

Tax Highlights from the February 19, 2008 B.C. Budget

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Introduction

On Tuesday, February 19, 2008, the British Columbia Minister of Finance, the Honourable Carole Taylor, introduced the province's 2008 budget. The budget includes a wide range of measures to address climate change, promote greener choices and encourage a strong economy. According to the Minister, the B.C. economy continues to show domestic strength. However deteriorating conditions in the U.S. economy and related effects on the forestry sector in B.C. are expected to moderate the province's economic growth.

The budget projects a B.C. economy that should outperform both Canada and the United States. The budget is balanced for the fifth consecutive year, with a forecast surplus of \$50 million for 2008/09 and \$150 million for the following fiscal year, based on economic growth forecasts of 2.4% and 2.8%, respectively.

The budget includes a forecast allowance of \$750 million for 2008/09 to cushion the fiscal plan from contingencies and other unexpected events. Total government revenue is forecast to be \$38.5 billion in 2008/09, with an average increase of 1.8% annually over the next two years. The total infrastructure spending is estimated to be \$5.8 billion for 2008/09 and \$5.5 billion in following fiscal year. In 2008/09 provincial debt is forecast at \$37.7 billion and \$40.0 billion in 2009/10. Taxpayer-supported debt to GDP is forecast to decline to 14% in 2008/09 and 13.9% in 2009/10. As recommended by the Economic Forecast Council, the government is committed to maintaining a downward trend in this ratio.

The budget includes a carbon tax that is to be "revenue-neutral." Revenue from the carbon tax will be returned to taxpayers through various tax measures including reductions in both personal and corporate income tax rates. These and other tax measures announced in the budget are outlined below. For help determining how these changes affect you or your corporation, please contact your PricewaterhouseCoopers adviser or:

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Carbon Tax

Effective July 1, 2008, a broad-based revenue-neutral tax will apply to the purchase or use in B.C. of fossil fuels such as gasoline, diesel fuel, natural gas, home heating fuel, propane and coal. The initial rate of tax for each fuel will be based on \$10 per tonne of carbon dioxide equivalent emissions released from the burning of the fuel. This is estimated to be 2.4 cents per litre of gasoline. The tax rate will increase annually by \$5 per tonne over the next four years, reaching \$30 per tonne on July 1, 2012.

Personal Income Taxes

Personal income tax rates

The bottom two provincial personal income tax rates are reduced for 2008 and 2009 as shown in the following table:

		Previous		Revised	
		2007	2008	2009 ¹	
British Columbia income tax rates and thresholds	Highest	14.7%			
		\$95,909	\$97,636		
	↑	13%	12.29%		
		\$78,984	\$80,406		
		11.1%	10.5%		
		\$68,794	\$70,033		
Lowest	8.65%	8.15%	7.98%	7.70%	
	\$34,397	\$35,016			
	5.7%	5.35%	5.24%	5.06%	
		\$0			

¹ The thresholds will be indexed for 2009.

Dividend tax credit rates

Effective January 1, 2009, B.C.'s dividend tax credit rates are reduced to reflect the 1% reduction in both the general and small business corporate income tax rates (discussed below). The dividend tax rate on eligible dividends is reduced from 12% to 11% and the rate on non-eligible dividends is reduced from 5.1% to 4.2%.

Top personal tax rates

The budget changes top combined federal/British Columbia personal tax rates as follows:

	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
2007 and 2008	43.70%	21.85%	18.47%	31.58%
2009			19.92%	32.71%

Taxes payable

The table below shows the combined federal/British Columbia tax payable at various income levels.

		Amount of tax			Tax saving for 2008
		2007	2008	Revised rates	
Taxable income	\$500,000	\$201,511	\$200,772	\$200,684	\$88
	\$250,000	\$92,261	\$91,522	\$91,434	
	\$150,000	\$48,561	\$47,822	\$47,734	
	\$100,000	\$27,337	\$26,667	\$26,579	
	\$50,000	\$9,753	\$9,511	\$9,457	
	\$30,000	\$4,255	\$4,173	\$4,150	\$23

Low income climate action tax credit

Effective July 2008, there will be a new annual tax credit of \$100 per adult and \$30 per child. Single parent families will receive the \$100 adult amount for the first child in the family. The tax credit is reduced by 2% of net family income exceeding:

- \$30,000 for single individuals; and
- \$35,000 for families.

The credit will be paid together with the federal Goods and Services Tax Credit payments.

Climate action dividend payment

B.C. will make a one-time payment of \$100 to each individual resident in the province on December 31, 2007. Individuals who are at least 18, not incarcerated and who have filed either a 2006 or 2007 B.C. personal income tax return will receive the payment automatically. Parents will also receive \$100 for each child that is under 18 at the end of 2007. Most eligible individuals will receive the payment in June 2008.

Corporate Taxes

Corporate income tax rates

The budget reduces corporate tax rates as follows:

- the general rate (which also applies to manufacturing and processing income) will decrease from 12% to 11% on July 1, 2008, and is expected to fall to 10% by 2011; and
- the small business rate will decrease from 4.5% to 3.5% on July 1, 2008, and is expected to fall to 2.5% by 2011.

