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# Global Tax Alert

News from EY Americas Tax

## Canada: British Columbia issues budget 2020-21

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## Executive summary

On 18 February 2020, British Columbia (BC) Finance Minister Carole James tabled the province's fiscal 2020-21 budget. The budget contains several tax measures affecting individuals and no tax rate changes for corporations.

The Minister anticipates a surplus of CA\$227m<sup>1</sup> for 2020-21 and projects surpluses for each of the next two years.

The following is a brief summary of the key tax measures.

## Detailed discussion

### Business tax measures

#### Corporate tax rates

No changes are proposed to the corporate tax rates or the \$500,000 small-business limit.

BC's 2020 corporate tax rates remain unchanged and are summarized in Table A.

Table A - Corporate tax rates

	2020	
	BC	Federal and BC combined
Small-business tax rate*,**	2.0%	11.0%
General corporate tax rate	12.0%	27.0%

\* The small business rate is based on a 31 December year end.

\*\* The federal small-business rate was reduced from 10.00% to 9.00% effective 1 January 2019.

## Other business tax measures

The Minister also proposed the following business tax measures:

- ▶ Effective on a date to be specified by regulation, the new mine allowance is extended for five years to the end of 2025.
- ▶ The training tax credits are extended for three years to the end of 2022.
- ▶ The farmers' food donation tax credit is extended for three years to the end of 2023.
- ▶ Effective 1 July 2020, corporations intending to claim the production services tax credit must notify the certifying authority of their intent within 60 days of first incurring an expenditure eligible for the tax credit.
- ▶ Effective 19 February 2020, the accreditation certificate fee for the production services tax credit is increased to \$10,000. Other amounts for the Film Incentive BC and production services tax credit are set at historical levels.
- ▶ Effective for taxation years beginning after 18 February 2020, the deadline to claim the Film Incentive BC and the production services tax credit is reduced to 18 months.

## Personal tax

### Personal income tax rates

The budget proposes adding a new bracket for income above \$220,000 at a rate of 20.5%. BC's 2020 personal tax rates are summarized in Table B.

Table B - 2020 British Columbia personal tax rates

Bracket	Pre-budget rate	2020
\$0 to \$41,725	5.06%	5.06%
\$41,726 to \$83,451	7.70%	7.70%
\$83,452 to \$95,812	10.50%	10.50%
\$95,813 to \$116,344	12.29%	12.29%
\$116,345 to \$157,748	14.70%	14.70%
\$157,749 to \$220,000	16.80%	16.80%
Over \$220,000 (new)	16.80%	20.50%

For taxable income in excess of \$157,748, the 2020 combined federal - British Columbia personal income tax rates are summarized in Table C.

**Table C - Combined 2020 federal and British Columbia personal tax rates**

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
\$157,749 to \$214,368**	46.02%	26.22%	40.29%
\$214,369 to \$220,000	49.80%	31.44%	44.64%
Over \$220,000 (new)	53.50%	36.54%	48.90%

\* The rate on capital gains is one-half the ordinary income tax rate.

\*\* An additional federal basic personal amount may be available for individuals with taxable income below \$214,368. The additional tax credit is \$140 for individuals with taxable income below \$150,474; this additional amount is gradually phased out for individuals with taxable income between \$150,474 and \$214,368, resulting in an additional 0.22% of federal income tax on taxable income in this bracket.

With this rate increase, the charitable donation tax credit for individuals is increased to 20.5% for charitable donations over \$200 in respect of the individual's income subject to the new 20.5% tax rate.

## Other personal tax measures

The BC Access Grant complements the Canada Student Grant for Full-time Students, ensuring BC students receive up to \$4,000 a year to help with the cost of programs leading to a degree, diploma or certificate for eligible applicants. For programs under two years, up to \$4,000 per year is available. For programs two years and over, up to \$1,000 per year is available.

## Provincial Sales Tax (PST)

**Registration requirements expanded:** Effective 1 July 2020, Canadian sellers of goods, along with Canadian and foreign sellers of software and telecommunication services, will be required to register as tax collectors if specified BC revenues exceed \$10,000.

These expanded registration requirements follow a common trend seen in other Canadian jurisdictions and will result in a greater number of businesses outside BC being required to register and collect PST on their e-commerce sales to BC purchasers. The Government has yet to clarify the meaning of "specified BC revenues."

