October 2018

UNDERSTANDING TAX EXPENDITURES

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OFFICE OF THE
Auditor General
of British Columbia

CONTENTS

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1
P: 250.419.6100
F: 250.387.1230
www.bcauditor.com

The Honourable Darryl Plecas
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report, *Understanding Tax Expenditures.*

We are issuing this report under the authority of section 12 of the *Auditor General Act.*

Our report is a summary of information obtained to understand the topic of tax expenditures. This information has not been subject to audit and accordingly we provide no assurance thereon.

Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
October 2018

The Office of the Auditor General of British Columbia would like to acknowledge with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lkwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the W̱SÁNEĆ people's (Pauquachin, Tsartlip, Tsawout, Tseycum) traditional lands, now known as Saanich.

AUDITOR GENERAL'S COMMENTS

THE PRINCIPAL FUNCTION of a tax system is to raise revenues needed to fund government spending. Funds collected through the tax system are used to pay for government programs and services, and for the administrative costs of government.

CAROL BELLRINGER, FCPA, FCA
Auditor General

The tax system can also be used to achieve public policy objectives through the application of specific measures, such as preferential tax rates, exemptions, deductions, deferrals and non-refundable tax credits. These measures, known as tax expenditures, represent a tax break that government offers people and corporations in support of its policy objectives. It's forgone revenue, or money that government doesn't collect, but could if it didn't offer that tax break. In 2016/17, tax expenditures in B.C. accounted for over $7 billion in foregone revenue.

Tax expenditures are debated and voted on only when the legislation for them is enacted or changed. This doesn't happen very often. Some tax expenditures—such as the home owner grant—are decades old. A 1969 publication stated that the home owner grant was introduced in 1957 to relieve the pressure of rising property taxes on home owners and encourage the buying and building of new homes. Today, legislators may not have all the information they need to make informed decisions about whether tax expenditures continue to achieve government's policy objectives.

The last time we mentioned this topic was almost 25 years ago in our 1993/94 Report on the Public Accounts. In that report we made recommendations on how government could improve its reporting of tax expenditures. Shortly after our report was published, government started to disclose tax expenditures in its annual budget reports. However, not much has changed since then, and the way government reports these expenditures is now outdated. Tax expenditures are significant, yet government doesn't report them in a way that's transparent and easily understood.

AUDITOR GENERAL'S COMMENTS

Some governments around the world report their tax expenditures more fully. In fact, certain governments are required—by legislation—to disclose tax expenditures, and some follow the recommendations of the International Monetary Fund and the Organization for Economic Cooperation and Development. The Department of Finance Canada has very progressive reporting and includes multiple years of tax expenditure information with links to the legislation, as well as the purpose of the tax expenditure. There are always opportunities to improve disclosure, which we urge the B.C. government to consider.

Our intention with this information report is to bring attention to some important issues legislators should understand about tax expenditures, such as: the purpose of a tax, when it came into effect, when it was reviewed for effectiveness, the policy objective of the tax and the annual amount.

This is the second report we're publishing as part of our Compliance, Controls and Research (CCR) initiative. It's an example of the research projects that the CCR team conducts, in addition to narrow-scoped performance audits that focus on compliance and controls. Information and research reports are developed to inform legislators and the people of British Columbia about very specific topics related to government's finances.

My thanks to the Ministry of Finance, and to everyone we spoke with, for their involvement and cooperation in this work.

Carol Bellringer

Carol Bellringer, FCPA, FCA
Auditor General
Victoria, B.C.
October 2018

REPORT HIGHLIGHTS

TAX EXPENDITURES ARE:

- tax exemptions
- allowances
- rate reductions
- deferrals
- non-refundable credits

that reduce government tax revenues

2016/17, B.C. government reported **$7 BILLION** IN TAX EXPENDITURES

TAX EXPENDITURES **SUPPORT** GOVERNMENT'S POLICY OBJECTIVES

Tax expenditures are **DEBATED** only when INTRODUCED OR CHANGED

Legislators need BETTER INFORMATION to evaluate the effectiveness of tax expenditures

SOME GOVERNMENTS PROVIDE MORE comprehensive reporting on tax expenditures

B.C. government reporting of tax expenditures LARGELY UNCHANGED FOR **25 YEARS**

CANADA REPORTS:

- 8 years of tax expenditures
- the expenditures' purposes
- and much more

MORE **COMPREHENSIVE REPORTING** in B.C. would **INCREASE UNDERSTANDING** of tax expenditures

RESPONSE FROM THE MINISTRY OF FINANCE

WE APPRECIATE THE opportunity to review and respond to the Office of the Auditor General report titled, *Understanding Tax Expenditures*.

The Auditor General's report provides a comprehensive overview of tax expenditures, their significance to legislators and the importance of broad disclosure of information relating to these expenditures. In particular, the report highlights the importance of the reporting of tax expenditures to provide legislators with a fuller picture of the levers that government uses to implement economic, social and environmental policies. Indeed, this is why successive British Columbia governments have reported tax expenditures each year since the 1995 Budget. The reporting of tax expenditures is also important in informing the public about tax relief measures available to them.

The report makes the observation that the approach to disclosing information on tax expenditures and the level of detail provided varies by jurisdiction. We agree that in the absence of any standard or requirement for disclosure of tax expenditure estimates it can be difficult to inform the public in a way that is both informative and comparable across Canada. To that end we welcome further work in this area and look forward to working with the Office of the Auditor General to support the professional debate in Canada.

The Ministry of Finance agrees that it is important that legislators and other users of the Province's financial information have access to complete information relating to BC's tax expenditures. We will consider improvements to our reporting of tax expenditures.

Thank you again for providing the opportunity to respond to the report.

Lori Wanamaker
Deputy Minister
Ministry of Finance

UNDERSTANDING TAX EXPENDITURES

Introduction

THE PURPOSE OF this report is to highlight the significance of tax expenditures in the context of overall provincial spending. The report also provides insights on how information on the value, purpose, history and effectiveness of tax expenditures can inform budget debates. There are always opportunities to improve disclosure which we urge governments to consider. Considering tax expenditures in the context of direct program spending allows for a better understanding of total government investment in public programs, and how policy objectives for government spending—whether through direct spending or tax expenditures—align. It is important to consider tax expenditures and direct spending together to ensure that the total costs of government programs and services are understood.

The principal function of a tax system is to raise revenues needed to fund government spending. Funds collected through the tax system are used to pay for government programs and services and for the administrative costs of government.

The tax system can also be used to achieve public policy objectives through the application of specific measures, such as preferential tax rates, exemptions, deductions, deferrals and non-refundable tax credits. These measures, which reduce the amount of tax revenues, are commonly referred to as tax expenditures and represent indirect spending through the tax system.

British Columbia's Summary Financial Statements for fiscal year 2016/17 reported $51.5 billion in revenues and $48.7 billion in direct spending on programs. But this financial reporting does not represent the whole spending picture. The reported revenues are net of tax expenditures. Tax expenditures, as reported in the annual budget, were estimated to be over $7 billion for 2016/17.

What are taxes?

Citizens and corporations pay taxes to provide government with the money it needs to fund programs and services in support of social, economic and environmental policy objectives. Taxes take many forms, including income tax, sales tax and property tax.

What are tax expenditures?

Government chooses to provide certain exemptions, allowances, rate reductions, deferrals and non-refundable credits from taxes that citizens and corporations owe. Each year taxpayers claim eligibility for these provisions. Known as tax expenditures, these forgone revenues represent money that government does not collect.

Because government gives up this revenue, it represents a cost in support of policy objectives. For example, the B.C. government, in support of its environmental policy objectives, does not charge provincial sales tax on bicycles. This example represented approximately $23 million in forgone provincial sales tax revenue for 2016/17.

