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Canada — TEI Supports Harmonized Sales Tax in BC

TEI Staff

Canadian - 5/6/2011



TAX EXECUTIVES INSTITUTE, INC.

April 29, 2011

TEI Supports Harmonized Sales Tax in British Columbia

TO: Members of Independent Panel on British Columbia HST Referendum

On June 24, 2011, voting will begin on a referendum to rescind British Columbia's Harmonized Sales Tax and restore the Provincial Sales Tax. In order to ensure that voters have the information necessary to make an informed decision, the Government of British Columbia has formed an Independent Panel to review and analyze the implications of repealing the HST. The Panel is to "make public a report on the fact base that accurately describes the implications of each option in front of voters."

Tax Executives Institute is the preeminent international association of business tax executives, and this letter summarizes both why the Institute generally supports the HST and the implications for the business community in the event the HST is repealed. In accordance with the Independent Panel's mandate, we do not address the history of the HST's adoption in British Columbia.

TEI has operated in Canada for 55 years, and in British Columbia since 1972. Our 7,000 professionals manage the tax affairs of 3,000 of the leading companies in Canada, the United States, Asia, and Europe and must contend daily with the planning and compliance aspects of Canada's business tax laws. In all, Canadians compose 10 percent of TEI's membership, with our Canadian members belonging to chapters in Vancouver, Toronto, Calgary, and Montreal, which together constitute one of our nine geographic regions. Our non-Canadian members (including those in Europe and Asia) often work for companies with substantial activities in British Columbia. Thus, a substantial number of our British Columbia and other members have significant experience with both the HST and the PST.

As an organization dedicated to making tax systems more efficient, TEI has long supported harmonization efforts and believes reverting to the PST would result in a return to a less efficient tax system. Studies by the C.D. Howe Institute and Centre for Spatial Economics have shown that harmonization – by changing how the tax is applied and collected – lowers business costs and encourages investment.[1] These positive effects have occurred in other jurisdictions. Canada is the only 1 of 30 OECD countries still using a two-tier sales tax system. British Columbia's adoption of the HST regime has produced significant benefits for government and taxpayers by reducing the complexity and costs of compliance with (and enforcement of) multiple transaction tax systems.

Significantly, companies based both in and outside of British Columbia have made significant investments to ensure compliance with the HST. The minimal time between the announcement of

the HST in British Columbia and the release of finalized rules implementing the new system created a great deal of uncertainty for taxpayers and left businesses with serious challenges as they rushed to comply with the new rules and obligations. These efforts included providing detailed and focused training to a wide group of employees, and redirecting already scarce resources to update (and in some cases overhaul) complicated computer systems to accommodate the requirements of the HST. Our members expended additional time and effort addressing questions and concerns raised by their business partners, consumers, and the general public in respect of the introduction of the tax system.

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Repeal of the HST and the return to the PST would eliminate any associated benefits with the change while saddling businesses with enormous future costs to (re)align their operations with a resurrected PST that would be less efficient and less competitive than the current system. What's more, the change will force businesses to make new, unplanned investments in training, infrastructure, and systems to comply with the PST at a time when the economy is only beginning to recover from one of the worst recessions in recent history.

Many businesses are currently working with British Columbia government officials to close out PST audits. Expectations that the PST would no longer apply have motivated both taxpayers and the government to settle issues that they would otherwise have continued to dispute. Reintroducing the PST would disadvantage those who have negotiated in good faith and complicate the resolution of outstanding audits.

The cost to business of eliminating the HST and reinstating an independent provincial sales tax regime should not be minimized. All prudent businesses would have to reconsider whether the costs of compliance with British Columbia's sales tax system justifies a continued presence in British Columbia. At a minimum, businesses with expansion plans will legitimately evaluate whether their investments would be better directed to other jurisdictions with a more stable sales tax environment.

If you have any questions about TEI's position, feel free to contact TEI's Vice President for Canadian Affairs, Rodney C. Bergen, at 604.488.5231 or bergen@jp-group.com. Alternatively, questions may be directed to Kim N. Berjian, Chair of TEI's Canadian Commodity Tax Committee, at 403.233.3807 or kim.n.berjian@conocophillips.com.

[1] The C.D. Howe Institute studies are available at: http://www.cdhowe.org/pdf/commentary_253.pdf and http://www.cdhowe.org/pdf/commentary_295.pdf. Additional studies reaching the same conclusion have been published by the Fraser Institute (<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/Countering-the-Myths-surrounding-HST.pdf>), and the University of Calgary School of Public Policy (<http://policyschool.ucalgary.ca/files/publicpolicy/bctaxonline.pdf>).

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