## Spilker, Robyn FIN:EX

| | |
|---|---|
| **Subject:** | Meeting w/Lindsey Tedds |
| **Location:** | s.15 |
| **Start:** | Fri 2018-01-19 8:00 AM |
| **End:** | Fri 2018-01-19 8:40 AM |
| **Recurrence:** | (none) |
| **Organizer:** | MINCAL, FIN FIN:EX |
| **Categories:** | Gov |

Heidi – Dec 21

# MSP Task Force
# MEETING AGENDA

**Date: November 7, 2017**
**Location: Conference call** s.17
**Time: 2:00pm – 3:00pm PST**

**Commission Members:**
- Lindsay Tedds (Chair)
- Paul Ramsey
- David Duff

**Secretariat Members:**
- Richard Purnell
- Dan Perrin

## Agenda Items:

1.0 Introductions — All

2.0 Roles and Responsibilities — All
- Task Force
- Secretariat

3.0 Terms of Reference — All
- Purpose of the Task Force/constraints of the Terms of Reference

4.0 Calendar — All
- Schedule of meetings
  - Task Force availability
  - First in person: when and where
  - Public consultations

5.0 Discuss next steps — All
- Objective of first in-person meeting
  - Outline
  - Detailed briefings
    - History of MSP premiums
    - Overview of current premium structure
    - Discussion of available analytical models
    - Summary statistics (MSP premiums, PIT, CIT)
    - Overview of PIT, CIT systems
    - Other?
- Discuss paperwork
  - Conflict of interest, confidentiality, indemnity — Richard
  - Invoicing/expenses — Richard

# Medical Services Plan (MSP) Premiums Replacement Example

MSP Task Force

November, 2017

British Columbia

Ministry of Finance

Trusted financial and economic leadership for a prosperous province

## Eliminating MSP Premiums
## MSP Summary Statistics

| | Households | % of total | All people | % of total |
|---|---|---|---|---|
| **2017 MSP** | | | | |
| **Premium free** | 877,755 | 31% | 1,923,183 | 40% |
| **Premium Assistance** | 115,755 | 4% | 148,933 | 3% |
| **Full Premium** | 1,836,782 | 65% | 2,690,216 | 56% |
| **Totals** | **2,830,292** | **100%** | **4,762,332** | **100%** |

There are approximately 1.5 million British Columbians families who pay MSP premiums directly to the province(pay-direct accounts). The remainder families (1 million) pay through their employer/pension administrator or other group or don't pay premiums (300,000)

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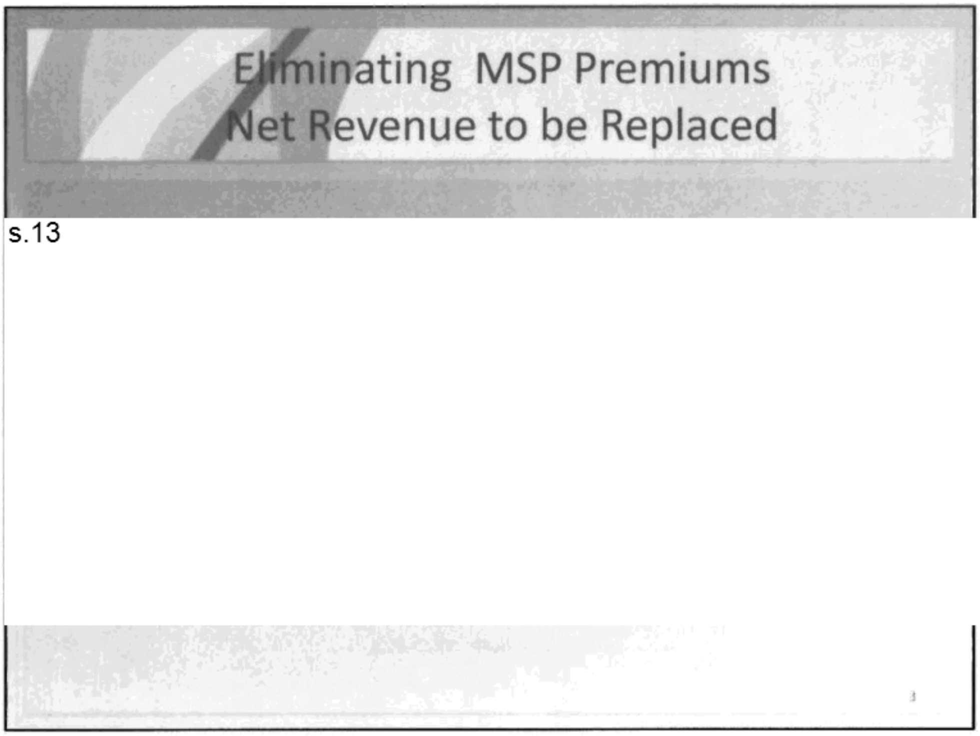
Note: Currently 39% of Pay Direct families qualify for PA and 1% of those on group, however based on changes in 2017 up to 43% of all families could qualify for PA in 2017.

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## MSP Premiums vs Personal Income Tax

| Structural Differences | MSP Premiums | Personal Income Tax |
|---|---|---|
| How are amounts determined? | **Households** pay premiums | **Individuals** pay tax |
| Who administers? | Province | Canada Revenue Agency |
| How is revenue collected ? | Monthly premiums paid by **Households** or Group Administrators | Deducted from wages/pensions or tax instalments |
| Rates | Reduction for low income households on application only | Graduated rates and tax brackets automatically built into income tax systems |
| Provincial Costs | High costs due to complexity of program and service provider contracts | No cost |

High costs estimated at $ 70 million in administration costs annually plus approximately $150 million in bad debt expense

The CRA administers income tax under the Tax Collection Agreement.

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# MSP – Revenue's after Changes ($millions)

| | Health Care Levy & 1.25% Payroll Tax |
|---|---|
| MSP Revenues (2016/17) | $2,255 |

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# OVERVIEW OF PROVINCIAL TAXES

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## *Income Taxes*

- The province levies income taxes on both individuals (personal income tax) and corporations (corporate income tax).

- In BC, corporate and personal income taxes are administered by the federal government under the BC-Canada Tax Collection Agreement. All provinces except Quebec have tax collection agreements with Canada for the administration of provincial personal income taxes and all provinces except Alberta and Quebec have tax collection agreements with Canada for the administration of provincial corporate income taxes.

- Under the Tax Collection Agreement, the federal government has sole responsibility for determining taxable income (i.e. income subject to tax and allowable deductions) and retains all interest and penalties and bears the full cost of tax collection including bad debts. The Province retains tax policy flexibility with the ability to set tax rates, brackets and provide tax credits. The benefits of the Tax Collection Agreement for British Columbians are a savings in tax collection costs and the fact that taxpayers need only file one income tax return each year.

- There are two main types of income tax credits. A non-refundable tax credit is a credit that cannot reduce the amount of tax owed to less than zero. A refundable tax is not limited by the amount of an individual's or entity's tax liability and can result in a payment from government.

## Personal Income Tax

**Estimated Revenue for 2017/18:** $9,053 million

**Taxpayers:**
- ➢ BC population - 4.7M (as of 2016)
- ➢ Taxfilers – 3.6M (as of 2013)

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**Tax Base:** Similar to other provinces (except Quebec) BC automatically parallels the federal definition of taxable income.

- BC sets its own tax brackets and rates that are then applied to taxable income. The province also provides a number of non-refundable tax credits (i.e. non-refundable credit can be used to reduce the amount of tax that is payable) including the basic, spousal, age and disability credits. The following table shows the 2016 tax brackets and rates applicable to individuals.

| **Taxable Income – 2017 Brackets** | **Tax Rate** |
|---|---|
| $0 to $38,898 | 5.06% |
| $38,898.01 to $77,797 | 7.70% |
| $77,797.01 to $89,320 | 10.50% |
| $89,320.01 to $108,461 | 12.29% |
| Over $108,461 | 14.70% |

*New rate of 16.8% for income over $150,000 effective 2018

- BC's tax rates are low compared to most other provinces: BC individuals earning up to about $125,000 pay the least amount of provincial tax of the provinces. However, some provinces have certain non-refundable and refundable credits that may result in lower taxes in other provinces for some families.

- BC also provides a number of credits for individuals as incentive programs such as the Training Tax Credit for apprentices, mining flow-through shares, mining exploration and credits for equity capital investments (e.g., small business venture capital tax credit).

- The province also provides a number of benefit programs for individuals. Benefit programs are administered as refundable tax credits targeted to low and modest income individuals and families. These programs are administered by the Canada Revenue Agency and paid by cheque or direct deposit either monthly or quarterly. The province's benefit programs are shown in the following table.

| Personal Income Tax Program | | Estimated Cost 2015/16 ($ millions) |
|---|---|---|
| **BC Early Childhood Tax Benefit s** | Paid to families with children under age six to improve the affordability of childcare and assist with the costs of raising young children. | 137 |
| **BC Low Income Climate Action Tax Credit** | Paid to help offset carbon taxes payable. | 192 |
| **BC Sales Tax Credit** | Paid to help offset a portion of BC's PST. | 54 |

## Corporate Income Tax

**Estimated Revenue for 2017/18:** $4,303 million

**Taxpayers:** Corporations with income earned in the province.

**Tax Base:** Federally defined corporate taxable income allocated to BC.

- For large corporations BC applies a single tax rate to federally determined corporate taxable income. BC's legislated tax rate for corporations is 11 per cent.
- BC also has a small business corporate income tax rate of 2.5 per cent. The corporate income tax small business rate applies to the first $500,000 of active business income (e.g. does not include investment income) of a Canadian-controlled private corporation.

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| | Estimated cost 2015/16 ($millions) |
|---|---|

| | |
|---|---|
| Training Tax Credit for Employers (including the Shipbuilding and Ship Repair Industry Tax Credit) | 5 |
| Scientific Research and Experimental Development Tax Credit | 131 |
| Film and Television Tax Credits (domestic and foreign Production Services Tax Credit after removal of prior period adjustment) | 491 |
| Interactive Digital Media Tax Credit | 33 |
| Mining Exploration Tax Credit | 1 |

- BC also provides tax refunds of BC corporate income tax paid by qualifying international businesses operating in BC through the International Business Activity Program. The cost of this program in 2015/16 is estimated at $20 million.

