

## Tax highlights from the updated 2017 British Columbia budget

Finance Minister Carole James tabled the first budget of the new British Columbia provincial government on September 11, 2017. This updates the outgoing government's provincial budget from February 21, 2017, which was not fully implemented due to the election and the change of government. The minister projects a balanced budget for the fifth consecutive fiscal year, with surpluses in each of the next three years of the fiscal plan.

The budget projects surpluses of \$246 million for the 2017-2018 fiscal year, \$228 million for the 2018-2019 fiscal year and \$257 million for the 2019-2020 fiscal year.

On the income tax side, the government introduced a new top personal income tax rate and increased the general corporate income tax rate and the carbon tax rate. There was also a decrease to the small business corporate income tax rate. There were extensions to existing tax credits and the introduction of new credits, some of which were previously announced.

The following pages are a summary of the changes announced in the budget. Please note that these changes are still proposals until passed into law by the provincial government.

## Personal tax matters

### Personal income tax rates and tax brackets

Tax brackets and personal credit amounts have been indexed by 1.8% for 2017.

The table below shows British Columbia tax rates and brackets for 2017.

| Taxable income range | 2017 tax rates |
|----------------------|----------------|
| \$10,209 - \$38,898  | 5.06%          |
| \$38,899 - \$77,797  | 7.70%          |
| \$77,798 - \$89,320  | 10.50%         |
| \$89,321 - \$108,460 | 12.29%         |
| \$108,461 and over   | 14.70%         |

This budget proposes one change to personal income tax rates. The government intends to introduce a new top income tax bracket for 2018 and subsequent tax years. This new bracket will apply to taxable income in excess of \$150,000 and will be set at a rate of 16.8%.

The table below shows the 2017 combined federal and provincial highest marginal tax rates for various types of income.

| Type of income         | 2017 combined tax rates |
|------------------------|-------------------------|
| Regular income         | 47.70%                  |
| Capital gains          | 23.85%                  |
| Eligible dividends     | 31.30%                  |
| Non-eligible dividends | 40.95%                  |

The aggregate federal and provincial top marginal rate in British Columbia will be 49.8% in 2018.

## Dividend tax credits

As a consequence of the proposed reduction in the small business corporate income tax rate, this budget also proposes a reduction in the dividend tax credit on non-eligible dividends from 17% to 15%, effective for 2017 and subsequent years. The effect of this change is reflected in the table above, which illustrates a slight increase in the non-eligible dividend tax rate from 40.61% to 40.95%.

As a consequence of the proposed increase in the general corporate income tax rate, this budget also proposes an increase in the dividend tax credit on eligible dividends from 36.32% to 43.58%, effective for 2019 and subsequent years.

## Low income climate action tax credit

The budget proposes to increase the maximum credit from \$115.50 to \$135 for adults and from \$34.50 to \$40 per child, effective April 1, 2018. Single parent families will receive the adult amount for the first child in the family.

## Volunteer firefighters and search and rescue volunteers tax credit

As previously announced on February 11, 2017, the budget introduced a new non-refundable tax credit for volunteer firefighters and search and rescue volunteers, effective for 2017 and subsequent taxation years. The credit will be based on \$3,000 and will be available to individuals who perform at least 200 hours of volunteer services in a taxation year, for one or more eligible search and rescue organizations or volunteer fire departments.

## Back-to-school tax credit

As previously announced on September 1, 2016, the budget introduced a new non-refundable back-to-school tax credit. This credit is available to individuals with school aged children (ages 5 to 17). The credit is based on an amount of \$250 per child. The February 21, 2017 budget had proposed to extend this credit for the years 2016 through 2018. This budget proposes that the credit only be available for the 2016 tax year.

## Education tax credit

The education tax credit was originally proposed to be eliminated effective January 1, 2018. This budget maintains the credit.

## Children's tax credits

The budget proposes to eliminate the children's fitness tax credit, the children's fitness equipment tax credit and the children's arts tax credit, effective for the 2018 and subsequent tax years.

# British Columbia mining flow-through share tax credit

As previously announced, the budget proposes to extend the BC mining flow-through share tax credit by one year, to December 31, 2017.

## Corporate tax matters

### Corporate income tax rates

This budget proposes the following changes to corporate income tax rates.

The previously announced proposal to reduce the small business income tax rate from 2.5% to 2.0%, effective April 1, 2017 is confirmed. This results in an effective tax rate of 2.125% for calendar year taxpayers. There were no changes proposed to the small business limit.

The budget also proposes to increase the general corporate income tax rate from 11% to 12%, effective January 1, 2018.

