

Canadian tax alert

2015-2016 British Columbia budget highlights



BC Minister of Finance, Michael de Jong, presented the 2015 BC budget this afternoon, describing the third year in a row that British Columbia will have a balanced budget as a “fiscal hat trick”. He noted three fundamental features of the budget plan:

- Discipline in spending,
- Prudence in taking global risks into account in setting forecasts, and
- Vision in its focus on training young people and expanding public infrastructure for the future.

While Minister de Jong reflects on continued discipline in spending, it should be noted that spending on capital improvements continues to grow. Taking into account growth in exports, retail sales and housing, as well as global instability risks and a fluctuating Canadian dollar, growth in the BC economy is forecasted to be 2.3% in 2015, 2.4% in 2016 and 2.3% in 2017. The government revenue forecast is \$46.4 billion in 2015/16 with expenses forecasted to be \$45.8 billion in 2015/16. Total provincial debt, however, is forecasted to continue to increase from \$65.9 billion in 2015/16 to \$70.4 billion in 2017/18, reflecting significant investment in infrastructure over the next three years.

Taxation changes announced in the budget are focused in the areas of:

- Strengthening and encouraging growth in key economic sectors,
- Assistance to families and those in need, and
- Technical changes to the Provincial Sales Tax (PST) legislation.

Measures to continue to strengthen and encourage growth in key economic sectors

The 2015 budget expands and extends a number of tax credits designed to assist certain key industry sectors in BC such as mining, high tech and film production.

Mining

- The BC mining flow-through share tax credit is extended to the end of 2015 to continue attracting capital investment in mining projects.
- The new mine allowance under the *Mineral Tax Act* is extended for four years to December 31, 2019.

High tech

- The BC interactive digital media tax credit is extended to August 31, 2018 to continue offsetting the cost of developing video games and other digital media products.

Film production

- The digital animation or visual effects tax credit is expanded to include post-production film activities and will be available for productions where principal photography begins on or after March 1, 2015.

Other

- Continuing support to employers and apprentices is provided by extending the BC training tax credits to the end of 2017.
- A one-year increase of \$3 million to the small business venture capital tax credit program is provided for 2015. As a result, the program will allow for up to \$10 million in additional equity financing for qualifying new businesses in 2015.

Measures to assist families and those in need

The budget has a focus on investing in future generations and providing assistance to those in need. There are a number of tax measures aimed at achieving these objectives, but the net revenue impact is very modest.

Enhancement of BC tax reduction credit

- Effective for 2015, the BC tax reduction credit is increased and the credit phase-out threshold and related phase-out rate are correspondingly increased. This enhancement increases the amount of income an individual can earn to \$19,000 before he or she start paying provincial income tax.

Introduction of children's fitness equipment credit

- Effective for 2015, a new non-refundable children's fitness equipment credit of up to \$250 a year per child for qualified equipment costs is introduced. This credit is in addition

to the existing BC children's fitness credit of up to \$500 a year in respect of fees paid for a child's participation in an eligible program of physical activity.

Introduction of BC education coaching tax credit

- Effective 2015, a new \$500 non-refundable BC education coaching tax credit is introduced and becomes available to teachers and teaching assistants who carry out at least 10 hours of extracurricular coaching activity in the tax year. The credit is available until the 2017 tax year, at which time the credit will be reviewed.

Introduction of child support payment exemption

- Effective September 1, 2015, child support payments will be fully exempted from income assistance calculations. Thereafter, parents will be able to keep every dollar they receive in child support over and above their income and disability assistance.

Implementation of BC early childhood tax benefit

- This measure was introduced in the 2013 BC Budget. Starting April 1, 2015, qualified families will begin receiving the BC early childhood tax benefit of up to \$660 a year for each child under the age of 6 to help offset the cost of child care.

Implementation of training and education savings grant

- This measure was also introduced in the 2013 BC Budget. Starting August 2015, parents with registered education savings plans established for their qualified children can apply at participating financial institutions for the training and education savings grant. Each eligible BC resident child born since January 1, 2007 will receive a one-time payment of \$1,200. No additional or matching contributions are required from the parents in order to receive the grant.

Expiration of the two-year surtax introduced in 2013

- In the 2013 BC Budget, a two-year surtax of 2.1% was introduced for individuals earning more than \$150,000 a year for the 2014 and 2015 taxation years.

The 2015 BC Budget does not provide any changes or extension of the surtax. As such, the surtax will be eliminated after 2015. The highest marginal tax rate will revert to 43.7% after 2015 unless there are other changes introduced in the future.

Technical changes to PST

As businesses have been dealing with the reimplementation of the PST since 2013, a number of technical anomalies in its application have surfaced. Budget 2015 provides changes in a couple of areas to deal with these inequities:

Tangible personal property used to make other tangible personal property

- Effective February 18, 2015, importations of tangible personal property (TPP) into BC to make other TPP that is to be exported outside of BC for the purpose of fulfilling a

contract for improvements to real property will be taxed. As a result, the taxation of this property will be the same as such property acquired within BC. However, a refund of PST paid on this TPP purchased in or imported into BC will be available, if the resulting TPP is exported outside of BC for the purpose of fulfilling a contract for improvements to real property outside of BC, *as long as* sales tax is paid on that property under the laws of another jurisdiction and there is no eligibility for a refund, credit or rebate of such tax.

This change provides some small measure of relief to contractors such as those who make kitchen cabinets in BC and install those cabinets outside of BC. Prior to this change, the contractor would be required to pay PST on materials purchased in BC and then would also have to pay sales tax in the other jurisdiction on the importation of the kitchen cabinets to that jurisdiction, resulting in some element of double taxation. The change will allow a refund of the PST on materials where the cabinets are exported to a jurisdiction with a non-refundable sales tax such as Manitoba or Saskatchewan, but would not provide a refund where the cabinets are exported to a GST only or HST province such as Alberta or Ontario. Unfortunately, with the inclusion of the variable around the tax regime of the destination jurisdiction, this change is not as broad as had been hoped for and will require significant paperwork and recordkeeping by contractors to comply and obtain the benefit of the refund.

Registration obligations to be extended

- Effective September 1, 2015, registration for collecting PST will be required by persons located outside of BC that in the ordinary course of business:
 - Accept orders for TPP from a location in BC,
 - Sell or provide TPP to a person in BC, and
 - Hold that TPP in inventory in BC at the time it is sold.

Voluntary registrations will be accepted prior to September 1, 2015 based on these criteria. This change applies primarily to non-residents of Canada who previously were not required to register when selling into BC. They will now be required to register if they hold inventory in BC. It will also apply to residents of Canada who are not residents of BC if they hold inventory in BC and accept orders and ship into BC, even if they do not actively solicit orders in BC.

Other tax measures

- Effective January 1, 2016, medical services plan premiums will increase by approximately 4% to \$75 per month for single persons, \$136 for two person families and \$150 for families of three or more persons.
- Effective February 18, 2015, lift chairs designed to facilitate standing up or sitting down will be exempt from PST if they are sold on the prescription of a practitioner.
- The maximum tax rate on the purchase of accommodation under the municipal and regional district tax program that may be imposed in a designated accommodation area is increased from 2% to 3%. Municipalities and regional districts will be required to apply to the government to increase the tax rate in their area.

- The threshold for the phase-out of the home owner grant is maintained at \$1,100,000 for 2015 which results in 93% of homes being below the threshold this year.

Please note that Deloitte is prepared to provide accessible formats and communication supports upon request.

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