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# Tax Alert – Canada

## British Columbia budget 2018-19

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.

“We live in a province rich in people, resources, natural beauty and opportunities. Yet those opportunities have become further and further out of reach for many.

“Families are working and can’t get ahead. Young people starting out can’t find affordable housing. And seniors can’t get the services they rely on.

“It’s time for a different approach. It’s time everyone in our province is part of our prosperity.”

*British Columbia Finance Minister Carole James  
2018-19 budget speech*

On 20 February 2018, British Columbia Finance Minister Carole James tabled the province’s fiscal 2018-19 budget. The budget contains several tax measures affecting individuals and corporations.

The minister anticipates a surplus of \$219 million for 2018-19, 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

No changes are proposed to the corporate tax rates or the \$500,000 small-business limit.

British Columbia's 2018 and 2019 corporate tax rates are summarized in Table A.

**Table A: Corporate tax rates**

	2018		2019	
	BC	Federal and BC combined	BC	Federal and BC combined
Small-business tax rate*, **	2.0%	12.0%	2.0%	11.0%
General corporate tax rate***	12.0%	27.0%	12.0%	27.0%

\* British Columbia reduced its small-business rate from 2.5% to 2.0% effective 1 April 2017.

\*\* On 24 October 2017, the federal government tabled a notice of ways and means motion to implement reductions in the small-business corporate income tax rate, which were announced on 16 October 2017. The federal small-business rate is reduced from 10.5% to 10.0% effective 1 January 2018 and will be further reduced to 9.0% effective 1 January 2019.

\*\*\* British Columbia increased its general corporate tax rate from 11.0% to 12.0% effective 1 January 2018.

## Other business tax measures

The minister proposed the introduction of new legislation to implement an employer health tax.

### Employer health tax

- ▶ In 2018, the government will introduce legislation to implement an employer health tax on employers' payrolls starting in the 2019 calendar year. The employer health tax will not apply to employers with payroll under \$500,000. Employers with payroll over \$1.5 million will pay the maximum rate of 1.95% on their total payroll. For employers with payroll between \$500,000 and \$1.5 million, the tax rate will phase in gradually until it reaches 1.95% at \$1.5 million in total payroll.

In addition, this budget proposes changes to the following tax credits:

- ▶ The mining flow-through share tax credit is extended for one year to the end of 2018.
- ▶ The farmer's food donation tax credit is extended for one year to the end of 2019.
- ▶ The interactive digital media tax credit is extended for five years to 31 August 2023.
- ▶ The book publishing tax credit is extended for three years to 31 March 2021.
- ▶ The Film Incentive BC tax credit is expanded to include scriptwriting expenditures on British Columbia labour incurred by a corporation prior to the completion of the final script stage of the production effective for expenditures incurred on or after 21 February 2018.

## Personal tax

### Personal income tax rates

The budget does not include any changes to personal income tax rates.

The 2018 British Columbia personal tax rates are summarized in Table B.

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

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate	Fifth bracket rate	Sixth bracket rate
\$0 to \$39,676	\$39,677 to \$79,353	\$79,354 to \$91,107	\$91,108 to \$110,630	\$110,631 to \$150,000	Above \$150,000
5.06%	7.70%	10.50%	12.29%	14.70%	16.80%

For taxable income in excess of \$144,489, the 2018 combined federal-British Columbia personal income tax rates are outlined in Table C.

**Table C: Combined 2018 federal and British Columbia personal tax rates**

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
\$144,490 to \$150,000	43.70%	25.78%	36.66%
\$150,001 to \$205,842	45.80%	28.68%	39.09%
Above \$205,842	49.80%	34.20%	43.73%

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

### Medical Service Plan premiums

- ▶ Effective 1 January 2020, Medical Services Plan premiums will be eliminated. Single individuals will see annual savings of up to \$900 and families will see annual savings of up to \$1,800 once the Medical Services Plan premiums are eliminated.

