



BRITISH COLUMBIA CHAMBER OF COMMERCE

Presentation to
The Standing Committee on Finance
and Government Services

Smithers
October 12, 2005



BC Chamber of Commerce

The Chamber is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber represents the views of 130 chambers of commerce and boards of trade, representing 30,000 businesses of every size, sector and region of the province. As such the Chamber truly is “The Voice of BC Business.”

Known to be in operations as early as March 1867, the Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members’ opinions to the provincial and federal governments
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

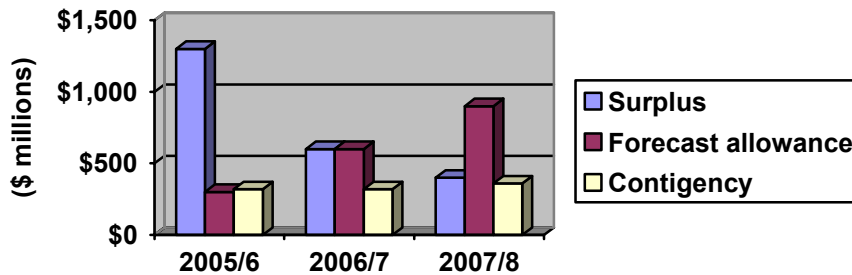
Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to make this submission to the 2005 Standing Committee on Finance and Government Services.

Staying the course on Fiscal Responsibility

Surpluses

We would like to take the opportunity to commend the government for its continued commitment to fiscal responsibility, to its focus on reducing taxes, balancing the budget and eliminating costly regulation. The actions taken by government in this regard have laid the necessary foundations for the positive economic news we have outlined this evening. Indeed without the tough choices made by the government the very growth currently being enjoyed by the BC economy would be under threat.

Balanced Budget Plan



Prudent fiscal management has put the province in the enviable position of forecast surplus of \$1.3 billion this year. Following the revised forecasts of the September Budget Update the government now estimates the surplus at \$600 million next year and \$400 million for 2007/8.

Since the province has moved to a situation of structural surpluses the chamber has been a strong voice of caution regarding the inevitable calls for a substantial increase in government spending. While the Chamber understands and accepts that the government has a responsibility to ensure adequate funding of the key social programs cherished by British Columbians we are pleased to see that future surpluses will be committed to ensuring we mitigate the debt burden we saddle future generations of British Columbians with:

The BC Chamber believes that any surpluses must be reinvested in the future economic prosperity of the province. A key focus for ensuring long term economic growth and stability must be reduction of provincial debt. Reduction of debt allows government to redirect significant resources from servicing debt payments to investing in the future of the province.

The chamber feels that the way this question is phrased leaves room for a degree of ambiguity as such we feel we should provide some clarity. The chamber recommends that all future surpluses be directed towards reducing the debt burden. Further to this the

chamber calls on the provincial government to remove debt management from political interference and short term perspectives by introducing legislation that sets out a long term debt reduction strategy.

Contingency fund and forecast allowance

Prudent fiscal management has become a cornerstone of the provincial government's budgets. Following the revised forecasts of the September Budget Update the government has now set aside a forecast allowance of \$300 million this year, \$600 million in 2006/7 and \$900 million for 2007/8.

For the chamber the question is not whether building buffers into the provincial budget is a good idea - in the opinion of our members it is essential - the only question is how unused funds within these buffers are used at year end. The chamber has been a strong advocate of utilizing surplus in programs and initiatives that bring long term economic benefits to the province by creating an environment that continues to attract investment.

Primary among these must be a continued focus on ensuring BC remains competitive in terms of taxation, we will give more detail in a moment on how we think this can be achieved. However given the fact that we are engaging on a significant program of capital investment the chamber will continue to advocate that all unutilized funds come year end should be committed to ensuring the debt burden remains manageable.

Capital Investment

The Budget Update reaffirmed the government's commitment to a significant capital infrastructure investment program. While this investment is necessary to address a significant investment deficit that is the result of a long history of underinvestment in capital infrastructure such as post-secondary institutions, transportation and health facilities, the focus for the chamber will be to ensure that debt reduction continues to be a priority of the government.

The Chamber agrees that there is a need for investment across the province. As such the Chamber does not believe that it is realistic to think that BC can, or even should, be debt free (despite what Alberta may say).

While it is acceptable to borrow to build, this does not give the government carte blanche to spend on every project that catches a bureaucrat's eye. The Finance Minister announced that departments have been ordered to lay out their 10 year capital plans; these will then be reviewed to determine what is affordable. This is an important initiative and one the Chamber and its members will be following closely.

The chamber will continue to urge the government to focus on areas where a return on investment exists in the sense of economic growth as an essential element in determining which projects are financed. This is particularly important for communities outside the Lower Mainland where local economies have developed and grown on the strength of our natural resources. In order to continue growing we will need to facilitate access to and development of our considerable resources. Access to resources is the first step. Access

from a permitting and regulatory perspective is being addressed, what we need is physical access, and infrastructure.

The Chamber recommends that in areas where no infrastructure exists the BC government needs to approach this lack of access as an investment in our future.

All of this investment raises the prospect that the debt burden will quickly escalate for future generations. With this in mind the chamber recommends that the government take debt repayment out of the normal budget process by introducing legislating that will ensure that debt repayment is removed from political interference and short term priorities overriding the importance of reducing the debt burden we are leaving our children.

