

PST/GST

HST OR PST/GST?

IT'S YOUR DECISION

THE INDEPENDENT PANEL'S REPORT
MAY 4, 2011

HST

Dear British Columbian,
You have an important decision to make this summer.

That's when you will vote in a province-wide referendum asking you and your fellow British Columbians to make a choice — keep the HST or return to the PST/GST.

The reason for this referendum is clear.

Last July 1, the provincial government brought in the 12 per cent Harmonized Sales Tax (HST). It blended the seven per cent Provincial Sales Tax (PST) with the five per cent federal Goods and Services Tax (GST).

There was no public consultation with you or other British Columbians. The result was confusion, anger, political discontent and a petition signed by hundreds of thousands of citizens demanding a referendum to let the people decide.

This panel, and the report you are about to read, was born out of that public outcry. We are four citizens—an economist, a former B.C. auditor general, a banker and a former Alberta finance minister. Our job has been to independently assess and present the positives and negatives of each sales tax system.

Over the last dozen weeks we've spent hundreds of hours talking about each sales tax and reading submissions from British Columbians, associations and businesses. We have gathered the best information we could find to present to you.

We'll admit — It's been a struggle. Some of the facts about the HST and PST/GST are crystal clear. Other facts will take time to emerge. Tax policy is complex and it's not always easy to arrive at black and white conclusions.

The process of preparing this report has shown us much of the debate over the HST and PST/GST remains filled with factually incorrect information. We believe that better information, including the good and the bad about each tax system, is critical for there to be a successful referendum – no matter the result.

Citizens usually leave such tax policy questions to the provincial government. During this summer's referendum, British Columbians will make history. You will decide the future of the HST. The question before you is:

Are you in favour of extinguishing the HST (Harmonized Sales Tax) and reinstating the PST (Provincial Sales Tax) in conjunction with the GST (Goods and Services Tax)?

Yes or No

Our job isn't to tell you how to vote. It is to look at the facts and offer our best analysis.

Now it's your decision.

Sincerely,



Jim Dinning



John Richards



Tracy Redies



George Morfitt

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IT'S YOUR DECISION

WHY SALES TAXES MATTER

It's fair to say very few of us like to pay taxes. Especially sales taxes.

Yet the truth is sales taxes matter. They help pay for the public services British Columbians expect — universal health care, schools and universities, policing, roads and highways, to name just a few.

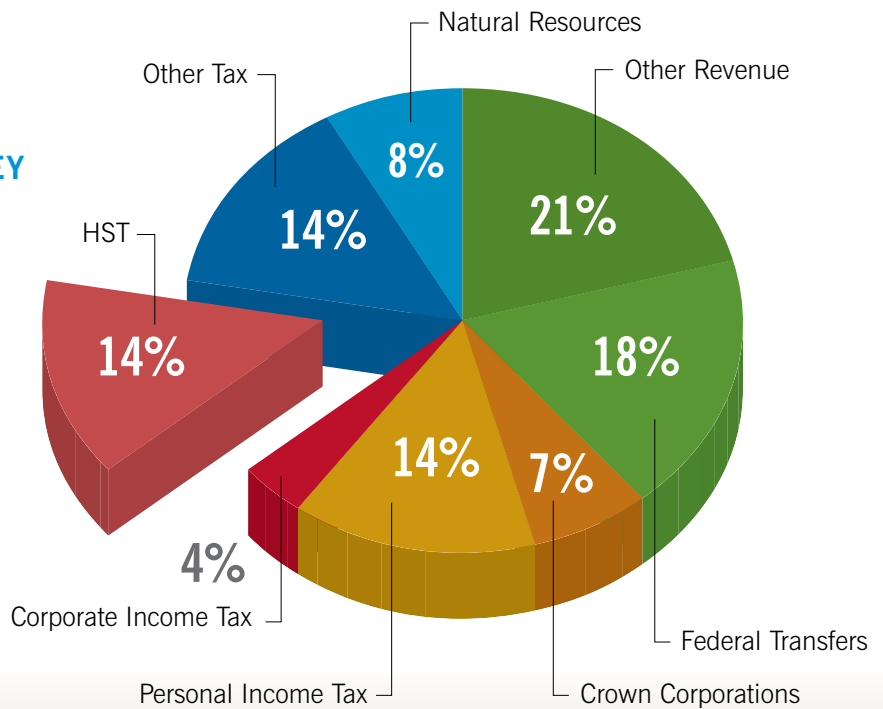
British Columbians have been paying sales taxes for over 60 years. They are a foundation of the provincial budget. This year sales taxes will raise almost twice as much as the revenues from our forests, minerals and energy. Revenue from the sales tax equals the total income taxes paid by individuals.

If B.C. eliminated the sales tax — whether it's the HST or PST/GST — there would be a \$5-billion to \$6-billion hole in the \$41-billion budget. To compensate the government would need to increase the deficit, raise other revenue or cut spending on services. Or do a combination of all three.

The government's job is to find the right mix of tax and other revenue options to fund public services that are essential to our quality of life. The government must devise a revenue plan that passes the test of fairness and keeps our economy competitive, growing and creating jobs.

HOW THE PROVINCE RAISES MONEY

2011/12 – \$41.3 BILLION



Source: B.C. Budget (2011)

“British Columbians need to recognize that although nobody like taxes, government needs to raise taxes in order to provide the services that we all need.” **Anne Allgaier**

IT'S YOUR DECISION

It's a constant balancing act.

If income tax and sales tax rates are too high, people may move away or the number of people moving to B.C. will decline. High sales taxes dampen spending and that slows the economy.

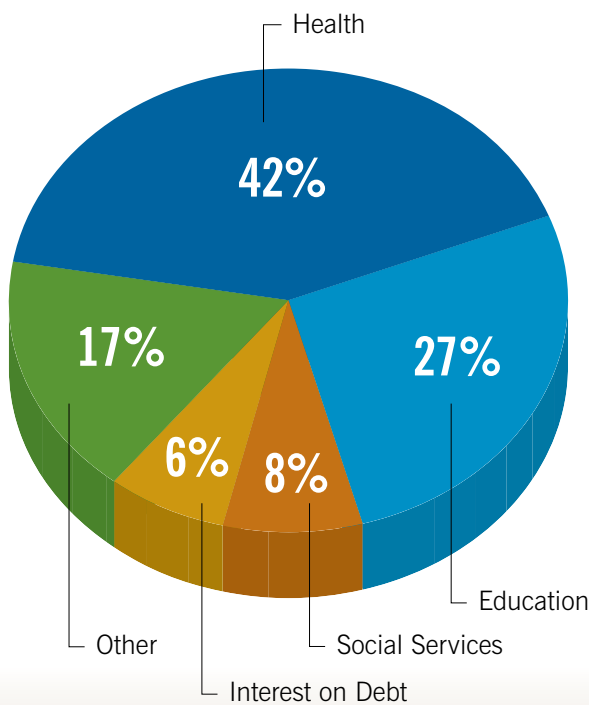
If business tax rates are too high, they're a drag on the economy, chasing away investment and making it difficult to compete in markets beyond our borders. That means fewer jobs.