## Logging Tax

**Estimated Revenue for 2015/16:** $45 million

**Taxpayers:** Individuals and corporations

**Tax Base:** Net income derived from logging operations within the province

- The *Logging Tax Act* imposes a 10% tax on individuals and corporations that have net income derived from logging operations within the province.
- Logging operations include the following:
  - the sale of logs or standing timber
  - the sale of the right to cut standing timber
  - the sale of primary and secondary forest products produced from logs, such as lumber, pulp and paper, shakes, etc.
  - the export of logs
- Logging tax is usually fully deductible as a credit against federal and BC income taxes paid.

## *Wealth Taxes*

## Capital Tax - not in force

- In 1992, BC introduced a general corporation capital tax.
- In July 2001, the province announced it would eliminate the capital tax for general corporations by phasing it out by September 2002.
- The capital tax for financial institutions remained at 3 per cent of paid-up capital for large financial institutions and 1 per cent for both small financial institutions and institutions with head offices in BC. This tax raised about $110 million annually from 90 financial institutions, of which the seven large banks paid about $82 million.
- In 2008, in response to a federal offer for financial compensation to provinces that eliminate their capital taxes, BC announced it would eliminate the capital tax for financial institutions over a three year period and replace it with a minimum tax for financial institutions effective April 1, 2010.
- However, the BC minimum tax for financial institutions was not brought into force. s.13
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- Currently, no Canadian provinces levy a capital tax on general, non-financial institutions. BC, Alberta, Ontario and Quebec do not levy any type of capital tax, while other provinces continue to levy a capital tax on financial institutions.

## Property Taxes

- The province has nine property classes. Rates are set for each class. The nine classes are: residential; utilities; supportive housing; major industry; light industry; business/other; managed forest; recreational/non-profit; and farm.
- There are three provincial property taxes: the school tax; the rural area property tax and the police tax.
- The school tax applies everywhere in the province including within municipalities. Residential school tax is partially offset by the home owner grant (HOG). School tax revenue goes into general revenue, not to school districts.
- Rural area property taxes apply outside municipalities. This is the rural equivalent of municipal taxes.
- Police tax applies in rural areas and in municipalities with population less than 5,000. Police tax contributes to the cost of policing and the amount paid by a property owner is independent of the police services consumed by that owner.
- Other authorities (mostly **municipalities**) also levy property tax. Municipal taxes are about one half of total property taxes. Other taxing authorities include regional districts, hospital districts, BC Assessment and TransLink.
- Indian bands may levy property tax on reserve using federal authority, in which case the province and its taxing authorities vacate the tax room.

**Estimated Revenue for 2016/17:**

| | |
|---|---|
| School Tax – Residential before HOG: | $1,607 million ($782 million after HOG) |
| School tax- Non-residential: | $1,211 million |
| Rural Area Tax: | $97 million |
| Police Tax: | $36 million |

**Taxpayers:**

- Owners of real property, and occupiers of property in cases where the owner is exempt. Residential taxpayers pay just under half of total property taxes.

**Tax Base:**

- The tax base is the value of real property (as opposed to personal property), which includes land and improvements, but not machinery and equipment.
- Property in most classes is assessed at fair market value.

**Tax Rates:**

- Tax rates are expressed as dollars of tax per thousand dollars of assessment ($/$1000), not as percentages. Each taxing authority has its own rates.

- The province and municipalities can set different tax rates for each property class. Regional districts set a revenue target and the rates used to generate that target are determined by formula.

- Non-residential school tax rates for each class are the same across the province. Residential school tax rates differ by school district and are set using a formula that dampens the effect of differences in local property valuations.

**Comparison to Other Provinces:**

- Inter-provincial comparisons of property taxes are difficult because property tax systems vary widely, in part because the role of local governments in property tax differs and because of differences in property classification and assessment.

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**Administration:**

- Municipalities collect taxes for the province and other taxing authorities within their boundaries. The Property Taxation Branch of the Revenue Programs Division in the Ministry of Finance collects taxes outside municipalities.

- Provincial property tax rates must be set by regulation before May 4 of each year. The policy to guide the rates is announced in the budget.

- BC Assessment is an independent Crown corporation that determines the classification and valuation of properties according to the *Assessment Act*, which is the responsibility of the Minister of Community, Sport and Cultural Development.

**Associated Programs:**

- The **Home Owner Grant** (HOG) offsets property taxes on an owner's principal residence after a minimum level of tax has been paid. A larger grant is available to eligible seniors and some people with disabilities. HOG is expected to cost $825 million in 2016/17, leaving net residential school tax revenues of $782 million.

- **The Property Tax Deferment Program** allows eligible persons over age 55 to defer payment of property taxes, essentially taking out a loan against their equity at favourable terms and interest rates. In 2010, the program was expanded to allow families with children to defer, and in 2013 to allow families with adult children who are disabled or who are enrolled in an educational institution to defer.

- **School tax credits** to reduce school taxes payable by industrial and farm property owners have been introduced as carbon tax recycling measures. The industrial credit reduces major industrial school property taxes by 60 percent and the farm credit reduces farm school taxes by 50 percent. The benefit of the school tax credit for light industry property class was halved to 30% in 2013 and removed entirely in 2014.

## Property Transfer Tax

**Estimated Revenue for 2016/2017:** $1,239 million

**Taxpayers:**

- Property transfer tax is a registration tax payable whenever an interest in property is transferred and registered in the land title system. The tax applies to the transfer of fee simple interests and long-term leases.

- The purchaser/transferee pays the tax.

**Tax Base:**

- The fair market value of the property, **not the purchase price**, is generally the base for the tax, although the purchase price is often the same as the fair market value. An exception occurs for pre-sold condominiums.

- Some exemptions apply, including the First Time Home Buyer's Program, and exemptions for transfers of certain types of properties (e.g. principal residences, family farms) between related individuals, and transfers to local governments. There are many technical exemptions to avoid double taxation.

**Tax Rates:**

- The tax rate is
  - 1% on the first $200,000,
  - 2% on the portion of the fair market value greater than $200,000 and up to and including $2,000,000, and
  - 3% on the portion of the fair market value greater than $2,000,000.

**Comparison to Other Provinces:**

- Manitoba, Prince Edward Island, New Brunswick and Ontario have a land transfer tax similar to the PTT. Toronto has a land transfer tax in addition to the Ontario tax. BC's PTT is comparable but slightly higher than Ontario's and Manitoba's land transfer taxes and significantly higher than the tax in Prince Edward Island and New Brunswick. Toronto's land transfer tax is by far the highest in Canada.

**Administration:**

- The tax is payable at the time an application for registration is made at the Land Title Office.

**First Time Home Buyer's Exemption:**

- The First Time Home Buyer's Program is an exemption for first time buyers of a principal residence if the fair market value of the property is below $475,000.

- The program cost about $99 million in 2015/16.

## Probate Fees

- The *Probate Fee Act* came into force in 1999 (and was made retroactive to April 11, 1988) as a result of a 1998 Supreme Court of Canada case that found probate fees were unconstitutional. The court found the "fee" was not in fact a fee but a tax, and as such legislation was required to constitutionally levy the change.

**Estimated Revenue for 2016/17:** $55 million

**Taxpayers:** Upon death:

- BC residents, and
- Non-residents who own real or tangible personal property in BC.

**Tax Base:**

- Legislatively, probate fees apply to the "gross" value of the deceased's estate that passes to the personal representative upon death (excludes many assets that do not pass to an executor such as life insurance policies, jointly owned property, RRSPs, etc).
  - BC residents are subject to probate on both real and tangible personal property situated in BC and on intangible personal property.
  - Non-residents are subject to probate on their real and tangible personal property that is situated in BC.
- Administratively, net rather than gross values of certain assets such as houses have been used as the tax base.
- Probate fees are equal to the total of:
  - $0 on the first $25,000 of the value of the estate; plus
  - $6 for every $1,000 (or part of $1,000) of the value of the estate between $25,000 and $50,000; plus
  - $14 for every $1,000 (or part of $1,000) of the value of the estate over $50,000.
- For example, for an estate valued at:

| | | | | |
|---|---|---|---|---|
| $40,500 : | The first $25,000 | = | | $0 |
| | The next $15,000 ($15,000 x 0.6%) | = | $90 | |
| | The next $500 ($1,000 x 0.6%) | = | $6 | |
| | | | | **$96 total** |
| $70,200: | The first $25,000 | = | | $0 |
| | The next $25,000 ($25,000 x 0.6%) | = | $150 | |
| | The next $20,000 ($20,000 x 1.4%) | = | $280 | |
| | The next $200 ($1,000 x 1.4%) | = | $14 | |
| | | | | **$444 total** |

**Comparison to Other Provinces:**

- All other provinces have probate fees.

**Administration:**

- Probate fees are payable when an application for probate is made to the courts.

## *Consumption Taxes*

## Carbon Tax

- Implemented in 2008, the carbon tax puts a price on carbon:
    - to encourage individuals and businesses to use less fuel and reduce their greenhouse gas emissions
    - to send a consistent price signal
    - to ensure those who produce emissions pay for them, and
    - to make clean energy alternatives more economically attractive.

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- The carbon tax is designed to tax emissions created in British Columbia. It does not apply to exports because it is the responsibility of each jurisdiction to impose a price on emissions within its territory to address climate change. It does not apply to international emissions because international emissions require international solutions.

**Estimated Revenues 2016/17:** $1,234 million

**Estimated cost of recycling measures 2016/17** $1,733 million
($499 million over recycled).

**Taxpayers:**

- Purchasers and users of fuels
- Users of combustibles (i.e. tires and peat) when burned for heat or energy

**Tax Base:**

- The carbon tax is designed to tax
    - the purchase and use of fuel or
    - the use of combustibles when burned for heat or energy

  based on the $CO_2$ equivalent[1] ($CO_2e$) emissions the combustion of the fuels or combustibles. The *Carbon Tax Act* does this by imposing tax on fuels and combustibles at appropriate rates based on the emissions of each fuel type or combustible; most emission factors are from the federal National Inventory Report released in 2007 and 2008.

