



Canadian tax alert

2017-2018 British Columbia budget highlights

February 21, 2017

The Minister of Finance, Michael de Jong, presented the 2017-2018 BC Budget (Budget 2017) Tuesday afternoon. It is the fifth consecutive balanced budget, projecting a modest surplus. Budget 2017 also projects the elimination of the province's operating debt in 2020/2021. Minister de Jong reiterated his government's commitment to "improving affordability and increasing competitiveness" in the province through the introduction of a number of taxation measures aimed at providing financial relief for British Columbians and investment in key program areas, as outlined in Budget 2017.

Budget 2017 forecasts growth for the province over the next few years:

- Economic growth is expected to rank among the top provinces in 2017.
- Growth of the BC economy is projected to increase by 2.1% annually in both 2017 and 2018 and by 2% annually from 2019 to 2021.
- Real household consumption of goods and services is expected to increase by 2.6% in 2017 and 2018.
- BC retail sales are expected to increase by 3.7% in 2017 and 2018.
- Real business investment is projected to rise by 3.8% in 2017 and 4% in 2018, with medium term growth estimated to be around 3.5% per year.
- Population growth is projected to increase by 1.2% in 2017 (to reach a total of 4.81 million) and by 1.2% annually in 2018 and over the medium term.

- Employment is expected to increase by 1.2% in 2017 (approximately 29,300 jobs), 1.2% in 2018 and 1.1% annually over the medium term.
- Real exports of goods and services are forecast to rise by 1.4% in 2017, 1.3% in 2018 and around 1.9% in the medium term.

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

Personal tax measures

Medical Services Plan (MSP) premium reduction

Budget 2017 signals government's intention to eliminate MSP premiums in the future—the timing and structure will be dependent upon the province's fiscal capacity. Budget 2017 provides as follows:

- Effective January 1, 2018, Budget 2017 reduces MSP premiums by 50% for households with annual net incomes less than \$120,000. To receive the 50% reduction, households will be required to register. British Columbians whose premiums are paid through group plans will do so through their group plan administrator. The Ministry will automatically register individuals and families who currently receive MSP premium assistance. This measure will impact approximately 2 million British Columbians and result in annual reductions of up to \$450 per year per individual and \$900 per year for a family.
- The income threshold at which households are fully exempt from MSP will increase by \$2,000 from \$24,000 to \$26,000 for a single adult, effective January 1, 2018. The increase will be from \$33,000 to \$35,000 for a family of four.
- As announced in September 2016, the government cancelled the planned 4% increase to the maximum 2017 MSP premiums. The 2017 maximum MSP premium will remain at \$75 per month per adult.
- Budget 2017 provides no relief for households earning \$120,000 or more per year. Minister De Jong indicated that further expansion of MSP reductions will depend upon fiscal capacity of the province in the future.

Housing

Budget 2017 introduces measures aimed at improving housing affordability in the province:

- Effective for registrations on or after February 22, 2017, the fair market value threshold for eligible residential property under the First Time Home Buyers' Program increases from \$475,000 to \$500,000. The partial exemption applies to residential properties valued at between \$500,000 and \$525,000.
- As announced on January 10, 2017, the threshold for the phase-out of the home owner grant increases from \$1.2M to \$1.6M. The grant is reduced by \$5 for every \$1,000 of assessed value over the \$1.6M threshold.

Decrease of dividend tax credit rate

- British Columbia provides a dividend tax credit to prevent double taxation of dividend income that has already been taxed at the corporate level. Effective for the 2017 and subsequent tax years, the dividend tax credit rate on ineligible

dividends is decreased from 2.47% to 2.18%. The purpose of this decrease is to match the reduction in the small business corporate tax rate from 2.5% to 2%, also announced in Budget 2017.

- The dividend tax credit available for eligible dividends (i.e., income not eligible for the small business rate) remains unchanged.

Business tax measures

Small business corporate income tax reduction

Currently, provincial tax legislation provides Canadian-controlled private corporations (CCPCs) a small business deduction (SBD) that reduces the provincial corporate tax rate from 11% to 2.5% on the first \$500,000 per year of qualifying active business income (the small business rate). Budget 2017 reduces the small business rate from 2.5% to 2.0%, effective April 1, 2017.

