MSP Task Force

Tax Reform Proposals

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Acknowledgement

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March 31, 2018

The Honourable Carole James
Minister of Finance
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Dear Minister James:

In November 2017 you asked us to advise you on how and when to eliminate MSP premiums and replace the forgone revenue. The Task Force members approached our original mandate by reviewing the existing tax system in B.C., considering the path taken in other provinces, reflecting on the current policy environment, and engaging with key organizations and stakeholders.

On February 1, 2018 we provided you with a written Interim Report with some initial advice and an indication of where our review was taking us at that time. In Budget 2018, which you delivered on February 20, 2018, you indicated that MSP premiums would be eliminated effective January 1, 2020 and that the foregone revenue would be replaced with the Employer Health Tax effective January 1, 2019.

You asked us to continue our work despite the fact that the MSP premium revenue has now been replaced. Our new focus was to develop options for tax reform based on information we obtained during our review of the tax system in B.C. and some of the options we had been considering to replace the MSP premium revenue.

We are pleased to provide you with our final report. It includes five recommendations for tax reform initiatives, most of them revenue neutral by design, that are intended to address principles of progressivity, fairness, efficiency, and business competitiveness.

These five recommendations should not be construed as a comprehensive list of tax reform options available in B.C., but rather measures that we already had under consideration as part of the MSP premium replacement exercise and which may be worthy of further consideration. We hope that our advice will be useful in suggesting ways to improve the tax system.

Yours sincerely,

Dr. Lindsay Tedds	David Duff	Paul Ramsey

Executive Summary

The Task

In the September 2017 B.C. Budget Update, the government announced that MSP premiums would be eliminated within four years, with advice from a task force of experts on how best to replace the foregone MSP premium revenue. The MSP Task Force was formed in November 2017 and asked to report by March 31, 2018. The Terms of Reference[1] for the Task Force required us to apply the principles of fairness, efficiency, business competitiveness, simplicity, revenue stability, and progressivity in determining the best way to replace MSP premium revenues.

On February 1, 2018 we provided the Minister with our Interim Report that described our process and what we had heard so far. We conducted a thorough review of the B.C. tax system and met with or received input from 70 individuals and 28 stakeholder groups. The most common theme in the input was that the revenue should be replaced by a combination of an increase to personal income tax and a payroll tax. Other suggestions included taxes on unhealthy activities, corporate tax changes, broadening the Provincial Sales Tax (PST) base, and changing the Home Owner Grant to an income-tested program. Our Interim Report provided the following initial advice to the Minister:

- Eliminate premiums and start collecting the replacement revenues all at once without phase-in;
- Provide reasonable notice to allow employees and employers to prepare for the change; and,
- Use a combination of measures to mitigate the negative impacts of each individual measure.

In Budget 2018, delivered on February 20, 2018, the Minister announced that MSP premiums would be eliminated effective January 2020, with foregone revenue offset by the Employer Health Tax, a payroll tax. The budget document also indicated that the Task Force should continue its work and make recommendations to improve the progressivity, fairness, and competitiveness of the tax system.

We have built upon some of the ideas we were working on to raise revenue and some observations we made while reviewing the tax system, but our proposals are now generally intended to be revenue-neutral rather than ways to raise revenues.

Enhanced Tax Benefit Package

The first proposal is based upon three observations:

- In considering a tax on sugary drinks as part of a package of taxes on unhealthy activities, we noted that there is little justification for exemption of most non-alcoholic beverages from PST because of their limited nutritional value, compared to other food;
- The Home Owner Grant is a regressive feature of the tax system that is also fundamentally unfair and would be improved by using the income system to provide more progressive tax relief to home-owners and renters; and,
- B.C.'s refundable tax credits for lower income households, particularly the Sales Tax Credit, are insufficient to provide much benefit.

Combining these three observations, the Task Force makes the following recommendation for a revenue-neutral package of changes that improve the progressivity and fairness of the tax system:

1 See Appendix 1 – Terms of Reference

The Task Force recommends *that the Province:*

1. *Subject non-alcoholic beverages except non-carbonated water and unflavoured milk to PST;*
2. *Eliminate the Home Owner Grant (HOG); and,*
3. *Create a combined refundable tax credit with the following features:*
   a. *An enhanced Sales Tax Credit funded by the PST levied on non-alcoholic beverages;*
   b. *The existing B.C. Climate Action Tax Credit, which the Province has committed to enhance as the Carbon Tax rate increases;*
   c. *New homeowner and renter tax credits providing a fixed amount that would be phased out for household income above a defined threshold (for example, a credit of $750 per year plus $275 for those with disabilities or living with a person with disabilities phased-out for those with family incomes in excess of $100,000 would be revenue-neutral);*
   d. *The combined credit to be delivered to qualifying households in a regular and timely manner to increase their efficacy; and,*
   e. *The credit could be named the Dogwood Benefit after the provincial flower.*

The Province should ensure that these tax benefits are designed to avoid adverse effects such as high effective marginal tax rates, when combined with other tax credits and income-tested programs. The Province should also provide significant additional resources to increase tax filing among low-income individuals.

Minimum Wage Tax Adjustment

We observed that the Fair Wage Commission recommendation to increase the minimum wage to $15 by 2021 could have negative effects on some minimum wage earners who would have to begin paying tax for the first time because of the wage increases. That can be avoided in a roughly revenue-neutral way by increasing the B.C. Tax Reduction Credit, a non-refundable tax credit that acts to extend the Basic Personal Amount for lower income individuals.

The Task Force recommends *that the Province increase the B.C. Tax Reduction Credit consistent with the increases in minimum wage over the period to 2021 and ensure that increases in this tax credit are tied to increases in the minimum wage.*

PST Reform

In our Interim report the Task Force mentioned that a payroll tax will affect business competitiveness. There are several other recent developments that may reduce B.C.'s competiveness, including increasing the B.C. Corporate Income Tax (CIT) rate, increasing the Canadian Pension Plan (CPP) rate, US tax reform, and increased trade protectionism.

The Task Force believes that one of the best ways to offset reductions in competitiveness would be to reduce the effect of the PST on businesses, especially on business investment. Sales taxes paid by businesses increase operating costs and capital costs. That makes it difficult for businesses to compete with those in other jurisdictions with lower costs. It also deters investment in the facilities and equipment needed to keep up with efficiency gains in global industries.

Two panels have examined PST reform options directed toward improved tax competitiveness since 2012. The Task Force supports the work of those panels in making the following recommendation to improve tax competitiveness in B.C.:

The Task Force recommends *that, given concerns about B.C.'s relative business competitiveness, consideration be given to PST reform directed toward increasing competiveness by:*

- *At least reducing the impact of the tax on machinery and equipment or all capital spending; and,*
- *If possible moving to a value-added tax, after a comprehensive public consultation.*

Tax Compliance Initiatives

While the September 2017 Budget Update and Budget 2018 included some measures to improve tax compliance in relation to taxes on property, the Task Force believes that the B.C. tax system could be made fairer, more efficient, and more competitive if there were more emphasis on tax compliance. When taxpayers are not paying their fair share, it is unfair to everyone and everyone has to pay more to support the same level of services.

Areas that are ripe for improvement include enhanced information sharing and linking of information, improved provisions and agreements related to the taxation of the digital and sharing economies, rules to avoid skimming cash and the suppression of sales by businesses, and transparency of beneficial ownership, especially through corporations and bare trusts. The result could be substantial increased revenue.

The Task Force recommends *that the Province focus on and implement measures to increase tax compliance in the Province as a priority, in particular transparency of beneficial ownership.*

Tax Policy and GBA

Gender-based analysis (GBA) is a tool employed by policy makers to examine how policy, legislation, and program decisions impact people differently. GBA is an important component to achieving inclusive growth that reduces inequality rather than economic growth primarily benefitting the wealthy and high-income earners.

While GBA should be applied to all aspects of public policy, it is especially important for tax policy. For example, much of the tax system is based on the assumption that income, assets, and obligations are shared within a household, which is often not the case in the modern world. As a result, the secondary earners within a household often cannot benefit from tax measures commensurate to their economic position.

The Task Force recommends *that the Province work with the Parliamentary Secretary for Gender Equity and GBA experts, including tax policy experts, to develop a comprehensive framework to design and deliver policy consistent with GBA principles. It should also ensure that GBA is taken into consideration not only during design and implementation, but also during priority setting and problem identification.*

The Task

Our Original Task

In the September 2017 B.C. Budget Update, the government announced that MSP premiums were going to be cut by one half effective January 1, 2018. The government also promised to eliminate MSP premiums within four years. In November 2017 the Minister of Finance established the MSP Task Force comprised of experts in economics, law, and public policy and asked us "to advise the Province on how best to complete the elimination of MSP premiums and replace the foregone revenue from premiums."[2]

On February 1, 2018 we provided the Minister of Finance with our Interim Report[3] that included some initial advice about how to eliminate MSP premiums:

- Eliminate premiums and start collecting the replacement revenues all at once without phase-in;
- Provide reasonable notice to allow employees and employers to prepare for the change; and,
- Use a combination of measures to mitigate the negative impacts of the measures.

The following sections describe the tax policy principles that underpinned our work, our process, and the results of consultations which led us to the advice in our Interim Report. We also discuss how Budget 2018 decisions changed the nature of our task.

Tax Policy Principles

The Terms of Reference for the Task Force required us to apply the following principles in determining the best way to replace MSP premium revenues:

- Progressivity;
- Fairness;
- Efficiency;
- Business competitiveness;
- Simplicity; and,
- Revenue stability.

Progressivity refers to the degree to which the tax burden increases with income or wealth and is sometimes referred to as vertical equity. Those with low income and/or wealth have less capacity to pay taxes than those with high levels of income and/or wealth and there is a general consensus that the tax system should be progressive overall. The Minister of Finance asked that any replacement for the MSP premium make the tax system more progressive because, despite MSP Premium Assistance, MSP premiums are not progressive except for those at the lowest income levels.

Fairness in tax policy is generally understood to include the concept of horizontal equity—treating people in similar circumstances the same. Taxes are generally considered unfair if there is not a reasonable justification for treating similar taxpayers differently.

Efficiency refers to the economic cost imposed by taxation. All taxation imposes an economic cost, which is justified by the public services that are funded by that taxation. However, the choices made designing taxes can increase or decrease the economic costs imposed by a given level of taxation.

One type of economic cost imposed by taxation is the cost of administering the tax, both by government and taxpayers. For example, MSP premiums impose relatively high costs per dollar earned by government because of the way the premiums are applied and collected and are inefficient in this sense. Another

2 See Appendix 1 – Terms of Reference

3 See Appendix 2 – Interim Report

aspect of administrative efficiency is the effectiveness of administration in ensuring that the provisions of the tax legislation are appropriately complied with. The more difficult it is to enforce compliance with a tax, the less efficient the tax.

Another way that taxation imposes economic costs is by distorting markets and changing behaviours in the economy because relative prices have changed. Sometimes taxes may introduce distortions on purpose as an economic policy measure (such as with the Carbon Tax and targeted tax credits for certain industries) and in other cases it may be an unintended consequence of a design feature of a tax intended for another purpose. PST exemptions provide examples of design features that may impose economic costs through both administrative costs and price distortions.

