



Canadian tax alert

2018-2019 British Columbia budget highlights

February 20, 2018

The Minister of Finance, Carole James, presented the British Columbia 2018 budget on Tuesday, February 20, 2018. This is the first annual budget announced by the NDP since taking office in 2017. The budget is balanced with a small projected surplus for 2018-2019.

There was significant public commentary leading up to the budget that the government would include measures such as a "speculation tax" on residential property and expand the additional property transfer tax (known colloquially as the "foreign buyers tax"). The government delivered on both a speculation tax and an expanded foreign buyers' tax. However, other significant and surprising measures were introduced including an employer health tax (EHT) of 1.95% of payroll for businesses with annual payroll in excess of \$1.5 million. The EHT is a replacement for medical services plan (MSP) premiums paid by individuals that will be eliminated on January 1, 2020.

Fiscal/economic outlook

The NDP government has inherited a robust provincial economy. As a result of strong employment, retail sales, housing starts and export data in 2018, the Ministry of Finance has revised its 2017 real GDP growth estimate to 3.4% from 2.9%. It forecasts GDP growth of 2.3% in 2018 and 2.0% in 2019. With this strong economic footing, the government is moving forward with a new spending agenda that focuses principally on two platforms: housing affordability and childcare. Despite this new program spending, the Ministry of Finance projects continued budget surpluses ranging from \$219 million in 2018-2019 to \$284 million in 2020-2021. These budget surpluses arise largely from the tax measures introduced in Budget 2018, which carry a projected net tax increase of \$793 million in 2018-2019 and \$2,094 million in 2019-2020.

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

Personal tax measures

Accelerated phase out of the MSP

In the NDP government's 2017 BC budget update, the government had committed to a complete phase-out of the MSP in four years. However, Budget 2018 accelerated the effective date to January 1, 2020 for when the MSP will be fully eliminated. Rather than a gradual reduction, MSP premiums will continue to apply at the reduced rates announced in the 2017 BC budget update until that time.

Increase in property transfer tax rate

Effective February 21, 2018, the property transfer tax rate applicable to the value of the residential component of a taxable transaction that exceeds the threshold of \$3 million is increased to 5% from 3%. The 5% rate is made up of the existing 3% rate on the fair market value of property in excess of \$2.0 million and the new 2% rate on the portion of the excess above \$3.0 million. The rate of property transfer tax on taxable transactions less than \$2.0 million remains unchanged.

Increase in scope and rate of the foreign buyers tax

Effective February 21, 2018, the foreign buyers tax rate is increased to 20% from 15% of the taxable transaction. Furthermore, whereas the tax previously applied to only the Metro Vancouver area, the applicable area has been expanded to include the Capital Regional District (i.e., the Victoria area), the Regional District of Central Okanagan (i.e., Kelowna area), the Fraser Valley Regional District, and the Regional District of Nanaimo. Transitional rules are provided for the newly impacted regions to exempt transactions entered into before February 21, 2018. No transitional rules apply for transactions in Metro Vancouver.

Anti-avoidance provisions exist and are enforced to ensure all property purchasers report and pay the correct amount of property transfer tax and/or the additional property transfer tax. The provisions include examining circumstances where

Canadians, as taxable trustees, hold property in trust for a foreign entity or are trustees where a beneficiary may be a foreign entity. In order to assist administration and enforcement of the anti-avoidance provisions, Budget 2018 introduced several measures to enhance tax administration and information sharing (see below under Other measures).

Increase in school tax on residential property

Effective for 2019 and subsequent years, an annual tax of rate of 0.2% will apply to the assessed value of the residential portion of a property that exceeds \$3 million but does not exceed \$4 million. The assessed value in excess of \$4 million will be subject to a rate of 0.4%. The school tax applicable to non-residential classes of property, and to the value of the residential portion of properties that does not exceed \$3 million, will continue to apply at the rates applicable to that class. Furthermore, Certain purpose built rental housing will be exempt from the school tax as part of the government's initiative to support the construction of new affordable housing.

New BC caregiver credit to replace similar existing credits

Effective for 2018 and subsequent years, the BC caregiver credit will be available to British Columbian residents who care for an adult relative who is dependent on the taxpayer because of a mental or physical infirmity. Key aspects of the credit include:

- The provincial non-refundable income tax credit amount is \$4,556 (indexed to inflation), providing a benefit of up to \$230.53.
- If the infirm adult is a spouse, the taxpayer can claim the greater of the BC caregiver credit or the spousal tax credit.
- If the taxpayer is single, the taxpayer can claim the greater of the BC caregiver credit or the eligible dependent tax credit.