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1 Carbon dioxide equivalent ($CO_2e$) is a common unit of measurement used to compare the relative climate impact or global warming potential of different greenhouse gasses. Global warming potential is a relative measure of how much heat a greenhouse gas traps in the atmosphere. It compares the amount of heat trapped by a certain mass of the gas in question to the amount of heat trapped by a similar mass of carbon dioxide. Greenhouse gasses include carbon dioxide, methane, nitrous oxide and perfluorocarbons.)

- The tax applies to the:
  - Purchase and use of fuel within British Columbia (including gasoline, diesel, natural gas, coal)
  - Use of combustibles (tires and peat) when burned as a source of energy or heat within British Columbia.

- The tax does not apply to
  - Biomass and methanol from biomass
  - Wood and wood waste
  - Biomethane (subject to the blends rule)
  - Hydrogen

- As of 2012, the carbon tax applies to approximately 70% of total emissions in British Columbia. The following sources of emissions are from activities are not taxable under the carbon tax:
  - Fugitive sources (8%)
    - Fugitive emissions are emissions due to leaks and other unintended or irregular release of gases.
  - Industrial processes (5%)
    - Industrial process emissions are emissions that are produced from industrial activities that chemically or physically transform materials, and are not related to the use of fuels.
  - Agriculture (4%)
    - Agriculture emissions are emissions produced from cultivation of crops and livestock that are not related to the use of fuels.
  - Waste (8%)
    - Waste emissions are emissions produced from solid waste disposal on land, wastewater handling and waste incineration.
  - Afforestation and deforestation (5%)

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- Personal tax measures:
  - Low Income Climate Action Tax Credit,
  - Reduction of 5% in the first two personal income tax rates,
  - Northern and Rural Homeowner Benefit of up to $200, provided through a larger homeowner grant in some areas of the province,
  - BC Seniors Home Renovation Tax Credit,
  - Children's Fitness Credit and Children's Arts Credit,
  - An increase in the budget for the small business venture capital tax credit, and
  - Extension of training tax credits for individuals.

- Business tax measures:
    - Reduction in general corporate income tax rates,
    - Reduction in small business corporate income tax rates,
    - Increase in the corporate income tax small business threshold,
    - Industrial school property tax credit for major industry,
    - Reduction in school property tax for farm land,
    - Interactive digital media tax credit,
    - Extension of the training tax credit for businesses,
    - Extension of the Scientific Research and Experimental Development Tax Credit,
    - Continuation of the Film Incentive BC tax credit and
    - Extension and enhancement of the Production Services Tax Credit.

- Exemptions from carbon tax generally fall into four main categories:

    - Fuel use results in international / interjurisdictional emissions including:
        - Fuel exported for use outside of British Columbia
        - Fuel used in interjurisdictional flights by commercial air services
        - Fuel used for interjurisdictional trips by commercial marine services.

    Note: Fuel use that results in international / Interjurisdictional emissions is exempt because the carbon tax is intended only to tax domestic emissions.

    - Specific uses of fuel where the fuel is not combustion during use:
    (all purchases and uses of fuel are taxable unless specifically exempt – if fuel purchased for non-combustion use and that use is not specifically exempt, purchase is taxable, e.g. diesel purchased to be used in concrete forms)
        - Fuel not combusted when used as a raw material
        - Fuel not combusted when used for <u>specified</u> industrial uses

    - Administrative feasibility, including
        - Fuel in small containers (impractical to tax)
        - Fuel brought into British Columbia in the supply tank of most vehicles (would be problematic to administer)
        - Fuel purchased or used by carriers licensed under the International Fuel Tax Agreement (IFTA) (Note: for licensed carriers, the carbon tax is incorporated into the *Motor Fuel Tax Act* to comply with IFTA requirements, so these users pay a tax under the *Motor Fuel Tax Act* that is the is the sum of the carbon tax and the motor fuel tax.)

    - Legal constraints, including
        - First Nations on Reserves
        - Diplomats
        - Visiting Forces

- With Budget 2013, because agriculture has a unique place in British Columbia, the government provided an exemption effective January 1, 2014 for coloured gasoline and coloured diesel fuel purchased by farmers for farm purposes.

**Tax Rates:**
- The tax rates were introduced at the equivalent of $10 per tonne *of* $CO_2$e and phased in over 5 years.
- The tax rates are generally equivalent to $30 per tonne of $CO_2$e as of July 1, 2012.

- Specific tax rates include:
  - Gasoline – 6.67 cents per litre (95% of \$30 per tonne due to RFLCRR)
  - Light fuel oil – 7.67 cents per litre (95% of \$30 per tonne due to RFLCRR)
  - Natural gas – 5.70 cents per cubic metre
  - Propane – 4.62 cents per litre
  - High heat value coal – 62.31 dollars per tonne
  - Low heat value coal – 53.31 dollars per tonne
  - Shredded tires – 71.73 dollars per tonne

**Administration:**

- The *Carbon Tax Act* has a security scheme. There is a similar scheme for motor fuel tax.

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**Relief Measures provided outside the Carbon Tax**

- Outside the scope of the carbon tax, there have been a number of measures implemented to offset the impact of the carbon tax:
  - Local governments and Boards of Education that sign on to the Climate Action Charter (a commitment to make their operations carbon neutral), amongst other criteria, are eligible for the Climate Action Revenue Incentive Program that provides funding equivalent to 100 per cent of the carbon tax they pay directly.
  - Commercial greenhouse growers that meet certain criteria are eligible for a grant to partially offset the carbon tax they pay.
  - BC cement producers who meet or beat new emissions intensity benchmarks will be eligible for grants of \$27 million over 5 years to provide an incentive for fuel switching.

**Inter-provincial comparison:**

- Alberta in Budget 2016 announced a carbon tax for 2017; it will not be revenue neutral.

  Quebec has joined cap and trade with California and as of 2015 includes fuel distributors in the province.

- Ontario announced in 2015 that it would be moving forward with a cap and trade system under the Western Climate Initiative with Quebec

- Manitoba levies a \$10 per tonne of $CO_2e$ tax on coal used by individuals or businesses that purchase more than one tonne for use in the province in a calendar year.

## Provincial Sales Tax

- The provincial sales tax (PST) under the *Provincial Sales Tax Act* was re-implemented effective April 1, 2013 and the harmonized sales tax (HST) was eliminated.

**Estimated Revenues 2016/17:** $6,296 million

**Taxpayers:**

- The PST is a retail sales tax

**Tax Base:**

The PST generally applies to:

- The purchase or lease of new and used tangible personal property (goods) in British Columbia;
- Goods brought, sent or delivered into British Columbia for use in British Columbia;
- The purchase of
  - software,
  - related services, (i.e. services provided to taxable goods or provided to install taxable goods such as repair and maintenance services),
  - accommodation, (i.e. short term accommodation such as at hotels),
  - legal services, and
  - telecommunication services (e.g. telephone, cable TV, internet access and certain digital content)
- Gifts of vehicles, boats and aircraft.

**Exemptions/ Refunds**

- Many goods and most services are **not** subject to PST.
- There are PST exemptions and refunds targeted at consumers and PST exemptions targeted at business. There are exemptions and refunds throughout the *Provincial Sales Tax Act* and in the 149 page Provincial Sales Tax Exemption and Refund Regulation.
- Major consumer exemptions include, but are not limited to:
  - Food for human consumption (all food including prepared food)
  - Residential energy
  - Children's clothing and footwear(child-sized clothing and adult-sized clothing for children under 15 years of age)
  - Basic cable and residential land-line telephone services
  - Vitamins, drugs, and household medical aids

- Major business exemptions include, but are not limited to:
  - Goods acquired solely for re-sale or re-lease
  - Goods purchased to be incorporated into goods for sale or lease
  - Certain production machinery and equipment purchased by major industries (manufacturers, logging, mining, oil and gas) for qualifying activities at qualifying locations.

- Some exemptions and refunds are for certain goods and services obtained by anyone for any purpose (e.g., bikes),

- Some exemptions are for certain goods and services obtained by anyone for only certain purposes (e.g., fabric for use in making and replacing clothing).

- Some exemptions and refunds for all goods and services obtained by certain persons for any purpose (e.g., diplomats), and

- Some exemptions and refunds for certain goods and services obtained by certain persons but only when for certain purposes (e.g., production of machinery and equipment).

**Tax Rates:**

- General rate: 7 per cent of the purchase or lease price;
- Liquor: 10 per cent of the purchase price;
- Accommodation: 8 per cent of the purchase price;
- Vehicles: 7 per cent to 12 per cent of the purchase or lease price (including the surtax for passenger vehicles valued at $55,000 or more), or 7 per cent or 12 per cent of the fair market value if received as a gift;
- Boats and aircraft: 7 per cent or 12 per cent of the purchase or lease price or fair market value if received as a gift;
- Goods, other than vehicles, boats and aircraft, brought, sent or delivered into British Columbia and received as gifts in certain circumstances: 7 per cent of the fair market value;
- Manufactured modular homes: 7 per cent of 55 per cent of the purchase price, lease price or fair market value;
- Manufactured mobile homes: 7 per cent of 50 per cent of the purchase price, lease price or fair market value; and
- Portable buildings: 7 per cent of 45 per cent of the purchase price, lease price or fair market value.

The following taxes are also imposed under the *Provincial Sales Tax Act*:

- Passenger vehicle rental tax of $1.50 per day to raise revenue for the BC Transportation Financing Authority;
- Multijurisdictional vehicle tax (generally an annual tax) for interjurisdictional commercial carriers licensed to under prorate (operate in multiple jurisdictions) under the International Registration Plan;

- 0.4 per cent tax on the purchase price of certain energy products (other than electricity) to raise revenue for the Innovative Clean Energy Fund; and
- The up to 3 per cent municipal and regional district tax (MRDT) on accommodation that is levied by the government as agent for local governments, regional districts, and eligible entities such as tourism associations to raise revenues primarily for local tourism marketing, programs and projects. For the 2013/14 fiscal year, the MRDT raised approximately $28.8 million for the approximately 50 participating communities.

**Administration:**

- Businesses making taxable sales in British Columbia or, in certain circumstances, causing delivery of taxable goods into British Columbia must be registered, and are required to levy and remit PST to government on taxable sales.

- Registered businesses that collect and remit PST as required are entitled to commission of up to a maximum of $198 per month.

