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The Honourable David Eby
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Via email

RE: Harmonization of British Columbia's Provincial Sales Tax with the Federal Goods and Services Tax / Harmonized Sales Tax

Dear Premier Eby and Minister Bailey:

The Tax Executives Institute, Inc. ("TEI") commends the Government of British Columbia's initiatives to strengthen the province's competitive position and reduce interprovincial trade barriers through policy modernization and cross-jurisdictional partnerships. These efforts align with our members' interests in fostering economic growth for British Columbia ("BC") and its businesses.

Building upon our recommendations to the Select Standing Committee on Finance and Government Services for the 2026 Budget, we present this comprehensive recommendation for what we believe would be one of the most impactful measures to enhance BC's economic competitiveness: replacing the Provincial Sales Tax ("PST") with the Harmonized Sales Tax ("HST"). This recommendation aligns with principles of sound tax policy, compliance with and uniform enforcement of tax laws, and minimization of administration and compliance costs to the benefit of both government and taxpayers.

While a "Made-in-BC" value-added tax ("VAT") would benefit the provincial economy, harmonizing with the federal Goods and Services Tax ("GST") and joining the HST regime—alongside Ontario; Prince Edward Island; Newfoundland and Labrador, New Brunswick; and Nova Scotia—would maximize advantages for both BC businesses and the provincial government. Our recommendation, supported by extensive research from the BC Commission on Tax Competitiveness¹ and well-known institutions and thought leaders within the province, shows replacing the BC PST with the HST would:

- enhance BC's economic competitiveness by reducing costs and improving rates of return on investments in the province;
- remove interprovincial trade barriers that currently impede business growth; and
- substantially reduce compliance costs for businesses operating in multiple jurisdictions.

While there are numerous other reported benefits from switching to HST, our recommendation focuses on the direct business impacts related to competitiveness, barriers to interprovincial trade, and unnecessary complexities and administration of the BC PST.

Although the province has a challenging history with HST, when it comes to BC's PST, however, replacing the tax in favour of a VAT is almost universally argued to be the right tax policy move for BC.² It is a rare occurrence that a tax reform proposal receives widespread support across most industrial sectors, think tanks spanning the political spectrum, non-partisan organizations,

¹ It should be noted that the mandate of the BC Commission on Tax Competitiveness explicitly precluded consideration of a return to the HST.

² Examples of published statements supporting a value-added tax as a better alternative to PST include: Professor Bev Dahlby (Bev Dahlby, "The Case for Replacing British Columbia's Inefficient Provincial Sales Tax with a Made-in-BC VAT," Fraser Institute, 2024: <https://www.fraserinstitute.org/sites/default/files/case-for-replacing-bcs-inefficient-pst-with-a-made-in-bc-vat.pdf>); Canadian Centre for Policy Alternatives (Marc Lee, "Why a PST cut is a bad idea and directions for reform: A background on consumption taxation in BC," Canadian Centre for Policy Alternatives website, October 5, 2020: <https://www.policyalternatives.ca/news-research/consumption-taxation/#reforming-sales-taxes>); The Fraser Institute (Taylor Jackson and Ben Eisen, "Assessing British Columbia's Tax Competitiveness," Fraser Institute, 2019: <https://www.fraserinstitute.org/sites/default/files/assessing-bc-tax-competitiveness.pdf>); BC Commission of Tax Competitiveness (Commission on Tax Competitiveness, Improving British Columbia's Business Tax Competitiveness Report, November 15, 2016: https://engage.gov.bc.ca/app/uploads/sites/121/2017/04/4637_CommissionOnTaxCompetitiveness_Final_Report_Nov-2016.pdf); Chartered Professional Accountants of British Columbia (Select Standing Committee on Finance and Government Services, "Report on Budget 2026 Consultation," August 2025: https://www.leg.bc.ca/committee-content/18986/Report_Consultation_Budget-2026%20-%20Deskopped%20-%20FINAL%20VERSION.pdf); BC Chamber of Commerce (Maureen Kirkbride, "Opinion: Replace PST with made-in-B.C. VAT," Vancouver Sun, June 4, 2016: <https://vancouver.sun.com/opinion/opinion-replace-pst-with-made-in-b-c-vat>); Business Council of British Columbia (Business Council of British Columbia, "Business Council Of BC Analyzes Cost Of Doing Business," Business Examiner, August 7, 2019: <https://businessexaminer.ca/victoria-articles/item/business-council-of-bc-analyzes-cost-of-doing-business-bc-is-moving-in-the-wrong-direction/>).

and professional bodies alike. Current economic conditions present an opportune moment for this fundamental tax reform.