Why do tax expenditures matter?

Tax expenditures are significant. They can exceed several billion in foregone revenue annually, in the case of provincial or state governments, and tens or hundreds of billion in the case of larger national governments.

Tax expenditures, together with direct spending, represent total government spending in support of policy objectives. And, as there is no requirement to report tax expenditures along side revenue and expenditure forecasts, tax expenditures may not be subject to the same annual budgetary review and approval process that applies to direct spending.

What are refundable tax credits?

Refundable tax credits result in payments from government to eligible taxpayers, made through the tax system. Refundable tax credits, also known as tax transfers, represent direct spending. They are included in annual budgets and reported as government expenses in annual financial statements. An example of a refundable tax credit is B.C.'s film and television production services tax credit. This is a refundable labour-based tax incentive for international productions made in B.C.

How does B.C. define its tax expenditures?

The B.C. government defines tax expenditures as "the reduction in revenues from delivering government programs or benefits through the tax system … made by offering special tax rates, exemptions, or tax credits." B.C.'s definition of tax expenditures includes both tax expenditures and refundable tax credits.

The B.C. Budget and Fiscal Plan, called simply Budget Reports until 2002, discloses refundable tax credits together with tax expenditures in an appendix. The information is reported together to allow legislators and other users to find information on costs related to the tax system in one place. However, it is not always obvious whether an item in the disclosures is a refundable tax credit (a payment to a tax payer) or a tax expenditure (forgone revenue). For example, the Scientific Research and Experimental Development corporate tax credit has both refundable and non-refundable components. The refundable component is direct spending and the non-refundable component is a tax expenditure.

Including information on refundable tax credits together with information on tax expenditures supports the principle of transparency, as the total cost of tax programs is disclosed in one place. The challenge with this approach is that refundable tax credit amounts are disclosed in two places in the Budget and Fiscal Plan: they are included as part of the expenditure budgets (direct spending forecasts) and they are included as part of reported tax expenditures. Any comparison of direct spending to tax expenditures could risk double counting the refundable tax credits as they are reported as both.

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How and when are tax expenditures approved?

Planned tax expenditures and direct spending are not presented to the legislative assembly in the same way during the annual budget approval process. Direct spending is debated and approved annually, and tax expenditures are debated and approved when legislation for the expenditures is established.

Every year, on the third Tuesday of February, the Minister of Finance tables the Budget and Fiscal Plan in the legislative assembly. The plan includes the main Estimates, which provides a detailed breakdown of expected direct spending for the coming fiscal year that members of the legislative assembly must debate and approve.

In contrast, a tax expenditure is debated and approved when it is introduced in new or revised legislation. Annual estimated tax expenditures are not debated as part of the budget process. However, reporting of estimated tax expenditures for the prior year is included in the Budget and Fiscal Plan, which is approved by the legislature on an annual basis.

How do tax expenditures compare with direct spending?

When most people think of government spending, they are thinking of direct spending—for example, government funding of health authorities to pay for the delivery of health care. We can see how direct spending is accounted for, because all of government's direct spending is shown as line items in annual budgets (plans) and in the summary financial statements (results). It's possible to locate and understand direct spending, and compare results to plans.

Tax revenues, net of any tax expenditures, are disclosed in both annual budgets and annual financial statements. However, there is no requirement for government to disclose the value of the tax expenditures (the value of foregone revenue) in annual budgets or summary financial statements. For example, a sales tax exemption on certain health care products (such as prescription and non-prescription drugs) represented $235 million in forgone revenue in 2016/17 and is an example of a tax expenditure in support of health care. This amount is not separately presented in the main budget document or in the summary financial statements.

Tax expenditures and direct spending programs can represent two different—yet related—approaches to achieving policy objectives. Changes to a tax expenditure may have impacts on direct spending programs. For example, elimination of the provincial sales tax exemption for food purchases would result in increased tax revenues for government but also in increased food costs for taxpayers. However, there could be further impacts. It is possible that such a change could result in increased direct spending if social programs were needed to offset the impact of the increased cost of food on families.

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Exhibit 1: Examples of direct spending and spending through the tax system supporting the same broad policy objectives

Policy objective	Direct spending	Tax expenditures
Social objectives	• Income assistance • Disability assistance • BC Child Care Subsidy Program / Child Care BC • Medical Services Plan • Fair Pharmacare • Low income climate action income tax credit (refundable)	• Sales tax exemption for children's clothing • Sales tax exemption for food • Sales tax exemption for prescription drugs • Medical expenses income tax credit
Economic objectives	• Grow BC, Feed BC and Buy BC initiatives • Production Insurance - agriculture • Refundable tax credits for film and television industry • Higher education and skills training	• Small business corporate income tax rate • School and rural property tax assessment exemption of $10,000 for industrial and business properties • Non-refundable income tax credits for tuition and education
Environmental objectives	• Forest Carbon Management • Innovative Clean Energy Fund • Caribou Recovery Program	• Sales tax exemption for bicycles • Fuel tax exemption for alternate fuels

*Note: these examples are intended to be illustrative of the different ways to invest in government's policy objectives. There is no correlation between the examples listed as direct spending and tax expenditures.

How does B.C. report its tax expenditures?

There is no requirement in accounting standards or legislation for the government to disclose tax expenditures in either its budget or its financial statements. Since 1995/96, B.C. has voluntarily reported an annual estimate of actual tax expenditures in an appendix to the Budget and Fiscal Plan.

The *Budget and Fiscal Plan 2017/18–2019/20*, published on February 21, 2017, listed $7.3 billion in forecast tax expenditures for 2016/17. Appendix A1 lists the estimated actual cost of individual tax expenditures for the year preceding the first year of the plan. Information on actual year-to-date tax expenditures, available at the time the budget document is being prepared, are used to estimate annual costs. Because the tax expenditure reporting

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is actuals for the prior year, rather than forecasts for the upcoming year, tax expenditure reporting does not align with the budget. We have reproduced Appendix A1 from the *Budget and Fiscal Plan 2017/18–2019/20* in Appendix A to this report.

Tax expenditures greater than $2 million are reported by tax type (income, property and consumption). Where practical, smaller items are combined and presented as an aggregate figure. An example of a tax expenditure for a selection of different taxes are shown in Exhibit 2.

As noted above, B.C.'s reporting of tax expenditures includes refundable tax credits that are budgeted and reported as direct spending in the budget and financial statements.

B.C. includes refundable tax credits together with tax expenditure disclosures in order to be transparent on the amounts government spends, through the tax system, under these programs. However, since these amounts are included both as budgeted direct spending and in the listing of forecast actual tax expenditures, they are in effect double counted in the disclosures in the annual budget document. It is not always apparent which items in the tax expenditure disclosures are refundable tax credits, or any indication that they are also reported as expenditures in budgets and financial statements because they result in direct payments to taxpayers.

B.C.'s disclosures also include the impact of some federal income tax measures on B.C.'s tax revenues. These amounts represent potential tax revenues forgone by B.C. as a result of federal policy. However,

TAX EXPENDITURE REPORTING: WHAT'S NOT INCLUDED

Consistent with other jurisdictions, B.C.'s reporting emphasizes "tax reductions, credits, exemptions and refunds that are close equivalents to spending programs." The reporting does not include "tax measures designed to meet broad tax policy objectives, such as improving fairness in the tax system, or measures designed to simplify the administration of a tax."

Exhibit 2: Examples of tax expenditures for 2016/17

Tax legislation	Tax expenditure	2016/17 amount
Income Tax Act	Charitable donations tax credit	$208 million
Home Owner Grant Act	Home owner grant	$809 million
Provincial Sales Tax Act	Exemption for food	$1,184 million
Provincial Sales Tax Act	Exemption for residential energy	$224 million

*Note: There are many other tax expenditures related to these statutes and other statutes. See Appendix A to this report.

