



**Bill 43**  
**An Act to Amend the Income Tax Act**

**Plain Language Summary**

Prepared by: Department of Finance  
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## **Bill 43 An Act to Amend the Income Tax Act**

### **Plain Language Summary**

This Plain Language Summary of Bill 43 is provided to facilitate review of this Bill which is currently before a Standing Committee of the NWT Legislative Assembly. For clarity, the legislative proposals set out in the Bill and described in this summary may be stated as if they have already been adopted or were in force. It is important to note, however, that the Bill may be amended and has no force or effect unless and until it is passed by the Legislative Assembly, receives Assent, and comes into force.





## Plain Language Summary

### Bill 43: An Act to Amend the Income Tax Act

#### About Bill 43: An Act to Amend the Income Tax Act

The purpose of the Act to Amend the *Income Tax Act*, Bill 43, is to amend the current *Income Tax Act* to make changes in non-refundable tax credits claimed by multi-jurisdictional individual tax filers and to provide a mechanism for the Canada Revenue Agency to administer the Cost of Living Offset (COLO) that will be used to return carbon tax revenues to Northwest Territories residents through the personal income tax system.

#### What do the amendments for multi-jurisdictional individual tax filers do?

The Act to Amend the *Income Tax Act*, Bill 43, would amend the current *Income Tax Act* non-refundable tax credits claimed by multi-jurisdictional individual tax filers to:

- Deny NWT pension credits to non-residents with business income earned in the NWT; and
- Allow full pension and dividend tax credits to NWT residents with business income earned outside the NWT.

##### 1. Denying NWT pension credit to non-residents with business income earned in the NWT

Currently the NWT *Income Tax Act* allows the pension credit to be claimed by a non-resident individual tax filer with business income earned in the Northwest Territories. The proposed amendment to limit the pension credit to NWT residents would make the pension credit tax treatment consistent with the tax treatment for the dividend tax credit and the refundable cost of living tax credit, both of which are restricted to NWT residents only.

##### 2. Allowing full pension and dividend tax credits for NWT residents with business income earned outside the NWT.

A NWT resident earning business income from his unincorporated business outside the NWT is required to allocate the business income to the province/territory where the resident maintains a permanent establishment that generates that business income.

Example: John is a NWT resident and earned the following incomes in 2016:

- Business income earned in Alberta: \$50,000
- Pension income: 80,000
- Taxable dividends: 20,000
- Net Income \$150,000

John must allocate his net income between the NWT and Alberta as follows:

NWT: \$100,000 (66.67%)

Alberta: \$ 50,000 (33.33%)

Under the current income tax legislation and for 2016, John was allowed to claim 66.67% of the NWT pension and dividend tax credits calculated as follows:

- Pension credit:  $\$1,000 \times 5.9\% \times 66.67\% = \$39.33$
- Taxable dividends credit:  $\$20,000 \times 11.5\% \times 66.67\% = \underline{1,533.33}$
- Total credits: \$1,572.66

Since John is not a resident of Alberta, he cannot claim 33.33% of Alberta pension and dividend tax credits and therefore John is at a tax-disadvantage when compared with an NWT resident who does not have to allocate his income between jurisdictions. If all John's income were earned in the Northwest Territories, his tax credits would be \$786 higher.

The proposed amendment will eliminate this issue by allowing full pension and dividend tax credits for NWT residents with business income earned outside the NWT.

### **What is the Cost of Living Offset (COLO)?**

The introduction of the carbon tax, while fulfilling the GNWT's commitment under the *Pan-Canadian Framework on Clean Growth and Climate Change* to reduce its greenhouse gas emissions through carbon pricing, will increase the cost of living for residents. The Cost of Living Offset (COLO) provides financial relief to offset costs associated with the carbon tax.

A COLO is provided through the personal income tax system so that the Canada Revenue Agency may administer the COLO on behalf of the GNWT.

The COLO is a tax-free benefit starting at \$104 for 2019-20 for all NWT tax filers aged 18 and over and \$120 per child for all families with children under the age of 18. The COLO increases annually as NWT Carbon Tax rates increase. The COLO is not income tested.

The Canada Revenue Agency will automatically make these payments based on information from NWT personal income tax filings. For the first year the COLO will be paid to all eligible

residents in payments of \$52 per adult and \$60 per child in October 2019 and April 2020. After the first year, the Canada Revenue Agency on behalf of the GNWT will pay the COLO quarterly to NWT residents and their families by cheque or direct deposit on the same schedule as federal GST/HST credit payments.

More detail on the Cost of Living Offset benefit and the overall approach to carbon pricing in the NWT is provided in the Plain Language Summary for Bill 42: An Act to Amend the Petroleum Products Tax Act.