

Tax Memo

2010 British Columbia Budget: Tax Highlights

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Introduction

On Tuesday, March 2, 2010, the British Columbia Minister of Finance, the Honourable Colin Hansen, introduced the province's 2010 budget. According to the Minister, the province's economy shows signs of recovery from the unprecedented global economic turmoil that has affected it since 2008. As a result, the B.C. government is projecting a steady reduction in the fiscal deficit in 2010 and beyond, with a return to a balanced budget by the 2013/14 fiscal year. The budget has an estimated deficit of \$1,715 million for 2010/11, \$945 million for 2011/12, and \$145 million in 2012/2013. These projections are based on economic growth forecasts of 2.2% for 2010, 2.3% for 2011, and 2.8% for the following three years.

The budget refers to the B.C. government's continued commitment to its accelerated infrastructure spending plan. According to the Minister, since October 2008, \$5.3 billion has been committed to these investments, which represents an increase of \$1.9 billion since the September 2009 Budget Update. The province now expects to spend \$20.7 billion on capital projects over the next three years, with \$1.5 billion of that amount coming from federal government contributions.

The budget forecasts government revenue of \$39.2 billion for 2010/11, \$41.0 billion for 2011/12 and \$42.8 billion for 2012/13, an average annual increase of 4.9% over the next three years. The budget includes contingencies of \$450 million for each year to cushion the fiscal plan from unexpected events. In addition, the projected deficits include forecast allowances of \$300 million in 2010/11 and 2011/12, and \$400 million in 2012/13.

Total government expenditures are forecast to increase by an average of 2.3% annually over the next three years. Taxpayer-supported debt-to-GDP ratio is forecast to be 17.2% in 2010/11 and 17.9% in 2011/12.

The budget does not alter income tax rates beyond those previously announced, but it does introduce new income tax credits and make changes to some existing income tax credits. It also modifies the application of certain other taxes in British Columbia. This *Tax Memo* discusses these and other tax initiatives, many of which were announced previously.

The budget reiterates measures introduced in British Columbia's September Budget Update 2009, delivered on September 1, 2009. These changes are discussed in our *Tax Memo*, "British Columbia Budget Update – September 1, 2009: Tax Highlights," available on our website: www.pwc.com/ca.

Personal Income Taxes

Personal income tax rates and brackets

No changes are made to personal income tax rates or brackets.

Top personal tax rates

Top combined federal/B.C. personal tax rates are as follows:

	Ordinary income and interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
2009	43.7%	21.85%	19.92%	32.71%
2010			21.45%	33.71%
2011			23.91%	
2012			26.11%	

B.C. HST Credit

A new ongoing B.C. Harmonized Sales Tax (HST) Credit is introduced, effective July 2010. The maximum annual tax credit is \$230 per family member (including children), and is reduced by 4% of family net income in excess of \$20,000 for single individuals and \$25,000 for families. The B.C. HST Credit will be paid quarterly together with the federal Goods and Services Tax Credit and the B.C. Low Income Climate Action Tax Credit.

Consequential to the elimination of the B.C. provincial sales tax, the B.C. Sales Tax Credit will be integrated with the B.C. HST Credit, effective for the 2010 tax year.

B.C. Mining Flow-Through Share Tax Credit

As announced on January 21, 2010, the B.C. Mining Flow-Through Share Tax Credit is extended three years to December 31, 2013. As a consequence, amendments will prevent an expense from being claimed under both the mining exploration tax credit and the mining flow-through share tax credit.

Corporate Taxes

Corporate tax rates and thresholds

No changes are made to corporate income tax rates or thresholds beyond those previously announced.

General corporate income tax rate

The budget does not change the following scheduled reductions in the general corporate income tax rate (which also applies to manufacturing and processing income):

		Rate
Effective	January 1, 2010	10.5%
	January 1, 2011	10%

Small business income tax rate

As previously announced, the small business rate is reduced from 2.5% to 0% effective April 1, 2012. The budget makes no further changes to this rate. Nor does the budget change the small business limit, which increased to \$500,000, effective January 1, 2010.

