



2018 British Columbia budget summary

February 2018

Tax Alert

February 20, 2018, Finance Minister Carole James tabled British Columbia's 2018–19 budget. This is the first full budget presented by the province's new government; it outlines an overall plan to increase affordability for residents of BC, with a primary focus on the need for affordable housing solutions and the demand for more affordable, available child care.



Building on the legacy that was set by the previous government, the government has delivered the province's sixth balanced budget in a row, and continues to project surpluses over the next three years:

Year	Projected surplus
2018–19	\$219 million
2019–20	\$281 million
2020–21	\$284 million

Debt levels, however, are expected to increase and are projected to reach \$77 billion by the end of 2020–21.

Business tax measures

Corporate tax rates

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

British Columbia's corporate tax rates for 2017 and 2018 are summarized in Table A below:

Table A

Combined federal and British Columbia corporate tax rates

Year	Small business tax rate	General corporate tax rate	Manufacturing and processing tax rate
2018	12.00% ¹	27.00%	26.00%
2019	11.00% ¹	27.00%	26.00%

Credit extensions

The following credits have been extended to the dates indicated below:

Credit	Extension date
Mining flow-through share tax credit	December 31, 2018
Interactive digital media tax credit	August 31, 2023
Book publishing tax credit	March 31, 2021
Farmers' food donation tax credit	December 31, 2019

Film incentive BC tax credit

The film incentive BC tax credit is expanded to include scriptwriting expenditures on BC labour incurred by a corporation prior to the completion of the final script stage of the production for expenditures incurred on or after February 21, 2018.

Personal tax measures

Personal income tax rates

No changes to personal income tax rates are proposed. The rates for 2018 are as follows:

- 5.06% on the first tax bracket (up to \$39,676)
- 7.70% on the second tax bracket (from \$39,677 up to \$79,353)
- 10.50% on the third tax bracket (from \$79,354 up to \$91,107)
- 12.29% on the fourth tax bracket (from \$91,108 up to \$110,630)
- 14.70% on the fifth tax bracket (from \$110,631 up to \$150,000)
- 16.80% on the sixth tax bracket (over \$150,000)

¹ The federal small business tax rate was decreased from 10.5% to 10% as of January 1, 2018 and will decrease further to 9% on January 1, 2019.

Table B illustrates the top combined federal-British Columbia marginal rate of tax for taxable incomes in excess of \$205,842 for 2018:

Table B

British Columbia – combined top marginal personal tax rates

Taxable income	2018
Interest	49.80%
Capital gains	24.90%
Eligible dividends	34.20%
Regular dividends	43.73%

BC caregiver credit

As a result of the consolidation of the caregiver credits at the federal level, BC's provincial caregiver tax credit and infirm dependent tax credits have now been replaced with a new BC caregiver credit, effective for 2018 and subsequent tax years.

This credit will parallel the Canada caregiver credit and provide a maximum credit amount of \$4,556 per infirm dependent (equating to a maximum benefit of \$230.53) and will be indexed to inflation going forward.

If an individual is caring for an infirm spouse or common-law partner, they will be eligible for the greater of the BC caregiver credit or the spousal tax credit. If an individual is single and caring for an infirm adult relative, they will be eligible for the greater of the BC caregiver credit or the eligible dependent tax credit.

Education tax credit

Effective January 1, 2019, the education tax credit will be eliminated. Unused education amounts carried forward from prior years will remain available to be claimed in 2019 and subsequent tax years.

Medical Services Plan premiums

The Medical Services Plan premiums will be fully eliminated as of January 1, 2020. Once eliminated, single individuals

will see annual savings of up to \$900 and families will see annual savings of up to \$1,800.