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these items are not under B.C.'s legislative control and may not represent provincial policy objectives. Appendix A to this report, the excerpt from the Budget and Fiscal Plan, lists these under the heading "Federal Measures." An example of a federal measure is the impact of the exemption from capital gains for small businesses and family farms on provincial revenues.

Finally, B.C.'s reporting does not provide grand totals for tax expenditures. This is consistent with the practice in several other jurisdictions (e.g., Canada, the United States and Australia). The provincial Budget and Fiscal Plan cautions against totalling tax expenditures. Appendix A1 to the *Budget and Fiscal Plan – 2017/18 to 2019/20* states that "in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another" and that "eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates." The provincial sales tax exemption for food purchases, discussed above, is an example of a situation where the elimination of the tax exemption would likely have other cost implications for the province.

In the *Budget and Fiscal Plan – 2017/18 to 2019/20*, published February 21, 2017, three items make up over 58% of total tax expenditures reported: tax expenditures related to federal personal income tax measures ($2.27 billion), the provincial sales tax exemption for food purchases ($1.18 billion) and the property tax home owner grant ($809 million). See Exhibit 3.

MAJOR COMPONENTS OF B.C.'S TAX EXPENDITURES

Federal personal income taxes – British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the Province has agreed to maintain a consistent income tax base with the federal government in the interest of reducing administration and compliance costs. Federal measures result in tax expenditures related to: childcare expense deductions, exemptions from capital gains for small businesses and family farms, Registered Retirement Savings Plans, Registered Pension Plans and Tax-Free Savings Accounts.

Sales exemption for food – The Provincial Sales Tax Act provides an exemption related to food for human consumption (e.g., basic groceries and prepared food such as restaurant meals). This exemption means that the Provincial Sales Tax (PST) does not need to be paid on purchases of food.

Home owner grant –The home owner grant is available to homeowners who pay property taxes for their principal residence. The grant is not a payment to home owners; it reduces the amount of property taxes that would otherwise be paid on a principal residence.

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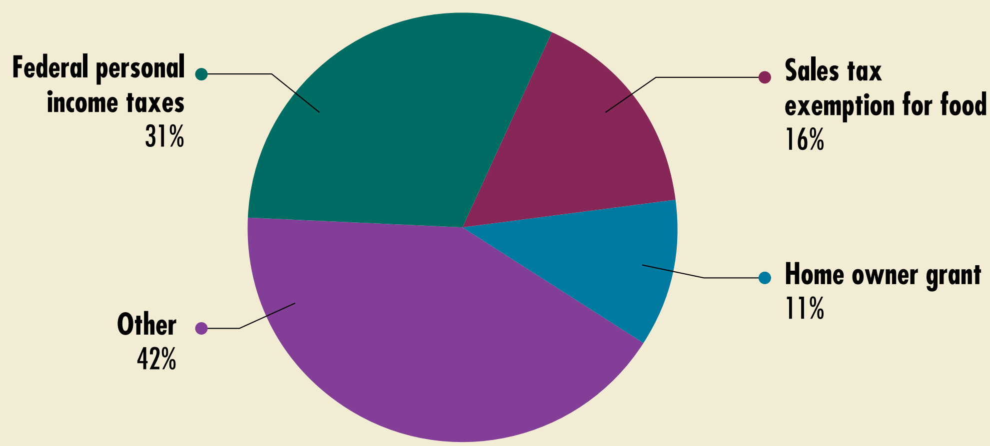
Exhibit 3: B.C.'s tax expenditures, 2016/17



Source: Office of the Auditor General of British Columbia, based on the Budget and Fiscal Plan – 2017/18 to 2019/20, published February 21, 2017

How has B.C.'s reporting of tax expenditures changed over time?

The B.C. government published a report on tax expenditures in 1981, but from 1982 to 1995, there were no public disclosures of tax expenditures. The reporting in the 1994/95 Budget Reports was in response to a report from the Auditor General in 1993/94. Tax expenditure reporting in B.C. has not changed substantially since the 1994/95 Budget Reports.

Between 1998/99 and 2011/2012, tax expenditure reporting was categorized by sector as well as tax type. These sector disclosures highlight the high-level policy objectives of the tax expenditures and help legislators and other users compare the cost of tax expenditures with the amounts of direct spending in these areas. Since 2011/12, the Budget and Fiscal Plan has only included the breakdown by tax type.

For 2017/18, B.C.'s reporting included, for the first time, the estimated cost of the small business corporate income tax rate of $1.7 billion. This preferential tax rate for small businesses had existed in prior years, but it wasn't reported. The general corporate income tax rate effective January 2018 is 12% and the small business corporate income tax rate is 2%.

Appendix A in this report shows B.C.'s reporting of tax expenditures for 2016/2017. Appendix B shows the reported costs for 1994/95, which was the first year tax expenditures were reported. This was in response to our 1993/94 Report on the Public Accounts. Appendix C shows B.C.'s tax expenditure reporting for 1998/99, when tax expenditures were first presented by tax type and by sector. Reporting by sector continued for 15 years. Table 3: B.C.'s tax expenditure reporting, 1981 – 1995

Exhibit 4: B.C.'s tax expenditure reporting, 1981 – 2017

1981 - 1982

The Ministry of Finance publishes a report that lists tax expenditures and quantifies their effect on the province's revenues.

1982 - 1993

No reporting of tax expenditures.

1993 - 1994

The Auditor General's 1993/94 Report on Public Accounts recommended that government report tax expenditures.

1994 - 1998

The BC Budget Reports includes reporting on tax expenditures. The table of contents includes a reference to a section on tax expenditures. Tax expenditures reported are the estimated actual cost for the year prior to the budget year. Reporting on tax expenditures is categorized by tax type: income tax, property tax and consumption tax. 1994-1995 disclosures are included as Appendix B.

1998 - 2011

Tax expenditure reporting expanded to include reporting categorized by sector as well as tax type: social programs, economic development programs, environmental protection programs.

2002 - 2003

Tax expenditure reporting moved to an appendix to the Budget and Fiscal Plan. The table of contents in the Budget and Fiscal Plan no longer includes a reference to tax expenditures.

2011 - 2017

Tax expenditure reporting no longer includes categorization by sector. Reporting is by tax type only.

Source: Office of the Auditor General of British Columbia, based on information from B.C. government budget reports

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What are some good reporting practices for tax expenditures?

Both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have issued non-binding guidance (i.e., member countries are not required to follow this guidance) on good practices for reporting tax expenditures. The IMF's 2007 *Manual on Financial Transparency* states that a government's budget should include a statement of tax expenditures, with the policy purpose of each, its duration and intended beneficiaries. In addition, "ideally, the estimated results of previous tax expenditures compared with their public policy purposes should also be presented" to allow for the evaluation of the effectiveness of the tax expenditures.

INTERNATIONAL SOURCES OF GUIDANCE

The International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) are international organizations that promote sustainable economic growth. Both organizations promote good financial practices, including good practices regarding the administration and reporting of tax expenditures.

The *OECD Best Practices for Budget Transparency* recommends the inclusion of the estimated costs of tax expenditures and a discussion of tax expenditures and direct spending together to inform budgetary choices. In addition, in its *Best Practice Guidelines—Off Budget and Tax Expenditures*, the OECD recommends that "tax expenditures be subjected to budgetary control in the same way as regular expenditures are" during the annual budget process.

How do other jurisdictions report tax expenditures?