Business Competitiveness refers to the degree that taxes in B.C. impose higher or lower costs on businesses in the province than are imposed on their competitors in other jurisdictions. A higher business tax burden in one jurisdiction puts its businesses at a competitive disadvantage compared to businesses in lower tax jurisdictions. Of particular concern to many is the impact of taxation on capital investment by business. Taxes that increase the relative cost of investment by businesses dampen investment. Investment reduces operating costs of a business though improved machinery and equipment and increases the capacity of the business to produce more product. Dampening investment thus increases production costs and reduces production capacity, affecting economic growth in a jurisdiction.

Recently there have been several developments that may affect B.C. business competitiveness, including the recent increase in the B.C. CIT rate, CPP premium increases, US tax reform, the Employer Health Tax (a payroll tax), and the increased threat of protectionist trade policies.

Simplicity is often an objective in the design of taxation but is often difficult to achieve due to the complexity of the world to which taxation applies and due to the fact that there are often multiple objectives that a tax must balance. Keeping a tax simple helps with some of the other principles, notably administrative efficiency and can help to make a tax more publicly acceptable if it is easily understood. Transparency in taxation and other fiscal matters is important, and simplicity tends to increase transparency.

Revenue Stability is important because the primary purpose of taxation is to raise revenue to fund public services. When the level of revenue is hard to predict or is volatile, that can result in a mismatch between revenue raised and funding requirements. MSP premiums are a stable source of revenue and the task of replacing that revenue requires a similar level of revenue stability. Since that is no longer our task, we are less concerned with revenue stability in our analysis of potential tax reform measures than we would have been under our original task.

Process

Our Interim Report described the process that we have used in doing our work:

> Citizens, businesses, and interested parties were encouraged to share their ideas on replacing the MSP premium revenue through the MSP Task Force engagement website with a deadline of January 31, 2018.
>
> The Task Force also decided to meet face-to-face with key organizations to discuss specific perspectives and issues, and to receive specific feedback on various options.
>
> To inform our work, the Task Force reviewed the existing tax system in B.C. within the context of the tax policy environment federally and provincially in Canada, and tax reform in the United States. We also looked at the path followed by other provinces that have eliminated health care premiums, focusing particularly on Ontario, Quebec, and Alberta.
>
> Our work has been informed by consultations undertaken by business competitive commissions in 2012 and 2016 as well as the publicly available Budget 2018 consultation submissions. We are aware of other currently ongoing reviews including the Mobility Pricing Independent Commission, the Fair Wages Commission, and the Poverty Reduction Advisory Forum, that may also propose changes that will affect individuals and businesses in B.C.

For more background about the B.C. tax system developed during our review, see Appendix 3 – Tax System Background.

What We Heard

Input from Individuals

The Task Force received more than 70 submissions from individual British Columbians. Suggestions for replacing revenues were broad and varied including personal income tax increases, payroll tax, PST based broadening, taxes on unhealthy activities, finding savings within the health system, health user fees, and congestion fees.

Many who provided input see MSP premiums as regressive and would rather a more progressive personal income tax structure be implemented. The most common suggestion was to replace premiums with higher income taxes, either by changing the rates for higher income earners or by implementing a progressive income surtax like the Ontario health premium.

Input from Stakeholders

The Task Force received written submissions and/or oral presentations from 28 industry organizations, unions, health organizations, think tanks, and academics in B.C., which are listed in Appendix 4 – Public Engagement Participants.[4] The most striking theme from the submissions and the oral presentations was the expectation that government was likely to replace premiums with a combination of personal income tax and payroll tax, similar to the approach taken by Ontario. While some opposed the use of a payroll tax, even they expected that a combination of income tax and payroll tax would ultimately be implemented by the Government of British Columbia.

Some respondents provided additional detail regarding the implementation of tax measures. For personal income tax, some recommended a separate health levy similar to that which exists in Ontario, whereas others recommended a combination of changes in the statutory personal income tax rates and thresholds. Some recommended that personal income tax increases be focused on higher-income individuals to

4 There were also about 1,400 form letters from individuals in support of one of the stakeholder submissions.

improve the progressiveness of the tax system. Business groups generally cautioned against increasing corporate income taxes, as doing so would reduce B.C.'s competitiveness with other jurisdictions.

For a payroll tax, business groups suggested that if implemented, the rate of the payroll tax be kept low to limit negative business competitiveness impacts given several other current business competitiveness concerns. Small business groups suggested exempting small business, while representatives of larger businesses suggested no exemptions.

In addition to personal income tax and payroll tax, there were several other suggestions raised, including:

- Raising corporate income tax rates;
- Reducing corporate tax expenditures, such as film and digital media related tax credits;
- Broadening the PST base;
- Replace the PST with a value-added tax;
- Introducing new taxes on sugary drinks and "junk" food;
- Increasing taxes on liquor and tobacco;
- Taxing and regulating cannabis;
- Making changes to property taxation; and,
- Changing the Home Owner Grant to an income-tested program delivered through the income tax system.

As a result of this input and our initial analysis, the Interim Report indicated that the Task Force was "leaning towards a combination of a personal income tax surcharge, a small payroll tax, and one or more of the additional ideas we are developing." The eventual recommendations that would have been made by the Task Force in its final report, however, would have depended on the completion of our work.

The Current Task

In Budget 2018 the Minister of Finance announced that MSP premiums would be eliminated effective January 1, 2020 and that a payroll tax, the Employer Health Tax, would take effect January 1, 2019, one year prior to the phase out of MSP premiums, to replace the foregone revenues.

As a result of the budget announcement, the purpose of the Task Force as set out in the Terms of Reference and the direction of the Task Force's work outlined in the Interim Report was changed.

The Minister has, instead, asked the Task Force to develop some of the options alluded to in our Interim Report that could be considered as tax reform measures to improve the B.C. tax system. As noted in Budget 2018:[5]

> The government intends that the MSP Task Force will continue its work, presenting its final report on March 31, 2018, as planned. The province will benefit from receiving the Task Force's analysis and recommendations to inform future efforts to improve the progressivity, fairness and competitiveness of the tax system.

As a result, this report does not provide any analysis of the announced Employer Health Tax or comment on it in any way, including on how and when the government has eliminated MSP premiums, the extent to which MSP premium revenue has been replaced, or implementation concerns with the announced payroll tax. We are also not considering other revenue raising measures, such as income tax surcharges.

Instead, our Final Report is limited to providing advice about possible future, preferably revenue-neutral, measures that could improve the tax system. However, it should be noted that since there was only a little over a month left in our mandate when the provincial budget was announced, there was not time to

5 Budget and Fiscal Plan – 2018/19 to 2020/21, page 78.

develop a comprehensive list of tax reform options. Instead, this report is focused on several of the measures that we already had under consideration as part of an MSP premium revenue replacement package that may be worthy of further consideration.

Our analysis continues to be focused on the tax policy principles discussed above, especially progressivity, fairness, and business competitiveness. We had originally been asked to take revenue stability into account, consistent with the original objective of raising revenue to replace MSP premium revenue on an ongoing basis. Consistent with our revised task, our intention is now to produce ideas that can improve the tax system, in line with the principles above, without having a material impact on the total amount of provincial government revenue. Most of our proposals are intended to be revenue-neutral.

Proposals

Enhanced Tax Benefit Package

This proposal is a combination of three related observations made by the Task Force during our review about changes that would improve the tax system:

- Health-related taxes including a tax on sugary drinks was an attractive source for the revenue we were asked to replace, but even in the absence of that requirement, we observed that there is little justification for the exemption of most non-alcoholic beverages from PST, compared to other food exemptions;
- The HOG is a regressive and unfair element of the tax system that could be significantly improved by making it income-tested and extending it to renters, which is an outstanding commitment of government; and,
- Increases to refundable tax credits and combining the tax credits to provide for more substantial monthly or quarterly benefit payments for lower income households could significantly improve tax system progressivity.

The following describes each of these elements in turn and combines them into a revenue-neutral package that would substantially increase refundable tax credits and improve the efficiency, fairness, and especially progressivity of the tax system.

Tax Non-Alcoholic Beverages

The Task Force was considering a set of additional taxes and tax increases on goods that negatively affect health outcomes to generate some of the revenue to replace MSP premium revenue. That included increasing existing liquor and tobacco taxes, taxing sugary drinks, and potentially other "junk food" under PST at a significantly higher tax rate, and future tax increases on cannabis to the extent that is practical. Our initial assessment was that such a package of taxes and tax increase could have generated several hundred million dollars annually.

The idea of a tax on sugary drinks and possibly junk food would have been the most significant in terms of revenue. There are arguments in favour and opposed to such taxes, which have been introduced in several U.S. and other international jurisdictions. Research on the efficacy of existing sugar-related taxes to reduce obesity is limited. However, research demonstrating adverse health effects of consuming high amounts of sugar and sugar substitutes raises a policy concern with the consumption of high sugar and sugar-substitute beverages. At the same time, a tax on sugary drinks or junk food could have significant administrative cost implications for tax administrators and retailers, depending on exactly how the tax were applied, such as if it was based on sugar content as has been done in some other jurisdictions.

One observation made by the Task Force is that there are food-related exemptions from PST that are not very consistent with our tax policy criteria. One of those is the fact that all non-alcoholic beverages are PST exempt and most have some degree of sugar or sugar-substitute content. Simply removing the PST exemption for these drinks may not generate material health benefits associated with reducing consumption of these drinks, but these drinks do generate material health costs associated with their consumption and there is no nutritional or other benefit of the drinks that justify their tax exemption.

As a result, the Task Force proposes that all non-alcoholic beverages except non-carbonated water and unflavoured milk be subject to PST. We have chosen this specific set of products because it is a broad group of products that would be relatively easy for tax administrators and retailers to identify that also keeps the PST exemption for basic water and milk products in place.

The PST is a complex tax because of all of the provisions which differentiate between what is taxable and what is not. This large set of provisions leads to many difficulties for administrators and retailers alike in accurately applying the PST to specific items. The intention of our proposal is to make it as easy as possible to apply the concept that most non-alcoholic beverages should become taxable. One way of doing that is to use provisions that are already used and applied by retailers in the application of another tax, in this case the GST.

While the GST has fewer exemptions than the PST, it also has considerable complexity associated with it. Some of that complexity has to do with the way food is treated by the tax. There are three different ways that GST is applied to different types of food:

- Some food is exempt from GST;
- Some food that is taxable is nonetheless not taxed because it is zero-rated (i.e. it is taxable, but the tax rate is zero); and,
- Some food is taxable.

The way GST works for non-alcoholic beverages is that all non-alcoholic beverages except non-carbonated water and unflavoured milk are taxable. Some non-alcoholic beverages are zero-rated in some circumstances and others are subject to tax in all circumstances, but those details are not relevant to our proposal.

