

Tax Memo

2009 British Columbia Budget: Tax Highlights

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Introduction

On Tuesday, February 17, 2009, the British Columbia Minister of Finance, the Honourable Colin Hansen, introduced the province's 2009 budget. According to the Minister, the B.C. economy has been affected by the unprecedented global economic turmoil. Rather than increase taxes or dramatically reduce spending, the B.C. government will run its first deficit in five years. The budget has an estimated deficit of \$495 million for 2009/10 and \$245 million for 2010/11. These projected deficits are based on an economic decline forecast of 0.9% for 2009 and growth of 2.4% for 2010 and 2.6% for the following three years. Provincial legislation requires a return to a balanced budget by 2011/12.

The budget refers to the Premier's recent announcement supporting a \$14 billion investment (of which \$2 billion is cost-shared with the federal government) in various new and accelerated infrastructure programs including building and upgrades to roads, bridges, schools, housing and hospitals in the province. These investments are expected to create as many as 88,000 jobs. The budget forecasts government revenue of \$38.8 billion for 2009/10, 39.8 billion for 2010/11 and \$41.2 billion for 2011/12, an average annual increase of 2.3% over the next three years. The budget includes contingencies of \$385 million for 2009/10 to cushion the fiscal plan from unexpected events. Total government expenditures are forecast to increase by an average of 2.4% annually over the next three years. Taxpayer-supported debt-to-GDP ratio is forecast to be 15.2% in 2009/10 and 15.7% in 2010/11.

Commencing 2010, the budget reduces the general corporate income tax rate and increases the personal income tax rate on non-eligible dividends. It also introduces or clarifies numerous provincial sales tax exemptions. This *Tax Memo* discusses these and other tax initiatives, many of which were announced previously.

The budget reiterates measures introduced in British Columbia's Economic Plan, delivered on October 22, 2008. These changes are discussed in our *Tax Memo*, "2008 British Columbia Economic Plan: Highlights," which is available on our website: www.pwc.com/ca.

Personal Income Taxes

Personal income tax rates

The budget increases personal income tax rates on non-eligible dividends commencing 2010. No other changes are made to personal income tax rates or brackets.

Personal income tax brackets

The budget makes no further changes to personal brackets. The province's Economic Plan, delivered on October 22, 2008, advanced (to January 1, 2008) reductions in the lowest two income tax brackets that were originally scheduled for January 1, 2009.

Dividend tax credit rates

Effective January 1, 2010, British Columbia's dividend tax credit rate on non-eligible dividends is reduced to 3.4% from 4.2%. This change is intended to maintain integration between personal and corporate income taxes. It reflects the 1% reduction in the small business corporate income tax rate on December 1, 2008.

Top personal tax rates

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

	Ordinary income & interest	Capital gains	Canadian dividends	
			Eligible	Non-eligible
2008	43.70%	21.85%	18.47%	31.58%
2009			19.92%	32.71%
2010			21.45%	33.71%
2011			23.91%	
2012			26.11%	

B.C. Sales Tax Credit

Effective January 1, 2009, income from a Registered Disability Savings Plan is excluded:

- from income for purposes of determining eligibility for the B.C. Sales Tax Credit; and
- for purposes of Medical Services Plan premium assistance eligibility.

B.C. Mining Flow-Through Share Tax Credit

As announced on December 5, 2008, the B.C. Mining Flow-Through Share Tax Credit is extended one year to December 31, 2009.

Corporate Taxes

Corporate income tax rates

The only change to corporate income tax rates is the reduction of the general income tax rate, commencing 2010, as noted below.

General corporate income tax rate

The general corporate income tax rate, which also applies to manufacturing and processing income, is reduced as follows:

	Rate
Effective July 1, 2008	11%
January 1, 2010	10.5%
January 1, 2011	10%

As of February 17, 2009, the decrease in the general corporate rate is considered substantively enacted for Canadian accounting purposes, but it is not considered enacted for U.S. accounting purposes.

Small business income tax rate

The province's Economic Plan, delivered on October 22, 2008, reduced the small business rate from 3.5% to 2.5% on December 1, 2008. The reduction was originally to be implemented by 2011. The budget makes no further changes to this rate.

Nor does the budget change the small business limit, which remains \$400,000.

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		
		Active business income up to \$400,000	\$400,000 to \$500,000	Investment income
2008	31%	14.91%	31%	46.16%
2009	30%	13.50%	22%	45.67%
2010	28.5%		21.5%	45.17%
2011	26.5%		21%	44.67%
2012	25%			

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 following refinements were made to the international finance activity rules:

- **Amalgamations** – The rule requiring the commissioner to be notified of an amalgamation between a registered and a non-registered corporation within 90 days of the amalgamation will be amended to give the commissioner discretion to accept late notifications.
- **Patents** – Effective April 1, 2009, the list of eligible patents is expanded to include patents relating to wastewater treatment and fuel cell technology.
- **Non-residents** – Retroactive to September 1, 2004, the rules will clarify that a non-resident person excludes a business carried on in Canada by that non-resident person.

As required under the *International Financial Activity Act*, the government has initiated a review of the program. The review will examine program objectives and opportunities for improvement and streamlining.

Film tax credits

Expiry dates for film tax credits are eliminated. In addition, as announced on December 18, 2008, all Canadian-controlled corporations that produce films and videos in British Columbia will be eligible for the Film Incentive B.C. Tax Credit for productions that begin principal photography after December 31, 2008. Previously, only B.C.-controlled Canadian corporations qualified.