We reviewed tax expenditure reporting by nine other jurisdictions. We selected five national-level governments (Canada, the United States, Australia, the United Kingdom and France) and four provincial/state-level governments (Alberta, Ontario, Quebec and the State of Washington). A summary of the different reporting practices is included as Appendix D to this report.

International guidance on the form and extent of reporting for tax expenditures is recommended good practice—and not authoritative—so practices varied. In our analysis of publicly available tax expenditure reporting for 10 jurisdictions, including B.C., for information available as of November 2016, we found the following:

- Three of the five national-level jurisdictions were required by legislation to disclose tax expenditures.
- Ontario and the State of Washington were the only provinces/states with a legislated requirement to report tax expenditures.
- Eight of 10 jurisdictions disclosed tax expenditures in a stand-alone document. B.C. and Alberta both included their voluntary disclosures as additional information within their budget documents.

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- Three jurisdictions—Quebec, the State of Washington, and France—provided grand totals for reported tax expenditures—either by tax type or by sector, or both.
- Amounts reported included a mix of actuals for the prior calendar years, estimates for the current fiscal year, estimates for the next fiscal year, and estimates for several years.

Some of the most progressive reporting on tax expenditures is by the Department of Finance Canada. This department has been enhancing its reporting in recent years to incorporate many of the good practices promoted by the IMF and OECD.

The Department of Finance Canada's 2017 *Report on Federal Tax Expenditures* includes eight years of financial estimates (covering 2011 to 2018) for each tax expenditure, grouped by sector, with the type of tax (e.g., income, GST) identified. It also includes an explanation of the changes to tax expenditures from the prior year's reporting.

For each tax expenditure reported, there is a hyperlink that takes the reader to additional information, including:

- a description of the tax expenditure
- the type of tax (personal income tax, corporate income tax or GST)
- beneficiaries
- the type of measure (exemption, rebate, preferential rate, etc.)
- implementation date and key recent developments
- the objective officially stated by government when the tax was introduced or, when not available, the objective determined from the design and effects of the tax expenditure
- subject matter
- other relevant government programs
- estimation method (for past years)
- projection method (for future years)
- number of beneficiaries

Appendix E to our report is an excerpt from the Department of Finance Canada's *Report on Federal Tax Expenditures*, listing tax expenditures under a heading of "Savings and Investment." Each of these items is hyperlinked to more detailed information. For example, the last item in the table shows the cost impact of the Tax-Free Savings Account from 2011 to 2018. Clicking on this line takes the user to the detailed table that we present in Appendix F to this report.

The Department of Finance report also provides a high-level comparison of tax expenditures and direct spending based on 2014 figures. The information presented shows the allocation of the total amounts of each among broad categories (e.g., social protection, health, etc.). An excerpt of this reporting has been reproduced in Appendix G to this report. For the purposes of this comparison with direct spending, the Department of Finance Canada provides an approximate total of tax expenditures of $100 billion.

Why should tax expenditures and direct spending be considered together?

To allow legislators and other users of the information, to understand the full costs of policies, programs and services, direct spending and tax expenditures should be considered together.

Just as direct spending is reviewed through the Estimates on an annual basis, tax expenditures should also be periodically reviewed to allow users to understand:

- the purpose or policy objective of the tax measure
- the provision in the legislation that resulted in the tax expenditure
- when the measure came into effect
- when the measure was last reviewed for effectiveness
- the annual amount of the tax expenditure, the basis for measurement, and the reliability of the measurement

The question that should be asked is, "Does this tax measure still make sense?" If this information isn't captured in a way that's accessible, then legislators may not have all of the information they need to make decisions. Over the life of a tax expenditure, the forgone revenue for the province may be in the billions of dollars.

In addition to the cost of the tax expenditures, government may be supporting related policy objectives through direct spending that could be complementary or contradictory to the tax expenditures. Unless legislators understand the tax expenditures and who's benefiting, they can't understand how the costs of tax expenditures relate to the direct spending.

Ultimately, more comprehensive reporting of tax expenditures would provide legislators with more information, allowing them to see the total picture of government spending in support of policy goals. This could include developing tax expenditure forecasts for the same time period as the budget, and differentiating between refundable tax credits and tax expenditures in the annual reporting.

APPENDIX A: B.C.'S TAX EXPENDITURE DISCLOSURE FOR THE YEAR ENDED MARCH 31, 2017

A1: Tax Expenditures

Introduction

A tax expenditure is the reduction in revenues from delivering government programs or benefits through the tax system. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower-income families or to promote economic development and job creation.

Reporting tax expenditures improves government accountability by providing a more complete picture of government activities. The tax expenditure appendix does not include tax expenditures introduced or expanded in *Budget 2017*. These are described in Part 2: Tax Measures. Beginning with *Budget 2012*, refundable tax transfers are accounted for in a voted appropriation. This change does not affect the reporting of tax expenditure costs in the following tables.

The Role of Tax Expenditure Programs

Using the tax system to deliver programs can reduce administration costs and compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases, setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the BC low income climate action tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by the Canada Revenue Agency. In addition, it would require individuals to undertake a separate, time-consuming application process to qualify for the benefit.

There are, however, several potential drawbacks to tax expenditure programs. First, their overall cost often receives less public scrutiny than is the case for spending programs because annual budget appropriations by the legislature are not typically required. Second, tax expenditure programs do not always effectively target those who are intended to benefit from them. Some tax expenditure programs that are intended to provide tax relief for lower-income earners may, in reality, confer the greatest benefit on higher-income earners who pay the most taxes. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open-ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Not all tax reductions, credits, exemptions and refunds are classed as tax expenditures.

The emphasis is on tax reductions, credits, exemptions and refunds that are close equivalents to spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of a tax. The list also does not include anything that is not intended to be part of a tax base.

Tax expenditures that cost less than $2 million are generally not included. Where practical, smaller items have been presented together as an aggregate figure.

APPENDIX A

British Columbia Tax Expenditures

The following tables report tax expenditure estimates.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons:

- in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another; and
- eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

The estimates for each tax expenditure are based on a static analysis of the costs and do not take into account any behavioural changes, which could change the costs over time. In addition, estimates are generally recalculated each year using current data sources and using refinements to the methods of estimation that can result in significant changes to the value of a given tax expenditure from prior years' reports.

In Table A1.1, Personal Income Tax – Tax Expenditures, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures*: This includes all major tax expenditures that are under provincial policy control.
- *Federal Measures*: British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the Province has agreed to maintain a consistent income tax base with the federal government in the interest of reducing administration and compliance costs.

APPENDIX A

Table A1.1 Personal Income Tax – Tax Expenditures

		2016/17 Estimated Cost ($ millions)
Personal Income Tax		
Provincial Measures		
BC early childhood tax benefit		139
Low income climate action tax credit		195
Sales tax credit		49
Training tax credit		4
Venture capital tax credit		27
BC mining flow-through share tax credit		10
Political contributions tax credit		3
Home renovation tax credit for seniors and persons with disabilities		2
Provincial non-refundable credits: [1]		
• Charitable donations tax credit		208
• Tax credits for tuition and education		52
• Tax credits for persons with disability and medical expenses		91
• Pension income tax credit		28
• Credit for persons age 65 and older		66
• Spousal and equivalent-to-spouse credits		74
• Tax credit for Canada Pension Plan contributions		161
• Tax credit for Employment Insurance premiums paid		56
• Children's fitness and arts tax credits		9
Federal Measures [2]		
• Pension income splitting		71
• Child care expense deduction		49
• Exemption from capital gains for small businesses and family farms		88
• Deduction for residents of northern and isolated areas		10
• Non-taxation of business-paid health and dental benefits		125
• Registered Retirement Savings Plans: [3]		
• exemption for – contributions	378	
– investment earnings	603	
• taxation of withdrawals	(274)	
Total		707
• Registered Pension Plans: [3]		
• exemption for – contributions	752	
– investment earnings	873	
• taxation of withdrawals	(449)	
Total		1,176
• Tax-Free Savings Accounts		39

[1] Provincial non-refundable credits are generally based on estimates of credit claims by British Columbia residents.

