

July 30, 2001

Ministry of Finance

TAX CUTS AND FISCAL CONTROLS DETAILED

Today's economic and fiscal update underscored British Columbia's serious fiscal challenges and outlined measures to restore the province's economic vitality through tax relief and better fiscal management by government.

Business Tax Cuts

Effective tomorrow, production machinery and equipment purchased by eligible manufacturers – as well as logging, mining and energy-sector businesses – will be exempt from provincial sales tax. For many years, British Columbia was the only province to apply its sales tax to these assets without providing a significant offset. The exemption replaces a three per cent investment tax credit introduced last year.

The general corporation capital tax will be phased out over two years. The rate will be cut in half to 0.15 per cent on Sept. 1 and eliminated one year later. This tax, introduced in 1992, has been a serious impediment to investment from overseas, and small businesses have paid this tax indirectly through their rent.

The general corporation income tax rate will fall to 13.5 per cent from 16.5 per cent on Jan. 1. B.C.'s rate is currently among the highest in Canada. The government will strive to keep the rate competitive in the years ahead.

To support the use of British Columbia as a transportation gateway, the domestic jet fuel tax rate will be reduced to two cents per litre from five cents on Aug. 1. This will align the province's domestic rate with those of competing jurisdictions and that charged on international flights. In addition, the tax rate on aviation fuel will fall to two cents a litre from three cents a litre. These cuts will make Vancouver International Airport more competitive and assist regional airports by lowering the cost of flights within British Columbia.

The tax on bunker fuel, which is used to run large ships, ends on Aug. 1. British Columbia has been one of very few jurisdictions that impose such a tax. Eliminating it will allow British Columbia ports to supply more fuel to visiting ships and make the province more attractive to cruise-ship operators.

To encourage mining exploration, British Columbia will introduce a 20 per cent flow-through share credit modelled after a federal one. The existing mineral exploration tax credit will remain for companies and individuals that do use flow-through shares to finance exploration.

In addition, business and individuals will benefit from an increase in the passenger vehicle surtax threshold. Effective July 31, the threshold will be raised for the first time since 1994. Applying the surtax to vehicles costing over \$47,000 instead of \$32,000 will increase the purchasing power of individuals and businesses who need trucks, passenger vans and other vehicles.

Fiscal Management

Over and above the \$9.3 billion in promised health care funding, the government has added \$45 million for Pharmacare and preserved the K-12 education budget of \$4.8 billion. To sustain health care and education over the long term, the province will use the interim measures announced today to build a comprehensive, three-year fiscal plan for next year's budget.

A core services review will examine every government program and service to ensure resources are effectively applied. Once the review is complete, the government will publish three-year budgets and service plans to outline what British Columbians can expect from government, including detailed strategies, targets and costing for programs and services.

The government will provide health regions, hospitals, school boards and post-secondary institutions with three-year funding commitments, to foster certainty in planning and delivery. The Waste Buster Web site will allow British Columbians to identify unnecessary red tape and government waste, and will require the relevant ministries to respond within a set period.

Legislation Supporting Stronger Fiscal Management

The Balanced Budget and Ministerial Accountability Act mandates a balanced budget by 2004/05. Under the act, the government will withhold 20 per cent of cabinet ministers' ministerial salaries starting next year. A minister will be able to earn back 10 per cent if his or her ministry meets its budget target. The other 10 per cent will be paid out only if the government as a whole meets its budget target.

The Budget Transparency and Accountability Act has been amended to ensure the government moves to implement generally accepted accounting principles. In addition, it forbids the use of special warrants, except when a natural disaster or the timing of an election necessitates them. Special warrants allow government to authorize spending in excess of the provincial budget without seeking the approval of the legislature.

In addition, the BTAA makes tabling of the budget on the third Tuesday in February mandatory and requires ministry service plans – letting taxpayers know what they will get for their money – to be tabled with the budget.

Four other existing statutes – the Income Tax Act, Corporation Capital Tax Act, Social Service Tax Act and Motor Fuel Tax Act – are being amended via two bills introduced to implement the government's tax-cutting initiatives, including the personal income tax cut announced June 6.

Contact: Ministry of Finance
Communications Branch
1 866 356-7241
www.gov.bc.ca/fin

Information on consumption tax changes:
Consumer Taxation Branch
604 660-4524 or 1 877 388-4440
www.rev.gov.bc.ca/ctb