

2020 British Columbia budget: Tax highlights

February 19, 2020

In brief

On February 18, 2020, British Columbia's Minister of Finance, Carole James, presented the province's budget. The budget:

- introduces a new top personal income tax rate of 20.5% for 2020 and subsequent taxation years
- extends several personal and business tax credits, including the training tax credits
- makes some changes to the production services tax credit
- proposes a variety of provincial sales tax (PST) amendments

This *Tax Insights* discusses these and other tax initiatives outlined in the budget.

In detail

Personal tax measures

Personal income tax rates

The budget introduces, effective January 1, 2020, a new top British Columbia personal income tax rate of 20.5% (up from 16.8%) that will apply to individuals with taxable income exceeding \$220,000.

Top personal tax rates

Top combined federal/British Columbia personal income tax rates are shown in the table below. The table reflects the new top British Columbia tax rate of 20.5%, starting 2020 (as discussed above). The rates in the table apply to individuals with taxable income above \$220,000 in 2020 (\$210,371 in 2019).

| Top combined federal/BC rates | | 2019 | 2020 |
|-------------------------------|--------------|--------|--------|
| Ordinary income & interest | | 49.80% | 53.50% |
| Capital gains | | 24.90% | 26.75% |
| Canadian dividends | eligible | 31.44% | 36.54% |
| | non-eligible | 44.63% | 48.89% |

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How much more tax?

The following table shows how much more tax you will pay in 2020, at select income levels, assuming all your income is interest or ordinary income (such as salary), and only the basic personal tax credit is claimed.

| Taxable income | Tax payable | | Additional tax payable |
|----------------|-------------|-----------|------------------------|
| | 2019 | 2020 | |
| \$1,000,000 | \$463,950 | \$492,094 | \$28,144 |
| \$500,000 | \$214,950 | \$224,594 | \$9,644 |
| \$300,000 | \$115,350 | \$117,594 | \$2,244 |
| \$250,000 | \$90,450 | \$90,844 | \$394 |

Charitable donation tax credit

As a result of the new top personal income tax rate (see above), the budget increases, starting 2020, the top charitable donation tax credit rate (for annual donations exceeding \$200) from 16.8% to 20.5%, but only to the extent that the individual has income subject to the top 20.5% tax rate.

Training tax credit

The training tax credit is extended by three years to the end of 2022.

Farmers' food donation tax credit

The farmers' food donation tax credit is extended by three years to the end of 2023.

Reimbursement of overpaid wages

The *Income Tax Act* will be amended, effective January 1, 2016, to allow employees to reimburse their employers any overpaid amount net of BC income tax withheld.

Business tax measures

Corporate income tax rates

British Columbia's corporate income tax rates have not changed and will remain as shown in the table below. The table also shows combined federal/British Columbia corporate tax rates.

| Federal and BC corporate rates | | BC | Federal + BC |
|--|-------------------------------------|-----------|--------------|
| | | 2019-2020 | 2019-2020 |
| General and M&P income | | 12% | 27% |
| Canadian-controlled private corporations (CCPCs) | active business income to \$500,000 | 2% | 11% |
| | investment income | 12% | 50.67% |

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Film Incentive BC and production services tax credit

Effective:

- February 19, 2020, the budget increases the accreditation certificate fee for the production services tax credit (PSTC) to \$10,000 (from \$5,500)
- July 1, 2020, corporations intending to claim the PSTC must provide notification of their intent within 60 days of incurring an eligible expenditure
- for taxation years beginning after February 18, 2020, the deadline to claim the Film Incentive BC and PSTC is reduced to 18 months

Business tax credits

The budget extends British Columbia's:

- training tax credit, by three years to the end of 2022
- farmers' food donation tax credit, by three years to the end of 2023

In addition, the *Income Tax Act* will be amended to clarify that corporations cannot claim the political contributions tax credit.

New mine allowance

Effective on a date to be specified by regulation, the new mine allowance will be extended by five years to the end of 2025.