Our proposal is that non-alcoholic beverages except non-carbonated water and unflavoured milk should be taxable under PST in all circumstances. We believe that by using the same rules as GST about what is and is not taxable, the proposed change to the PST will be fair and relatively easy to apply.

The Ministry of Finance has estimated that applying PST to non-alcoholic beverages except non-carbonated water and unflavoured milk would generate up to $120 million annually.

Eliminate the Home Owner Grant (HOG)

The HOG is a provincial grant that offsets property taxes on the principal residence of most homeowners in B.C. The basic HOG amount is $570. An additional amount of $200 is available everywhere in the province except Capital Regional District, Metro Vancouver, and the Fraser Valley Regional District. There is a further additional amount of $275 for seniors and additional grants for veterans and persons with, or living with a person with, a disability.

There is an assessed value threshold (currently $1.65 million) above which the HOG is phased out. The threshold is adjusted each year so that about 91% of homeowners qualify for the HOG. The HOG is expected to cost the provincial government $821 million in 2018/19.[6]

One of the ideas that was most attractive to the Task Force in looking for mechanisms to replace MSP premium revenue was changing the HOG because it is inconsistent with the principles of progressivity, administrative efficiency, and fairness, described above.

The HOG largely benefits relatively high-income individuals and is limited to property owners, who are often wealthier individuals. Thus, the HOG reduces overall tax system progressivity.

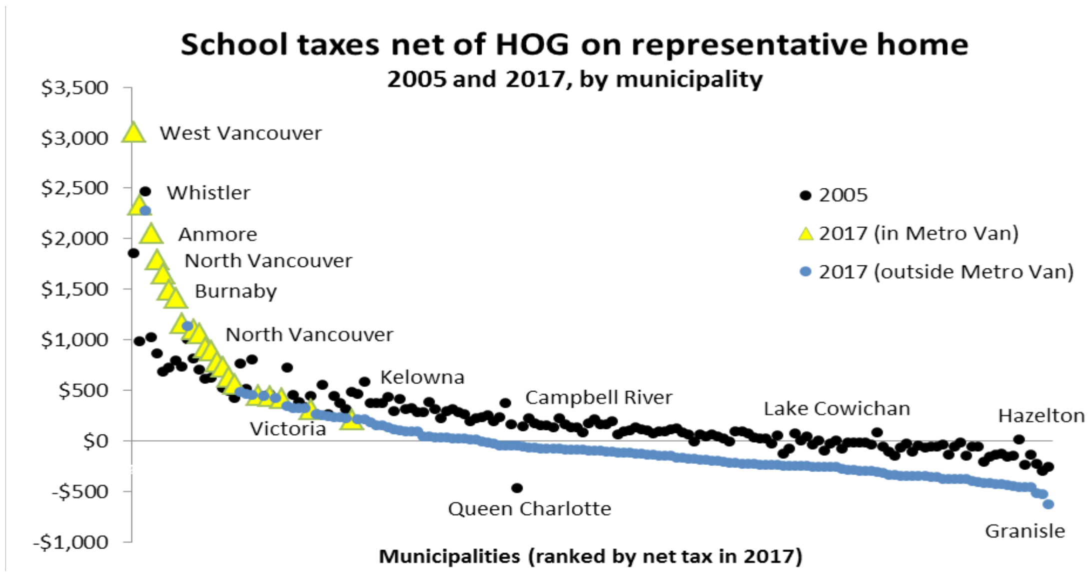
The HOG requires an annual application that places an administrative burden primarily on municipalities even though the HOG is intended to reduce School Tax, a revenue source of the Province.[7] As a result of the mismatch of administration with the impact of the tax, municipalities have little or no incentive to audit HOG applications and to ensure that applicants are in fact entitled to the grant. Information sharing arrangements being implemented with the B.C. Assessment Authority will allow for better enforcement of eligibility criteria in future, but there is an expectation at present that many people receive the HOG who are not eligible, an efficiency and fairness concern.

6 Additional background can be found in Appendix 3 – Tax System Background.

7 In some municipalities, HOG is greater than the School Tax and reduces the municipal and other property taxes paid by the property owner. In these cases, the Province effectively reimburses the municipality for the difference.

The HOG is also unfair in the sense that renters, who bear the burden of property taxes through rental prices, and homeowners are treated differently and that people in different regions are treated differently. The HOG is a relatively small proportion of property tax paid in urban areas and applies to a smaller proportion of houses in the Lower Mainland and Southern Vancouver Island, where houses are much more likely to exceed the threshold, and thus not qualify for the grant. On the other hand, in rural areas HOG represents a much higher proportion of property taxes paid. As demonstrated by Chart 1 below, in the majority of municipalities outside Metro Vancouver the HOG more than fully offsets school taxes on a representative home and therefore reduces municipal property taxes owed as well.

Chart 1 – School Taxes Net of the HOG



The more than full offset is due in part to the enhanced HOG grant of $200 outside of Metro Vancouver, the Fraser Valley Regional District, and the Capital Regional District, the very areas where school and municipal taxes on a representative or "average" house are lower. This additional amount was introduced in 2011 as a revenue offset to make the Carbon Tax revenue-neutral. The reason given for this measure was that household energy expenditures are higher and more difficult to reduce outside of the southeast corner of the province. In our view, however, a property tax reduction is a poor tool to offset the costs of the Carbon Tax. Instead, it would be better in terms of tax policy principles to enhance the Carbon Tax rebate. The current government has committed to enhancing this rebate as the Carbon Tax rate increases and this policy issue should be considered as part of the rebate enhancement or some other mechanism.

The concept we were considering as part of a package to replace MSP premium revenue was to replace the HOG with a tax benefit delivered through the PIT system, which would focus the benefit on low and moderate income renters and homeowners, regardless of age or location, with the savings from eliminating grants for higher income homeowners helping to replace MSP premium revenue.

We note that:

- Quebec, Ontario, and Manitoba[8] all have comprehensive benefits delivered thorough the income tax system that address housing costs for lower income individuals and Ontario combines other elements of provincial refundable tax credit programs to justify benefits that can be delivered monthly or quarterly rather than annually upon tax filing; and
- The NDP election platform promise to reduce the unfairness of the HOG by providing subsidies to renters of $400 annually with a cost in the $265 million range, to which the government has recently confirmed its commitment in principle.

As a result, the Task Force proposes that the HOG be eliminated and replaced, in a revenue-neutral way, with a refundable tax credit for homeowners and renters, as described below.

Enhance Refundable Tax Credits

Tax Credit Background

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.

Tax credits are generally phased-out for those with income above a threshold which reduces the impact over a range of income, usually by subtracting a percentage of income from the credit. Nevertheless, various federal and provincial refundable and non-refundable tax credits, together with other income-tested benefits not delivered through the income tax system (such as income assistance and disability assistance) can combine to have unintended and adverse effects on the behaviour of individuals and households, that vary considerably depending on personal circumstances. In particular, there can be high marginal effective tax rates for low-income taxpayers who find themselves earning small additional amounts of income.

Refundable Tax Credits in B.C.

The Province provides a number of benefit programs for low and modest-income individuals and families through the income tax system by making them refundable tax credits, including the B.C. Climate Action Tax Credit and the B.C. Sales Tax Credit.

Effective April 2018, the B.C. Climate Action Tax Credit provides $135 per adult and $40 per child for single individuals with net income less than about $34,000 and families with net income less than about $40,000. Budget 2018 indicates that the credit will be enhanced as the Carbon Tax rate increases over the next three years. It is phased-out at a rate of 2% of household income above the threshold.

The B.C. Sales Tax Credit provides $75 per adult for single individuals with net income less than $15,000 and families with net income less than $18,000. It was introduced many years ago to offset the incremental costs for low-income individuals of a 0.5% increase in the PST rate. The tax credit was eliminated when the Harmonized Sales Tax (HST) was adopted and reinstated on exactly the same terms when the PST was brought back into effect. It is also phased-out at a rate of 2% of household income above the threshold.

Although individual tax credits along these lines provide valuable benefits to low-income households, experience in other jurisdictions suggests that the combination of individual credits into a single refundable credit provides significant advantages. Combining provincial tax benefits with federal tax benefits or other provincial benefits decreases the cost of delivering tax benefits. In addition, because the amounts paid to taxpayers are higher than they would be on their own, it is more cost-effective to deliver the benefits more regularly. More regular and predictable delivery of tax benefits increases their effectiveness and greatly assists low-income households in achieving affordability.

8 At least 13 U.S. states also provide comprehensive benefits delivered through the tax system to address housing costs for lower income individuals.

Enhancing the Sales Tax Credit

Our proposal for taxing non-alcoholic beverages would create an opportunity for a revenue-neutral change that would improve the tax system in terms of our tax policy criteria by using the revenue to enhance the B.C. Sales Tax Credit. At the current $75 amount, the B.C. Sales Tax Credit is insufficient to make any real impact on tax system progressivity by assisting lower income individuals. The current $75 credit has a cost of $44 million.

Because the combination of the various phase-out of benefits and other low-income programs can have adverse effects on individual and household behaviour, the Task Force is not recommending a specific design for an enhanced B.C. Sales Tax Credit. Rather we are simply suggesting that the enhanced credit be revenue-neutral when the increased revenue from taxing non-alcoholic beverages is taken into account. The parameters of the tax credit that need to be established are the amount of the credit, the level of income at which it begins to be phased out and the phase-out rate.

As an example only, $120 million of additional revenue from PST on non-alcoholic beverages would support increasing the B.C. Sales Tax Credit from $75 to about $220, if the threshold and phase-out rate were not changed.

Creating a Housing Benefit

We also propose replacing the HOG with a low-income housing benefit. The change would result in a significant improvement to the progressivity, efficiency, and fairness of the tax system. The proposed new housing benefit would be a combination of a homeowner tax credit and a renter tax credit.

As with the enhanced B.C. Sales Tax Credit, the Task Force is not recommending a specific design for the homeowners and the renter tax credits because care needs to be taken to integrate them appropriately with other credits and programs to avoid adverse effects associated with high marginal tax rates for some lower income households. The Task Force also recognizes that there will be many detailed design issues that will need to be addressed prior to implementation, including:

- The potential for special renter tax credit provisions, for example for students and those living in assisted care facilities;
- Homeowner tax credit provisions for multiple unit dwellings such as co-op housing; and,
- Implementation and enforcement mechanisms to prevent double dipping and ineligible claimants.

However, we have given the design considerable thought and offer the following example as a possible design for revenue-neutral homeowner and renter tax credits. In our example, the homeowner and renter tax credits would share significant features. Both would have a base rate of $750. Both would provide additional credit amounts of $275 for those with disabilities or living with someone with disabilities, on the same basis as the HOG. Both would begin to be phased out for family net income in excess of $100,000. The phase-out rate would be 1.875% of net family income in excess of the threshold and the credits would be fully phased out for family net income ranging from $140,000 to $155,000 depending on circumstances.

Neither the homeowner nor the renter tax credit would include the features of the current HOG that provide additional amounts based on location, age, or military service. The Task Force believes this measure should focus on progressivity and fairness. Income testing the benefit and having it apply equally across the province and across all groups are the best ways to achieve these objectives.

