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Canadian tax alert
2013 British Columbia budget highlights

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Budget highlights

BC Minister of Finance, Michael de Jong, presented the 2013 BC budget this afternoon, announced as *Balanced Budget 2013*. Not unexpectedly, the Government could not achieve this balanced budget through expenditure management alone. The balanced budget comes at a cost to taxpayers, as evidenced by the increases to corporate and personal income tax rates. These increases, coupled with the return to provincial sales taxes in BC, have many concerned about the future competitiveness of BC in the global economy.

The following is a summary of the tax highlights contained in the budget.

- The general corporate income tax rate will be increased to 11 per cent from the current 10 per cent, effective April 1, 2013, a year earlier than previously announced.
- A two-year increase in the personal income tax rate for individuals earning more than $150,000 is introduced. Rates will increase by 2.1 percentage points to 16.8 per cent, starting January 1, 2014 and expiring December 31, 2015.
- A new BC Early Childhood Tax Benefit is introduced. Effective April 1, 2015, families with young children will receive up to $55 per child per month.
- Taxes on cigarettes are further increased by $2 per carton, effective October 1, 2013.
- A 3% minimum royalty for all natural gas wells that qualify for the Deep Well Royalty Credit Program is introduced.

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The Future of Tax

- Deloitte is Canada's largest tax practice and a global tax firm with a unique perspective on competitive tax policy and the key drivers of national prosperity.
- With the right tax policy, we believe that Canada can be more productive and globally competitive. The key lies in creating a tax ecosystem capable of fostering innovation and investment while supporting the objective of a balanced budget.
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Fiscal/economic outlook

The focus of the budget released today is on reinforcing the commitment to deliver a “balanced” budget and, indeed, achieving a forecasted surplus of $197 million in 2013-2014, $211 million in the following year, and $460 million in the third year. To overcome the deficit gap, the government is relying on four key factors, namely continued spending discipline, targeted revenue measures, stable economic growth, and risk mitigation.

Annual spending is projected to grow at an average of 1.5 per cent, compared to an expected annual average revenue growth of 3 per cent. Targeted tax measures are projected to generate $1.2 billion over the fiscal plan period and are described further below. Economic growth is projected at 1.6 per cent in 2013, 2.2 per cent in 2014, and 2.5 per cent in 2015, down from the estimates provided last year of 2.1 per cent for 2013 and 2.5 per cent for 2014.

The projected revenue growth of 3% is premised, in part, on modest economic growth arising from gradual improvements in commodity prices and markets for some of our key exports, including lumber and electricity.

Measures concerning business

- The increase of the general corporate income tax rate to 11 per cent from 10 per cent that was announced as a provisional measure in Budget 2012, to be effective April 1, 2014, is accelerated. The new effective date of the 11 per cent rate is April 1, 2013. The early rate increase is anticipated to generate an additional $205 million in revenues to “help achieve a balanced budget and protect important services for taxpayers.” The general corporate income tax rate will remain one of the lowest in the country, after Alberta and New Brunswick.
- In Budget 2012, a proposed reduction to the small business corporate income tax rate was cancelled, with the intention to revisit it once the fiscal situation has improved. *Balanced Budget 2013* retains the current small business corporate income tax rate of 2.5 per cent.
- A 3 per cent minimum royalty for all natural gas wells that qualify for the Deep Well Royalty Credit Program is introduced, and the Summer Drilling Credit Program is terminated.

Measures concerning individuals

- A new top personal income tax bracket is introduced for the 2014 and 2015 tax years only. The income threshold for the new top bracket will be set at $150,000 in 2014. Taxable income exceeding $150,000 will be subject to a provincial personal income tax rate of 16.8 per cent, which represents a 2.1 per cent rate increase from the current rate of 14.7 per cent. This two-year temporary measure will expire December 31, 2015.
- Effective April 1, 2015, a new BC Early Childhood Tax Benefit will be introduced in the form of a refundable tax credit. Families will receive a maximum benefit of $55 per month, or $660 annually, for each child under the age of six. Families may apply for the monthly benefit by applying for the Canada Child Tax Benefit. The maximum benefit will be available to all eligible families with family net income under $100,000, will start to phase out at net income of $100,000, and will be fully phased out at $150,000 of family net income.
- For children born in 2007 or later, a one-time $1,200 BC Training and Education Savings Grant is provided. No matching or additional contributions are required in order to receive the grant. In order to claim the grant, a family is required to open an RESP account and apply for the grant before the child turns seven years old.