[2] These measures are federal measures but the estimates show only the foregone provincial revenue. Each measure is calculated from the 2016 federal cost projections as reported in the Government of Canada's *Tax Expenditures and Evaluations 2016* by applying British Columbia residents' share of the measure and the relevant tax rates. Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[3] Registered Retirement Savings Plans and Registered Pension Plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these plans is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

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Table A1.2 Corporate Income Tax – Tax Expenditures

		2016/17 Estimated Cost ($ millions)
Corporate Income Tax [1]		
Charitable donations deduction [2]		32
Training tax credit [3]		8
Film and television tax credits:		
• Film Incentive BC tax credit [4]	51	
• Production services tax credit [5]	340	
Total		391
International business activities tax refund [6]		20
Scientific research and experimental development tax credit [7]		148
Mining exploration tax credit [8]		40
Book publishing tax credit		3
Interactive digital media tax credit [9]		65

[1] Includes prior year adjustments for refundable tax credits.

[2] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the foregone provincial revenue. This is calculated from the 2016 federal cost projection as reported in Government of Canada's *Tax Expenditures and Evaluations 2016* by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate and increasing it by corporate income tax revenue growth.

[3] Includes prior year adjustment of -$2 million.

[4] Includes prior year adjustment of -$39 million.

[5] Includes prior year adjustment of -$61 million.

[6] Includes employee income tax refunds.

[7] Includes prior year adjustment of -$2 million.

[8] Includes prior year adjustment of -$2 million.

[9] Includes prior year adjustment of +$9 million.

Table A1.3 Property Taxes – Tax Expenditures

	2016/17 Estimated Cost ($ millions)
School and Rural Area Property Tax	
Assessment exemption of $10,000 for industrial and business properties [1]	8
Overnight tourist accommodation assessment relief [1]	3
Home owner grant [2]	809
Property Transfer Tax	
Exemptions for the following:	
• First-time home buyers	83
• Newly built homes	76
• Property transfers between related individuals	137
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	12
• Property transfers to charities registered under the *Income Tax Act* (Canada)	8

[1] Estimates are for the 2016 calendar year and include only school and rural area property taxes levied by the Province.

[2] The home owner grant includes the northern and rural home owner benefit.

APPENDIX A

Table A1.4 Consumption Taxes – Tax Expenditures

	2016/17 Estimated Cost ($ millions)
Fuel Tax [1]	
Tax exemption for alternative fuels	15
Tax exemption for international flights (jet fuel)	20
Tax exemptions for farmers [2]	8
Provincial Sales Tax [1]	
Exemptions for the following items:	
• Food (basic groceries, snack foods, candies, non-alcoholic beverages and restaurant meals)	1,184
• Residential energy (e.g. electricity, natural gas, fuel oil)	224
• Prescription and non-prescription drugs, vitamins and certain other health care products	235
• Children's clothing and footwear	47
• Clothing patterns, fabrics and notions	4
• Specified school supplies	28
• Books, magazines and newspapers	41
• Basic land-line telephone and cable service	59
• "1-800" and equivalent telephone services	3
• Specified safety equipment	26
• Labour to repair major household appliances, clothing and footwear	9
• Livestock for human consumption, and feed, seed and fertilizer	56
• Specified energy conservation equipment	16
• Bicycles	23

[1] Estimates are based on Statistics Canada data and/or administrative data.

[2] Estimate is for both motor fuel tax and carbon tax.

Source: British Columbia Ministry of Finance, *Budget and Fiscal Plan 2017/18 – 2019/20*

Report F: **TAX EXPENDITURES**

Tax Expenditures

Introduction

A tax expenditure is defined as using the tax system to provide a benefit to a specific group of taxpayers. This usually occurs by offering reduced tax rates, exemptions, or tax credits to the group receiving the benefit. Governments introduce tax expenditures primarily to implement social policy objectives such as transfers to lower income taxpayers or to promote economic development.

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. To meet this objective, British Columbia's major tax expenditures are presented in the following tables. Reporting on tax expenditures is also consistent with recommendations contained in the latest report of the Auditor General.

Tax expenditure reporting is relatively common. The Canadian federal government, the American federal government, some American states, several European national governments, and on occasion some Canadian provinces issue reports on tax expenditures. British Columbia last reported on tax expenditures in 1982.

The Role of Tax Expenditure Programs

The main reason governments use the tax system to deliver programs is to reduce administration costs for government and compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by Revenue Canada. In addition, it would require individuals to undergo a separate time-consuming application process in order to qualify for the benefit.

There are, however, several drawbacks to tax expenditure programs. First their overall cost receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, some tax expenditure programs confer the greatest benefits on those who pay the most taxes, which means that the major beneficiaries are often high-income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. This can create the perception that the tax system is unfair. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

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APPENDIX B

Tax Expenditure Reporting

Two criteria were used to choose which tax expenditures to report. First, the emphasis is on tax preferences that are close equivalents to spending programs. This approach focuses on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed specifically to ensure fairness in the tax system, or simplify the administration of the tax. The list does not include items that are generally excluded from a particular tax base. For example, the revenue loss from not extending provincial sales tax to additional services is not included because most services are not subject to the sales tax.

Second, smaller items of less than $2 million were not included.

As a result, in this report, tax expenditures include major government programs delivered through the tax system, but do not include all items traditionally considered to be tax expenditures. Items such as the basic personal income tax credit are excluded because they are designed primarily to improve fairness in the tax system.

As with any definition of tax expenditures, these criteria leave some grey areas. Future tax expenditure reports will continue to refine and clarify the criteria used to define provincial tax expenditures.

British Columbia Tax Expenditure Programs

For presentation purposes, British Columbia tax expenditures are separated into two categories.

- *Provincial Tax Preferences:* This includes all major tax expenditures that are under provincial policy control.

- *Federal Tax Preferences:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to give up policy control of the income tax base in the interest of maintaining a consistent income tax system across the country. However, this also means the province has no direct control over income tax preferences delivered through changes to the income tax base.

The personal income tax expenditures that are included cover a range of policy objectives, including support for charitable activities, health care and education. Most corporation income tax expenditures, such as accelerated write-offs for Canadian development and exploration expenses, are intended to achieve economic development objectives.

The individual tax preferences should not be added together to reach a total for provincial tax expenditures for two reasons. First, in some cases the preferences interact with one another so that eliminating one preference could increase or decrease the cost of another preference. Second, eliminating certain preferences could change the choices taxpayers make, which in turn would affect the cost estimates.