Combined corporate income tax rates

The following combined federal/B.C. rates apply to December 31 year ends:

	General and M&P income ¹	CCPCs		Investment income
		Active business income Up to \$400,000	\$400,000 to \$500,000	
2009	30%	13.5%	22%	45.67%
2010	28.5%	13.5%		45.17%
2011	26.5%	11.62%		44.67%
2012	25%	11%		
2013				

1. The rates do not apply to the income of credit unions, most deposit insurance corporations, mutual fund corporations, mortgage investment corporations and investment corporations.

International finance activity

The program has been expanded to allow three new types of international businesses to qualify under the program:

- digital media publishing and distribution;
- certification and trading of carbon credits; and
- clean technology.

Other changes made to the program include the following:

- **Investment Fund Management Activities** – Effective September 1, 2010, prescribed management and administrative services of prescribed investment funds will be added to the list of qualifying international financial activities.
- **Patents** – A clarification provides that international financial business income includes all income related to the licensing of a qualifying patent.
- **Executive Specialists** – A new category of specialist is introduced to replace the international financial activity related to management services, which is now repealed. Executive Specialists include the key decision maker(s) of the program participant. Their annual wages must be at least \$250,000, and those wages must be included in the calculation of the international financial business income of the program participant.

The number of Executive Specialists that may be included in any related group of program participants is limited, but no minimum percentage of their time must be spent working on international financial activities. The non-resident requirement and rates of refund of B.C. taxes paid by them in the first five years after moving to Canada apply in the same manner as to international financial activity specialists.

- **IFA Specialists** – Effective March 3, 2010, a non-resident specialist currently eligible for a refund of up to 75% of B.C. personal income taxes paid up to the first five years after moving to Canada must be paid wages of at least \$100,000 annually to qualify. The refund rates will also be changed to 100% in the first two years of eligibility, 75% in the third year, 50% in the fourth year, and 25% in the fifth year.
- **IFA Specialists for Administrative Support and Back-Up Office Services** – This is a new category of specialist introduced in respect of specialists providing administrative support and back-up office services. The requirements and limitations for this type specialist will be similar to those of an Executive Specialist, except that the minimum annual wage requirement will be only \$100,000.

- **Section 110.5 Election** – Effective for taxation years ending after March 3, 2010, amendments will remove the effect of an election under section 110.5 of the federal *Income Tax Act*. This eliminates the anomaly that allows tax refunds to be generated in years when a program participant had no other income or a loss.
- **Prescribed Business Provision** – The resident exception for deposit and loan transactions with a prescribed business is repealed, effective March 3, 2010.
- **Lending Activities** – Effective March 3, 2010, qualifying lending activities are restricted to arm's length parties.

Film and digital media tax credits

The following measures were announced previously:

- The basic **Production Services Tax Credit** rate increased by 8% from 25% to 33%, effective for productions with principal photography commencing after February 2010.
- The cap on the amount eligible for the 35% **Film Incentive BC Tax Credit** increased by 12% from 48% to 60% of total production costs for productions with principal photography commencing after February 2010. This increase is intended to match the federal Canadian Film or Video Production Tax Credit cap.
- The **Digital Animation or Visual Effects Tax Credit** rate increased by 2.5% from 15% to 17.5% for productions with principal photography commencing after February 2010.
- A new **B.C. Interactive Digital Media Tax Credit** is introduced for qualifying projects beginning after August 2010. The tax credit rate will be 17.5% of qualifying B.C. labour employed in the development of qualifying interactive digital media. Qualifying interactive digital media is defined as an interactive product made for use by an individual, the primary purpose of which is to educate, inform or entertain, and must include at least two of the following forms: text, sound and images. A certification process will be introduced to assist in the application process, and only completed projects will qualify.

Corporation Capital tax

Amendments to the *Corporations Capital Tax Act* that introduce a financial institutions minimum tax on April 1, 2010, will not come into effect.

Harmonized Sales Tax

As previously announced, a series of transitional rules will be implemented in connection with the transition to the Harmonized Sales Tax (HST) on July 1, 2010.