- Businesses and individuals who bring, send or receive taxable goods in BC from outside BC for use in the province are legally obligated to self-assess (i.e. pay government directly) the PST. PST will be collected on certain imports by the Canada Border Services Agency or Canada Post.

- All collectors and taxpayers are subject to audit s.13

s.13

**Inter-provincial Comparison**

- Other than BC, only Manitoba and Saskatchewan continue to have retail sales tax systems; all other provinces have harmonized valued added tax systems (Alberta is essentially harmonized with a tax rate of zero).

- Both Manitoba and Saskatchewan have much broader sales tax bases than British Columbia with far fewer exemptions for consumer goods.
  - Manitoba's tax base includes: certain prepared food and beverages, accounting services, architectural services, engineering services, security and private investigation services, certain personal services such as certain spa services, certain hair services, body modification services (e.g. tattooing and piercing) and tanning services.

  - Saskatchewan's tax base includes: computer services, credit reporting or collection services, dry cleaning or laundry services, real estate services, security or private investigation services, veterinary services, accounting services, advertising services, architectural services, commercial building cleaning services, employment placement services, and engineering services.

- As of February 3, 2016, the general provincial sales tax rates in other provinces are:
  - Alberta – zero
  - Saskatchewan – 5 per cent
  - Manitoba – 8 per cent
  - Ontario – 8 per cent (provincial portion of HST)
  - Quebec – 9.975 per cent (provincial portion of HST/QST)
  - New Brunswick – 8 per cent (provincial portion of HST)
  - Nova Scotia – 10 per cent (provincial portion of HST)
  - Prince Edward Island – 9 per cent (provincial portion of HST)
  - Newfoundland and Labrador – 8 per cent (provincial portion of HST)

- Many provinces have specific tax rates for specific goods and services in addition to their general sales tax rate, including:
  - Alberta has 4 per cent tax on short-term accommodation

  - Ontario has (separate from Ontario HST)
    - 8 per cent sales tax on certain insurance premiums
    - 13 per cent sales tax on private sales of vehicles, boats and aircraft

  - Quebec has
    - Specific per litre tax on alcoholic beverages
    - 5 or 9 per cent sales tax on insurance premiums

  - New Brunswick has (separate from NB HST) 13 per cent tax on private sales of vehicles, boats and aircraft

  - Nova Scotia has (separate from NS HST) 15 per cent tax on private sales of vehicles, boats and aircraft

  - Newfoundland and Labrador has (separate from NFLD HST) 13 Tax on private sales of vehicles, boats and aircraft

## Tax on Newly Built Housing - Transition from HST – not in force
## *New Housing Transition Tax and Rebate Act*

- Between April 2013 and April 2015 there were specific transitional measures for new housing help to ensure purchasers were treated equitably and smooth the transition from HST to PST.
- The new housing tax and rebate system was designed to help ensure that the amount of tax payable in respect of a new home during the transition, regardless of when construction begins, was comparable to the amount of tax payable in respect of a home fully constructed under the provincial sales tax regime (2 per cent).
- To help ensure there was no double taxation, eligible builders of newly constructed housing were able to claim a transition rebate if they pay PST on construction materials used in housing that was subject to the temporary housing transition tax.
- Builders were also required to disclose certain tax information to purchasers to help ensure that purchasers and builders had a shared understanding of the transitional rules and the tax payable.
- Tax and rebate was administered by the Canada Revenue Agency with the GST and rebates for new housing.

## Insurance Premium Tax

- The insurance premium tax is a tax on premiums under contracts that insure:
    - a person resident in BC
    - property located in BC

**Estimated Revenue 2016/17:** $520 million

**Taxpayers:**

- Insurance premium taxpayers are:
    - Taxable insurers (insurance businesses that ***provide*** insurance) ;
    - A trustee dealing with the property or business of a taxable insurer, or
    - A person who enters into an insurance contract with an insurer that is ***not*** a taxable insurer

- Note:
  Taxable Insurer includes:
    - a business authorized under the *Financial Institutions Act* to carry on an insurance business
    - companies registered under the *Insurance (Captive Company) Act,* and
    - certain purely mutual corporations

  An example of an insurer that is not a taxable insurer includes retail stores offering optional insurance such as extended warranties on products

**Tax Base:**

- Net taxable premiums for the year received or receivable by a taxable insurer under:
    - contracts of life, accident and sickness insurance and insurance that indemnifies or compensates for loss of salary or wages.
    - contracts of property insurance and automobile insurance, and
    - any other contracts of insurance of the taxable insurer.

- Premiums paid or payable under an insurance contract with an insurer other than a taxable insurer by a person resident in British Columbia

- In certain circumstances, premiums paid or payable under an insurance contract with an insurer other than a taxable insurer in respect of a risk related to a person resident in British Columbia, including without limitation, a risk to the property, employees, directors or officers of the person resident in British Columbia.

- Certain taxable insurers are exempt from taxation:
    - A fraternal benefit society and
    - A purely mutual corporation that earned 100% of its net premium income from the insurance of religious institutions, schools, or charitable organizations or that earned at least 50% of its net premium income from the insurance of farm property

- Certain premiums are also exempt from tax:
  - Received as consideration for an annuity contract,
  - From another taxable insurer under a contract of reinsurance,
  - Under a contract of marine insurance that is not pleasure craft insurance and
  - For medical services/health care under a medical services/health care plan.

**Tax Rates:**

- Life, accident and loss of wages – 2 per cent
- Property and automobile – 4.4 per cent
- All other insurance contracts – 4 per cent
- Tax rate on contracts of insurance with an insurer that is ***not*** a taxable insurer – 7 per cent

**Administration:**

- The tax is self-assessed by taxable insurers annually.
- The tax is self-assessed by other taxpayers within 30 days of the contract with an insurer that is ***not*** a taxable insurer.

**Inter-provincial Comparison:**

- All provinces impose an insurance premium tax. The tax rates range from 2 to 4.4 per cent with all provinces imposing lower rates on premiums for life, sickness and accident insurance and higher rates for property insurance, including automobile insurance.

- Ontario and Quebec also impose specific provincial sales taxes on insurance premiums, except those related to individual life and health insurance.

## Motor Fuel Tax

- The motor fuel tax applies to motor fuels (fuels used to generate power by means of an internal combustion engine, including stationary engines), hydrogen in certain circumstances and propane for all uses. s.13

s.13

**Estimated Revenue 2016/17:** $948 million

- Estimated revenue includes all provincial revenue including dedicated revenue for BC Transportation Financing Authority and BC Transit in the Capital Region District, but does not include dedicated tax imposed on behalf of TransLink in Metro Vancouver.

**Taxpayers:**

- Persons who purchase or use taxable fuels in British Columbia

**Tax Base:**

- Tax applies to the
  - Purchase or use of fuels to generate power by means of internal combustion engines including gasoline, diesel fuel (clear and coloured), jet fuel, natural gas and aviation fuel.
  - Purchase or use of hydrogen for use in a fuel cell vehicle, and
  - Purchase or use of propane for any use.
- Tax treatment of certain fuels depends on where purchased and how used:
  - Clear gasoline and diesel is taxed at a higher rate than coloured gasoline and diesel purchased for use in certain off-road vehicles, marine vessels and stationary engines.
  - Natural gas used in stationary internal combustion engines, including natural gas compressors or oil pumps, is exempt or subject to various tax rates according to use and location of the engine.
- Motor fuel taxes on clear gasoline and clear diesel are payable to TransLink and BC Transit for regional transportation purposes. The province acts as agent to collect and administer the tax on their behalf.

**Exemptions / Refunds**

- Coloured gasoline and diesel purchased by farmers for farm purposes is exempt.
- Jet fuel: Fuel used in an international flight is exempt provided that the flight does not make an intervening stop in Canada.
- Marine bunker fuel and marine gas oil are exempt.
- Alternative motor fuels (environmentally beneficial fuels) including natural gas and 85% methanol used as motor fuels are exempt.

**Tax Rates:**

| Clear Gasoline | In GVTA (metro Vancouver) | In Capital Regional District (CRD) | Rest of Province |
|---|---|---|---|
| TransLink | 17 cents per litre | 0 | 0 |
| BCTFA | 6.75 cents per litre | 6.75 cents per litre | 6.75 cents per litre |
| BC Transit (CRD) | 0 | 3.50 cents per litre | |

| | | | |
|---|---|---|---|
| Province | 1.75 cents per litre | 7.75 cents per litre | 7.75 cents per litre |
| Total | 25.5 cents per litre | 18 cents per litre | 14.5 cents per litre |
| **Clear Diesel** | | | |
| TransLink | 17 cents per litre | 0 | 0 |
| BCTFA | 6.75 cents per litre | 6.75 cents per litre | 6.75 cents per litre |
| BC Transit (CRD) | 0 | 3.50 cents per litre | 0 |
| Province | 2.25 cents per litre | 8.25 cents per litre | 8.25 cents per litre |
| Total | 26 cents per litre | 18.5 cents per litre | 15 cents per litre |
| **Coloured Fuel*** | | | |
| Province | 3 cents per litre | 3 cents per litre | 3 cents per litre |
| **Aviation/Jet fuel** | | | |
| **Propane** | | | |
| Province | 2.7 cents per litre | 2.7 cents per litre | 2.7 cents per litre |

*Gasoline and diesel that are coloured as required plus locomotive fuel and marine diesel are all taxed at 3 cents per litre.

**Administration:**

s.13

**Inter-provincial comparison:**

**Rates as of February 3 2016**

| Province | Clear Gasoline (cents per litre) | Clear Diesel (cents per litre) |
|---|---|---|
| **British Columbia – Metro Vancouver** | **32.17** (includes 6.75 cents per litre dedicated to BC Transportation Financing Authority, 17 cents per litre dedicated to Translink and 6.67 cents per litre carbon tax) | **33.67** (includes 6.75 cents per litre dedicated to BC Transportation Financing authority, 17 cents per litre dedicated to Translink and 6.67 cents per litre carbon tax) |
| **British Columbia – CRD** | **24.67** (includes 6.75 cents per litre dedicated to BC Transportation Financing Authority, 3.5 cents per litre dedicated to BC transit (Victoria) and 6.67 cents per litre carbon tax) | **26.17** (includes 6.75 cents per litre dedicated to BC Transportation Financing Authority, 3.5 cents per litre dedicated to BC transit (Victoria) and 6.67 cents per litre carbon tax) |
| **British Columbia – Remainder of province** | **21.17** (includes 6.75 cents per litre dedicated to BC Transportation Financing Authority and 6.67 cents per litre carbon tax) | **22.67** (includes 6.75 cents per litre dedicated to BC Transportation Financing Authority and 7.67 cents per litre carbon tax) |
| **Alberta** | **13.0** | **13.0** |
| **Saskatchewan** | **15.0** | **15.0** |
| **Manitoba** | **14.0** | **14.0** |
| **Ontario** | **21.2** | **21.0** |
| **Quebec** | **28.1** | **29.3** |
| **New Brunswick** | **22.1** | **28.7** |
| **Nova Scotia** | **23.7** | **23.3** |
| **Prince Edward Island** | **20.5** | **28.0** |
| **Newfoundland and Labrador** | **23.1** | **23.8** |

Tax rate is for regular fuel used on highways and includes all provincial taxes payable by consumers at the pump.