We would also urge the government to enhance its use of P3's, or Public Private Partnerships. The key to P3's is their ability to transfer some of the cost of capital investment along with some of the risk to the private sector. If done properly (and following best practices from around the world there is no reason to believe BC could not become a world leader) P3s are a merger between the government and the private sector over a project involving a publicly owned commodity, with both sides sharing the risks and the benefits.

There is always a knee jerk reaction to P3s as a privatisation of public commodities and as a way of lining the pockets of private business. However the question is, is it right to saddle our children with an increasing debt burden or is it better to pay as we go?

Public Sector Wages

Current events have shown that public sector wage negotiations have the potential to bring significant disruption to the province while also containing the potential to have a significant impact on the provincial coffers.

The current compensation mandate that has been in place since January 2002 will remain unchanged until March 31, 2006. As the next mandate is still under development, no compensation increase has been assumed in the fiscal plan. Details of the next wage mandate that commences April 1, 2006, will be released by the next budget in February 2006. The forecast allowances included in the fiscal plan cover the potential costs of future public sector wage settlements, in addition to revenue risks such as a sudden fall in energy prices, or the costs of natural disasters.

The chamber feels that while it is not appropriate to discuss public sector agreements that have not yet been reached it is important that the government keep to its commitment and not exceed the forecast allowance set aside in the budget of \$300 million this year, \$600 million in 2006/7 and \$900 million in 2007/8.

Debt

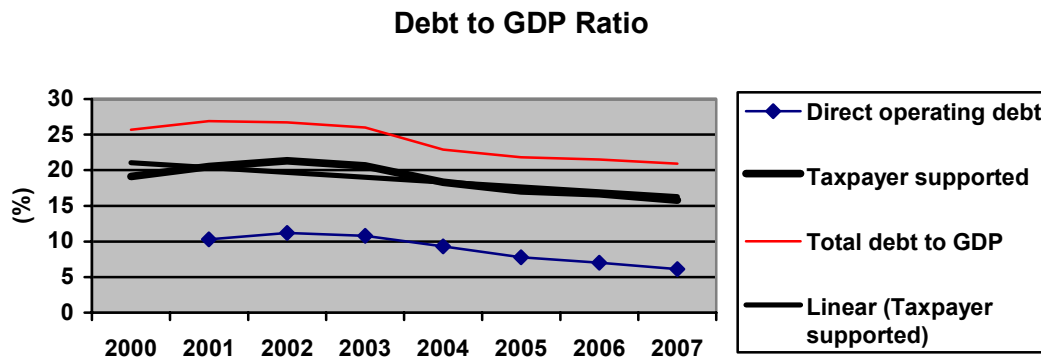
Key to ensuring long term growth and prosperity will be addressing the debt burden for future generations. Although the government must be commended for its sound fiscal

management which has seen two major debt rating agencies, Standard and Poor and Moody's Investor Services upgrade BC's debt rating outlook the level of taxpayer supported debt remains a concern.

The key with debt is that it be affordable. As with any business or household, can we afford what we borrow? The key measurement here is taxpayer supporter debt to GDP. This covers the amount of debt that is ours as tax payers in relation to the amount of money the province earns from economy activity. In short as the economy grows so will provincial revenue, this enables the province to afford to borrow more. As we can see from chart 2 the important thing to note is that this figure is going the right way, down. Both the taxpayer supported debt to GDP and the total debt to GDP ratio is set to fall, with taxpayer supported set to fall from 17.1% this year to 15.8% by 2007 and total debt to GDP set to fall from 21.8% to 20.9% in 2007.

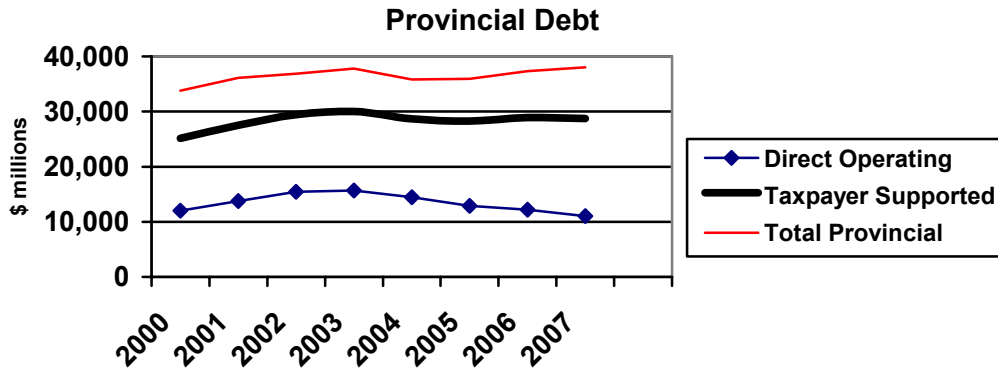
The other important measure is taxpayer supported operating debt; in short what do we borrow to pay our ongoing bills. This is a nice downward line on graph 1 below, set to fall from 9.3% in 2004/5 to 6.1% by 2007/8.

Graph 1



However this is not the full story regarding debt. The debt to GDP ratios outlined above are dependent on the health of the economy, while GDP is growing at a healthy rate the province can afford to carry more debt but this does not tell the story regarding what debt burden will the province pass on to future generations, this is shown by graph 2 which outlines the total provincial debt burden.

Graph 2



The two debt measures that are heading in the wrong direction are taxpayer supported debt and the total provincial debt burden. While this is a concern it is not yet a worry.

