

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Initiated by: Kari Toovey
Director, Financial Institutions
Financial and Corporate Sector
Policy Branch

Date Prepared: November 5, 2019

Ministry Contact: Kari Toovey
Director, Financial Institutions
Financial and Corporate Sector
Policy Branch

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Cliff #: 385628

TITLE: Proposed Order in Council (OIC) to increase fees payable to the BC
Financial Services Authority (BCFSA)

PURPOSE:

(X) FOR INFORMATION

DATE PREPARED: November 5, 2019

TITLE: Proposed Order in Council (OIC) to increase fees payable to the BC Financial Services Authority (BCFSA)

ISSUE: Fees for pension plans, mortgage brokers and brokerages, and insurance companies should be raised in order to fund the regulation of those sectors.

BACKGROUND:

The BCFSA assumed regulatory responsibilities for financial institutions, mortgage brokers, and pensions on November 1, 2019. The BCFSA is an independent Crown entity that operates on a cost-recovery model. Fees are the only source of revenue for the BCFSA. Fees are set by regulation.

DISCUSSION:

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It is proposed that the fees for mortgage brokers and brokerages, pensions, and insurers be increased. Specific rationales for each sector are:

- Mortgage broker sector:
 - Since the fees were last changed in 2004, the mortgage industry has become more complex, with brokers selling other financial products.
 - Risks relating to mortgage fraud and money laundering have emerged (the number of mortgage fraud files managed by the regulator have increased over 200% between 2014 and 2018).
 - Increased fees are intended to fund new activities:
 - Additional investigative and examinations capacity
 - Additional policy and project management capacity
 - Additional senior executive capacity.

- Pension sector:

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- The fees for the pension sector have not been revised since 2008; since then economic conditions have changed, pension plan asset sizes are larger, and risks to plans have increased.
- Insurance companies (insurance companies only; agents are not regulated by the BCFSA):
 - Fees have not changed since 1990.
 - The insurance sector has become more complex, e.g., new products and distribution schemes.

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- The proposed new fee structure will incorporate a new factor—the proportion of insurance business each insurer undertakes in BC. This is a better proxy for allocating the regulatory oversight costs (the current factoring in of an insurer's asset size means that insurers pay fees based on assets located outside of BC and Canada).

The proposed increases to mortgage broker fees will:

- Increase the application fee for individual mortgage brokers from \$1,000 to \$1,500.
- Increase the mortgage brokerage application fee from \$1,000 to \$1,900.
- Increase the renewal fee for brokers and brokerages from \$500 to \$1,250 in the first year, with additional planned increases for 2022.

The proposed pension plan fee change will increase fees from \$6.15 per active member to \$8.35 per active member, as well as increase fees for non-active members and raise the minimum and maximum fees.

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Treasury Board has approved the fee increases.

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Initiated by: Lori Wanamaker
Deputy Minister
Ministry of Finance

Date Prepared: November 1, 2019

Ministry Contact: Doug Foster
Assistant Deputy Minister
Strategic Initiatives

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Tax Policy Branch

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CLIFF#: 385357

TITLE: Carbon Tax Regulation: Regulated Operation Refund (CleanBC)

PURPOSE:

(X) DECISION REQUIRED

COMMENTS:

DATE PREPARED: November 1, 2019

TITLE: Carbon Tax Regulation: Regulated Operation Refund (CleanBC)

ISSUE: Implementing the CleanBC Program for Industry Industrial Incentive Program for regulated operations to meet a commitment with LNG Canada.

BACKGROUND:

This Order in Council (OIC) amends both the Greenhouse Gas Emissions Reporting Regulation under the *Greenhouse Gas Industrial Reporting and Control Act* (GGIRCA) and the Carbon Tax Regulation (CTR) to implement the CleanBC Program for Industry (the Program) Industrial Incentive Program (IIP) for “regulated operations” (LNG operations).

The Program is funded by the carbon tax above \$30/tonne paid by large industrial emitters (facilities that emit above 10,000 tonnes of CO₂ equivalent emissions). The Program’s intent is to reduce emissions while minimizing the risk of carbon leakage (operations moving to lower- or no-carbon tax jurisdictions). The IIP provides an incentive of up to 100 per cent of carbon tax paid above \$30/tonne depending on how an operation’s emissions perform relative to world-leading emissions benchmarks. Implementing the Program is a requirement under the Operating Performance Payments Agreement (OPPA) with LNG Canada.

DISCUSSION:

This OIC implements all the mechanisms needed to emulate the IIP under the CTR, effective upon deposit:

Greenhouse Gas Emission Reporting Regulation amendments:

- 1) Prescribes the *Carbon Tax Act* as a statute that GGIRCA can share information with. This enables ENV to share facility-level emissions reports with Finance for the purposes of administering the CTR (and broader Program); and
- 2) Amends and adds definitions to enable the new entrant period.