Every government has its own ways of raising revenues. All provinces — except energy-rich Alberta — rely on sales taxes as an important source of revenue.

There's another pressure facing governments — our population is aging.

Baby boomers are entering their retirement years, a time when employment income drops. That means a decline in income tax payments at the very time their use of expensive public services—especially health care—begins to rise. Just as the percentage of retiring British Columbians is rising, the percentage of working citizens—paying taxes on employment income—is dropping. That will create a funding crunch for the government over time.

We're already seeing signs of the problem. Spending on health care in B.C. is growing more than twice as fast as the government's revenue growth. This trend is expected to increase as baby boomers age.



HOW THE PROVINCE SPENDS MONEY

2011/12 – \$41.9 BILLION

Source: B.C. Budget (2011)

“We continue to be extremely dismayed with the introduction and thoughtless implementation of the HST at a time when the Canadian economy was adversely affected by the USA and international financial market melt-down.” **Robert Lintell – Lintell Projects Inc.**

If governments are to adequately fund public services and avoid cutbacks, tax hikes or deficits that add to provincial debt, they must have reliable and robust sources of revenue.

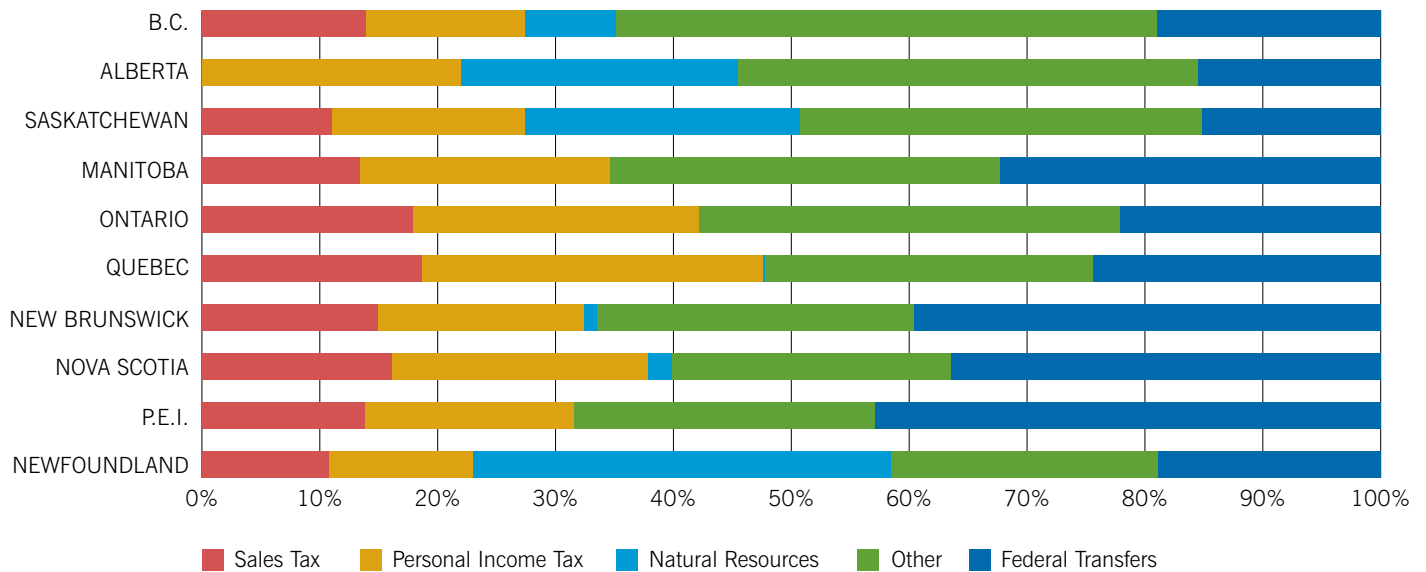
It's also important to note the make-up of the B.C. economy, like other provinces, has changed. When the PST was introduced in 1949, it was a tax levied mainly on an economy then dominated by the manufacturing of goods.

Over the decades we've evolved into a mixed economy, one that still creates goods but has seen the rapid expansion of services. Under the PST, much of the service economy went untaxed. Under the HST, most services are taxed. That means a broader tax base and a more stable source of revenue for government.

One thing is clear— sales taxes are essential to the B.C. government's revenue base. Whether you vote to return to the PST/GST or keep the HST, there will still be a sales tax in B.C. after the referendum.

HOW PROVINCES RAISE REVENUE

PER CENT OF TOTAL REVENUE – 2010/11



Source: Provincial Budgets (2011)

“As a consumption tax the HST is efficient. There are no loopholes, exemptions for special interest groups or deductions.” Paul Mockler, A & A Trading Ltd.

YOU, YOUR FAMILY AND SALES TAXES

Since the HST was introduced you've heard a lot of conflicting statements.

'The HST is costing me and British Columbians more than the PST/GST did.'

'There's really no change. I might even be better off than before.'

It's best to state the fact: The majority of British Columbians are paying more at the cash register since the introduction of the HST.

After studying the numbers and consulting with economists, here's what we've concluded:

- British Columbian families pay an average of \$350 more every year on routine expenditures under the HST.
- The more you spend, the more HST you pay. The more you earn, the more you're likely to spend.
- If your family is one of the 15 per cent of B.C. families that report income of less than \$10,000 a year, you're actually better off under the HST.
- All B.C. taxpayers' HST costs are partially offset through income tax relief.
- Over 80 per cent of your household spending is taxed as it was before the HST.
- The HST will also cost you more if you buy a newly built home that is worth more than \$525,000.

WHAT'S CHANGED AT THE CASH REGISTER?

Before last July 1, the five per cent federal Goods and Services Tax (GST) and seven per cent Provincial Sales Tax (PST) were administered as two separate sales taxes.

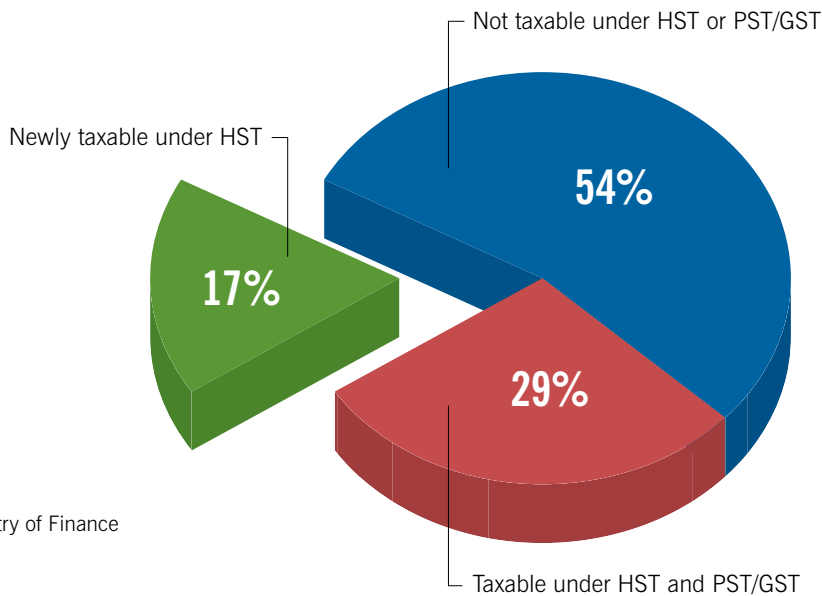
After July 1, both the PST and GST were blended into the 12 per cent Harmonized Sales Tax (HST).