The Budget Update reaffirmed the government's commitment to a significant capital infrastructure investment program. This investment is necessary to address a significant investment deficit that is the result of a long history of underinvestment in capital infrastructure such as post-secondary institutions, transportation and health facilities. In short this is the equivalent of increasing the mortgage to pay for an extension. This is an increase in what we owe but it is for one time, necessary investment that is an investment in our future.

The focus for the chamber will be to ensure that the correct debt measurements continue to go in the correct direction. It is neither advisable nor realistic (despite what Alberta may say) to think BC could, or should, have zero debt. There is a need for investment across the province - the key is to ensure that we can afford what we borrow.

With this in mind we will continue to focus on what projects are to be financed by debt. While it is acceptable to borrow to build, this does not give the government carte blanche to spend on every project that catches a bureaucrat's eye. The Finance Minister announced that departments have been ordered to lay out their 10 year capital plans; these will then be reviewed to determine what is affordable. This is an important initiative and one we will be keeping an eye on.

Fiscal Policy

Make BC the #1 tax regime in Canada

The government is to be commended for the announcement in the 2005 Budget Update of a reduction in the general corporate tax rate from 13.5% to 12%. This tax reduction further enhances the positive steps already taken by the government such as earlier reductions in the general corporate income and personal tax rate, eliminating the corporation capital tax for general corporations and implementing certain sector specific tax reductions – however the government cannot rest on its laurels.

The chamber has long called on the government to ensure our tax competitiveness in relation to competing jurisdictions, particularly Alberta and Ontario. The chamber feels this no longer goes far enough. A call for competitiveness does not provide the focus and goals the chamber feels are necessary, indeed simply calling for competitiveness implies that taxes can be higher in BC than other jurisdictions, as long as they are “competitive”. The chamber believes that the government must commit to making BC the #1 tax jurisdiction in Canada.

Businesses are particularly sensitive to tax rates as many businesses are now extremely mobile, it is relatively easy for businesses and individuals to shift province or country. BC’s tax system must become a competitive advantage

Major Provincial Tax Rates, 2005¹

	BC	AB	ON	QC ¹	SK	MB	NB	NS	PE	NL
Personal Income Tax										
Statutory rate range										
- lowest rate (%)	6.05	10.00	6.05	16.0	11.0	10.90	9.68	8.79	9.8	10.57
- highest rate (%)	14.70	10.00	11.16	24.0	15.0	17.40	17.84	17.50	16.7	18.02
Surtax (%)	--	--	20/36	--	--	--	--	10.0	10.0	9.0
Corporate Income Tax										
General rate (%)	12.0	11.5	14.0	8.9	17.0	15.0	13.0	16.0	16.0	14.0
M&P rate (%)	12.0	11.5	12.0	8.9	10-17	15.0	13.0	16.0	7.5	5.0
Small business										
- rate (%)	4.5	3.0	5.5	8.9	5.0	5.0	2.5	5.0	7.5	5.0
- threshold (\$000)	400	400	400	n/a	300	400	425	300	300	300
Capital tax										
General (max %)	--	--	0.30	0.60	0.60	0.50	0.30	0.30	--	--
Financial inst (max %)	3.0	--	0.90	1.45 ²	3.25	3.0	3.0	4.0	5.0	4.0
Provincial Sales Tax										
Retail Sales Tax (%)	7.0	--	8.0	7.5 ³	7.0	7.0	8.0	8.0	7.5	8.0
-Legal fees	7.0	--	--	--	--	--	--	--	--	--

Rates for other provinces known as of October 2005

¹ Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs and the Quebec financial institutions capital tax includes the base rate of 1.2% and a compensatory rate of 0.25%

As the table shows on many of the key tax measures BC fares very well compared to other jurisdictions, however there are a number of areas that require considerable work before we can lay claim to having the #1 tax regime in Canada, these are;

Provincial Sales Tax

The BC Chamber was pleased to see that the provincial government lived up to its promise by lowering the Provincial Sales Tax from 7.5% back to 7% last year. Lowering the sales tax puts disposable income into the hands of consumers and encourages spending across the province in a wide range of products and services.

While BC has the joint lowest sales tax of any province that levies a sales tax we are far behind Alberta who have eliminated sales tax altogether. The BC Chamber feels a structured program to reduce sales tax should be a high priority for the government for a number of reasons.

The chamber has always advocated for a taxation system that allows more of an individuals earnings to remain in their pockets as an incentive to drive savings while also ensuring that individuals are attracted to the province by a tax system that is competitive with our nearest competing jurisdiction by ensuring that the income they earn can be used to better their standard of living.

While it is true that much of the above can also be driven by reducing personal income tax a further lowering of the sales tax by 0.5% per year reduction in the PST would also go a long way towards helping the many communities along the BC Alberta border who are facing the significant challenge of trying to stem cross border shopping trips that take significant money out of the local economy.

The Chamber recommends the provincial government, on the expectation of a continued operating surplus, reduce the PST by a further 0.5% per annum with a long term goal of 4.5% PST.

Harmonization

The federal government levies the Goods and Services Tax (GST) on most property and services supplied in Canada. The province of BC levies the Social Service Tax (SST) on most goods and services supplied in BC. Most businesses operating in BC are required to collect, record, report and remit GST and SST on taxable sales of goods and services. Each government has its own audit processes, with the related necessity to maintain and store records.

This imposition of two levels of tax creates significant and unnecessary costs for businesses in BC. These are costs that, unlike the taxes themselves, add nothing to government revenues.

The federal government has indicated willingness and a desire to enter into agreements with the provinces to harmonize the GST with provincial sales taxes. To date, the

provincial government in BC, more for political than economic or revenue generation reasons, has rejected the federal initiatives towards harmonization.