About TEI

TEI was founded in 1944 to serve the professional needs of in-house tax professionals. As the preeminent association of in-house tax professionals, TEI brings unique expertise to this policy discussion. TEI's nearly 6,000 members represent 2,800 of the world's leading companies, many of which either are resident or do business in Canada. Over 15 percent of TEI's membership comprises tax professionals who work for Canadian businesses in a variety of industries across the country, many of whom have substantial operations in BC. TEI members are responsible for tax affairs of their employers and must contend daily with provisions of the tax law relating to the operation of business enterprises.

While the following recommendations reflect the views of TEI as a global organization, more particularly this submission reflects the experiences and sentiments of those of our Canadian and BC constituency that interact with the BC PST daily.

Part I: How BC's PST negatively impacts doing business in and with BC

A. Competitiveness

The detrimental impact of BC's PST to the province's competitiveness and ability to attract investment is thoroughly documented by numerous well-known institutions and thought leaders.³ The BC Chamber of Commerce, for example, states that replacing the BC PST with a VAT (like HST) would have the greatest impact on fueling growth in the province out of any single change that could be made to taxation in BC.⁴

The findings of the November 15, 2016, report by the BC Commission on Tax Competitiveness: *Improving British Columbia's Business Tax Competitiveness* (the "Tax Competitiveness Report") clearly show that BC PST increases operating costs and disincentivizes investment. The Tax Competitiveness Report concluded that out of all the taxes it reviewed, BC PST had the greatest negative effects on investment incentives, operating costs, and economic efficiency.⁵

Professor Bev Dahlby's 2024 Report, *The Case for Replacing British Columbia's Inefficient Sales Tax with a Made-in BC VAT* ("the Dahlby Report") highlights that nearly a decade after the findings of the Tax Competitiveness Report were published, the data continue to show that the BC PST remains a major impediment to business investment and competitiveness. Analysis in the Dahlby Report shows that it is because of the BC PST that the province has the highest marginal

³ See references under footnote 1.

⁴ [Tax Competitiveness Report](#), pg. 19:

https://engage.gov.bc.ca/app/uploads/sites/121/2017/04/4637_CommissionOnTaxCompetitiveness_Final_Report_Nov-2016.pdf

⁵ Tax Competitiveness Report, pg.3.

effective tax rate on all forms of investment in Canada and that the BC PST is “by far the most significant tax disincentive impeding investment in British Columbia.”⁶

These detrimental impacts of the BC PST on competitiveness are most visible when examining capital expenditures and operating costs. The Tax Competitiveness Report data, published in 2016, clearly demonstrates the negative impact of BC PST on capital expenditures. Specifically, despite some PST exemptions for machinery and equipment, 81% of spending on equipment and machinery remains subject to PST with no available exemption or credit, whereas under the federal Goods and Services Tax (“GST”), only 7% of spending is subject to the GST with no credit available.⁷ Given the BC PST and GST rates have not changed since 2016, it is reasonable to assume that these calculations remain a reliable indicator of today’s cost of the BC PST on capital expenditures..

Higher costs directly influence investment decisions. As a result of the BC PST, investments in machinery and equipment in the province must generate a 1.1 percentage point higher rate of return than identical investments in Alberta, for example, to provide investors with an equivalent after-tax return on investment.⁸ In some industries (such as construction), this jumps to a required rate of return increase of 2%.⁹ The Tax Competitiveness Report notes that this 1.1 percentage point difference is significant given the risk adjusted rate of return is less than 4%.¹⁰ This difference can considerably impact whether businesses invest in BC or not.

This impact on investment decisions is particularly important for trade exposed industries (i.e., forestry/lumber, energy, and liquefied natural gas businesses) where prices are set by world markets. Trade barriers created by increased costs on high costs of investment, coupled with stringent regulatory and compliance regimes, make it difficult to attract investments to BC that create jobs and increase individual wealth. Further, the embedded PST incurred by BC-based businesses make their products and services more expensive and uncompetitive when compared to competitors in other parts of Canada that do not have a PST.

