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BACKGROUND

Updating the tax system while managing government expenses

Global economic uncertainty, slowing growth and high costs are putting pressure on public finances. Budget 2026 makes disciplined choices about constraining government spending and raising revenue to strengthen B.C.'s fiscal outlook, protect critical services, invest in industries and workers, and keep B.C. one of the lowest tax provinces for working families.

Updating B.C.'s tax system

Taxes make up the largest share of provincial revenue used to fund critical services in B.C. Government introduces changes to the tax system to protect core services from cuts through Budget 2026:

- Increasing the tax rate of the first income tax bracket by less than 0.6 percentage points, from 5.06% to 5.60%.
- This means an additional \$76 in income taxes for the average taxpayer in 2026.
 - However, more than 40% of taxpayers will see savings when combined with the increase in B.C. tax reduction credit.
 - B.C. will also pause tax bracket indexing from 2027 until 2030.
- Increasing the Speculation and Vacancy Tax rate for foreign owners and untaxed worldwide earners to 4% for the 2027 tax year, up from the current 3%.
- B.C. is increasing the Additional School Tax rates from 0.2% to 0.3% for property values between \$3 million and \$4 million and from 0.4% to 0.6% for property values above \$4 million, effective for the 2027 tax year.
- Expanding B.C.'s PST tax base to include professional services such as accounting and bookkeeping, architectural, geoscientist and engineering services, commercial real estate fees and security and private investigation services.
 - This change generally aligns B.C. with how other provinces apply sales taxes to these services.
- Removing PST exemptions for some goods and services that were once deemed essential but are not as commonly used anymore, such as clothing repair materials, services related to clothing and footwear, basic cable television and land-line telephone services.
 - Expanding the tax to these services is generally consistent with how tax applies to these services in most provinces.

- Adding a new temporary 15% manufacturing and processing investment refundable tax credit for businesses investing in buildings, machinery and equipment used in manufacturing and processing.
- Extending the Shipbuilding and Ship Repair Industry Tax Credit until the end of 2027.
- Changing the interest rate structure for the Property Tax Deferment Program from simple to compound and adopting a prime plus 2% rate for new loans.

Strategically sequencing the capital plan

- Budget 2026 invests in the infrastructure people and communities need, including hospitals, schools and transit.
- The fiscal plan includes nearly \$38 million in capital projects:
 - 17 major hospitals and acute-care facilities in communities including Vancouver, Surrey, Duncan, Kamloops and Williams Lake
 - important transit expansions, such as the Broadway Subway project and Surrey Langley Skytrain
 - 66 major K-12 school additions and improvements in communities including Mission, Prince Rupert and Langley
 - student housing projects that will add 3,900 new beds in post-secondary facilities in communities like Nanaimo and New Westminster
 - the first new medical school in Western Canada in nearly 60 years in Surrey
- Right now, there are added fiscal pressures on government finances. To mitigate construction cost escalation and maintain a competitive debt-to-GDP, the Province is adjusting the pace of the capital plan to continue building the schools, hospitals, and transit people need in a sustainable way.
- With B.C.'s aging population, government is taking action to deliver beds more efficiently through a review of the long-term infrastructure program to achieve cost efficiencies while maintaining safe, high-quality care for seniors.
- Government is adjusting the timing of delivery for several approved long-term care projects to incorporate the lessons learned from projects already underway and from its ongoing review of the long-term care infrastructure program. The facilities affected include:
 - Abbotsford long-term care
 - Campbell River long-term care
 - Chilliwack long-term care
 - Cottonwoods long-term care replacement (Kelowna)
 - Delta long-term care
 - Fort St. John long-term care
 - Squamish (Hilltop) long-term care

- Two additional projects being re-paced are:
 - Phase 2 of the Burnaby Hospital and Cancer Care, as government refreshes plans to ensure the project meets the needs of the community
 - University of Victoria student housing expansion
- Government is adjusting the pace of some housing investments. This includes reallocating nearly \$1.4 billion across the fiscal plan.

Making government more efficient

Government is continuing to increase efficiency and streamline programs to make sure service delivery is efficient, effective and affordable over the long term.

As part of its commitment to expenditure management targets announced at Budget 2025, government has reduced spending by \$400 million for 2025-26 through staffing adjustments, hiring restrictions, and reducing discretionary spending by reviewing travel, consulting contracts, office and business expenses.

To continue that commitment to cost savings, Budget 2026 includes an estimated savings of \$3.5 billion through expenditure management over the course of the fiscal plan. These will be achieved by continuing the measures taken in 2025-26, as well as through recalibrating program delivery and reviewing funding allocations.

In addition, government is introducing a commitment to reduce the size of the public sector by 15,000 full-time-equivalent positions (FTEs) over the three-year fiscal plan, while protecting front-line services and recognizing that some sectors, such as health and education, will continue to need to hire critical front-line positions. The public sector includes organizations outside of core government ministries, such as Crown corporations, school districts, post-secondary institutions and health authorities.

As part of the reductions in the public sector, government will be developing specific targets to reduce the number of executive positions, with a focus on Crown corporations and the health sector. The Province aims to reduce the size of BC Public Service, which is made up of employees working for core government ministries, by 2,500 FTEs by the end of the fiscal plan. These reductions will be achieved largely through attrition and voluntary departures. Additional measures, such as early retirement and voluntary severance incentives, may be used to help support the transition to a smaller, more efficient public service.

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