- For taxation years that straddle the effective date, the tax rate is prorated based on the number of days in the taxation year ending after April 1, 2017. As a result, the effective provincial tax rate for corporations with a calendar year end for 2017 is 2.12%, falling to 2.0% in 2018. When combined with the federal tax rate, the effective tax rate for a CCPC on its first \$500,000 of qualifying active business income is 12.62% for calendar 2017, falling to 12.5% in 2018. The 12.5% rate will be the second lowest rate in Canada, matching Alberta and Saskatchewan.
- The \$500,000 annual limit is shared among associated corporations, as well as among members of a partnership earning active business income. Access to the SBD is phased out on a straight-line basis for CCPCs that, together with corporations with which they are associated, have taxable capital employed in Canada between \$10 million and \$15 million. The general corporate rate on qualifying active business income in excess of these limits remains unchanged at 11% (26% combined with the federal rate).

Credit union additional deduction

- Prior to 2013, credit unions received a preferential federal and provincial small business rate on a portion of their income. In 2013, the federal government commenced a 5-year phase-out of its preferential tax treatment. British Columbia's Budget 2014 announced the phase-out of the provincial preferential tax rate starting in 2016.
- As announced on January 24, 2017, Budget 2017 pauses the phase-out of the provincial small business rate on qualifying income for credit unions. This change means that for the 2017 tax year, credit unions will continue to receive 80% of the full preferential tax treatment. As a result of the reduction in the small business rate discussed above, credit unions' effective tax rate on qualifying income for calendar 2017 is 18.9% (15% federal and 3.9% provincial) and 18.8% for calendar 2018 (15% federal and 3.8% provincial).

Incentives for innovation

- The federal and BC governments offer a number of incentives to corporations carrying on scientific research and experimental development (SR&ED) activities in Canada. Budget 2017 extends the provincial SR&ED tax credit (ITC) for five years to August 31, 2022. British Columbia offers a 10% tax credit on qualifying expenditures and a refundable ITC to qualifying corporations. A qualifying corporation is entitled to a refundable ITC on its first \$3 million of annual SR&ED expenditures. Generally, a qualifying corporation is a CCPC whose taxable income, combined with the taxable income of any associated corporations, did not exceed the SBD limit in the preceding year (i.e., \$500,000 for 2016 taxation year claims) and whose taxable capital amount, combined with the taxable capital of any associated corporations, did not exceed \$10 million.
- A refundable BC interactive digital media tax credit (IDMTC) is available for eligible registered corporations that develop interactive digital media products in British Columbia after August 31, 2010. Effective February 22, 2017, qualifying BC labour employed in the development of augmented reality and virtual reality products are eligible for the IDMTC. The IDMTC is computed as 17.5% of eligible "salary or wages". In addition, Budget 2017 removes the requirement for a corporation's principal business to be the development of interactive digital media products where annual qualifying BC labour exceeds \$2 million.
 - For the purposes of the IDMTC, augmented reality product means a product that enhances the user's perception of reality by superimposing digital information on the user's field of vision for the primary purpose of entertainment. Likewise, virtual reality product means a product that immerses the user in an artificial environment for the primary purpose of entertainment. The IDMTC does not apply to film or videos that provide the user with limited or no immersion, including 360°, 270°, and 180° videos, spherical videos and panoramic videos.
 - Interactive digital media corporations participating in the small business venture capital program are eligible to claim the IDMTC for taxation years that end after February 21, 2017.

Venture capital

- A BC venture capital corporate tax credit is available in respect of investments in shares of a registered venture capital corporation or eligible business corporation. The venture capital tax credit is increased from \$35 million to \$38.5 million for 2017 and subsequent years. Budget 2017 indicates this will allow for up to \$11.7 million in additional equity financing for qualifying corporations annually. Under the program, eligible investors can receive an income tax credit of 30% of their investment in eligible business corporations, up to an annual limit of \$60,000. An eligible new corporation must qualify as an eligible business corporation under the federal *Income Tax Act*, must have been incorporated for less than two years, and must be doing business in a targeted sector: community diversification, development of interactive digital media products, clean technology, prescribed manufacturing and processing, destination tourism or research and development of proprietary technology.

