
NEWS RELEASE

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Ministry of Finance

PROTECTING VITAL SERVICES, BUILDING FOR THE FUTURE

VICTORIA – The B.C. government is protecting vital services and positioning British Columbia for renewed economic growth, Finance Minister Colin Hansen announced today as he released the September Budget Update 2009.

“We are taking steps to protect the critical public services British Columbians rely on, To promote new investment and growth in our economy and move forward with long-term initiatives that will improve the quality of life throughout the province,” said Hansen. “But to achieve these goals during a time of dramatically falling provincial revenues, additional deficit spending is required.”

The Budget Update contains revised deficit forecasts of \$2.8 billion in 2009-10, \$1.7 billion in 2010-11, and \$945 million in 2011-12.

“We are continuing to implement our stimulus package,” said Hansen. “Over the next three years we are investing nearly \$14 billion with federal and local governments to build roads, schools, health care facilities and other needed infrastructure in communities throughout British Columbia, creating jobs, supporting families and generating new economic activity.”

In partnership with other levels of government, British Columbia’s capital construction plan could create up to 88,000 jobs over three years. Since February, \$3.4 billion in infrastructure projects throughout British Columbia have been announced. The Budget Update provides for capital investments of \$7.4 billion in 2009-10, \$7.7 billion in 2010-11, and \$6.5 billion in 2011-12.

Funding for the Ministry of Health Services will increase by nearly 18 per cent over the next three years. By 2011-12, funding for the Ministry of Health Services will reach \$15.7 billion. The Budget Update also maintains funding for kindergarten to Grade 12 education, with per-student funding of over \$8,200 in 2009-10.

To help keep health-care funding sustainable, Medical Services Plan premium rates will increase for the first time since 2002. Effective January 1, 2010, they will rise by about six per cent – a maximum of \$3 a month for single people, or \$6 per family – consistent with the increase in health care spending.

There are built-in protections for lower-income British Columbians. Improvements to the MSP Premium Assistance Program will ensure those in the greatest financial need will actually come out ahead. In total, approximately 180,000 British Columbians will see their premium costs reduced or eliminated.

The Budget Update supports government's plan to introduce full-day kindergarten in British Columbia. It commits \$151 million to provide the option of full-day kindergarten for 50 per cent of five-year-olds starting school next year, and for all five-year-olds in British Columbia by fall 2011.

To support British Columbians in need, the Budget Update provides \$420 million in additional funding over three years to meet greater demand for income assistance during the economic downturn.

The B.C. government is committed to making British Columbia one of the most competitive jurisdictions in the world. Towards this goal, the government proposes to introduce a harmonized sales tax (HST) on July 1, 2010.

“According to leading economists, harmonizing the PST and GST into one tax is the single biggest initiative that British Columbia can do to stimulate the economy,” said Hansen. “The HST will remove over \$2 billion in costs for B.C. businesses, generating new investment and ultimately creating more, better-paid, long-term and stable jobs for British Columbians.”

The Budget Update raises the small business income tax threshold to \$500,000 from \$400,000, effective January 1, 2010. This measure alone will save small business in B.C. \$20 million annually.

For individual taxpayers, the basic personal income tax credit is being increased to \$11,000 from \$9,373, an increase of 17 per cent, effective January 1, 2010. These savings will provide taxpayers with increased financial flexibility and help stimulate the economy.

As a result of this and other tax measures introduced by the government, as of Jan. 1, 2010, individual British Columbians earning up to \$118,000 annually will pay the lowest provincial personal income taxes in Canada.

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For the Finance Minister's speech and more details on the September Budget Update 2009, visit http://www.bcbudget.gov.bc.ca/2009_Sept_Update/default.htm

Three backgrounders follow.

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BACKGROUND 1

Ministry of Finance

HARMONIZED SALES TAX (B.C. HST)

VICTORIA – British Columbia intends to harmonize its Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST) effective July 1, 2010.

The HST will combine a seven per cent B.C. rate with the five per cent federal GST, for a combined HST rate of 12 per cent. Once implemented, B.C. will have the lowest HST rate in Canada. The rate in all other provinces with an HST, including the one proposed by Ontario, is 13 per cent.