The chamber recommends that the government commit itself to moving quickly to reaching agreement with the federal government for the full harmonization of the SST and the GST, including the harmonization of the collection, reporting and remission of the GST and SST and the related audits.

Property Transfer Tax

We have witnessed a resurgence in the residential housing industry that has significantly boosted economic activity in regions across the province; however it would be wrong to assume that this will continue indefinitely. Government must be proactive in stimulating continued activity in the residential construction sector.

BC is one of the few jurisdictions to charge a capital tax against the purchase of residential homes, namely the property Transfer Tax. While the provincial governments has taken steps to phase-out, or eliminate, capital taxes such as the Corporate Capital Tax, the PTT still exists

The chamber recommends that the provincial government either immediately eliminate or implement a program to phase out the Property Transfer Tax in order to boost the residential construction industry and to eliminate a purely capital tax.

Inequities in the tax system

PST on Legal Fees

In BC legal fees are the only professional fees that are subject to the provincial sales tax. This is both discriminatory and unfair. This puts both the legal profession and Canadian business that access the legal system at a distinct competitive disadvantage to other jurisdictions.

The discriminatory nature of this tax was highlighted recently in a Supreme Court decision which ruled PST on legal fees are unconstitutional if charged to low income individuals. As a result of this ruling the Ministry of Provincial Revenue has confirmed that BC lawyers should exempt low-income clients from payment of the 7 % social service tax on bills for legal services to low-income clients, and has now issued guidelines in that respect.

The chamber feels that this does not go far enough and that the government should amend the Social Services Tax Act to remove the 7% PST on legal fees in BC.

Financial Institutions Capital Tax

Capital tax is a particularly onerous form of taxation as it plays a direct role in hampering investment, for BC to levy this tax on financial institutions is particularly challenging as it is these institutions that in many cases provide the investment decisions so vital to the expansion of the economy.

The chamber has been a strong advocate for the encouragement of BC as an international finance centre as an important new area of economic activity that will bring significant new investment to the province along with highly paid professionals jobs. With this in mind the chamber was a strong supporter of the government's announcement in the 2004 budget of changes to the International Financial Business Tax Refund program as an important initiative in convincing the international finance community that we are a viable location for investment. However the continuation of a capital tax on large financial institutions ensures that the province will find it increasingly difficult to take advantage of the opportunities presented by this sector and will also ensure that decisions regarding inward investment will continue to be made outside the province and will therefore not favour BC.

The chamber recommends that the government abolish the 3% capital tax on financial institutions as an impediment to BC's ability to become a major financial centre.

Skills

Skills shortage

Last year in our presentation to this committee that chamber said;

“BC is at a skills crossroads. The aging of our workforce along with ever increasing global competition has meant that growth in the province is being directly threatened by a looming skills shortage, a problem that will be exacerbated by the significant projects associated with 2010.”

This is now significantly behind the eight ball on this issue. We have passed the crossroads (heading in the wrong direction), growth in the province is now being directly affected – in short the skills shortage is no longer looming it is here.

In order to garner a better understanding of the nature and scope of the skills shortage, particularly as it relates to regions outside the Lower Mainland and the Capital Region the BC Chamber, in partnership with the Community Futures Development Association of BC instituted the “BC Skills Force Initiative.”

This project was designed to serve as a mechanism to engage BC’s small business community in Vancouver Island-Coast, Thompson-Okanagan and the Kootenays through a proactive process involving 14 focus group sessions with 239 participating businesses as well as a telephone survey over 1,557 small businesses. The goal was to obtain detailed information from business at the ground level on the nature and scope of the skills shortage.

To say we were unpleasantly surprised by the results would not be an understatement. Some of the more worrying results were;

- Approximately 50% of the employers stated that they currently have vacant positions
- 34% of respondents reported that they had job vacancies in “difficult to fill positions”
- Employers have to take what workers they can rather than what they want

In short the survey tells us that the skills shortage is the number one concern facing businesses across the province. What the report also states is that the solution to this must be a partnership between government, business and educators. The business community has begun to address many of the issues within its remit but without immediate government action there will be profoundly negative repercussion for the provincial economy.

This is not to imply that the government has not taken action over the past year, indeed the government is to be commended for its continued support of the Industry Training Authority (ITA). Since its creation in 2004 the ITA has achieved a 56% increase in the number of registered apprentices in BC up from 14,676 to over 23,000, this has put the

ITA ahead of its schedule to have 30,000 registered apprentices by 2007. This support was further underlined by the recent announcement by the Minister for Economic Development of \$2.2 million in new funding that will virtually eliminate waiting lists for apprenticeship places.

However this does not go nearly far enough.

To ensure that SME's are provided the necessary tools government should provide innovative public policies and flexible solutions in order to allow businesses to provide the necessary training and skills development opportunities.

One of the key hurdles for business in providing training and skills development is the often prohibitive investment required to provide these programs. As such the chamber recommends that the government introduce a human resource investment tax credit, this is an issue we address in greater detail below.

There is also a requirement for government to address the fact that in many cases there is significant stigma attached to apprenticeship and skills training in high schools as opposed to attending university. Indeed, although only 20% of high school graduates go on to university the majority of the remaining 80% are not provided the opportunity to participate in apprenticeship a skills training.

While the ITA has made good progress through the introduction of its ACE IT program the chamber recommends that the government invests the necessary resources into developing a strategic program aimed at encouraging skills training and apprenticeships as early as grade 6 and 7 as a viable alternative to academic studies.