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TABLE F1 TAX EXPENDITURE	1994/95 Cost ($ millions)
PROVINCIAL SALES TAX	
Provincial Tax Preferences	
Commissions paid to retailers and hotel operators	22
Exemptions for the following items:	
c Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)	520
c Residential fuels (electricity, natural gas, propane, etc.)	100
c Prescription and non-prescription drugs, vitamins and certain other health care products and appliances	55
c Children's clothing and footwear	25
c Clothing patterns, fabrics and notions	7
c Specified school supplies	10
c Books, magazines and newspapers	50
c Basic telephone and cable service	35
c Two-wheeled bicycles	4
c Exempt energy conservation equipment	10
c Exempt safety equipment	8
c Labour to repair major household appliances, clothing and footwear	6
c Livestock for human consumption and agricultural feed, seed and fertilizer	25
c Exempt purchases by farmers, fishers and aquaculturalists	16
FUEL TAX	
Provincial Tax Preferences	
Tax exemption for alternative fuels	26
Tax exemption for international flights carrying cargo	5
Lower rate for family farm trucks (on road)	2
PERSONAL INCOME TAX	
Provincial Tax Preferences	
Sales tax credit	50
Venture capital tax credit	10
Employee venture capital tax credit	4
Political contributions tax credit	2
Federal Tax Preferences[1]	
Deduction and inclusion of alimony and child support payments	16
Charitable donations tax credit	71
Tax credits for tuition and education	30
Tax credits for disabilities and medical expenses	40
Pension income tax credit	24
Credit for persons older than 65 years	111
Exemption from capital gains of up to $500,000 for small businesses and family farms	84

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APPENDIX B

TABLE F1 TAX EXPENDITURE — *Continued*		1994/95 Cost
		($ millions)
Tax deduction for residents of northern and isolated areas		15
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		92
Registered retirement savings plans[2]:		
exemption for — contributions	302	
— investment earnings	226	
taxation of — withdrawals	(77)	
Total		451
Registered pension plans[2]:		
exemption for — contributions	409	
— investment earnings	630	
taxation of — withdrawals	(375)	
Total		664
CORPORATION INCOME TAX		
Provincial Tax Preferences		
International financial business tax refund[3]		5
Federal Tax Preferences[1]		
Charitable donations deduction		5
Accelerated write-offs for Canadian development and exploration expenses[4]		55
Accelerated write-off for capital equipment used in research and development[4]		3
Non-taxation of life insurance companies' world income		5
CORPORATION CAPITAL TAX		
Provincial Tax Preferences		
Exemption for family farm corporations		2
Exemption for cooperative corporations		2
Two-year tax holiday for eligible British Columbia investment expenditures		17
SCHOOL AND RURAL AREA PROPERTY TAXATION[5]		
Provincial Tax Preferences		
Home owner grant		417
Assessment of farm land at farm use values		78
School tax assessment reduction for farm buildings and farm land, and residences in the agricultural land reserve		15
Exemption for places of worship		7
Assessment exemption of $10,000 for industrial and business properties		2
Pollution equipment abatement		8
Overnight tourist accommodation assessment relief		3
Managed forest land classification		7
Municipal discretionary exemptions		12

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APPENDIX B

TABLE F1 TAX EXPENDITURE — *Continued*	1994/95 Cost
	($ millions)
PROPERTY TRANSFER TAX	
Provincial Tax Preferences	
Exemption for first-time home buyers	26
Exemptions for the following items:	
c Property transfers between related individuals	23
c Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	3
c Property transfers to charities registered under the *Income Tax Act* (Canada)	2
OTHER TAXES	
Horse racing tax — transfer of revenues to the British Columbia Racing Commission	9

[1] Provincial revenue loss based on estimates of the federal loss contained in Government of Canada, *Tax Expenditures,* December 1994. Certain items have been excluded where no data were available.

[2] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[3] Includes employee income tax refunds.

[4] The accelerated write-offs for Canadian development and exploration expenses and for capital used in research and development are also reported in the same way as in the federal tax expenditure report. Since the write-offs allowed for income tax purposes are generally faster than would be reported on financial statements, there is a deferral of tax. Other tax deferrals, such as the difference between CCA rates and book depreciation are not reported because of the difficulty in measuring the value of the tax expenditure. (See Government of Canada, *Tax Expenditures,* December 1994 for details.)

[5] Estimates are for the 1994 calendar year, and include only school and rural area property taxes levied by the province.

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Source: British Columbia Ministry of Finance, *1995 Budget Reports*

Report E: TAX EXPENDITURES

Introduction

A tax expenditure is defined as the reduction in tax revenues that results when government programs or benefits are provided through the tax system rather than reported as budgetary expenditures. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits to program beneficiaries. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower income families or to promote economic development and job creation.

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. It is for this reason that British Columbia's major tax expenditures are presented in the following tables. Reporting tax expenditures is also consistent with recommendations contained in the 1994/95 Report of the Auditor General.

Tax expenditure reporting is relatively common. The Canadian federal government, the American federal government, some American states, several European national governments, and on occasion other Canadian provinces issue reports on tax expenditures. The British Columbia government has reported tax expenditures each year since 1995. The report provides estimates of the cost of tax expenditures for the 1998/99 fiscal year.

The Role of Tax Expenditure Programs

The main reason governments use the tax system to deliver programs is to reduce administration costs and to reduce compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases, setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by Revenue Canada. In addition, it would require individuals to undergo a separate, time-consuming application process in order to qualify for the benefit.

There are, however, several drawbacks to tax expenditure programs. First, their overall cost receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, some tax expenditure programs confer the greatest benefits on those who pay the most taxes, which means that the major beneficiaries are often high income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. This can run counter to the objective of incorporating progressiveness into the tax system. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Three criteria were used to choose those features of the tax system that should be reported as tax expenditures. First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. Under this approach, the focus is on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. An example is the non-taxation of most services under provincial sales taxes, which are primarily designed to apply to purchases of goods. Finally, tax remission orders are not included, because they are not equivalent to an expenditure program, but are granted on a case-by-case basis.

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Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this report. This includes, for example, horse racing tax revenues transferred to the Racing Commission and fuel tax revenues transferred to the BC Transportation Financing Authority.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure. For example, sales tax exemptions for farmers, fishers and aquaculturists are reported on a combined basis.

As a result, in this report, tax expenditures include major government programs delivered through the tax system, but do not include all items commonly considered to be tax expenditures in other reports. Many items, such as the basic personal income tax credit, are excluded because they are designed primarily to improve fairness in the tax system and are not comparable to spending under budgetary programs.

Future tax expenditure reports will continue to refine and clarify the criteria used to report provincial tax expenditures.

British Columbia Tax Expenditure Programs

The following tables report 1998/99 tax expenditure estimates.

Several new tax expenditures were introduced in *Budget '98*. The major new tax expenditures introduced were corporate income tax credits for domestic and foreign film productions, exemptions from the social service tax for "1-800" and equivalent telephone services, and a motor fuel tax exemption for coloured fuel used by *bona fide* farmers.

For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table E1):* These mainly include tax expenditures that are offered as part of the government's mix of health, education, housing and income transfer programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for school supplies and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table E2):* This category mainly includes tax preferences for farmers and small businesses and measures to encourage new investments.
- *Environmental Protection Programs (Table E3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay." However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Within each table, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.
- *Federal Measures:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to give up policy control of the income tax base in the interest of reducing administration and compliance costs and maintaining a consistent income tax system across the country.

  This means the province has no direct control over income tax preferences delivered through changes to the income tax base or in the calculation of basic federal tax. As a result, federal measures to provide tax relief for certain groups such as very low income individuals and students will automatically reduce provincial income tax revenues.

The personal income tax expenditures that have been included in the following tables cover a range of policy objectives, including support for charitable activities, health care and education.

