

### Summary:

*Budget 2018* emphasizes making life more affordable with more investments in child care and housing. The plan includes more than \$1 billion over three years under the new Child Care BC system. A 30-point housing strategy aimed to stabilize the market, crack down on tax fraud, build affordable housing, and increase security for renters was introduced. New tax measures include increasing property taxes on residential properties valued above \$3 million, expanding the Foreign Buyers Tax, a housing speculation tax, and an employer health tax to replace the MSP.

Annual surpluses are projected during the Three Year Fiscal Plan. Surpluses are less than \$300 million annually, which includes the forecast allowance and contingency funds. Forecasts of the economy and commodity prices lean to below-consensus forecasts, which offers some potential for upside revenue surprises.

The provincial debt rises due to higher capital spending. Taxpayer-supported debt to GDP creeps higher during this fiscal plan. Debt-to-GDP ratios remain relatively low by comparison to other jurisdictions in Canada.

*Budget 2018* follows through and expands on the policy goals and initiatives introduced in *Budget 2017 Update*. This fiscal plan continues to shift revenue and spending measures to support social and housing goals and to improve infrastructure. The budget is mildly stimulative to the economy, mainly through increased capital spending.

The new housing measures will have a negative impact on foreign-buyer and speculative (flippers) demand causing a reduction in sales and prices for units favoured by these buyers. The increase in affordable housing supply will ease housing needs.

### Child Care BC

Several initiatives are included in *Budget 2018* to reduce the cost of child care, create new child care spaces, and develop the Early Childhood Educator workforce. The maximum amount of the new affordable child care benefit will vary by child care type and

family income. A family earning less than \$45,000 per year could benefit up to \$1,250 per month for every child. The benefit will be paid to directly to service providers on behalf of eligible families. More than 22,000 new child care spaces will be created costing \$237 million over three years. Another \$136 million over the fiscal plan is provided to enhance the quality of child care directed at increasing capacity for education, training, and professional development for Early Childhood educators.

### Housing Measures

*Budget 2018* introduces 30-point plan to increase housing supply, reduce speculation and foreign demand, discourage vacant housing and raise revenue for housing affordability measures.

- In 2018, new speculation tax will be levied on residential property in BC targeting foreign and domestic home owners who do not pay income tax in BC, including those who leave homes vacant. Satellite families will also be captured by the tax. The tax will apply to the Metro Vancouver, Fraser Valley, Capital and Nanaimo Regional districts and in the municipalities of Kelowna and West Kelowna. In 2018, the tax rate will be \$5 per \$1,000 of assessed value. In 2019, the tax rate will rise to \$20 per \$1,000 of assessed value.
- Effective Feb. 21, 2018, the Foreign Buyers Tax is increased to 20 per cent from 15 per cent and is extended to include the Fraser Valley, Capital, Nanaimo, and Central Okanagan Regional Districts.
- Effective Feb. 21, 2018, the property transfer tax on residential properties above \$3 million is increased from 3 per cent to 5 per cent.
- In 2019, the provincial school tax is increased on most residential properties more than \$3 million.
- The province is examining the property tax treatment of residential property in the Agricultural Land Reserve (ALR) as part of a broader review to ensure land in the ALR is being used for farming.
- \$445 million over three years is dedicated to mixed-income social housing developments.
- \$170 million in capital funding towards 2,500 new units of supportive housing.

- \$136 million in capital funding for 1,500 new units for women and children fleeing abusive relationships and violence.
- \$155 million towards 1,750 new units of housing for Indigenous peoples.
- \$450 million for new student housing
- \$308 million for repairs and maintenance to preserve existing social housing.
- Enhancements to Rental Assistance Programs, \$116 million to increase benefits and expand eligibility criteria.
- Enhancing local government capacity to build and retain affordable housing.
- Require developers to collect and report comprehensive information about the assignment of pre-sale condo purchases.
- Province intends to track beneficial ownership information.
- Collect additional information to increase transparency and strengthen enforcement in real estate.

### **Employer Health Tax**

An employer health tax on employers' payroll starting in 2019 will be implemented. The tax will not apply to small businesses with a payroll under \$500,000. Employers with payroll over \$1.5 million will pay the maximum rate of 1.95 per cent. For employers with payroll between \$500,000 and \$1.5 million, the tax rate phase in until it reaches 1.95 per cent at \$1.5 million. The elimination of MSP premiums will be funded by this tax.

