

HST vital to sustaining economic prosperity in BC

Last month, the BC government announced its intention to harmonize the provincial sales tax (PST) with the federal GST, effective July 1, 2010. This will result in the elimination of the PST and the establishment of a new, single harmonized sales tax (HST) initially set at a rate of 12%.

The business associations listed at the end of this document, and the tens of thousands of enterprises – large and small – that they represent, are supportive of moving to the HST because we believe it will mean a stronger economy, more jobs, and higher incomes over time.

There are a number of reasons why eliminating the PST and adopting the HST makes sense.

- **Increased competitiveness:** By removing the PST that companies now pay on their inputs, the HST will make British Columbia more competitive. While the PST is often viewed as a “consumption” tax, in fact it applies to both consumption and production. Approximately 40% of PST revenue is paid by businesses on goods and services which they purchase to run their operations – everything from equipment, machinery, vehicles, and building materials to office supplies, furniture, energy, legal services and more. As this PST-related tax burden is removed, the vast majority of businesses will be in a better position to invest, to grow, and to sustain and create jobs.
- **More investment:** A second and related reason to adopt the HST is that it will stimulate investment. Experience in Atlantic Canada and other jurisdictions confirms that shifting to a value-added sales tax like the HST paves the way for increased capital spending on machinery, equipment, structures, new technologies, and other productive assets. Additional business investment should lead to faster economic growth, more jobs, higher productivity, and greater exports – all of which are good for workers and consumers alike.
- **Reduced ‘paperwork’ burden:** As British Columbia integrates its sales tax with the federal GST, compliance and ‘paperwork’ costs will decline for tens of thousands of BC businesses. Under the present system of separate provincial and federal sales taxes, businesses are forced to deal with two different sets of tax rules, administrative authorities, and compliance requirements. Tax filing, compliance, and other regulatory costs will be significantly lower under the HST, which should be especially beneficial for smaller businesses.
- **Federal government funding:** By moving to a harmonized sales tax, the province is in line to receive \$1.6 billion from the federal government. This reflects a longstanding federal policy to encourage the provinces to integrate their sales taxes with the GST in order to strengthen the Canadian economic union. Additional federal dollars will be helpful in allowing the province to maintain important public services and to pay for measures that may be used to facilitate the transition to the HST for a small number of vulnerable industry sectors.
- **Aligning with other provinces:** Finally, the fact that Ontario plans to legislate its own version of the HST next year, and that Quebec and three Atlantic Canadian provinces did so in the late 1990s, is also an important factor. These provinces represent about 70% of the Canadian economy. The HST will put BC on a more even tax footing within Canada and ensure that needed investment dollars and jobs aren’t lost to other jurisdictions.

A healthy business sector is a vital part of any thriving economy. By providing jobs and buying inputs from local suppliers, competitive enterprises make a big contribution to the tax base that governments rely on to pay for programs and services. The HST promises to strengthen the foundations for BC's high standard of living by helping to expand the economic pie and spurring the creation of more good-paying jobs.

Consumption taxes are sometimes criticized for being "regressive," by disproportionately affecting lower income households. To address this concern, the provincial government has pledged to provide a new, refundable HST credit which will be paid quarterly along with the existing GST credit, to lower income individuals. We believe this represents a balanced and equitable approach to ensuring that lower-income citizens do not face an added economic burden from the HST.

In conclusion, while we recognize that a few industry sectors may face challenges as the HST is implemented, overall we are convinced the HST will generate positive economic results for businesses, consumers, and workers in British Columbia in the years ahead.

Business Council of BC
BC Chamber of Commerce
Institute of Chartered Accountants of BC
Retail Council of Canada
BC Technology Industry Association
Canadian Manufacturers and Exporters
Mining Association of BC
Council of Forest Industries
BC Trucking Association
BC Road Builders and Heavy Construction Association
Coast Forest Products Association
New Car Dealers Association of BC
BC Construction Association
BC Pulp and Paper Steering Committee
Truck Loggers Association
Motion Picture Industry Association of BC
Greater Vancouver Gateway Council
Railway Association of Canada
Independent Contractors and Businesses Association of BC
Initiatives Prince George
Canadian Association of Petroleum Producers
Association of Mineral Exploration BC
New Media BC