Other personal tax measures

Budget 2018 proposed no further adjustments to the personal tax rates applicable to individuals. The changes announced previously for 2018 remain in effect.

Personal combined federal and provincial top marginal rates	
Interest and regular income	49.80%
Capital gains	24.90%
Eligible dividends	34.20%
Ineligible dividends	43.73%

In addition, the government announced a number of other measures:

- Homeowner grant full exemption threshold is increased to \$1.65 million from \$1.6 million.
- The provincial education tax credit is eliminated for 2019 and subsequent years, following the federal elimination of the credit in 2017. Unused BC education tax credits carried forward from years prior to 2019 remain available to be claimed in 2019 or subsequent years.

- Principal residences transferred to a bankrupt individual or the bankrupt individual's spouse are exempt from property transfer tax. Previously such transactions were only exempt if no consideration was exchanged.

Business tax measures

Introduction of an EHT

In 2018, the government will introduce legislation to implement an EHT, effective January 1, 2019, subject to legislative approval. Businesses with annual BC payroll in excess of \$500,000 will be subject to the tax as follows:

Annual payroll	Annual tax	Tax as a percentage of payroll
\$500,000 or less	\$0	0.00%
\$750,000	\$7,313	0.98%
\$1,000,000	\$14,625	1.46%
\$1,250,000	\$21,938	1.76%
\$1,500,000	\$29,250	1.95%
Over \$1,500,000	\$29,250 plus 1.95% of payroll in excess of \$1.5 million	1.95%

Legislation will include details regarding frequency of instalments and will provide for the aggregation of payroll of associated businesses.

While the legislation remains to be introduced, it is expected that the amount of EHT an employer will pay will be calculated by multiplying your BC payroll for the year by the applicable tax rate.

British Columbia is following the leads of Ontario, Quebec and Manitoba with the introduction of an EHT. The EHT rates proposed are similar to rates in other provinces as follows:

Province	Payroll exempt from EHT	Low rate	High rate ¹
Ontario	\$450,000	0.98% ²	1.95% ³
Quebec	NA	2.30% ⁴	4.26% ⁵
Manitoba	\$1,250,000	4.3% ⁶	2.15% ⁷

¹ Please note that each province has a variable rate applicable to income between the low and high thresholds.

² On payroll up to \$200,000.

³ On payroll in excess of \$400,000.

⁴ On payroll less than \$1.0 million.

⁵ On payroll excess of \$5.0 million.

⁶ On payroll between \$1.25 million and \$2.5 million.

⁷ On total payroll where the payroll is in excess of \$2.5 million; however, the \$1.25 million is not a deduction.

Corporate income tax rates

Budget 2018 does not propose any changes to the BC corporate income tax rates that were previously announced. As a result the corporate income tax rates remain as follows:

Corporate income tax rates – As of January 1, 2018		
	British Columbia	Combined federal and BC
General corporate rate	12.0%	27.0%
M&P rate	12.0%	27.0%
Small business rate	2.0%	12.0%

Extension and expansion of certain tax credits

In addition to the above noted measures, Budget 2018 proposed the following:

- The BC mining flow-through share tax credit is extended to the end of 2018.
- Farmers' food donation tax credit is extended to the end of 2019.
- Interactive digital media tax credit is extended for five years to August 31, 2023.
- Book publishing tax credit is extended for three years to March 31, 2021.
- Film incentive BC tax credit is expanded to include scriptwriting expenditures on BC labour incurred by a corporation prior to the completion of the final script stage of the production.

Other measures

Introduction of a speculation tax on residential property

In 2018, the government will introduce legislation to impose a speculation tax. Limited details are available as to what entities the tax rate will apply, and the extent to which they apply to mixed use properties. However, some key details announced are as follows:

- The annual tax rate will be 0.5% of assessed value in 2018 and 2% in 2019 and subsequent years.
- The tax rate applies only in the regions of Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts, Kelowna and West Kelowna.
- The tax rate applies to foreign and domestic homeowners who do not pay or pay little (in comparison to high worldwide income) income tax in BC.
- Up-front exemptions will be provided for principal residences and "qualifying long-term rental properties." Details of these exemptions have not been disclosed.
- To offset the cost of this tax for certain people who do not qualify for an up-front exemption, a non-refundable income tax credit will be introduced.
- Information gathered by the province will be made available to the Canada Revenue Agency.