Increased costs also impact day-to-day operating costs of BC businesses. The Tax Competitiveness Report illustrates that compared to provinces with HST or no sales tax, BC businesses have a higher operating cost of 1.4% as a direct result of the BC PST. This additional 1.4% cost diminishes 10% of corporate profit,¹¹ which is a significant barrier to competitiveness considering profit margins are typically less than 10%.¹²

⁶ [The Dahlby Report](https://www.fraserinstitute.org/sites/default/files/case-for-replacing-bcs-inefficient-pst-with-a-made-in-bc-vat.pdf), pg. 7: <https://www.fraserinstitute.org/sites/default/files/case-for-replacing-bcs-inefficient-pst-with-a-made-in-bc-vat.pdf>.

⁷ Tax Competitiveness Report, pg.29.

⁸ Tax Competitiveness Report, pg.30.

⁹ Tax Competitiveness Report, pg.30.

¹⁰ Tax Competitiveness Report, pg.3.

¹¹ Tax Competitiveness Report, pg.31.

¹² Statistics Canada. [Table 33-10-0498-01 Balance sheet, income statement and taxation statistics with selected financial ratios, by total all industries](#) and Statistics Canada. [Table 33-10-0498-01 Balance sheet, income statement and taxation statistics with selected financial ratios, by total all industries](#).

In TEI's view, the additional PST costs lead to a most unfortunate and harsh commercial reality. If businesses can establish or expand operations in a jurisdiction other than BC, the likelihood is, such businesses will. The impact of the BC PST on competitiveness is even more pronounced for businesses that operate close to the Alberta border. Many of these businesses describe the hardships created by the BC PST as an unfair playing field, noting that the additional PST costs of operating in the province compared to operating in Alberta mean they are struggling to make any profit and to win bids against Alberta-based competitors.¹³ Given the proximity to BC, establishing a new warehouse, factory, office, or other form of operation in Alberta simply makes more economic sense from an investment and competitive perspective than choosing a location in BC. Lower costs simply mean businesses can be more competitive.

At this critical time when the province is looking to attract investment and more trade, the BC PST remains a consistent barrier to this goal. For additional PST-specific barriers to trade and competitiveness, see TEI's submissions to the Select Standing Committee on Finance and Government Services for the 2026 Budget.

B. Compliance and Administration

Compliance with the BC PST rules poses a further barrier to trade and is an impediment to competition. Businesses wanting to do business in, or with, BC must navigate two entirely different tax regimes (the BC PST and the GST), with sometimes conflicting application of rules. The BC PST rules are overly complex, often without clear application to a particular industry or situation, even when tax rulings or public guidance is requested.

The BC PST's complexity stems from its numerous product exemptions and circumstance-specific rules that businesses must navigate. The BC *Provincial Sales Tax Act* and its Regulations are a patchwork of continuously evolving rules, exemptions, and exclusions from exemptions. The BC PST rules are disjointed and consequently often do not reflect commercial realities or actual business practices, can have questionable policy rationale,¹⁴ and at times result in illogical outcomes.¹⁵ This complicated structure makes it especially difficult to interpret and determine whether goods, services, or intangibles are taxable, even by expert tax lawyers and practitioners.

¹³ Hon, Dee. 2020, "[The Alberta advantage: Are Northeast B.C. companies getting the shaft?](#)." BC Business.

¹⁴ See TEI's submissions to the Select Standing Committee on Finance and Government Services for the 2026 Budget; and TEI's document titled "[Additional Information](#)" submitted to the Ministry of Finance for TEI's 2025 annual liaison meeting with the BC Ministry of Finance for specific examples. <https://www.tei.org/sites/default/files/TEI-BC%20Ministry%20of%20Finance%202025%20Liaison%20Meeting%20-%20Additional%20Information.pdf>.

¹⁵ The Tax Competitiveness Report provides an Appendix of issues that "do not appear to be consistent with common sense and the principles of tax" in Appendix B and mentions the case where "a forklift operating in a plant may be exempt but if it also operates in the yard, it becomes taxable", pg. 4.