Human Resource Development Investment Tax Credit

One of the key barriers to SMEs providing training and skill development opportunities for their employees is the direct and indirect costs of these types of investment. Several business organizations and many individual Chamber members throughout the province have advocated new models for financing employee training.

The option that has received the most positive reaction from SMEs is the concept of a tax credit for training investments. This type of incentive has consistently been the subject of significant interest during the provincial Select Standing Committee on Finance and Government Services' budget consultation over the past several years - as we are sure it will be for individuals and business across the province this year.

Whenever the chamber holds discussions on the skills shortage we consistently get the same response, whether it be our Skills Survey or our Roundtable on Employers the answer is always the same – government must provide the tools to increase the training capacity of business, particularly small businesses, through a training tax credit.

There is precedence in Canada for such a tax credit. In the 2004 Ontario budget the government announced a tax credit that would refund 25% of salaries and wages paid to

an eligible apprentice in one of the over 100 qualifying skilled trades. This credit would increase to 30% for small businesses, categorized as businesses with payrolls not exceeding \$400,000.

The chamber sees no reason for the government not to progress on this issue. Ontario has demonstrated that this is both expensive and (as highlighted by the Ontario Chamber of Commerce recently) is highly effective in increasing capacity.

The chamber recommends that the provincial government introduce a human resource investment tax credit program in BC that would include an increased level of credit for small and medium sized businesses; administered by the provide the ITA with the necessary resources to administer this program as the organization best placed to understand the needs of industry.

Co-operative Education Tax Credit

A province-wide co-op infrastructure is already well established. Co-operative Education programs exist in every region of BC, and are currently offered in 23 post-secondary institutions.

In 2000/01, private employers created approximately 5,600 co-op placements in BC for BC post-secondary students. In 2004, that number had declined more than 25 per cent to approximately 4,100. During that same period, the provinces of Quebec, Ontario, and Manitoba recognized the need to stimulate the employment/economy cycle by initiating co-op tax credits to private employers to employ and train students.

The chamber recommends that the provincial government introduce a co-op tax credit to BC business employers equal to 15% of wages paid to qualified co-op students for work placements, with tax credits capped at \$1,500 per student for each co-op work placement. Based on 4,100 co-op placements in 2004, the maximum annual cost of this proposal to the government would be approximately \$6 million.

Conclusion

The chamber realizes that we have laid out an ambitious plan. However, in the same way that the government now lays out 3 year budget plans the chamber sees our plans as long term, we realize that they cannot all be achieved in the 2006 Budget but the foundations can be laid and the principles can be adopted.

As such we strongly urge the government to introduce a legislated debt repayment plan as well as publicly committing to making BC the #1 tax jurisdiction in Canada. Further to this the chamber sees the introduction of a tax credit to offset the cost of training as perhaps the single most important initiative for the economy. While the government has committed to creating more jobs than any other jurisdiction in Canada businesses themselves will be responsible for the creation of these jobs and without the capacity to increase their training the jobs created will not improve the productivity of the provincial economy.

Now that the budget is balanced, it is imperative that strict controls remain in place for spending, and that growth be limited to the equivalent of inflation and population growth. Every effort should be continued to pay down debt, to support skills training, education and infrastructure needs over time, and in a cost effective way.

It is during times of strong economic growth that the provincial government must invest in the future economic prosperity of communities across the province. It is through the program we have outlined this morning, a program developed by local chambers of commerce, the backbone of your communities that we will ensure BC is able to deliver sustainable economic growth for a generation and beyond

We thank you for the opportunity to present our views to this committee. Attached for your perusal are relevant chamber policy papers that can add detail, and we would draw your attention to our 2005 Policy Manual, copies of which have been distributed to your offices.

BC Chamber Policy Statements 2005

HUMAN RESOURCE DEVELOPMENT INVESTMENT TAX CREDIT (2005)

Due to increasing skill shortages, the aging of our workforce and global competition, BC's human resources has become a top public policy and private sector priority. Human capital—whether it is post-secondary education or work-based training—is a key part of our new economy. Local chambers and The Chamber have built awareness on this priority in recent years.

Small and medium-sized enterprises (SMEs) in BC need innovative public policies and flexible training programs to support their human resources development. With this in mind the government created the Industry Training Authority (ITA) which is charged with engaging industry in a training leadership role and providing the structure and funding necessary to develop high quality industry training. The ITA has made an excellent start on their goal by achieving a 20% increase in the number of active registered trainees/apprentices in their first year of operation.

The Chamber believes that while this is a welcome start much more needs to be done. One of the key barriers to SMEs providing training and skill development opportunities for their employees is the direct and indirect costs of these types of investment. Several business organizations and many individual Chamber members throughout the province have advocated new models for financing employee training.

The option that has received the most positive reaction from SMEs is the concept of a tax credit for training investments. This type of incentive has consistently been the subject of significant interest during the provincial Select Standing Committee on Finance and Government Services' budget consultation over the past several years. This policy option was further enhanced by business leaders at a recent Chamber "Roundtable on Increasing Employer Participation in Industry Training and Apprentices" held in partnership with the ITA and the Canadian Apprenticeship Forum. Held on January 27, 2005 this roundtable brought together business employers to discuss how the province can reduce barriers and increase participation by employers in industry training and opportunities in BC, particularly for small and medium sized enterprises.

As part of the discussions participants were asked what the top things were that they needed to enable their industry/company to increase its participation in industry training. The single most common response was the provision of a training tax credit to offset the often prohibitive cost of providing industry training.