In particular, we are proposing that the additional senior amount under the HOG not be included in the housing benefit because we do not think that being over the age of 65 is a reliable indicator of additional need or ability to pay, although it may have been a half century ago when the HOG was created. As the table below shows, while the proportion of seniors who were below the Low Income Measure[9] in 1976 was over three times the proportion for the population aged 18 to 64, currently the proportion of low-income seniors is slightly lower than the proportion in the 18 to 64 age group.

Age Group	1976	2016
Under 18	11.5%	12.8%
18 to 64	8.1%	12.9%
65 and over	30.7%	12.8%
All ages	11.2%	12.9%

Using an income-tested approach through refundable income tax credits, the replacement for the HOG will be targeted at lower income British Columbians, regardless of their age, which is both progressive and fair. By not treating older people differently, the available revenue can be spread evenly to all taxpayers based on their household income. For example, an additional $275 amount for homeowners and renters over age 65 would significantly reduce the base amount of the housing benefit.

The homeowner and renter tax credits would also have features specific to homeowners and renters respectively.

The homeowner tax credit would be 100% of property tax paid up to the maximum credit and apply on a per dwelling basis. Consistent with the HOG, the tax credit would depend on the assessed value of the property and would be phased out for properties with assessed value greater than a threshold amount, currently set at $1.65 million. Setting a maximum property value to qualify for the tax credit limits the tax relief provided to those with very expensive homes. As with the HOG, that threshold would continue to be adjusted annually to ensure that the tax credit applies to a consistent proportion of owner-occupied properties.

The renter tax credit would also apply on a per dwelling basis. That is, only one tax credit would be available for each dwelling. In cases where roommates who are not a family under income tax provisions occupy a dwelling unit, only one person could receive the tax credit. It would be up to those individuals to sort out whether and how the tax credit should be allocated among the roommates, however the Task Force suggests the lowest income individual be allowed to claim the credit.[10] The tax credit would be limited to no more than 20% of rent paid. At a tax credit amount of $750, rent would need to be at least $312.50 per month to receive the maximum credit. We note that individuals receiving Income Assistance paying rent based on the maximum shelter rate would qualify for the full credit amount.[11]

9 Table shows the proportion of the population who have income below the Low Income Measure from CANSIM Table 206-0041

10 The Task Force endeavored to design the tax credits based on the individual, rather than the dwelling, however we were unable to overcome the immense complexities with doing so in the time available to the Task Force. This is a matter that could be revisited if the province wishes to pursue the recommendation further. We did note, however, that in all provinces (e.g. Manitoba, Ontario, and Quebec) and U.S. states (e.g. New York, New Jersey, and Montana) with a renter tax credit, the credits were delivered on a per dwelling basis.

11 The shelter maximum for a single individual is $375 effective October 1, 2017, with higher amounts for larger economic units. https://www2.gov.B.C.ca/gov/content/governments/policies-for-government/B.C.ea-policy-and-procedure-manual/B.C.-employment-and-assistance-rate-tables/income-assistance-rate-table

The Task Force proposes that such a benefit be created using the $845 million that the HOG is expected to cost in 2020/21 as reported in Budget 2018[12] plus an additional $265 million representing the expected cost of the commitment to fund a renter's rebate in the NDP election platform. Together, this would provide about $1.1 billion to fund the proposed reform on a revenue neutral basis. The Ministry of Finance has estimated that the cost of the tax credits in our example would be:

	Homeowner Tax Credit	Renter Tax Credit	Total
Cost	$696 million	$403 million	$1,099 million
Number of Beneficiaries	1,060,887	543,250	1,604,137
Per cent Who Qualify	77.0	96.4	82.7

The fact that a greater percentage of renters would qualify for the Renter Tax Credit reflects the fact that renters are more likely to report lower income than homeowners.

Combining Refundable Credits into the Dogwood Benefit

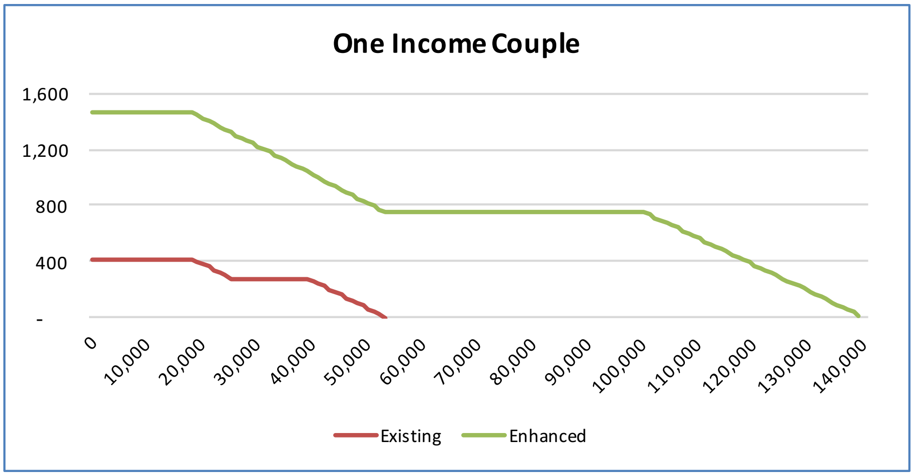
We further propose that these refundable tax credits be combined into a benefit package that could be named the Dogwood Benefit, after the provincial flower. Our proposals above would significantly increase the impact of B.C. refundable income tax credits for lower income households. Combining existing, enhanced and new refundable tax credits into one package would enable the credits to be combined into monthly or quarterly payments, maximizing the usefulness of the payments for those receiving them.

Specifically, the Dogwood Benefit would be created by integrating the proposed Homeowner Tax Credit and Renter Tax Credit with the existing B.C. Low Income Climate Action Tax Credit and the enhanced B.C. Sales Tax Credit. The Dogwood Benefit would have no incremental cost since the Homeowner and Renter Tax Credits are revenue neutral, the B.C. Low Income Climate Action Tax Credit is unchanged, and the enhanced B.C. Sales Tax Credit would be funded by applying the PST to non-alcoholic beverages. It is also noted that the disclosure of rental payments to claim the tax credit will provide information useful to enforce compliance in terms of rental income earned, which may increase provincial tax revenue collected.

Chart 2 – Impact of Dogwood Benefit[13]

12 Budget and Fiscal Plan – 2018/19 to 2020/21, page 131.

13 Does not include the B.C. Early Childhood Tax Benefit.



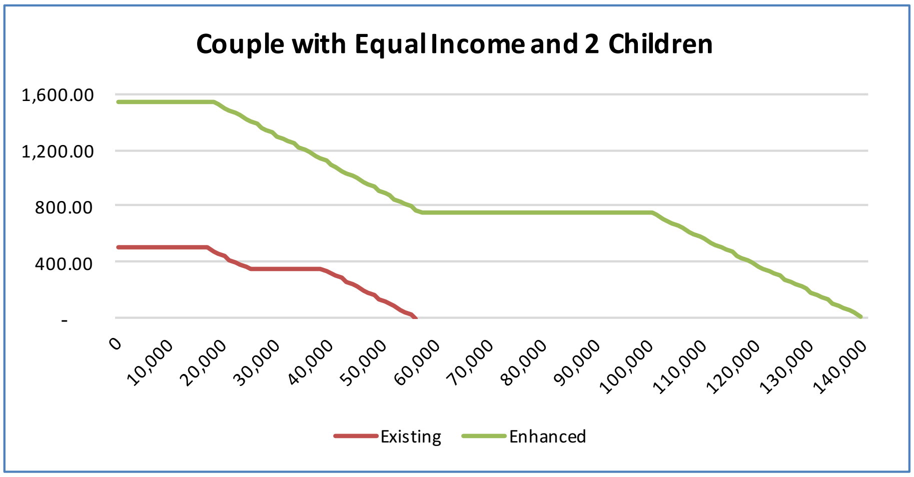


Chart 2 show the total effect of introducing the homeowner/renter tax credit and enhancing the B.C. Sales Tax Credit, at the levels suggested by our examples, compared to the existing refundable tax credits. Three scenarios have been used to illustrate the impact: a single individual, a one income couple, and a two-income couple with equal incomes and two children.

The result of the two changes would be to significantly increase the level of refundable income tax credits for people with family income up to $140,000 (using our example), with the highest benefits for those with the lowest levels of income. That is a significant improvement to the progressivity of the tax system, especially when the regressive nature of the HOG, which would be eliminated, is taken into account.

The PIT system provides a useful platform for delivering benefits to lower income individuals because it integrates the income testing of those benefits with the taxation system and is an administratively efficient mechanism. However, not all low-income individuals file tax returns as there is no requirement to do so if there is no tax owing. Filing itself can be a significant barrier that prevents many people who qualify for and need benefits from actually receiving those benefits. Both the provincial and federal governments already provide some assistance to encourage tax filing among those who would benefit from refundable tax credits, but the enhancement of the refundable benefit program would justify a significant increase to that assistance.

***The Task Force recommends** that the Province:*

1. ***Subject non-alcoholic beverages except non-carbonated water and unflavoured milk to PST;***
2. ***Eliminate the Home Owner Grant (HOG); and,***
3. ***Create a combined refundable tax credit with the following features:***
   a. *An enhanced Sales Tax Credit funded by the PST levied on non-alcoholic beverages;*
   b. *The existing B.C. Climate Action Tax Credit, which the Province has committed to enhance as the Carbon Tax rate increases;*
   c. *New homeowner and renter tax credits providing a fixed amount that would be phased out for household income above a defined threshold (for example, a credit of $750 per year plus $275 for those with disabilities or living with a person with disabilities phased-out for those with family incomes in excess of $100,000 would be revenue-neutral);*
   d. *The combined credit to be delivered to qualifying households in a regular and timely manner to increase their efficacy; and,*
   e. *The credit could be named the Dogwood Benefit after the provincial flower.*

The Province should ensure that these tax benefits are designed to avoid adverse effects such as high effective marginal tax rates, when combined with other tax credits and income-tested programs. The Province should also provide significant additional resources to increase tax filing among low-income individuals.

Minimum Wage Income Tax Adjustment

As part of our review, the Task Force followed developments in other related reviews underway by the Province. One of those developments was the Fair Wage Commission which recommended that the B.C. minimum wage be increased in increments to $15 by 2021. The Premier announced in early February 2018 that four annual increases would be implemented to increase the minimum wage to $15.20 on June 1, 2021.

As noted above, sometimes individuals with lower incomes may experience situations where a small increase in income generates a disproportionate increase in tax as tax credits or income-tested programs meant to help low-income individuals are phased-out. There is a concern that some minimum wage individuals may face that situation as their wage rate increases.

Prior to September 2017 the minimum wage was $10.85 per hour, equal to before tax income of about $20,000 for full-time work at 35 hours per week. An increased minimum wage of $15.20 per hour would generate income of almost $28,000 on the same basis.

