

BRITISH COLUMBIA BUDGET REPORT

HIGHLIGHTS

- Top personal income tax rate to increase by 2.1% in 2014
- Corporate tax increase accelerated to April 1, 2013
- Revised deficit of \$1.2 billion forecast for 2012-13
- Surplus of \$197 million forecast for 2013-14

“BALANCED BUDGET 2013”

On February 19, 2013, Finance Minister Michael de Jong presented his first budget as Finance Minister, which comes shortly ahead of the provincial election scheduled for May 14, 2013. The deficit reported for the 2012-13 fiscal year is \$1.2 billion, which has increased from the approximate \$1 billion deficit that was forecast last year. However, as promised, the government has put forth a balanced budget for 2013-14. To strengthen public confidence in this pre-election budget, the government engaged an independent economist to assess and report on the economic and revenue forecasts. The overall conclusion of the report was that the economic and revenue expectations are generally well-founded. However, the report did highlight that projected natural gas revenues were overstated, and as a result the government revised its budget projections.

Under the three-year fiscal plan presented today, there is a projected surplus of \$197 million for 2013-14, a surplus of \$211 million forecast for 2014-15 and a surplus of \$460 million forecast for 2015-16. In order to help meet these projections, the government has set out targeted revenue measures including surplus asset sales and tax measures. On the personal tax side, higher income individuals will be subject to increased taxes as a new temporary top personal tax bracket is introduced for 2014 and 2015. This bracket will apply to taxable income exceeding \$150,000 at a rate of 16.8% for 2014. From a corporate tax perspective, the government is increasing the general corporate tax rate from 10% to 11% effective April 1, 2013.

The government plans to keep spending affordable in order to maintain a balanced budget by reducing average annual spending growth to 1.5% over the fiscal plan period. There will be higher funding for both health and education, and \$10.4 billion will be allocated to infrastructure investments over the next three years. The Minister has also announced a few initiatives to help families. First, families with children under age seven will be eligible for the new one-time B.C. Training and Education Savings Grant if they have (or set up) a Registered Education Savings Plan. A new B.C. Early Childhood Tax Benefit was also announced, starting in 2015. And lastly, the Minister has announced the government's intention to introduce measures to implement Pooled Registered Pension Plans for the people of B.C.

The following is a summary of the more important items of interest to our clients.

British Columbia Budget Projections			
(in millions \$)			
	Original Estimate <u>2012/2013</u>	Revised Forecast <u>2012/2013</u>	Projected <u>2013/2014</u>
Revenue	43,101	42,451	44,387
Expenses	(43,869)	(43,629)	(43,990)
	(768)	(1,178)	397
Forecast allowance	(200)	(50)	(200)
Surplus (Deficit)	(968)	(1,228)	197

PERSONAL TAX MEASURES

New Temporary Top Personal Income Tax Bracket for 2014 and 2015

Today, the government announced a new temporary top personal income tax bracket for the 2014 and 2015 tax years only. The income threshold for the new top bracket will be \$150,000 in 2014. Income in this new top bracket will be subject to a provincial tax rate of 16.8%, an increase from the current top rate of 14.7%. As a result, there will be an increase in the overall combined top marginal rate in B.C. from 43.7% to 45.8% on taxable income over \$150,000 starting in 2014. This temporary measure will expire on December 31, 2015.

B.C. Training and Education Savings Program

To encourage B.C. families to plan for their children's future sooner, the government will build upon the existing Children's Education Fund by providing payments sooner rather than later, through the new British Columbia Training and Education Savings Program (BCTESP).

The BCTESP will provide a one-time \$1,200 grant towards a B.C. resident child's Registered Education Savings Plan (RESP), payable after the child turns six years old, and will allow families the flexibility to choose their investments. This change is effective immediately.

CORPORATE TAX MEASURE

General Corporate Income Tax Rate Increased

Last year's budget contained fiscal forecasts that were prepared on the assumption that the general corporate income tax rate would increase to 11% from 10% effective April 1, 2014. The 2012 budget speech made reference to the corporate income tax increase included in the projection and stated that the increase would only be triggered if the province's financial situation worsened.

Today's budget included an announcement that the general corporate income tax rate increase included in last year's budget as a provisional measure will be implemented and on an accelerated schedule. As a result, the general corporate income tax rate will increase to 11% from 10% effective April 1, 2013.

RE-IMPLEMENTATION OF THE PROVINCIAL SALES TAX

The final legislative amendments to complete the re-implementation of the Provincial Sales Tax Act were introduced in the legislature on February 13, 2013. Bill 2 provides transitional provisions, as well as consequential and related amendments to other statutes that are required for re-implementation.

