

TAX FLASH BULLETIN

2018 British Columbia Budget Highlights

On February 20, 2018, the British Columbia Minister of Finance, Carole James, tabled the New Democrat Party's first full budget after the 2017 election. The minister forecasts the 2017-2018 fiscal year will end with a surplus of \$151 million in comparison to the \$246 million surplus projected in the September 2017 economic update. The budget forecasts a \$219 million surplus for the 2018-2019 fiscal year. We have highlighted selected proposed tax measures that affect individuals and small businesses in British Columbia.

INDIVIDUALS

Personal Tax Rates

On September 11, 2017, the government released changes to the personal tax rates effective for the 2018 tax year which re-introduced the top tax rate of 16.8% on taxable income over \$150,000. The budget does not propose any further changes to personal income tax rates.

Provincial Income Tax Brackets and Tax Rates

Taxable Income	2017	Taxable Income*	2018
\$0 to \$38,898	5.06%	\$0 to \$39,676	5.06%
\$38,898 to \$77,797	7.70%	\$39,676 to \$79,353	7.70%
\$77,797 to \$89,320	10.50%	\$79,353 to \$91,107	10.50%
\$89,320 to \$108,460	12.29%	\$91,107 to \$110,630	12.29%
Over \$108,460	14.70%	\$110,630 to \$150,000	14.70%
		Over \$150,000	16.80%

Top Combined BC and Federal Rates

Income Type	2017	2018
Salary, interest, pension, foreign	47.70%	49.80%
Eligible dividends	31.30%	34.20%
Non-eligible dividends	40.95%	43.73%
Capital gains	23.85%	24.90%

Top rates apply to taxable income over \$202,800 (2017) and \$205,843 (2018) based on known federal and BC rates at February 20, 2018

Elimination of Medical Services Plan(MSP) Premiums

The budget proposes to completely eliminate MSP premiums effective January 1, 2020. The premiums had already been reduced by 50% effective January 1, 2018. The government will introduce an employer health tax to replace the funding (see the Businesses section below).

Maximum MSP premium per month	2017	2018	2019	2020
Single	\$75	\$37.50	\$37.50	eliminated
Couple	\$150	\$75	\$75	eliminated
Family	eliminated	eliminated	eliminated	eliminated

New Affordable Child Care Benefit and Fee Reduction

The budget introduces a new affordable child care benefit with expanded eligibility and higher benefit rates than the existing child care subsidy. The new benefit will be fully phased in over three years and families can start applying online for the benefit in summer 2018. The benefit payments will be made to licenced care providers, starting September 2018. The table below represents the fully phased in benefits by 2020/21. An online benefit calculator will be provided by the government.

Gross Income	\$0 to \$44,999	\$45,000 to \$59,999	\$60,000 to \$79,999	\$80,000 to \$111,000
Type of Child Care ²	Maximum Monthly Benefit Amount	Taper Rate of Benefit ³	Benefit Amount ⁴	Taper Rate of Benefit
Licensed Group Infant	\$1,250	\$0.27	\$910	\$0.35
Licensed Group Toddler	\$1,060	\$0.23	\$772	\$0.30
Licensed Family Infant/Toddler	\$1,000	\$0.22	\$728	\$0.28
Licensed Group 3 years to School Age	\$800	\$0.17	\$582	\$0.23
Licensed Family 3 years to School Age	\$800	\$0.17	\$582	\$0.23
Licensed Group School Age	\$420	\$0.09	\$306	\$0.12
Licensed Family School Age	\$420	\$0.09	\$306	\$0.12
Licensed Preschool	\$330	\$0.07	\$240	\$0.09
Licensed Care Surrounding School Day	\$420	\$0.09	\$306	\$0.12

¹Benefit Amounts in this table are for 2020/21, with some of the rates being lower in the first phase of implementation.

²Maximum Monthly Benefit Rates for other types of care (e.g. unlicensed care) are unchanged.

³The Taper Rate indicates the amount the benefit is reduced for each additional dollar of gross income.

⁴The benefit amount remains constant for each additional dollar of income between \$60,000/year and \$79,999/year.

The government is also introducing a child care fee reduction for group and family care for children under age six, effective April 1, 2018. Licenced care providers must opt-in to this program for the parents to benefit from the fee reduction. The funding is expected to reduce full-time child care fees by the following amounts:

Care Type	Expected Fee Reduction
Licensed Group Infant/Toddler care	\$350/month per space
Licensed Family Infant/Toddler care	\$200/month per space
Licensed Group care for ages 3 to 5	\$100/month per space
Licensed Family care for ages 3 to 5	\$60/month per space

New BC Caregiver Credit

Effective for the 2018 and subsequent tax years, the budget proposes to replace the infirm dependant credit with the non-refundable BC caregiver credit which will match the caregiver credit eligibility rules introduced by the federal government. The credit is available to individuals who care for an eligible mentally or physically infirm adult, but they are not required to live with the dependant to be eligible for the credit. The 2018 base amount of the credit is \$4,556 per infirm adult which equals a BC tax savings of up to \$230.53 per year. The credit will be indexed to inflation for future years.

Individuals caring for an infirm spouse or partner are eligible for the greater of the BC caregiver credit or the spousal tax credit. Individuals who are single and caring for an infirm adult relative are eligible for the greater of the BC caregiver credit or the eligible dependent tax credit.