Carbon Tax Regulation amendments:

- 1) **New entrant period:** Enables a 24-month floating period where an operator can receive 100 per cent of the carbon tax above \$30/tonne. The new entrant period start date must begin no later than the date of first commercial shipment.
- 2) **5-Year review period:** Clarifies that the eligibility threshold and benchmarks are in effect for five-year periods.
- 3) **Global carbon price:** Requires an independent third party to estimate a global carbon price that is weighted by emissions coverage and a jurisdiction’s share of the global economy. The incentive is reduced once the level of carbon pricing around

the world reaches \$30/tonne, but does not apply for the first five-year period starting in 2020.

- 4) **Eligibility threshold:** Determines whether a facility is eligible for an incentive. The eligibility threshold is the production-weighted average¹ of all facilities for a sector in B.C. (that produce at least 1 million tonnes annually for LNG), multiplied by two. The threshold defaults to the emissions benchmark multiplied by two if:
- a. no facilities in the sector are operational at the time of calculating; or
 - b. if the calculation results in a threshold lower than the emissions benchmark (see below).

The eligibility threshold for LNG for 2020-24 is 0.48 tonnes of CO₂e per tonne of LNG. The threshold meets the commitment set out in the OPPA.

- 5) **Emissions benchmark:** The emissions target for receiving a 100 per cent incentive. Requires an independent third party to determine the production-weighted average of the five facilities with the lowest emissions intensity² currently in operation in the world and outside of B.C. (that produce at least 1 million tonnes annually for LNG). The benchmark for LNG for 2020-24 is 0.24 tonnes of CO₂e per tonne of LNG. The benchmark meets the commitment set out in the OPPA.

Items 3, 4, and 5 are set by the Minister of Environment and will be published in the Gazette rather than in the regulation past 2024, with items 3 and 5 requiring the Minister to be informed by a third party study.

LNG Canada and other sectors have been briefed on the Program details, s.13

s.13 Once the regulation has been deposited, the Province will engage LNG Canada to receive their consent that all of the Province's commitments under the agreement have been met.

REGULATORY CRITERIA EXEMPTION:

The OIC increases the regulatory count by one. An applicant who qualifies for an incentive must apply and submit specific information for administrators to determine the level of incentive. The increase is required for the administration of the incentive and is not burdensome as the required information is based on information already required under another framework (emissions reports under GGIRCA).

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² Emissions intensity is the tonnes of CO₂ equivalent emissions produced per tonne of a good produced (e.g., an emissions intensity of 0.24 for LNG means 0.24 tonnes of CO₂ equivalent per tonne of LNG produced).

OPTIONS:

Option 1. Approve the proposed regulation and proceed with a corridor order.

Option 2. Do not approved the proposed regulation.

RECOMMENDATION:

Option 1. Approve the proposed regulation and proceed with a corridor order.

APPROVED / NOT APPROVED

Honourable Carole James
Minister and Deputy Premier

Date

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Initiated by: Richard Purnell
Executive Director
Tax Policy Branch

Date Prepared: November 6, 2019

Ministry Contact: Duncan Jillings
Director, Property Tax
Tax Policy Branch

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Cliff#: 386035

TITLE: Eligible Port Property Designation Regulation 2020

PURPOSE:

☒ **DECISION REQUIRED**

COMMENTS: The Order in Council designates port properties for the purposes of the *Ports Property Tax Act* in taxation year 2020.^{s.12; s.13}
s.12; s.13

DATE PREPARED: October 16, 2019

TITLE: Eligible Port Property Designation Regulation 2020.

ISSUE: This Order in Council (OIC) designates eligible ports for the purposes of the municipal property tax caps on port properties for 2020 and subsequent years.

BACKGROUND:

Designated port properties are subject to caps on municipal property tax rates. The Province compensates municipalities for the initial effect of the tax limits imposed on them. The rate cap and the compensation are defined in the *Ports Property Tax Act* (PPTA), and properties are designated by regulation.

The Ministry of Municipal Affairs and Housing (MAH) will bring forward a companion regulation under the *Assessment Act*. The MAH regulation designates the same properties for the purposes of prescribing lower, non-market land values.

For a port to be eligible for the tax rate cap under the PPTA, the port property must be designated in the *Eligible Ports Property Designation Regulation*. The designation is done by schedule and the full schedule is generally replaced each year. This allows any new ports to be added and the description of any existing properties to be updated.

The new schedule for this year includes the same properties from the schedule for the 2019 tax year, with some name changes to ensure consistency with MAH's regulation.

s.12; s.13

To be considered for designation under the PPTA, the property must meet the criteria in the definition of "eligible port property" and the property must:

- (a) be next to a navigable waterway and have some class 4 (major industry) improvements,
- (b) have the purpose of loading and storage of sea-going cargo,
- (c) not be primarily used for the transport of crude oil or petroleum fuel products or both, and
- (d) the export function is not for products from an industrial production or processing facility that is part of the property or is near that property.