THIS IS WHAT IS NOW HAPPENING AT THE CASH REGISTER.

- 17 per cent of your spending has an extra seven per cent sales tax.
- 29 per cent of your spending is subject to the same total sales taxes as before. It has not gone up or down.
- 54 per cent of your spending is not taxable under the HST or the PST/GST. Nothing has changed.

"I find the basics of this tax sound, but it has been enlarged to cover [restaurant and snack] food, [adult sized] clothing for children and a couple of other items. Please consider a simple change back to original basics." **Bill Lawrence, Dawson Creek**

WHAT'S CHANGED AT THE CASH REGISTER?



Source: B.C. Ministry of Finance

SO THIS IS A TAX SHIFT TO CONSUMERS?

Yes, but there is a benefit to you and the provincial economy.

We all know that to make a product or service, businesses pay for items like power, heat, rent and computers. Under the PST, businesses paid the seven per cent sales tax on those purchases. While you never saw it on your bill most of that PST was added onto the final price you paid at the cash register. Call it the invisible PST paid by you, the consumer.

Under the HST system that's changed. Most businesses receive a full rebate on sales tax paid on items they buy to make a product or service. That means they no longer add the invisible PST to the final price they charge you. Businesses can pass on their HST rebates to you in the form of lower prices or use their savings to invest in new equipment and productivity. This should generate economic growth, which the panel discusses in the next chapter.

“Since the implementation of the HST seniors eating at our senior center now have to pay the HST. This has cut down on the attendance to our meal program.”

Kathy Nadalin, Prince George

WHAT'S CHANGED, AND WHAT HASN'T, BETWEEN THE HST AND PST/GST

SPENDING CATEGORIES	EXAMPLES
<p>UNCHANGED – Items that are not taxed under either the HST or the PST/GST</p> <p>THEN NOW 0% → 0%</p>	<ul style="list-style-type: none"> • Rent • Mortgage payments • Basic groceries • Child care expenses • Prescription drugs • Public transit • Existing housing
<p>UNCHANGED – Items that were taxed with the 5% GST plus the 7% PST and are now charged the 12% HST</p> <p>5%+7% → 12%</p>	<ul style="list-style-type: none"> • Almost all household goods such as cars, furniture, electronics and appliances. • Almost all clothing, footwear and beauty products.
<p>UNCHANGED – Items taxed with the 5% GST but exempted from the provincial portion of the HST by the Province.</p> <p>5% → 5%</p>	<ul style="list-style-type: none"> • Motor fuels • Books • Children-sized clothing and footwear • Children's car seats and car booster seats • Children's diapers • Feminine hygiene products • Home energy use
<p>CHANGED – Routine spending that used to be taxed with the 5% GST but is now taxed the 12% HST</p> <p>5% → 12%</p>	<ul style="list-style-type: none"> • Restaurant meals and snack food • Hairdressing and manicures • Most recreation items such as movies, gym memberships and magazines • Maintenance and repair services not taxed under PST (e.g. gardening) • Bicycles • Tobacco products • Professional services
<p>CHANGED – Non routine spending that used to be taxed with the 5% GST but is now taxed the 12% HST</p> <p>5% → 12%</p>	<ul style="list-style-type: none"> • Newly built home sales (less rebate) • Conveyancing costs such as realtor commissions • Structural home renovations • Structural home repairs

Source: B.C. Ministry of Finance

WHY DO YOU THINK BUSINESSES WILL PASS ON THEIR HST TAX REBATES TO ME?

Critics of the HST have suggested businesses do not pass through their HST savings to the consumer. However, experience in other jurisdictions shows, over time, competition forces businesses to pass on these HST savings to consumers. If they don't, they lose customers.

When Canada's Atlantic provinces adopted the HST in 1997, there was an early increase in inflation. It was temporary, however. After looking at the experience of other jurisdictions that adopted value-added taxes such as the HST, our assumption as a panel is 90 per cent of business' HST rebates are passed on to the consumer.

WHAT PRECISELY IS THE TOTAL TAX SHIFT TO THE CONSUMER?

After careful consideration, the panel has concluded that in 2011/12:

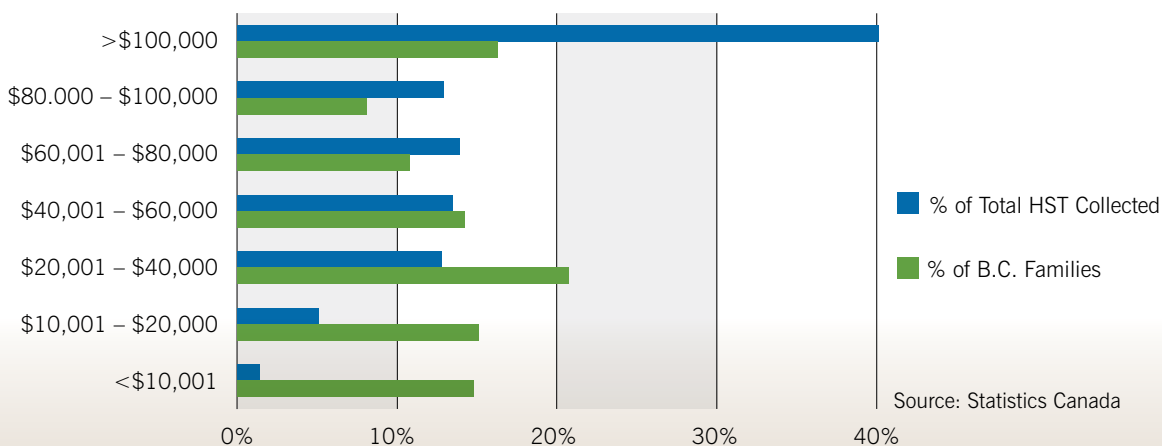
- **Because more things are taxed than before — including newly built homes — families now pay a total of \$1.33 billion more in sales tax after HST rebates and tax breaks are taken into account.**
- **Businesses will pay about \$730 million less in taxes.**

WHAT IS THE TOTAL TAX PAID BY FAMILIES AND BUSINESSES?

