

Newsletter - Issue Five

Fall & Winter 2009

HST—IS IT GOOD FOR YOU?

The provincial government announced that the PST is going to be replaced with HST, effective July 1, 2010. This has caused a significant amount of controversy, not just from a political point of view but also what the financial impact will be on BC tax payers.

The BC Liberal government is business friendly and this decision to abolish PST and replace it with HST is designed to benefit business. There is no question that the tax burden is being shifted from corporations to the consumer, but before we are quick to judge, we need to understand what that shift entails.

Currently, the PST rate is 7% and the GST rate is 5% giving a combined sales tax of 12%. The new HST rate will equal the combined rate of 12%. So on the surface there has been no change in the total sales tax rate. However, the introduction of HST will result in a number of business sectors charging 12% where previously they only charged GST at 5%. Consumers will be hit with a 7% increase in prices.

The introduction of HST will expand the umbrella of goods and services that will be subject to sales tax. The largest impacted sectors will include new housing, tourism, entertainment and service industries.

The government's main argument for adopting HST is that it will reduce costs to industry which will be passed onto the consumer by removing the PST that is embedded in the final sales price of a product.

Let us look a little more closely at two examples to illustrate this argument:

Commercial Building

The PST implications on purchasing new homes has received significant press coverage. Similar issues arise when companies purchase new properties. Currently, no PST is charged to the purchaser of commercial property. This is because the builder pays all the PST on the materials used to construct



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If you have any questions or comments on this newsletter, or if you have suggestions for topics you would like us to cover, please contact us.

the building; such as lumber, concrete, steel, glass, doors windows and other fixtures permanently attached to the property. Although PST is not directly charged to the company on the sticker price, it is built into the sale price as the builder will pass on the PST cost.

Eliminating the PST will mean a reduction in the cost of construction as the embedded PST is removed. HST will then be charged on a lower base price. The company is still paying the sales tax, but now it is more transparent as to how much sales tax is being paid rather than it being hidden in the purchase price. The HST will be refundable to the purchasing company.

Manufacturing Companies

Under the PST rules, those companies that are manufacturers are exempt from PST on assets used in the manufacturing process. Those assets outside this process are not exempt. This creates problems for some assets; such as, computers, vehicles and any other multipurpose equipment. Monitoring the usage of these assets is required to determine how much is related to the manufacturing process and how much is not.

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Manufacturing Companies continued

The HST rules will eliminate this activity as all the sales taxes on all assets purchased by the company will be refundable. Ultimately, this will reduce costs not only the actual cost of buying the asset, but the compliance cost of monitoring it's usage.

Whether the reduction in the embedded PST equals the new HST charge remains to be seen. It will all depend on how much of the embedded cost savings is passed onto the consumer. The government is relying on the tools of market forces and competition to achieve this and will not be introducing any other means to ensure savings are passed on. So this does raise a question as to how much tax savings will actually occur; one which we cannot yet answer.

Compliance Costs

The cost savings is not just limited to embedded tax. There are a number of other implications that eliminating PST will also have:

- Removal of one level of bureaucracy. No more PST audits and no more PST forms in four years after HST.
- HST will be reported on the same form as GST reducing the paperwork that many companies are faced with, which in turn reduces costs.
- Less complexity. It was always a challenge to determine if PST was either collected or charged. A lot had to do with who was the final user.

- HST will be treated the same way as GST. A company will collect HST charged to a customer and deduct from remittance to CRA ITC's on HST paid on supplies. A simpler tax system reduces the compliance burden and associated costs.

Other Taxes

One final thought to consider is that the elimination of PST is a larger scope issue than has been reported in the press. PST is one element of a larger tax act, the Social Security Tax Act. As it is the tax act that will be removed, other taxes will be eliminated or changed such as liquor tax, environmental levies, passenger vehicle rental tax, GVA parking tax etc., all of which will be abolished or changed on adoption of HST. It is still not clear what will replace these taxes, but many of the implications of the switch have not yet come to public attention. For example, the introduction of HST will mean that restaurant meals will increase by 7% because they now fall under HST and were previously exempt from PST; however, that is not the full picture. Often the major cost of dining out is the alcohol. A reduction in liquor tax may result in lower restaurant bills as the cost of alcohol may be cheaper.

Conclusion

The full scope of eliminating the PST has not been subject to comprehensive examination in the public forum. Only snapshots have been addressed. In order to assess the impact of a change in the system a balanced view has to be examined. This will not be possible until the legislation has been written. Until that time the jury is still out.

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