

2008 British Columbia budget summary

February 19, 2008

On February 19, 2008, Finance Minister Carole Taylor announced the province's 2008 budget. The new budget includes the following tax measures:

Carbon tax

Legislation will be introduced to impose, effective July 1, 2008, a broadly based revenue neutral tax on the purchase or use in BC of fossil fuels such as gasoline, diesel fuel, natural gas, home heating fuel, propane and coal. All of the revenue generated by this tax will be recycled through personal and business tax reductions (see personal and business tax measures below).

The initial rate of tax for each fuel type will be based on \$10 per tonne of carbon dioxide equivalent (greenhouse gas) emissions released from the burning of the fuel. The tax rates will increase over the next four years based on CO₂e emissions of

- \$15 per tonne on July 1, 2009;
- \$20 per tonne on July 1, 2010;
- \$25 per tonne on July 1, 2011; and
- \$30 per tonne on July 1, 2012.

This tax will be applied and collected at the wholesale level, similar to the way that motor fuel tax is currently collected and applied in BC. The legislation will require that a plan be tabled in the legislature each year showing how all of the revenue raised from the carbon tax will be used to reduce other provincial taxes.

Business tax measures

- The general corporate income tax rate is being reduced from 12% to 11% effective July 1, 2008.
- The small business corporate income tax rate is being reduced from 4.5% to 3.5% effective July 1, 2008.
- Financial institutions: The existing corporation capital tax will be phased out over a three year period by reducing the tax rates by one-third effective for each of April 1, 2008, and April 1, 2009, and then eliminated effective April 1, 2010. The following table shows current rates and the phase-out schedule over the next three years.

Corporation capital tax rates

Tax rate	Tax rates			
	Current	01-Apr-08	01-Apr-09	01-Apr-10
Small financial institutions*	1%	2/3%	1/3%	0%
Large financial institutions	3%	2%	1%	0%

* Financial institutions with paid up capital under \$1 billion or that have a head office in BC.

The capital tax will be replaced effective April 1, 2010, with a minimum tax that will apply to financial institutions that have net paid up capital in excess of \$1 billion. The tax will be calculated as 1% of BC paid up capital and a deduction for BC corporate income taxes paid will be allowed.

Personal tax measures

Personal income tax reductions: Effective for the 2008 and subsequent tax years, the province will reduce the two lowest personal income tax bracket rates by about 2% for the 2008 tax year and by about 5% for the 2009 and subsequent tax years. The following table summarizes these reductions.

British Columbia personal income tax brackets and rates

Tax bracket	Taxable income range*	Tax rates		
		Prior to changes	After changes	
			2008	2009
1	\$1 to \$35,016	5.35%	5.24%	5.06%
2	\$35,016.01 to \$70,033	8.15%	7.98%	7.70%
3	\$70,033.01 to \$80,406	10.50%	10.50%	10.50%
4	\$80,406.01 to \$97,636	12.29%	12.29%	12.29%
5	Over \$97,636	14.70%	14.70%	14.70%

*Brackets are indexed to provincial inflation.

- **Climate action tax credit:** To assist low-income individuals and families with the carbon taxes they will soon be effectively paying, a new refundable tax credit will be introduced effective July 2008 and will be paid out together with the quarterly federal Goods and Services Tax Credit payments. The first payments under the program will be made in October 2008 and will include the amount for July 2008.

The maximum annual tax credit is calculated as \$100 per adult plus \$30 per child with single parent families receiving the adult amount for the first child in the family. The maximum annual credit will be reduced by 2% of net family income in excess of \$30,000 and \$35,000 for single individuals and families, respectively. The reduction thresholds will be indexed to provincial inflation starting in 2009. The maximum tax credit amounts for 2009 will increase by 5% each to \$105 per adult and \$31.50 per child.

- **Climate action dividend payment:** In addition to the tax cuts outlined above to make the carbon tax revenue neutral, the province will make an additional one-time Climate Action Dividend Payment of \$100 to each person resident in the province on December 31, 2007. The payment will be automatically received by individuals in June 2008 provided they are 18 or older, meet the residency requirement and are not incarcerated for a period of 90 days that includes January 1, 2008, and who have filed a 2006 or 2007 BC personal income tax return. In addition to this payment, parents will receive \$100 for each child that is under 18 years of age at the end of 2007. Individuals must file an income tax return or notify the province of their eligibility no later than August 31, 2010, to receive the payment.
- **Dividend tax credits:** Effective January 1, 2009, the dividend tax credit rate applicable to eligible dividends will be reduced to 11% from 12% and the dividend tax credit applicable to dividends other than eligible dividends will be reduced to 4.2% from 5.1%. The rates are being reduced to reflect the one percentage point reduction in both the general and small business corporate income tax rates.

Provincial sales tax review

Over the past year, the Ministry of Small Business and Revenue completed a review of provincial sales tax (PST) policies and legislation. The review sought to develop options to simplify, streamline and enhance the fairness of the sales tax. Changes in this budget that flow from the PST Review are described as follows and are effective February 20, 2008 unless otherwise noted:

- **PST exemption for bona fide farmers:** Bona fide farmers and aqua-culturists will be exempt from PST on purchases of qualifying all terrain vehicles acquired and used solely for a farm or aquaculture purpose.
- **Work related safety equipment exemption modified:** Work related safety equipment and apparel worn by or attached to a worker and purchased to meet the requirements of the Workers Compensation Act or the Mines Act will be exempt from PST if it is

purchased by an employer for use by their employees in the course of their employment, or purchased by a person who is self-employed for own use in the course of self-employment, or purchased by a school board or similar authority for use in instructing students.