	Total PST	Total HST	Less HST Rebates and Tax Breaks	Difference
(Billions of dollars)				
Families	3.81	5.14	-0.41	1.33
Business	0.85	0.12		-0.73

Source: B.C. Ministry of Finance and Panel Estimates

WHO PAYS THE HST (BY INCOME BRACKET)



Source: Statistics Canada

“For B.C.’s businesses to remain competitive, a value-added sales tax, like the HST, is a necessity.” **Institute of Chartered Accountants**

HOW MUCH MORE DOES THE AVERAGE FAMILY PAY UNDER THE HST?

The average family paid \$1,169 a year in sales tax under the PST/GST. Under the HST, that family now pays \$350 more in sales tax.

But every family pays different amounts of sales tax depending on how much they earn and what they buy.

A general rule of thumb is high-income earners, who spend more, will pay more sales tax under the HST.

Those who earn less spend less and pay less sales tax.

The lowest income earners are shielded from the move to the HST through a series of tax rebates.

HOW DO TAX BREAKS OR REBATES FOR CONSUMERS WORK UNDER THE HST?

To cushion the effect of the HST the provincial government introduced two measures that give back money to individuals and families.

The first applies to every taxpayer. The government increased provincial income tax exemptions to help people adjust to the HST. It's \$80 per year for single taxpayers or \$160 for a couple.

The second HST tax break applies if you're a low-income family. It's the HST tax rebate — a cheque mailed to you every three months. It tops out at \$230 per family member and scales back as your income rises.

THE HST REBATE – SOME EXAMPLES

Family Size	Family Income*	HST Rebate
1	\$20,000	\$230
1	\$25,000	\$30
3	\$20,000	\$690
3	\$30,000	\$490
3	\$40,000	\$90

*Income is 'adjusted income' as calculated for income tax purposes

Source: B.C. Income Tax Act

“The [low-income] credit largely off-sets the higher HST costs for the poorest British Columbians, but its early and quick phase-out means that many modest and middle-income households will be facing higher costs.” **Canadian Centre for Policy Alternatives**

CAN YOU GIVE US SOME REAL-LIFE EXAMPLES OF WHAT A FAMILY PAYS UNDER THE HST?

If your family* has an income of less than \$10,000 a year (as 15 per cent of B.C. families do) you are receiving HST rebate cheques in the mail. It means the \$216 in sales tax you paid under the PST/GST system has actually decreased by \$73 a year, to \$143.

If you and your family are at the higher end of the income scale — making more than \$100,000 a year — you pay the most. The HST adds \$1,029 a year to the \$2,738 in sales taxes paid under the PST/GST.

Most families will be somewhere in between this range under the HST.

The \$350 average sales tax per family does not include the HST you now pay when you buy a newly built home. How much that costs varies from family to family, since not everyone buys a newly built home. Some prefer pre-owned homes that are HST exempt. Those families that do buy newly built homes pay different prices, a choice that determines the amount of HST paid.

Here's an example: If you buy a newly built home worth \$685,000 (the median single family home price in Metro Vancouver) you're paying \$8,000 more sales tax than under the PST/GST. If your newly built home costs under \$525,000 you're paying no more sales tax than you did before.

HST IMPACT AFTER TAX REBATES

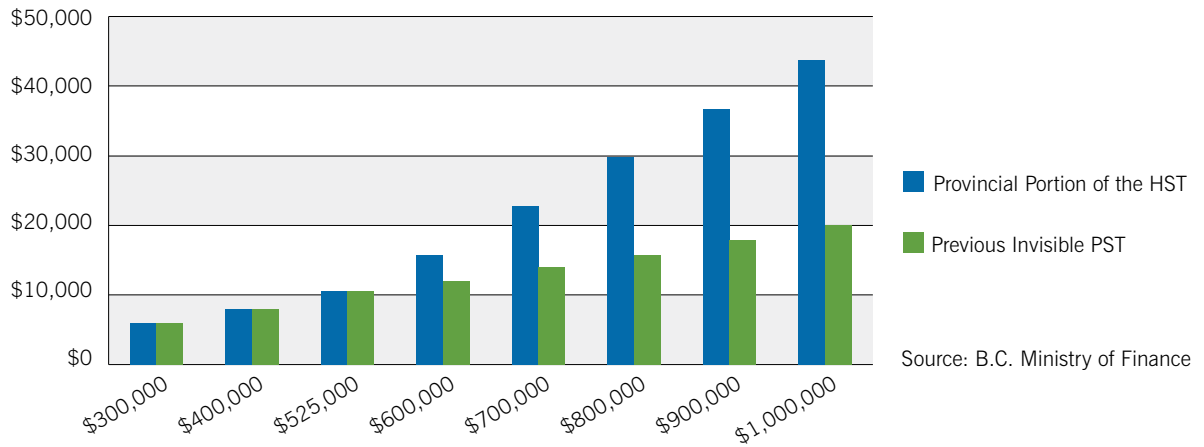
If your Family* Makes	Your Net Increase After Income Tax Rebates	Net Increase as % of Family Spending
<\$10,001	-73	-0.7%
\$10,001 – \$20,000	32	0.1%
\$20,001 – \$40,000	129	0.4%
\$40,001 – \$60,000	366	0.8%
\$60,001 – \$80,000	527	0.9%
\$80,001 – \$100,000	657	0.9%
>\$100,000	1,029	1.0%
Average	\$350	0.7%

Source: Statistics Canada, B.C. Ministry of Finance and Panel estimates

*A family includes one or more individual B.C. taxpayers.

“Since more goods and services are taxed under the HST than the PST, consumers face an additional tax burden. Some of the goods and services taxable under the HST but not under the PST are, in no particular order, postal services, taxis, funerals, real-estate commissions, haircuts, parking, and restaurant meals.” **Helmut Pastrick, Central 1 Credit Union**

TAX PAYABLE ON NEWLY BUILT HOMES



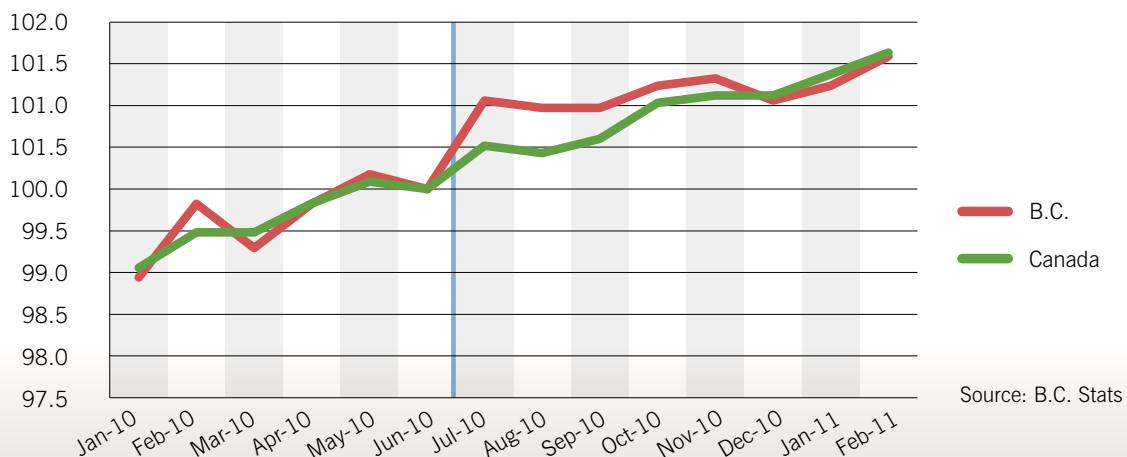
WHAT'S HAPPENED AT THE CASH REGISTER DURING THE FIRST YEAR OF THE HST?