The tax rates for Ontario, Quebec, New Brunswick, Nova Scotia, PEI and Newfoundland and Labrador include provincial portion of sales taxes based on average pump prices in January 2016.

Some other provinces also have geographically based preferential rates that are not reflected in the table.

## Tobacco Tax

- The purpose of the tax is to raise general revenue s.13
  s.13

**Estimated Revenue 2016/17 - $755** million

**Taxpayers:**

- Purchasers of tobacco products in British Columbia.
- BC residents (reside or carry on business in BC) who bring, send or receive tobacco products into BC.

**Tax Base:**

- Tobacco products (tobacco in any form including snuff and raw leaf tobacco):
    - sold in British Columbia
    - brought, sent or received into British Columbia

- Sales of tobacco products are legally restricted to persons at least 18 years of age.

**Exemptions/ Refunds**

- Tobacco products purchased by First Nations on reserve are exempt under federal legislation. Exemption is administered in BC by imposing purchase restrictions.

**Tax Rates:**

- Cigarettes – 23.9 cents per cigarette ($47.80 per carton of 200).
- Loose tobacco – 23.9 cents per gram.
- Cigars – 90.5% of the taxable or retail price to maximum of $7 per cigar.

**Administration:**

s.13

**Inter-provincial comparison:**

**Rates as of February 3, 2016**

| Province | Cigarettes Tax Rate* (per carton of 200) |
|---|---|
| British Columbia | $47.80 |
| Alberta | $50.00 |
| Saskatchewan | $55.05 |
| Manitoba | $67.80 |
| Ontario** | $34.27 |
| Quebec** | $29.80 |
| New Brunswick | $52.16 |
| Nova Scotia | $61.25 |
| Prince Edward Island | $59.09 |
| Newfoundland and Labrador | $54.84 |

* Tax rates for Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba and Saskatchewan include provincial portion of sales tax imposed on tobacco products based on manufacturing prices provided by Finance Canada in January 2016.

** The lower rates for Ontario and Quebec were implemented in 1994 to help reduce a huge contraband/smuggling issue in those provinces. Rates have been slowly increasing for those jurisdictions, but have never fully recovered to the levels in other provinces s.13

s.13

## Liquor Mark ups

- Liquor mark-up rates are set through BC Liquor Distribution Branch (LDB) policy.
- The Minister responsible for the LDB generally consults the Minister of Finance on policy changes with revenue implications.
- In addition to LDB mark-up, liquor is subject to provincial sales tax (PST) at a rate of 10 per cent of the purchase price.
- Liquor mark-up rates were reduced to their pre-harmonization levels with the re-implementation of the PST to generally keep shelf prices constant.

s.13

**Estimated LDB Net Income for 2017/18:** $1,095 million.

## *First Nation Tax Arrangements*

## Non-Treaty First Nations

*Indian Act Tax Exemption*

- Under section 87 of the *Indian Act* (Canada), "Status Indians" and Indian Bands are exempt from taxation with respect to property situated on reserve land including: property taxes, income taxes (income on reserve), and consumption taxes (on-reserve purchases).
- Status Indians and Indian Bands pay taxes off reserve.
- Non-First Nation persons residing on reserve land pay taxes.

*Property Taxes*

- The Federal government legislatively provides power to Indian Bands to impose property taxes on reserve lands.
- Under the *Indian Self-government Enabling Act,* to avoid double taxation, BC does not levy property taxes where an Indian Band is taxing.
- In BC, over 90 First Nations are taxing Indian Bands.

## Treaty First Nations

- BC treaty arrangements are tripartite agreements between BC, Canada and the Treaty First Nation.
- Treaty Final Agreements are in effect with the Nisga'a Nation, Tsawwassen First Nation, Maa-Nulth First Nations, and Tla-amin (Sliammon) First Nation.
- Yale First Nation has a Final Agreement that has been ratified by all three Parties but is not yet in effect.
- According to the Treat Commission website, BC is in Final Agreement negotiations with 7 other First Nations and Agreement-in-Principle negotiations with 41 First Nations.

### *Final Agreement Provisions*

- The taxation chapter of a Final Agreement includes standard provisions, such as:
    - The First Nation has concurrent authority to tax its members on its treaty lands.
    - The province may enter into agreements with the First Nation to coordinate taxes and to allow the First Nation to tax non-First Nation members on its treaty lands.
    - Exemptions from provincial taxes apply to First Nation treaty land and capital in certain circumstances.
    - The *Indian Act* tax exemption ends after a transition period. First Nation members will pay transaction taxes (e.g., consumption taxes) after 8 years and property, income and other taxes after 12 years.

### *Other Agreements with Treaty First Nations*

- In addition to the Final Agreement, other taxation-related side agreements are concluded with Treaty First Nations.
    - Tax Treatment Agreement: An agreement with the First Nation, Canada and BC entered into at the time of the Treaty. It provides for specific tax treatment of the First Nation government and its entities under various taxes, such as: a refund of provincial sales and motor fuel taxes paid by the First Nation government for government purposes, and exemptions from property transfer tax, real property taxes, and resource taxes.
    - Real Property Tax Coordination Agreement: An agreement between BC and the First Nation which establishes the First Nation as the property taxation authority on its treaty lands. Under these arrangements, BC vacates its school and rural property tax room and provides the First Nation with authority to levy property tax on non-members on treaty land. The taxing treaty first nation levies and collects property taxes from all properties on treaty land under its own property tax law. Current agreements include terms and conditions that adopt a municipal approach to property taxation for the First Nation.
    - Revenue sharing agreements: The treaty mandate is to share up s.13 of provincial sales and income tax revenues collected from First Nation members' resident on treaty land with First Nation governments. These agreements only come into effect once the 8 or 12 year transitional exemption period has ended.

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# MSP Task Force
# MEETING AGENDA

**Date: January 18, 2018**
**Location: 2800-555 West Hastings St., FICOM Executive Boardroom**
**Time: 10:00am – 5:00pm PST**

**Commission Members:**
- Lindsay Tedds (Chair)
- Paul Ramsey
- David Duff

**Secretariat Members:**
- Richard Purnell
- Dan Perrin

**Guests:**
- Andrew Lee

## Agenda Items:

| | |
|---|---|
| 1.0 Interim Report/Topic Box Discussion | 9:15am |
| 2.0 HOG/renter rebate options | 10:00am |
| 3.0 Final Report outline | 11:00am |
| **Lunch** | **12:00pm** |
| 4.0 Final Report outline continued | 1:00pm |
| 5.0 Preparations for Budget Day | 2:00pm |
| 6.0 Next Steps | 3:00pm |

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# PROPERTY TAX INFORMATION

## II. BACKGROUND

The Province is estimated to receive $856 million of residential class school property taxes in 2016/17, after home owner grant costs of $808 million.

The tax rate formula

For the residential class, tax rates vary by school district, with lower tax rates in school districts with higher average assessed values. Tax rates are lowest in West Vancouver School District, but the average home in West Vancouver still pays more school tax than the average home in any other school district because of its higher assessed value.

The tax rate formula is a compromise between two views of fairness:

- That the average house in each school district should pay the same amount of tax
- That the same tax rate should apply to each home, so that homes with higher values pay more.

Since 2003, and for some years in the 1990s, the Province set tax rates so that the average revenue per housing occurrence in the province increased only by the rate of general inflation (BC-CPI). This has meant modest growth in provincial revenue, with tax rates falling as average assessment in the province increased. Each year provincial revenue before home owner grants increases only by the inflationary increase plus the increase from new construction. The revenue policy was in part recognition that the property tax base was shared with local governments, for whom it is the major revenue source.

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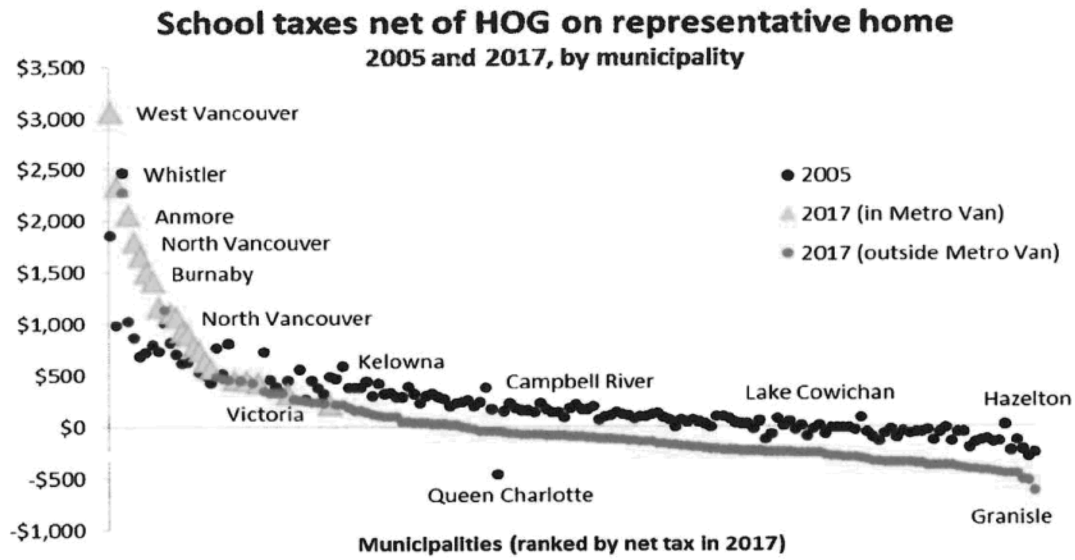
School taxes net of HOG on representative home
2005 and 2017, by municipality
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
-$500
-$1,000
West Vancouver
Whistler
Anmore
North Vancouver
Burnaby
North Vancouver
Kelowna
Victoria
Campbell River
Lake Cowichan
Hazelton
Queen Charlotte
Granisle
2005
2017 (in Metro Van)
2017 (outside Metro Van)
Municipalities (ranked by net tax in 2017)

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## Home Owner Grant

The basic home owner grant in Metro Vancouver and the Fraser Valley and Capital Regional Districts is $570, with $845 for the senior's grant. Elsewhere in the Province, the grant is $200 higher.