We will continue to keep you updated on changes that arise during the transition back to PST by issuing Tax Alerts.

OTHER MEASURES

Medicare Protection Act

Effective January 1, 2014, the Medical Services Plan premiums will increase by \$2.75 per month to \$69.25 for single persons, by \$5.00 per month to \$125.50 for two person families and by \$5.50 per month to \$138.50 for families of three or more persons. The government will enhance premium assistance to ensure those receiving assistance will not be affected by the increase. Details will be available later this year.

Home Owner Grant Act

As announced on January 2, 2013, the threshold for the phase-out of the Home Owner Grant is increased from \$1,285,000 to \$1,295,000 for the 2013 tax year. For properties valued above the threshold of \$1,295,000, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

The Home Owner Grant program allows qualifying homeowners to apply for a grant on their principal residence. Effective for January 2011 and future years, the Home Owner Grant Act is amended to provide relief to qualifying homeowners who incorrectly applied for the grant on a second residential property rather than on their principal residence, and as a consequence became disentitled from the grant.

School Act

General Changes - Consistent with longstanding rate setting policy:

- For 2013, average residential school property taxes, before the application of the Home Owner Grant, will increase by the previous year's provincial inflation rate.
- The single province-wide school tax rate set for each non-residential property class for 2013 will be set so that non-residential school tax revenue will increase by inflation plus new construction. The exceptions to the general rate setting policy are the industrial property classes. The major industry class tax rate will be set at the same rate as the business class tax rate. The light industry tax rate will be set as discussed below.

The rates will be set when revised assessment roll data are available.

Phase-out of School Property Credit for Light Industry - Currently, the province offers a school property tax credit to reduce school taxes payable on both class 4 (major industry) and class 5 (light industry) properties by 60%. In 2013, the province will begin a two year phase-out of the class 5 tax credit on light industry properties which may include: sand and gravel operations, oil and gas production pipelines, textile and knitting mills, wineries and printing and publishing facilities.

The phase-out of the school property credit for light industry will be accomplished through the setting of the class 5 tax rate. For 2013, this rate will be provisionally determined as per the general rate setting policy for provincial non-residential school property tax rates noted above. The final rate for 2013 will be set in order that the value of the benefit of the school property tax credit for class 5 will be halved. For the 2014 taxation year, the tax credit for class 5 will be completely eliminated.

Taxation (Rural Area) Act

Average residential rural property taxes for 2013 will increase by the previous year's provincial inflation rate. Further, non-residential rural area property taxes will be set so that total non-residential rural area tax revenue will increase by inflation plus new construction. The rates will be set when revised assessment roll data is available.

Property Transfer Tax Act

Under the Property Transfer Tax Act, a land registration tax is levied on the purchase of real property at the time of acquisition of the property. This tax is levied on the value of the property at that time. The Property Transfer Tax Act contains certain exemptions, one of which applies upon the transfer of a deceased person's family farm if the deceased owned, used and was farming the land immediately before death. This budget expands the family farm exemption to include a family farm owned by the deceased that was, immediately before the deceased's death, used and farmed by one or more of the deceased, the deceased's family members, or a family farm corporation. This change is effective on Royal Assent.

Tobacco Tax Act

In last year's budget the government announced that, with the elimination of the HST, it would adjust the tobacco tax rates to generally keep the overall tax on tobacco and tobacco prices constant. As a result, effective April 1, 2013, the tax rate on cigarettes will be increased from \$37.00 to \$42.60 per carton of 200 cigarettes, the tax rate on fine-cut tobacco will be increased from 18.5 cents per gram to 21.3 cents per gram, and the tax rate on cigars will be increased from 77% of the sale price to 90.5% of the sale price. The maximum tax imposed on cigars will also be increased from \$6 per cigar to \$7 per cigar.

In addition to the changes previously announced, today's budget provides for a further tax rate increase. Effective October 1, 2013, the tax rate on cigarettes will be increased from \$42.60 to \$44.60 per carton of 200 cigarettes, and the tax rate on fine-cut tobacco will be increased from 21.3 to 22.3 cents per gram.

Land Tax Deferment Act

The Property Tax Deferment Act provides a low-interest loan program to assist qualifying homeowners in B.C. in paying the annual property taxes on their principal residence. There is one tax deferment program for seniors and persons with disabilities, and one tax deferment program for property owners who financially support a dependent child.