DISCUSSION:

s.12; s.13

s.12; s.13

s.12; s.13

OPTIONS:

- Option 1.** Approve the amendments to the *Eligible Port Property Designation Regulation* and forward to Cabinet for consideration on, or before, December 11, 2019.
- Option 2.** Do not approve the amendments.

RECOMMENDATION:

- Option 1:** Approve the amendments to the *Eligible Port Property Designation Regulation* and forward to Cabinet for consideration on, or before, December 11, 2019.

APPROVED / NOT APPROVED

Carole James
Minister and Deputy Premier

Date

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable John Horgan
Premier and President of
the Executive Council

Date Requested: November 6, 2019
Date Required: November 8, 2019

Initiated by: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested: November 6, 2019
Date Required: November 7, 2019

Date Prepared: November 6, 2019

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Assistant Deputy Minister
Policy and Legislation Division
Ministry of Finance

Cliff #: 386085

TITLE: Highest and Best Use Update Fall 2019

PURPOSE:

(X) FOR INFORMATION

COMMENTS: For a meeting with PJH, MCJ and MSR on November 12, 2019

DATE PREPARED: November 6, 2019

TITLE: Highest and Best Use Valuation Update Fall 2019

ISSUE: The City of Vancouver (CoV) and Metro Vancouver municipalities have requested that Government introduce a sub-class for 2020 to address issues arising from Highest and Best Use valuation of commercial property.

BACKGROUND:

Glossary:

- Sub-class: distinguishing a property's "development value" from "value in current use" within a class of property.
- Split-classification: classifying parts of the same property into different classes, such as the business class corner store with a residential unit above it.

BC Assessment classifies and values property according to provincial law. ^{s.13}
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Business and light industry property classes are valued at their market value in their highest and best use. For some properties, this may be based on the income generated by the business in its current use. However, expectation of future development or an improved use of the site can drive up the market value of a property, even before a municipality increases the density of the zoning.

Highest and best use valuation can cause transitional problems for businesses which lease land in areas where development interest is rising. The leases typically require the lessee to cover its share of the landlord's tax bill. Lessees can face rising tax costs but don't share in the benefit of the increased land values. Sharp increases in property values may mean unexpected tax costs in the middle of the business year.
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Metro Vancouver municipalities presented their proposal to the Province in July of this year. It uses the concept of a "subclass" whereby the value of a business class property would be divided between its "current use value" and the notional "development value". A municipal bylaw would pick and choose which properties would benefit from a lower tax rate applied to their development value.

Recent developments:

- At the 2019 UBCM conference, a resolution introduced by Port Moody supporting the creation of a sub-class narrowly passed.^{s.13}

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● s.12

- On October 23rd opposition introduced a private member bill called the Assessment Amendment Act, 2019, which would create a new commercial property sub-class that local governments must use to provide property tax relief to properties with unused airspace.

● s.13

DISCUSSION:

Municipalities currently have the power to use assessment smoothing or averaging to smooth out sudden and sometimes unexpected jumps in property value. Currently only the City of Vancouver (CoV) uses this power.

The City of Richmond used a variation of the existing revitalization exemption to give three-year transitional tax relief to affected businesses during the redevelopment of the Richmond Centre (Brighthouse) sky-train station. City of Richmond noted that the revitalization method placed an administrative burden on the City. ^{s.12; s.13}

s.12; s.13

s.12; s.13

s.12; s.13

<p style="text-align: center;">CONFIDENTIAL ISSUES NOTE</p> <p>Ministry of Municipal Affairs and Housing Date: October 30, 2019 Minister Responsible: Selina Robinson</p>	<p style="text-align: center;">Split Assessment Bill/Sub-class</p>
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ADVICE AND RESPONSE:

IF ASKED ABOUT THE OCTOBER 31ST DEADLINE:

- We will structure the interim solution so that it would apply to the 2020 tax year.

IF ASKED ABOUT THE SPLIT ASSESSMENT BILL:

- We understand this is a critical issue for small businesses, non-profits and arts and culture organizations.
- That's why we are already working on a solution.
- However, our preliminary analysis of the private member's bill indicates that it does not directly target relief to small businesses, non-profits and arts and culture organizations.

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- The bill is quite different from the Metro Vancouver proposal as it appears to capture major industrial as well as commercial properties. The benefits in the bill are directed to properties that already have had density increases.
- The private member's bill also appears to be very broad and would impact the tax treatment of thousands of industrial and commercial properties with development potential across B.C.

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- We are working to provide relief to small businesses now in the interim, while we continue to do the important work with businesses and local governments to make sure we get a permanent solution that that works for everyone.
- We hope to have more to say on those interim solutions soon.

