



The NDP government recently presented their budget. It is worth noting that there were no new corporate or personal income taxes included therein but there were a host of hidden taxes that ultimately bear down either directly or indirectly on the BC taxpayer.

Notably, the carbon tax will be dramatically increased over the next several years resulting in considerable pain at the pump. In fact BC has the highest priced gasoline and heating oil costs in the country and with the implementation of this additional carbon tax, these costs are going to increase. The higher price of fuel will more than offset the much sought-after bridge toll reduction in addition to increasing the costs of heating your home and office.

The current BC government seems to have distanced itself from the concept of revenue neutrality. The previous government, while implementing the carbon tax, ensured that the total tax revenue of the government remained consistent. That is, if revenues increased as a result of the carbon tax collection, the total income tax levy would be reduced accordingly. The current government is treating this as a separate incremental source of revenue, one that continues to increase even though income taxes stay constant. Beyond that, assuming the tax is successful and the amount of carbon consumed is reduced, the reduction in revenue from the carbon consumption will force the province to look elsewhere for funding. Hold onto your pocket books.

The government is bringing in an employer health tax - a carbon copy of that implemented in Ontario about 15 years ago. This will increase the cost of doing business in the province for many large corporations to the tune of 2% of gross payroll, but smaller companies (those with less than \$500,000 in total payroll) will be exempted. The net affect will be a break for the overwhelming majority of BC taxpayers, but a considerable cost increase for larger corporations. In Ontario, the funds provided by the shift to an employer-funded health tax were insufficient to fund the health system and the province sank deeper into debt. In response, a special health levy to individual taxpayers was implemented, negating any savings from the experiment. It is unclear why our government feels the results will be any different here.



The province will spend considerable sums of money on the much vaunted affordable housing projects as advertised, but the precise location and acquisition cost of land, the involvement of municipalities in zoning, and the involvement of the considerable expertise that exists in private sector partners were not mentioned. Again, we go back to the Ontario experiment when an NDP government was last in power there, and the result was dramatic overspending on each unit of affordable housing created. In fact, in many cases the cost of each unit of government housing was double what could have been constructed by private sector builders. Profit incentivizes cost discipline. The removal of that incentive frequently results in dramatic cost overruns, deadline failures, and waste. We are not aware if any members of the BC Cabinet have experience in the construction industry so we hope that they will choose to retain advisors with the requisite construction expertise necessary for such ambitious projects.

A 2% increase in land transfer tax for homes that sell for in excess \$3,000,000 and a tax to limit speculation in residential real estate is also incorporated into the budget. This appears to be a way of extracting money from those who do not live here (and thus cannot vote), or those who appear to be very wealthy, or those who both do not live here and appear to be very wealthy, while leaving the vast majority of BC taxpayers without harm. We do not think that anyone objects to targeting speculators who manipulate the housing market for personal gain, but both of these taxes rely on a hot housing market to fulfill their revenue potential. Unfortunately, every one of these initiatives is aimed at cooling off an overheated market, so their success would also be their failure, ie, if prices drop the tax base and projections on which the revenue from these taxes is levied will also drop. A more effective way to cool off the housing market would be to encourage municipal governments to lessen the heavily-regulated construction approval processes. This would allow the market to construct more housing units, increase the housing stock and thus, make housing more affordable for British Columbians.

On the upside there was minimal increase in corporate or personal taxes. In fact, the government actually reduced the tax on small business by 0.5%, resulting in one of the lowest rates of corporate tax for small business corporations in the country. They did, however, raise the rate on larger corporations by 1% in the 2017 economic



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update, and on high earners (those making more than \$150,000) to the tune of 2%, all of which are manageable. We must also give props to the finance minister for paying lip service to the need for private sector capital and a balanced budget. Having said that, with the implementation of carbon taxes both federally and provincially along with the employer health tax, and even the marginal increase in corporate and personal taxes, the cost of running a business in the province will absolutely go up.

At the end of the day, we could say that we dodged a bullet for the time being, but when these hidden taxes begin to bite, together with interest rates that have silently been rising in the background, there will be slowdown and it will be noticeable. With that slowdown, the NDP will have cover to further increase taxes since they will blame the shortfall in the budget on circumstances beyond their control. We may not be so sanguine about future budgets and economic updates.

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