It will take time to fully judge the impact of the HST. B.C.'s Consumer Price Index shows an initial spike of 1.1 per cent in the rate of inflation from June to July, when the HST was introduced. That was higher than the national inflation rate of 0.5 per cent for the same period.

B.C.'s overall inflation rate is now close to the national rate.

In summary, under the HST the average family pays more in sales taxes. Low-income families are shielded from the HST. High-income and middle income families pay more because they spend more. And while the cost of most goods and services went up in the first months of the HST, the rate of inflation now tracks close to the national average.

CONSUMER PRICE INDEX



“[M]y husband and I have noticed the extra costs of eating out, hair cuts and food purchases other than basic items and so on. But we also understand the huge cost to rescind the HST.”
Marjorie and Alan Nevison, Victoria

IMPACT ON THE ECONOMY, BUSINESSES AND JOBS

If you're having trouble figuring out the HST's impact on the economy, you aren't alone. We heard widely divergent views from economists, business groups and citizens.

'... the HST is the single most important thing that can be done to help grow the B.C. economy, creating 100,000 or more jobs.'

'... the HST will be the death knell to some businesses and may even result in the B.C. economy slightly shrinking.'

After consulting economists and reading a wide assortment of studies, including one the panel commissioned, here are our conclusions:

- Virtually all economic analysis finds the HST increases economic growth, productivity, wages and the quality of jobs.
- There is no consensus on the value and timing of those benefits.
- A move back to the PST/GST will likely have a negative impact on business and investor confidence because of uncertainty over tax policy.
- The panel's commissioned analysis concludes the economy will get a bigger boost under the HST than it would under PST/GST. Under the HST, the size of the economy will be \$2.5 billion larger in 2020 than it would have been with the PST/GST. That's about a 1.1 per cent higher growth.
- Small and large businesses save at least \$150 million in administrative costs because they now comply with one tax, not two.
- Businesses such as restaurants and hair salons, recreation/entertainment businesses and builders of newly built homes, have seen an initial negative impact on sales under the HST.
- Banks, credit unions, insurers, doctors and rental apartment owners are hurt under the HST because they have to pay HST on items they buy to provide services. However, they don't qualify for HST rebates as do other companies.

"A reality that has seldom been mentioned in the HST debate is that the provincial government actually has relatively few policy levers available to attract investment, foster the growth of high-paying private sector jobs, and enhance B.C.'s competitiveness. The design of the consumption tax regime is one area where the province has the capacity to shape the economic environment in a positive way." **Business Council of British Columbia**

WHAT IS THE IMPACT OF THE HST AND PST/GST ON THE ECONOMY?

We heard a range of different answers on the economic benefits of the HST vs. PST/GST. The panel commissioned its own analysis of the impact of going back to the PST/GST. Our independent analysis found:

- A return to the PST/GST would make B.C. exports less competitive and dampen business investment.
- If the HST system continues, the economic benefits will build slowly.
- If the HST is left in place, by 2020 it will result in:
 - A \$2.5-billion increase in the total economy.
 - 1.1 per cent in higher growth. That's about \$480 per person or \$830 per family.
 - A four per cent boost to investment in machinery and equipment.
 - A \$1.2-billion boost in additional exports, about 1.2 per cent higher than it would have been under the PST/GST.
 - 24,400 more jobs than under the PST/GST, a one per cent increase in total employment.

Economic forecasting – especially over 10 years – is an imprecise exercise. Nonetheless, the panel believes this analysis is a reasonable prediction of improved economic performance as a result of the move to the HST.

“[I]f we purchase a half-million-dollar machine the tax we get back will actually pay for a new pickup for the operator to drive to work on the machine. The tax we save on the pickup will pay the wages for an operator to run that machine for the month...”

Monty Hussey, Tilt Contracting

IT'S YOUR DECISION

HOW DOES THE HST IMPACT INVESTMENT IN B.C.?

There's little doubt the HST creates a climate that favours more investment by business.

For one thing, removing the PST from investment in buildings and all machinery makes them less expensive. That's an incentive to modernize that improves productivity and competitiveness and creates better paying jobs.

Consider the construction industry, which creates one in 12 jobs in B.C. Removing the PST on items like construction materials eliminates costs equal to about eight per cent of the industry's contribution to the provincial economy. That makes it cheaper to build and encourages more construction.

According to our economic analysis, under the HST investment in machinery and equipment is expected to increase by four per cent by 2020. Non-residential construction is expected to increase by 1.4 per cent.

However, the switch to the HST is regarded less favourably by new home builders. Homes they build now face the 12 per cent HST, not just the five per cent GST under the previous system. For those paying more than \$525,000 for a newly built home, it means paying more sales tax than before. Some of that impact will be diminished by lower construction costs that will reduce the price. But the sales tax costs of buying a newly built home with a price tag above \$525,000 are now higher.

Our analysis suggests this negative impact of the HST will be short-lived. By 2014, residential construction will rise because the HST system will increase economic activity, wages and jobs. By 2020, residential construction will be 1.9 per cent higher under the HST than it would have been under the PST/GST.

MONTHLY HOUSING STARTS IN B.C. AND CANADA



“Some of our members build single family residential homes and that sector has seen a slowdown which may at least in part be due to the HST and the uncertainties surrounding its longevity.” **B.C. Construction Association**

HOW DOES THE HST IMPACT EXPORTS?

B.C. relies on exports to create jobs and grow our economy. The HST is an advantage to companies that sell goods and services beyond our borders.

Why? Most export prices are set globally. Canadian exporters produce as much as they can profitably sell at those prices. The HST lowers the cost of production, meaning exporters can produce more with their investment in a business. That means more revenue, more sales and more jobs.

This HST advantage to exporters — whether they are exporting services or goods such as coal or lumber products — benefits both our rural and urban economies.

It works something like this. A lumber producer in Prince George, a mine in southeast B.C. or a movie producer in Vancouver, for example, no longer have to pay sales tax on items like electricity, heating fuel, computers and vehicles used in production. This puts them on the same footing with the more than 140 other countries that have gone to value-added sales taxes, such as the HST, to make their exports competitive in the global marketplace.

WHAT IS THE EFFECT ON SMALL BUSINESSES?

Small businesses are crucial to the B.C. economy. Firms of fewer than 50 employees account for:

- **98 per cent of all businesses**
- **Two out of every 10 private sector jobs**
- **41 per cent of exports**
- **One-third of the total economy**

The HST is a benefit to this important sector. As explained earlier, the HST removes the PST from the cost of production. That makes it cheaper to produce goods and services, helping overall sales and exports.