### Personal tax credits

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

- ▶ Effective for 2018 and subsequent tax years, the caregiver tax credit and the infirm dependent tax credit are replaced with a new British Columbia caregiver credit. The non-refundable British Columbia caregiver credit parallels the Canada caregiver credit announced in the 2017 federal budget. The British Columbia caregiver credit is available to British Columbians who care for an eligible adult relative who is dependent on the caregiver because of a mental or physical infirmity. The caregiver is not required to live with the dependent in order to claim the credit. The maximum British Columbia caregiver credit amount is \$4,556 per infirm dependent for 2018, providing a benefit of up to \$230.53, and is indexed to inflation for future years. Individuals caring for an infirm spouse or common-law partner are eligible for the greater of the British Columbia caregiver credit or the spousal tax credit, and individuals who are single and caring for an

infirm adult relative are eligible for the greater of the British Columbia caregiver credit or the eligible dependent tax credit.

- ▶ The British Columbia education tax credit is eliminated effective for the 2019 and subsequent tax years. Unused British Columbia education amounts carried forward from years prior to 2019 remain available to be claimed in 2019 and subsequent tax years.

## Provincial sales tax

- ▶ The exemption for avalanche airbag backpacks is being expanded to include all avalanche airbag backpacks effective 1 April 2018.
- ▶ Effective on a date to be specified by regulation, the *Provincial Sales Tax Act* and regulations will be amended to enable online accommodation platforms to register as collectors, and to collect and remit provincial sales tax and the municipal and regional district tax on accommodation. By registering as a collector, the online platform will relieve its hosts from the obligation to register.
- ▶ Effective on a date to be specified by regulation, revenue from the municipal and regional district tax collected by municipalities, regional districts and eligible entities, such as tourism-focused nonprofits, can be used to fund affordable housing initiatives. Currently, funds can only be used for tourism marketing, programs and projects.
- ▶ Effective retroactive to 1 April 2013, the *Provincial Sales Tax Act* will be amended to clarify that provincial sales tax applies to software provided under optional as-needed maintenance agreements.
- ▶ Effective 1 April 2018, the luxury surcharge on passenger vehicles is increased. The rate on passenger vehicles with a purchase price from \$125,000 to \$149,999 is increased to 15% from 10%, and the rate on passenger vehicles with a purchase price of \$150,000 and above is increased to 20% from 10%. The general rate on private sales is also increased to 15% from 12% on passenger vehicles with a purchase price from \$125,000 to \$149,999, and to 20% from 12% on passenger vehicles with a purchase price of \$150,000 and above. The rates apply to sales of both new and used passenger vehicles.
- ▶ Effective on Royal Assent, services will be permitted to be included in Tax Payment Agreements between the Province and interjurisdictional railways. This will allow for simplified remittance of tax on services. Previously, only goods and software were included in Tax Payment Agreements.
- ▶ Effective retroactive to 1 April 2013, retailers operating on cruise ships in BC waters are not required to collect provincial sales tax on sales made during the course of scheduled sailings.

## Property tax

### **Property Transfer Tax Act**

- ▶ Effective 21 February 2018, a further tax rate of 2% is applied to the fair market value of the residential component of a taxable transaction that exceeds a threshold of \$3 million. The rate of tax on the part of the residential component above the threshold is a total of 5%, made up of the existing 3% on the fair market value of taxable transactions above \$2 million and the new 2% rate on the portion of the fair market value of the residential component above \$3 million.
- ▶ Effective 21 February 2018, the additional property transfer tax payable by foreign entities and taxable trustees on taxable residential property transfers is increased to 20% from 15%. In addition, the tax is expanded to the Capital Regional District, the Regional District of the Central Okanagan, the Fraser Valley Regional District and the Regional District of Nanaimo. For these newly added areas, there are transitional rules that may exempt eligible property transactions entered into before 21 February 2018. There are no transitional rules for transactions in Metro Vancouver.
- ▶ Effective for transactions that occur on or after 21 February 2018, transfers of a bankrupt's principal residence from a trustee in bankruptcy to the bankrupt or the bankrupt's spouse or former spouse are exempt from tax.

