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Tax Alert – Canada

British Columbia announces tax incentives as part of its economic recovery plan

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 17 September 2020, the Government of British Columbia (BC) released *Stronger BC for Everyone: BC's Economic Recovery Plan*, outlining a number of measures to address the economic impact of COVID-19. For businesses, the plan includes two new tax initiatives, which are further discussed below:

- ▶ Rebate of 100% Provincial Sales Tax (PST) paid by eligible businesses between 17 September 2020 and 30 September 2021 on select machinery and equipment
- ▶ Employment incentive in the form of a 15% refundable tax credit for eligible employers who create new jobs or increase their payroll for existing low- or medium-income employees during the last quarter of 2020

The BC legislative assembly has been dissolved pending the snap provincial election on 24 October 2020, and no bill has yet been introduced to implement the proposed tax incentives.

PST rebate program

The PST rebate program allows incorporated businesses to apply for a rebate of 100% of PST paid between 17 September 2020 and 30 September 2021 on the purchase or lease of select machinery and equipment, including software.

Eligible property

To establish whether machinery and equipment are eligible for rebate, reference should be made to the definitions found in Schedule II to the federal Income Tax Regulations for capital cost allowance classes 8, 10, 12, 16, 43, 43.1, 43.2, 46, 50, 53, 54 and 55. Further, the eligible property must be obtained substantially (more than 90%) for the purpose of gaining or producing income, and the property must be capital assets (other than leased property). However, the following property is specifically excluded from the rebate program:

- ▶ Vehicles, other than zero-emission vehicles. For the rebate program, zero-emission vehicle means a motor vehicle that is a) fully electric; b) fully powered by hydrogen; or c) a plug-in hybrid that has a battery capacity of at least 7 kWh.
- ▶ Property to be installed as an improvement to real property
- ▶ Property purchased for resale by a small seller¹
- ▶ Exclusive products purchased by independent sales contractors

PST paid after the permitted time is not eligible for rebate. Furthermore, transition rules (to be announced) may exclude certain transactions from eligibility in some circumstances where PST is paid during the eligibility period.

For leased eligible property, the rebate will not apply to PST paid in relation to a rental period that does not include the right to use the goods on or after 17 September 2020 or that includes a right to use the goods after 30 November 2021. For all other eligible goods and software, the rebate will not apply if the goods or software are delivered on or after 1 October 2021 unless a written contract specifies that the property must be delivered on or before 30 November 2021.

Eligible business

Incorporated businesses are eligible to claim the rebate. Public institutions, charities and non-profit entities are excluded, as are businesses operated as sole proprietorships.

¹ A small seller as defined in BC Provincial Sales Tax (PST) Bulletin 003, i.e., a person (other than lessor, independent sales contractor and real property contractor) having CAD \$10,000 or less in gross revenue from all retail sales of eligible goods, software and taxable services in the past 12 months and having expected gross revenue for the upcoming 12 months of CAD \$10,000 or less.

Procedure

Eligible businesses may make up to two rebate applications - the first application must be made between 1 April 2021 and 30 September 2021, and the second application can be made between 1 October 2021 and 31 March 2022. The last day applications will be accepted is 31 March 2022. Further information on the rebate process will be provided before the beginning of the first application period.

Rebates may need to be repaid under certain circumstances where the eligible business subsequently receives a refund or credit of the original tax paid or where the property is no longer used substantially for the purpose of gaining or producing income.

Increased Employment Incentive

The British Columbia Increased Employment Incentive (BCIEI) provides a 15% refundable tax credit for employers who create new jobs or increase their payroll for existing low- or medium-income employees in BC, during the last quarter of 2020 (i.e., October to December 2020). The tax credit amount would first be applied towards any outstanding Employer Health Tax (EHT) owing by the employer, and the remaining balance, if any, will be refunded.

Eligible employer

The incentive can be claimed in respect of eligible employees by all private sector employers in BC, including charities and non-profit employers. However, public institutions, including universities and hospitals, are not eligible for the incentive.

Eligible employee

The incentive can be claimed for an employee who either reports for work at, or is paid from, a permanent establishment of the employer in BC (i.e., a fixed place of business of the employer in BC) and who principally performs his or her duties in BC. This will include both employees who come to the permanent establishment in person to work, as well as employees who may reasonably be regarded as attached to the permanent establishment, such as employees who are temporarily working from home due to COVID-19.

Calculation of the tax credit amount

The following formula represents the calculation of the credit:

$$\text{Tax credit} = 15\% \text{ of } (\text{Qualifying BC remuneration} - \text{Base BC remuneration})^2$$

² BC remuneration as per the *Employer Health Tax Act*.

When performing the calculation:

- ▶ Qualifying BC remuneration means the total BC remuneration paid to eligible employees for the quarter ending December 31, 2020 (restricted to a maximum of CAD \$1,129.33 per employee, per week).
- ▶ Base BC remuneration means the total BC remuneration paid to eligible employees for the quarter ending September 30, 2020 (restricted to a maximum of CAD \$1,129.33 per employee, per week).
- ▶ Partial weeks shall be prorated.
- ▶ If two or more employers are associated, only one employer may claim the credit per employee, but the calculation of the Base BC remuneration and Qualifying BC remuneration amounts must include all BC remuneration paid to that employee by all associated employers.
- ▶ Charities and non-profit employers are not required to report the BC remuneration by location when applying for this credit.

Application period

Beginning in March 2021, employers can use the eTaxBC system to register and apply for the tax credit online. More information about the application process will be provided later.

Employers receiving the Canada Emergency Wage Subsidy (CEWS)³

Employers eligible for CEWS are also eligible for the BCIEI. The tax credit incentive will not be reduced if the employer also receives a subsidy from the federal program.

Considerations for businesses now

Eligible businesses should assess and schedule their planned capital expenditures in respect of eligible property during the stated period to leverage the PST rebate benefit.

Eligible employers should review their hiring plans for third and last quarter of 2020 to assess the potential amount of tax credit that may be claimed.

Businesses that are registered and liable for EHT are also encouraged to file their 2020 EHT return before or at the same time as applying for the BCIEI to ensure there are no delays in receiving the incentive.

³ See EY Tax Alerts [2020-28](#), [29](#), [30](#), [34](#) and [42](#).

Learn more

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