There is precedence in Canada for such a tax credit. In the 2004 Ontario budget the government announced a tax credit that would refund 25% of salaries and wages paid to an eligible apprentice in one of the over 100 qualifying skilled trades. This credit would increase to 30% for small businesses, categorized as businesses with payrolls not exceeding \$400,000.

While the exact nature of a BC tax credit would need to be the result of consultation with key stakeholders The Chamber sees the funding model in Ontario as a good basis from which to start. With regards to what trades would qualify The Chamber feels that the starting point must be the 25 occupational groups with the largest number of openings, as identified by the "Maximizing 2010 Employment and Skills Opportunities" report which places trades and related contractors as heading the list of groups facing skilled labour shortage.

The Chamber believes that other trades should be able to qualify through the ITA for tax credit status providing they provide ITA approved training qualifications and can show a demonstrated shortage of skilled workers. Further to this The Chamber would urge the ITA and the government to conduct regular reviews of the take-up for each qualifying program, where there is no evidence of increased training there provision of the credit should be reviewed to ensure the most efficient use of resources.

While it is difficult to gauge the cost of such a program The Chamber believes that these tax credits would quickly become a revenue generator for the government. This was highlighted by a technical paper on “Encouraging Workplace Training – Towards a Federal Skills Investment Tax Credit” (2002) for the Ontario Ministry of Training, College and Universities, DRI-WEFA which concluded:

“Based on existing empirical work it can be demonstrated that gains in economic output could outweigh the program costs of a tax credit based training program. These range from a 2 to 1 gain up to 4 to 1 gain to the economy depending on the assumptions made.”

The Chamber believes that a human resource investment tax credit would be a progressive and effective tax incentive to stimulate training that would like to a greater number of skilled workers throughout the province. The Chamber’s Critical Skills Task Force strongly supports this tax initiative.

Canada’s tax system supports companies who invest in research and development, purchase manufacturing equipment, etc.; why should it not reward those who invest in our most important capital—human capital?

THE CHAMBER RECOMMENDS

That the provincial government:

1. introduce a human resource investment tax credit program in BC that would include an increased level of credit for small and medium sized businesses;
2. provide the ITA with the necessary resources to administer this program as the organization best placed to understand the needs of industry; and
3. work with the federal government to introduce such a program.

PROVINCIAL SALES TAX (2005)

In 2004 the provincial government lowered the Provincial Sales Tax from 7.5% back to 7%. The government had promised this reduction from the temporary higher level based on balancing the budget.

Lowering the sales tax will put disposable income into the hands of consumers and encourage spending across the province in a wide range of products and services. A family of four, earning \$60,000 per year, pays an average of \$800 in PST.

PST is considered by some as a regressive consumption based tax which hit the lower income groups relatively more strongly than higher income groups. On this basis a reduction in the sales tax would provide a stronger relative benefit to the lower income groups.

The Ministry estimates that as much as 45% of the PST is paid by companies (for the purchase of services, equipment and materials). A reduction of the PST would increase the competitiveness of BC based companies in comparison to those of other jurisdictions.

While the recent 0.5% reduction amounts to \$270 million less in government revenues, The Chamber believes that those monies are best left in consumers pockets to drive and improve the economy.

A continuing lowering of the sales tax rate by 0.5% a year for the next several years would reduce the incentive for sales to leave border communities resulting in sales (and tax revenues) retained in the province and more income left in consumers hands to spend. The result should be closer to revenue neutrality to the province but a higher standard of living for the people of BC.

THE CHAMBER RECOMMENDS:

That the provincial government:

1. on the expectation of continued operating surpluses, continue it's program of a 0.5% reduction in the PST rate per annum; and
2. set a long term PST tax rate target which is fiscally responsible but allows BC to remain competitive with Alberta and other jurisdictions. Based on current expectations this would be a long term target PST tax rate of 4.5%.

PST ON LEGAL FEES CREATES AN UNLEVEL PLAYING FIELD (2004)

In 1992, the provincial government introduced a 7% provincial sales tax on legal fees.

Legal fees are the only professional fees that are subject to the provincial sales tax which is both discriminatory and unfair. The tax directly impacts the cost of doing business in BC for small and large businesses, and affects their competitiveness against similar businesses in other provinces. In addition, BC law firms do not compete on a level playing field with others law firms outside of our province, putting them at a distinct competitive disadvantage.

The PST on legal fees is also an unnecessary additional cost for British Columbians seeking access to our justice system and is inconsistent with creating a competitive, accessible and equitable environment for BC businesses.

The Chamber acknowledges that the provincial government must maintain tight financial and fiscal controls and applauds the government's commitment to fiscal responsibility. The Chamber also recognizes that projected budget surpluses are also tight, but direct the government to place the removal of this unfair and discriminatory tax as a priority for the use of budget surpluses.

THE CHAMBER RECOMMENDS

That the provincial government amend the Social Services Tax Act to remove the 7% PST on legal fees in BC as soon as budgetary conditions allow.

PROPERTY TRANSFER TAX (2002 – revised 2005)

We have witnessed a resurgence in the residential housing industry as a consequence of a combination of a low interest environment, pent up demand and low inventory levels. This has resulted in a dramatic increase in the values of residential property.

Prior to this BC's economy was slow for 5 to 6 years. During this period the industry was plagued by a lack of buyers created by the "leaky condo crisis" and the industry lost a lot of workers due to migration into Alberta or Washington State due to the large reduction of residential construction starts in BC.

