

## Changes to Legislation Administered by the Ministry of Small Business and Revenue

On February 21, 2006, the Minister of Finance announced a number of changes to the taxation statutes administered by the Ministry of Small Business and Revenue. This bulletin provides a summary of these changes.

Additional information on these amendments may be found on the Ministry of Small Business and Revenue's web site at [www.gov.bc.ca/sbr](http://www.gov.bc.ca/sbr) or by calling the telephone numbers provided at the end of this bulletin.

<p><b>Consumer Taxes</b></p> <p><b>Social Service Tax (PST)</b></p> <ul style="list-style-type: none"> <li>➤ Alternative fuel vehicles</li> <li>➤ Definition of heat clarified</li> <li>➤ Environmental levy</li> <li>➤ Farmers' exemption</li> <li>➤ MJV tax refund for short-term vehicle rentals</li> <li>➤ Passenger vehicle surtax thresholds increased</li> <li>➤ Production machinery and equipment exemption expanded</li> <li>➤ Software</li> </ul> <p><b>Hotel Room Tax</b></p> <ul style="list-style-type: none"> <li>➤ Continuous stay exemption expanded</li> <li>➤ Low-cost lodging exemption threshold increased</li> </ul> <p><b>Motor Fuel Tax</b></p> <ul style="list-style-type: none"> <li>➤ Coloured fuel use expanded</li> <li>➤ Refunds expanded for stationary engines</li> <li>➤ Taxation of 100% biodiesel</li> </ul>	<p><b>Income and Corporate Taxes</b></p> <p><b>Income Tax</b></p> <ul style="list-style-type: none"> <li>➤ BC mining flow-through share tax credit extended</li> <li>➤ Film and television tax credit extended</li> <li>➤ Medical expense tax credit</li> <li>➤ Production services tax credit extended</li> <li>➤ Other changes</li> </ul> <p><b>International Financial Activity Act</b></p> <ul style="list-style-type: none"> <li>➤ Interest adjustment formula repealed</li> </ul> <p><b>Property and Property Transfer Taxes</b></p> <p><b>Home Owner Grant</b></p> <ul style="list-style-type: none"> <li>➤ Home owner grant increased</li> <li>➤ Threshold value increased</li> <li>➤ Home modification grant for disabled expanded</li> </ul>	<p><b>Property Transfer Tax</b></p> <ul style="list-style-type: none"> <li>➤ Definition of family farm corporation clarified</li> <li>➤ Exemption for amalgamations expanded</li> <li>➤ Property transfer tax refund</li> <li>➤ Exemption for transfers to public guardian on behalf of minors clarified</li> </ul> <p><b>School Tax</b></p> <ul style="list-style-type: none"> <li>➤ School property tax rates</li> </ul> <p><b>Rural Area Property Tax</b></p> <ul style="list-style-type: none"> <li>➤ Provincial rural property tax rates</li> </ul> <p><b>Miscellaneous</b></p> <p><b>Mineral Tax</b></p> <ul style="list-style-type: none"> <li>➤ Determination of gross revenues</li> </ul>
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## CONSUMER TAXES

### SOCIAL SERVICE TAX ACT

#### Alternative Fuel Vehicles

##### Refund provided for hybrid electric and HCNG bus conversions

Effective February 22, 2006, a refund is provided for PST paid on parts and labour to convert shuttle buses and passenger buses to operate as hybrid electric vehicles or to operate on HCNG (a blend of hydrogen and compressed natural gas). There is a maximum refund of \$5,000 for each shuttle bus conversion and \$10,000 for each passenger bus conversion.

The refund applies to all parts required to enable the vehicle to run as a hybrid electric vehicle or to operate on HCNG.

The following are included for hybrid electric conversions:

- transmissions,
- electric motors,
- powercells, and
- all related parts necessary for the modification.

The following are included for HCNG conversions:

- transmissions,
- cooling, intake air and exhaust piping,
- filters,
- hoses,
- fans,
- power steering pumps or motors,
- belt guards,
- mufflers, and
- all related parts necessary for the modification.

