

Tax Memo

British Columbia Budget Update – September 1, 2009: Tax Highlights

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Introduction

On Tuesday, September 1, 2009, the British Columbia Minister of Finance, the Honourable Colin Hansen, introduced the province's September Budget Update 2009. According to the Minister, the global economic downturn has continued at a rapid pace since the February 17, 2009 budget was delivered, resulting in a downgrade in the consensus economic forecast for B.C. The forecast 2009 economic decline has increased from 0.9% to 2.9%, and the growth estimates for 2010 and 2011 have been revised to 1.9% and 2.7%, respectively. Rather than increase taxes or dramatically reduce spending, the B.C. government will continue to run deficits, with an expectation of returning to a balanced budget by 2013/2014.

The budget update confirms the province's previous commitment to spend \$14 billion (of which \$2 billion is cost-shared with the federal government) in various new accelerated infrastructure programs, including building and upgrades to roads, bridges, schools, housing and hospitals. These spending initiatives are expected to create as many as 88,000 new jobs. The budget update revises revenue forecasts for 2009/2010 to \$37.6 billion (previously \$38.8 billion), 2010/2011 to \$38.8 billion (previously \$39.8 billion) and 2011/2012 to \$41.1 billion (previously \$41.2 billion). Taxpayer-supported debt-to-GDP ratio is now forecast to be 16.2% in 2009/2010 and 17.9% in 2010/2011.

The budget update reiterates measures announced in the 2009 British Columbia budget, delivered on February 17, 2009. These measures are discussed in our Tax Memo, "2009 British Columbia Budget: Tax Highlights," which is available on our website: www.pwc.com/ca. In addition, the budget update introduces numerous amendments, which are outlined below. For help determining how these changes affect you or your corporation, please contact your PricewaterhouseCoopers adviser or one of the individuals listed at the right:

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Personal income taxes

Personal tax credits

The following personal tax credits will increase by \$1,627.

	2009	2010
Basic personal amount	\$9,373	\$11,000
Spouse/equivalent-to-spouse (or wholly dependent relative)	\$8,026	\$9,653

B.C. Mining Flow-Through Share Tax Credit

The B.C. Mining Flow-Through Share Tax Credit is extended one year to December 31, 2010.

Corporate taxes

Small business threshold

As previously announced, the corporate income tax small business threshold will increase from \$400,000 to \$500,000 on January 1, 2010. This increase will be pro-rated for taxation years that straddle the effective date.

Small business rate

The small business rate will decline from 2.5% to 0% on April 1, 2012. However, the budget update does not reflect the economic impact of this change because it sets out a three-year plan ending on March 31, 2012.

Training Tax Credit

On July 1, 2009, the Basic Training Tax Credit on wages paid to eligible apprentices increased from 10% to 20% of the first \$20,000 of eligible wages, doubling the maximum credit per employee from \$2,000 to \$4,000.

Social Service Tax

Amendments to the *Social Service Tax Act* that will apply effective September 2, 2009, will clarify the tax treatment of leased tangible personal property that becomes real property.

The existing Provincial Sales Tax charged on private sales of used vehicles, aircraft and boats will not change.

Medical Services Plan Premiums

On January 1, 2010, Medical Services Plan (MSP) premiums will increase by \$3 per month for single persons and \$6 per month for families. In either case, the net family income thresholds (used to determine premium assistance) will also increase by \$2,000.

Carbon Tax

Commencing January 1, 2010, ethanol and biodiesel will be subject to carbon tax and will be taxed as gasoline and light fuel oil, respectively. However, the carbon tax rates will decline by 5% to reflect the reduction in carbon dioxide emissions resulting from the use of these fuels. Transitional rules will provide relief for purchasers that entered into contracts before September 1, 2009, for delivery of specific amounts of ethanol or biodiesel. A refund of the additional tax paid will be available if the purchaser cannot recover the amount under the contract, and if the fuel is delivered before July 1, 2010.

Effective January 1, 2010, the distinction between raw natural gas and marketable natural gas is being removed. Pentanes plus and gas liquids are also added to the list of taxable fuels.

Commencing September 2, 2009, the exemption for non-energy uses of fuel is expanded to include petroleum coke when used as a reductant in the production of lead or zinc, and all fuels when used as an anti-freeze in a natural gas pipeline.

Retroactive to July 1, 2008, the exemptions and refunds for fuel used by commercial air services have been expanded to include fuel used for interjurisdictional flights that provide services, such as aerial surveying and photography, to the public for a fee. As well, exemptions and refunds available for fuel used by commercial marine services have been clarified.

Motor Fuel Tax

Commencing January 1, 2010, the exemptions for ethanol and renewable diesel fuel will be repealed. Instead, these fuels will be taxed at normal rates.

In connection with the implementation of the Harmonized Sales Tax (HST), an exemption will be provided to eliminate the 2.7¢ per litre motor fuel tax on propane.

Assessment Act

For the 2010 tax year, pipelines and other continuous structures will be valued using the same rates that were used for the 2009 tax year. This will ensure that these structures are not valued at the peak of the market and it is consistent with the treatment of other property types.

Harmonized Sales Tax

As announced on July 23, 2009, B.C. will harmonize its 7% provincial sales tax (PST) and Hotel Room Tax (HRT) with the 5% federal Goods and Services Tax (GST) on July 1, 2010, to create a new 12% Harmonized Sales Tax (HST). This change was discussed in our Tax Memo, "British Columbia Sales Tax Harmonization," which is available at www.pwc.com/ca. Related measures announced in the budget update follow.

The partial HST rebate to municipalities, registered charities and qualifying non-profit organizations will equal 75% of the provincial portion of HST paid by local government entities and 57% of the provincial portion of HST paid by registered charities and qualifying non-profit organizations.

The partial HST rebate in respect of new housing will equal 71.43% (5/7ths) of the provincial portion of HST paid on the purchase price, to a maximum of \$20,000 per home. Transitional rules for new housing transactions that straddle July 1, 2010 will be announced.

A new annual B.C. HST Credit for low-income individuals and families will equal \$230 per family member for individuals with incomes up to \$20,000 and for families with incomes up to \$25,000. The credit will be phased out at a rate of 4% of income in excess of the applicable threshold.

A partial HST rebate for consumers in respect of residential energy costs will equal the provincial portion of energy purchased for residential use.

The following levies and taxes will be eliminated on harmonization:

- Innovative Clean Energy (ICE) levy – 0.4% sales tax on purchases of electricity, natural gas, fuel oil and grid-propane for non-transportation purposes.
- Sustainable Environment Fund (SEF) battery levy – \$5 per lead-acid battery over two kilograms.
- Passenger Vehicle Rental Tax (PVRT) – \$1.50 per day on short-term vehicle rentals.
- Vancouver Parking Sales Tax – 7% tax on off-street parking in Greater Vancouver.

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