Currently, the Land Tax Deferment Act allows eligible homeowners who financially support a child under age 18 to defer their property taxes. Budget 2013 expands this program to allow an eligible homeowner who financially supports a child aged 18 or over to defer taxes if the child is enrolled in an educational institution or is disabled. Under this expanded program, the child must either be the child or step-child of the homeowner, or be a child who currently qualifies a homeowner for a deferral under the current program and that homeowner uses the deferral. A homeowner must financially support the child, meet the basic eligibility criteria for the program, and have at least 15% equity in the home in order to be eligible. Simple interest is charged on deferred taxes at the prime rate.

Land Tax Deferment Act (Continued)

Another change under this Act will apply when there is partial disposition of property. Under the current Act, eligible homeowners can defer property taxes until the home is sold, transferred to a new owner or becomes part of an estate. Currently, if a homeowner disposes of any part of the property, regardless of size, the agreement ends and repayment of deferred taxes is required. The proposed change will allow the deferment agreement to continue when the homeowner disposes of a portion of the property if the homeowner meets the following requirements:

- the homeowner continues to own the portion of the property on which the principal residence is located;
- the homeowner continues to meet the minimum equity requirements of the program in respect of the portion of the property on which the principal residence is located; and
- the homeowner retains no interest in the disposed property.

Both changes will be effective on Royal Assent.

Forest Act

Effective on Royal Assent, the Forest Act will be amended to authorize the commissioner to assess a penalty for failure to comply with information and records requests and to authorize the Supreme Court of British Columbia to grant an order to enforce compliance with such requests.

Hydro Power and Authority Act

As a Crown corporation, B.C. Hydro is exempt from most property taxation. However, B.C. Hydro pays grants-in-lieu of property tax to local governments and to the province. Also, through its Community Development Fund, B.C. Hydro makes payments to non-Treaty First Nations. Treaty First Nations can create their own taxing authority on reserve lands (these Treaty First Nations are referred to as taxing Treaty First Nations). Unlike local governments and non-Treaty First Nations, taxing Treaty First Nations do not currently receive grants or payments from B.C. Hydro. The Hydro Power and Authority Act will be amended to authorize B.C. Hydro to pay grants to taxing Treaty First Nations. This change will be effective on Royal Assent.

HOW BRITISH COLUMBIA COMPARES

The following chart compares top personal and corporate tax rates and sales taxes for all provinces and territories, as announced to February 19, 2013.

	Top 2013 Personal Rates %	2013 Corporate Rates			2013 Provincial Sales Tax %
		General %	M&P %	Small Business %	
B.C.	43.70	25.00 ⁽¹⁾	25.00 ⁽¹⁾	13.50	7.00 ⁽⁵⁾
Alta.	39.00	25.00	25.00	14.00	-
Sask.	44.00	27.00	25.00	13.00	5.00
Man.	46.40	27.00	27.00	11.00	7.00
Ont.	49.53/46.41 ⁽²⁾	26.50	25.00	15.50	8.00 ⁽⁶⁾
Qué.	49.97	26.90	26.90	19.00	9.975 ⁽⁷⁾
N.B.	43.30	25.00	25.00	15.50	8.00 ⁽⁶⁾
N.S.	50.00	31.00	31.00	14.50 ⁽³⁾	10.00 ⁽⁶⁾
P.E.I.	47.37	31.00	31.00	12.00	10.00 ⁽⁸⁾
N.L.	42.30	29.00	20.00	15.00	8.00 ⁽⁶⁾
Yukon	42.40	30.00	17.50	15.00 ⁽⁴⁾	-
N.W.T.	43.05	26.50	26.50	15.00	-
Nunavut	40.50	27.00	27.00	15.00	-

- (1) The general and M&P rate for B.C. will increase to 26% effective April 1, 2013.
- (2) The top rate includes the additional tax on taxable income in excess of \$509,000. The combined tax rate on regular taxable income over \$135,054, but not exceeding \$509,000 remains at 46.41%.
- (3) The small business rate for Nova Scotia was reduced to 14.50% from 15.00% effective January 1, 2013.
- (4) The tax rate for M&P profits eligible for the small business deduction is 13.5%.
- (5) The HST rate is 12% (consisting of a 5% GST component and a 7% provincial component) until the PST is re-implemented at 7% effective April 1, 2013.
- (6) As part of the HST (combined rates are 15% in Nova Scotia and 13% in Ontario, New Brunswick and Newfoundland & Labrador).
- (7) The QST system became harmonized with the GST effective January 1, 2013, though two separate tax systems remain - the GST and the amended QST. Note that effective January 1, 2013, while QST no longer applies on GST, the QST rate increased to 9.975%.
- (8) An HST rate will be implemented effective April 1, 2013. The PST, which is currently 10%, will be replaced by a 14% HST rate (consisting of a 5% GST component and 9% provincial component).

The information in this publication is current as of February 19, 2013.

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