

TAX FLASH BULLETIN

2017 British Columbia Budget Highlights

British Columbia's Finance Minister Michael de Jong tabled the BC Liberal Party's provincial budget on February 21, 2017. The minister forecasts the 2016-2017 fiscal year will end with an actual surplus of \$1.458 billion versus the modest surplus of \$264 million estimated last year. Budget 2017-18 forecasts a \$295 million surplus for the fiscal year. We have highlighted some of the proposed measures that affect individuals and small businesses in British Columbia.

INDIVIDUALS

The budget does not propose any changes to existing BC tax rates. The taxable income figures below reflect BC's indexed income brackets for 2016 and 2017. The marginal tax rate on non-eligible dividends has increased slightly from 40.61% to 40.95% as a result of the proposed change to the dividend tax credit.

Provincial Income Tax Brackets and Tax Rates

2016 Taxable Income	2017 Taxable Income	Tax Rate
\$0 to \$38,210	\$0 to \$38,898	5.06%
\$38,210 to \$76,421	\$38,898 to \$77,797	7.70%
\$76,421 to \$87,741	\$77,797 to \$89,320	10.50%
\$87,741 to \$106,543	\$89,320 to \$108,460	12.29%
\$106,543 and over	\$108,460 and over	14.70%

Top Combined BC and Federal Rates

Income Type	2016	2017
Salary, interest, foreign income	47.70%	47.70%
Eligible dividends	31.30%	31.30%
Non-eligible dividends	40.61%	40.95%
Capital gains	23.85%	23.85%

Top rates apply to taxable income over \$202,800 (\$200,000 for 2016) based on known federal and BC rates at February 21, 2017

Reduction of Medical Services Plan (MSP) Premiums

The budget proposes to cut MSP premiums in half for families and individuals with family net income of up to \$120,000 per year, effective January 1, 2018. The government intends this to be a first step towards completely eliminating MSP premiums, and the timing of the next step will depend on BC's fiscal capacity in the future. To receive the 50% reduction, households will need to register with the province to determine eligibility.

At the time of last year's budget, the government proposed an increase to MSP premiums of 4%, effective January 1, 2017. However, due to the province's surplus of funds, those increases were cancelled for 2017. The elimination of premiums for children remains intact for 2017 as does the change to the calculation of the couple rate to equal twice the single rate.

Maximum MSP/month	2016	2017	2018 family net income less than \$120,000*	2018 family net income greater than \$120,000*
Single	\$75	\$75	\$37.50	\$75
Couple	\$136	\$150	\$75	\$150
Family	\$150	Eliminated	Eliminated	Eliminated

*Assumes existing MSP rates remain frozen for 2018

New BC Back-to-School Tax Credit

As announced on September 1, 2016, the government is introducing a non-refundable BC back-to-school tax credit for individuals with children ages 5 to 17 to assist with the cost of school supplies. The credit is equal to \$250 per child, providing tax savings of \$12.65 per child. The credit is available for the 2016, 2017, and 2018 tax years, after which the credit will be reviewed.

Elimination of Education Tax Credit

The federal education tax credit was eliminated for 2017. Following in the footsteps of the federal government, the BC budget proposes to eliminate its provincial education tax credit effective January 1, 2018. Unused education amounts from years prior to 2018 remain available to be claimed in 2018 and subsequent tax years.

Reduction in Student Loan Interest

The budget proposes to lower student loan interest rates from prime plus 2.5% to just prime, effective August 1, 2017. Given the prime interest rate is currently set at 2.7%; this represents a significant reduction by almost half of the total interest rate.

Increase to First Time Home Buyers' Program Threshold

Effective for property registrations on or after February 22, 2017, the threshold for the First Time Homebuyers' Program property transfer tax exemption increased from \$475,000 to \$500,000. The partial exemption from transfer tax continues to apply to homes valued between \$500,000 and \$525,000.

Increase to Home Owner Grant Threshold

As announced on January 10, 2017, the government increased the threshold for the phase-out of the home owner grant from \$1,200,000 to \$1,600,000 for the 2017 assessment year in response to the rapidly inflating values of BC real estate. For properties valued above the threshold, the grant is reduced by \$5 for every \$1,000 of assessed value in excess of the threshold.

To improve monitoring and enforcement of the home owner grants and income tax compliance, legislation has been amended to allow for the sharing of provincial assessment data with income tax administrators.

New Volunteer Firefighter and Search and Rescue Tax Credit

The budget introduces a new \$3,000 non-refundable tax credit for firefighters and search and rescue volunteers who provide at least 200 hours to a volunteer fire department, an eligible search and rescue organization or a combination of both. The credit is equal to a tax savings of \$151.80 and is effective for the 2017 and subsequent taxation years.

BC Mining Flow-Through Share Tax Credit Extended

The BC mining flow-through share tax credit is once again extended to December 31, 2017. The non-refundable credit against BC tax is equal to 20% of BC flow-through mining expenditures renounced by a flow-through corporation and allocated to an individual. The credit was originally set to expire at the end of 2016.

Extension of Training Tax Credits

The training tax credit is for employers and apprentices who take part in eligible apprenticeship programs administered through the Industry Training Authority. The budget proposes to extend the BC training tax credits to the end of 2020.

BUSINESSES

Small Business Tax Rate Reduction

The budget proposes to reduce the small business tax rate from 2.5% to 2% effective April 1, 2017. There were no changes to the \$500,000 small business income threshold or the general corporate income tax rate. Although not detailed in the budget, it is expected the small business rate will be prorated for corporate year-ends that straddle April 1, 2017. The calendar year rates below reflect a December 31 year end.

Income Type	BC Rate As of April 1, 2017	Federal Rate	Combined Rates Calendar 2017	Combined Rates Calendar 2018*
General corporate income	11.00%	15.00%	26.00%	26.00%
Small business income	2.00%/2.125% blended	38.67%	12.625%	12.50%
CCPC investment income	11.00%	15.00%	49.67%	49.67%
Non-CCPC investment income	11.00%	15.00%	26.00%	26.00%
Manufacturing and processing income	11.00%	15.00%	26.00%	26.00%

*Based on known federal and BC rates at February 21, 2017

Decrease in Dividend Tax Credit Rate for Ineligible Dividends

As a result of reducing the small business corporate tax rate to 2%, the dividend tax credit rate on ineligible dividends is proposed to decrease to 15% from 17% (as a % of the federal gross-up amount) effective for the 2017 and subsequent tax years.

Phase Out of Provincial Sales Tax (PST) on Electricity

The budget proposes to reduce the rate of PST on the purchase price of electricity to 3.5%, down from 7%, effective October 1, 2017. The government proposes to fully exempt electricity from PST effective April 1, 2019.

Extension of 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. There were a number of other proposals in the budget that are not detailed here, including tax credits related to book publishing, film and television production services, interactive digital media, and mining exploration. Consult the budget document if you would like further details on those proposals.

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