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# Tax Alert – Canada

## British Columbia budget 2017-18

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“For the first time in over half a century we can boast of having led the country in economic growth for two years running....

“We need to ensure our tax structure remains competitive to promote continued investment and job creation and not ignore changes that are implemented elsewhere by jurisdictions that compete with us for investment.”

*British Columbia Finance Minister Michael de Jong  
2017-18 budget speech*

On 21 February 2017, British Columbia Finance Minister Michael de Jong tabled the province's fiscal 2017-18 budget. The budget contains several tax measures affecting individuals and corporations, including a reduction to the British Columbia small-business corporate income tax rate. The budget contains no new taxes, and no tax increases, other than an increase to tobacco tax rates.

The minister anticipates a surplus of \$295 million for 2017-18, and projects surpluses of \$244 million in 2018-19 and \$223 million in 2019-20.

Following is a brief summary of the key tax measures.



## Business tax measures

### Corporate income tax rates

A change is proposed to the corporate income tax rate applicable to small businesses. The British Columbia small-business corporate income tax rate is proposed to be reduced to 2% from 2.5%, effective 1 April 2017. The \$500,000 small-business limit has not changed.

British Columbia's current and proposed future corporate income tax rates are summarized in Table A.

**Table A: Corporate income tax rates**

	Current BC rate	Proposed rates			
		2017		2018	
		BC	Federal and BC combined	BC	Federal and BC combined
Small-business corporate tax rate*	2.5%	2.1%	12.6%	2.0%	12.5%
General corporate tax rate	11.0%	11.0%	26.0%	11.0%	26.0%

\*The small-business corporate tax rate is prorated based on a 31 December year end.

### Other business tax measures

The minister also proposed the following business tax measures:

#### Phase-out of preferential tax rates for credit unions paused

- ▶ Prior to 2013, credit unions benefited from preferential federal and British Columbia provincial corporate income tax rates on a portion of their income. In 2013, the federal government began a five-year phase-out of its preferential tax treatment. In 2014, British Columbia 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.

This budget pauses the phase-out of the provincial preferential income tax treatment for credit unions pending the completion of the *Financial Institutions Act* and *Credit Union Incorporation Act* review. Accordingly, for the 2017 tax year a credit union will continue to receive 80% of the full preferential tax treatment instead of having its value reduced to 60%, as was previously planned.

#### Amendments to the interactive digital media tax credit

- ▶ Effective 22 February 2017, qualifying BC labour employed in the development of "augmented reality and virtual reality" products will be eligible for the interactive digital media tax credit. The tax credit is calculated as 17.5% of qualifying BC labour expenses.
- ▶ 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 22 February 2017, corporations that have annual qualifying BC labour expenses greater than \$2 million do not need to meet this requirement.
- ▶ Effective for tax years that end on or after 22 February 2017, interactive digital media corporations participating in the small-business venture capital program are eligible for the interactive digital media tax credit.

**Boundary for regional film tax credits adjusted**

- ▶ 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 25 January 2017. As a result, the regional film tax credits apply in all of the City of Langley and Township of Langley. This change applies to both the Film Incentive BC tax credit and the production services tax credit.

**Mining exploration tax credit expanded to allow for additional expenditures**

- ▶ The mining exploration tax credit is expanded to allow the costs of environmental studies and community consultations incurred after 28 February 2015 to be included in the calculation of the mining exploration tax credit. The credit is calculated as 20% of eligible BC mining exploration expenditures, or 30% if exploration is in the mountain-pine-beetle-affected area.

**Certain provincial tax credits have been extended, as follows:**

- ▶ The scientific research and experimental development tax credit is extended to 31 August 2022.
- ▶ The BC mining flow-through share tax credit is extended to the end of 2017.
- ▶ The book publishing tax credit is extended for two years, to 31 March 2019.
- ▶ The BC training tax credits are extended to the end of 2020.

**Personal tax**

**Personal income tax rates**

The budget does not include any changes to personal income tax rates except as discussed below.

The 2017 British Columbia personal tax rates are summarized in Table B.