The 2008 corporate income tax rate changes are considered substantively enacted for Canadian accounting purposes as of February 19, 2008. However,

they are not considered enacted for U.S. accounting purposes on that date.

As a result of these and federal tax reductions, the following combined federal/British Columbia rates apply to December 31 year ends:

	General and M&P income ¹	CCPCs	
		Active business income up to \$400,000	Investment income
2007	34.12%	17.62%	47.79%
2008	31.00%	15%	46.16%
By 2012	25%	13.5%	44.67%

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

International financial activity

Effective February 20, 2008, the definition of international financial business is changed to include a substantial presence test. The new definition requires corporations to:

- carry on an active business; or
- incur a prescribed amount of expenditures for services rendered in B.C. in connection with international financial activities, and have shares of a prescribed level.

Also effective February 20, 2008:

- non-securities corporations are allowed to trade in money market investments such as government issued treasury bills, commercial paper and bankers' acceptances; and
- management and control functions become eligible IFC activities and will be prescribed (and will include human resource and strategic planning services).

Commencing March 1, 2008, the list of eligible life-sciences related patents is expanded to include those with classifications under the International Patent Classification system related to power generation using forces of nature such as wind, solar and tidal.

Film tax credits

As previously announced, the Film Incentive BC tax credit and the Production Services tax credit are extended for five years to April 2013 and June 2013, respectively. In addition, the basic Film Incentive BC tax credit rate is increased to 35% from 30% and the basic Production Services tax credit rate is increased to 25% from 18%. These rates apply to qualifying B.C. labour expenditures incurred after 2007 for new productions with principal photography beginning before 2010.

For productions with principal photography beginning after February 19, 2008, the Regional Film and Television tax credit of 12.5% and the Regional Production Services tax credit of 6% are increased by an additional 6% for production activity in areas more distant from the Lower Mainland.

For productions with principal filming beginning after February 19, 2008, a B.C.-based individual is a person who is resident in B.C. on December 31 of the year preceding the year for which the tax credit is claimed. This will allow labour expenditures incurred with respect to individuals who move to British Columbia after the start of production to qualify for the credits.

Corporation capital tax

The existing corporation capital tax is phased-out over three years as follows:

		Current	April 1, 2008	April 1, 2009	April 1, 2010
Financial institutions	Small ¹	1%	0.667%	0.333%	0%
	Large	3%	2%	1%	0%

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

Effective April 1, 2010, financial institutions that have net paid up capital of \$1 billion or more will be subject to a minimum tax, calculated as 1% of B.C. paid up capital. The tax will be reduced for B.C. corporate income taxes paid.

The *Corporation Capital Tax Act* is amended to clarify that effective January 1, 2001, only non-equity shares of credit unions are to be excluded from the tax base for purposes of corporation capital tax liabilities.

Provincial Sales Tax

Exemptions – general

Effective February 20, 2008, a number of general PST exemptions were added, including:

- tangible personal property of nominal value, such as pens, pins or bookmarks, provided by registered charities in exchange for donations;
- certain catalysts, direct agents and other chemical substances that produce or modify a reaction that is essential for processing or manufacturing a product for sale or lease; and
- prescription dental and optical appliances provided for promotional purposes to dentists, optometrists, opticians or physicians.

As of February 20, 2008, Passenger Vehicle Rental Tax (PVRT) does not apply to leases between membership-based car-sharing organizations and a member of the organization or between an automotive service facility and a person receiving use of a vehicle (e.g., a courtesy car) from the facility. Effective April 1, 2008, the PVRT will not apply to vehicles leased for eight consecutive hours or less. This tax relief also applies to passenger vehicles leased from all lessors, including rental companies and automotive service facilities that provide courtesy vehicles for their customers.

Retroactive to February 21, 2007, the definition of charity funds is clarified to include bingo affiliation grants for purposes of the medical equipment refund available to registered charities or eligible hospital auxiliaries.

Effective February 20, 2008, the trade-in allowance is clarified to apply to purchases of motor vehicles from other Canadian jurisdictions for use in B.C.

Effective February 20, 2008 the application of PST to dedicated telecommunications services in B.C. is clarified by excluding distances to and from satellites to calculate the tax payable.

Exemptions – environmental

Effective February 20, 2008:

- a point-of-sale tax reduction is available for the purchase or lease of new conventional fuel-efficient vehicles that meet certain fuel efficiency criteria;

	Fuel efficiency ¹	Tax reduction	Qualifying 2008 models ²
Passenger cars	0 to 5.5	\$2,000	Smart ForTwo
	5.6 to 6.0	\$1,500	n/a
	6.1 to 6.5	\$1,000	Toyota: Corolla, Yaris Honda: Civic, Fit Mini Cooper
Light trucks	0 to 7.3	\$2,000	n/a
	7.4 to 7.8	\$1,500	
	7.9 to 8.3	\$1,000	Jeep: Compass, Patriot Chevrolet HHR Nissan Rogue

1 Litres per 100 km., weighted average city (55%) and highway (45%) as stated on the federal government's EnerGuide label.

