



2017 FEDERAL ANNOUNCEMENT CHANGES TO SMALL BUSINESS TAXATION

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On September 11, 2017, Finance Minister Carole James released a 2017-18 BC Budget Update (the "Update"). This reflects changes from the original budget passed by the previous Liberal Government. There are some significant tax changes that have been proposed in the Update. The following commentary highlights the most significant of those changes.

PERSONAL TAX MEASURES

- The top marginal tax rate for individuals will be increased from 14.7% to 16.8% on income in excess of \$150,000 per year, commencing in 2018. Some may recall that the previous Liberal Government introduced a similar increase as a temporary two-year measure in 2014 and 2015, but it was repealed as planned in 2016. The Update proposes to reinstate this tax increase permanently.
- The dividend tax credit in respect of eligible dividends will be increased from 36 6/19% to 43 11/19% effective for the 2019 and subsequent years. This will decrease the effective tax rate on eligible dividends to offset the general corporate income tax rate increase as discussed below.
- The BC Back-to-School Tax Credit will be eliminated effective for 2017 and subsequent years. This credit was \$250 per eligible child aged 5-17 years (\$12.65 tax savings per eligible child).
- The BC Training Tax Credit will only be extended to 2018 instead of 2020 as proposed in the original budget.
- The BC Book Publishing Tax Credit will only be extended to March 31, 2018 instead of March 31, 2019 as proposed in the original budget.
- The BC Low Income and Climate Action Tax Credit will be increased from \$115.50 to \$135 per adult and from \$34.50 to \$40 per child effective April 1, 2018. Single-parent families will continue to receive the adult amount for the first child.
- As announced in the original budget, MSP premium rates will be reduced by 50% effective January 1, 2018. However, the Update removed the income threshold of \$120,000 and requirements to register. All households will now be eligible for the 50% reduction and will only need to register if applying for premium assistance. The income threshold at which a household will be fully exempt for MSP premiums will increase by \$2,000 for 2018.

BUSINESS TAX MEASURES

- The general income tax rate will increase from 11% to 12%, effective January 1, 2018. This income tax rate increase will be pro-rated for taxation years which straddle the effective date.
- The International Business Activity Program will be eliminated effective September 12, 2017. No new registrations will be accepted on or after this date and a return may be filed to compute income eligible for a refund up to September 11, 2017.
- The preferential tax treatment of credit unions will be restored retroactively to January 1, 2017. The original budget had proposed to phase out this benefit over five years commencing in 2016.
- Carbon Tax rates will be increased by \$5 per tonne of carbon dioxide equivalent emissions, commencing April 1, 2018. The rate will increase by \$5 per tonne on April 1 of each subsequent year until 2021, at which time the rate will be \$50 per tonne.



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- Part 2 of the Carbon Tax Act will be repealed. This will remove the requirement that the Government introduce other revenue reduction measures to offset the additional revenue generated by carbon tax (i.e. to achieve revenue neutrality as was originally promised when it was introduced). This means that the Government will now be able to spend carbon tax revenue in any way it wishes and will not be required to reduce taxes in other areas to offset. It also means that the annual Carbon Tax Report and Plan will no longer apply as there would be no need to demonstrate that the tax is revenue neutral.

SUMMARY

This Update clearly sets out tax increases that will exceed the reductions in other areas for many of our clients. Given the change in government, this likely will not come as a surprise to most. That being said, we encourage you to speak to your Johnsen Archer advisor and find out how this Update will impact you in your specific circumstances.

As always, we thank you for your business!