



Canadian tax alert

2012 British Columbia budget highlights

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Budget highlights

Today, BC Finance Minister Kevin Falcon delivered the province's 2012 budget. Premised on "fiscal discipline", Budget 2012's stated aim is the elimination of the provincial deficit by 2013-14, protecting public services, and building a more competitive economy.

Despite operating under an environment of reduced revenues, increased expenditures and unanticipated costs over the prior year's budget, primarily related to the transition back to the provincial sales tax (PST), the government has maintained its commitment to families, the BC Jobs Plan and essential programs. It is especially encouraging that the province has recognized the need to promote BC as a safe harbour for investment.

The following are some key highlights of Budget 2012:

- The previously announced reduction to the small business corporate income tax rate to 0% by April 1, 2012 will **not** proceed. Rather, the current rate of 2.5% will be maintained and revisited when the fiscal situation has improved.
- A provisional one point increase in the general corporate income tax rate to 11% will be introduced, effective April 1, 2014.
- The Budget will introduce a series of credits and tax-relieving measures intended to demonstrate a commitment to the BC jobs plan and support for BC families.

The budget's tax measures are not particularly contentious. The retention of the 2.5% small business rate and the provisional 1% increase to the general corporate tax rate are not surprising. These rates are still in line with those of the other provinces. The wait-and-see approach to the general corporate tax rate increase is a safe

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move but may affect BC's competitive position in the future if Alberta retains its 10% rate and Ontario phases in the 10% rate as scheduled.

Fiscal/economic outlook

Budget 2012's fiscal constraint is predicated on an economic forecast of slower than anticipated growth in 2012. By conservative estimate, the BC economy is expected to grow by 1.8% in 2012, 2.2% in 2013, and 2.5% in 2014. Budget 2012 is intended to ensure that BC emerges from the current economic downturn in a fiscally strong position.

Minister Falcon anticipates a deficit of \$2.5 billion for 2011-12 and forecasts a deficit of \$968 million in 2012-13. In accordance with his commitment to return to a balanced budget by 2014, the Minister forecasts a surplus of \$154 million in 2013-14 and a surplus of \$250 million in 2014-15. In support of balancing the budget by 2014, Budget 2012 introduces a number of tax measures intended to bridge the deficit gap while supporting select initiatives. Highlights of the key tax measures are provided below.

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Business taxes

Given the uncertain fiscal environment, the small business corporate tax rate of 2.5%, which was scheduled to be reduced to 0% in April 2012, will instead be maintained.

Budget 2012 also includes a provisional one-point increase in the general corporate income tax rate to 11%, effective April 1, 2014. The requirement to implement this tax measure will be re-evaluated in Budget 2013.

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Tax credits for families

BC First-Time New Home Buyers' Bonus

Budget 2012 implements the BC First-Time New Home Buyers' Bonus, a temporary one-time refundable income tax credit for first-time home buyers who purchase a newly-constructed home. The credit is calculated as 5% of the purchase price of the home, up to a maximum credit of \$10,000. The credit is phased out at a scheduled rate based on income and is available only where HST applies to the purchase. Coupled with the BC enhanced new housing rebates relating to HST that were announced on February 17, 2012, this measure provides further incentives to individuals to purchase new housing in the next year, while the HST is still in effect, without waiting for the return of the PST.

BC Seniors' Home Renovation Tax Credit

The BC Seniors' Home Renovation Tax Credit is a new refundable personal income tax credit to assist with the cost of permanent home renovations for individuals age 65 and over. The maximum credit will be \$1,000 annually, calculated as 10% of eligible expenditures.

Children's Fitness Credit and Children's Arts Credit

Budget 2012 introduces the Children's Fitness Credit and the Children's Arts Credit, two new non-refundable tax credits of 5.06% of eligible expenditures up to \$500 per child, each providing a benefit of up to \$25 per child. For both the Children's Fitness Credit and the Children's Arts Credit, eligible expenditures are those that qualify for the federal children's fitness and arts credits. This measure, along with the federal credits in this area, provides further assistance to families in keeping children active and involved.

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PST transition

The foundation of the transitional rules for residential properties related to the transition back to the PST was released last Friday, and summarized in [our release](#) of the same day. The budget confirms the re-implementation of certain taxes and levies that were eliminated with the introduction of the harmonized sales tax (HST), including the passenger vehicle rental tax, the luxury vehicle tax, multi-jurisdictional vehicle tax, tax on natural gas and propane, and the Innovative Clean Energy (ICE) Fund levy (which will not apply to residential and commercial purchases of electricity). Tax on short term accommodation of 8% will also be re-implemented but will be part of the PST legislation rather than under a separate Hotel Room Tax Act to ease administration. The battery levy will not be re-implemented. The transition will also see tax on private sales of vehicles, boats and aircrafts continue at 12%, PST on liquor reinstated at 10% (with corresponding reductions to mark-ups to ensure constant shelf price), an increase to tobacco tax rates, elimination of the BC HST credit in favour of the BC Sales Tax credit, and reversal of the basic personal amount tax credit increase attributable to HST. The government estimates that these last two measures will generally compensate for most of the revenue loss from the elimination of the HST.

Lastly, the government has confirmed that it will make administrative improvements to the PST, including streamlining administration and modernizing the new PST legislation and regulations. These measures will not impact the actual tax treatment of goods or services but will reduce the administrative and compliance burden. New registration, compliance, and reporting software will be implemented to achieve this goal. The government will register approximately 100,000 businesses as tax collectors.

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Other key tax measures

Budget 2012 included the following key tax measures:

- Effective for 2012 and future tax years, the dividend tax credit rate on eligible dividends is increased from 9.76% to 10%.
- Effective for the 2012 and future tax years, the \$10,000 limit that applied to medical expenses claimed in respect of dependents, other than a spouse or minor child, is eliminated.
- Effective April 1, 2012, the provincial motor fuel tax on jet fuel for international passenger and cargo flights is eliminated.
- Credits under the Training Tax Credit program are extended for an additional three years to the end of 2014.
- Legislation will be introduced to make the existing cap on municipal port property tax rates permanent.
- Effective for the 2012 program year, the budget for the Small Business Venture Capital Program is increased by \$3 million to provide tax credits for direct investments in eligible new corporations. The \$3 million increase will allow for up to \$10 million in additional equity financing for qualifying new businesses in 2012, 2013, and 2014.
- Medical Service Plan premiums are increased by about 4%, effective January 1, 2013, to help fund health care for British Columbians.
- Carbon tax rates are scheduled to increase on July 1, 2012 to be equivalent to \$30 per tonne of carbon dioxide equivalent (CO₂e). The Carbon Tax Act is amended to clarify that the carbon tax continues beyond June 30, 2013 at the same rate of \$30 per tonne of CO₂e.
- The threshold for the phase-out of the home owner grant is increased from \$1,150,000 to \$1,285,000 for the 2012 tax year. Effective for the 2012 tax year, the income threshold below which home owners may qualify for the full benefit is increased from \$28,000 to \$30,000. The income threshold for a partial benefit is increased from \$30,000 to \$32,000.

Contacts

Canadian Managing Partner, Tax

Andrew W. Dunn
416-601-6227

Vancouver

Etienne Bruson
604-640-3175

Janice Roper
604-640-3353

National Tax Policy Leader

Albert Baker
416-643-8753

Rocky Mountain Region

John Bylhouwer
604-539-3624

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2 Queen Street East, Suite 1200
Toronto, ON M5C 3G7 Canada

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