Compounding the industry's problems was the fact that BC is one of the few jurisdictions to charge a capital tax against the purchase of residential homes, namely the Property Transfer Tax (PTT). While the provincial government has taken steps to phase-out, or eliminate, capital taxes such as the Corporate Capital Tax, the PTT still exists.

A study released by the BC Real Estate Association estimated that a removal of the PTT would mean:

- 6,400 additional Multiple Listing Service® (MLS®) residential sales;
- 2,600 additional housing starts;
- 20,640 person years of employment in the sales and construction industries;
- \$1,274 million increase in Gross Domestic Product; and
- \$357 million increase in government revenues.

During 2004 average prices of single family detached houses increased by nearly 12%. Despite the changes announced by the government in Budget 2005 to the fair market value threshold for the First Time Home Buyers Exemption Program there are still many families and unattached individuals who are unable to enter the housing market as they are unable to afford average priced residential property due to the PTT. The current threshold for PPT is 1% payable for the first \$200,000 and 2% payable on the residual; this applies to resale properties as well and adds another layer of cost on an already high purchase price.

THE CHAMBER RECOMMENDS

That the provincial government either immediately eliminate or implement a program to phase out the Property Transfer Tax in order to boost the residential construction industry and to eliminate a purely capital tax.

HARMONIZATION OF PROVINCIAL SOCIAL SERVICES TAX WITH FEDERAL GOODS AND SERVICES TAX (2002)

The federal government levies the Goods and Services Tax (GST) on most property and services supplied in Canada. The province of BC levies the Social Service Tax (SST) on most goods and services supplied in BC. Most businesses operating in BC are required to collect, record, report and remit GST and SST on taxable sales of goods and services. Each government has its own audit processes, with the related necessity to maintain and store records.

These imposition of two levels of tax creates significant and unnecessary costs for businesses in BC in two respects. First, many business inputs are subject to SST that, unlike the GST, cannot be recovered and thus represent a direct cost to business. While the recent SST exemption for manufacturing equipment has improved the situation, businesses in BC are still at a competitive disadvantage compared to jurisdictions that do not impose such taxes. Second, the requirement to act as a tax collector for two levels of tax imposes significant direct and indirect costs on businesses in having to administer the taxes. Each of the GST and SST has its own set of taxable items and each has a myriad of exceptions. Business operators must spend both time and money to understand the application of two taxes to their operations, establish systems to account for taxes and deal with two sets of auditors enforcing compliance.

These are costs that, unlike the taxes themselves, add nothing to government revenues. Furthermore, unlike some costs that may be incurred to promote business expansion, these costs create the opposite effect. It is recognized that the nature and structure of the GST (a value-added tax) and the PST (a cascading tax with exemptions for certain business inputs) are quite different and that each tax has its own set of exemptions. However, all that stands in the way of harmonizing those taxes is the political will to make it happen.

The federal government has indicated willingness and a desire to enter into agreements with the provinces to harmonize the GST with provincial sales taxes. In fact, agreements have been reached in Nova Scotia, Newfoundland and Labrador and New Brunswick to create a harmonized tax, the Harmonized Sales Tax (HST). The Quebec Sales Tax, though not harmonized with the GST, is almost identical to the GST in its application and thereby reduces compliance burdens and eliminates tax on business inputs. To date, the provincial government in BC, more for political than economic or revenue generation reasons, has rejected the federal initiatives towards harmonization.

If agreement were reached between the federal and BC governments businesses would generally be relieved of tax on their business inputs and would have to administer only a single sales tax, thus both reducing their compliance costs and increasing the competitiveness of BC business. The result would be cost savings for businesses without any revenue loss to government (depending upon the harmonized tax rate and sharing agreements).

Since at least 1989, The Chamber has been on record as supporting, in concept, a national value-added tax, provided that it satisfied at least the following principles (the “HST Principles”):

- Unlike the present structure under the GST, an HST must be a comprehensive, all encompassing, across the board tax, excluding those items which are currently tax exempt.

- The process of collection of the HST imposed on businesses, particularly small businesses, must be as simplified as possible in order to mitigate against the disproportionate cost of collection imposed in businesses and the leakage of input credits that occur on small ticket items not fully receipted.
- The SST must be harmonized with the GST.
- As with the current GST, an HST must be visible to the consumer (i.e. added on at the cash register), because only then can government be held accountable for any increases in the rate.
- As with the current GST, there should be tax credits for low income taxpayers to lessen the impact on them of a broadened tax base.
- Any changes to the rate of HST charged must only be possible after Parliamentary debate.
- The process of harmonization of the GST and SST must not be used as a means to the collection of higher taxes. In other words, the HST must be revenue neutral to governments.

THE CHAMBER RECOMMENDS

That the provincial government:

1. recognize the unnecessary negative impact on businesses and the BC economy of dual sales tax collection and therefore commit itself to moving quickly to reaching agreement with the federal government for the full harmonization of the SST and the GST, including the harmonization of the collection, reporting and remission of the GST and SST and the related audits;
2. commit itself to the HST Principles set out above in coming to agreement on a HST with the federal government; and
3. if it is unable to reach agreement with the federal government on the HST, at least streamline the collection of the SST on the basis of a single collection and audit and enforcement process with that under the GST and a closer matching of the taxable item bases of the GST and SST.

PUBLIC PRIVATE PARTNERSHIP (P3) INNOVATION (2002 – Revised 2005)

The Chamber recognizes that the advent and development of Public Private Partnerships (P3s) is a trend that will bring dramatic change to the manner by which programs services and capital projects are planned, delivered and maintained in our province. Public sector partners can include all levels of government (federal, provincial and local) and their affiliated agencies. This change is one that we believe should be embraced, but approached with a clear and competent understanding of the advantages and pitfalls.