The B.C. PIT tax system has a feature designed to help low-income individuals called the B.C. Tax Reduction Credit, a non-refundable tax credit that acts to extend the Basic Personal Amount for lower income individuals. The Basic Personal Amount ($10,421 for 2018) reduces tax payable for all taxpayers regardless of their income or other circumstances. The B.C. Tax Reduction Credit effectively extends the Basic Personal Amount for those whose income is about $20,000 or less, ensuring they pay no PIT.

Enhancing the B.C. Tax Reduction Credit so that it extends the Basic Amount to higher amounts over time, based on the phase-in of minimum wage increases, would be a cost-effective method to provide tax relief for low-income earners who would otherwise begin paying tax because the minimum wage has increased.

The Task Force is not proposing specific details for how the B.C. Tax Reduction Credit should be adjusted, but rather is suggesting it be adjusted to ensure that those who would otherwise begin to pay tax due only to the increase in minimum wage continue to pay no tax. This change should be roughly revenue-neutral since it would simply be foregoing increased revenue that would have been generated by the minimum wage increase.

The Task Force recommends *that the Province increase the B.C. Tax Reduction Credit consistent with the increases in minimum wage over the period to 2021 and ensure that increases in this tax credit are tied to increases in the minimum wage.*

Other Ideas

In addition to the two quite specific tax policy proposals described above, the Task Force has three additional proposals that are more general in nature.

PST Reform

In our Interim Report, the Task Force recommended that MSP premium revenue be replaced with a package of measures because the negative implications of each of the measures under consideration could be mitigated by doing each at a relatively low level. That included the payroll tax, which the Interim Report noted might affect business competitiveness. That concern is enhanced by the fact that there are several other developments that may also reduce B.C. business competitiveness, including:

- Increase to the B.C. CIT tax rate from 11% to 12% effective January 1, 2018;
- Increase in the CPP rate by the federal government;
- US tax reform which reduced US corporate tax rates significantly and allows for time-limited expensing of capital investment; and,
- The threat of protectionist measures from the US which could affect tariffs and trade globally.

Two panels have looked specifically at PST reform/tax competitiveness in B.C. over the past few years.[14] Both discussed the significant impact that PST has on tax competeiveness because of its application to business purchases. Sales taxes paid by businesses increase operating costs and capital costs. That makes it difficult for businesses to compete with those in other jurisdictions with lower costs. It also deters investment in the facilities and equipment needed to keep up with efficiency gains in global industries.

The Expert Panel on B.C.'s Business Tax Competitiveness, which reported in September 2012, addressed the question of how to maintain tax competitiveness given the requirement at the time to revert from the HST to the PST. Its report said: "The Panel's key recommendation is to introduce a refundable investment tax credit equal to the PST paid on machinery and equipment, claimable over two years." The Panel's recommendations were not adopted.

The Commission on Tax Competitiveness, which reported in November 2016, had a broader mandate to look at short-term and long-term tax competiveness measures. Its report said: "The Commission recommends that in the long run B.C. implement a made-in-B.C. value added tax (VAT). That is the ultimate solution to all of the issues raised with the PST and would have the most impact on business competitiveness, economic performance, and ultimately the standard of living. Significant public engagement would be required to design a made-in-B.C. VAT and to make the final decision about whether to proceed." Only one of the Commission's recommendations has been implemented to date: exemption of electricity used by business from PST.

We recognize the difficulty with introducing a value-added tax in B.C. or undertaking any significant PST reform that is similar to a value-added tax, after the HST was rejected by the public in 2011. We also recognize that if the intention is to reduce the impact of PST on business and to remain revenue-neutral that implies shifting the tax from business to individuals, which is likely to reduce tax system progressivity. However, with appropriate low-income tax credit increases and base-broadening, we feel that the tax system could be made more progressive and fair in the context of changes that enhance business competitiveness. Coupled with a reduction in the tax rate and some strategic exemptions, it may be possible to

14 See Appendix 3 for excerpts from the reports of the Expert Panel on B.C.'s Business Tax Competitiveness, September 2012 and the Commission on Tax Competiveness, November 2016.

gain public support for PST reform that significantly enhances business competitiveness in B.C. In particular, whereas many businesses did not support the HST when it was first introduced, there is now broad-based business support for PST reform, including creation of a value-added tax.

The Task Force echoes the Tax Competitiveness Commission's advice that PST tax reform will require significant real consultations about the design and impact of any tax changes, with considerable lead-time and potentially some phase-in to gain and maintain public support.

The Task Force recommends *that, given concerns about B.C.'s relative business competitiveness, consideration be given to PST reform directed toward increasing competiveness by:*

- *At least reducing the impact of the tax on machinery and equipment or all capital spending; and,*
- *If possible moving to a value added tax, after a comprehensive public consultation.*

Tax Compliance Initiatives

The September 2017 Budget Update and Budget 2018 both included some measures related to increasing tax compliance, primarily related to taxation of property. This is an area of tax policy that the Task Force believes is ripe for additional change. It was not mentioned in our Interim Report because tax compliance measures usually do not meet the revenue stability criterion that was so important when the task was to replace MSP premium revenue.

Enhancing tax compliance has the potential to increase revenue collected substantially. Both Ontario and Quebec have reportedly seen significant revenue increases due to tax compliance measures.

Revenue lost because on non-compliance is also a source of unfairness in the tax system. Everyone else needs to pay more in tax to fund the same level of services because some are not paying their fair share. Since non-compliance effectively means business taxes need to be generally higher as well, it also reduces business competitiveness.

Recent developments have made new tools available to enhance tax compliance but have also generated new challenges. The new tools include the increased ability to use data analytics and linking of data so that increased information can be better applied to enhance tax compliance, including use of third party information and linking of information about subsidies paid with tax information, for example. There is an opportunity for B.C. to work with the Canada Revenue Agency (CRA) and increase the scope of information sharing agreements to link income tax with other information collected. Some of that has been started already with HOG information sharing and the recent agreement with Airbnb, but much more could be done.

The challenges relate to the sharing economy, which by disrupting markets often sidesteps existing tax collection mechanisms. The Airbnb agreement provides a good start that could and should be rolled out to other companies and industries. Other aspects of the digital economy also need to be considered and solutions found to compliance issues. Another concern is technology and practices that some businesses use to skim cash and suppress records of sales, which results in under-reporting of PST and GST collected and net income for income tax purposes. Rules to avoid skimming and the suppression of sales by businesses would enhance compliance.

Perhaps the most significant tax compliance issue relates to the opacity of beneficial ownership of assets across several ownership forms including corporations and bare trusts. This is a problem across Canada. While ownership transparency might, in the long run, be best dealt with federally or across jurisdictions, B.C. has a chance to take a leadership role on this issue by making changes to provincial legislation first.

The Task Force recommends *that the Province focus on and implement measures to increase tax compliance in the Province as a priority, in particular transparency of beneficial ownership.*

Tax Policy and GBA

Gender-based analysis (GBA) is a tool employed by policy makers to examine how policy, legislation, and program decisions impact people differently. GBA is based on the fact that people are not homogenous, and policies and initiatives affect people differently. GBA is not a new concept to policy making, first introduced by the federal government in 1995. It has recently re-emerged in importance, sparked by the release of the Fall 2015 Report of the Auditor General of Canada. In the Fall 2016 federal Economic Statement, the Government of Canada committed to completing and publishing a gender-based analysis of all budget measures, starting with the 2017 federal budget. GBA+ featured heavily in the 2018 federal budget.[15]

The importance of implementing the principles of GBA into policy analysis cannot be overstated. GBA is an important component to achieving inclusive growth. Inclusive growth has become a key element of governments' policy agendas. Inclusive growth agendas have arisen as a result of recent economic growth having largely benefited the top 1% of society in terms of both wealth and income accrual. Inclusive growth refers to economic growth where the benefits of growth are more evenly shared among individuals through measures that reduce barriers to economic participation by marginalized groups and individuals. By ensuring that policies are rigorously analyzed considering GBA helps safeguard against inadvertently increasing inequity and curtailing both short- and long-term economic growth.

The Government of B.C. does not have an express commitment to GBA and in reviewing past budgets, it does not appear to consider the effect of policy, let alone tax policy, on different groups. The B.C. government did recently appoint a new Parliamentary Secretary for Gender Equity, tasked with ensuring that gender equity is reflected in government budgets, policies, and programs. This work should include the development of a GBA framework that can be applied to tax policy.

Of note, tax policy should respect the economic autonomy of taxpayers. Too often the tax system is formed based on assumptions about the sharing of income, assets, and household obligations among a family unit without there being any requirement under the tax system that that income, assets, and obligations actually be shared. The assumption that income, assets, and obligations are equally shared within a household is dated and does not reflect the current complexity of household formation. It also does not reflect what we know about economic autonomy and power dynamics within a household and that power and economic autonomy are intricately linked.

This assumption that income and assets are shared is embedded in our tax code and often works to reduce the autonomy of secondary-earners, who are more likely to be women. For example, many tax credits, like the B.C. Sales Tax Credit discussed above, are based on household income. As a result, the secondary earners within a household cannot benefit from the tax measures commensurate to their economic position. B.C.'s tax system needs to be comprehensively reviewed and modified according to GBA principles.

The Task Force recommends *that the Province work with the Parliamentary Secretary for Gender Equity and GBA experts, including tax policy experts, to develop and implement a comprehensive framework to design and deliver policy, including tax policy, consistent with GBA principles. It should also ensure that GBA is taken into consideration not only during design and implementation, but also during priority setting and problem identification.*

15 GBA+ refers to the federal government's version of GBA that goes beyond gender to include identity factors, like race, ethnicity, religion, age, and mental or physical disability

Consistency with Tax Policy Principles

The following table summarizes how our proposals align with the tax policy principles discussed above:

Tax Policy Considerations of Task Force Proposals

	Recommendation	Progressivity	Fairness	
				Adm
Dogwood Benefit	Eliminate Home Owner Grant	Enhances progressivity because HOG is regressive	Improves fairness because HOG is unfair to renters and geographically.	Eliminates ac costs for mu improves sco ance enforce
Dogwood Benefit	Apply PST to all beverages except noncarbonated water and unflavored milk, consistent with GST rules	No material implications as enhanced tax credit offsets any regressivity effect	No material implications	Removal of a for a broad g already iden sumption ta limits admin
Dogwood Benefit	Combine new homeowner and renter tax credits with enhanced Sales Tax Credit and Climate Action Tax Credit to create Dogwood Benefit	Enhanced refundable tax credits significantly enhances tax system progressivity	Improves fairness because the homeowner and renter tax credits are fairer than HOG	Income tax s administrativ property tax - some curre need to file t
	Minimum Wage Income Tax Offset – increase the B.C. Tax Reduction Credit consistent with the increase in minimum wage	Prevents those who benefit from minimum wage increases becoming taxable as a result	No material implications	No administ as the BC Tax Credit is alrea calculation
	PST Tax Competitiveness Reform – consider PST tax competiveness reform by reducing the impact of the tax on machinery and equipment or moving to a value-added tax, after a comprehensive public consultation	Offset any regressivity effects of, for example, moving to a value-added tax, with significantly enhanced income tax credits	A broader-based value-added tax would reduce unfairness inherent the current narrow and complex PST base	Administrati depends on should be co consultation
	Enhance Tax Compliance – focus on and implement measures to increase tax compliance in the Province as a priority, in particular transparency of beneficial ownership	No material implications	Non-compliance is a source of unfairness in the way that the tax system actually applies - increased compliance increase fairness	Tax complia may increase costs for gov payers, but i measure, so costs
	Gender-based Analysis – develop a comprehensive framework to design and deliver policy consistent with GBA principles	Enhances progressivity by tying tax obligations to the economic autonomy of taxpayers	Improves fairness by ensuring the tax burden accords with the economic position of the taxpayer	May increase costs in the s develop and GBA framew implications changes to p