PST applies to any parts installed at the same time as the conversion that are not related to the conversion.

**More Info:** [Bulletin SST 085](#), *Alternative Fuel Vehicles and Alternative Motor Fuel Tax Concessions*

##### Definition of Hybrid Electric Vehicle Clarified

Effective February 22, 2006, the definition of hybrid electric vehicle is changed to clarify that a vehicle

must be capable of "sustained" propulsion by the electric motor alone, or simultaneously with the internal combustion engine to qualify as a hybrid electric vehicle.

Vehicles referred to by manufacturers and in advertisements as "hybrid electric vehicles" do not qualify for the tax reduction if the vehicle's electric motor is only capable of providing a momentary boost of power.

**More Info:** [Bulletin SST 087](#), *Alternative Fuel Vehicles: Calculating the Tax Reduction*

##### Definition of Heat Clarified

"Heat" under the *Social Service Tax Act* is tangible personal property and is subject to tax (PST).

Heat purchased for residential use is exempt from tax. This exemption ensures that heat is treated the same as electricity, natural gas, fuel oil, steam heat and wood when used as a fuel. Heat is also exempt to farmers for a farm purpose.

Residential purchasers who have paid tax on purchases of heat may apply for a refund of the tax.

##### Environmental Levy

The environmental levy on new tires is to be repealed when the industry stewardship program is introduced.

An industry stewardship program for tires is expected to be introduced during 2006 and implemented by early 2007. Industry stewardship programs impose responsibility on producers for managing and reducing the environmental impact of their products throughout the product's life cycle.

Legislative authority will be provided to repeal the existing \$3 levy on each new pneumatic tire purchased in the province when the industry stewardship program for tires is implemented.

For more information on stewardship programs, see the Ministry of Environment website at: [www.env.gov.bc.ca/epd/epdpa/ips/index.html](http://www.env.gov.bc.ca/epd/epdpa/ips/index.html)

## Farmers' Exemption Expanded and Clarified

Effective February 22, 2006, the list of items that qualifying *bona fide* farmers may purchase for a farm purpose without PST has been expanded to include sand used for livestock bedding. Heat is also exempt.

Hoop house frames are specifically excluded from the exemption regardless of the purpose for which they are purchased or leased.

**More Info:** [Bulletin SST 023](#), *Bona Fide Farmers*

## Multi-jurisdictional Vehicle (MJV) Tax Refund

Effective February 22, 2006, a full refund of the British Columbia portion of multi-jurisdictional vehicle tax is provided where:

- the multi-jurisdictional vehicle is primarily leased to the public as a short-term rental vehicle for the purpose of transporting goods; and
- PST is collected and remitted on the rental payments during the vehicle's license year.

A refund claim for MJV tax may be submitted at the end of the vehicle's license year.

This change brings the application of tax to short-term rentals of multi-jurisdictional vehicles in line with other tangible personal property purchased for resale or lease.

**More Info:** [Bulletin SST 073](#), *Tax on Multi-jurisdictional Vehicles*

## Passenger Vehicle Surtax Thresholds Increased

Effective February 22, 2006, the surtax on purchases and leases of passenger vehicles begins at \$55,000 instead of \$49,000.

Passenger vehicles rates are as follows.

Purchase Price (or tax rate value for leases)	Tax Rate
Less than \$55,000	7%
\$55,000—\$55,999.99	8%
\$56,000—\$56,999.99	9%
\$57,000 and over	10%

The new thresholds apply to all passenger vehicles purchased on or after February 22, 2006, even if the agreement to purchase was entered into, but not completed, prior to that date. For leased passenger vehicles, the new vehicle surtax thresholds apply to the first lease payment due on or after February 22, 2006.

**More Info:** [Bulletin SST 042](#), *Motor Vehicle Dealers*; [Bulletin SST 103](#), *Lessors of Motor Vehicles and Trailers*

## Production Machinery and Equipment Exemption Expanded and Clarified

The exemption for production machinery and equipment (PM&E) purchased by manufacturers and other eligible persons is expanded to include manufacturing services provided to manufacturers. Businesses that use machinery and equipment more than 50% of the time to provide services to qualifying manufacturers are eligible for the PM&E exemption provided that the service qualifies as manufacturing in its own right.