The grant is reduced by $5 for every $1,000 of assessed value above the threshold. The threshold in 2017 was $1.6 million.

| | IN CRD, GVRD, FVRD | | OUTSIDE CRD, GVRD, FVRD | |
|---|---|---|---|---|
| **2017** | **BASIC GRANT** | **HIGHER GRANT** | **BASIC GRANT** | **HIGHER GRANT** |
| Minimum Tax | $ 350 | $ 100 | $ 350 | $ 100 |
| Maximum Grant | $ 570 | $ 845 | $ 770 | $ 1,045 |
| Phase-out threshold | $ 1,600,000 | $ 1,600,000 | $ 1,600,000 | $ 1,600,000 |
| Phase-out range | $ 114,000 | $ 169,000 | $ 154,000 | $ 209,000 |
| Phase-out complete | $ 1,714,000 | $ 1,769,000 | $ 1,754,000 | $ 1,809,000 |
| Phase-out formula | Minus $5 for every $1000 above the threshold | | | |

CRD = Capital Regional District; GVRD = Greater Vancouver Regional District; FVRD = Fraser Valley Regional District

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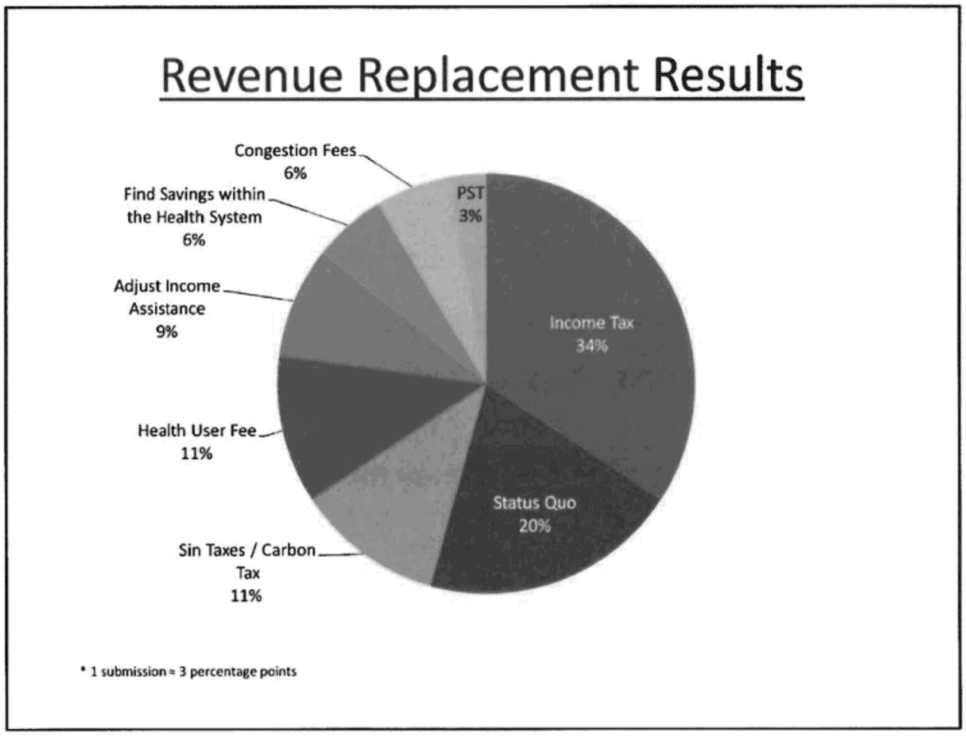
## Public Submissions

- The Province received 38 emails from the public that contained 57 suggestions
- The suggestions were categorized as follows:
  - 34 were within the scope of replacing MSP revenue;
  - 17 were out of scope as they did not address replacing revenue; and
  - 6 were entirely off topic.

For example, some emails listed off 5 suggestions.




Top Choice is to use the income tax system to replace the MSP premiums; however, none were specific as to whether they were suggestion a health levy (like Ontario), or simply increases income tax rates to replace the revenue.

Including one submission from the Burnaby/Vancouver Chapter of The Council of Canadians (a registered non-profit organization dedicated to achieving social justice through clean water, fair trade, green energy, public health care and a vibrant democracy. The remainder of the submissions were from individuals persons.

The second most popular choice is retaining the status quo.

Two submissions suggested that cost savings could be found within the health system; in particular, their suggestions were to amalgamate the health authorities.

Adjusting Income assistance always meant increasing the ranges. These submissions also tended to prefer the status quo.

One Submission was from the Burnaby/Vancouver Chapter

# Out of Scope Considerations

| Consideration | # | % |
|---|---|---|
| Expand health services to dental and preventative care | 7 | 41% |
| Praise for pledge to eliminate MSP | 3 | 18% |
| Employees with MSP coverage through work – will they pay more? | 2 | 12% |
| Consider the employees that will lose jobs as a result of MSP elimination | 1 | 6% |
| Quantify the saved administrative costs | 1 | 6% |
| Streamline access to medical records | 1 | 6% |
| Reward program for healthy seniors | 1 | 6% |

s.13

# MSP Task Force
# MEETING AGENDA

**Date: January 18, 2018**
**Location: 2800-555 West Hastings St., FICOM Executive Boardroom**
**Time: 10:00am – 5:00pm PST**

**Commission Members:**
- Lindsay Tedds (Chair)
- Paul Ramsey
- David Duff

**Secretariat Members:**
- Richard Purnell
- Dan Perrin

**Guests:**
- Andrew Lee
- Andrew Avis

## Agenda Items:

| | |
|---|---|
| 1.0 Public input through website | 10:15am |
| 2.0 BC Federation of Labour | 10:30am |
| 3.0 Fraser institute | 11:30am |
| **Lunch** | **12:30pm** |
| 4.0 Canadian Centre for Policy Alternatives | 1:00pm |
| 5.0 Income tax/property tax/HOG discussion/sugary drinks | 2:00pm |
| 6.0 Topics for Chair discussion with Minister of Finance | 3:00pm |
| 7.0 Next Steps | 4:00pm |

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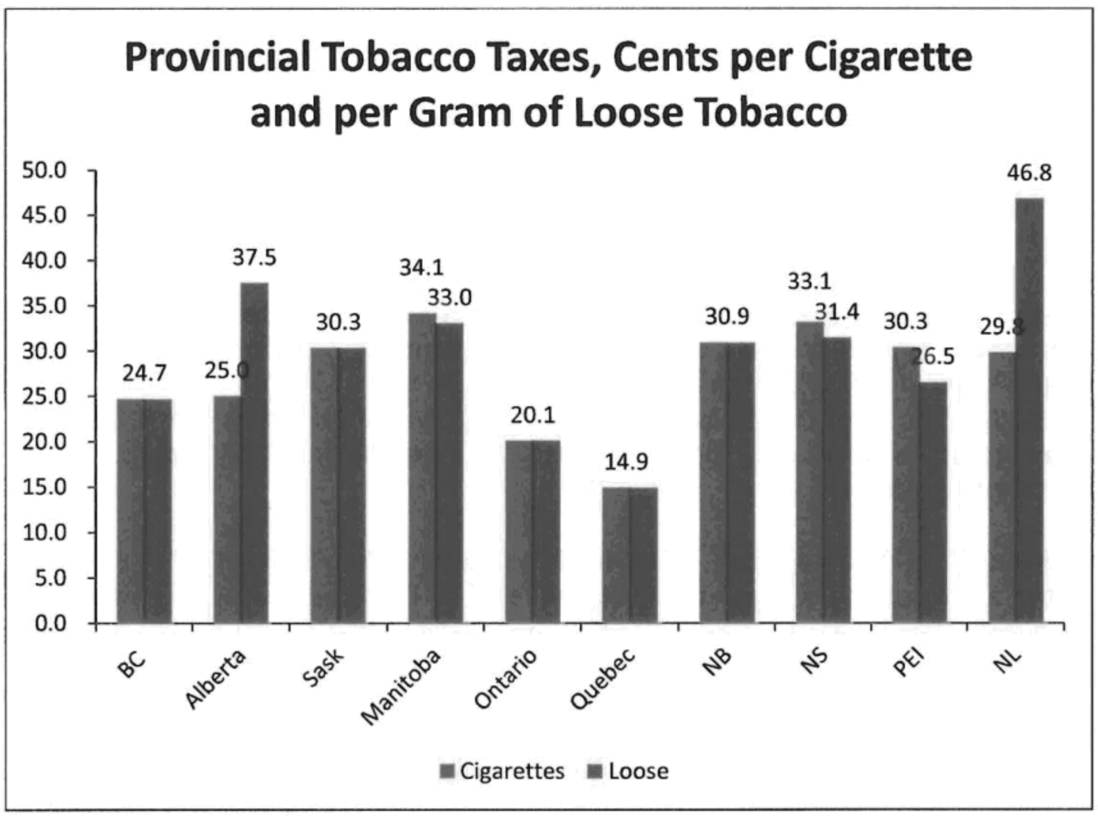
## TOBACCO TAX ANALYSIS

### CURRENT RATES

Current tobacco tax rates are 24.7 cents per cigarette ($49.40 per carton of 200 cigarettes) or gram of loose tobacco (which includes fine, or "roll-your-own", tobacco, among others). There is a separate tax rate for cigars. Recent tobacco tax increases include:

- 0.8 cents through *Budget Update 2017* (to 24.7 cents from 23.9).
- 1.6 cents on April 1, 2014 (to 23.9 from 22.3).
- 1 cent on October 1, 2013 (to 22.3 cents from 21.3).
- 2.8 cents on April 1, 2013 (to 21.3 cents from 18.5).