The table below shows British Columbia tax rates and the small business limit for 2017.

| Category                        | 2017 tax rates |
|---------------------------------|----------------|
| General rate                    | 11.0%          |
| Manufacturing & processing rate | 11.0%          |
| Investment income rate          | 11.0%          |
| Small business rate             | 2.5% / 2.0%    |
| Small business limit            | \$500,000      |

The table below shows the 2017 combined federal and provincial corporate income tax rates for various types of income earned by a Canadian Controlled Private Corporation (CCPC).

| Type of income                      | 2017 combined tax rates |
|-------------------------------------|-------------------------|
| Small business income               | 13.0% / 12.5%           |
| Active income over \$500,000        | 26.0%                   |
| Manufacturing and processing income | 26.0%                   |
| Investment income                   | 49.7%                   |

### Interactive digital media tax credits

The budget proposes that corporations that have annual qualifying BC labour expenses greater than \$2 million do not need to meet the principal business requirement to be eligible for the tax credit.

The budget also proposes that interactive digital media corporations participating in the small business venture capital program will be eligible for this credit effective for tax years that end on or after February 22, 2017.

### Regional film tax credits

Where principal photography began on or after January 25, 2017, the budget proposes to adjust the boundaries for the regional

film tax credit, including both the Film Incentive BC tax credit and the production services tax credit. The newly expanded boundary includes all of the City of Langley and the Township of Langley.

### **Scientific research and experimental development tax credit**

The budget proposes to extend the scientific research and experimental development tax credit for five years, to August 31, 2022.

### **Training tax credits**

The budget proposes to extend the BC training tax credits for one year, to December 31, 2018.

### **Book publishing tax credit**

The budget proposes to extend the book publishing tax credit for one year, to March 31, 2018.

### **Mining exploration tax credit**

As announced on January 23, 2017, the budget proposes to expand the mining exploration tax credit to include the costs of environmental studies and community consultations incurred after February 28, 2015. The credit is calculated as 20% of eligible BC mining exploration expenditures or 30% if exploration is in the mountain pine beetle affected area.

### **Preferential tax benefit for credit unions**

As announced on January 24, 2017, the original budget proposed to pause the phase-out of the provincial preferential income tax treatment for credit unions pending the completion of the Financial Institutions Act and Credit Union Incorporation Act review. This proposal meant that for the 2017 taxation year, credit unions would continue to receive 80% of the full preferential tax treatment.

This updated budget cancels the phase-out and restores full provincial preferential income tax treatment for credit unions, effective January 1, 2017.

### **International business activity**

Effective September 12, 2017, international business activities no longer qualify for personal and corporate income tax refunds.

## **Other proposals**

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### **Medical services plan premiums**

Effective for 2018, MSP premiums will be reduced by 50% for all households. In addition, the income threshold at which households are fully exempt from MSP premiums is increased by \$2,000.

### **Tobacco tax**

The budget increases the tobacco tax on a date to be specified by regulation. The rate will increase from \$47.80 to \$49.40 per carton of 200 cigarettes, and the tax rate on fine-cut tobacco will increase from 23.9 cents to 24.7 cents per gram. The government intends to provide at least one month of notice before this change takes effect.

## Carbon tax

Effective April 1, 2018, the budget proposes to annually increase the carbon tax by \$5 per tonne of carbon dioxide equivalent, until rates equal \$50 per tonne on April 1, 2021.

In addition, the budget proposes to repeal the part of the Carbon Tax Act that requires preparation of the annual Carbon Tax Report and Plan and tax neutrality.

## Property transfer tax

The budget proposes to increase the exemption from the property transfer tax under the first time home buyers program from \$475,000 to \$500,000, effective for registrations on or after February 22, 2017. A partial exemption is available for homes valued between \$500,000 and \$525,000.

## Homeowner grant

For 2017, the phase-out threshold of the homeowner grant increases from \$1,200,000 to \$1,600,000. The phase-out rate continues to be \$5 per \$1,000 of value for properties valued at more than \$1,600,000.

## Provincial sales tax

The budget proposes to phase out provincial sales tax on taxable electricity. Effective on a date to be specified by regulation, the tax rate on electricity is reduced to 3.5% of the purchase price. This tax will be completely eliminated effective April 1, 2019.

## Motor fuel tax

Effective on a date to be specified by regulation, the budget proposes to exempt natural gas used in an internal combustion engine for any rolling stock or vehicle that runs on rails from the three-cent per litre tax on locomotive fuel.

## Social assistance rates

The budget confirms a July 2017 announcement to increase income assistance and disability assistance rates. The \$100 per month rate increase will take effect on October 1, 2017. The rate increase for disability assistance is in addition to the \$50 per month increase included in the February 2017 budget.

## Elimination of tolls

The budget proposes to eliminate tolls on the Port Mann and Golden Ears bridges, effective September 1, 2017.

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