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The Hon. James M. Flaherty, P.C., M.P.
Minister of Finance
Department of Finance
140 O'Connor Street
Ottawa, Ontario
K1A 0G5

Re: Prince Edward Island – Harmonized Sales Tax

Dear Minister Flaherty:

On April 18, 2012, the government of Prince Edward Island announced it had entered into formal negotiations with the federal government to replace the provincial sales tax (PST) with a harmonized sales tax (HST), effective April 1, 2013. On behalf of Tax Executives Institute (TEI), I am writing to express our support for this initiative, and to offer our assistance with transitional and other issues that may arise as PEI implements the new taxing regime. As an organization dedicated to making tax systems more efficient, TEI has long supported harmonization efforts that eliminate the cascading effect of sales tax on business inputs and promote a more neutral and competitive business environment.

I. BACKGROUND

Tax Executives Institute is the preeminent association of in-house tax executives worldwide. The Institute's 7,000 professionals manage tax affairs of 3,000 of the leading companies in Canada, the United States, Asia, and Europe. Canadians make up 10 percent of TEI's membership, with our Canadian members belonging to chapters in Calgary, Montreal, Toronto, and

Vancouver, which together make up one of our nine geographic regions, and must contend daily with the planning and compliance aspects of Canada's (including PEI's) business tax laws. Many of our non-Canadian members including those in Europe and Asia work for companies with substantial activities in Canada. The comments in this letter reflect the views of the Institute as a whole, but more particularly those of our Canadian constituency.

II. IMPLEMENTATION

The HST was first adopted by the other Atlantic Provinces in 1997 and eventually by British Columbia¹ and Ontario in 2010. TEI members and their employers invested considerable time implementing these provisions, including providing focused training to a wide group of employees and addressing questions raised by business partners, consumers, and the general public in respect of the introduction of the HST system. Through this experience, TEI members have developed a keen insight into the areas that make transition to, and administration of, an HST system workable and efficient.

Because there are many technical and administrative issues that must be addressed to achieve harmonization, TEI requests the opportunity to consult with the Ministry of Finance to facilitate a smooth transition from the current retail sales tax system to the HST. TEI provided similar assistance in 2009 to the Ontario Ministry of Finance.

In advance of more formal support, TEI provides the following general recommendations to enable the Province and taxpayers to achieve the benefits of reducing the complexity and costs of compliance with (and enforcement of) multiple transaction tax systems:

- **Input Tax Credits** – TEI recommends that the Province, consistent with the approach taken by the other three Atlantic Provinces, limit the imposition of complex temporary restrictions on claiming ITCs. The controls and resources required to apply these restrictions are significant. Even after large investments of time and resources, compliance with these ITC restrictions in Ontario remains challenging. By failing to provide unrestricted ITCs for all supplies to businesses, the move to harmonization would be incomplete and economically inefficient.
- **Transitional Rules** – Carefully crafted transitional rules are critical in making the move to the HST as smooth as possible. TEI urges the Province to adopt transitional rules consistent with those developed for the April 2013 return to the PST in British Columbia (released February 17, 2012), and the last two Quebec Sales Tax rate changes. Also, since significant time and effort will be necessary for businesses to comply with those transitional rules, TEI urges the Province to release them as much in advance of their effective date as possible.

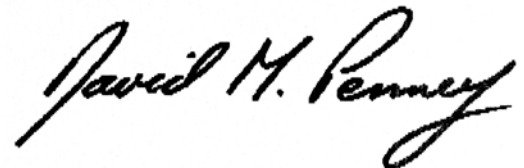
¹ British Columbia has since revoked (by referendum) the HST and will transition back to a provincial sales tax in April 2013.

- Point of Sale Exemptions – Retailers will need to update their systems to accommodate changes to point of sale exemptions. This requires internal coordination between companies' tax and IT departments, which can be quite time consuming. To assist retailers in adjusting their systems on a timely and accurate basis, the Province should provide the list of items that will benefit from a point of sale exemption from the provincial component of the HST as soon as possible.

III. CONCLUSION

TEI would be pleased to meet with you or members of your Ministry to discuss this issue more fully. If you should have any questions about TEI's letter, please contact TEI's Vice President for Canadian Affairs David V. Daubaras at 905.858.5309 (david.daubaras@ge.com). Alternatively, questions may be posed to Kim Berjian, Chair of TEI's Canadian Commodity Tax Committee at 403.233.5480 (kim.n.berjian@conocophillips.com).

Tax Executives Institute



David M. Penney
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cc: The Hon. Gail Shea, Minister of National Revenue
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