The HST also makes bookkeeping simpler and cheaper for small business. Compliance with only one sales tax (HST) vs. two (PST and GST) is particularly important for small firms, which often don't have the same administrative resources as larger companies.

Some small business owners see the HST as a new cost burden. Items such as commercial rent, raw materials and goods purchased for resale or to be incorporated in a product now become subject to sales tax. However, the HST paid by most small businesses is fully refunded to them.

Whether you run a small store, a restaurant or a personal services business, it means the HST system will decrease your costs.

“To give an example of how onerous the administrative work was... when we bought a can of methyl alcohol to thin paint and clean our equipment, the portion used to thin the paint was tax exempt, the portion to clean the equipment was taxable.”

Ed Beange, Hansen Industries

HOW DOES THE HST IMPACT SERVICE INDUSTRIES SUCH AS RESTAURANTS?

The restaurant industry has said the HST hits it hard. When restaurants started charging the full 12 per cent HST, rather than just the five per cent GST, many reported a decline in customer sales.

There's no doubt there's been some pain for individual establishments. However, Statistics Canada data shows from June 2010 to January 2011 overall industry sales increased by about three per cent in both B.C. and all of Canada.

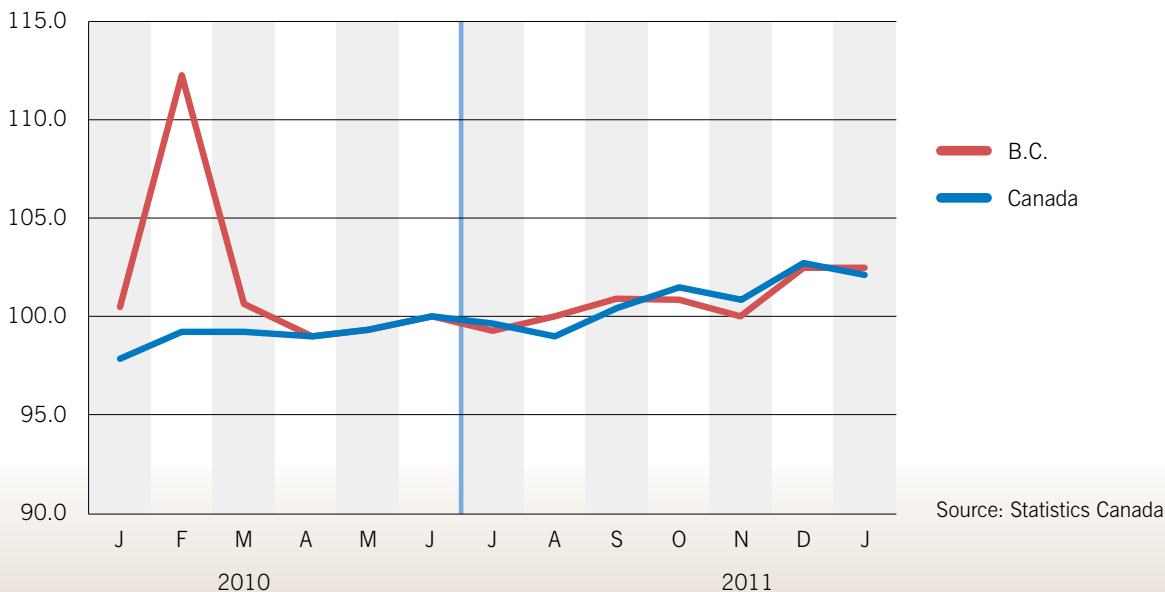
British Columbia's restaurant sales are affected by many economic factors, from the health of a local economy, to events like the Vancouver Winter Olympics to the reputation of the restaurant and the food and beverages on its menu.

What is clear from economic data is that while some individual restaurant's sales were hurt by the HST's introduction, the sector's total receipts have tracked with the national average since July.

ARE OTHER BUSINESSES HURT BY THE HST?

Some businesses, like banks, credit unions and residential landlords receive no rebates for the HST they pay on the things they need to run their business or produce goods and services. Just like consumers, these businesses face increased costs because of the HST. This means that they must absorb the added HST costs or pass them on to their customers.

FOOD SERVICES & DRINKING ESTABLISHMENT SALES



“The HST created a new provincial restaurant meal tax in British Columbia while the industry’s closest competitor [basic food purchased at grocery stores] remains completely tax exempt.” **Canadian Restaurants and Food Association**

WOULD GOING BACK TO THE PST/GST DAMAGE OUR REPUTATION?

Businesses and investors like stability and certainty in the tax policies governing the marketplace.

That means uncertainty over future directions in taxation, such as a sales tax, is likely to have at least a temporary impact on business investment. Questions about what may or may not be subject to a sales tax could also delay the decisions of consumers in making a major purchase, hurting retailers.

WHAT HAS BEEN THE OVERALL IMPACT OF THE HST ON THE ECONOMY SO FAR?

It will take time to assess the real impact of the HST on the economy. To date we can say:

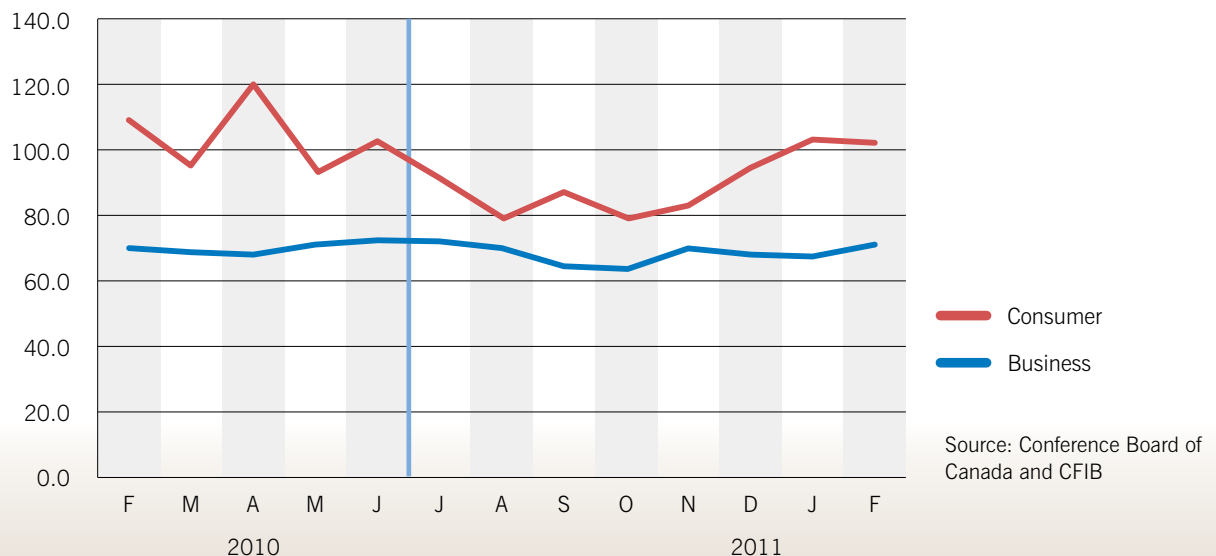
- **Business confidence has remained stable.**
- **Overall, B.C. housing starts have remained consistent with the national average.**

- **The restaurant industry reported slower growth when the HST was introduced. But overall sales growth has returned to the national average.**

Our consensus is the HST will be a net benefit to the economy. But you shouldn't expect dramatic results overnight. It's a tax that offers incremental benefits over time by:

- **Making most businesses more competitive**
- **Reducing administrative costs to businesses**
- **Reducing the cost of producing goods and services**
- **Creating more jobs**

CONSUMER AND BUSINESS CONFIDENCE



“I am the most worried about the perception of instability that it would create around our province if the tax decision were reversed...”