Other measures

Property Transfer Tax Act

Effective February 21, 2018, the following changes have been made to the Property Transfer Tax Act:

- An additional 2% will be levied on the fair market value of the residential component of a taxable transaction that exceeds a threshold of \$3 million (bringing the total tax applied on such transactions to 5%).
- The additional property transfer tax rate is increased to 20%. The tax is expanded to the Capital Regional District, the Regional District of Central Okanagan, the Fraser Valley Regional District and the Regional District of Nanaimo.
- Transfers of a bankrupt individual's principal residence from a trustee in bankruptcy to the bankrupt individual (or spouse or former spouse) will be exempt from tax.
- The limitation period for property transfer tax assessments has been increased to six years (effective on royal assent).
- Administrative penalties will be introduced for non-compliance (effective on royal assent).
- The general anti-avoidance rule will be extended to the entire Act (effective on royal assent).

Speculation tax

A new speculation tax has been announced to target foreign and domestic residential property owners who do not pay income tax in BC, effective January 1, 2018. The tax rate for 2018 will be \$5 per \$1,000 of assessed value and will increase in 2019 to \$20 per \$1,000 of assessed value.

The tax will apply on residential properties in the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts, and in the municipalities of Kelowna and West Kelowna.

Upfront exemptions will be available for most principal residences, qualifying long-term rental properties and certain special cases.

To provide relief for individuals paying income taxes in BC who do not qualify for the up-front exemption, a non-refundable income tax credit is also being introduced to offset this speculation tax. The income tax credit can be carried forward to future years.

School Act

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.

Tobacco Tax Act

Effective April 1, 2018, the tax rates on tobacco products will increase as follows:

- The tax rate on cigarettes will increase to 27.5 cents per cigarette (and to \$55 per carton of 200 cigarettes); and
- The tax rate on loose tobacco will increase to 37.5 cents per gram.

Home Owner Grant Act

Effective January 1, 2018, the property value threshold for the full home owner grant has been increased to \$1.65 million. For properties valued above this threshold, the grant will be reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

Motor Fuel Tax Act

The following changes have been announced with regards to the Motor Fuel Tax Act:

- Effective April 1, 2018, marine diesel fuel used by interjurisdictional cruise ships and ships prohibited from coasting trade under the *Coasting Trade Act* will be exempt from motor fuel tax.
- Effective April 1, 2018, motor fuel tax rates on clear gasoline and clear diesel in the Capital Regional District will be increased to 5.5 cents per litre.
- Refund rates for International Fuel Tax Agreement licensees will be increased each April 1, between 2018 and 2021, to reflect annual increases in carbon tax.

Employer health tax

Beginning in the 2019 calendar year, an employer health tax will be implemented on employers' payroll at the following rates:

- Employers with payroll under \$500,000 will be exempt from the tax,
- Employers with payroll over \$1.5 million will pay the maximum rate of 1.95% on their total payroll, and
- Employers with payroll between \$500,000 and \$1.5 million will pay a gradual, phased-in tax rate (with a maximum rate of 1.95% on total payroll of \$1.5 million).

Administrative measures

Effective for transactions entered into on or after February 21, 2018, or a series of transactions that is completed on or after February 21, 2018, the following changes to the *Income Tax Act* to enhance tax administration are made:

- The general anti-avoidance rule has been changed to parallel the federal anti-avoidance rule; and
- A reportable transaction rule has been introduced to parallel the federal reportable transaction rule.

Provincial sales tax (PST) measures

Avalanche airbag backpacks

Effective April 1, 2018, all types of avalanche airbag backpacks will be exempt from PST.

Online accommodation platforms

Online accommodation platforms will be able to register as collectors, and to collect and remit provincial sales tax and the municipal and regional district tax on accommodation.

This will be effective on a date to be specified by regulation.

Luxury surtax on passenger vehicles

Effective April 1, 2018, the luxury surtax on passenger vehicles and the general rate on private sales will be increased to

- 15% on passenger vehicles costing between \$125,000 and \$149,999; and
- 20% on passenger vehicles costing \$150,000 and above.

These rates apply to sales of both new and used passenger vehicles.

Retroactive measures

Effective April 1, 2013:

- PST will apply to software provided in optional as-needed maintenance agreements.
- Retailers operating cruise ships in BC waters are not required to collect PST on sales made during scheduled sailings.