**Exemptions for soft drinks/pop eliminated:** Effective 1 July 2020, carbonated beverages that contain sugar, natural or artificial sweeteners no longer qualify for the exemption for food products for human consumption. PST will also apply to all beverages that are dispensed through soda fountains, soda guns and vending machines (except vending machines wholly dedicated to dispensing beverages other than sweetened carbonated beverages, e.g., coffee or water machines).

**Exemption for pollution control and waste management machinery and equipment expanded:** Effective 19 February 2020, the exemptions for machinery and equipment purchased or leased by qualifying manufacturers and resource industry businesses for use in pollution control or waste management are amended to eliminate restrictions regarding the location at which the machinery and equipment is used. Currently, only machinery or equipment for use at the qualifying part of the manufacturing site, processing plant, refinery, mine site, well site or tailings pond related to the mining of minerals qualify for the exemption.

The following bulletins have been updated to include this information: [Bulletin PST 110 Production Machinery and Equipment Exemption](#) (PDF), [Bulletin PST 111 Mining Industry](#) (PDF) and [Bulletin PST 113 Oil and Gas Industry - Producers and Processors](#) (PDF).

**Exemption provided for electric aircraft:** Effective 19 February 2020, electric aircraft are exempt from PST. In addition, a refund is added for PST paid on or after 19 February 2020, in relation to non-electric aircraft obtained for converting the aircraft to operate solely on electricity, as well as for PST paid on parts and related services obtained for this purpose.

**Refund for real property contractors working outside**

**BC expanded:** Effective 19 February 2020, real property contractors who perform value-added work to goods and then install those goods into real property outside BC can apply for refunds of the PST paid on those goods. The refund provision for property used to improve real property situated outside BC was originally introduced under BC's 2015 budget implementation legislation.

## Other taxes

### Carbon tax

**Carbon tax rates aligned with federal carbon pricing**

**backstop rates:** Effective 1 April 2020, the BC carbon tax rates for 2020 and 2021 are aligned with the federal carbon pricing backstop methodology, where applicable. As part of this alignment, the current category of taxable combustibles, such as shredded and whole tires, is replaced with the new category for "combustible waste." Combustible waste includes tires in any form, asphalt shingles as a new taxable combustible and prescribed material, substance or thing.

BC carbon tax rates are being updated to ensure they are in line with the latest science on emissions, resulting in lower tax rates for some fuel types, such as gasoline, and higher tax rates for other fuel types, such as natural gas. The new rates will be available on the Ministry's website.

### Motor fuel tax

**Refund rates for International Fuel Tax Agreement**

**licences adjusted:** Effective 1 April 2020, the refund rates for International Fuel Tax Agreement licences are adjusted to reflect the alignment of the provincial carbon tax with the federal carbon pricing backstop methodology. This will ensure International Fuel Tax Agreement licensees pay the correct carbon tax on fuel they use in BC.

### Tobacco tax

**Tax rate for heated tobacco products introduced:** Effective 1 April 2020, a default tax of 29.5 cents per heated tobacco product is introduced. For specific heated tobacco products, this default can be changed by regulation. A heated tobacco product is a product that contains tobacco and is designed to be heated, but not combusted, in a tobacco heating unit to produce a vapour for inhalation.

A dealer who intends to sell or use a new heated tobacco product not yet authorized by the director for sale or use in BC will be required to inform the director of this intent no later

than 90 days before the intended first sale or use of the heated tobacco product. Dealers who currently sell heated tobacco products in BC will be required to inform the director of their intent to continue to make those heated tobacco products available for sale in BC by no later than 30 April 2020.

### Property taxes

**Exemption from additional property transfer tax for certain Canadian-controlled limited partnerships introduced**

Effective on a date to be specified by regulation, a new exemption from additional property transfer tax will be introduced for qualifying Canadian-controlled limited partnerships. This exemption will treat Canadian-controlled limited partnerships in a manner more consistent with Canadian-controlled corporations. It will ensure that new housing developments are treated similarly irrespective of whether the development is being undertaken by a Canadian-controlled corporation or Canadian-controlled limited partnership.

**Home Owner Grant Act – Threshold for home owner grant phase-out decreased**

Announced on 3 January 2020, the threshold for the phase-out of the home owner grant has decreased from \$1,650,000 to \$1,525,000 for 2020.