### **New speculation tax**

- ▶ The government will introduce legislation in 2018 to impose a speculation tax on residential property in British Columbia. The new annual property tax will target foreign and domestic home owners who do not pay income tax in British Columbia, including those who leave their homes vacant. So called "satellite families" who have high worldwide income but pay little income tax in British Columbia will also be captured by the tax. The tax will be effective for the 2018 and future tax years.
- ▶ Upfront exemptions will be available for most principal residences, qualifying long-term rental properties and certain special cases.
- ▶ A non-refundable income tax credit will also be introduced to offset the new tax. This will provide relief for persons who do not qualify for an upfront exemption, but who pay income taxes in British Columbia. The income tax credit can be carried forward to future years.
- ▶ The new tax will initially apply to the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts and the municipalities of Kelowna and West Kelowna. In 2018, the tax rate will be \$5 per \$1,000 of assessed value. In 2019, the tax rate will rise to \$20 per \$1,000 of assessed value.

### **Home Owner Grant Act**

- ▶ As previously announced, the property value threshold for the full home owner grant is increased to \$1.65 million for the 2018 tax year, up from \$1.6 million in 2017. For

properties valued above the threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

### **School Act**

- ▶ 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 rate-setting policy has been in place since 2003 and will continue in 2018. The rate will be set when revised assessment roll data are available in the spring.

### **School tax**

- ▶ Effective for the 2019 tax year and subsequent tax years, a province-wide increased school tax is introduced on high-valued properties in the residential class, including detached homes, stratified condominium or townhouse units and most vacant land.
- ▶ The increased tax applies to the portion of a residential property's taxable assessed value that exceeds \$3 million. In the case of a mixed-use property, only the residential portion of the property's taxable assessed value above \$3 million is subject to the tax.
- ▶ A tax rate of 0.2% applies to the portion of residential assessed value that exceeds \$3 million but does not exceed \$4 million, and a tax rate of 0.4% applies to the portion of residential assessed value that exceeds \$4 million.
- ▶ The tax will be administered through the existing school tax system, with municipalities and the Province's Surveyor of Taxes responsible for tax collection.

### **Provincial non-residential class school tax rates set**

- ▶ A single province-wide school tax rate is set for each of the non-residential property classes. The rates for 2018, except for the rate for the industrial property classes, will be set so that non-residential class school tax revenue will increase by inflation plus new construction. This rate-setting policy has been in place since 2005. The rates will be set when revised assessment roll data are available in the spring.
- ▶ The major industry class tax rate and the light industry class tax rate will be set at the same rate as the business class tax rate, consistent with the policy announced in the British Columbia 2008 budget.

### **Purpose-built rental housing exempted from school tax if it receives a municipal revitalization certificate**

- ▶ Effective for the 2019 tax year and subsequent tax years, municipal revitalization property tax exemptions for eligible new purpose-built rental housing will also apply to provincial property taxes.
- ▶ To be eligible for the new exemption, a municipality must issue a revitalization tax exemption certificate under a revitalization program that includes as a goal the creation of new rental housing. The provincial exemption only applies to the portion of the property

that meets the provincial definition of new purpose-built rental housing. The exemption is only available for non-stratified buildings that are newly created, or substantially renovated with a minimum net gain of five units.

- ▶ The terms of the municipal exemption, including the length of the exemption and the percentage of the property exempted from tax, will be mirrored in the provincial exemption. The provincial tax exemption only applies for revitalization tax exemption certificates issued on or after 21 February 2018.

### **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 2018.
- ▶ Consistent with longstanding policy, non-residential rural area property tax rates will be set so that total non-residential rural area tax revenue will increase by inflation plus new construction. The rates will be set when revised assessment roll data are available in the spring.