Sales tax measures

Carbonated beverages

Effective July 1, 2020, carbonated beverages containing sugar, natural sweeteners or artificial sweeteners will no longer qualify for the PST exemption for food products for human consumption; for administrative ease, PST will also apply to all beverages that are dispensed through soda fountains, soda guns or similar equipment, and vending machines (except those wholly dedicated to dispensing beverages other than sweetened carbonated beverages, e.g. coffee or water). When a carbonated beverage is sold together with exempt tangible personal property, including food, specific bundling rules will determine the selling price of the beverage.

PST registration

Effective July 1, 2020, new PST registration requirements will apply to:

- Canadian sellers of goods, and Canadian and foreign sellers of software and telecommunication services, with specified BC revenues exceeding \$10,000 — it will no longer be necessary for the sellers:
 - to be soliciting persons in British Columbia, and
 - in the case of the sale of software or telecommunication services, to be located in Canada
- Canadian sellers of vapour products who deliver to BC consumers

CleanBC strategy

To support the province's CleanBC strategy, effective February 19, 2020:

- the PST 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 relating to the location at which the machinery and equipment is used

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- electric aircraft will be exempt from PST; in addition, a refund is available for PST paid after February 18, 2020, for non-electric aircraft acquired for the purpose of being converted into electric aircraft, and for any related parts and services acquired for this purpose

Real property contractors

Effective February 19, 2020, real property contractors who perform value-added work to goods and then install them into real property outside British Columbia can apply for refunds of the PST paid on those goods. Before this change, refunds were only available when the contractor performed no value-added work on the goods acquired in British Columbia.

Motor vehicle dealers and manufacturers

Effective March 1, 2020, when a motor vehicle dealer or manufacturer changes the use of a vehicle in their sale or lease inventory, the PST rate will increase from 10% to:

- 15%, for vehicles with an average value of \$125,000 to \$149,999.99
- 20%, for vehicles with an average value of \$150,000 or more

Multijurisdictional vehicles

Effective on royal assent of the enacting legislation, amendments will clarify that:

- refunds will be available for vehicles brought into British Columbia and immediately licensed as multijurisdictional vehicles
- the director has authority to impose a penalty when PST collectors improperly provide an exemption for these vehicles

Effective on a date to be specified by regulation, amendments will clarify that PST collectors are required to document exemptions and keep records of information related to these vehicles.

Other amendments

Effective February 19, 2020:

- Bundled leases – if a single price is charged for the lease of a taxable good along with an exempt good or real property, PST will apply to the fair market value of the lease of the taxable good
- Leases – the definition of "lease" will exclude a right to use coin-operated machines and garbage and similar bins
- Related services – various exemptions will 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

Other taxes

Carbon tax

Effective April 1, 2020, the British Columbia carbon tax rates for:

- 2020 and 2021 will be aligned with the federal carbon pricing backstop methodology
- shredded and whole tires will be replaced with a new category for combustible waste, which includes tires in any form and asphalt shingles as a new taxable combustible

The new rates will be available on the Ministry of Finance's website. The rates will be reviewed in 2022, as part of the federal government's review of the Pan-Canadian Framework on Clean Growth and Climate Change.

Motor fuel tax

Effective April 1, 2020, the refund rates for International Fuel Tax Agreement licensees will be adjusted to reflect the revised carbon tax rates (see above).

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Property transfer tax

Effective on a date to be specified by regulation, a new exemption from the additional 20% property transfer tax will be introduced for qualifying Canadian-controlled limited partnerships; this will ensure that new housing developments will be treated similarly, irrespective of whether the development is being undertaken by a Canadian-controlled corporation or a Canadian-controlled limited partnership.

Effective on royal assent of the enacting legislation, amendments will clarify the calculation of partial principal residence exemptions where the land exceeds 0.5 hectares or the property includes non-residential improvements; this is consistent with administrative practice.

School (property) tax rates

In 2020, British Columbia will continue to apply its long-standing rate-setting policies for:

- residential property taxes
- non-residential property taxes
- residential rural property taxes
- non-residential rural property taxes

Tobacco tax

Effective April 1, 2020, heated tobacco products will be subject to a default tax of 29.5¢ each. Heated tobacco products are defined, subject to the regulations, as a product containing tobacco that is designed to be heated, without combusting, to produce a vapour for inhalation.

Let's talk

For a deeper discussion of how these tax measures affect you or your business, please contact:

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