

Canadian tax alert

2016-2017 British Columbia budget highlights



BC Minister of Finance, Michael de Jong, presented the 2016-2017 BC budget this afternoon. It was the government's fourth consecutive balanced budget. The province is forecasting a surplus of \$377 million at the end of 2015-2016 and is projecting modest surpluses in the next three years.

Minister de Jong reiterated his government's Budget 2015 message of restraint in spending as part of the government's "ongoing commitment to disciplined and prudent fiscal planning." The key features of the budget plan noted today were:

- Strong economic growth in the province, especially relative to other provinces in Canada;
- Reduction in direct operating debt, with an overall increase in debt due to spending on infrastructure; and
- Increased support for low income families, seniors and rural development.

In recognition of the relatively strong economic growth in BC (with estimated GDP growth at between 2.4% and 2.6% for 2015) and continued budget surpluses, the government is introducing a \$100 million prosperity fund designed to benefit future generations of BC residents through gradual debt repayment and investment in infrastructure. Previously conceived as a means to preserve wealth generated from BC's burgeoning Liquefied Natural Gas (LNG) industry, the government has chosen to initiate the fund despite delays in expected revenue from LNG projects in BC. The government does not include revenue from LNG projects in its fiscal plan through fiscal 2018-2019.

Taxation measures announced in the budget can be broadly described as measures to:

- Achieve social policy objectives; and
- Strengthen and grow the BC economy.

However, the overall net impact of the tax measures is relatively modest for the 2016-2017 and 2017-2018 fiscal years.

Tax measures to achieve social policy objectives

The targeted tax measures relating to social policy objectives focus primarily on housing affordability and the cost of living for low income families and seniors.

Property transfer tax rules adjusted

Modifications to the Property Transfer Tax Act are expected to shift the burden of the property transfer tax to higher-value properties:

- Effective February 17, 2016, an exemption for newly constructed homes is introduced:
 - Newly constructed homes used as a principal residence by a Canadian citizen or permanent resident will generally be exempt from property transfer tax for properties with a value of up to \$750,000.
 - A partial exemption is available for homes valued at up to \$800,000.
 - Homes with a value in excess of \$800,000 are subject to the standard property transfer tax regime.
- Effective February 17, 2016, a “third tier” of property transfer tax is introduced.
 - The current tiers of 1% on the first \$200,000 in value and 2% on \$200,000 to \$2 million in value continue to apply.
 - A third tier of 3% on the value in excess of \$2 million has been introduced.
 - The government expects that the additional revenue from the third tier of property transfer tax will offset the cost of the newly constructed home exemption.
- The government plans to introduce significant data collection initiatives on transferees, including requirements for transferees to disclose their citizenship.
 - Bare trustees will be required to disclose citizenship information on settlor and beneficiaries of the trust.
 - Corporations will be required to disclose citizenship information on its directors.
 - The new disclosure requirements are expected to come into effect in spring 2016.

Medical services plan (MSP) premiums adjusted

Due to rising healthcare costs, the government will continue its planned increase of MSP premiums in 2016-2017 and 2017-2018. However, modifications to the Medicare Protection Act are expected to shift the burden of medical services premiums away from single-parent families and onto other BC taxpayers. Effective January 1, 2017:

- Premiums will generally be increased by 4% or \$3 per month per taxpayer.
- The calculation of MSP premiums will no longer include children.
- Couples will pay twice the MSP premium rate paid by single adults.

Home owner grant threshold increased

The threshold for the phase-out of the home owner grant is increased to \$1.2 million from \$1.1 million for the 2016 taxation year. The grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

Farmers' food donation tax credit introduced

Effective February 17, 2016, a new non-refundable farmers' food donation tax credit is introduced. This is available to individuals and corporations that carry on the business of farming and donate a "qualifying agricultural product" to a registered charity that provides food to those in need or helps to operate a school meal program.

The amount of the credit will be equal to 25% of the fair market value of the qualifying agricultural product and must be claimed in the same year that a charitable donation tax credit is claimed for that donation.

Other measures

- Effective for the 2016 tax year, the BC seniors' home renovation tax credit (worth up to \$1,000, calculated as 10% of eligible expenditures) is extended to persons with disabilities who are eligible to claim the federal disability tax credit.
- Effective for the 2016 tax year, the BC tax reduction credit is enhanced from \$19,000 to \$19,400. The phase-out rate is also increased to 3.56% from 3.50%.
- The BC government will parallel the federal government's "graduated rate estates" and "qualified disability trusts" rules for tax years ending after December 31, 2015.
 - Estates and testamentary trusts were previously generally subject to tax at the marginal tax rates available to individuals for the life of the trust.
 - Rules introduced federally generally limit this beneficial treatment for trusts and estates to the first three taxation years of the testamentary trust or estate.
 - This measure ensures the provincial tax policy will be consistent with the federal policy.

Measures to strengthen and grow the BC economy

The government has opted to use direct spending of approximately \$143 million on economic and community initiatives, such as municipal transfer payments to small communities (the "rural dividend"), highway maintenance, youth skills training and other initiatives.

Tax measures to invest in the BC economy focus on extending or enhancing familiar direct and indirect tax credits and incentives, having a relatively nominal impact on the BC economy overall. Nevertheless, certain significant targeted tax measures are highlighted below.

Mining

- The BC mining flow-through share tax credit is extended to the end of 2016.
- The mining exploration tax credit is extended for an additional three years to the end of 2019.

Tourism

- Effective for the 2017 tax year there is increased assessment relief for tourist accommodation in rural areas. The maximum reduction in assessed value for eligible

short-term accommodation property located outside municipalities is increased from \$150,000 to \$500,000. Furthermore, the assessed value at which the phase-out of the benefit begins is increased from \$2 million to \$4 million.

Other

- The small business venture capital tax credit budget is increased by \$5 million, which the government expects will facilitate up to \$16.7 million annually in additional equity financing for qualifying corporations.
- The government hinted that it will move to limit growth in film tax credits in the future as the industry is booming due to exchange rate movement.
 - Exchange rate movement has caused the net cost to a producer spending \$100 on BC labour to decrease from USD\$58 to USD\$40.
 - Film tax credits are expected to cost the BC government approximately \$500 million in 2015-2016.

Other measures

Carbon and motor fuel tax

Effective March 1, 2016, an exemption from paying security is provided for a collector selling fuel to a person who is exempt from the requirement to pay security on the fuel. Also, there is an exemption for deputy collectors from paying security in most circumstances if the fuel bought in BC is to be sold outside of BC and removed from BC.

Provincial sales tax (PST)

Effective February 17, 2016, the Provincial Sales Tax Act will be updated to provide that telescopic handlers, skid steers and polycarbonate greenhouse panels obtained by qualifying farmers for use solely for a farm purpose are exempt from the PST.

Commission on Tax Competitiveness

A new Commission on Tax Competitiveness will review all provincial taxes in order to consider ways to modernize and improve them in light of the changing nature of BC's economy. The review will expressly not consider a return to the harmonized sales tax.

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