Jordan Gadsby, Family Ministry Pastor & Owner Nextep Media Ltd.

IMPLICATIONS OF GOING BACK TO THE PST/GST

We've heard both sides of the argument around the cost of going back to the PST/GST.

'The HST is a cash grab by government. With a stroke of a pen the government can get rid of it, go back to the PST overnight, and it won't cost a dime.'

'The HST raises more money for public services. Going back will take years and create more debt.'

We can tell you this:

- **Going back to the PST can be done — just not overnight. It will take 18-24 months to go back.**
- **The first year of going back to the PST/GST will result in the province losing more than half-a-billion dollars in revenue. That revenue gap will increase each year.**
- **Going back will be expensive. The province will probably have to repay Ottawa the \$1.6 billion it received to transition to the HST.**
- **If the government borrowed \$1.6 billion to repay Ottawa, it would cost \$85 million a year in interest based on today's interest rates.**
- **The government will spend \$35 million each year to run a new PST office.**
- **The province's control of sales tax policy will remain largely the same as it is now.**

HOW LONG WILL IT TAKE TO GO BACK?

No province has ever introduced the HST and then moved back to the PST. It can't be done quickly.

The B.C. and federal governments never planned for a return to the PST/GST system however, it is possible to go back. Officials told us it will take 18-24 months. That includes rewriting federal-provincial tax laws and regulations, hiring back 300 tax collectors, rebuilding a provincial PST office and helping businesses readjust their accounting systems.

IS GOVERNMENT RAISING MORE MONEY UNDER THE HST COMPARED TO THE PST/GST?

Yes. The HST generates more revenue than the PST/GST.

When the HST was introduced, the government expected in the first year the extra revenues from the HST would be balanced out by tax breaks and rebates.

That hasn't happened. The HST is raising more revenue in its first year than was predicted. With each passing year, the HST will continue raising more revenue than the PST/GST system did because it taxes a broader base of goods and services.

If we go back to the PST/GST, the province would see a sales tax revenue loss of about \$820 million in the first year. That loss would increase to \$893 million in the second year and would widen each year.

"It took several months to finalize the transitional rules before the HST came into effect. We are concerned that it may take as much, if not more time, to develop transitional rules for removing the tax." **Urban Development Institute**

IT'S YOUR DECISION

ARE THERE OTHER COSTS OF GOING BACK TO THE PST?

Yes.

If British Columbians decide to go back to the PST/GST, the B.C. government would likely have to repay the \$1.6 billion that Ottawa paid to help ease B.C.'s shift to the HST.

To pay for the refund, the B.C. government could borrow the \$1.6 billion, cut spending or raise revenue from another source.

Borrowing the money would cost taxpayers about \$85 million a year in interest costs.

Another \$15 million to \$20 million in one time costs would need to be spent rebuilding the PST tax office and hiring back 300 tax collectors and staff to collect PST again. Once that's done, it's likely to cost about \$35 million a year to run the PST tax office, administration costs now absorbed by Ottawa.

ARE THERE ANY SAVINGS FOR THE GOVERNMENT IN GOING BACK TO THE PST/GST?

Yes, there are savings to be had.

The B.C. government now pays HST rebates to low-income earners. Cancelling them would reduce government spending by about \$232 million a year.

Another \$209 million would be saved in the first year of going back if the B.C. government reverses tax breaks it introduced to ease consumers into the HST. That currently gives every taxpayer an \$80 tax break.

SO WHAT'S THE BOTTOM LINE COST TO THE GOVERNMENT OF GOING BACK TO THE PST/GST?

Adding up the costs and the savings for going back to the PST/GST, it means the provincial budget would see a net revenue loss of \$531 million in the first year and \$645 million in the second. That trend would continue each year, meaning other revenues would need to be found or public services cut to avoid increasing future deficits.

Going back to the PST/GST also has consequences for balancing the budget. Under the current budget plan, balancing the provincial budget would be delayed by at least one year.

IMPACT OF RETURNING TO PST/GST

2013/14 2014/15
\$ millions

Sales Tax Revenue Loss	820	893
Revenue Loss due to Lower Economic Growth	32	80
Debt Servicing increase	85	85
PST Administration	35	35

Elimination of tax relief

HST Rebate	-232	-232
Income Tax Break	-209	-216
Net Revenue Loss	531	645

Source: B.C. Ministry of Finance

“... I do not think it is in the best interest of BC'ers to change back to PST/GST. First, because it would just cost we taxpayers more money to convert back and I don't mean just businesses. We, the taxpayers, would have to pay for the bureaucracy to handle the paperwork to change back and also to rehire staff to handle PST again.” W. Nagasaka, Langley

REPORT SUMMARY

The choice you face on the HST and PST/GST is a big one. It comes down to balancing the savings you and your family will get by going back to the PST against the longer-term economic benefits that staying with the HST will bring British Columbians in the years ahead.

The immediate impact of the HST on your family pocketbook is clear.

Unless you are among the 15 per cent of families with an income under \$10,000 a year, you're paying more sales tax under the HST than you would under the PST/GST: On average about \$350 per family.

And that doesn't include the HST you will pay on occasional, big-ticket items like buying a newly built house or putting on a new roof, which are no longer exempt from the PST.

If you vote to go back to the PST/GST, all those added sales tax costs would disappear. You will have more money in your pocket.

That decision, however, has longer term consequences.

Going back to the PST/GST means turning away from the gradual future economic benefits expected with the HST. Those include a simpler sales tax system now used by more than 140 other countries and a more competitive economy, where goods and services are cheaper to produce, boosting our exports, attracting investment and creating better-paying jobs.

Our panel acknowledges it's hard to put concrete numbers to these future benefits. However, our independent analysis predicts staying with the HST will mean a B.C. economy in 2020 that will:

- Be \$2.5 billion larger than it would be under the PST. That's about \$480 per person or \$830 per family.
- Produce \$1.2 billion more in the export of goods and services.
- Create an additional 24,400 better-paying jobs.

In the context of a \$200-billion economy, these are important—albeit modest—benefits. But they will make B.C. more competitive in the global marketplace.