SECONDARY:

- This is an issue that impacts local governments throughout the province. Many local governments at UBCM gave compelling reasons why we shouldn't immediately create a commercial sub-class without doing more work with communities across B.C. - not just in Metro Van.
- In fact, 46% of municipalities at UBCM voted against the resolution to create a commercial sub-class as they did not feel it would work for their communities.
- Some of those communities point to the fact that local governments currently have a number of tools available to address the impact of assessment increases.
- These include adjusting tax rates by assessment class, averaging the tax increases over a number of years, and providing full or partial municipal tax exemption for certain properties for up to 10 years. (Revitalization Exemption Tool).

SUPPORT FOR SMALL BUSINESSES/NON PROFITS, ARTS AND CULTURE:

- Small businesses, nonprofits and the arts and culture are the heart of our communities and economy and we're working hard for them.
- We cut the small business tax rate by 20% (from 2.5% to 2%) – now the second lowest in Canada.
- We eliminated the PST on non-residential electricity, saving businesses more than \$150 million annually.
- Since we formed government, we have saved B.C. businesses more than half a billion dollars to help make them more competitive.

- **We're making record investments in childcare, housing and transportation to make communities affordable for workers in B.C.**
- **We are providing the supports and services that small businesses need to help build a sustainable and innovative economy that works for people.**

KEY FACTS:

On October 23rd Opposition introduced a private member bill called *the Assessment (Split Assessment Classification) Amendment Act, 2019*, which would create a new commercial property sub-class that local governments can use to provide property tax relief to small businesses.

It is in response to the request put forth by City of Vancouver, with support from Metro Vancouver and numerous business groups, asking the Province to create a commercial sub-class for 2020.

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UBCM Resolution 2019 details:

At UBCM 2019, resolution B78 was endorsed (54 percent), calling on the Province to enable a new commercial sub-class for properties where development potential has created financial difficulties for smaller businesses and the non-profit sector.

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Background on Highest and Best Use:

Since the inception of the Assessment Act in the 80's, B.C. has used Highest and Best Use as an appraisal principle and is a fundamental tenet of market valuation used by most North American Jurisdictions. The issue is that in this unprecedented market, with values increasing significantly due to market demands (independent of re-zoning) and with densification efforts intensifying, leading to OCP and land use changes, HBU has gained prominence. More simply put, when a low-rise commercial property's HBU changes to a multi-level complex (usually

through updated OCPs or rezoning) its value increases and the “unused air space or potential future development” is captured in the assessment.

Media Interest: Wide spread media coverage: <https://theprovince.com/news/local-news/dan-fumano-bad-news-for-small-b-c-businesses-hoping-for-property-tax-relief-this-year/wcm/bcf7a499-d87a-4efe-960f-45db01e411ad>; <https://vancouversun.com/news/local-news/dan-fumano-vancouvers-boldest-plan-for-property-tax-surges-killing-local-businesses>; <https://vancouversun.com/news/local-news/dan-fumano-vancouver-asks-province-for-fast-action-on-property-tax-woes>; <https://globalnews.ca/news/5481806/vancouver-tax-changes-small-businesses/>.

Communications:	Megan Lowry	250 213-5561
Program:	Marika Glickman	250 356-6075

Ministry of Finance

BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested: November 20, 2019

Date Required: December 1, 2020

Initiated by: Jordan Goss
Assistant Deputy Minister
Revenue Division

Date Prepared: November 15, 2019

**Ministry
Contact:** Steven Emery
Executive Director
Property Taxation Branch

Phone Number: 778.698.3829
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Cliff #: 386570
X Ref # 383461

TITLE: Collection of Social Insurance Number (SIN) for the property tax
deferment (PTD) program in light of Office of the Information and Privacy
Commissioner (OIPC) Decision on SIN Collection for Speculation and
Vacancy Tax (SVT)

PURPOSE:
(X) DECISION REQUIRED

DATE PREPARED: November 15, 2019

TITLE: Collection of Social Insurance Number (SIN) for the property tax deferment (PTD) program in light of Office of the Information and Privacy Commissioner (OIPC) Decision on SIN Collection for Speculation and Vacancy Tax (SVT)

BACKGROUND / DISCUSSION:

- The PTD program is a low-interest loan program for eligible property owners to defer paying their annual property taxes.
 - To qualify for PTD, the property owner must meet eligibility requirements, including being a Canadian Citizenship or permanent resident and the property must be their principal residence.
 - The PTD program relies on taxpayer provided information regarding eligibility. The only independent confirmation that has been used by audit staff to date is regarding minimum equity thresholds.
 - The current process is manual and time consuming. In addition, the program is currently administered using an outdated system. The system is in the process of being replaced by the Ministry's Gentax system as part of the Revenue Transformation Initiative which will enable an online application.
 - The online application is expected to go live in April 2020, for the 2020 tax year.
 - To better enable better ways to ensure eligibility and automate the eligibility decision, the Ministry sought a decision in July 2019 about requiring applicants to provide their SIN. See Appendix 1 for the Briefing Note.
 - The decision at the time was to build the functionality to collect the SIN and confirm "go/no go" with the Minister by February of 2020.
 - The timing of the "go/no go" decision was set to allow time for an OIPC decision in relation to the authority to collect the SIN for the purposes of the SVT to be made.
 - That decision has now been made and has confirmed that, in respect of the SVT declaration, the Ministry has the authority to collect personal information including SIN.
 - s.13
-
- Rather than wait until February to determine if the SIN can be collected and used for the purpose of determining eligibility (citizenship, residency) for the PTD program and simplifying and streamlining the application process, the Ministry is seeking approval to proceed with enabling the SIN collection now.

OPTIONS:

Option 1: Confirm the decision to collect SIN on the application for all new PTD accounts.

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RECOMMENDATION:

Option 1

APPROVED / NOT APPROVED


Carole James
Minister of Finance and Deputy Premier

Nov. 26, 2019
Date

Appendix 1 – July 2019 Briefing Note

Ministry of Finance

BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested:
Date Required:

Initiated by: Jordan Goss
Assistant Deputy Minister
Revenue Division

Date Prepared: July 16, 2019

Ministry Contact: Steven Emery
Executive Director
Property Taxation Branch

Phone Number: 778.698.3829
Email: Steven.Emery@gov.bc.ca

Cliff #: 383461

TITLE: Collection of Social Insurance Number (SIN) for the property tax
deferment (PTD) program.

PURPOSE:
(X) DECISION REQUIRED

DATE PREPARED: July 16, 2019

TITLE: Collection of Social Insurance Number (SIN) for the property tax deferment (PTD) program.

BACKGROUND / DISCUSSION:

- The PTD program is a low-interest loan program for eligible property owners to defer paying their annual property taxes.
- To qualify for PTD, the property owner must meet eligibility requirements, including being a Canadian Citizenship or permanent resident and the property must be their principal residence.
- The PTD program relies on taxpayer provided information regarding eligibility. The only independent confirmation that has been used by audit staff to date is regarding minimum equity thresholds.
- The current process is manual and time consuming. In addition, the program is currently administered using an outdated system. This system is in the process of being replaced by the Ministry's Gentax system as part of the Revenue Transformation Initiative. The Land Title and Survey Authority is also working closely with the Ministry to support the system transformation.
- With the manual administration, the PTD program has not had the ability to restrict property owners from deferring taxes on multiple properties nor the ability to confirm primary residency and citizenship / permanent resident status, resulting in potential program abuse.
- As part of the systems upgrade, the Ministry is looking at better ways to ensure eligibility and automate the eligibility decision.
- It is proposed that the application for PTD include the applicant's SIN.
- By collecting SINs from those wishing to apply for the PTD loan, the PTD program could cross reference the data provided by the applicant with Canada Revenue Agency information, such a citizenship and residency, confirming the eligibility of applicants.
- While taxpayers already provide SINs for other forms of tax, the PTD differs in that homeowners volunteer to apply for the PTD loan. If they are concerned about providing their SIN, they do not need to apply for the loan.
- s.13

- The timing of the decision to require SIN to apply for the PTD program is critical as the Ministry is in the process of designing the system solution for administering the PTD program. Collection of the SIN on the application will significantly simplify and streamline the processing of PTD applications.

Briefing Document

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OPTIONS:

Option 1: Build functionality to collect SINS from all PTD applicants and confirm "go/no go" with the Minister by February 2020.

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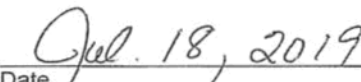
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RECOMMENDATION:

Option 1

APPROVED / NOT APPROVED


Carole James
Minister of Finance and Deputy Premier


Date

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested: November 15, 2019
Date Required: November 19, 2019

Initiated by: Samantha Sherman
Director, Policy, Rulings
and Services

Date Prepared: November 15, 2019

**Ministry
Contact:** Samantha Sherman
Director, Policy, Rulings
and Services

Phone Number: 778 698-8893

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Cliff #: 386360

TITLE: Refund of tax on long term purchases of accommodation

PURPOSE:

(X) DECISION REQUIRED

COMMENTS: An amendment to the *Provincial Sales Tax Exemption and Refund Regulation* (PSTERR) is required to remove an unintended inconsistency between the minimum required number of days of stay for the purchase of accommodation to be exempt of provincial sales tax and the associated refund provision.