To prevent double taxation on goods and services that would otherwise be subject to both Social Service Tax (PST) and HST, certain PST refunds are being provided as follows:

- To contractors for PST paid on construction materials purchased by the contractor, held as inventory at the end of the day on June 30, 2010, and used by the contractor on or after July 1, 2010, to repair or improve residential real property under a contract to which the HST applies. Improvement of residential real property does not include construction of residential housing for which a PST Transitional New Housing Rebate is available. No refund is available in respect of tax paid on construction materials if the PST is recoverable by the contractor or any other party.
- For PST paid on goods and services paid for after October 14, 2009, and before May 1, 2010, that are delivered or performed on or after July 1, 2010 and are for use exclusively in the course of commercial activities as defined for purposes of the *Excise Tax Act (Canada)* (ETA).
- For PST paid on goods and services that are paid for after October 14, 2009, and before May 1, 2010, by certain businesses and selected listed financial institutions that are required to self-assess HST on those purchases under Part IX of the ETA.

To obtain these refunds, applications must be received by the government on or before December 31, 2010.

Effective July 1, 2010, the tax on the private sale of vehicles, boats and aircraft in B.C. is continued, but at a rate of 12% instead of the former rate of 7% under the PST regime. Exemptions and refunds for individuals are generally continued including for inheritances and settlers' effects. The partial exemption for vehicles modified for wheelchairs or with auxiliary driving controls for persons with disabilities is converted to a complete exemption.

As previously announced, effective July 1, 2010, a provincially administered credit is provided for energy, including electricity, natural gas, heating fuel, heat, steam, kerosene, propane, firewood and pellets purchased for residential use. The credit is equal to the provincial component of the HST paid or payable on residential energy excluding service and administration charges. For most residential consumers the credit is provided directly by energy suppliers on their utility bills similar to the current PST exemption. Residential consumers who purchase energy for both residential and non-residential use (e.g., split use) that is not separately metered or energy that is not delivered by the supplier to the residence, will not receive the credit on their utility bills but may apply to the provincial government for the credit.

The B.C. point-of-sale rebate that applies to the 7% provincial component of the HST includes:

- motor fuels;
- books;
- children-sized clothing and footwear;
- children's car seats and car booster seats;
- children's diapers; and
- feminine hygiene products.

The point-of-sale rebate for motor fuels includes gasoline, gasoline-ethanol blends, diesel and biodiesel when used in motor vehicles, locomotive fuel used in trains, marine diesel used in boats, and aviation fuel and jet fuel used in aircraft.

Transitional provisions ensure that Hotel Room Tax is not assessed when the HST would otherwise apply. The additional Hotel Room Tax program will continue beyond June 30, 2011, for eligible local governments, regional districts, destination marketing organizations and other eligible entities.

Medical Services Plan

Effective January 1, 2011, monthly Medical Services Plan premiums will increase by:

- \$3.50 to \$60.50 for single individuals;
- \$7.00 to \$109.00 for two-person families; and
- \$7.00 to \$121.00 for families of three or more persons.

Carbon Tax

Effective March 3, 2010, the definition of “natural gas” is clarified to include acid gas and waste gas even when these have been removed from the natural gas.

Effective March 3, 2010, a penalty is introduced for vendors that sell fuel in B.C. without being appointed a collector as required under the *Carbon Tax Act*. The maximum penalty is twice the amount of security the vendor would have been required to pay had the vendor been appointed a collector.

Effective July 1, 2010, propane is included in the security scheme that applies to most fuels including gasoline and light fuel oil.

Effective July 1, 2010, the carbon tax rate for kerosene fuel will increase from 5.08 to 5.22 cents per litre to equal the jet fuel carbon tax rate. The rate is scheduled to increase to 6.53 cents per litre on July 1, 2011, and to 7.8 cents per litre on July 1, 2012.

Motor Fuel Tax

Effective March 3, 2010, a penalty is introduced for vendors that sell fuel in B.C. without being appointed as a collector as required under the *Motor Fuel Tax Act*. The maximum penalty is twice the amount of security the vendor would have been required to pay had the vendor been appointed as a collector.

Tobacco Tax

Effective March 3, 2010, the maximum retail price on cigars that will be subject to tax increased from \$5 to \$6 per cigar.

The calculation of the 77% tax on the taxable price of each cigar is clarified as follows:

- the tax applies to the retail cigar price if the retailer that sells the cigar also manufactured the cigar in Canada or imported the cigar into Canada; and
- in all other cases, the tax applies to the wholesale price plus a 30% mark-up.