Your decision also has serious ramifications for the provincial budget.

The HST taxes the growing part of our economy — services — and will provide extra revenue to fund hospitals, schools, roads and other important public services you rely on. In contrast, moving back to the PST/GST will likely mean refunding the federal government \$1.6 billion in transition money and, in the first year alone, put a \$531-million hole in the provincial budget.

It's not a simple choice before you. Our independent panel has given you the best overview we could to weigh the arguments.

Now it's your decision.

IT'S YOUR DECISION

PANEL MEMBERS



JIM DINNING – CHAIR

Jim Dinning serves as chair of the Canada West Foundation and Western Financial Group Inc. He is a chair and director of a number of public, private and not for profit companies and organizations. Until 2004, Mr. Dinning was executive vice president of TransAlta Corporation. Prior to mid-1997, he held several key positions during his 11 years as a member of the legislative assembly in Alberta. Of note is his service as provincial treasurer from 1992 to 1997. Mr. Dinning is a graduate of Queen's University with two degrees: a bachelor of commerce in 1974 and a master's in public administration in 1977. He received an honorary doctor of laws degree from the University of Calgary in 2002 and today, serves as chancellor of the University of Calgary.



GEORGE MORFITT

George Morfitt is a graduate of the University of British Columbia and a chartered accountant. After a 20-year career as chief financial officer in the private sector in Vancouver, he served two terms as auditor general of British Columbia. Mr. Morfitt has held senior executive positions in a number of organizations, including: president, B.C. Institute of Chartered Accountants; chair, Universities Council of B.C.; and chair, UBC Board of Governors. Mr. Morfitt is a fellow of the B.C. Institute of Chartered Accountants and a Queen's silver and golden jubilee medalist. He currently serves as chair of WorkSafeBC and is a past director of the Motor Vehicle Sales Authority of B.C., the B.C. Safety Authority and the Health Council of Canada. Mr. Morfitt is an inducted member of the B.C. Sports Hall of Fame and is past chair of Canadian Sport Centre Pacific. He currently holds an appointment as adjunct professor at the University of Victoria.



TRACY REDIES

Tracy Redies is the CEO of Coast Capital Savings – Canada’s third-largest credit union outside of Quebec with over 400,000 members. Ms. Redies is also a director of Central 1 Credit Union. She has over 20 years of experience in the international financial services industry and holds a BA (double major in economics and Asian studies) from the University of Victoria and an MSc in business administration from the University of British Columbia. Her banking expertise spans the industry – from commercial, personal, and private banking to e-business, IT, and investment services. Ms. Redies is a director of the CD Howe Institute, the Vancouver Board of Trade and C.H.I.L.D. – a Canadian foundation dedicated to finding a cure for Crohn’s disease, colitis and other gastric illnesses in children. Ms. Redies has been recognized as one of Canada’s top 100 female business executives.



JOHN RICHARDS

John Richards is a professor in the school of public policy at Simon Fraser University. Trained as an economist, Mr. Richards has written extensively on public policy matters in Canada and is widely recognized for his contributions to public policy dialogue on social policy in Canada. Professor Richards holds the Roger Phillips chair in social policy at the CD Howe Institute and has been widely recognized as one of British Columbia’s leading economists. His current social policy focus is on Aboriginal policy. He co-edits *Inroads*, a Canadian policy journal, and he has undertaken teaching and research internationally over the last decade. He also heads a policy institute linked to the International University of Business Agriculture and Technology in Bangladesh. Professor Richards also served as an NDP Member of the Saskatchewan legislature from 1973-1975.

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SUBMISSIONS RECEIVED BY THE INDEPENDENT PANEL

Full submissions can be reviewed
online at: www.hstinbc.ca

Anne Allgaier		Peter Leitch	Motion Picture Production Industry Association of B.C.
MaryAnne Arcand	Central Interior Logging Association	David Lewis	Truck Loggers Association
Allison Marlow	Canadian Pacific B.C. Hotel Association	Paul Liddy	Cedar Road Bioenergy
Ed Beange	Hansen Industries Ltd.	Robert H. Lindstrom	Catalyst Paper Corporation
Chad Bester		Robert Linttell	Linttell Projects Inc. Telus
	Business Council of British Columbia	Gerry Martin	B.C. Progress Board
	Canadian Restaurant and Foodservices Association	Bruce McAra	Initiatives Prince George Development Corporation
	Canadian Home Builders Association of B.C.	Manny McLachland	B.C. Construction Association
	CARP	M Minchin	
	Certified General Accountants Association	Paul Mockler	A&A Trading Ltd.
	Council of Forest Industries	Greg Munden	Munden Ventures
Lana Denoni	Council of Tourism Associations	Cathy Nadalin	
Dave Cowen	The Butchart Gardens	W Nagasaka	
Joseph Csiki		Marjorie and Alison Nevison	
Carole Crowe	Deloitte and Touche LLP	Shawnee Newton	
Andreas Dolberg	B.C. Agriculture Council	Kathleen O'Lane	
Nicole & Chris Drawc		Don Parker	
Dave Earle	Construction Labour Relations Association of B.C.	Helmut Pastrick	Central 1 Credit Union
Maureen Enser	Urban Development Institute	Ray Perrault	Prince George Chamber of Commerce
Adrian Erickson	Regal Ridge Ernst & Young LLP	Michael PretteJohn	
Mike Ernst	Tekmar Control Systems Ltd.	Roland Price	Delta Cedar Products Groups
George F. Evens		David Pryce	Canadian Association of Petroleum Producers
Bernice Ewankow	Factor Forms West Ltd.		Retail Council of Canada
John Francis	Signalink Technologies Inc.	David Robertson	Fasken Martineau LLP
John Phillip Fraser		Ian C.W. Russell	Investment Industry Association of Canada
Jordan Gadsby	Family Ministry Pastor & Owner Nextep Media Ltd.	Chris Ryan	
Wayne Gilles		Ken Sasaki	
John & Mary Glas		David Schreck	
Marg Gordon	B.C. Apartment Owners and Managers Association	Lee Sexsmith	Alder Hills Golf Course & PG Liquor Box
Pierre Gratton	Mining Association of B.C.	David M Sherman	
Tom Handford		Thomas Sitar	Canadian Forest Products Ltd.
Monty Hussey	Tilt Contracting Institute of Chartered Accountants of B.C.	Brian Skakun	
Ainslie Jackman		Peter Teevan	Destination Auto Group
Michael Jagger	Provident Security Corp.	Ian Tostenson	British Columbia Restaurant and Foodservices Association
Janice Karpes	Karpes & Co.	Bev Tourand	Union of B.C. Indian Chiefs
Jonathan R. Kesselman		Dale Wheeldon	Economic Development Association of B.C.
Seth Klein	Canadian Centre for Policy Alternatives	Todd Whitcombe	
Renate Kroese		Craig Williams	Canadian Manufacturers & Exporters
Bill Lawrence		Glenn Zuhlke	MicroWest Design Ltd. B.C. Chamber of Commerce