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Sales tax measures

- It is confirmed that the Provincial Sales Tax Act ("PST Act"), as amended, will be reimplemented on April 1, 2013, subject to the approval of the Legislature. While the Budget reiterated certain transitional measures impacting the new housing industry, including the transition tax and rebates designed to ensure that new home purchases over the transition period effectively include 2 per cent of sales tax, there was no mention of the highly anticipated Regulations to the PST Act ("Regulations") that are yet to be released. As these Regulations will provide for all permanent exemptions, it is imperative for businesses to have access to these provisions soon, as they proceed with reimplementation plans. It is expected that the Regulations will be released during this session of the Legislature, which ends mid-March. The bill containing the amended PST Act has recently passed second reading.
- A review of the Carbon Tax regime has been completed. As a result of the review, it was determined that the carbon tax rates will not be increased (the final rate increase took place in July 2012), and the carbon tax base will not be expanded or broadened. The principle of revenue neutrality will be maintained, such that revenues will continue to be used to permit tax reductions in other areas. A grant will continue to be provided for commercial greenhouse vegetable and floriculture growers to offset 80 per cent of the carbon tax paid on specified fuels (a one year grant was provided in 2012 to offset 100 per cent of such costs). An exemption will also be provided to farmers for the same coloured motor fuels, and uses, which currently may be purchased exempt of motor fuel tax. This will exempt from carbon tax certain fuels used in on-farm equipment, such as tractors, and fuel used on-highway in eligible farm vehicles. These measures will provide a combined annual benefit of $11 million to the BC agriculture industry.

Other tax measures

- Medical Services Plan premiums are increased, effective January 1, 2014. The maximum monthly premium rates will increase by about 4 per cent, or $2.75 per month, to a total of $69.25 for single persons; by $5.00 per month to a total of $125.50 for two-person families; and by $5.50 per month to a total of $138.50 for families of three or more persons.
- Effective October 1, 2013, the tax rate on cigarettes is increased from $42.60 to $44.60 per carton of 200 cigarettes, and the tax rate on fine-cut tobacco is increased from 21.3 to 22.3 cents per gram. This is a further increase from the changes announced last year, set to become effective April 1, 2013, increasing the tax on cigarettes from $37 to $42.60 per carton of 200 cigarettes and increasing the tax rate on fine-cut tobacco from 18.5 cents per gram to 21.3 cents per gram.
- The threshold for the phase-out of the home owner grant is increased from $1,285,000 to $1,295,000 for the 2013 tax year. For properties valued above the threshold of $1,295,000, the grant is reduced by $5 for every $1,000 of assessed value in excess of the threshold.
- The province currently offers a school property tax credit that reduces school taxes payable on class 4 (major industry) and class 5 (light industry) properties by 60 per cent. Starting in 2013, the value of the credit for class 5 will be phased out over two years, being totally eliminated in 2014. Typical industries affected by this change are sand and gravel operations, oil and gas production pipelines, wineries, and printing and publishing facilities.
- The longstanding rate-setting policy that average residential rural property taxes increase by the previous year's provincial inflation rate will continue for 2013. Non-residential rural area property tax rates will be set so that total non-residential rural area tax revenue will increase by inflation plus new construction.
- Currently, the Property Tax Deferment Program for Families with Children allows eligible homeowners who financially support a child under age 18 to defer their property taxes. Effective on the later of March 19, 2013 and Royal Assent, the Property Tax Deferment Program for Families with Children is expanded to allow an eligible homeowner who financially supports a child aged 18 or over to defer property taxes, if the child is enrolled in an educational institution or is disabled. Certain other eligibility requirements continue to exist.

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- Under the property tax deferment programs, repayment of deferred taxes is required if a homeowner disposes of any part of the property, regardless of size. Effective on Royal Assent, the Land Tax Deferment Act is amended to allow the deferment agreement to continue when the homeowner disposes of a portion of the property and the homeowner meets certain conditions.
- The property transfer tax exemption, under the Property Transfer Tax Act for a deceased person's family farm, is expanded to include farms that had been used and farmed by one or more of the deceased, the deceased's family members, or a family farm corporation.
- Currently, BC Hydro pays grants-in-lieu of property tax to local governments and to the province and, through its community Development Fund, makes payments to non-Treaty First Nations. Effective on Royal Assent, the Hydro and Power Authority Act is amended to authorize BC Hydro to pay grants to taxing Treaty First Nations.
- Effective on Royal Assent, the Forest Act is amended to authorize the commissioner to assess a penalty for failure to comply with information and records requests under the Act and to authorize the Supreme Court of BC to grant an order to enforce compliance with such requests.

For further details, we refer you to the **Ministry of Finance website**.

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Contacts

Canadian Managing Partner, Tax
Heather Evans
416-601-6472

National Tax Policy Leader
Albert Baker
416-643-8753

Vancouver
Etienne Bruson
604-640-3175

Janice Roper
604-640-3353

2800 - 1055 Dunsmuir Street
Vancouver, BC V7X 1P4 Canada