Home owner grant administrators will work with local governments on the centralization of the administration of the home owner grant.

**Port Property Tax Act – Municipal tax rate flexibility added**

Beginning in the 2020 tax year, municipalities will have flexibility to create a distinct municipal tax rate for designated port properties when the municipal major industry tax rate is below the upper tax rate threshold. Municipal tax rate caps for designated port property under the Act remain at \$27.50 per \$1,000 generally and \$22.50 per \$1,000 for new investment. Further, a unique municipal tax rate for designated port property cannot be higher than the municipality's 2017 major industry tax rate.

**Assessment Act – Port land valuation increased**

Effective for the 2021 property tax year, the Port Land Valuation Regulation under the *Assessment Act* will be amended to increase the annual land valuation from CPI inflation to CPI inflation plus 1 percentage point.

### School Act

Provincial residential and non-residential school property tax rates for 2020 will be set in the spring. Rates will be set in a manner consistent with long-standing rate-setting policy.

### Rural property tax

Residential and non-residential rural area property tax rates for 2020 will be set in the spring consistent with long-standing rate-setting policy.

## Other technical amendments

Budget 2020-21 introduces a number of technical amendments to various tax acts including the *Income Tax Act*, the *Land Tax Deferment Act*, the *Provincial Sales Tax Act* and the *Property Transfer Tax Act* for clarity and certainty:

The *Income Tax Act* is amended:

- ▶ Effective 1 January 2016, to allow employees to reimburse their employers any overpaid amount net of BC income tax withheld; and
- ▶ Effective on Royal Assent, to clarify that corporations may not claim the political contributions tax credit.

Effective on Royal Assent, amendments to the *Carbon Tax Act*, *Employer Health Tax Act*, *Forest Act*, *Home Owner Grant Act*, *Income Tax Act*, *Insurance Premium Tax Act*, *International Business Activity Act*, *Land Owner Transparency Act*, *Logging Tax Act*, *Mineral Tax Act*, *Motor Fuel Tax Act*, *Property Transfer Tax Act*, *Provincial Sales Tax Act*, *Speculation and Vacancy Tax Act* and *Tobacco Tax Act*, and effective on a date to be specified by regulation, amendments to the Carbon Tax Regulation, Motor Fuel Tax Regulation, Net Profit Royalty Regulation and Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation provide the minister the authority to further delegate appeal decisions.

Effective 1 May 2020, the *Land Tax Deferment Act* is amended to centralize the program administration within the Ministry of Finance and enable electronic applications. These changes will improve the processing of property tax deferment applications.

The amendments to the *Provincial Sales Tax Act* clarify:

- ▶ Effective 1 March 2020, when a motor vehicle dealer or manufacturer changes the use of a vehicle in their sale or lease inventory, the luxury surtax rates apply to the dealer use formula, as follows:
  - Average value of \$125,000 to \$149,999.99 - Rate increased from 10% to 15%
  - Average value of \$150,000 and above - Rate increased from 10% to 20%
- ▶ Effective on Royal Assent, the amendments to the *Provincial Sales Tax Act* clarify:
  - Refunds for vehicles brought into BC to be immediately licensed as multijurisdictional vehicles; and
  - Authority for the director to impose a penalty when PST collectors improperly provide an exemption for these vehicles.
  - Effective on a date to be specified by regulation, amendments to the Provincial Sales Tax Regulation clarify requirements for PST collectors to document exemptions and keep records of information related to these vehicles.
- ▶ Effective 19 February 2020, if a single price is charged for the lease of a taxable good along with an exempt good or real property, PST applies to the fair market value of the lease of the taxable good.
- ▶ Effective 19 February 2020, the definition of “lease” has been changed to exclude a right to use coin-operated machines and garbage and similar bins, and effective 19 February 2020, various exemptions for related services do not apply to a related service provided by a lessor, or provided by a third party through a contract with a lessor, during the lease of goods.

Effective on Royal Assent, the *Property Transfer Tax Act* is amended to clarify the calculation of partial principal residence exemptions in cases where the land is greater than 0.5 hectares in area or the property includes non-residential improvements. This is consistent with administrative practice.

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## Endnote

1. Currency references in this Alert are to the CA\$.

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