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# Tax Alert – Canada

## British Columbia budget update 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.

“As Minister of Finance, I’m going to work with my colleagues to carve a new path where everyone benefits from our strong economy. Where economic growth goes hand in hand with investing in our greatest resource – people. Where reducing inequality, investing in the services people count on, and support a thriving, competitive, innovative economy are inextricably linked. Where addressing climate action is a tool for long-term sustainable growth and jobs in every corner of our province.

“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.”

*British Columbia Finance Minister Carole James  
Budget 2017 update speech*

On 11 September 2017, British Columbia Finance Minister Carole James tabled the province’s fiscal 2017-18 budget update. The budget 2017 update contains several tax measures affecting individuals and corporations.

The minister anticipates a surplus of \$246 million for 2017-18, and projects surpluses for each of the next two years.

Following is a brief summary of the key tax measures.



# Business tax measures

## Corporate tax rates

Effective 1 January 2018, the general corporate tax rate will increase to 12% from 11%.

The budget 2017 update confirms the small-business rate decrease from 2.5% to 2% effective 1 April 2017. No changes are proposed to the \$500,000 small-business limit.

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

**Table A: Corporate tax rates**

	Current BC rate	Proposed rates			
		2017		2018	
		BC	Federal and BC combined	BC	Federal and BC combined
Small-business tax rate	2.0%	2.12%	12.62%	2.0%	12.5%
General corporate tax rate**	11.0%	11.0%	26.0%	12.0%	27.0%

*\*\*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:

### BC mining flow-through share tax credit and mining exploration tax credit

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

### Preferential tax benefit for credit unions

- ▶ Prior to 2013, credit unions received federal and provincial preferential corporate income tax treatment by way of a lower tax rate on a portion of their income. In 2013, the federal government began a five-year phase-out of its preferential tax treatment. Budget 2014 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 2017 update cancels the phase-out and restores the full provincial preferential income tax treatment for credit unions effective 1 January 2017.

## **Scientific research and experimental development tax credit**

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

## **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 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.

## **Regional film tax credit**

- ▶ 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 the Township of Langley. This change applies to both the Film Incentive BC tax credit and the production services tax credit.

## **International Business Activity Program**

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

## **Other tax credits**

- ▶ The BC training tax credits are extended for one year to the end of 2018.
- ▶ The book publishing tax credit is extended for one year to 31 March 2018.
- ▶ 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.

## **Personal tax**

### **Personal income tax rates**

The budget update does not include any changes to 2017 British Columbia personal income tax rates.

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
\$108,461 to \$142,353	40.70%	21.64%	32.76%
\$142,354 to \$202,800	43.70	25.78%	36.27%
Above \$202,800	47.70%	31.30%	40.95%

\*The rate on capital gains is one-half the ordinary income tax rate.

A new top personal income tax bracket is introduced effective for the 2018 and subsequent tax years. Taxable income exceeding \$150,000 will be subject to a provincial personal income tax rate of 16.8%. The minister proposes to increase personal tax rates beginning in 2018 as outlined in Table D:

**Table D: 2018 British Columbia personal tax rates**

Bracket	Pre-budget rate	Proposed rates	
		2017	2018
\$0 to \$38,898	5.06%	5.06%	5.06%
\$38,899 to \$77,797	7.70%	7.70%	7.70%
\$77,798 to \$89,320	10.50%	10.50%	10.50%
\$89,321 to \$108,460	12.29%	12.29%	12.29%
\$108,460 to \$150,000	14.70%	14.70%	14.70%
Above \$150,000	14.70%	14.70%	16.80%

The maximum 2018 combined federal-British Columbia personal income tax rates are 49.80%, 34.19% and 43.41% for ordinary income, eligible dividends, and non-eligible dividends, respectively. The rate on capital gains is one-half the ordinary income tax rate.

## Personal tax credits

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

- ▶ The factor used to calculate the British Columbia dividend tax credit rate on eligible dividends is increased from 36 and 6/19 to 43 and 11/19 as a consequential amendment resulting from the change to the general corporate income tax rate (as described above). The change to the dividend tax credit rate on eligible dividends is effective for the 2019 and subsequent tax years.
- ▶ The budget 2017 update confirms that the factor used to calculate the British Columbia dividend tax credit rate on non-eligible 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 non-eligible dividends is effective for the 2017 and subsequent tax years. The rates in Table C above already reflect this proposal.

## **Other personal tax measures**

- ▶ 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. With these changes, single individuals and single parents will save up to \$450 per year and couples will save up to \$900 per year.
- ▶ Effective 1 April 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, with single-parent families continuing to receive the adult amount for the first child in the family.
- ▶ A non-refundable BC back-to-school tax credit was introduced for the 2016 year. The credit was available to individuals with school-aged children (5 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 eliminated for the 2017 year.
- ▶ A new non-refundable volunteer firefighters and search and rescue volunteers 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.
- ▶ 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.

## **Provincial sales tax**

The budget update confirms that the provincial sales tax (PST) on taxable electricity will be phased out. Effective on a date to be specified by regulation, the tax rate on electricity is reduced to 3.5% from 7% of the purchase price. Once the legislation receives Royal Assent, the government intends to provide at least one month of notice before the change takes effect. Effective 1 April 2019, electricity is fully exempt from PST.

## **Other tax measures**

### **Carbon Tax Act**

Effective 1 April 2018 carbon tax rates are increased by \$5 per tonne of carbon dioxide equivalent emissions annually until rates are equal to \$50 per tonne of carbon dioxide equivalent emissions on 1 April 2021.

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. In addition, this means the

*Carbon Tax Act* will no longer require that revenue measures be introduced to offset carbon tax revenues. This will allow the government to spend carbon tax revenues on measures that reduce emissions.

### **Motor Fuel Tax Act**

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 cents per litre tax on locomotive fuel. The government intends to provide at least one month of notice before this change takes effect.

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**

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.

### **Property Transfer Tax Act**

The budget 2017 update confirms that, effective for registrations on or after 22 February 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. 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**

As announced on 10 January 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. For properties valued above the threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

## **Other technical amendments**

### **School Act**

The longstanding rate-setting policy is that average residential class school property taxes, before the application of the home owner grant, increase by the previous year's provincial inflation rate. This rate-setting policy has been in place since 2003 and will continue in 2017. The rates were set in the spring.

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. This rate-setting policy has been in place since 2005. The rates were set in the spring.

The major industry class tax rate and the light industry class rate were set at the same rate as the business class tax rate, consistent with the policy announcement in Budget 2008.

### **Taxation (Rural Area) Act**

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.

### **Home Owner Grant Act and Income Tax Act**

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 acts. The *Income Tax Act* is also amended to provide income tax administrators with increased access to assessment data.

### **Learn more**

For more information or assistance with making submissions during the consultation period, please contact your EY advisor or one of the following professionals:

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