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APPENDIX C

Meanwhile, most corporation income tax expenditures are intended to achieve economic development objectives.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons. First, in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another. Second, eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

TABLE E1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE		1998/99 Estimated Cost ($ millions)
PROVINCIAL SALES TAX		
Exemptions for the following items:		
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)		703
• Residential fuels (electricity, natural gas, fuel oil, etc.)		102
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances		60
• Children's clothing and footwear		21
• Clothing patterns, fabrics and notions		6
• Specified school supplies		9
• Books, magazines and newspapers		52
• Basic telephone and cable service		51
• "1-800" and equivalent telephone services		7
• Exempt safety equipment		8
• Labour to repair major household appliances, clothing and footwear		6
• Miscellaneous consumer exemptions (e.g. used clothing under $100)		3
PERSONAL INCOME TAX		
Provincial Measures		
BC Family Bonus[1]		112
Sales tax credit		41
Political contributions tax credit		2
Federal Measures[2]		
Deduction and inclusion of alimony and child support payments		17
Charitable donations tax credit		84
Tax credits for tuition and education[3]		66
Tax credits for disabilities and medical expenses		49
Pension income tax credit		25
Credit for persons older than 65 years		100
Exemption from capital gains up to $500,000 for small businesses and family farms		71
Deduction for residents of northern and isolated areas		15
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		114
Registered Retirement Savings Plans[4]:		
exemption for — contributions	595	
— investment earnings	385	
taxation of — withdrawals	(193)	
Total		787
Registered Pension Plans[4]:		
exemption for — contributions	381	
— investment earnings	679	
taxation of — withdrawals	(401)	
Total		659

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APPENDIX C

TABLE E1 — SOCIAL AND INCOME TRANSFER PROGRAMS — *Continued*

TAX EXPENDITURE	1998/99 Estimated Cost
	($ millions)
CORPORATION INCOME TAX[5]	
Charitable donations deduction	8
SCHOOL AND RURAL AREA PROPERTY TAXATION[6]	
Home owner grant	478
Exemption for places of worship	8
Municipal discretionary exemptions	15
PROPERTY TRANSFER TAX	
Exemption for first-time home buyers	29
Exemptions for the following items:	
• Property transfers between related individuals	28
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	3
• Property transfers to charities registered under the *Income Tax Act* (Canada)	2

[1] The above estimate of $112 million represents the tax expenditure portion of the program's cost. The tax-expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, $240 million for 1998/99, is presented in the BC Benefits Vote because it represents payments to families which exceed their provincial income tax liabilities. Thus the total cost of the program is $352 million.

[2] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 1998*. British Columbia personal income tax expenditures for the federal measures are estimated by applying British Columbia's share of basic federal tax to the federal estimates for the relevant period and then applying the relevant provincial tax rates. (Prior to 1997, federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

[3] The estimate includes the total provincial revenue losses from the federal tuition fee credit, education credit, student loan interest credit, and the carry-forward and transfer of tuition fee and education credits.

[4] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[5] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. This is calculated from the federal revenue loss by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate. (Prior to 1997, federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.)

[6] The property tax estimates, except for the home owner grant amount, are for the 1998 calendar year, and include only school and rural area property taxes levied by the province.

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TABLE E2 — ECONOMIC DEVELOPMENT AND BUSINESS ASSISTANCE PROGRAMS

TAX EXPENDITURE	1998/99 Estimated Cost ($ millions)
PROVINCIAL SALES TAX	
Commissions paid to retailers and hotel operators	24
Exemptions for the following items:	
● Livestock for human consumption and agricultural feed, seed and fertilizer	35
● Exempt purchases by farmers, fishers and aquaculturists	20
● Magnetite for processing coal, eligible exploration equipment and drill bits for mineral exploration and production	2
FUEL TAX	
Tax exemption for international flights carrying cargo	5
Tax exemption for family farm trucks (on road)	2
PERSONAL INCOME TAX	
Venture capital tax credit	6
Employee venture capital tax credit	6
CORPORATION INCOME TAX	
Provincial Measures	
Film and video tax credit	10
Production services tax credit	13
International financial business tax refund[1]	4
Two-year corporate income tax holiday for small business	2
Federal Measures[2]	
Earned depletion	3
Allowable business investment losses	4
CORPORATION CAPITAL TAX	
Exemption for family farm and cooperative corporations	3
Two-year tax holiday for eligible British Columbia investment expenditures	22
SCHOOL AND RURAL AREA PROPERTY TAXATION[3]	
School tax assessment reduction on current values for farm buildings and farm land, and residences in the agricultural land reserve	16
Assessment of farm land at farm use values[4]	84
Assessment exemption of $10,000 for industrial and business properties	6
Overnight tourist accommodation assessment relief	3
Managed forest land classification	8
OTHER TAXES	
Oil and gas royalty holiday	6

[1] Includes employee income tax refunds.

[2] The provincial revenue loss estimates for federal measures are based on estimates of the federal losses contained in *Government of Canada: Tax Expenditures, 1998*. The federal estimates are based on 1998 estimated incomes. British Columbia corporate income tax expenditures are estimated by applying British Columbia's share of corporate taxable income to the federal estimates, and then applying the relevant tax rates. Certain tax expenditure items have been excluded where no data were available. (Prior to 1997, federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.)

[3] Estimates are for the 1998 calendar year and include only school and rural area property taxes levied by the province.

[4] Currently, the values of farm land and residential land in the Agricultural Land Reserve are reduced by 50 per cent for school tax purposes. The $84 million estimate assumes that farmland would be assessed at 100 per cent of market value.

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TABLE E3 — ENVIRONMENTAL PROTECTION PROGRAMS TAX EXPENDITURE	1998/99 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Exemptions for the following items:	
• Bicycles	6
• Specified energy conservation equipment	10
FUEL TAX	
Tax exemption for alternative fuels	17
SCHOOL AND RURAL AREA PROPERTY TAXATION[1]	
Exemption for property used for pollution abatement[2]	8

[1] Estimates are for the 1998 calendar year and include only school and rural area property taxes levied by the province.
[2] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

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Source: British Columbia Ministry of Finance, *1999 Budget Reports*

APPENDIX D:
TAX EXPENDITURE DISCLOSURES IN OTHER JURISDICTIONS

Jurisdiction	Legislated Requirement to Disclose?	Tax Expenditure Types Reported	Periods Reported	Where Reported?	How Categorized?	Totals Provided?
British Columbia	No	• Income • Consumption • Property	Current fiscal year	Attached to budget	Tax type	No
Alberta	No	• Income • Consumption	Prior calendar year	Attached to budget	Tax type	No
Ontario	Yes	• Income • Consumption • Medicare • Estate • Other	Prior calendar year	Standalone document	Tax type	No
Quebec	No	• Income • Consumption • Capital • Medicare	Five prior calendar years, plus current	Standalone document	Tax type	Yes, by type
Canada	No	• Income • Consumption • Excise	Six prior calendar years, plus current and one future	Standalone document	Sector	No
Washington State	Yes	• Property • Consumption • Excise • Estate • Other	Current fiscal year, plus three future (reporting every four years)	Standalone document	Tax type (with higher level summary by sector)	Yes, by tax type and sector

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Jurisdiction	Legislated Requirement to Disclose?	Tax Expenditure Types Reported	Periods Reported	Where Reported?	How Categorized?	Totals Provided?
USA	Yes	◆ Income	Prior fiscal year, plus current and nine future	Standalone document	Sector	No
Australia	Yes	◆ Income ◆ Consumption ◆ Medicare ◆ Excise ◆ Other	Four prior fiscal years, plus current and three future	Standalone document, plus summary of "large" ones attached to budget	Tax type	No
United Kingdom	No	◆ Income ◆ Consumption ◆ National Insurance (includes health care) ◆ Estate ◆ Excise ◆ Other	Three prior fiscal years, plus current	Standalone document	Tax type	No
France	Yes	◆ Income ◆ Consumption ◆ Other	Prior year, plus current and one future	Standalone document	Tax type and program	Yes, by sector

Source: Office of the Auditor General of British Columbia, compiled from publicly available information (as of November 2016)