- **Tax application to real property improvements clarified and simplified:** Effective with contracts entered into on or after October 1, 2008, a contractor is responsible for paying the PST on any tangible personal property used in the completion of a contract to improve real property, unless the contract explicitly states that the customer is liable for the tax. Where a customer would be eligible for exemption on some or all of the materials if that customer purchased them directly (e.g., First Nations, Diplomatic Corps, Farmers); the contractor is eligible to claim the exemption on the purchase of the materials.
- **Special registration number introduced:** Effective April 1, 2008, eligible businesses may enter into an agreement with the Ministry of Small Business and Revenue to obtain a special registration number. Using the registration number replaces the need to complete a certificate of exemption for purchasing exempt production machinery and equipment and to apply for a refund of tax paid on items purchased in the province and subsequently shipped out of the province for use. The special registration number will allow eligible businesses to purchase qualifying inventory exempt from sales tax, and to self assess tax on any items subsequently used for a taxable purpose. To be eligible to enter into an agreement, the business must purchase a minimum annual inventory of \$250,000 and be eligible for exemption on the purchase or lease of production machinery and equipment, or be eligible for a refund of tax paid on items purchased in the province, retained in inventory, and subsequently removed from the province for use outside of the province.

Other provincial sales tax measures

The following measures will take effect on February 20, 2008, unless otherwise noted:

- Registered charities that provide tangible personal property of nominal value (tokens or gifts such as pins, ribbons, plastic bookmarks etc.) in exchange for donations will not be required to collect PST from donors, but rather, will be required to pay PST on the purchase of the tokens or gifts. This tax application does not apply to goods sold by charity-run thrift stores which must continue to collect tax on their sales, to items of more than nominal value provided to donors, or to items sold by or on behalf of charities for a fixed price.
- The PST exemption for catalysts and direct agents is being expanded to include chemical substances that produce or modify a reaction (physical or chemical) that is essential for the processing or manufacture of a product for sale or lease. The exemption no longer requires direct contact with the material being processed or manufactured. The exemption does not apply to substances used to maintain, lubricate

or prolong the life of machinery, added to a tailings or settling pond or to waste removed from the production process, or used for testing.

- Effective February 21, 2007, the definition of charity funds is being clarified to include bingo affiliation grants for purposes of the medical equipment refund available to registered charities or eligible hospital auxiliaries. As a result, registered charities and eligible hospital auxiliaries may apply for refunds of PST paid on medical equipment purchased with the charity's or auxiliary's bingo affiliation grants.
- An exemption from PST is being provided for emission control devices for diesel vehicles that are verified to reduce particulate emissions by at least 20% if purchased before January 1, 2009. Emission control devices for diesel vehicles that are verified to reduce particulate emissions by at least 50% are exempt if purchased before April 1, 2011. Labour charges to install exempt emission control devices are also exempt.
- Prescription dental and optical appliances provided for promotional purposes to a dentist, optometrist, optician, or physician will be exempt from PST. This parallels the tax treatment provided to pharmaceutical samples.
- The application of PST to dedicated telecommunications services in BC will exclude distances to and from satellites to calculate the tax payable. With this clarification only the most direct land distance between originating and receiving transmitters is used to calculate the total distance.

Other measures

- **Motor Fuel Tax Act:** Effective February 20, 2008, the Act is being amended so that bio-diesel and ethanol will be classified as alternative motor fuels for all purposes. Also, the fuel tax refund for persons with disabilities is being expanded to include persons certified by a medical practitioner as suffering from a permanent mental disability which precludes them from safely using public transit.
- **Film and Television Tax Credits:** The Film and Television Tax Credit and the Production Services Tax Credit are being extended by five years to April and June 2013, respectively. Also, the basic Film and Television Tax Credit is being increased to 35% from 30% and the basic Production Services Tax Credit is being increased to 25% from 18% in respect of qualifying BC labour expenditures incurred after December 31, 2007 for productions with principal photography beginning before January 1, 2010.
- **Property Transfer Tax Act:** Effective for registrations after February 19, 2008, the threshold for eligible residential property under the First Time Home Buyers' Program is being increased to \$425,000 from \$375,000. A proportional exemption is being provided for property valued between \$425,000 and \$450,000. Also, effective February 20, 2008, first time buyers will no longer be required to have registered financing to be

eligible for the exemption, and a mortgage may be paid down by any amount in the first year of ownership without losing entitlement to the exemption.

- **Home Owner Grant Act:** Effective for the 2008 tax year, the threshold for the phase-out of the homeowner grant is being increased to \$1,050,000 of assessed value from \$950,000. For properties valued above the threshold of \$1,050,000, the grant is being reduced by \$5 for every \$1,000 of assessed value in excess of the threshold. The basic grant is eliminated for properties valued at \$1,164,000 and above. However, for recipients of the additional grant, which is available to seniors, veterans and the disabled, it is eliminated for properties valued at \$1,219,000 and above.