**Table B: 2017 British Columbia personal tax rates**

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate
\$0 to \$38,898	\$38,899 to \$77,797	\$77,798 to \$89,320	\$89,321 to \$108,460	Above \$108,460
5.06%	7.70%	10.50%	12.29%	14.70%

For taxable income in excess of \$108,460, the 2017 combined federal-British Columbia personal income tax rates are outlined in Table C.

**Table C: Combined 2017 federal and British Columbia personal tax rates**

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends-pre-budget
\$108,461 to \$142,353	40.70%	21.64%	32.42%
\$142,354 to \$202,800	43.70%	25.78%	35.93%
Above \$202,800	47.70%	31.30%	40.61%

\*The rate on the actual capital gain is one-half the ordinary income rate.

## Personal tax credits

This budget proposes changes to the following personal credits/amounts:

### Reduction of the provincial dividend tax credit on ineligible dividends

- ▶ The factor used to calculate the British Columbia dividend tax credit rate on ineligible dividends is decreased from 17% to 15% as a consequential amendment resulting from the change to the small-business corporate income tax rate (as described above). The change to the dividend tax credit rate on ineligible dividends is effective for the 2017 and subsequent tax years.
- ▶ The post-budget rates on non-eligible dividends recalculated for the top three tax brackets using a 2.18% dividend tax credit are 32.76%, 36.27% and 40.95%.

### Introduction of non-refundable volunteer firefighter and search and rescue volunteer tax credit

- ▶ A new non-refundable volunteer firefighter and search and rescue volunteer tax credit is introduced. The tax credit is available to British Columbians who provide at least 200 hours of volunteer service to either 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.

### Introduction of non-refundable BC back-to-school tax credit

- ▶ A new non-refundable BC back-to-school tax credit is introduced. The credit is 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, 2017 and 2018 tax years, after which the credit will be reviewed.

### Elimination of education tax credit

- ▶ The education tax credit is eliminated effective 1 January 2018. Unused education amounts carried forward from years prior to 2018 remain available to be claimed in 2018 and subsequent tax years.

## Provincial sales tax

### Phase-out of provincial sales tax on electricity purchases by businesses

- ▶ The provincial sales tax on taxable electricity will be phased out. Effective 1 October 2017, the tax rate on electricity is reduced to 3.5% from 7% of the purchase price. Effective 1 April 2019, electricity is fully exempt from provincial sales tax.

## Other tax measures

### Medicare Protection Act

#### Reduction of medical services plan premiums

- ▶ Effective for 2018, medical services plan (MSP) premiums are reduced by 50% for households with annual net incomes up to \$120,000. To receive the 50% reduction, households will need to register to determine eligibility. Individuals and families currently receiving premium assistance will be automatically registered. In addition, the income threshold at which households are fully exempt from MSP premiums is increased by \$2,000.

### Small Business Venture Capital Act

#### Equity tax credit budget increased

- ▶ 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. This allows for up to \$11.7 million in additional equity financing for qualifying corporations annually.

### Motor Fuel Tax Act

#### Natural gas used as locomotive fuel exempted

- ▶ Effective 1 October 2017, 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. The motor fuel tax exemption for natural gas used as locomotive fuel is consistent with the motor fuel tax exemptions for natural gas used in motor vehicles or used in a ship.

### Tobacco Tax Act

#### Tobacco tax rates increased

- ▶ Effective 1 October 2017, 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.

### Property Transfer Tax Act

#### Threshold for First Time Home Buyer's Program increased

- ▶ Effective for registrations on or after 22 February 2017, the fair market value threshold for eligible residential property under the First Time Home Buyer's 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. With this change, eligible first-time home buyers can save up to \$8,000 in property transfer tax on the purchase of their home.

## Home Owner Grant Act

### Threshold for home owner grant phase-out increased

- ▶ The threshold for the phase-out of the home owner grant is increased to \$1.6 million from \$1.2 million for the 2017 tax year. For properties valued above the threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

## Taxation (Rural Area) Act

### Provincial Rural Area Property Tax Rates Set

- ▶ 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 will continue for 2017. Consistent with this 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 will be set when revised assessment roll data are available in spring 2017.

## Learn more

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