

2009 British Columbia budget summary

February 17, 2009

On February 17, 2009, Finance Minister Colin Hansen announced the province's 2009 budget. The new budget includes the following tax measures:

Business tax measures

- **General corporate rate:** The general corporate income tax rate will be reduced from 11% to 10.5% effective January 1, 2010, and will then be further reduced to 10%, effective January 1, 2011.
- **Corporation capital tax:** Effective for tax years ending on or after October 1, 2006, the capital tax base levied on financial institutions is amended to include accumulated other comprehensive income. This income is required to be shown as a separate item on a corporation's balance sheet resulting from accounting changes made in 2006.
- **Industrial property tax credit:** This credit, previously introduced for 2009 and subsequent tax years will be increased to 60% from 50% beginning with the 2011 tax year. The credit reduces provincial school property tax for B.C. manufacturing, mining, forestry, and other major and light industries.

Personal tax measures

- **Climate action tax credit:** To assist low-income individuals and families with the payment of the carbon tax, a new refundable tax credit was introduced effective July 2008. This credit is being increased by 10%, effective July 1, 2011. The maximum annual tax credit will, therefore, increase to \$115.50 per adult, from \$105 in 2009, plus \$34.50 per child, from \$31.50 in 2009, with single parent families receiving the adult amount for the first child in the family.
- **Northern and rural homeowner benefit:** In addition to the tax cut outlined above to make the carbon tax revenue neutral, the government will provide a benefit of up to \$200 for the 2011 tax year for homeowners in areas of the province outside of the Greater Vancouver, Capital, and Fraser Valley Regional Districts.

- **Dividend tax credit rate:** Effective January 1, 2010, the dividend tax credit rate applicable to dividends other than eligible dividends will be reduced to 3.4% from 4.2%. The combined federal-B.C. tax rate (for the top marginal tax rate) on dividends received will increase to 33.7% in 2010 from 32.7% in 2009. The rates are being reduced to reflect the one percentage point reduction in the small business corporate income tax rates (from 3.5% to 2.5%).
- **Registered Disability Savings Plans (RDSP's):** Effective January 1, 2009, income from an RDSP is excluded from income for purposes of determining eligibility for the BC sales tax credit. This income will also be excluded for purposes of eligibility for the Medical Services Plan premium assistance.
- **Homeowner grants:** For the 2009 taxation year, the threshold for the phase-out of the homeowner grant will be maintained at the 2008 level of \$1,050,000.

Previously announced measures

The following previously announced measures were confirmed by the government:

- The small business corporate income tax rate was reduced from 3.5% to 2.5%, effective December 1, 2008.
- A reduction in the personal income tax rates for the two lowest brackets from 5.24% and 7.98% to 5.06% and 7.7%, respectively, which was originally to take effect on January 1, 2009, will now apply retroactively to January 1, 2008.
- A temporary property tax deferral program, effective for 2009 and 2010 only, to provide eligible homeowners experiencing financial hardship with a property tax deferral. The tax does not have to be repaid until their home is sold or transferred (other than to a surviving spouse).
- Doubling the allowances paid to businesses for collecting and forwarding provincial sales and hotel room taxes (from 3.3% to 6.6% to a maximum of \$198 per reporting period), effective for November 2008 tax returns.
- The B.C. mining flow-through share tax credit is being extended to the end of 2009.
- Expanding eligibility for the film incentive BC tax credit by removing the requirement that a corporation be BC-controlled, effective for productions with principal photography starting on or after January 1, 2009.
- Effective for the 2009 and subsequent tax years, the introduction of an industrial property tax credit to reduce provincial school property tax for by 50% for B.C. manufacturing, mining, forestry, and other major and light industries.

Sales tax measures

Energy efficiency and generation

- An extension in the temporary exemption from B.C. social service tax to March 31, 2011 for the following items:
 - ENERGY STAR qualified oil-fired forced-air furnaces, boilers, and air and ground source heat pumps purchased or leased for residential use;
 - ENERGY STAR qualified windows, doors and skylights;
 - Residential gas-fired water heaters with an energy factor of 0.80 or greater.
- A new temporary exemption from February 18, 2009 to March 31, 2011 for certain commercial boilers fired by natural gas or propane with a boiler input rating of at least 200,000 BTU/h.
- A new temporary exemption from February 18, 2009 to March 31, 2012 for auxiliary power units, cabin heaters and engine heaters for trucks with a gross vehicle weight of at least 5,000 kg.
- A new exemption for equipment designed to produce mechanical or electrical energy from ocean currents, tides or waves (effective February 18, 2009).
- The exemption for devices designed to reduce wind resistance and improve fuel efficiency for commercial tractor trailers is expanded to include base flaps and boat tails and related labour charges.

Production machinery and equipment

- Effective February 18, 2009, the exemption for production machinery and equipment is expanded or clarified to include the following:
 - Certain transformers and related equipment used by manufacturers of tangible personal property (other than electricity). To qualify, the equipment must be used exclusively within qualifying sites to transmit or distribute electricity if more than 50% of the electricity is used to power exempt machinery and equipment or as an integral component in a manufacturing process.
 - Machinery and equipment used to transmit or distribute tangible personal property (including electricity and heat generated by local government entities). To qualify, the equipment must be located within a qualifying manufacturing site, mine site, well site, natural gas processing plant or petroleum refinery and must be used primarily to transmit or distribute qualifying property within the site, processing plant or refinery.
 - Certain materials used to repair, maintain, modify or assemble exempt machinery and equipment.
- Effective July 31, 2001, machinery and equipment used to generate heat is only exempt where the generation of heat is one step in certain manufacturing, processing or resource extraction activities.

Exemption for *bona fide* farmers

Effective February 18, 2009, the *bona fide* farmer exemption is expanded to include purchases of egg packing equipment and refrigeration equipment used for cooling or cold storage of farm products.

Prescription drugs and vaccines

Under the current rules, to qualify for the sales tax exemption, prescription drugs and vaccines for human and animal use need to be sold on the prescription of an eligible medical practitioner.

Effective February 18, 2009, drugs and vaccines listed on certain schedules in the *Pharmacists, Pharmacy Operations and Drug Scheduling Act* will be exempt from B.C. social service tax. As a result, medical service providers, medical clinics and public health units will be able to purchase these drugs and vaccines without a prescription to qualify for the exemption.

In addition, the definition of “prescription” is updated to include medications prescribed by other practitioners in addition to physicians, dentists and veterinarians, such as midwives, nurse practitioners and pharmacists.

Other measures

- **Motor fuel tax:** Effective February 18, 2009, hydrogen fuel will be exempt from motor fuel tax provided that the hydrogen is purchased for use in a fuel cell vehicle and certain other conditions are met
- **Tobacco tax:** Effective February 18, 2009, the tax rate on cigarettes will increase to \$37.00 per carton of 200 cigarettes and the tax rate on fine-cut tobacco will increase to 18.5 cents per gram.
- **Film tax credits:** The expiry dates for film tax credits are being removed. Previously, the additional 5% basic tax credit rate for the film incentive BC credit and 7% for the production services tax credit were legislated to expire in 2009. The basic, additional, regional, distant location, film training and digital animation and visual effects tax credits for the film incentive BC and production services tax credit were legislated to expire in 2013.
- **Logging tax remission:** Effective for taxation years ending after December 2008, a partial remission of the logging tax is being provided to corporations that cannot use the full amount of the logging tax credit under the *Income Tax Act*. The remission is being provided to ensure that small business corporations with logging income can benefit from the reduction in the small business corporate income tax rate to 2.5% from 3.5% which was effective Dec, 1, 2008.

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