DATE PREPARED: November 12, 2019

TITLE: Refund of tax on long term purchases of accommodation

ISSUE:

There is an inconsistency between the minimum required number of days of continuous stay for the purchase of accommodation between the exemption provision under section 78 of the PSTERR, which is "27 days or more" and the associated refund provision under section 133, which is "more than one month." Currently if a person purchases accommodation for a continuous period of 27 days to one month, they would qualify for an exemption from tax but would be unable to obtain a refund.

BACKGROUND:

The *Budget Measures Implementation Act, 2018* amended the *Provincial Sales Tax Act* (PSTA) to enable online accommodation platforms, such as Airbnb, to register to collect and remit tax on sales of accommodation listed on their platforms. As a result of giving online accommodation platforms the option to register to collect PST, several regulatory amendments were required to enable the registration of online accommodation platforms while minimizing disruptions to the current accommodation market.

In particular, effective October 1, 2018, section 78 of the PSTERR was amended to reduce the exemption (provided at the point of purchase) requirement for the duration of a continuous stay in a unit of accommodation from more than one month to 27 days or more. A set number of days, rather than "one month", is easier for online accommodation platforms to administer. Since the shortest month is 28 days, the regulation now says 27 days or more.

Section 133 of the PSTERR is the associated refund provision for a refund of tax paid on long term purchases of accommodation. Currently under the refund provision, the minimum stay required is a continuous period of more than one month. Section 133 is primarily intended to authorize the director to refund the amount of tax paid by a purchaser of accommodation for a period of time which was initially less than the required number of days for an exemption under section 78, but was subsequently extended and met the required number of days for the exemption. Section 133 would also allow the director to refund the amount of tax paid where a person purchases accommodation that is exempt under section 78 and the collector incorrectly refuses to provide the exemption.

The duration of continuous stay required for a refund of tax paid therefore differs from the duration of the continuous stay required for the associated exemption. This inconsistency was unintended.

DISCUSSION:

An amendment to section 133 to reduce the required duration of stay in the refund provision to "27 days or more" would resolve the inconsistency between the exemption and associated refund provision.

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The total dollar value of any additional refunds would be negligible as such claims would only represent a small subset of the approximately \$367,000 (based on calendar year 2018) paid for all refund claims submitted for tax paid on accommodation continuously occupied for a period of more than one month.

OPTIONS:

Option 1 – Amend section 133 of the PSTERR to remove the inconsistency of the minimum required duration of a continuous stay between the exemption provision and the associated refund provision.

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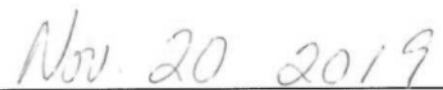
s.13

Recommendation: Option 1 – Amend section 133 of the PSTERR to remove the inconsistency of the minimum required duration of a continuous stay between the exemption provision and the associated refund provision.

APPROVED / NOT APPROVED



Carole James
Minister of Finance and Deputy Premier



Date

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested:
Date Required:

Initiated by: Tiffany Ma

Date Prepared: November 6, 2019

Ministry
Contact: Patrick Ewing

Phone Number: (778) 698-5254
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Cliff #: 385477

TITLE: Canada Health Transfer

PURPOSE:

(x) FOR INFORMATION

COMMENTS: Through the CHT, the federal government is funding less than 25% of provincial/territorial health care spending. The fluctuating annual growth rate for the CHT is not adequate to address cost pressures such as ageing.

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Executive Director approval: _____

ADM approval: _____

DM approval: _____

DATE PREPARED: November 6, 2019

TITLE: Canada Health Transfer (CHT)

ISSUE: There is a need to examine health care sustainability and consider expansion of the CHT as a priority in BC's federal-provincial fiscal relations.

BACKGROUND:

The CHT is the largest federal transfer to provinces and territories (PTs). It provides ongoing funding for health care and supports the five principles of the *Canada Health Act*: universality; comprehensiveness; portability; accessibility; and, public administration. The CHT is a block transfer which recognizes provincial jurisdiction over health care, allowing each province (and territory) to provide health care services according to their own needs and priorities.

The federal government has provided health transfers since the 1950's. The original 50-50 funding partnership with the federal government was changed in the 1970s when federal cash support was reduced to 25%; provincial/territorial (PT) and federal levels of government shifted their tax rates for PT governments to collect the other 25% of funding directly from taxpayers¹. Since then, Premiers have consistently called for federal CHT funding to target 25% of total PT health care spending.