APPENDIX E: EXCERPT FROM DEPARTMENT OF FINANCE CANADA'S 2017 *REPORT ON FEDERAL TAX EXPENDITURES*

Table

Estimates and Projections

millions of dollars

		Estimates				Projections			
		2011	2012	2013	2014	2015	2016	2017	2018
INTERNATIONAL ***(cont'd)***									
Non-structural									
Exemptions from non-resident withholding tax	PIT CIT	4,075	4,620	4,955	5,215	5,220	5,310	5,540	5,745
Tax treatment of active business income of foreign affiliates of Canadian corporations and deductibility of expenses incurred to invest in foreign affiliates	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
RETIREMENT									
Non-structural									
Deferred Profit-Sharing Plans	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Partial inclusion of U.S. Social Security benefits	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension Income Credit	PIT	1,035	1,065	1,100	1,140	1,165	1,195	1,235	1,275
Pension income splitting	PIT	975	1,040	1,075	1,150	1,195	1,245	1,340	1,435
Pooled Registered Pension Plans	PIT	–	–	–	–	n.a.	n.a.	n.a.	n.a.
Registered Pension Plans	PIT	15,335	18,910	20,840	24,925	24,040	24,850	26,220	27,405
Registered Retirement Savings Plans	PIT	9,735	12,360	13,700	15,960	15,605	15,715	16,275	16,935
Saskatchewan Pension Plan	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SAVINGS AND INVESTMENT									
Structural									
$200 capital gains exemption on foreign exchange transactions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital gains exemption on personal-use property	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax treatment of investment income from life insurance policies	PIT	285	275	270	255	220	210	195	200
Taxation of capital gains upon realization	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-structural									
Labour-Sponsored Venture Capital Corporations Credit	PIT	140	150	145	125	90	150	155	160
Non-taxation of capital dividends	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Partial inclusion of capital gains	PIT	3,775	3,310	4,115	5,580	5,755	5,590	6,005	6,265
	CIT	3,930	3,925	4,510	5,370	5,890	6,085	6,255	6,490
Tax-Free Savings Account	PIT	170	250	410	555	655	885	1,020	1,140

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Source: Department of Finance Canada, *2017 Report on Federal Tax Expenditures*

APPENDIX F: EXCERPT FROM DEPARTMENT OF FINANCE CANADA'S 2017 *REPORT ON FEDERAL TAX EXPENDITURES: TAX FREE SAVINGS ACCOUNT*

Tax-Free Savings Account

Description	The Tax-Free Savings Account (TFSA) is a general-purpose savings account that allows individuals to earn tax-free investment income. Individuals 18 years of age and older acquire TFSA contribution room each year, with unused room being carried forward. TFSA contributions are not deductible, but investment income earned in the account and amounts withdrawn are not included in income for tax purposes or taken into account in determining eligibility for federal income-tested benefits and credits. Withdrawals also create contribution room in the following year for future savings.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Exemption
Legal reference	*Income Tax Act*, sections 146.2 and 207.01
Implementation and recent history	• Introduced in Budget 2008. Effective for 2009 and subsequent years. • The TFSA annual contribution limit was initially $5,000 per individual, indexed to inflation in $500 increments. The limit increased to $5,500 on January 1, 2013 due to indexation. • Budget 2015 increased the TFSA annual contribution limit to $10,000, not indexed to inflation, for 2015 and subsequent taxation years. • On December 7, 2015, the Government proposed to return the TFSA annual contribution limit to $5,500 and reinstate indexation effective 2016.
Objective – category	To encourage savings
Objective	This measure improves incentives for Canadians to save by reducing taxes on savings (Budget 2008).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Canada Revenue Agency, Tax-Free Savings Account statistics
Estimation method	The value of this tax expenditure corresponds to the tax revenues forgone on the investment income earned in TFSAs. It is calculated by estimating how much of the total investment income earned in TFSAs is interest, dividends or capital gains, and multiplying these amounts by estimates of the average marginal tax rates applicable to TFSA holders (accounting for the dividend gross-up and tax credit and for the partial inclusion of capital gains). Interest income and dividend income are calculated based on estimated shares of TFSA assets that are fixed income and equity investments and on historical interest rates and dividend yields. Capital gains (or losses) are determined residually by subtracting estimated interest and dividend income from the total investment income.
Projection method	The value of this measure is projected based on the expected growth of net contributions and investment income earned in the accounts.
Number of beneficiaries	About 11.7 million individuals had a TFSA at the end of 2014.

Cost Information:

Millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015 (P)**	**2016 (P)**	**2017 (P)**	**2018 (P)**
Personal income tax	170	250	410	555	655	885	1,020	1,140

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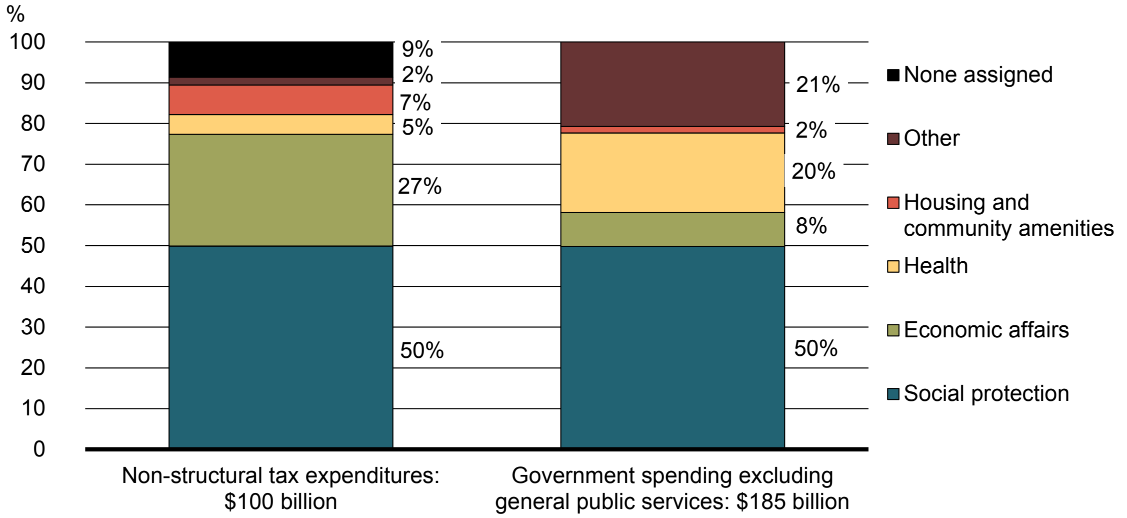
Source: Department of Finance Canada, *2017 Report on Federal Tax Expenditures*

APPENDIX G: EXCERPT FROM DEPARTMENT OF FINANCE CANADA'S 2017 *REPORT ON FEDERAL TAX EXPENDITURES*

Chart 5

Tax Expenditures and Direct Spending by CCOFOG Classification, 2014



Notes: Tax expenditures assigned to more than one specific CCOFOG code are included in the spending count for the most relevant category. "None assigned" denotes tax expenditures for which a relevant CCOFOG code could not be determined (CCOFOG code listed as "n/a" in Part 3 of the report) and those that are assigned to multiple codes, none of which is the most relevant (see, for example, the Charitable Donation Tax Credit). "Social protection" includes retirement income support.

Source: Department of Finance Canada, *2017 Report on Federal Tax Expenditures*

REPORT TEAM

Sheila Dodds,
Assistant Auditor General

Mark Castator,
Director

Stephen Abercrombie,
Manager

Ruby Wu,
Auditor

OFFICE OF THE
Auditor General
of British Columbia

Location

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1

Office Hours

Monday to Friday
8:30 am – 4:30 pm

Telephone: 250-419-6100
Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial: 604-660-2421

Fax: 250-387-1230

Email: bcauditor@bcauditor.com

Website: www.bcauditor.com

This report and others are available at our website, which also contains further information about the office.

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Auditor General
of British Columbia