

British Columbia
Budget 2017
Dispatch
September Update



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“A budget should benefit all the people of our province, not just the few at the top, and that's why we are committed to making choices that benefit everyone. We're committed to strengthening our economy. We want our province to be a place of strong industries, thriving entrepreneurship, flourishing small businesses, a well-educated work force, good jobs and sustainable economic growth. And most importantly, we're going to do this by investing in British Columbians.”

—Carole James, Minister of Finance

1 INTRODUCTION

British Columbia Finance Minister Carole James presented *Budget 2017 — September Update* (“Budget Update”) on September 11, 2017. Normally, budgets are presented only once per calendar year. However, in election years the government must present a budget within 90 days of cabinet being formed; consequently, this is the second British Columbia budget of 2017 and the first of the new NDP government.

The Budget Update, while extensive, was tabled in anticipation of the government presenting a full budget in February 2018. Nonetheless, this latest budget (including the tax measures) supersedes the February 2017 budget submitted by the previous government.

The Minister of Finance forecast total government revenue at \$52.4 billion in 2017-2018. Total expenses are forecast at \$51.9 billion in 2017-2018. Taking into account a forecast allowance of \$300 million, the Budget Update projects a surplus of \$246 million in 2017-2018.

A number of tax measures were announced in the Budget Update, including a new personal tax bracket for incomes over \$150,000, increased carbon tax, an increase in the general corporate income tax rate, and a reduction in the small business corporate income tax rate. Highlights of these and related measures, many of which are similar to those announced in the February 2017 budget, are outlined below.

2 INCOME TAX ACT

2.1 Personal Income Tax Rate of 16.8% on Taxable Income over \$150,000

A new top personal income tax bracket is introduced effective for the 2018 and subsequent tax years. The income threshold for the new top bracket will be \$150,000 in 2018, with taxable income exceeding \$150,000 subject to a personal income tax rate of 16.8%.

2.2 Small Business Corporate Income Tax Rate

The small business corporate income tax rate is reduced to 2% (from 2.5%) effective April 1, 2017.

2.3 General Corporate Income Tax Rate

The general corporate income tax rate is increased to 12% (from 11%) effective January 1, 2018.

2.4 Dividend Tax Credit Rate for Eligible Dividends

As a result of increasing the general corporate income tax rate, the dividend tax credit rate on eligible dividends is increased to 43 11/19 % (from 36 6/19 %), effective for the 2019 and subsequent tax years.

2.5 Dividend Tax Credit Rate for Ineligible Dividends

As a result of reducing the small business corporate income tax rate, the dividend tax credit rate on ineligible dividends is decreased from 17% to 15%, effective for the 2017 and subsequent tax years.

2.6 Low Income Climate Action Tax Credit

To offset the increased carbon tax rate (see below), effective April 1, 2018, the maximum annual low income climate action tax credit is increased to \$135 per adult from \$115.50, and to \$40 per child from \$34.50.

2.7 Back-to-School Tax Credit

A new non-refundable back-to-school tax credit is introduced, available to individuals with school-aged children (five to 17 years of age). The tax credit amount is \$250 per child, providing a tax benefit of up to \$12.65 per child. The credit is available for the 2016 tax year only.

2.8 Tax Credit for Volunteer Firefighters and Search and Rescue Volunteers

A new non-refundable volunteer firefighters and search and rescue volunteers tax credit is introduced, available to British Columbians who provide at least 200 hours of volunteer service to a volunteer fire department, an eligible search and rescue organization, or a combination of both. The credit amount is \$3,000, providing a tax benefit of up to \$151.80 per eligible taxpayer. The tax credit is available for the 2017 and subsequent taxation years.

2.9 Children's Fitness, Children's Fitness Equipment, and Children's Arts Tax Credits

The children's fitness tax credit, children's fitness equipment tax credit, and children's arts tax credit are eliminated effective for the 2018 and subsequent tax years.

2.10 Mining Flow-Through Share Tax Credit

The mining flow-through share tax credit is extended to the end of 2017.