Following restructuring of government services there has arisen significant new opportunities, from the contracted delivery (outsourcing) of government services to full privatization, each with varying degrees of risk. It is anticipated that legislation will expand the ability for municipalities, local government, schools, health authorities and other agencies to enter into P3 agreements.

We believe that private sector participation at the formative stages of a given P3 is integral to the development of effective P3 processes. A core concept is the sharing of information and on-going opportunities to ensure stakeholders have access to accurate information. With its comprehensive new “Capital Management Framework” the provincial government will address the need to provide measurable, non-prescriptive guidelines for LARGE capital projects. Nonetheless, it is essential that the government address education, public relations or expertise issues outside of its large capital projects, i.e. those projects that will involve small and medium sized businesses and municipalities. In this spirit we urge the government to update its May 1999 guidebook “Private Public Partnerships, A Guide to Local Government”, expanding it to cover larger projects and most importantly re-inforcing sections on public interaction, longer term public interaction is vital to the success of P3’s in BC.

Therefore, we believe that business and government partners should work together to investigate and appropriate manner of addressing education, information issues while considering the opportunity development for P3 projects. We encourage the development of a body to act as a conduit for information, championing the development of capacity in BC to ensure success for all parties. Governance, funding and control issues of such a body would be addressed jointly.

Best practice expertise in P3 public interaction, deal structuring, contract development, negotiation and implementation is critical to ensure successful partnerships and deliverables. The goals should be optimizing opportunity, mitigating risk and reducing transaction costs for each partner while protecting the public interest. We believe that developing capacity, capability and expertise so BC can lead P3 projects at home and abroad should be a primary goal.

THE CHAMBER RECOMMENDS

That the provincial government work with The Chamber in partnership with local chambers and the private sector, to champion a P3 forum aimed at meeting the education, best practice, and public relations needs of small and medium sized businesses and municipalities with regard to P3s, other than large capital projects.

RESOURCE ACCESS ROADS AND INFRASTRUCTURE (2004 – Revised 2005)

BC has developed and grown on the strength of our natural resources. In order to continue growing we will need to continue to facilitate access to and development of our considerable resources. Access to resources is the first step. Access from a permitting and regulatory perspective is being addressed, what we need is physical access, and infrastructure.

In areas where no infrastructure exists the BC government needs to approach this lack of access as an investment in our future.

THE CHAMBER RECOMMENDS

That the provincial government invest in resource roads and infrastructure where a proven payback exists in the form of resource development.

CO-OPERATIVE EDUCATION TAX CREDIT (2005)

To realize the full potential of BC's emerging knowledge-based economy, the province needs a new generation of highly skilled young workers. Developing this highly skilled made-in-BC workforce means that employers must be encouraged to provide co-op employer-based workplace training and development opportunities for young workers.

A province wide Co-op infrastructure is already well established with 23 institutions across the province currently offering co-op programs. These Co-op programs are offered by Universities, University Colleges and Community Colleges.

Co-op is a process of education that formally integrates a student's post-secondary academic career studies on campus with relevant and productive work experiences in industry, business and government. As part of their academic program, students enter coop work-terms that vary from 10 to 16 weeks, and the student and employer are typically canvassed before, during and after the work-term to help evaluate the program's effectiveness.

A co-op term not only allows the student a direct look at a particular employer and career, but also gives the employer a chance to consider a potential employee for its business. In fact, statistics from various BC educational institutions have shown that up to 80 per cent of co-op terms lead to post-graduation employment with the same employer. Currently, four universities and 19 other post-secondary institutions around BC provide co-op placements as part of programs in several different disciplines. In some BC degree programs, completion of up to three co-op terms is mandatory for graduation.

A number of chambers have noted that many of their members, particularly small businesses, find the cost of co-op work placements prohibitive as such targeted incentives in the form of tax credits make this program more accessible to employers of all sizes and sectors. This has been born out by the fact that in 2000-1, private employers created approximately 5,600 co-op placements in BC for BC post-secondary students (based on a 16-week term); in 2004, that number had declined more than 25 per cent to approximately 4,100.

During that same period, the provinces of Quebec, Ontario, and Manitoba have recognized the need to stimulate the employment/economy cycle by initiating co-op tax credits to private employers to employ and train students.

Stimulating co-op placements through a co-op tax credit program would help achieve this objective. A Co-op tax credit encourages private businesses to hire students they might not otherwise be able to afford to hire. A thriving co-op program increases the chances that a co-op hire turns into a long-term job placement. Co-op students help bring new ideas, research and technology from our educational institutions to business employers. Research suggests new graduates are more likely to settle in regions where they have completed successful work experiences. This would benefit all regions of BC

THE CHAMBER RECOMMENDS

That the provincial government introduce a co-op tax credit to BC business employers equal to 15% of wages paid to qualified co-op students for work placements. The terms of the tax credit should ensure that:

- a. it be capped at \$1,500 per student, for each co-op work placement;

- b. the co-op work term applies towards completion of a post-secondary co-op education program at a qualifying BC university, college or institution;
- c. it be applied against outstanding BC tax liabilities;
- d. it be applicable to all eligible public and private sector employers including corporations, partnerships or proprietorships; and
- e. as a demonstration of leadership the BC public service commission increasing the number of co-op placements across all the ministries, and ensure that these co-op placements are spread across all regions of BC.