The new annual property tax will target foreign and domestic homeowners who do not pay income tax in British Columbia, including those that leave their home vacant.

Satellite families – households with high worldwide income but pay little BC income tax – will also be captured by these rules. The tax will be effective for the 2018 year and future years. The tax is in addition to the empty homes tax (1% of assessed value) introduced by the City of Vancouver in 2018.

Changes to the Motor Fuel Tax Act and Carbon Tax Act

- To ensure International Fuel Tax Agreement licensees only pay carbon tax on fuel they use in BC, refund rates for licensees are increased to reflect annual April 1 increases in the carbon tax from 2018 through 2021.
- Effective April 1, 2018, marine diesel fuel used in interjurisdictional cruise ships and ships prohibited from coasting trade is exempt from motor fuel tax (previously, a ship was only exempt if it had a gas turbine engine).
- Effective April 1, 2018, motor fuel tax rates on clear gasoline and clear diesel in the Capital Regional District (i.e., Victoria area) are increased to 5.5 cents per litre from 3.5 cents.
- Retroactive to February 18, 2014, refiner collectors that acquire fuel for retail sale from other refiner collectors are exempt from the requirement to pay security on that fuel. There will be a refund for security paid by a refiner collectors on fuel purchased in BC and sold to another refiner collector.

Changes to the Provincial Sales Tax (PST) Act

Luxury surtax on passenger vehicles: Effective April 1, 2018, the luxury surtax on the sale of new or used passenger vehicles is increased as follows:

Vehicle sales price	Private sale		Commercial sale (by GST registrant)	
	Old surtax	New surtax	Old surtax	New surtax
\$125,000 to \$149,999	12%	15%	10%	15%
\$150,000+	12%	20%	10%	20%

- Cruise ship retailers: Retroactive to April 1, 2013, while making sales in the course of schedule sailings in BC waters, retailers operating on cruise ships are not required to collect PST.
- Certain software: Retroactive to April 1, 2013, software provided as part of optional as-needed maintenance agreements is confirmed to be subject to PST.
- Online accommodation platforms: Effective on a date to be specified by regulation, online accommodation platforms will be permitted to register as a collector for PST purposes. Owners of units will be relieved from the obligation to register.
- Railway service providers: Effective on royal assent, to allow for simplified remittance of tax on services, railway services will be permitted to be included in Tax Payment Agreements between BC and interjurisdictional railways.
- Avalanche airbag backpacks: Effective April 1, 2018, all avalanche airbag backpacks will be exempt of PST.

Increase in tobacco tax rates

Effective April 1, 2018, the following tobacco tax rates apply:

Product	New rate (April 1, 2018)	Previous rate
Per cigarette	27.5 cents	24.7 cents
Per carton of 200 cigarettes	\$55	\$49.40
Loose tobacco	37.5 cents per gram	24.7 cents per gram

Measures related to administration, enforcement and information sharing

- Effective on royal assent, the Property Transfer Tax Act is amended to increase the limitation period for property transfer tax assessments to six years (now matching the foreign buyers tax). The amendments also permit the collection of identification information for bare trusts (and their beneficial owners), apply administrative penalties for non-compliance, and extend the general anti-avoidance rules to apply for all purposes of the Property Transfer Tax Act (previously, only applied in certain limited situations).
- Effective on a date to specified by regulation, to recover costs related to out of province audits, amendments have been included in various acts to allow for a fee to be charged to taxpayers.
- Effective for transactions, or a series of transactions, that complete on or after February 21, 2018, a "reportable transaction" regime will be introduced specifically for income tax avoidance transactions, paralleling the federal rules previously introduced.
- Effective on royal assent, information sharing between regulatory bodies will be permitted in order to enforce the Income Tax Act and the Land Tax Deferral Act.
- The province is implementing the Petroleum Information Network ("Petrinex") system to improve the collection and accuracy of oil and natural gas royalty information. Amendments to the Petroleum and Natural Gas Act will provide the Ministry of Finance with authority to penalize the non-payment of royalties and other non-compliance and reporting errors.

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

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