2.11 Preferential Tax Benefit for Credit Unions

In 2013, the federal government began a five-year phase-out of its preferential tax treatment for credit unions. The 2014 B.C. budget announced that the provincial preferential tax treatment for credit unions would be extended three years, after which it would be phased out over five years beginning in 2016. The Budget Update cancels the phase-out and restores the full provincial preferential income tax treatment for credit unions effective January 1, 2017.

2.12 Scientific Research and Experimental Development Tax Credit

The scientific research and experimental development tax credit is extended for five years to August 31, 2022.

2.13 Interactive Digital Media Tax Credit

Currently, to be eligible for the interactive digital media tax credit, a corporation's principal business must be the development of interactive digital media products. Effective for tax years that end on or after February 22, 2017, corporations that have annual qualifying B.C. labour expenses greater than \$2 million do not need to meet this requirement.

Furthermore, effective for tax years that end on or after February 22, 2017, interactive digital media corporations participating in the small business venture capital program are eligible for the interactive digital media tax credit.

2.14 Boundary for Regional Film Tax Credits

For the purposes of the regional film tax credits, the southern part of the eastern boundary of the designated Vancouver area is moved from 200th Street in Langley to the border between Surrey and Langley. This change is effective for productions with principal photography beginning on or after January 25, 2017. As a result, the regional film tax credits apply in all of the City of Langley and the Township of Langley. This change applies to both the film incentive B.C. tax credit and the production services tax credit.

2.15 Mining Exploration Tax Credit

The mining exploration tax credit is expanded to allow the costs of environmental studies and community consultations incurred after February 28, 2015, to be included in the calculation of the mining exploration tax credit.

2.16 Training Tax Credits

The training tax credits are extended for one year to the end of 2018.

2.17 Book Publishing Tax Credit

The book publishing tax credit is extended for one year to March 31, 2018.

3 PROVINCIAL SALES TAX ACT

3.1 Tax on Electricity

The provincial sales tax on taxable electricity is being phased out. Effective on a date to be specified by regulation, the tax rate on electricity is reduced from 7% to 3.5% of the purchase price. Once the legislation receives royal assent, the government intends to provide at least one month of notice before this change takes effect. Effective April 1, 2019, electricity is fully exempt from provincial sales tax.

4 INTERNATIONAL BUSINESS ACTIVITY ACT

4.1 Personal and Corporate Income Tax Refunds

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

5 SMALL BUSINESS VENTURE CAPITAL ACT

5.1 Small Business Venture Capital Tax Credit

Effective for 2017 and subsequent years, the budget for the small business venture capital tax credit is increased to \$38.5 million from \$35 million.

6 CARBON TAX ACT

6.1 Carbon Tax Rates

Effective April 1, 2018, carbon tax rates are increased by \$5 per tonne of carbon dioxide equivalent emissions ("CO₂e") annually until rates are equal to \$50 per tonne of CO₂e on April 1, 2021. With these increases, British Columbia will exceed the carbon pricing requirements set out in the Pan-Canadian Framework.

6.2 Part 2 of the Carbon Tax Act

Part 2 of the Carbon Tax Act is repealed. Following the Budget Update, the requirement to prepare the Carbon Tax Report and Plan will no longer apply. This means the Carbon Tax Act will no longer require that measures be introduced to offset carbon tax revenues, and will allow the government to spend carbon tax revenues on measures that reduce emissions.

6.3 Future Initiatives

The following measures are also being considered for implementation as part of future budgets:

- further carbon tax relief (in addition to the enhancements to the low income climate action tax credit);
- complementary carbon pricing measures to address emissions not currently covered by the carbon tax, in particular fugitive emissions and emissions from slash pile burning;
- develop strategies with industries to support the transition of carbon intensive sectors to a lower carbon economy; and
- other investments in climate change solutions that create jobs, benefit communities, and reduce climate pollution.