Since 2014/15, CHT cash payments have been allocated on an equal per capita cash basis. Eliminating an adjustment for the value of the 1970s tax transfers created a windfall for Alberta, increasing its share by about \$1 billion per year, but reduced the share for all other provinces. BC's share was reduced by about ~\$250 million annually; this resulted in a year over year revenue decline in 2014/15:

Table 1: Canada Health Transfers and Health Care Spending in BC

	Actual 2013/14	Actual 2014/15	Actual 2015/16	Actual 2016/17	Actual 2017/18	Actual 2018/19	Updated Forecast 2019/20	Average (2013/14- 2019/20)
BC Share of CHT	4,280	4,186	4,454	4,744	4,994	5,182	5,435	
<i>Growth Rate</i>	5.7%	-0.2% ^a	6.3%	6.2%	5.8%	3.8%	4.6%	4.6%
BC Health Spending	17,862	18,370	19,203	19,689	20,927	22,151	22,993	
<i>Growth Rate</i>	2.1%	2.8%	4.5%	2.5%	6.3%	5.1%	4.5%	4.0%
Ratio: CHT/Spending	24.0%	22.8%	23.2%	24.1%	23.9%	23.4%	23.6%	

^a The negative growth rate for BC in 2014/15 reflects the impact of the CHT allocation change; the national CHT growth rate was 6.0% in 2014/15.

In the decade leading up to 2016/17, the CHT national growth rate was legislated at 6.0%. Effective in 2017/18, federal legislation reduced that rate to either 3.0% or a three-year moving average of nominal Gross Domestic Product (GDP), whichever is higher. The CHT grew nationally by 3.0% in 2017/18, 3.9% in 2018/19, and 4.6% in

¹ The federal government reduced its personal and corporate income tax rates; PTs increased their personal and income tax rates by equal amounts.

2019/20. Based on its own economic forecasts, the PBO has forecast that the CHT will grow by an average of 3.6% per year.

Premiers will be meeting on December 2, 2019, to discuss post-federal election positioning on intergovernmental issues, including the issue of federal healthcare funding.

DISCUSSION:

The Parliamentary Budget Office's (PBO) *Fiscal Sustainability Report 2018* estimated PT health care spending in 2019/20 to be \$174 billion. This suggests that the current CHT (\$40.4 billion) represents 23% of total PT health care spending. The CHT would need to increase by ~\$3 billion in 2019/20 if the federal government were to restore its share to 25% of PT spending.

The PBO's report projected that PT health care spending would grow by 4.4% annually. Growth in PT health care spending has been relatively low since the 2008 economic crisis as PTs have been engaging in restraint to balance their budgets, but that low growth is not expected to be sustainable over the medium term. As reported to Premiers in PT Finance Ministers' two 2016 reports², health care spending over the long term can be expected to increase by 5.2% on average due to cost pressures such as population growth (0.9%); ageing (1.0%); inflation (2.5%); and improved access, adaptation, and innovation (0.8%). The current CHT growth rate fails to account for these cost pressures, most notably population ageing. Premiers have thus called for the CHT to grow by 5.2% annually, to reflect these cost pressures.

Whether one accepts the 5.2% health care cost driver put forth by Finance Ministers or the lower 4.4% growth rate forecast by the PBO, CHT growth rates are expected to fall short of PT health care spending growth over the medium term. The consequence of this is that the federal share of health care spending is expected to decline.

Reducing the legislated CHT growth rate from 6% in 2017/18 has helped improve the long-term fiscal outlook of the federal government at the expense of provinces and territories. This compounded the fiscal hit on PTs caused by the 2008 global recession and has made it more difficult for them to fund needed improvements to health care. BC is in a good fiscal situation relative to other provinces, but material improvements to the CHT would help the long-term sustainability of all provinces, including BC. See Appendix A for estimated fiscal impacts of alternate CHT growth rates.

The federal government has committed to reviewing the CHT, but not until 2024. However, federal/provincial/territorial officials on the Transfer Subcommittee of the Fiscal Arrangements Committee adopted a work plan in 2019 that includes a review of the CHT. The new federal government may be more receptive to calls to address the CHT and health care sustainability given their minority government status.

² *Canadian Health Partnership: The Case for Federal Investment and Canada Health Transfer: Funding Options*

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Appendix A: Impacts of Alternative CHT Growth Rates

Table A1 estimates how much higher the Canada Health Transfer (CHT) would be in each of the following 10 years if the growth rate was increased from the current growth rate (the higher of 3.0% or average nominal GDP) to flat rates of either 4.4%, 5.2%, or 6.0%. The 6.0% represents the growth rate prior to 2017/18; 5.2% is the amount Premiers have called for; and 4.4% represents the rate required to cover the pressures from population growth and ageing (1.9%) and inflation (2.5%, or about 0.5% above CPI), but not sufficient to fund improvements in the health care system (improved access, adaptation, and innovation).

Table A1: Estimated Annual Impacts of Adopting Other CHT Growth Rates (\$B)

	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>	<u>23/24</u>	<u>24/25</u>	<u>25/26</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>Total</u>
4.4% Growth	0.2	0.5	0.9	1.3	1.7	2.2	2.8	3.4	4.1	4.8	21.9
5.2% Growth	0.5	1.2	2.0	2.8	3.7	4.7	5.8	7.0	8.3	9.7	45.6
6.0% Growth	0.8	1.9	3.0	4.3	5.7	7.2	8.9	10.8	12.8	15.0	70.5

Based on 2018 Parliamentary Budget Office estimates for CHT growth under the legislated formula.