Efficiency		Business Competitiveness	Revenue Impact
inistrative	Economic		
dministrative nicipalities and ope for compli- ement	No material implications	No material implications	Reduces cost by $845 million in 2020/21
a PST exemption roup of products tified for con- x purposes (GST) istrative costs	Removes an unneeded price advantage for products detrimental to health	No material implications	Increase PST revenue by about $120 million
ystem is more vely efficient than delivery of HOG nt non-tax filers o benefit	No material implications	No material implications	Revenue neutral when the cost savings from eliminating HOG, the expected cost of a renter rebate ($265 million) and the increased PST revenue are used to increase refundable tax credits
rative implications x Reduction ady built into tax	No material implications	No material implications	Roughly revenue neutral as the increase in minimum wage would otherwise increase income tax revenue
ve efficiency the details and onsidered in any	A broader-based value-added tax would reduce economic distortions inherent in current PST	Would be focused on improving business competitiveness given several developments that may reduce B.C. competitiveness	Designed to be revenue neutral
nce measures e administrative ernment and tax t depends on the me may reduce	Tax compliance measures improve economic efficiency by reducing the distortions inherent in non-compliance that reduces tax paid	May improve tax competitiveness especially to the extent that the digital economy is appropriately taxed compared to non-digital business competitors	Depends on the measures - difficult to estimate and not necessarily stable revenue but there is the potential to generate significant revenue
e administrative short-term to implement a ork. Longer term depends on the policy	Works to reduce and eliminate barriers to economic participation and balances economic growth with economic inclusion	May improve business competitiveness as gender-specific barriers to business formation and growth are reduced and eliminated	Revenue positive over the longer term, as removing barriers to economic participation will increase labour market participation, GDP personal incomes, and tax revenues

Conclusion

While the Task Force is no longer tasked with replacing MSP premium revenue, it believes that its work reviewing the B.C. tax system could be used to improve the system in terms of progressivity, efficiency, fairness, and business competitiveness by implementing the following recommendations:

The Task Force recommends that the Province:

1. Subject non-alcoholic beverages except non-carbonated water and unflavoured milk to PST;
2. Eliminate the Home Owner Grant (HOG); and,
3. Create a combined refundable tax credit with the following features:
   a. *An enhanced Sales Tax Credit funded by the PST levied on non-alcoholic beverages;*
   b. *The existing B.C. Climate Action Tax Credit, which the Province has committed to enhance as the Carbon Tax rate increases;*
   c. *New homeowner and renter tax credits providing a fixed amount that would be phased out for household income above a defined threshold (for example, a credit of $750 per year plus $275 for those with disabilities or living with a person with disabilities phased-out for those with family incomes in excess of $100,000 would be revenue neutral);*
   d. *The combined credit to be delivered to qualifying households in a regular and timely manner to increase their efficacy; and,*
   e. *The credit could be named the Dogwood Benefit after the provincial flower.*

The Province should ensure that these tax benefits are designed to avoid adverse effects such as high effective marginal tax rates, when combined with other tax credits and income-tested programs. The Province should also provide significant additional resources to increase tax filing among low-income individuals.

The Task Force recommends that the Province increase the B.C. Tax Reduction Credit consistent with the increases in minimum wage over the period to 2021 and ensure that increases in this tax credit are tied to increases in the minimum wage.

The Task Force recommends that, given concerns about B.C.'s relative business competitiveness, consideration be given to PST reform directed toward increasing competeveness by:

- at least reducing the impact of the tax on machinery and equipment or all capital spending; and
- if possible moving to a value-added tax, after a comprehensive public consultation.

The Task Force recommends that the Province focus on and implement measures to increase tax compliance in the Province as a priority, in particular transparency of beneficial ownership.

The Task Force recommends that the Province work with the Parliamentary Secretary for Gender Equity and GBA experts, including tax policy experts, to develop a comprehensive framework to design and deliver policy consistent with GBA principles. It should also ensure that GBA is taken into consideration not only during design and implementation, but also during priority setting and problem identification.

Appendix 1 – Terms of Reference

The Government of British Columbia is committed to eliminating Medical Services Plan (MSP) premiums within four years. As a first step, the government has reduced MSP premiums for all individuals and families by 50%, effective January 2018.

MSP premiums are regressive; expensive to administer; impose a compliance burden on individuals, families and businesses; and, lead to significant bad debt expenses for government.

Therefore, the Minister of Finance is establishing an MSP Task Force to advise the Province on how best to complete the elimination of MSP premiums and replace the foregone revenue from premiums.

Scope

The Task Force's work will include:

- Provide for B.C. citizens, businesses and interested parties to express their views on replacing MSP premiums;
- Identify options for replacing MSP revenue, including what has been done in other provinces;
- Options will result in a more progressive tax;
- Provide an analysis of each option in terms of:
  - *fairness;*
  - *efficiency;*
  - *business competitiveness;*
  - *simplicity; and,*
  - *revenue stability;*
- Options must ensure the elimination of MSP premiums within four years; and,
- Options will not propose retaining MSP premiums nor increasing the provincial sales tax.

Deliverable

The Task Force will provide the Minister of Finance a written report that includes:

- Identification and analysis of issues within the context of the scope of the Task Force;
- Identification of all options considered;
- An evaluation of those options including their impacts on:
  - *British Columbians;*
  - *businesses;*
  - *tax policy principles; and,*
  - *provincial revenues and costs.*
- Recommendations on the best options for replacing MSP premium revenue;
- Recommendations on a strategy and timing to implement recommended options; and,
- A summary of the public consultations including issues raised and solutions put forward for the Task Force's consideration.

Timeline

The Minister of Finance must receive a final report by March 31, 2018.

Appendix 2 – Interim Report

MSP Task Force

Dr. Lindsay Tedds *Paul Ramsey* *David Duff*

February 1, 2018

Honourable Carole James
Minister of Finance and Deputy Premier
Room 153 Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister,

Further to the verbal briefing provided on January 19, 2018 by the Chair of the MSP Task Force, Dr. Lindsay Tedds, now that the consultation period related to the MSP Task Force has ended, we are pleased to provide you with an interim report on the work of the Task Force to date.

Task

The Government of British Columbia has committed to eliminating Medical Services Plan (MSP) premiums within four years. The Government took the first step towards this goal by reducing MSP premiums by 50% effective January 1, 2018.

The MSP Task Force was charged with advising the Minister of Finance on how best to complete the elimination of MSP premiums and replace the foregone revenue from premiums. We were asked to ensure that citizens, businesses, and interested parties were provided with an opportunity to express their views and to consider how other provinces eliminated similar medical premiums. In developing our options, we were asked to assess them according to the principles of fairness, efficiency, competitiveness, simplicity, and revenue stability and ensure that the result is a more progressive tax system for British Columbians.

Process

Citizens, businesses, and interested parties were encouraged to share their ideas on replacing the MSP premium revenue through the MSP Task Force engagement website with a deadline of January 31, 2018.

The Task Force also decided to meet face-to-face with key organizations to discuss specific perspectives and issues, and to receive specific feedback on various options.

To inform our work, the Task Force reviewed the existing tax system in BC within the context of the tax policy environment federally and provincially in Canada, and tax reform in the United States. We also looked at the path followed by other provinces that have eliminated health care premiums, focusing particularly on Ontario, Quebec, and Alberta.

Our work has been informed by consultations undertaken by business competitive commissions in 2012 and 2016 as well as the publicly available Budget 2018 consultation submissions. We are aware of other currently ongoing reviews including the Mobility Pricing Independent

Commission, the Fair Wages Commission, and the Poverty Reduction Advisory Forum, that may also propose changes that will affect individuals and businesses in BC.

We are aware that Budget 2018, which will be delivered February 20, 2018, may include policy changes that affect our final report.

What We Heard

More than 1,500 submissions have been received from individuals and 26 submissions have been received from various stakeholders, including business, labour, public policy groups and various health-care related groups, through the MSP Task Force engagement website. Over 1,400 submissions received in late January were the direct result of a letter writing campaign related to a submission from the BC Health Coalition.

Throughout the month of January 2018, the Task Force met with six groups, representing business, labour, and public policy groups to discuss the issues and receive specific feedback on various options. Four of these groups also provided written submissions to the engagement website.

The most striking theme that arose from consultations was a strong expectation that the MSP revenue would be replaced with a combination of personal income tax and payroll tax, similar to the approach taken by Ontario. While some opposed the use of a payroll tax, even they expected that a combination of income tax and payroll tax would ultimately be implemented by the Government of British Columbia. This was generally based on the observation that individuals and businesses both benefit from publicly-provided health care and therefore, both should make a contribution.

Several groups, comprising a mix of labour, business, and public policy groups, recommended that the needed incremental revenue be split between personal income tax and payroll tax based on the current proportion of MSP premiums paid by individuals and businesses respectively. Most suggested 60% from personal income tax and 40% from payroll tax but some suggested a 50% - 50% split.

Some respondents provided additional detail regarding the implementation of tax measures. For personal income tax, some recommended a separate health levy similar to that which exists in Ontario, whereas others recommended a combination of changes in the statutory personal income tax rates and thresholds. For payroll tax, while most business groups and some public policy groups did not support payroll tax, they all suggested that if implemented, the rate of the payroll tax be kept low to limit negative business competitiveness impacts. Small business groups suggested exempting small business while representatives of larger businesses suggested no exemptions.

In addition to personal income tax and payroll tax, there were several other suggestions raised, including:

- Raising corporate income tax rates,
- Reducing corporate tax expenditures such as film and digital media related tax credits,

- Broadening the Provincial Sales Tax base,
- Replace the Provincial Sales Tax with a value-added tax,
- Introducing new taxes on sugary drinks and "junk" food,
- Increasing taxes on liquor and tobacco,
- Taxing and regulating cannabis,
- Making changes to property taxation, and
- Changing the Home Owner Grant into an income tested program delivered through the income tax system.

Several respondents emphasized the importance to them of a connection between the revenue replacement mechanisms and health care.

Initial Advice

While we have not completed a detailed analysis of the available options or come to firm conclusions related to the preferred options for replacing the revenue, we have three pieces of initial advice.

First, whatever mechanisms are chosen to replace MSP revenue, we feel strongly that there should not be any phase-in of the new measures and phase-out of MSP. Rather, we suggest that MSP be eliminated as at a specific date and that the new revenue measures take effect fully at the same time.

