



TaxNewsFlash Canada

Highlights of the 2018 British Columbia Budget

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British Columbia's Finance Minister Carole James delivered the province's 2018 budget on February 20, 2018. The budget anticipates a surplus of \$219 million for 2018, \$281 million for 2019 and \$284 million for 2020. The budget strongly emphasizes the province's housing plan and making life more affordable. Specifically, the budget eliminates the Medical Services Plan premiums effective January 1, 2020, introduces an Employer Health Tax effective January 1, 2019, and includes various housing related tax measures, including the addition of a new "speculation tax". The budget also introduces new rules to better track changes in beneficial ownership.

Corporate tax changes

Corporate income tax rates

The budget does not announce changes to British Columbia's corporate income tax rates. As a result, the province's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2018		
	British Columbia	Combined Federal and B.C.
General	12%	27%
M&P	12%	27%
Small business ¹	2%	12%

¹ on first \$500,000 of active business income

Employer Health Tax and Medical Services Plan premiums

The budget announces a new Employer Health Tax (EHT) starting in the 2019 calendar year. The EHT is intended to help fund the elimination of the Medical Services Plan premiums, which the budget announces will be eliminated, effective January 1, 2020. British Columbia previously cut Medical Services Plan premiums in half, effective January 1, 2018. The EHT will be calculated as a percentage of payroll as follows:

Annual B.C. Payroll	Annual Tax	Tax As A Percentage Of Payroll
\$500,000 or less	\$0	0.00%
\$750,000	\$7,313	0.98%
\$1 million	\$14,625	1.46%
\$1.25 million	\$21,938	1.76%
\$1.5 million	\$29,250	1.95%
Over \$1.5 million	\$29,250 plus 1.95% of payroll over \$1.5 million	1.95%

The budget does not provide details on the frequency of installment payments and how payroll would be aggregated and computed amongst associated businesses. However, British Columbia indicates it will provide further detail before this change is implemented.

Other corporate tax credit changes

The budget announces changes to tax credits, including measures to:

- Extend the interactive digital media tax credit for five years to August 31, 2023
- Extend the book publishing tax credit for three years to March 31, 2021
- Expand the Film Incentive B.C. tax credit to include scriptwriting expenditures incurred by a corporation on or after February 21, 2018 on B.C. labour prior to the completion of the final script stage of the production.

Personal tax changes

Personal income tax rates

The budget does not announce changes to personal tax rates. As a result, British Columbia's personal income tax rates effective January 1, 2018 are as follows:

Personal Combined Federal/Provincial Top Marginal Rates	
	2018
Interest and regular income	49.80%
Capital gains	24.90%
Eligible dividends	34.20%
Non-eligible dividends	43.73%

Provincial Property Transfer Taxes

The budget increases the provincial Property Transfer Taxes (PTT) to 5% (from 3%) on residential property values above \$3 million. This measure is effective February 21, 2018.

In addition, the budget stipulates that the additional PTT that applies to foreign purchasers of residential properties located in the province will increase to 20% (from 15%) and expands the tax from the current Greater Vancouver Regional District to include the Fraser Valley, Capital, Nanaimo and Central Okanagan Regional Districts. These measures are also effective February 21, 2018. Transitional rules (although not defined in the budget) may exempt eligible property transactions entered into before February 21, 2018 for these newly added areas. However, no transitional rules will apply for transactions in Metro Vancouver.

The budget also states that transfers of a bankrupt's principal residence from a trustee in bankruptcy to the bankrupt or the bankrupt's spouse or former spouse are exempt from tax, for transactions that occur on or after February 21, 2018.

Speculation tax

The budget introduces a new speculation tax on residential property in British Columbia at a rate of \$5 per \$1,000 of assessed value, starting in 2018. This tax will increase to \$20 per \$1,000 of assessed value in 2019 and will initially apply to the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts and in the municipalities of Kelowna and West Kelowna.

This new annual property tax is intended to target foreign and domestic home owners who do not pay income tax in British Columbia, and will provide up-front exemptions for most

principal residences, qualifying long-term rental properties and other special cases that were not defined in the budget.

