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Harmonized Sales Tax (“HST”) in British Columbia

The BC provincial government recently announced that it will be harmonizing its provincial sales tax (“PST”) with the federal goods and services tax (“GST”). Effective [July 1, 2010](#), the HST rate in British Columbia will be 12%, comparing favourably with the 13% rate in the other GST harmonized provinces (i.e., Ontario, Nova Scotia, New Brunswick, and Newfoundland & Labrador).

The BC provincial government will be given \$1.6 billion from Ottawa to help with the transition to HST. It is expected that this will save the province an estimated \$30 million annually since the federal government will bear the cost of administering the HST.

The HST will apply to similar goods and services as the GST. In addition, there will be similar automatic point-of-sale rebates available for the BC portion of the HST for a few products, including but not limited to the following:

- gasoline or diesel;
- marine diesel or aviation fuel including biofuels;
- components used in a motor vehicle, boat or aircraft;
- books;
- children’s sized clothing and footwear;
- children’s car seats and car booster seats;
- diapers and feminine hygiene products;
- all existing GST exemptions will continue to apply (i.e., basic groceries)

There will also be rebates for municipalities, charities and eligible non-profit organizations to avoid

tax increases for these sectors. To help low-income British Columbians, a BC HST Credit of \$230 will go to individuals with incomes up to \$25,000 to offset the impact of the HST.

With respect to new housing, BC will be providing a partial rebate of the HST. The rebate will be equal to 5% of the purchase price of a new home, up to a maximum rebate of \$20,000. This is intended to ensure that purchasers of new homes up to \$400,000 will not pay any additional taxes. However, new homes above \$400,000 will only receive the flat, maximum rebate, which will result in increased costs.

Transitional rules will be required in order to implement the HST for new housing. These rules have not yet been released but will likely follow Ontario’s example. Specifically, the provincial portion of the HST will not apply to transactions when either ownership or possession of the home is transferred to the purchaser prior to July 1, 2010. The full HST will apply where ownership and possession of a home are transferred to the purchaser on or after July 1, 2010, even if the written agreement of purchase and sale was entered into prior to that date.

The availability of input tax credits in respect of the purchase of commercial real estate will be the same as the rules governing the GST. In particular, a buyer who is registered for GST purposes on the completion date of the transaction will be entitled to self-assess the HST and the seller will not be required to collect it. The buyer will then be entitled to claim an input tax credit for the amount of the HST payable, effectively offsetting 100 per cent of the tax.

There have been several reasons put forward for adopting the HST. The most common argument used by the BC provincial government is that the HST will eliminate embedded taxes which will result in savings passed on to the consumer. The BC Liberal's HST marketing materials provide the following example:

- A trucking company that transports 2x4 lumber pays PST on equipment it uses to run that business. So when that trucking company buys new tires for its fleet of trucks they are charged PST.
- Those costs are added to the final price of the 2x4 lumber.
- The consumer who purchases the 2x4 lumber at a lumber yard is actually paying a hidden, embedded cost of the PST that the trucking company must recover from the consumer. That is on top of the 7 per cent PST the consumer pays on the final product.
- The PST is charged throughout the entire life of that 2x4 lumber, from the energy costs used to power a sawmill to the trucker who paid PST on parts to maintain his vehicle.

Under a value-added tax system (such as the system BC is moving toward with HST) companies

are refunded the PST on items they buy to carry on their businesses, as opposed to the present system where PST is not a recoverable tax. The BC provincial government argues that there is an estimated \$1.9 billion of PST per year that is embedded in the cost of goods and services before they reach the consumer. With a value-added tax system goods become less expensive to produce, and those savings are passed on to the consumers. The BC Liberal's HST marketing materials cite a 2007 study by University of Toronto professor Michael Smart suggesting that when the Atlantic Provinces adopted an HST, consumer prices fell.

It is also argued that HST will simplify tax collection and compliance for BC companies. Effective July 1, 2010, businesses will only be required to file one HST return for each reporting period rather than both a provincial PST and federal GST return. It is estimated that BC business will save \$150 million in administrative costs.

As further information becomes available, we will provide supplementary updates.

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