Table A2 estimates how the 10-year impacts of the alternative growth rates would be distributed across provinces (note: the value to territories is also included in the total).

Table A2: Distribution of Estimated 10-Year Impacts, by Province (\$B)

	<u>NL</u>	<u>PE</u>	<u>NS</u>	<u>NB</u>	<u>QC</u>	<u>ON</u>	<u>MB</u>	<u>SK</u>	<u>AB</u>	<u>BC</u>	<u>Total</u>
4.4% Growth	0.3	0.1	0.6	0.4	4.9	8.5	0.8	0.7	2.6	3.0	21.9
5.2% Growth	0.6	0.2	1.2	0.9	10.2	17.7	1.7	1.4	5.4	6.1	45.6
6.0% Growth	1.0	0.3	1.8	1.4	15.8	27.3	2.6	2.2	8.3	9.5	70.5

Based on Statistics Canada population projections and 2018 Parliamentary Budget Office estimates for CHT growth under the legislated formula.

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Ministry of Finance

BRIEFING DOCUMENT

To: Honourable Carole James
Minister of Finance
and Deputy Premier

Date Requested: November 5, 2019
Date Required: November 5, 2019

Initiated by: Treasury Board Staff

Date Prepared: November 5, 2019

**Ministry
Contact:** Raeleen Siu

Phone Number: 250-812-1747
Email: raeleen.siu@gov.bc.ca

Cliff #: 386058

TITLE: CleanBC Annual Report on Emissions and Spending

PURPOSE: DECISION REQUIRED

COMMENTS: CleanBC committed government to tabling an annual report in the Legislature on progress towards emissions targets and spending. The Ministry of Environment and Climate Change Strategy is leading the development of a 2019 annual report with support from Treasury Board Staff which is intended to be published in January 2020, as the legislative amendments to the *Climate Change Accountability Act* have not yet been passed. The report will also include information related to *Budget 2018*'s commitment to ongoing transparency regarding the spending of carbon tax revenues.

DATE PREPARED: October 30, 2019

TITLE: CleanBC Annual Report on Emissions and Spending

ISSUE: Government has committed to report on progress towards achieving climate change emissions targets. The Ministry of Environment and Climate Change Strategy is leading the establishment of the 2019 annual report, with support from the Ministry of Finance's Treasury Board Staff on the spending components.

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BACKGROUND:

Accountability and Reporting Commitments

- With the removal of the revenue-neutral requirement for carbon tax, no formal reporting requirements were enacted to replace the former Revenue Neutral Carbon Tax Report (last published in *Budget 2017 Update*).
- CleanBC, released in December 2018, includes an accountability framework that commits to "table in the Legislature an annual report of spending, program results and anticipated greenhouse gas (GHG) reductions from the previous year," and, "forecast emissions for three years in the future."
- *Budget 2018* stated, "new revenues generated from carbon tax rate increases [will] fund the transition to a sustainable, low-carbon province," and, "the Ministry of Finance and the Ministry of Environment and Climate Change Strategy commit to ongoing transparency regarding the spending of carbon tax revenues."
- The *Climate Change Accountability Act* (CCAA) is in the process of being amended to require an annual report starting in 2020. In addition to reporting on GHG emissions on a calendar year basis, the report will include expenditures from the previous fiscal year and planned expenditures in the most recent budget to reduce BC GHG emissions and manage climate change risks.

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Budget 2019 identified \$679M in funding for CleanBC over the three-year fiscal plan, and \$223M for enhancements to the Climate Action Tax Credit, for a total of \$902M.

Incremental Carbon Tax Revenue

- The incremental carbon tax revenue for the three-year fiscal plan amounts to \$1,945M. This includes the incremental revenue resulting from the rate increase from \$30/tonne CO₂e to \$35 on April 1, 2018, to \$40 on April 1, 2019, to \$45 on

April 1, 2020, and to \$50 on April 1, 2021. Revenue including 2018/19 is \$2,154M (see Table 1).

Table 1: Carbon Tax Revenue Forecast

<i>\$ millions</i>	Actual	Q1 Forecast			Cumulative	
	2018/19	2019/20	2020/21	2021/22	Four yrs	Three yrs
Carbon Tax Revenue	1,465	1,705	1,952	2,181	7,303	5,838
Annual growth	210	240	247	229	926	716
Growth due to base	1	25	25	-	51	50
Growth due to rate	209	215	222	229	875	666
Growth due to rate - cumulative	209	424	646	875	2,154	1,945

DISCUSSION:

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