The chart below shows current tobacco tax rates by province on both cigarettes and loose tobacco.




As several provinces apply their respective provincial or harmonized sales tax to tobacco sales (and BC does not) BC's tobacco tax on both cigarettes and loose tobacco is the third lowest in Canada.

## DISCUSSION

The rate increase on April 1, 2013, was to keep tobacco prices constant with the elimination of the harmonized sales tax on tobacco products. Other rate increases were to increase the effective price of tobacco (so the tax is not eroded with inflation) and to raise additional revenue.

In 1994, Ontario, Quebec, and the federal government dramatically cut tobacco tax rates to fight cigarette smuggling into central Canada from the United States. Tobacco tax rates in Ontario and Quebec have subsequently increased since 1994, but remain significantly lower than all other provinces. Ontario plans to increase their tax by two cents per cigarette and gram of loose tobacco in 2018 and 2019.

s.13

A study by the Western Convenience Store Association indicates that about 15 per cent of cigarettes in BC are illicit. This is generally consistent with previous studies which indicated that illicit tobacco ranged from 15 to 25 per cent in Canada. The level of illicit tobacco varies by province reflecting different distribution networks and social acceptability of purchasing illicit tobacco between provinces.

In regards to loose tobacco, rates are set at an implied equivalence of one gram of tobacco to one pre-rolled cigarette. The Canadian Cancer Society suggests that the tobacco industry now uses a treatment that expands tobacco so only one-half a gram of tobacco is needed to make one cigarette, especially for fine ("roll-your-own" cigarette) tobacco. The Society believes a tobacco tax rate increase by about 50 per cent to match Alberta could account for the use of expander processing.

**REVENUES**

BC is forecasted to collect $762 million in tobacco taxes in 2018-19.

s.13

An increase of 2.8 cents per cigarette (27.5 cents from 24.7, equivalent to $55 per carton) and an increase of 12.8 cents per gram of loose tobacco (37.5 from 24.7 cents) s.13

A 12.8 cent increase (37.5 from 24.7 cents per gram) on loose tobacco *only*
s.13

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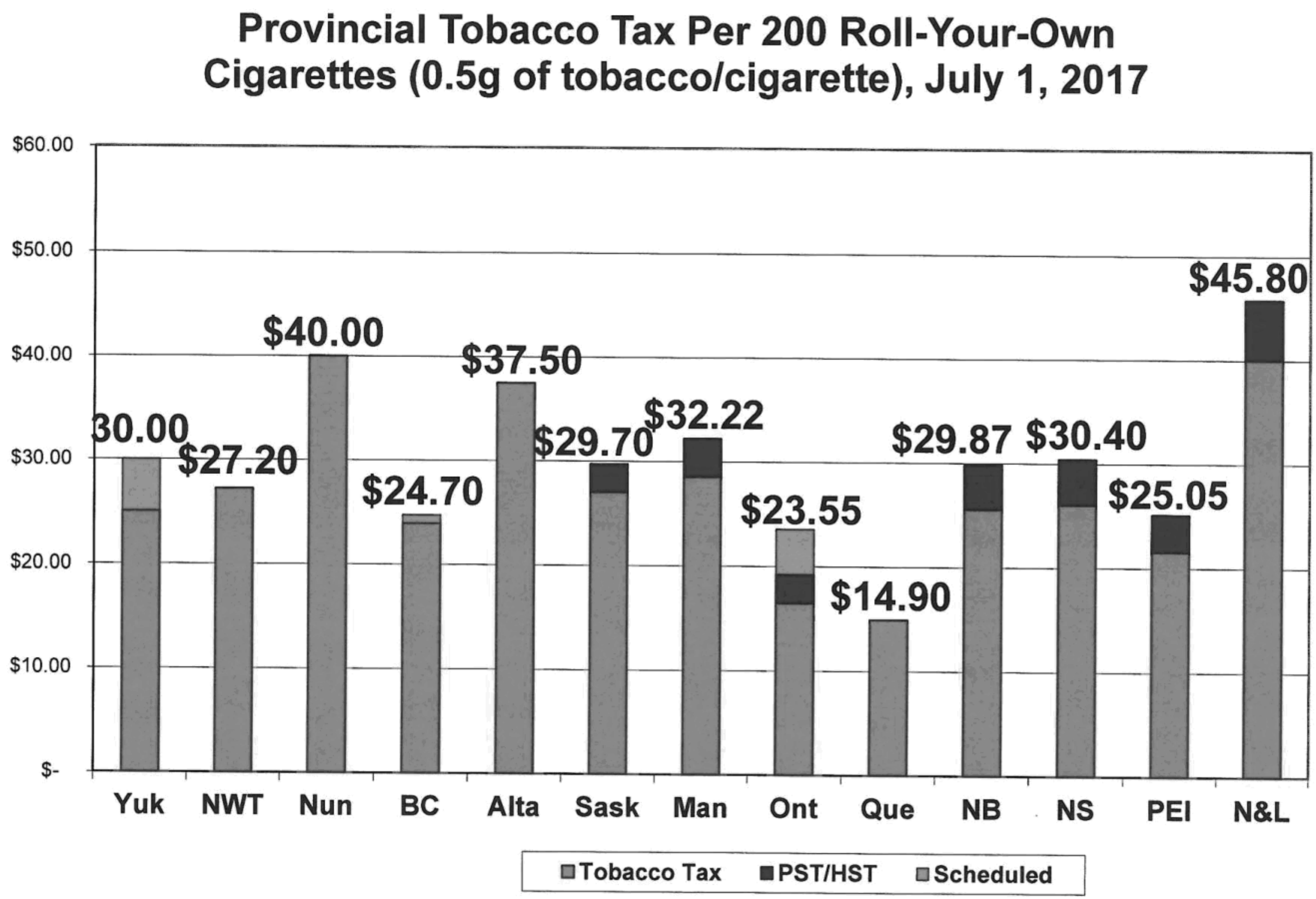
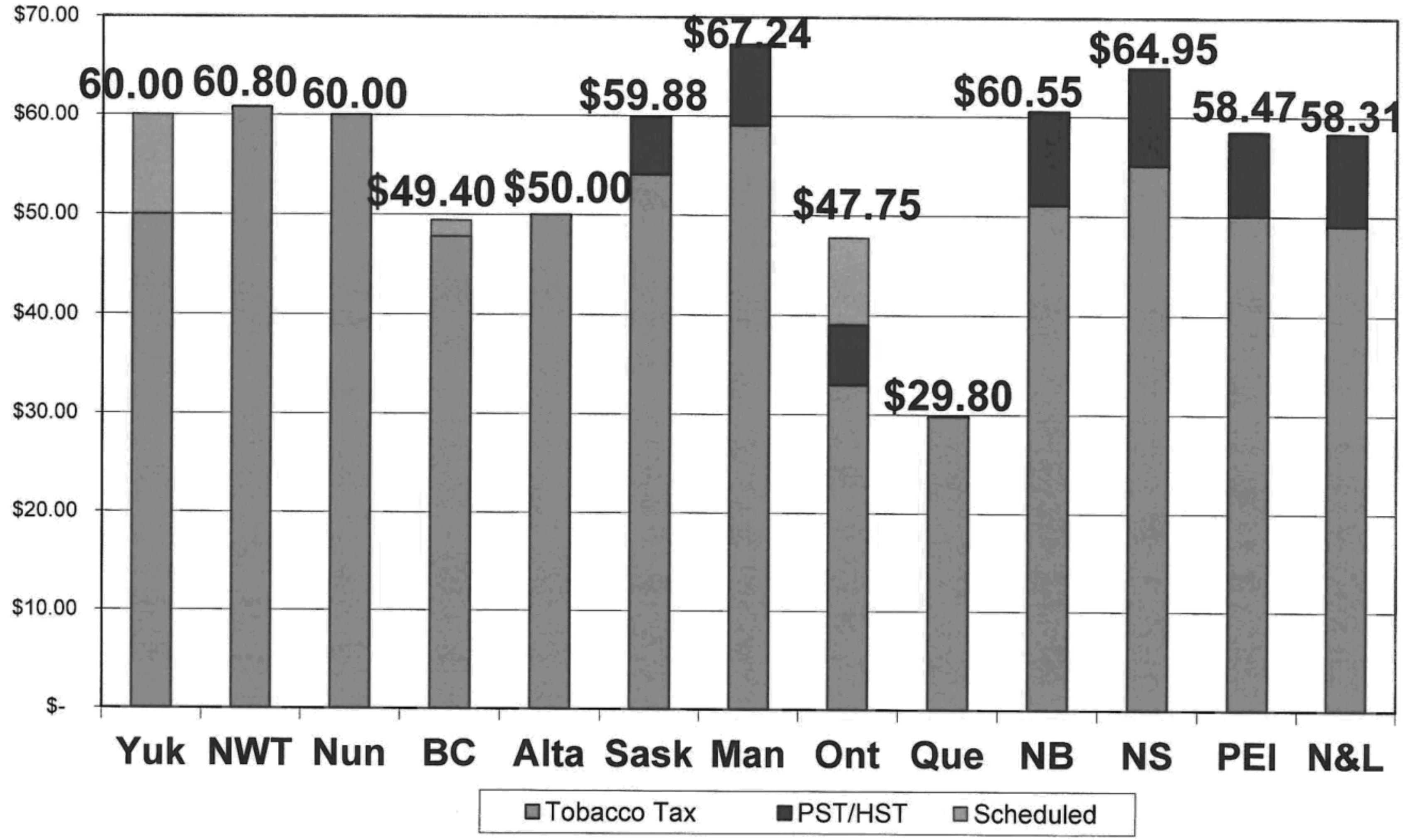

Provincial Tobacco Tax Per 200 Roll-Your-Own Cigarettes (0.5g of tobacco/cigarette), July 1, 2017
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$-
30.00
$27.20
$40.00
$24.70
$37.50
$29.70
$32.22
$23.55
$14.90
$29.87
$30.40
$25.05
$45.80
Yuk
NWT
Nun
BC
Alta
Sask
Man
Ont
Que
NB
NS
PEI
N&L
Tobacco Tax
PST/HST
Scheduled

