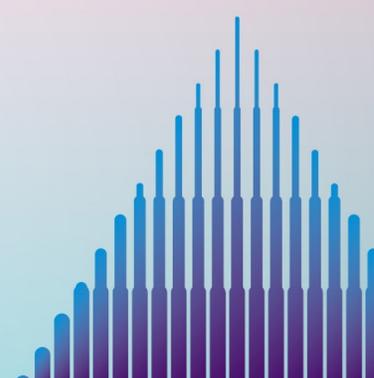




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Canada



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Newfoundland & Labrador Hikes Taxes on Dividends

The province's Bill 15 introduces changes to its dividend tax credits not previously announced in the 2021 budget

Newfoundland and Labrador Bill 15, which received first and second reading on June 16, 2021, includes amendments to the province's eligible and non-eligible dividend tax credits, effective January 1, 2022. These changes were not previously announced in the province's 2021 budget. The bill also includes the budget measure to introduce a new Physical Activity Tax Credit, effective January 1, 2021.

Newfoundland and Labrador Bill 14, which received first, second and third reading on June 16, 2021, includes measures to increase the personal income tax rates for certain high-income earning individuals. Bill 14 also introduces three new tax brackets for individuals earning over \$250,000. These changes, effective January 1, 2022, were originally announced in the 2021 budget.

Background

Newfoundland and Labrador's 2021 budget announced an increase in personal tax rates for individuals who earn more than \$135,973 and the creation of three new tax brackets for those earning more than \$250,000, effective January 1, 2022. These measures are included in Bill 14, and result in a new top marginal provincial income tax rate of 21.8% (from 18.3%) for taxable income in excess of \$1 million, effective January 1, 2022.

The budget also announced a new Physical Activity Tax Credit, available for families on up to \$2,000 of eligible fitness

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expenses. The new credit is included in Bill 15, effective January 1, 2021.

For more information, see *TaxNewsFlash-Canada 2021-29*, "[Highlights of the 2021 Newfoundland and Labrador Budget](#)".

Dividend tax credit changes

Bill 15 includes amendments to effectively decrease the tax rate on certain eligible dividends by increasing the dividend tax credit to 6.3% (from 5.4%). Note that, for eligible dividends that are affected by the tax rate increases for income in excess of \$190,364, the tax rate on eligible dividends still increases in 2022 when the dividend tax credit rate change is combined with the personal income tax rate increases. The bill also effectively increases the tax rate on non-eligible dividends by decreasing the credit to 3.2% (from 3.5%), effective January 1, 2022.

As a result of the increase to personal tax rates and the dividend tax credit amendments, Newfoundland and Labrador's top marginal personal income tax rates effective January 1, 2021 and 2022 will be as follows:

Personal Combined Federal/Newfoundland and Labrador Top Marginal Rates		
	2021	2022*
Interest and regular income	51.30%	54.80%
Capital gains	25.65%	27.40%
Eligible dividends	42.62%	46.20%
Non-eligible dividends	44.59%	48.96%

*The top marginal tax rate for 2022 applies to taxable income in excess of \$1 million.

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