The introduction of the B.C. HST will make British Columbia one of the most competitive jurisdictions in the world for business investment, reducing the effective tax on new business investment by 40 per cent and resulting in significant investment and job growth.

It is estimated the HST will remove approximately \$2 billion in costs for job-supporting B.C. businesses, helping enhance competitiveness, increase investment and productivity and promote job growth.

Savings include:

- \$880 million for the construction industry.
- \$210 million for the transportation industry.
- \$140 million for manufacturing.
- \$140 million for the forestry sector.
- \$80 million for mining and oil and gas.

Collecting, accounting for, remitting and administering PST is a costly and complicated process for both the business owner and the provincial government. The proposed HST eliminates the current duplication of meeting separate requirements for PST and GST. B.C.'s businesses are expected to save \$150 million annually in administrative costs under the new streamlined HST tax system.

B.C. will provide point-of-sale rebates, which are similar to PST exemptions, for the provincial portion of the HST on a number of consumer products including: gasoline and diesel fuel for motor vehicles, books, children's-sized clothing and footwear, children's car seats and car booster seats, diapers and feminine hygiene products.

The B.C. HST also includes the following measures:

- A partial rebate of the provincial portion of the HST for new housing to ensure that purchasers of new homes up to \$400,000 bear no more tax than under the current PST system. Homes above \$400,000 will receive a flat rebate of \$20,000.

- A rebate for municipalities, charities and qualifying non-profit organizations so that, on average, they pay no more provincial sales tax under the HST than under the current PST.
- A B.C. HST Credit, paid quarterly with the GST and Low Income Climate Action tax credits, to offset the impact of the HST on those with low incomes.
- A temporary delay in the provision of input tax credits for certain purchases by businesses with taxable sales in excess of \$10 million.

The provincial government also proposes to provide a provincially-administered HST Exemption for residential energy use.

The federal government will provide British Columbia with \$1.6 billion in transitional funding to implement the B.C. HST. The full cost of B.C. HST administration will also be borne by the federal government, saving the Province an estimated \$30 million annually in administration costs.

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BACKGROUND 2

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PROPOSED NON-TAX ITEMS IN BUDGET MEASURES ACT

VICTORIA – The Budget Measures Implementation Act (No. 2), 2009, tabled in the Legislature with the September Budget Update 2009 is the legislative foundation for the initiatives announced in the budget, and includes both non-tax and tax measures.

The non-tax measures include:

- An amendment to the Balanced Budget and Ministerial Accountability Act to extend the period during which deficit budgets can be presented to the Legislature from two to four years. This measure is needed to protect vital services in the face of significant reductions in revenue as a result of the current recession.
- Amendments to the Tourism Act, the Tourism British Columbia Act, the Hotel Room Tax Act, and the Financial Information Act that are needed to ensure the promotion of tourism is maintained and seamlessly transferred to the Minister of Tourism, Culture and the Arts.
- Various housekeeping measures, including:
 - An amendment to the Balanced Budget and Ministerial Accountability Act to ensure any Supplementary Estimates are automatically included in individual ministerial spending accountabilities and to limit accountabilities to voted appropriations.
 - An amendment to the Budget Transparency and Accountability Act to designate March 2, 2010, as the date for presenting Budget 2010 to the Legislature.
 - An amendment to the Financial Administration Act to award full status as voting members to private members that are appointed to Treasury Board.
 - Transitional provisions to designate the September Estimates as the new main estimates for 2009-10. The main estimates are referenced by various acts for planning and reporting purposes.

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BACKGROUND 3

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FISCAL PLAN 2009-10 – 2011-12

Economic Outlook

Ongoing economic weakness, troubled global commodity and financial markets, and lower domestic demand for B.C. goods and services resulted in British Columbia undergoing a significant decline in economic activity during the first seven months of 2009.

Risks to B.C.'s economic outlook include a more severe and prolonged U.S. recession, continuing weaker demand for B.C. exports and extended volatility in global financial and commodity markets.