The *Tobacco Tax Act* is amended to provide authority to impose an annual fee payable by tobacco retailers as a condition for selling tobacco products in B.C.

Property Transfer Tax

Effective March 3, 2010, amendments to the *Property Transfer Tax Act* will clarify that no property transfer tax is payable on transfers that are needed to correct a conveyancing error. There will no longer be a requirement to obtain an administrator's certificate before registration of the transfer.

Effective March 3, 2010, an exemption is reinstated for transfers required to amend a strata plan when owners do not receive an increased interest as a result of the amendment. If an owner receives an increased interest, property transfer tax will be payable on the increase in the market value of the interest.

Property Taxes

Home Owner Grant

The threshold for the phase-out of the home owner grant will be maintained at the 2009 level of \$1,050,000. The grant is reduced by \$5 for every \$1,000 in assessed value exceeding this threshold, so that it is eliminated for properties valued at \$1,164,000 or more. The additional grant, available to seniors, veterans and the disabled is eliminated for properties valued at \$1,219,000 or more.

For the 2011 and subsequent taxation years, a Northern and Rural Area Home Owner Benefit (NRAHOB) is introduced. This provides a maximum \$200 grant to owners of B.C. homes outside of the Greater Vancouver Regional District, the Fraser Valley Regional District and the Capital Regional District. The eligibility criteria and phase-out rules for the NRAHOB are the same as those for the regular home owner grant.

Property Tax Deferment Program

The property tax deferment program allows homeowners to defer property taxes, with interest, until their home is sold, transferred to a new owner or becomes part of an estate. As previously announced, eligibility for the program is expanded to include families with children under age 18, effective for 2010 and subsequent taxation years. To be eligible, a homeowner must financially support at least one child under age 18, meet the basic eligibility criteria for the program and have at least 15% equity in his or her home.

School Act

The following measures were announced previously:

- The Provincial Farm Land Property Tax Credit is introduced to reduce provincial school property tax on farm land (class 9) by 50%, effective for the 2011 and subsequent taxation years.
- The Industrial Property Tax Credit, which reduces provincial school property tax on major industrial (class 4) and light industrial (class 5) properties will increase from 50% to 60%, effective for the 2011 and subsequent taxation years. The Industrial Property Tax Credit applies to B.C. manufacturing, mining, forestry and other major and light industries.
- The major industry property tax class rate will be set to be the same as the business class rate.

Rural Area Tax

For the 2010 taxation year, average residential rural area taxes will be the same as in 2009 because the 2009 provincial inflation rate is 0%. Non-residential rural area tax rates will be set so that total tax revenue from this source will increase by the 2009 provincial inflation rate plus the cost of new construction.

Ports Property Tax

The *Assessment Act* is amended to allow the value of port land in the year of designation to be prescribed. In a year in which there is no new designation, the value of port land is the previous year's value, adjusted by the previous year's inflation.

Amendments to the *Assessment Act* and the *Ports Property Tax Act* allow the designation of any port land under those acts to be made until December 31 of the year preceding the taxation year for which the designations are to take effect. Exceptions include:

- designations made before December 31, 2010, that are effective for the 2010 taxation year; and
- port land in a municipality that is Crown land and either becomes occupied by the port or ceases to be occupied by the port. In this case, the designation applies to the portion of the year the land is occupied by the port.

Tourist Accommodations

For purposes of determining assessment relief under the *Tourist Accommodation (Assessment Relief) Act* in respect of business class Short-term Overnight Commercial Accommodation Properties, effective for 2010 and subsequent taxation years, the definition of "designated Act" is amended to include the *Police Act*, the *School Act*, the *South Coast British Columbia Transportation Authority Act* and the *University Endowment Land Act*, consistent with longstanding administrative practice.

Translink Parking Tax

Effective July 1, 2010, legislation regarding this parking tax will be transferred from the *Social Service Tax Act* to the *South Coast British Columbia Transportation Authority Act*, and administration of the tax will be transferred to *Translink*.

For More Information

The budget introduced numerous amendments and confirms those introduced previously. For help determining how these changes affect you or your business, please contact your PricewaterhouseCoopers adviser or:

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