Second, we believe it is important that reasonable notice be given about when the change will take effect. MSP premiums are paid by many employers as an employee benefit, which represents part of the compensation of those employees. Reasonable notice will provide time for employees and employers to agree upon how that compensation will be replaced when MSP premiums are eliminated. For unionized employees where the collective agreement does not already address this issue, that may require collective bargaining, which takes time. We believe that at least one year's lead time should be allowed.

Third, the amount of revenue to be replaced, approximately $1.3B, is a sizable amount of money. Our analysis to date of the available options makes it clear that no one option is preferred based on the principles we were asked to assess the options against. All revenue options that have been identified represent trade-offs among the criteria, each having some positive and some negative implications. Therefore, we feel that it is important the revenue be replaced by a combination of measures in order to best mitigate the negative impacts of each.

Measures Under Consideration

Based on the input received, a detailed analysis of the B.C. tax system, a jurisdictional scan of other provinces, and reflecting carefully on the general tax policy environment, we have identified a range of options that could be considered to replace the revenue from MSP premiums. We will discuss these options in detail in our final report, due by March 31, 2018, but it should be no surprise that our range of options includes both personal income taxes and payroll tax.

There are several methods that could be used to generate increased revenue from the personal income tax system. The approach taken in Ontario is a levy collected under the income tax system that is separate from the income tax, but that varies with income up to a cap. Such an approach would effectively be a health premium collected using the income tax system. Other approaches would be to: apply a surtax, change statutory tax rates, or modify statutory tax brackets. We are assessing all of these options.

Raising revenues through personal income tax will create many winners and losers compared to the MSP premiums. Many of those whose premiums are currently paid by an employer will have to pay more. Whether others will pay more or less will depend on their circumstances. MSP premiums are paid for households and premium assistance varies with family income while the personal income tax system taxes individuals, usually without reference to family income. While use of personal income tax would increase the progressivity of the tax system compared to MSP premiums, whether or not a person would pay more or less under any of the personal income tax approaches would vary with many factors in addition to income. These considerations will influence our choice and analysis of personal income tax options.

A payroll tax would have the advantage of raising a portion of the revenue from all businesses, not just those that currently pay employees premiums voluntarily as an employee benefit. A payroll tax would reduce the competiveness of BC businesses at a time when they are facing several competiveness challenges including expected increases to the minimum wage, CPP increases, and recent tax reform in the US which improve the competitive position of many US businesses. On the other hand, small businesses in BC are benefiting from both federal and provincial reductions in the small business rate. These considerations will be taken into account as we design a payroll tax option in terms of the quantum of rates, if and how rates vary, and any exemptions or thresholds.

We are also looking in detail at several other promising options, some of which have been raised in consultations and listed above, that we will describe in detail in our final report. In particular, the Task Force is looking closely at taxes on various unhealthy products on the basis that the consumption of unhealthy products often leads to health problems that impose costs on the publicly-funded health care system.

At present, we are leaning towards a combination of a personal income tax surcharge, a small payroll tax, and one or more of the additional ideas we are developing as the best way to replace the $1.3B revenue from the full elimination of MSP premiums.

Sincerely,

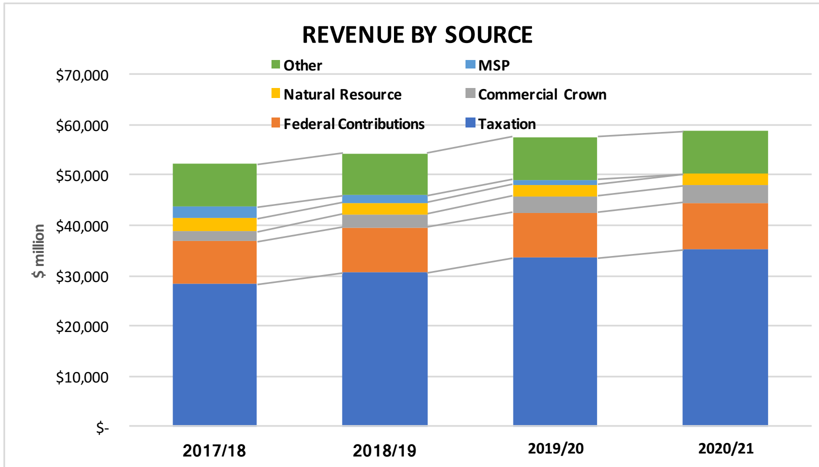
Paul Ramsey

Dr. Lindsay Tedds Chair	Paul Ramsey	David Duff

Appendix 3 – Tax System Background

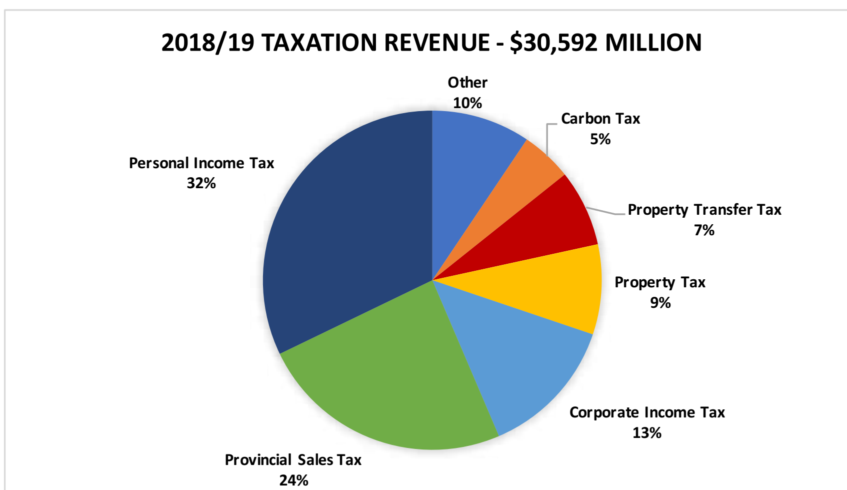
The Three Year Fiscal Plan in Budget 2018 estimates that B.C. government revenue will grow from $52.1 billion in 2017/18 to $58.6 billion in 2020/21, as shown in Chart 1 below. Taxation revenue is the largest revenue category and over the period, taxation is expected to grow as a proportion of total revenue. MSP premiums are categorized as an administrative charge, not a tax, and are eliminated effective January 1, 2020.

Chart 1 – Revenue by Source – 2017/18 to 2020/21



As shown in Chart 2, the largest sources of taxation revenue in B.C. are Provincial Sales Tax (PST), Personal Income Tax (PIT), and Corporate Income Tax (CIT), which together comprise about 70% of taxation revenue. In its first full year (2019/20), the Employer Health Tax (EHT) will generate $1,822 million, about 6% of taxation revenue, more than Carbon Tax but less than Property Transfer Tax.

Chart 2 – Taxation Revenue – 2018/19



Income Taxes

The Province levies income taxes on both individuals (PIT) and corporations (CIT). In B.C., corporate and personal income taxes are administered by the federal government on behalf of the Province under the B.C.-Canada Tax Collection Agreement (TCA). 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. The benefits of the TCA for participating provinces are a significant reduction in administration and tax collection costs and an integrated federal-provincial tax form, meaning that most taxpayers need only file one income tax return each year for both federal and provincial purposes.

In exchange for these benefits, the Province accepts certain limitations under the TCA. The federal government has sole responsibility for determining taxable income (i.e. income subject to tax and allowable deductions) and the Province has no ability to change what is included or excluded from the federal definition of taxable income (e.g. the provinces cannot tax the gain from the sale of a principal residence due to the principal residence exemption in the federal Income Tax Act). The Province does have authority to set tax rates and brackets, surtaxes, and to provide income tax credits. There are two main types of income tax credits. A non-refundable tax credit is a credit that, at most, reduces the amount of tax owed to 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

B.C. sets its own tax brackets and rates that are then applied to the federal definition of taxable income. The following table shows the 2018 B.C. provincial tax brackets and rates applicable to individuals. The tax rate for income over $150,000 is new, announced in the September 2017 B.C. Budget Update and came into effect January 1, 2018. It is important to note that the tax rates are applied progressively, so that a person who, for example, reports more than $150,000 in taxable income does not pay 16.8% on the full amount but rather just on the income above $150,000.

2018 Taxable Income	2018 Tax Rates
first $39,676	5.06%
over $39,676 up to $79,353	7.70%
over $79,353 up to $91,107	10.50%
over $91,107 up to $110,630	12.29%
over $110,630 up to $150,000	14.70%
over $150,000	16.80%

The Province provides a number of non-refundable tax credits including the basic, spousal, age, disability amounts, a non-refundable tax credit for low-income households, and a number of refundable credits for individuals as incentive programs such as the Training Tax Credit for apprentices, mining flow-through shares, mining exploration, and credits for venture capital investments.

The Province also provides a number of benefit programs for low and modest income individuals and families through the income tax system by making them refundable tax credits. The Province's benefit programs are shown in the following table.

Personal Income Tax Program	
B.C. Early Childhood Tax Benefit	Paid to families with children under age six to improve the affordability of childcare and assist with the costs of raising young children.
B.C. Climate Action Tax Credit	To help offset carbon taxes paid.
B.C. Sales Tax Credit	To help offset a portion of B.C.'s PST.

For the purposes of this report, we are most interested in the B.C. Climate Action Tax Credit and the B.C. Sales Tax Credit.

Effective April 2018, the B.C. Climate Action Tax Credit provides $135 per adult and $40 per child. The credit is phased out for single individuals with net income greater than about $34,000 and families with net income over about $40,000. There is a phase-out rate of 2% of net income over the threshold. Budget 2018 indicates that the credit will be enhanced as the Carbon Tax rate increases over the next three years.

The B.C. Sales Tax Credit provides $75 per adult. The credit is phased out for single individuals with net income greater than $15,000 and families with net income over $18,000. There is a phase-out rate of 2% of net income over the threshold.

The B.C. Early Childhood Tax Benefit is combined with the federal Canada Child Benefit and is paid monthly to qualifying households. The B.C. Climate Action Tax Credit is combined with the federal goods and services sales tax credit and paid quarterly to qualifying households. The B.C. Sales Tax Credit, on the other hand, is not combined with any federal benefit payment. As the maximum amount paid under this credit is $75 per annum, the benefit is only calculated and paid upon completion of a personal income tax return.

Corporate Income Tax

Unincorporated businesses are taxed under the personal income tax system at the applicable personal income tax rates. Incorporated businesses, on the other hand, are taxed under the corporate income tax system. Corporate income tax (CIT) applies to corporations with income earned in the province. For large corporations B.C. applies a single tax rate (currently 12%, having been increased from 11% in the September 2017 B.C. Budget Update) to federally determined corporate taxable income. B.C. also has a small business corporate income tax rate of 2% (the September 2017 B.C. Budget Update decreased the small business corporate income tax rate from 2.5% to 2% effective April 1, 2017) that applies to the first $500,000 of active business income (e.g. does not include investment income) of a Canadian-controlled private corporation.

