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British Columbia: NW2009/07/23 — Harmonized Sales Tax to Boost Investment, Job Creation

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HARMONIZED SALES TAX TO BOOST INVESTMENT, JOB CREATION

British Columbia intends to harmonize its provincial sales tax with the federal Goods and Services Tax effective July 1, 2010, to boost new business investment, improve productivity, enhance economic growth and create jobs, Premier Gordon Campbell and Finance Minister Colin Hansen announced today.

"This is the single biggest thing we can do to improve B.C.'s economy," said Premier Gordon Campbell. "This is an essential step to make our businesses more competitive, encourage billions of dollars in new investment, lower costs on productivity and reduce administrative costs to B.C. taxpayers and businesses. Most importantly, this will create jobs and generate long-term economic growth that will in turn generate more revenue to sustain and improve crucial public services."

B.C. will have the lowest Harmonized Sales Tax(HST) in Canada, by combining the seven per cent B.C. Provincial Sales Tax (PST) with the five per cent federal Goods and Services Tax (GST), for a single sales tax rate of 12 per cent. All other provinces with an HST, and the one proposed by Ontario, have a rate of 13 per cent.

It's estimated the HST will remove over \$2 billion in costs for B.C. businesses. That includes an estimated \$1.9 billion of sales tax removed from business inputs, which enhances competitiveness, increases investment and productivity and, ultimately, increases prosperity. For example, some savings would include about \$880 million for the construction industry, \$140 million for manufacturing, \$210 million for the transportation industry, \$140 million for the forestry sector, and \$80 million for mining and oil and gas. In addition, B.C. businesses will also save an estimated \$150 million annually in compliance costs.

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

"The PST is an outdated, inefficient and costly tax, some of which is hidden in the price of goods and services and passed on to and paid by consumers," said Minister of Finance Colin Hansen. "Evidence from the Atlantic provinces showed that the hidden tax is removed very quickly, with the majority of the savings passed through to consumers in the first year."

The proposed HST will include:

- Unlike any other province, B.C. will provide an automatic point-of-sale rebate so consumers do not have to pay the provincial portion of the HST at the pump for purchases of gasoline and diesel fuel for motor vehicles, including any biofuel components.
- A partial rebate of the provincial portion of the single sales tax for new housing to ensure that new homes up to \$400,000 will bear no more tax than under the current PST system, while homes above \$400,000 will receive a flat rebate of about \$20,000.
- A refundable B.C. HST Credit paid quarterly with the GST and carbon tax credit to offset the impact of the tax on those with low incomes.
- A temporary delay in the provision of input tax credits for certain purchases by businesses with taxable sales in excess of \$10 million.

The federal government will provide British Columbia with \$1.6 billion in transitional funding in recognition of the improvement this change will make to business competitiveness in Canada. The full cost of administration will be borne by the federal government, saving the Province an estimated \$30 million annually in administration costs. With this decision, the Province can now move forward and work with industry to implement the new HST.

More than 130 countries, including 29 of the 30 OECD countries, along with four Canadian provinces, have adopted taxes similar to the HST, called value-added taxes, which reimburse most businesses for the tax they pay on their inputs. Ontario will also move to a single, value-added sales tax on July 1, 2010. With B.C., six of Canada's 10 provinces will have a similar sales tax by July 1, 2010. Implementation of a single sales tax in B.C. would immediately reduce costs and enhance the competitiveness of B.C. manufacturers and exporters both nationally and internationally and bring B.C. into line with what is viewed as the most efficient form of sales taxation in the world.

Since 2001, the B.C. government has taken significant steps to reduce taxes for B.C. families and improve the competitiveness of the B.C. tax system for business. The overall tax burden is generally the second lowest in Canada for B.C. families and will remain so after harmonization, primarily as a result of significant provincial personal income tax cuts, while corporate income taxes have been reduced and corporate capital taxes have been eliminated.

Once fully implemented, the single sales tax will make B.C. one of the most competitive jurisdictions in the industrialized world for new investments. The proposed changes are subject to approval by the parliaments of Canada and British Columbia.

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BACKGROUND

KEY FACTS ON SALES TAX REFORM

Rebates and Tax Credits

To meet our unique requirements here in the province of British Columbia, the Harmonized Sales Tax would include the following point-of-sale rebates and tax credits for the provincial portion of HST:

- Fuel
 - Gasoline and diesel motor fuels, including any biofuel components.
- Other items
 - Books, children's sized clothing and footwear, children's car seats and car booster seats, diapers and feminine hygiene products.
- Housing
 - A partial rebate of the provincial portion of the HST of up to \$20,000 on all new housing.

- Low income tax credit
 - A refundable B.C. HST Credit to help protect low-income individuals.

There will be rebates for municipalities, charities and eligible non-profit organizations to avoid tax increases for these sectors. And there will also be temporary restrictions of input tax credits for certain purchases by businesses with taxable sales over \$10 million and financial institutions.

Agreements and Legislation

The Province of B.C. and the Government of Canada have signed a Memorandum of Agreement setting out their intention to establish an HST in British Columbia effective July 1, 2010. The agreement establishes a framework for the proposal, setting out key features such as the timing, the tax base, the rate and the flexibility available to the province.

Administration

The HST would be administered by the federal government in the same way that they now administer the GST and the HST in other HST provinces. The federal government would provide revenue to the province based on an allocation formula.

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BACKGROUNDER

SOME ORGANISATIONS THAT HAVE CALLED FOR HARMONIZATION

B.C. Business Council

B.C. Progress Board

B.C. Chamber of Commerce

Canada West Foundation

Conference Board of Canada

Chartered Accountants of British Columbia

Retail Council of Canada

Canadian Manufacturers and Exporters

Certified General Accountants - British Columbia

Certified General Accountants - Canada

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