In addition, the budget introduces a non-refundable income tax credit to offset the new property tax to provide relief to persons who may not otherwise qualify for an up-front exemption, but otherwise pay income taxes in British Columbia. This non-refundable income tax credit can be carried forward to future taxation years.

British Columbia indicates it will provide further detail before this change is implemented.

KPMG observation

As British Columbia has not yet proposed legislation for this new speculation tax, there is a lack of clarity as to how it will apply, including what up-front exemptions will exist.

Other housing-related measures

The budget also announces other housing-related measures, including changes to:

- Increase the property value threshold for the full home owner grant to \$1.65 million for the 2018 tax year, as previously announced on January 3, 2018. For properties valued above this threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of this threshold.
- Increase the provincial school tax on most residential properties with an assessed value in excess of \$3 million to 0.2%, and to 0.4% for residential properties with an assessed value in excess of \$4 million.
- Enhance tax administration and information sharing, including measures to:
 - Require developers to collect and report comprehensive information about the assignment of pre-sale condo purchases
 - Introduce the collection of additional information about beneficial ownership on the Property Transfer Tax form, including tax identification numbers for transferees through bare trusts
 - Increase the limitation period for assessments and introduce administrative penalties for non-compliance

- Expand the general anti-avoidance rule (in section 2.04) to the entire *Property Transfer Tax Act*.

The budget states that British Columbia is looking to change the property tax treatment of residential property in the Agricultural Land Reserve (ALR) as part of a broader review to ensure that ALR land is being used for farming.

Other personal tax credit changes

The budget announces personal tax credit changes including measures to:

- Introduce a new provincial caregiver credit, effective for 2018 and subsequent tax years, to a maximum credit amount of \$4,556 per infirm dependent (i.e., a tax credit of \$230.53). This measure parallels the Canada caregiver credit announced in the 2017 federal budget.
- Eliminate the B.C. education tax credit for 2019 and subsequent tax years to follow the federal elimination in 2017. Any unused B.C. education credits can be carried forward and claimed in 2019 and subsequent tax years.
- Extend the mining flow-through share tax credit for one year to the end of 2018.
- Extend the farmer's food donation tax credit for one year to the end of 2019.

Indirect taxes

Carbon tax

As announced in the province's 2017 budget, the carbon tax will continue to increase annually, on April 1, by \$5 per tonne of CO₂ equivalent emissions (currently \$30 per tonne, increasing to \$35 on April 1, 2018) until rates are equal to \$50 per tonne in 2021.

Provincial Sales Tax Act

The budget announces changes to the *Provincial Sales Tax Act*, including measures to:

- Increase the luxury surtax on passenger vehicles to 15% (from 10%) for a purchase price from \$125,000 to \$149,999 and to 20% (from 10%) for a purchase price of \$150,000 or greater, effective April 1, 2018

- Clarify that PST applies to software provided in optional as-needed maintenance agreements and that retailers operating on cruise ships in B.C. waters are not required to collect PST on sales made during the course of scheduled sailings, effective retroactive to April 1, 2013
- Enable online accommodation platforms to register, collect and remit PST and the municipal and regional district tax on short-term accommodation, effective on a date to be specified by regulation.

Tobacco tax

The budget increases tobacco tax rates on cigarettes to 27.5 cents per cigarette (from 24.7 cents) and to \$55 per carton of 200 cigarettes (from \$49.40 per carton). Further, the budget increases the tax rate on loose tobacco to 37.5 cents per gram (from 24.7 cents). These changes are effective April 1, 2018.

Fuel tax

The budget includes changes to the *Motor Fuel Tax Act* to:

- Increase refund rates for International Fuel Tax Agreement licensees to reflect annual increases in the carbon tax each April 1 from 2018 through to 2021 ensuring that licensees only pay carbon tax on fuel they use in British Columbia
- Exempt marine diesel fuel used in interjurisdictional cruise ships and ships prohibited from coasting trade under the *Coasting Trade Act* from the motor fuel tax, effective April 1, 2018
- Increase motor fuel tax rates on clear gasoline and clear diesel in the Capital Regional District is increased to 5.5 cents per litre (from 3.5 cents), effective April 1, 2018.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's B.C. budget on your personal finances or business affairs, and point out any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.



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