B.C. provides a number of tax credit incentives for corporations, including:

- Training Tax Credit for Employers (including the Shipbuilding and Ship Repair Industry Tax Credit);
- Scientific Research and Experimental Development Tax Credit;
- Film and Television Tax Credits; and,
- Interactive Digital Media Tax Credit.

Property Taxes

In B.C. property tax is levied by a wide variety of authorities throughout the province, including the provincial government, local governments, hospital districts, B.C. Assessment Authority, TransLink, and B.C. Transit.

Regardless of the taxation authority, the tax is generally calculated as a tax rate (in the form of dollars of tax per thousand dollars of assessed value) multiplied by assessed value.

B.C. Assessment Authority is an independent agency that classifies properties and assigns assessed values to every property in the province pursuant to the ***Assessment Act***. For most property classes assessed value is based on an annual fair market value.

The Province has set nine property classes: residential; utilities; supportive housing; major industry; light industry; business/other; managed forest; recreational/non-profit; and, farm. Tax authorities set rates for each class. Municipalities have the ability to set fully variable tax rates by property class, but other taxation authorities have limits such that rates for other classes are generally set as a strict multiple of the residential property class tax rate.

There are three property taxes levied by the Province – the school tax; the rural area property tax; and the police tax:

- The school tax applies everywhere in the province including within municipalities. School tax revenue goes into general revenue, not to school districts;
- Rural area property taxes apply outside municipalities as the rural equivalent of municipal property taxes; and,
- Police tax applies in rural areas and in municipalities with a population of less than 5,000.[16]

16 Municipalities with population greater than 5,000 are directly responsible for the cost of policing within the municipality, which is funded by municipal revenue.

The Home Owner Grant (HOG) is an associated provincial program that offsets property taxes on the principal residence of most homeowners in B.C. Homeowners apply for the HOG every year through their property tax notice. To qualify for the HOG, the applicant must be the registered owner of the property, live in B.C., be a Canadian citizen or permanent resident, and occupy the residence as their principal residence. The applicant must have paid a minimum of $350 ($100 for seniors) in property taxes before claiming the HOG.

The basic HOG amount for people under the age of 65 who live in the Capital Regional District, the Greater Vancouver District, and the Fraser Valley Regional District is $570. For all other areas the basic grant is $770.[17] Seniors aged 65 or older who live in the noted districts may qualify for an additional grant of $275 while those aged 65 or older in all other districts may qualify for an additional grant of $475. There are also additional grants for veterans and those with or living with someone with disabilities.

Municipalities are compensated for the decrease in property taxes paid due to the HOG through an equivalent transfer from the Province to the municipalities. That is, the HOG is funded through general provincial tax revenues. The HOG is expected to cost the provincial government $821 million in 2018/19.

There is an assessed value threshold (currently $1.65 million) above which HOG is phased out, although low-income people living in high value houses can apply for a separate Low Income Grant to effectively restore their HOG. The threshold is adjusted each year and currently about 91% of homeowners qualify for the HOG. Certain properties with multiple dwellings can receive HOG for each dwelling.

The Property Tax Deferment Program is another associated program that 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 include families with children, and in 2013 to include families with adult children who are disabled or who are enrolled in an educational institution.

Budget 2018 announced two changes to the property tax system. First, it introduced a 2% tax on secondary homes. As legislation did not accompany the budget announcement, details on the tax are still being determined. Second, it increased the school tax for homes valued over $3 million.

Property Transfer Tax

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 and is paid by the purchaser.

The tax has graduated tax rates depending on the fair market value of the property (usually the purchase price in an arm's length transaction) and there are exemptions including a first-time buyer's exemption and some exemptions for transfers among related individuals. There is also a surtax for foreign buyers, which was expanded and increased in Budget 2018.

Consumption-Type Taxes

Provincial Sales Tax

The Provincial Sales Tax (PST) is a retail sales tax that was re-implemented effective April 1, 2013 under the ***Provincial Sales Tax Act*** when the harmonized sales tax (HST) was eliminated after a referendum and after being in place for just under three years. The principle underlying the 2013 re-implementation was that it would not be changed in any material way from the tax in existence prior to adoption of HST in 2011.

The general tax rate for the PST is 7%, with a higher 10% rate applying to alcohol, an 8% rate for accommodation and special rates applying to luxury and used vehicles, boats, and aircraft. Businesses making

17 The enhanced HOG in rural areas was a Carbon Tax offset measure in 2011 to offset higher energy costs in rural areas.

taxable sales and leases in British Columbia are required to levy and remit PST to government on taxable transactions. Businesses and individuals who bring, send, or receive taxable goods in B.C. from outside B.C. for use in the province are legally obligated to self-assess (i.e. pay government directly) the PST. PST is also collected on certain imports by the Canada Border Services Agency or Canada Post.

To what goods does the PST apply? The PST tax base is complex in the sense that it generally applies to the purchase or lease of new and used "tangible personal property" (goods) in British Columbia but that fundamental tax base is complicated by a significant number of exemptions and refunds, and by the addition of certain services.

Major consumer exemptions include, but are not limited to:

- Food for human consumption (all food including prepared food, non-alcoholic beverages and restaurant meals);
- 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, menstrual products and household medical aids; and,
- Books, eBooks, and newspapers.

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; and,
- Electricity used by business.

Much of the complexity is due to the design of exemptions and refunds. 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 are for all goods and services obtained by certain persons for any purpose (e.g., diplomats). Some exemptions and refunds are for certain goods and services obtained by certain persons but only when for certain purposes (e.g., production of machinery and equipment).

Changes to existing broad exemptions tend to be administratively complex for provincial revenue administrators, retail sellers who must collect the tax on behalf of the Province and taxpayers. Often difficulties are related to definitions of what is being changed in terms that make it easy to determine which transactions are and are not taxable. Therefore, care must be taken in considering any further specific exemptions or tax base additions that add to the complexity of the tax.

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;
- Send a consistent price signal;
- Ensure those who produce emissions pay for them; and,
- Make clean energy alternatives more economically attractive.

The Carbon Tax rates were introduced at the equivalent of $10 per tonne of CO_2e and phased in over 5 years to $30 per tonne of CO_2e as of July 1, 2012. Rates increase by $5 per tonne effective April 1, 2018 and by another $5 per tonne on April 1for the next three years, bringing the rate to $50 per tonne on April 1, 2021, a year earlier than required by federal regulation. The rates for specific fuels depend on the carbon content of the fuel. Carbon Tax is collected along with, and using the same mechanism as, Motor Fuel Tax for most fuels.

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. The purpose of the tax is to raise revenue but one of the often-stated rationales for the tax is to help pay for roads and transportation infrastructure. It is applied on a per litre basis to fuel as a retail sales tax but is collected from fuel distributors.

Appendix 4 – Public Engagement Participants

The MSP Task Force received a wide range of input from major industry groups, think tanks, academics and the public on how best to eliminate MSP premiums and replace the revenues. The Task Force also received a small number of submissions in response to its Interim Report.

The Task Force received written submissions and/or oral presentations from 28 industry organizations, unions, health organizations, think tanks, and academics in B.C. and held six meetings with various groups:

1. B.C. Chamber of Commerce
2. B.C. Federation of Labour
3. B.C. Health Coalition
4. B.C. Poverty Reduction Coalition
5. B.C. Retired Teachers' Association
6. B.C. Government Employees' Union
7. Business Council of British Columbia
8. Canadian Beverage Association
9. Canadian Federation of Independent Business
10. Centre for Policy Alternatives
11. Comox Council of Canadians
12. Council of Senior Citizens' Organizations
13. CUPE B.C. Division
14. Federation of Community Social Services
15. First Call B.C.
16. Greater Trail Community Skills Centre
17. Health Sciences Association of B.C.
18. Hospital Employees Union
19. Independent Contractors and Businesses Association
20. Kamloops and District Labour Council
21. Living Wage for Families Campaign
22. Positive Living Society of B.C.
23. Retail Council of Canada
24. Shin En Lu, Department of Economic, Simon Fraser University
25. Support our Health Care Society of Princeton
26. United Food and Commercial Workers Union
27. Vancouver & District Labour Council
28. Vancouver/Burnaby Chapter of the Council of Canadians

The Task Force also received 70 submissions from individual British Columbians and more than 1,400 submissions as part of a letter writing campaign related to a submission from the B.C. Health Coalition.

Appendix 5 – Tax Competitiveness Panel Report Excerpts

Expert Panel on B.C.'s Tax Competitiveness, September 2012

The Expert Panel's Task was:

> The Expert Panel on B.C.'s Business Tax Competiveness was charged with examining how B.C.'s business taxes can be made more competitive in the context of the return to the PST. During its consultations the Panel heard many concerns about how the return to the PST will affect B.C. businesses' competitiveness within Canada and internationally.

The Panel's tax competitiveness recommendations within this mandate, which precluded imposing a value-added tax, were:

- The Panel's key recommendation is to introduce a refundable investment tax credit equal to the PST paid on machinery and equipment, claimable over two years.
- The investment tax credit will keep B.C.'s effective tax rate on new investment competitive with those in other Canadian provinces.
- Other recommendations concerning the PST will make the PST fairer in its distribution, more neutral in its application across industries, simpler to administer and easier to comply with.
- The Panel recommends that the B.C. Government should work with local governments to ensure B.C.'s property taxes remain competitive.

Commission on Tax Competitiveness, November 2016

The Commission's mandate was:

> The Commission on Tax Competitiveness has been established and mandated by the B.C. Minister of Finance to review the competitiveness and economic performance impacts of business taxation. The Commission focused on the Provincial Sales Tax (PST), the Corporate Income Tax (CIT) and non-residential property taxation.

The Panel's recommendations were:

> **Recommendation 1 – Full PST Exemption for Business Capital Expenditure**
>
> The Commission recommends all capital expenditure by business be exempted from PST as soon as possible. The intention is to cover machinery and equipment as well as any other capital expenditure taxable under PST. This would be the single most effective short-term tax reform measure to improve competitiveness. Government should choose to implement the exemption in a way that will be simplest for business and has the lowest compliance cost, even if that implies some tax leakage. The Commission strongly favours a point of sale exemption but lacks sufficient detailed information about the administrative issues and compliance costs involved to make a definitive recommendation.
>
> **Recommendation 2 – PST Exemptions for Specific Business Inputs**
>
> The Commission recommends that, to the extent that government has the fiscal capacity to do so in the short run, the following business inputs should be exempted, in this order of priority:
>
> - electricity and other energy;
> - software; and
> - telecommunications services.

Recommendation 3 – Made-in-B.C. VAT

The Commission recommends that in the long run B.C. implement a made-in-B.C. value added tax (VAT). That is the ultimate solution to all of the issues raised with the PST and would have the most impact on business competitiveness, economic performance and ultimately standard of living. Significant public engagement would be required to design a made-in-B.C. VAT and to make the final decision about whether to proceed.

Recommendation 4 – Industry- Municipal Investment Arrangements

The Commission recommends that, in the short run, government introduce a mechanism for businesses contemplating significant incremental investment to trigger negotiations with a municipality for an arrangement that provides certainty about the contributions that will be provided to the municipality over the life of the investment.