



Canadian tax alert

2017-2018 British Columbia budget update

September 11, 2017

The Minister of Finance, Carole James, presented an update to the 2017-2018 BC Budget on Monday, September 11, 2017. The budget update is the first NDP budget in 16 years and reflects the new government's key spending priorities announced in the Throne Speech delivered by Premier John Horgan. Despite the new spending, the government continues to project a modest surplus of approximately \$250 million after contingencies and allowances. The budget update contains a number of modifications to the tax measures proposed by the previous government in February 2017 in addition to some new measures. A number of tax measures target high-income earners and corporations. Three significant measures that will be of broad interest are:

- An increase in the individual income tax rate to 16.8% from 14.7% on income over \$150,000, effective for 2018;
- An increase in the general corporate income tax rate from 11% to 12% as of 2018 and an associated increase in the dividend tax credit for eligible dividends; and
- The expansion of the decrease in the Medical Services Plan (MSP) premiums by 50% to be applicable to all British Columbians (the previously announced MSP reduction was only for lower income individuals).

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

Personal tax measures

Increase in personal income tax rate

The budget update introduces a new top marginal tax bracket targeting high-income earners:

- Effective for 2018 and subsequent years, tax rate increases to 16.8% from 14.7% on taxable income exceeding \$150,000.
- The combined federal and provincial personal income tax rate, applicable to those who earn in excess of the federal top tax bracket (\$202,800 in 2017, to be indexed for 2018) will be 49.80% on every dollar earned thereafter up from 47.7% in 2017.

Increase in eligible dividend tax credit

British Columbia provides a dividend tax credit to prevent double taxation of dividend income that is subject to corporate level taxation. As a result of increasing the general corporate rate (discussed below), the budget update increases the dividend tax credit accordingly.

- Dividends paid out of the general rate income pool of a corporation are subject to a more favourable tax credit to reflect the higher rate of tax paid by corporations subject to tax at the general rate.
- Effective for 2019 and subsequent years, the provincial eligible dividend tax credit is increased to 43.58% from 36.32% of the gross-up¹ amount of the dividend.
- Note that this does not impact the dividend tax credit on other than eligible dividends, which is scheduled to decrease from 17% to 15% of the gross-up² amount of the dividend effective for 2017 and subsequent years as previously announced in Budget 2017. That decrease was announced in connection with the reduction in the small business tax rate proposed at that time.

Decrease in Medical Services Plan (MSP) premiums

One of the NDP government's commitments is to work towards a complete phase-out of the MSP in four years. Key provisions announced in this budget update are as follows:

- Effective January 1, 2018, previously announced phase-out of 50% of MSP premiums will now apply to all income levels (previously limited to those earning less than \$120,000).
- Income thresholds at which individuals and families are fully exempt from MSP are increased by \$2,000 (as previously announced in Budget 2017).
- The previously announced reductions result in annual decreases of up to \$450 for individuals and \$900 for families.

¹ Eligible dividends are "grossed-up" from the actual amount of the dividend for tax purposes by a factor of 38%.

² Other than eligible dividends are "grossed-up" from the actual amount of the dividend for tax purposes by a factor of 17%.

Increase in Low Income Climate Action Tax Credit

- Low income British Columbians are eligible for a tax credit to help offset the impact of carbon taxes on the costs of basic goods and services.
- In recognition of the increase to the carbon tax rate (discussed below), the government is increasing this credit.
- Effective April 1, 2018, the maximum annual Low Income Climate Action Tax Credit is increased to \$135 per adult and \$40 per child from \$115.50 and \$34.50, respectively.

Other personal tax measures

- The first time home buyer Property Transfer Tax exemption and home owners grant threshold increase announced in Budget 2017 were affirmed in the budget update.
- The BC Back-to-School Tax Credit was introduced for one year only, providing a cash tax benefit of up to \$12.65 per child for families with children aged five to 17 years old. The credit is available for the 2016 taxation year only and will require taxpayers to refile their returns if they had not previously claimed the credit.
- Budget 2017 had previously announced the elimination of the Education Tax Credit. The budget update has reversed this and the Education Tax Credit is maintained.
- A Volunteer Firefighters and Search and Rescue Volunteers Tax Credit introduced for individuals who provide at least 200 hours of volunteer fire and/or rescue services. The credit provides up to \$151.80 per eligible taxpayer, effective for 2017 and subsequent years.
- The Children's Fitness, Children's Fitness Equipment and Children's Arts tax credits are eliminated for 2018 and subsequent years, consistent with the federal elimination of these credits.

Business tax measures

Increase in general corporate income tax rate

The budget update announces planned increases to the general corporate tax rate applicable to most corporations.