2 Some sub-models may not be eligible due to higher fuel consumption.

- the tax exemption for non-motorized two-wheeled bicycles is expanded to include certain electric power-assisted two- and three-wheeled cycles. The exemption for power-assisted cycles will expire on March 31, 2011;
- two-wheeled electric vehicles are eligible for the alternative fuel vehicle tax reduction of 50% (to a maximum of \$1,000) if certain conditions are met. The exemption expires on March 31, 2011;

- an exemption is provided for residential refrigerators, clothes washers and freezers that are listed as "Energy Star Qualified," which are among the most energy efficient in the market. This exemption expires on March 31, 2010;
- gas-fired water heaters with an energy factor of 0.80 or greater are exempt from tax when purchased for residential use;
- a new exemption is available for insulation for hot water tanks, pipes and ductwork;
- hydrogen fuel-cell passenger buses are eligible for a 50% reduction (to a maximum of \$10,000) in the amount of tax on purchase or lease;
- an exemption is provided for biodiesel fuel used for non-motive purposes including the portion of biodiesel fuel used in a furnace oil blend;
- an exemption is available for devices designed to improve the aerodynamics of commercial tractor trailers, as well as for the labour charges for installation;
- the exemption from tax for coal and coke is repealed, except when purchased for use in a residential dwelling unit (one-year transitional refund is provided for purchases of coal and coke under a fixed price contract entered into before February 20, 2008, if the contract cannot be adjusted to account for tax);
- biodiesel and ethanol are classified as alternative motor fuels for all purposes;
- biodiesel used for non-motor fuel purposes is tax exempt, whether used for residential or commercial purposes;
- local governments may qualify for a tax exemption on the purchase or lease of production machinery and equipment, such as turbines, generators, heat exchangers and boilers, used primarily to generate electricity or in a cogeneration plant to generate electricity and heat for sale or own use; and
- emission control devices for diesel vehicles that are verified to reduce particulate emissions by at least 20%, if purchased before 2009, and at least 50%, if purchased before April 1, 2011.

Provincial sales tax review

The Ministry of Small Business and Revenue undertook further reviews focusing on specific issue that were identified during the 2007 consulting process. Changes in the budget that resulted from this process include the following:

- bona fide farmers and aquaculturists may acquire or lease exempt from PST qualifying all-terrain vehicles acquired and used solely for a farm or aquaculture purpose;

- all vehicles licensed as farm vehicles under the *Commercial Transport Act* are now authorized to use coloured fuel while operating on a highway for a farm purpose;
- all work-related safety equipment and protective clothing designed to be worn by, or attached to, a worker is tax exempt if it meets certain conditions;
- effective for contracts entered into after September 2008:
 - the contractor is responsible for paying tax on any material used in the completion of a contract to improve real property, unless the contract explicitly states that the customer pays the tax; and
 - if a customer is exempt on the purchase of certain materials, the contractor may purchase those same materials without paying tax;
- effective April 1, 2008, eligible businesses may enter into a voluntary agreement with the ministry for a Special Registration Number that replaces the need to complete a Certificate of Exemption to purchase production machinery and equipment exempt from tax or the need to apply for a tax refund; and
- effective February 20, 2008, the production and machinery exemption term “well head” is replaced with “well site,” aligning the exemption with industry practices.

In addition, the province has issued new Bulletins to clarify the treatment of PST on partnership transactions, amalgamations, and trusts.

Motor Fuel Tax

Effective February 20, 2008:

- amendments clarify that motor vehicles that also run on railway tracks are authorized to use locomotive fuel while traveling on rails;
- crew crummies used in logging and mineral mining companies may use lower taxed coloured fuel when transporting contractors or agents as well as employees; and
- the fuel tax refund for persons with disabilities is expanded to include persons with mental disabilities.

Property Transfer Tax

Effective for registrations after February 19, 2008, the fair market value threshold for eligible residential property under the First Time Home Buyers' Program increased to \$425,000 from \$375,000.

Effective February 20, 2008, first-time buyers are no longer required to have registered financing to be eligible for the exemption.

Home Owner Grant

Starting the 2008 taxation year, the threshold for the phase-out of the home owner grant is increased to \$1,050,000 of assessed value from \$950,000.

A person who ceases to occupy his or her residence because of damage or destruction from fire, flood or other natural disasters during reconstruction or repair may claim the grant or the low-income grant supplement for up to two years if certain conditions are met.

Commencing the 2008 taxation year, homeowners may qualify for the additional grant if they construct a new residence that has design specifications that have been modified to meet their disability needs or those of their spouse or relative and the value of the modifications exceed \$2,000.

School Act

Effective for 2008 except for the rates for the major industry class, non-residential property taxes rates will be set so that the change in total non-residential school tax revenue will be limited to inflation plus new construction. For 2008 the school tax rate for major industrial property will be reduced over two years to equal the business class rate.

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