## Provincial/ Territorial Tobacco Tax Rates per Carton of 200 Cigarettes, July 1, 2017



## Payroll Tax Overview

**Description**

Payroll taxes are assessed directly on employer payrolls. All employers are typically subject to the tax
s.13

**Proposed BC Payroll Tax**

s.13

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**Ministry of Finance**

**BRIEFING DOCUMENT**

| | | |
|---|---|---|
| **To:** | Honourable Michael de Jong, Q.C.<br>Minister of Finance | **Date Requested: August 17, 2016**<br>**Date Required: August 31, 2016** |
| **Initiated by:** | Pat Parkinson<br>Executive Lead<br>Ministry of Finance | **Date Prepared: August 22, 2016** |
| **Ministry Contact:** | Aaron Nelson<br>Director Policy and Legislation<br>Ministry of Finance | **Phone Number: (250) 356-5068**<br>**Email: Aaron.Nelson@gov.bc.ca** |
| | | **Cliff #:352678** |

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**TITLE:** MSP - Payroll Tax

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**PURPOSE:**

**(X) FOR INFORMATION**

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opportunity to set out the parameters it will apply when raising the additional revenue required after 2005. In favour of the OHP is the fact that, having decided to link the tax to income, the government has opted for a proportional tax rather than a progressive one, at least over the effective range of the tax. We think the decision to provide a generous exemption was fair, but note the lack of any reasoned discussion of this aspect in the budget papers. We would have preferred a distinct health-care levy (rather than an increase in the general rate of income tax) on fairness grounds, because we think it is appropriate to impose a direct charge of some amount for access to the health-care system.

Other design aspects of the levy are not well thought out. We think that whatever arrangement for direct payment by individuals is chosen, it should be implemented in a way that prevents the shifting of the effect of the tax away from employees. The promise to dedicate all of the new revenue to the funding of health care rings hollow in the light of past experience with similar promises. If the government really intended to be accountable for new spending, it would have found a way to specifically dedicate the new revenue. The fact that the OHP will probably not send the desired price signal, and that it is unlikely to meet rising health-care costs in the future, are important negative features of the levy.

We conclude that in tax policy terms, the OHP is not the model Ontario ought to have chosen. We recognize that the political realities of the day probably were the driving factors behind the decision to raise new money for health care and to do so in this particular way. This should not end the debate on what could be a preferred model for Ontario. It is likely that spending on health care will continue to grow at a rate in excess of the general rate of growth in the economy. If additional revenue is to be raised to meet these costs, it will be appropriate to revisit the options available to do so. It is to be hoped that the government will be prepared to engage the public at large in a meaningful debate at that time.[56]

## APPENDIX: APPROACHING 50 YEARS OF PUBLIC HEALTH CARE IN ONTARIO

When Ontario introduced its public health-care system in 1959, the bulk of the costs were to be funded out of general revenues, not health-care premiums. However, the premiums levied on individuals were an important component of the health-care funding package until they were eliminated at the beginning of 1990. In no small part, the history of health-care funding since 1959 is a story about changing attitudes toward the appropriate roles to be played by individual premiums and general revenues as sources of that funding. Those attitudes have shifted materially over the past 50 years. In this appendix, we examine that history as background to

56 This is not a new point. Governments should always consult widely before instituting new taxes. See Tax Legislative Process Committee, "The Tax Legislative Process" (1978) vol. 26, no. 2 *Canadian Tax Journal* 157-82.

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# MSP Task Force
# MEETING AGENDA

**Date: November 27, 2017**
**Location: Room 105, 617 Government Street**
**Time: 10:00am – 5:00pm PST**

**Commission Members:**
- Lindsay Tedds (Chair)
- Paul Ramsey
- David Duff

**Secretariat Members:**
- Richard Purnell
- Dan Perrin

**Guests:**
- Sadaf Mirza
- Dave Riley
- Jordan Goss
- Paul Flanagan

## Agenda Items:

1.0 Public consultations — 10:15am
- Discuss public consultation options
- Review submission to the website to-date
- Review input from previous reports (tax commission, expert panel)

2.0 Economic forecasting/revenue forecasting assumptions — 11:00am
- Discussion with Sadaf Mirza, Chief Economist & Dave Riley, Executive Director, Fiscal planning

3.0 PST/other taxes — 11:30am
- Detailed overview of PST with Jordan Goss, Executive Director, Consumer Taxation Programs)
- Review options for expanding base/potential revenues
- Other consumption taxes including tobacco tax, liquor

**Lunch** — **12:30pm**

4.0 PST/other Taxes (continued) — 1:00pm

5.0 History of other Provinces with Paul Flanagan, Executive Director of Tax Policy Branch — 1:30pm
- Detailed discussion of Ontario
- Other provinces

s.13 2:30pm

**Break** **3:30pm**

7.0 Initial discussions around components of Report 4:00pm

- Report outline (Dan to Lead)
- Key themes, audience, etc.

8.0 Next Steps 4:30pm

- To-do list
- December Calendar
- January Calendar

Canadian Cancer Society

August 24, 2017

The Hon. Carole James
Minister of Finance and Deputy Premier
PO BOX 9048 STN PROV GOVT
Victoria, BC, V8W 9E2

Dear Minister James:

On behalf the Canadian Cancer Society, BC and Yukon Division, I am writing to urge that provincial tobacco tax rates be increased in the forthcoming BC budget. Doing so would help reduce smoking rates while increasing government revenue. Studies show that higher tobacco taxes are the most effective strategy at reducing smoking in the general population. Studies also show that tobacco tax increases are especially effective at reducing youth smoking because teenagers are more responsive to changes in cigarette prices.

**The Canadian Cancer Society recommends:**

1. **The tax rate on a carton of 200 cigarettes is increased by $18.00, from $49.40 to $67.40 per carton, to match the taxes that currently apply in Manitoba.**
2. **The tax rate on 100 grams of roll-your-own tobacco is increased by $12.80, from $24.70 per 100 grams to $37.50, to help close the roll-your-own loophole and to match the rate that currently applies in Alberta.**

**Implementing these recommendations would increase tobacco tax revenue in BC by a projected <u>$195 million</u> per year, even after factoring in a decline in smoking as a result of the tax increase.**

As indicated in the attached graphs, tobacco tax rates in BC are far lower than in many other provinces and territories, for both cigarettes and roll-your-own tobacco.

We estimate that the recommended tobacco tax increases would result in an incremental $195 million per year for the BC government, over and above the $758 million currently collected per year in tobacco tax revenue in BC (2017-18 budget estimate). Our estimate takes into account a projected decrease of 7.7% in overall tobacco sales in BC as a result of the tobacco tax increase (based on a widely used price elasticity of -0.4, which reflects a 10% increase after inflation in the final retail price would result in a decrease in sales volume of 4%).

BC does not apply the provincial sales tax to tobacco products, though provinces such as Saskatchewan and Alberta do. As a result, BC needs to have a greater increase in tobacco taxes in order to catch up to provinces such as Saskatchewan and Manitoba, a consideration that we have taken into account in our recommendations.

**Contact:** Jenny Byford, Advocacy Lead
British Columbia and Yukon Division
101-1537 Hillside Avenue
Victoria, BC V8T 2C1
**T** 250-380-2358 • 1-800-663-7892 **F** 250-382-8130
jbyford@bc.cancer.ca

Canadian
Cancer
Society

In BC, the current low tax on roll-your-own tobacco is a loophole that is impeding the health and revenue objectives of higher tobacco taxes. Historically, 1 gram of tobacco was used to make a roll-your-own cigarette. Today, however, because of modified manufacturing practices, only 0.5g or less of roll-your-town tobacco is needed to make a roll-your-own cigarette. Even some roll-your-own packages for sale in BC state explicitly on the package that only 0.47g is needed to make a cigarette. BC, however, is still maintaining the historic roll-your-own tax rate equivalency of 1g = 1 cigarette. This means that in BC the effective rate for roll-your-own is half the rate on cigarettes. Alberta, Newfoundland and Labrador, Nunavut and the federal government have already taken significant steps towards closing the roll-your-own loophole. BC should do likewise.

Our recommendations have already factored in, and would be in addition to, the very small tobacco tax increase previously pledged to take effect Oct. 1, 2017 of $1.60 per carton of 200 cigarettes and $0.80 per 100 grams of roll-your-own. We hope you take any needed steps in your forthcoming September budget to ensure that this tobacco tax increase continues as proposed.

Our recommended tobacco tax increases for BC would provide public health and public revenue benefits. In addition to generating approximately $195 million in new revenue, the tobacco tax increase would reduce smoking, and consequently disease and death. Smoking causes 30% of all cancer deaths, and is a major cause of heart attacks and emphysema. The tobacco tax increase would reduce smoking among BC youth, and would prevent many BC teenagers from ever becoming addicted to tobacco.

We urge that our tobacco tax recommendations be implemented in your future September and 2018 budgets to benefit both public health and public revenue.

Please do not hesitate to contact us if we can provide further information.

Yours sincerely,

Sandra Krueckl, PhD
Vice-President, Cancer Control
Canadian Cancer Society, BC and Yukon

cc. The Hon. John Horgan, Premier
The Hon. Adrian Dix, Minister of Health
Lori Wanamaker, Deputy Minister of Finance
Heather Wood, Assistant Deputy Minister, Policy and Legislation Division, Ministry of Finance
Richard Purnell, Managing Director, Tax Policy Branch, Ministry of Finance
Stephen Brown, Deputy Minister of Health
Matt Herman, Executive Director, Population and Public Health, Ministry of Health

# MSP Task Force
# MEETING AGENDA

**Date: November 14, 2017**
**Location: Room 105, 617 Government Street**
**Time: 1:00pm – 5:00pm PST**

**Commission Members:**
- Lindsay Tedds (Chair)
- Paul Ramsey
- David Duff

**Secretariat Members:**
- Richard Purnell
- Dan Perrin

## Agenda Items:

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|---|---|
| 1.0 Introductions | All |
| 2.0 Terms of Reference<br>• Purpose of the Task Force/constraints of the Terms of Reference | All |
| 3.0 History of MSP premiums<br>• History of premiums<br>• Overview of current premium structure | All |
| 4.0 Overview of PIT/CIT systems | All |
| s.13 | All |
| 6.0 Next Steps | All |