### **Medical Services Plan**

*In Budget 2017 Update*, MSP premiums were reduced by 50 per cent effective January 1, 2018. Effective January 1, 2020, the remaining MSP premiums will be eliminated.

### **Insurance Corporation of British Columbia**

The government intends to reform the insurance product to improve care and treatment for those injured and reduce claims and legal costs. Product reform includes a limit on pain and suffering; payments, increased accident benefits; and more minor claims reviewed through the BC Civil Resolution Tribunal instead of courts. More benefits will be provided to good drivers while bad drivers will pay more.

### **Other Measures**

The PST luxury surtax rates on passenger vehicles over \$125,000 are increased. For passenger vehicles with a purchase price between \$125,000 and \$150,000 is increased to 15 per cent. For vehicles over \$150,000 the rate is increased to 20 per cent. New tax rates are effective April 1, 2018.

Prescription drug costs for low income families reduced by raising the income threshold for zero deductible for Fair PharmaCare from \$15,000 to \$30,000.

Fare relief for coastal ferries as of April 1, 2018 by freezing fares for the three major routes, a 15 per cent fare reduction for non-major routes, and a 100 per cent passenger discount for seniors Monday through Thursday.

Over the fiscal plan, health care spending increased by \$1.5 billion; \$409 million increase to K-12 funding; \$145 million to support higher education and skills training.

### **Fiscal Plan**

Government revenue is projected to increase 4.0 per cent annually during the three year fiscal plan.2020/21. Taxation revenue is forecast to average 7.6 per cent annually due to new policy measures and economic growth. Natural resource revenue is seen declining 5.5 per cent annually. Net income for ICBC is planned to improve from a \$684 million loss in 2018/19 to a profit of \$80 million by 2020/21. Property transfer tax revenue growth is forecast to average 2.6 per cent annually. Employer health tax revenue is forecast at \$463 million in 2018/19, increasing to \$1.9 billion in 2020/21.

Expenses are projected to increase slightly less than four per cent annually. Health spending growth averages about four per cent while education funding averages 2.4 per cent over the plan. Social services spending jumps 12.6 per cent in 2018/19 and slows to 4.3 per cent and 2.7 per cent in the following two years, respectively. Debt servicing costs rise with higher debt levels and very little due to rising interest rates, which appears optimistic.

### **Capital Spending**

Capital spending is forecast to jump 35.6 per cent in 2018/19 to \$9.235 billion, mainly on BC Hydro (Site C)

and BC Transportation Financing Authority spending (Patullo Bridge). Spending is lower in the following two years, but higher than in the prior decade.

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Budget 2018 Three Year Fiscal Plan					
(\$ millions)	Actual	Updated Forecast	Budget Estimate	Plan	Plan
	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue	51,459	53,365	54,877	57,580	58,566
Expense	48,722	51,818	53,624	56,778	57,762
Forecast allowance	-	100	350	500	600
<b>Surplus (deficit)</b>	<b>2,737</b>	<b>1,447</b>	<b>903</b>	<b>302</b>	<b>204</b>
ICBC net loss forecast before reform	-	1,296	1,076	801	920
Estimated impact of ICBC reform	-		392	780	1,000
<b>Surplus</b>	<b>2,737</b>	<b>151</b>	<b>219</b>	<b>281</b>	<b>284</b>
<b>Capital spending:</b>					
Taxpayer-supported	3,659	4,197	5,174	5,160	5,442
Self-supported	2,725	2,614	4,061	3,079	3,285
<b>Total</b>	<b>6,384</b>	<b>6,811</b>	<b>9,235</b>	<b>8,239</b>	8727
<b>Provincial debt:</b>					
Taxpayer-supported debt	41,506	43,680	45,198	47,554	50,257
Self-supported debt	24,377	21,484	23,824	25,027	26,197
<b>Total debt (including forecast allowance)</b>	<b>65,883</b>	<b>65,264</b>	<b>69,372</b>	<b>73,081</b>	<b>77,054</b>
Taxpayer-supported debt-to-GDP ratio (%)	15.8	15.6	15.5	15.7	15.9
Taxpayer-supported debt to revenue ratio	80.7	84.3	84.9	85.1	88.3
<b>Economic Forecast:</b>					
	2016	2017	2018	2019	2020
Real GDP growth	3.50%	3.40%	2.30%	2.00%	2.00%
Nominal GDP growth	4.80%	5.90%	4.40%	4.00%	3.90%

Source: BC Budget and Fiscal Plan 2018/19 – 2020/21