- The venture capital tax credit does not reduce the adjusted cost base of the related shares acquired and is not required to be included in income for tax purposes.

Mining incentives

- A refundable BC mining exploration tax credit is available in respect of qualified mining exploration expenses incurred in British Columbia by a corporation that maintained a permanent establishment in the province at any time in the taxation year. Qualifying expenditures must be incurred before January 1, 2020 (extended from 2017 by Budget 2016) and generally include expenditures made to determine the existence, location, extent or quality of a mineral resource in British Columbia. Any flow-through mining expenditures renounced under the federal *Income Tax Act* do not qualify for the BC credit. As announced on January 23, 2017, Budget 2017 expands the mining exploration tax credit to allow the cost of environmental studies and community consultation incurred after February 28, 2015. The credit is 20% of eligible BC mining expenditures and increases to 30% if the exploration is in the mountain-pine-beetle-affected area.
- The BC mining exploration tax credit must be claimed no later than 36 months after the end of the applicable taxation year; however, beginning January 1, 2017, the period for claiming the credit for a taxation year is reduced from 36 to 18 months after the end of the taxation year. The credit is fully refundable to the extent that it is not otherwise required to reduce BC corporate taxes payable and there are no carryback or carryforward provisions in respect of the credit.
- Also as announced on January 23, 2017, Budget 2017 extends the BC mining flow-through share tax credit to the end of 2017.

Phase-out of provincial sales tax (PST) on electricity

British Columbia is currently the only jurisdiction in North America that levies a sales tax on electricity. Budget 2017 introduces a phase-out of the PST on taxable electricity to improve the competitiveness of BC businesses:

- Effective October 1, 2017, the PST rate will be reduced from 7% to 3.5% of the purchase price of electricity. Effective April 1, 2019, electricity will be fully exempt from PST. This reduction, when fully implemented, is expected to provide businesses with savings of \$150 million annually. This measure was introduced following one of the recommendations made by Commission on Tax Competitiveness, which is an independent commission that was established in Budget 2016 to advise the province on how to modernize British Columbia's business taxes.
- Budget 2017 also indicates the government's acknowledgement that further improvements to the PST are a priority for the business community, which was a key finding of the Commission on Tax Competitiveness. Budget 2017 notes that future steps to mitigate the negative effects of the PST and other business taxes will be considered in the context of the province's fiscal situation and competing funding priorities.

Other measures

Focus on children and families

- A number of smaller measures aimed at additional support for children and families were announced, such as a back-to-school tax credit of up to \$250 per child. With the introduction of this back-to-school tax credit, the education tax credit is being eliminated effective January 1, 2017. Unused education amounts carried forward from years prior to 2018 remain available to be claimed in 2018 and subsequent taxation years.

Motor fuel tax

- Effective October 1, 2017, natural gas for use in an internal combustion engine for any rolling stock or vehicles which run on rails is exempt from the 3 cents per litre tax on locomotive fuel.

Tobacco tax

- Effective October 1, 2017, the tax rate on cigarettes will increase from \$47.80 to \$49.40 per carton of 200 cigarettes. The tax rate on fine-cut tobacco is increased from 23.9 cents to 24.7 cents per gram.

Training tax credits

- The BC training tax credits are extended for three years to the end of 2020. A refundable tax credit is available to sole proprietors, partnerships and corporations with a permanent establishment in British Columbia in respect of salary and wages paid to an employee registered in a prescribed program administered through the BC Industry Training Authority. Available credits include a basic tax credit, a completion tax credit, and an enhanced tax credit.

For further details, we refer you to the [Ministry of Finance website](#).

Your dedicated team:

National

Carl Allegretti

Canadian Tax Leader

Tel: 416 601 6150

Albert Baker

National Tax Policy Leader

Tel: 416 643 8753

British Columbia

Colin Erb

Tax Director of Operations

Tel: 604 640 3348

Christopher Gimpel

Partner, Tax

Tel: 604 640 3804

Deloitte LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West, Suite 200
Toronto ON M5H 0A9
Canada

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