Capital tax

Retroactive to taxation years ending after September 30, 2006, the capital tax base is amended to include accumulated other comprehensive income. This income is shown as a separate item on a corporation's balance sheet. It results from accounting changes made relating to fiscal years beginning after September 30, 2006.¹

Logging tax

Commencing taxation years ending after December 31, 2008, a partial remission of the logging tax is provided to corporations that cannot use the full amount of the logging tax credit under the *Income Tax Act*. The remission is intended to ensure that small business corporations with logging income can benefit from the 1% reduction in the

small business corporate income tax rate that became effective on December 1, 2008.

Provincial Sales Tax

Exemptions

Numerous PST exemptions are introduced, expanded or clarified.

Exemptions – machinery and equipment

Commencing February 18, 2009, the following PST exemptions are expanded or clarified:

- **Equipment for electrical transmission or distribution** – The exemption is expanded to include qualifying machinery and equipment that is:
 - used exclusively to transmit or distribute electricity if more than 50% of the electricity is to power exempt machinery and equipment or is an integral component of the manufacturing process; and
 - located at a qualifying manufacturing site, mine site, well site, natural gas processing plant or petroleum refinery.
- **Repair materials** – The exemption is expanded to include materials used to repair, maintain, modify or assemble exempt machinery and equipment.
- **Transmission or distribution equipment** – The exemption is clarified to include certain machinery and equipment used to transmit or distribute tangible personal property if located at a qualifying manufacturing site, mine site, well site, natural gas processing plant or petroleum refinery.

Exemptions – heat generation equipment

Retroactive to July 31, 2001, the exemption is clarified to include certain machinery and equipment used to generate heat when the generation of that heat is a step in the manufacturing or processing activity. In addition, refunds previously filed for the period July 31, 2001, to February 21, 2006, inclusive, are payable if they qualify for this exemption.

Exemptions – bona fide farmers

Effective February 18, 2009, egg packing equipment and refrigeration equipment used for cooling or cold storage of farm products is PST-exempt if the equipment is acquired and used solely for a farm purpose.

1. CICA Handbook Section 1530

Exemptions – prescription drugs and vaccines

Commencing February 18, 2009:

- to qualify for a PST exemption, prescription drugs and vaccines for human and animal use no longer have to be sold on the prescription of an eligible medical practitioner; but rather must only to be a specified product under the *Pharmacists, Pharmacy Operations and Drug Scheduling Act*; and
- the definition of “prescription” is amended to recognize that midwives, nurse practitioners and pharmacists are authorized to prescribe certain medications.

Exemptions – environmental

Effective February 18, 2009, PST exemptions will be provided for:

- **Energy production equipment** – Certain equipment designed to produce mechanical or electrical energy from ocean currents, tides or waves, including certain accessories when sold with and as part of the energy producing equipment.
- **Idling reduction devices** – Certain auxiliary power units, cabin heaters and engine heaters for trucks with gross weight of at least 5,000 kilograms are exempt until March 31, 2012.
- **Commercial boilers** – Certain commercial boilers fired by natural gas or propane with a boiler input rating of at least 200,000 BTU/h are exempt until March 31, 2011.

Also effective February 18, 2009, the PST exemption for certain aerodynamic devices designed to reduce wind resistance and improve fuel efficiency of commercial tractor-trailers is expanded to include base flaps and boat tails, as well as labour charges to install these devices.

PST exemptions are extended to March 31, 2011, for certain energy efficient:

- residential gas-fired water heaters; and
- “Energy Star” qualified:
 - windows, doors and skylights; and
 - heating equipment.

Other PST changes

Other PST changes affect:

- **Commission rates** – As announced on October 22, 2008, effective for November 2008 tax returns, the allowances paid to businesses for collecting and remitting PST and hotel room tax are doubled.
- **Concept of “at another person’s expense”** – Retroactive to January 1, 2000, the concept of “at

another person’s expense” is clarified to ensure that PST is payable on transactions when property, services or rights are acquired for use by one person at another person’s expense.

Motor Fuel Tax

Effective February 18, 2009, hydrogen fuel is classified as a Category 1 alternative motor fuel and exempt from motor fuel tax if the hydrogen:

- is purchased for use in a fuel cell vehicle; and
- is not produced by electrolysis using coal-generated electricity, unless the carbon dioxide emitted as a result of the process is captured and stored or captured and sequestered.

Tobacco Tax

Starting February 18, 2009, the tax rate is increased on:

- cigarettes, to \$37.00 from \$35.80 per carton; and
- fine-cut tobacco, to 18.5¢ from 17.9¢ per gram.

Home Owner Grant

The threshold for the phase-out of the home owner grant will be maintained at the 2008 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.

Property Tax Deferral Program

As announced on November 1, 2008, homeowners will be allowed to defer their property taxes for the 2009 and 2010 taxation years if they:

- are experiencing financial hardship due to current economic conditions; and
- have at least 15% equity in their home.

Homeowners do not have to repay the taxes until their home is sold or transferred other than to a surviving spouse, but may choose to repay them earlier.

School Act

For the 2009 taxation year, average residential school property taxes before application of the home owner grant will increase by the 2008 provincial inflation rate. Except for the major industry property class, non-residential school property taxes for 2009 will be set so that total

revenue will increase by the provincial rate of inflation plus the cost of new construction.

As previously announced, starting the 2009 taxation year, an Industrial Property Tax Credit will reduce provincial school property tax on major industrial (class 4) and light industrial (class 5) properties by 50%. This new credit applies to B.C. manufacturing, mining, forestry and other major and light industries.

Rural Area Tax

For the 2009 taxation year, average residential rural area taxes will increase by the 2008 provincial inflation rate. Non-residential rural area tax rates will be set so that total tax revenue from this source will increase by the 2008 provincial inflation rate plus the cost of new construction.

For More Information

For help determining how these changes affect you or your corporation, please contact your PricewaterhouseCoopers adviser or:

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