolding will require patience and in some quarters that may be in dwindling supply. We will next need to see the federal legislation that accompanies a Spring 2006 Budget. That might not be passed until close to or even after many of the provincial legislatures rise for the summer. As such, provincial action might not be forthcoming until Fall 2006. But the interpretation from this source is that action to lower provincial dividend taxation will be coming.

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