7 MOTOR FUEL TAX ACT

7.1 Natural Gas Used as Locomotive Fuel

Effective on a date to be specified by regulation, natural gas for use in an internal combustion engine for any rolling stock or vehicle when run on rails is exempt from the 3 cent per litre tax on locomotive fuel. At least one month of notice will be provided before this change takes effect.

8 TOBACCO TAX ACT

8.1 Tobacco Tax Rates

Effective on a date to be specified by regulation, the tax rate on cigarettes is increased to \$49.40 from \$47.80 per carton of 200 cigarettes, and the tax rate on fine-cut tobacco is increased to 24.7 cents from 23.9 cents per gram. Once the legislation receives royal assent, the government intends to provide at least one month of notice before this change takes effect.

9 PROPERTY TRANSFER TAX ACT

9.1 Threshold for First Time Home Buyers' Program Exemption

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 is increased to \$500,000 from \$475,000. The partial exemption continues and now applies to homes valued between \$500,000 and \$525,000.

10 HOME OWNER GRANT ACT

10.1 Threshold for Home Owner Grant Phase-Out

As announced on January 10, 2017, the threshold for the phase-out of the home owner grant has been increased to \$1.6 million from \$1.2 million for the 2017 tax year.

11 SCHOOL ACT

11.1 Provincial Residential Class School Property Tax Rates

The longstanding rate-setting policy is that average residential class school property taxes, before application of the home owner grant, increase by the previous year's provincial inflation rate. This policy will continue in 2017 (the rates for this year were set in the spring).

11.2 Provincial Non-Residential Class School Property Tax Rates

A single province-wide school tax rate is set for each of the non-residential property classes. Consistent with longstanding policy, the rates for 2017, except the rate for the industrial property classes, were set so that non-residential class school tax revenue increases by inflation plus tax on new construction. The rates were set in the spring. The major industry class tax rate and the light industry class tax rate were set at the same rate as the business class tax rate.

12 TAXATION (RURAL AREA) ACT

12.1 Provincial Rural Area Property Tax Rates

A single rural area residential property tax rate applies province-wide. The longstanding rate-setting policy that average residential rural property taxes increase by the previous year's provincial inflation rate has been continued in 2017. Consistent with longstanding policy, non-residential rural area property tax rates will be set so that non-residential rural area tax revenue will increase by inflation plus tax on new construction. The rates were set in the spring.

13 HOME OWNER GRANT ACT AND INCOME TAX ACT

13.1 Information Sharing Improved

To improve administration and enforcement of the Income Tax Act and Home Owner Grant Act, these acts are amended to allow for information sharing between the two regimes. The Income Tax Act is also amended to provide income tax administrators with increased access to assessment data.

14 OTHER MEASURES

14.1 Medical Services Plan Premiums

Effective for 2018, Medical Services Plan ("MSP") premiums are reduced by 50%. In addition, the income threshold at which households are fully exempt from MSP premiums is increased by \$2,000.

The government has committed to eliminating MSP premiums within four years and will establish a task force to provide advice and recommendations on how best to replace MSP premium revenue. The task force will be established in the fall of 2017 and report back to the government by the spring of 2018.

14.2 Social Assistance

The Budget Update announced an increase to earnings exemptions of \$200 per month for all categories of people receiving social assistance. This means that a family receiving income assistance will be able to earn a maximum of \$600 per month on top of their monthly income assistance. A single person receiving disability assistance will be able to earn \$12,000 per year on top of their monthly disability assistance.

In July 2017, the government announced an increase to all social assistance rates of \$100 per month. This rate increase applies to both income assistance and disability assistance. The rate increase for disability assistance is in addition to the \$50 monthly increase provided in February's budget. The rate increase will take effect in October 2017.

14.3 Tolls on the Port Mann and Golden Ears Bridges

The tolls on the Port Mann and Golden Ears bridges are eliminated effective September 1, 2017.

This Dispatch Letter and other official Budget Update documents will be included on Intelliconnect and with the next DVD.

Disclaimer

Readers are urged to consult their professional advisers prior to acting on the basis of material in the Dispatch