- Effective January 1, 2018 corporations earning income subject to the general tax rate will pay provincial tax at a rate of 12%, increasing from 11%. The increase results in BC no longer having the lowest tax rate in the country and puts the province on par with our neighbours in Alberta and Manitoba. The Ontario, NWT and Saskatchewan rate of 11.5% will be the lowest rate in the country.
- Corporations that do not have a calendar year-end will have a blended rate based on the number of days in each calendar year.
- This brings the combined statutory federal and provincial general tax rates for income taxable in BC to 27% from 26%.

Increase in carbon tax rates and removal of revenue neutrality requirement

Pursuant to the agreement between the NDP and the Green Party, the government is taking action on its commitment to developing a sustainable economy and environment. Key aspects of the plan are as follows:

- Effective April 1, 2018, the carbon tax rate will increase by \$5 per tonne of CO₂ equivalent emissions.
- The government estimates that a family of four earning \$50,000 of income will attract an additional \$50 per year in carbon tax as a result of this increase.
- The \$5 per tonne increase will result in BC continuing to have a higher carbon tax rate than other provinces that choose to implement a minimum broad-based carbon tax in-line with the Pan-Canadian framework agreed to by most provinces in December 2016. By April 1, 2021, BC's carbon tax rate will be \$50 per tonne relative to the minimum \$40 mandated under the Pan-Canadian framework for that year.
- Subject to receiving royal assent in legislature, the government proposes to eliminate the requirement for the carbon tax to be revenue neutral. The government wants such funds to be included in general revenue to "support families and fund green initiatives".
- The government announced other future initiatives that are being considered, including:
 - Additional carbon tax relief for low income families;
 - Broader application of the carbon tax to emissions not currently covered (such as fugitive emissions and emissions from slash pile burning);
 - Collaboration with industries to transition to a lower carbon economy; and
 - Other investment in climate change solutions.

Restoration of provincial preferential tax rate for credit unions

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 consistent with the federal elimination of the tax benefit. British Columbia's Budget 2014 announced the phase-out of the provincial preferential tax rate starting in 2016.

- Budget 2017 paused the phase-out of the credit at 80% of the previous benefit for 2017.
- This budget update provides for the restoration of the full 100% preferential tax rate, effective January 1, 2017.

Elimination of International Business Activity Program (AdvantageBC)

The British Columbia International Business Activity (IBA) Program is a tax incentive program that has existed since 1986. The IBA Program provides an incentive to corporations carrying on certain qualifying international activities to establish a presence in BC. The IBA Program can result in an effective corporate income tax rate of 15%, which is considerably less than other locations – for example, lower than

Hong Kong (16.5% tax rate) and lower than Singapore (17.5% tax rate) – making BC an attractive place to establish international business.

Effective September 12, 2017, international business activities no longer qualify for personal and corporate income tax refunds.

Phase out of Provincial Sales Tax (PST) on electricity

To improve the competitiveness of BC businesses, the previous government announced at Budget 2017 that it would proceed with a two-step phase out of the 7% PST charged on electricity to businesses. At present, BC is the only jurisdiction in North America to levy an electricity tax on businesses.

The new government has affirmed its intention to phase out the PST on electricity as previously announced; first decreasing the rate to 3.5% at a date to be prescribed by regulation, then by a full exemption effective April 1, 2019.

Extension of certain tax credits

- The BC Mining Flow-Through Share Tax Credit is extended to the end of 2017 (as previously announced at Budget 2017).
- The Scientific Research and Experimental Development Tax Credit is extended for five years through August 31, 2022 (as previously announced at Budget 2017).
- BC training tax credits were extended by only one year through the end of 2018. Budget 2017 had proposed to extend the through 2020; thus, it remains to be seen whether the government will continue to extend this credit for future years.
- The Book Publishing Tax Credit extended for one year to March 31, 2018.

Adjustments to certain tax credits

- The Interactive Digital Media Tax Credit (IDMTC) will apply to corporations whose principal business is not the development of such media provided they incur annual qualifying BC labour expenses greater than \$2 million (as previously announced at Budget 2017).
- The Small Business Venture Capital Tax Credit is increased to \$38.5 million from \$35 million (as previously announced).
- Corporations participating in the small business venture capital program are eligible for the IDMTC effective for taxation years ending after February 22, 2017.
- The Mining Exploration Tax Credit is expanded to include the cost of environmental studies and community consultations incurred after February 28, 2015.

Other measures

Affirmation of certain tax measures

- Motor fuel tax will increase 3 cents per litre on locomotive fuel, as previously announced in Budget 2017.
- Tobacco tax will increase from \$47.80 to \$49.40 per carton of 200 cigarettes and the tax on fine cut tobacco will increase from 23.9 cents to 24.7 cents per gram.

Information sharing – *Home Owner Grant Act* and *Income Tax Act*

- The *Income Tax Act* (British Columbia) and *Home Owner Grant Act* are amended to allow for information sharing between the two acts.
- The amendments to the *Income Tax Act* will provide income tax administrators with increased access to assessment data.

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

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