### Parts exemption expanded

The exemption for pre-manufactured parts to repair and maintain exempt machinery and equipment is expanded. Parts purchased or leased by qualifying manufacturers to assemble qualifying machinery or equipment are exempt from tax. Materials remain subject to tax.

### Definition of manufacture clarified

Manufacture is clarified to include the:

- fabrication or manufacture of tangible personal property to create a new product substantially different from the material or property from which it was made;
- processing tangible personal property by performing a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the tangible personal property; and
- extraction or processing of minerals, petroleum or natural gas.

But it does not include the:

- transformation of tangible personal property from a gaseous, liquid or solid state to another one of those states by means of a change in temperature or pressure, unless the transformation is one step in, or occurs immediately after, a qualifying activity.

## Office equipment exclusion

The exemption is clarified retroactive to July 31, 2001, to explicitly exclude office equipment. Typical office equipment, for example, photocopy machines and fax machines used for your own business purposes, do not qualify for the exemption. However, copying and duplicating equipment used directly to produce copies for resale continue to qualify for the exemption.

**More Info:** [Bulletin SST 054](#), *Manufacturers*

## Software

### Custom Software as Part of a Business

Effective February 22, 2006, the purchase of custom software or custom modified software is exempt from tax when purchased as part of a business as a going concern. For the exemption to apply, the seller must not retain any rights or interests in the software being transferred. The exemption applies when the entire business or a business line is sold.

### Services Exemption

Effective February 22, 2006, services provided to software are exempt from tax. Previously, services such as installing, configuring, repairing, restoring or providing corrective action to software including eradicating viruses were subject to tax. Now, all services provided to software are exempt.

Tax continues to apply to the purchase of computer hardware and software, including software updates, unless the software qualifies as custom or custom modified software.

## HOTEL ROOM TAX ACT

### Continuous Stay Exemption Expanded

Effective February 22, 2006, lodging let to the same person for a continuous period of more than one month is now exempt from tax. Previously this exemption required a two-month stay before coming into effect.

### Low-cost Lodging Exemption Threshold Increased

Lodging for which the charge is \$30 or less per day, or \$210 or less per week, is now exempt from tax.

Previously the threshold for this exemption was \$20 per day or \$140 per week.

**More Info:** [Bulletin HRT 006](#), *Your Responsibilities as a Registered Operator*

## MOTOR FUEL TAX ACT

### Coloured Fuel Use Expanded

Authorized uses of coloured fuel are expanded to include all unlicensed motor vehicles not used on a highway. This includes such vehicles as unlicensed ATVs, snowmobiles and dump trucks and other trucks used to haul aggregates.

**More Info:**  
[www.sbr.gov.bc.ca/ctb/ColouredFuel.htm](http://www.sbr.gov.bc.ca/ctb/ColouredFuel.htm)

### Refunds Expanded for Clear Fuel used in Stationary Engines

The types of motor vehicles that are eligible to receive refunds for the difference between the clear and coloured fuel tax rates while stationary are expanded to include those operating for the purpose of:

- pumping or dispensing liquids or other materials to or from a commercial motor vehicle, which does not include the use of a hydraulic arm (unless on a logging truck), or a hydraulic cylinder;
- operating a drilling unit that is operated by a power take-off unit; and
- operating temperature control equipment to preserve goods in an insulated cargo box on a commercial motor vehicle.

**More Info:**  
[www.sbr.gov.bc.ca/ctb/ColouredFuel.htm](http://www.sbr.gov.bc.ca/ctb/ColouredFuel.htm)

### Taxation of 100% Biodiesel

The definitions of “marine diesel fuel” and “motive fuel” are amended to clarify that 100% biodiesel fuel is considered diesel fuel, not gasoline.