Domestic demand slowed considerably due to lower consumer confidence levels and tighter credit conditions. Housing starts declined and job loss increased as the provincial unemployment rate reached 7.8 per cent in July 2009.

In 2008, the provincial GDP contracted by 0.3 per cent, the first decline since 1982. The Ministry of Finance forecasts B.C.'s economy to contract 2.9 per cent in 2009, then grow by 1.9 per cent in 2010, and 2.7 per cent in 2011.

Revenue Outlook

Total government revenue is forecast at \$37.6 billion in 2009-10, \$38.8 billion in 2010-11, and \$41.1 billion in 2011-12.

Due to a sharp decline in taxation and natural resource revenues, projected government revenues since the February 2009 Budget have declined by \$3.9 billion over three years. This will be partially offset by \$1.6 billion in HST transition payments from the federal government.

Compared to the February 2009 Budget, taxation revenue is expected to be 6.9 per cent lower in 2009-10, 4.6 per cent lower in 2010-11 and 2.9 per cent lower in 2011-12.

Over the three-year plan, natural resource revenues are expected to be \$2.1 billion lower than estimated in February.

Expense Outlook

Total government expense is forecast at \$40.1 billion in 2009-10, \$40.3 billion in 2010-11, and \$41.8 billion in 2011-12, an average annual increase of 3.0 per cent over the three-year plan.

Administrative and Other Savings

The Budget Update includes \$3.4 billion in administrative and other savings over the next three years, which will be used to help fund healthcare, education and other priority programs.

These savings will be achieved through reductions in advertising, discretionary grants, contracted professional services, travel costs and office expenses.

SIGNIFICANT BUDGET DECISIONS:

Infrastructure Investments

The Budget Update reaffirms government's investment in public infrastructure and job creation projects. This includes capital spending of \$21.6 billion on schools, hospitals, roads, bridges, hydro-electric projects and other infrastructure throughout the province over the next three years.

The total capital investment of \$21.6 billion is comprised of \$12.7 billion in taxpayer-supported capital investments and \$8.9 billion in capital investments by Crown corporations.

The Budget Update projects capital investments of \$7.4 billion in 2009-10, \$7.7 billion in 2010-11, and \$6.5 billion in 2011-12.

Health

Over the next three years, health care will receive the largest share of funding increases in government spending. By 2011-12, the Ministry of Health Services' budget will increase by 18 per cent, reaching a total of \$15.7 billion.

Education

Post Secondary - Funding for institutions that support the post-secondary education system in B.C. will increase by \$93 million in 2009-10 from 2008-09. Total post-secondary education spending will exceed \$4.7 billion in 2009-10.

K-12 Education - The Budget Update protects core K-12 education by maintaining per-pupil funding at over \$8,200. Total K-12 education spending is \$5.7 billion in 2009-10.

Full-Day Kindergarten - An additional \$151 million is budgeted for the introduction of full-day kindergarten in British Columbia. This includes \$44 million for 2010-11 and an additional \$107 million for 2011-12.

Social Services

The Budget Update provides an additional \$455 million for priority social services and programs including \$420 million over three years to support individuals and families in need of income assistance.

Debt

Although total government debt will increase over the next three years, the B.C. government is keeping provincial debt affordable and managing its liabilities conservatively.

The total provincial debt is forecast to be \$42.3 billion in 2009-10, \$48.5 billion in 2010-11, and \$52.8 billion in 2011-12. As B.C. returns to balanced budgets, provincial legislation mandates the use of year-end surpluses to pay down direct operating debt.

Budget Outlook

British Columbia will run temporary deficits with a return to a balanced budget projected within five years. The Budget Update contains revised deficit forecasts of \$2.8 billion in 2009-10, \$1.7 billion in 2010-11, and \$945 million in 2011-12.

The fiscal plan includes contingencies of \$500 million in 2009-10, \$300 million in 2010-11 and \$300 million in 2011-12. Additionally, a forecast allowance of \$250 million is included for each of the next three years.

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