The administrative burden of understanding and complying with these rules represents a significant operational challenge for businesses, particularly for small businesses. Business stakeholders and tax professionals, including TEI, have consistently voiced that managing PST compliance consumes significant time and resources that could otherwise be spent on business growth and development activities. The Tax Competitiveness Report similarly noted that the complexity of the PST system was a "significant concern" expressed by those who provided feedback.¹⁶

Since the 2016 release of the Tax Competitiveness Report, the rules have grown even more complex, with new sections and definitions added to tax more goods, services, and other critical business inputs. For example, the authors of the Tax Competitiveness Report explicitly recommended exemptions for critical business inputs such as software and telecommunications,¹⁷ particularly given the importance of the technology sector to BC's economy. However, the province recently did the opposite by expanding the taxability of software to capture more software and software services. Under the pretense of "clarifying" the definition of software for PST purposes in the 2024 BC Provincial Budget¹⁸, the BC government implemented an expansive provision contrary to the advice of industry, expert witnesses, and tax professionals.¹⁹ In TEI's view, this is just one example of how the PST regime's complexity and impacts on business costs continues to increase. We expect no easing of this trend as industries and forms of trade and commerce continue to evolve while the PST taxation attempts to keep pace.

The costs of complying with the PST impact economic performance, which as the Tax Competitiveness Report notes, is particularly burdensome for small businesses.²⁰ These complexities add to the costs of doing business in BC where additional resources must be expended for businesses to comply.

¹⁶ The Tax Competitiveness Report, pg. 70.

¹⁷ The Tax Competitiveness Report, Recommendation 2, pg. 6.

¹⁸ 2024 BC Provincial Budget, pg. 72;

https://www.bcbudget.gov.bc.ca/2024/pdf/2024_Budget_and_Fiscal_Plan.pdf.

¹⁹ See for example, TEI's 2024 submission to the Minister of Finance on the expansion of the definition of "Software", [2024 Budget Changes to Provincial Sales Tax definition of "Software"](https://www.tei.org/sites/default/files/TEI%20BC%20Software%20Submission%20(3-29-2024).pdf) ([https://www.tei.org/sites/default/files/TEI%20BC%20Software%20Submission%20\(3-29-2024\).pdf](https://www.tei.org/sites/default/files/TEI%20BC%20Software%20Submission%20(3-29-2024).pdf)); and Thorsteinssons LLP's 2024 article: [BC 2024 Budget: Provincial Sales Tax \("PST"\) Changes](https://www.thor.ca/blog/2024/04/bc-2024-budget-provincial-sales-tax-pst-changes/) (<https://www.thor.ca/blog/2024/04/bc-2024-budget-provincial-sales-tax-pst-changes/>).

²⁰ Tax Competitiveness Report, pg.35.

Adding to the already heavy compliance burden of attempting to understand and apply the BC PST rules, businesses are subject to PST audits that take up a considerable amount of time and resources. Some parts of the legislation also require businesses to request refunds of the PST, either because the taxpayer paid the PST in error, or the legislation requires businesses to pay the PST and then request a refund. In TEI members' experience, resolving BC PST refund requests with the Ministry of Finance can take upwards of 18-24 months. More importantly, due to the complexity of the PST, many businesses face unintended errors, resulting in the unexpected imposition of penalties and interest, despite best efforts to comply. Rising costs of compliance, unexpected costs of audits, and lengthy appeals only further increase costs to businesses and reduce their competitiveness.²¹

Part II: Why the HST will improve competitiveness and reduce trade barriers

The most effective tax policy measure to increase competitiveness and reduce trade barriers for BC is to replace the BC PST with the HST.

A. Competitiveness

The BC PST has the largest impact on the marginal effective tax rates (essentially the tax rate of new investment) in the province, an observation that has been noted consistently since the publication of the Tax Competitiveness Report.²² Professor Dahlby and Tegan Hill find removing the PST and adopting an HST would reduce BC's marginal effective tax rate on machinery and equipment from 27.9% to 7.7%.²³ By comparison, Alberta's marginal effective tax rate on machinery and equipment is 6.3%.²⁴ Looking at data across all forms of investment (buildings, machinery and equipment, land, inventory), the authors of the Dahlby Report conclude that replacing the PST would lower the aggregate marginal effective tax rate from 25.6% to 16.2%. Notably, Alberta's aggregate marginal effective tax rate is 12.1%.²⁵ No doubt a reduction in the aggregate marginal effective tax rate by 9.4 percentage points would make BC a much more attractive investment destination, and, consistent with the principles of economics, more investment generally means higher labour productivity, increased economic growth, and higher wages.²⁶

²¹ Many members and tax professionals have expressed the appeals can take many years to resolve.