The taxation of biodiesel blends is unchanged. The biodiesel portion of a blend containing 5% to 50% biodiesel remains exempt as an alternative motor fuel when used in motor vehicles. In all other cases biodiesel blends are taxed as diesel fuel.

**More Info:** [Bulletin MFT 005](#), *Tax Rates on Motor Fuels*

## INCOME AND CORPORATE TAXES

### INCOME TAX ACT

#### BC Mining Flow-Through Share Tax Credit

The BC Mining Flow-through Share Tax Credit program allows individuals who invest in flow-through shares to claim a non-refundable tax credit equal to 20% of their BC flow-through mining expenditures.

BC flow-through mining expenditures are specific exploration expenses that are incurred after July 30, 2001 and before January 1, 2006 and renounced by the corporation issuing the flow-through shares. The expiry date will be extended for another three years to December 31, 2008.

This extension also applies to the definition of excluded expense for the purposes of the Mining Exploration Tax Credit.

**More Info:** [www.sbr.gov.bc.ca/itb/mfts/mfts.htm](http://www.sbr.gov.bc.ca/itb/mfts/mfts.htm)

#### Film and Television Tax Credit

The Film and Television tax credit currently provides a 20% refundable basic tax credit for BC-controlled film production corporations. The corporation may also claim an additional credit equal to 10% (for a total of 30%) of the corporation's qualified BC labour expenditure if:

- principal photography of the production begins after December 31, 2004 and before April 1, 2006, and
- the BC labour expenditure is incurred after December 31, 2004.

The additional credit is extended where principal photography of the production begins before April 1, 2008.

**More Info:** [www.sbr.gov.bc.ca/itb/filmcred/film.htm](http://www.sbr.gov.bc.ca/itb/filmcred/film.htm)

#### Medical Expense Tax Credit

Effective for 2005 and subsequent years, taxpayers may claim up to \$10,000 of the medical expenses that they incur on behalf of dependant relatives. The amendment to the medical expense credit parallels a similar one proposed to the federal medical expense tax credit for 2005.

#### Production Services Tax Credit

The Production Services tax credit currently provides an 11% refundable tax credit for non BC-controlled film production corporations and service providers. The corporation may also claim an additional credit equal to 7% (for a total of 18%) of the corporation's accredited qualified BC labour expenditure if:

- principal photography of the production begins after December 31, 2004 and before April 1, 2006, and
- the accredited BC labour expenditure is incurred after December 31, 2004.

The additional credit is extended where principal photography of the production begins before June 1, 2008.

**More Info:** [www.sbr.gov.bc.ca/itb/prodserv/prod.htm](http://www.sbr.gov.bc.ca/itb/prodserv/prod.htm)

### OTHER CHANGES TO THE INCOME TAX ACT

The *Income Tax Act* is amended to clarify that a taxpayer is not eligible for a time extension to claim the following tax credits under the *Income Tax Act*. The respective tax credits and the time limits for making a claim are:

- BC Mining Flow-through Share tax credit – one year after the individual's filing due date
- British Columbia Scientific Research and Experimental Development tax credit – 18 months after the corporation's year end
- British Columbia Manufacturing and Processing tax credit – 18 months after the corporation's year end
- Book Publishing tax credit – 18 months after the corporation's year end
- Mining Exploration tax credit – 36 months after the taxpayer's year end
- Film and Television and Production Services tax credits – 36 months after the corporation's year end

## **INTERNATIONAL FINANCIAL ACTIVITY ACT**

The calculation of income used to determine the tax refund under the *International Financial Activity Act* currently must be reduced by an adjusted interest amount. This adjustment is repealed retroactive to September 1, 2004, the commencement of the Act.

**More Info:** [www.sbr.gov.bc.ca/itb/ifa/ifa.htm](http://www.sbr.gov.bc.ca/itb/ifa/ifa.htm)

## **PROPERTY TAXES**

### **HOME OWNER GRANT ACT**

#### **Home Owner Grant Increased**

Effective for the 2006 tax year, the basic home owner grant increases to \$570 from \$470 and the additional grant increases to \$845 from \$745.