### **BC Hydro's school tax liability on land clarified**

- ▶ *The Hydro and Power Authority Act* is clarified to limit BC Hydro's school tax liability to land it owns in fee simple and to improvements. This clarification does not affect Nisga'a lands or Taxing Treaty First Nation land.

## **Other tax measures**

### **Motor fuel tax and carbon tax**

- ▶ The refund rates for International Fuel Tax Agreement licensees are increased to reflect annual increases in the carbon tax each 1 April from 2018 through to 2021. This will ensure International Fuel Tax Agreement licensees only pay carbon tax on fuel they use in BC.
- ▶ Effective 1 April 2018, marine diesel fuel used in interjurisdictional cruise ships and ships prohibited from coasting trade under the *Coasting Trade Act* is exempt from motor fuel tax. This exemption parallels the existing exemption from carbon tax for these ships.
- ▶ Effective 1 April 2018, the motor fuel tax rates on clear gasoline and clear diesel in the Capital Regional District are increased to 5.5 cents per litre from 3.5 cents.
- ▶ Effective retroactive to 18 February 2014, refiner collectors that acquire fuel for retail sale from other refiner collectors are exempt from the requirement to pay security on that fuel, and a refund is provided for security paid by refiner collectors on fuel purchased in BC and sold to another refiner collector.

## **Tobacco Tax Act**

- ▶ Effective 1 April 2018, the tax rate on cigarettes is increased to 27.5 cents per cigarette from 24.7 cents (to \$55 from \$49.50 per carton of 200 cigarettes). The tax rate on loose tobacco (tobacco in a form other than cigarettes or cigars) is increased to 37.5 cents from 24.7 cents per gram.

## **Other technical amendments**

### **Administration and information sharing enhanced**

Budget 2018 introduces several changes to enhance tax administration 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 to match the limitation period for the additional property transfer tax
  - Enable additional information to be collected on property transfer tax forms, including tax identification numbers for transferees through bare trusts
  - Introduce administrative penalties for non-compliance
  - Extend the general anti-avoidance rule to the entire Act
  - Enable tax administrators to access additional information on property transactions, including information in a Multiple Listing Service (MLS) database.
- ▶ Effective on a date to be specified by regulation, the *Carbon Tax Act*, *Motor Fuel Tax Act* and *Provincial Sales Tax Act* are amended to allow for a fee to be charged to taxpayers to recover costs associated with out-of-province audits.
- ▶ Effective for transactions entered into on or after 21 February 2018, or a series of transactions that is completed on or after 21 February 2018, the *Income Tax Act* is amended to introduce a reportable transaction rule. The rule parallels the federal reportable transaction rule for income tax, and requires taxpayers and their advisors to proactively disclose certain avoidance transactions to the Canada Revenue Agency.
- ▶ Effective 21 February 2018, the *Income Tax Act's* general anti-avoidance rule is changed to parallel the federal general anti-avoidance rule and to ensure that any misuse or abuse of a provision in another act that the *Income Tax Act* relies on will be subject to the rule.
- ▶ Effective on Royal Assent, the *Income Tax Act* and *Land Tax Deferral Act* are amended to allow for information sharing between the two Acts.
- ▶ Effective on Royal Assent, the *Income Tax Act* and the *Logging Tax Act* are amended to no longer require the Lieutenant Governor-in-Council to pre-approve information sharing agreements entered into under these Acts.

- ▶ British Columbia is currently implementing the Petroleum Information Network (Petrinex) system, which is intended to improve the collection and accuracy of oil and natural gas royalty information. The introduction of this new data collection system requires amendments to the *Petroleum and Natural Gas Act* to ensure the privacy of collected information and to allow for proper sharing of information with relevant provincial government organizations. The amendments to the Act, which take effect on Royal Assent, also include changes regarding non-compliance and reporting errors by industry participants, which provides the Ministry of Finance with authority to penalize the non-payment of royalties, ensuring that all royalties are assessed in a timely manner.

## Learn more

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