²² See, for example, the Tax Competitiveness Report and the Dahlby Report.

²³ Bev Dahlby and Tegan Hill, "[Opinion: It's Time for BC to Replace the provincial sales tax with an HST](https://www.biv.com/news/commentary/opinion-its-time-for-bc-to-replace-the-provincial-sales-tax-with-an-hst-9154927)," Business in Vancouver, June 28, 2024: <https://www.biv.com/news/commentary/opinion-its-time-for-bc-to-replace-the-provincial-sales-tax-with-an-hst-9154927>.

²⁴ Dahlby Report, pg. 7.

²⁵ Dahlby Report, pg. 7.

²⁶ Dahlby concludes that moving away from the PST and adopting the HST or a Made-in-BC VAT would increase annual income by \$700 to \$1,700 per BC worker. Dahlby Report, pg. 11.

In addition to a reduction in the marginal effective tax rate, it is also evident that forgoing the PST in favour of the HST would reduce total operating costs of BC businesses by 1.4%, minimizing the competitive advantage held by comparative businesses in other provinces. A recent article published by the Canadian Tax Foundation highlights the problem of embedded PST costs, noting that when businesses pay PST on their inputs, it creates two possible problems: either the business absorbs the tax as a direct cost, or they pass it on to customers through higher prices. Both outcomes are economically inefficient and put these businesses at a competitive disadvantage compared to similar businesses that do not have to pay PST on their inputs.²⁷

B. Compliance and Administration

Although some advocate for a Made-in-BC VAT instead of the HST, in TEI's view, a Made-in-BC VAT would fall short of providing the same competitive advantages and investment incentives as the HST. In addition, a Made-in-BC VAT would not offer the same tax administration savings to the province that moving to the HST would as the Canada Revenue Agency would take over the tax administration from the province.

For example, operating under both the GST and a Made-in-BC VAT would still require businesses to navigate separate tax rules, deal with two tax administrations, manage different input tax credit requirements, and have distinct accounting, reporting, and compliance processes and controls. While a Made-in-BC VAT solves the issue of unrecoverable sales tax costs on capital expenditures and reduces operating costs, maintaining two distinct tax systems perpetuates the administrative burden and compliance costs that currently impede business productivity and growth in BC.

Adopting the HST still provides the province with a degree of flexibility through point-of-sale rebates while maintaining alignment with federal rules. Since BC businesses already have GST compliance systems in place, transitioning back the HST would be the most efficient implementation path, minimizing disruption to business operations.

²⁷ Giorgia Chum, 2025, [PST: An Interprovincial Trade Barrier](https://www.ctf.ca/EN/EN/Newsletters/Canadian_Tax_Focus/2025/2/250205.aspx), Canadian Tax Foundation, Canadian Tax Focus, Volume 15, Number 2
https://www.ctf.ca/EN/EN/Newsletters/Canadian_Tax_Focus/2025/2/250205.aspx.

Conclusion

Based on the clear economic and administrative benefits outlined in this submission, TEI strongly recommends adopting the HST to harmonize BC's PST with the federal GST. This change would:

1. Significantly reduce tax burden on business investments;
2. Improve BC's competitive position; and
3. Streamline tax administration for businesses and the BC government.

The benefits of a move away from a PST to the HST are not theoretical. Canadian provinces have consistently seen decreases in the marginal effective tax rates and other positive impacts because of this change.²⁸ TEI submits this is the opportune time for the Government of BC to consider making the responsible tax policy decision and begin undertaking public consultations on harmonizing its existing, inefficient, costly, and burdensome PST with the federal HST.

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TEI appreciates the opportunity to provide our views regarding harmonization of BC's PST with the GST/HST. TEI's comments were prepared under the aegis of TEI's Canadian Commodity Tax Committee, whose chair is Martin Behagg and whose legal staff liaison is Kelly Madigan. Should you have questions about our recommendation, please contact Mr. Behagg at martin.behagg@rci.rogers.com or by telephone at (416) 935-7206. We thank you for the opportunity to provide these comments.

Respectfully submitted,

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²⁸ See, for example, the Dahlby Report.