#### **Threshold Value Increased**

The phase out threshold of the home owner grant increases to \$780,000 from \$685,000. The grant phase out rate continues at \$5 per \$1000 of assessed value above the threshold.

A partial grant will apply to properties valued between \$780,000 and \$894,000. For seniors and other home owners receiving the additional grant, a partial grant will be available for properties valued up to \$949,000.

**More Info:** Property Taxation Branch at 250 356-8904 or 1 888 355-2700.

#### **Home Modification Grant for Disabled Expanded**

Effective January 1, 2006, applicants who purchase a home that has been modified for use by a disabled person will also receive the additional \$275 grant available to home owners with a permanent disability, or those living with a relative or spouse with a permanent disability. To qualify, the modifications must meet the needs of their disability and have a value that exceeds \$2000.

### **PROPERTY TRANSFER TAX**

#### **Family Farm Corporation Definition Clarified**

The definition of a "family farm corporation" is clarified. A family farm corporation is a corporation of which the principal activity is farming farm land and no shareholder is a corporation.

#### **Exemption for Amalgamations Expanded**

Transfer registrations received by the Land Title office on or after February 22, 2006, resulting from the amalgamation of two or more British Columbia societies under section 17 of the *Society Act* are exempt from property transfer tax. At the request of the administrator, the new society must provide a certificate of incorporation respecting the amalgamation.

This exemption parallels existing exemptions for registrations of transfers resulting from the amalgamation of two or more corporations under the *Business Corporations Act* and similar federal and provincial statutes.

#### **Property Transfer Tax Refund**

The refund provision for property transfer tax and PST has been clarified.

Effective, February 22, 2006, where both property transfer tax and PST have been paid with respect to the same taxable transaction, a refund of the property transfer tax is available.

## **Exemption for Transfers to Public Guardian on Behalf of Minors Clarified**

The exemption for transfers to the Public Guardian and Trustee (PGT) on behalf of a minor is amended. The amendment clarifies that the transfer of a recreational residence or a family farm from the estate of a deceased is exempt where the minor is a related individual of the deceased.

## **SCHOOL ACT**

### **Residential School Property Tax Rates**

A separate residential tax rate is set for each school district according to the province's residential school tax rate formula, which has been used since 1991. That formula automatically reduces tax rates as the average property value rises. For 2006, the average residential school property tax payable before home owner grant will increase by 2%, the 2005 provincial rate of inflation.

Residential school property tax rates will be set in April when revised assessment roll data are available.

Non-residential school property tax rates will be adjusted so that the change in total non-residential school property tax revenue will be limited to inflation plus new construction.

## **TAXATION (RURAL AREA) ACT**

### **Provincial Rural Property Rates**

A single provincial rural residential tax rate applies province wide. For the 2006 tax year, the provincial rural residential rate will fall in response to rising average assessed values. Average residential provincial rural area taxes will increase by the provincial inflation rate.

Non-residential provincial rural tax rates will be adjusted so that the change in total non-residential rural area tax revenue will be limited to inflation plus new construction.

## **MISCELLANEOUS**

### **Mineral Tax Act**

#### **Determination of Gross Revenues**

Effective January 1, 2006, the Act is amended to clarify the determination of gross revenues from mining operations. The clarification ensures that tax applies to the full selling price of the minerals in cases where two or more related persons operate a mine.

**More Info:** [www.sbr.gov.bc.ca/mog/mineral\\_tax/mineral\\_tax\\_handbook.htm](http://www.sbr.gov.bc.ca/mog/mineral_tax/mineral_tax_handbook.htm)

### **NEED MORE INFO?**

**This bulletin is provided for convenience and guidance. If interpretation problems occur, please refer to the legislation.**

#### **Consumer Taxes:**

**In Vancouver, call 604 660-4524.**

**Elsewhere in Canada, call toll-free  
1 877 388-4440**

**Income Tax and International Financial  
Activity: 250 387-3332**

**Mineral Tax:  
250 952-0192**

**Property Transfer Tax:  
250 387-0604**

**Other Real Property Taxes:  
250 387-0555**