Elimination of Education Tax Credit

Following in the footsteps of the federal government, the BC government will eliminate the education tax credit effective for the 2019 and subsequent tax years. Unused BC education amounts carried forward from years prior to 2019 remain available to be claimed in 2019 and subsequent tax years.

Tax Credit Extensions

BC Tax Credit	Extension End Date
Mining Flow-Through Share	December 31, 2018
Farmers' Food Donation	December 31, 2019
Interactive Digital Media	August 31, 2023
Book Publishing	March 31, 2021

The budget also expands the Film Incentive BC tax credit to include scriptwriting expenditures on BC labour incurred by a corporation prior to the completion of the final script stage of the production. Previously, only scriptwriting expenditures incurred after the final script stage were eligible for the tax credit. This measure is effective for expenditures incurred on or after February 21, 2018.

PROPERTY TAXES

Introduction of Speculation Tax

In an effort to address BC's affordable housing crisis, the government will introduce a speculation tax of \$5 per \$1,000 (or 0.5%) of assessed value on residential property in BC, effective 2018. The tax rate will rise to \$20 per \$1,000 (2%) of assessed value in 2019. This is an annual property tax that will be administered by the province outside of the normal property tax system and property tax cycle.

The tax will initially apply to the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional Districts and in the municipalities of Kelowna and West Kelowna.

The new annual tax will target foreign and domestic home owners who do not pay income tax in BC, including those who leave their home vacant. Households with high worldwide income that pay little income tax in BC will also be subject to the new tax. Presumably, income information will be gathered through the sharing of personal tax information with the property tax administrators.

The government intends to provide up-front exemptions for most principal residences and for qualifying long-term rental properties and certain special cases to exempt most BC homeowners from this tax. In the case where a homeowner does not qualify for an up-front exemption, a non-refundable tax credit will be introduced to offset the new property tax.

The budget did not provide further details on the proposed measure. Legislation is expected later in the year.

Increase to Property Transfer Tax Rate

The budget increases the property transfer tax rate from 3% to 5% on residential properties valued above \$3 million.

Value of Residential Property	Previous Rate	Effective February 21, 2018
First \$200,000	1%	1%
Portion above \$200,000 up to \$2 million	2%	2%
Portion above \$2 million up to \$3 million	3%	3%
Portion above \$3 million		5%

Increase to and Expansion of Foreign Buyers' Tax

The budget increases the foreign buyers' tax rate, officially named the Additional Property Transfer Tax, from 15% to 20%. The tax will also be expanded from the Metro Vancouver area out to the Capital Regional District, the Regional District of Central Okanagan, the Fraser Valley Regional District, and the Regional District of Nanaimo. Transitional rules may apply to these newly added areas to exempt eligible property transactions entered into before February 21, 2018.

Increase to Home Owner Grant Threshold

As a reminder, the property value threshold for the full home owner grant was increased to \$1.65 million for the 2018 tax year, up from \$1.6 million in 2017. For properties valued above the threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

BUSINESSES

Small Business Tax Rate Reduction

On September 11, 2017, the government reduced the BC small business income tax rate from 2.5% to 2% effective April 1, 2017 as originally proposed by the previous government. At that time, the government also increased the general corporate rates from 11% to 12% effective January 1, 2018. The budget did not propose any further changes to tax rates nor the \$500,000 small business income threshold. The calendar year rates below reflect a December 31st year end.

Income Type	BC Rate	Federal Rate	Combined Rates Calendar 2018
General corporate	12.00%	15.00%	27.00%
Small business	2.00%	10.00%	12.00%
CCPC* investment	12.00%	38.67%	50.67%
Non-CCPC investment	12.00%	15.00%	27.00%
Manufacturing and processing income	12.00%	15.00%	27.00%

Based on known federal and BC rates at February 20, 2018

*Canadian Controlled Private Corporation

Introduction of Employer Health Tax

In order to replace the revenue lost from eliminating MSP premiums in 2020, the government proposes to introduce an employer health tax of 1.95% on employers' payroll, starting January 1, 2019. There will be an exemption for small business employers with annual payrolls under \$500,000. The tax rate will phase in gradually where the payroll is between \$500,000 and \$1,500,000.

Annual BC Payroll	Annual Tax	Tax as a % of Payroll
\$0 - \$500,000	\$0	0.00%
\$500,000 - \$750,000	\$7,313	0.98%
\$750,000 - \$1,000,000	\$14,625	1.46%
\$1,000,000 - \$1,250,000	\$21,938	1.76%
\$1,250,000 - \$1,500,000	\$29,250	1.95%
Over \$1,500,000	\$29,250 + 1.95% of payroll over \$1.5 mil	1.95%

The budget did not provide further details on the proposed tax measures. The government will introduce legislation in 2018 which will be subject to legislative approval.

EXCISE TAXES

Luxury Passenger Vehicles

Vehicle Purchase Price	Current Rate	Effective April 1, 2018
\$125,000 to \$149,999	10%	15%
\$150,000 and over	10%	20%
Private sale \$125,000 to \$149,999	12%	15%
Private sale \$150,000 and over	12%	20%

Tobacco Tax

Tobacco Product	Current Rate	Effective April 1, 2018
Cigarettes	24.7 cents	27.5 cents
Carton (200 cigarettes)	\$49.40	\$55.00
Loose tobacco	24.7 cents	37.5 cents

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