

The HST: Smart Tax Policy for British Columbia

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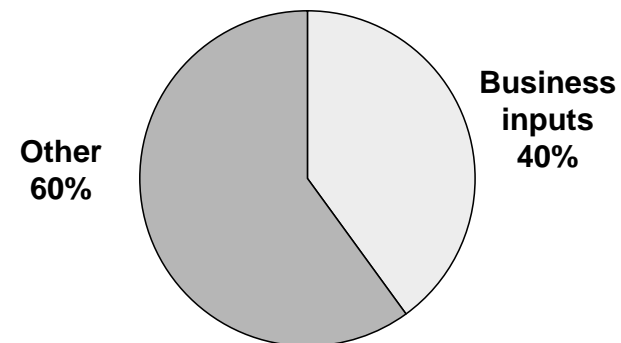
Value-Added Consumption Tax

- Definition:
 - » "... a broad-based tax levied on sales up to and including, at least, the manufacturing stage with systematic offsetting of tax charged on inputs... against that due on outputs" (OECD).
- Desired features of a VAT regime:
 - » final base of tax is consumption
 - » full crediting of taxes paid on inputs
 - » use of invoice credit method to discourage fraudulent undervaluation of intermediate sales
- According to a recent count, 140 countries, including 29 of 30 OECD members, maintain value-added taxes of some kind

HST – The Basics

- A single harmonized value-added tax that will replace the Goods and Services Tax (5%) and the existing BC Provincial Sales Tax (7%) effective July 1, 2010
- HST is a pure consumption tax; PST is a 'hybrid'
 - » PST taxes paid on most capital inputs; HST removes this burden
- Definition of the HST tax base largely follows the GST definition: almost all goods and services will be taxed
- BC will no longer collect sales tax – Canada Revenue Agency takes on this role for us
 - » remits provincial portion back to Victoria
- HST recognizes shift in consumption patterns
- A few sectors adversely impacted

Provincial Sales Tax (PST) Revenues, 2008-09



Of \$4.96 billion in PST revenue collected in 2008-09, tax on business inputs represented \$1.98 billion.

HST – The Benefits

- Reduces business costs
 - » removes sales tax on most business inputs
 - » lowers the cost of investing in machinery, equipment, structures, technology, etc.
- Decreased compliance costs – single tax system
 - » lower administrative costs for businesses (\$200 million)
 - » \$30 million savings for provincial gov't
- More efficient tax
 - » avoids cascading tax effect of PST
- Improves BC's competitive position
- BC gets \$1.6 billion in "transition" funding from Ottawa
- More tax on consumers partly offset by lower prices

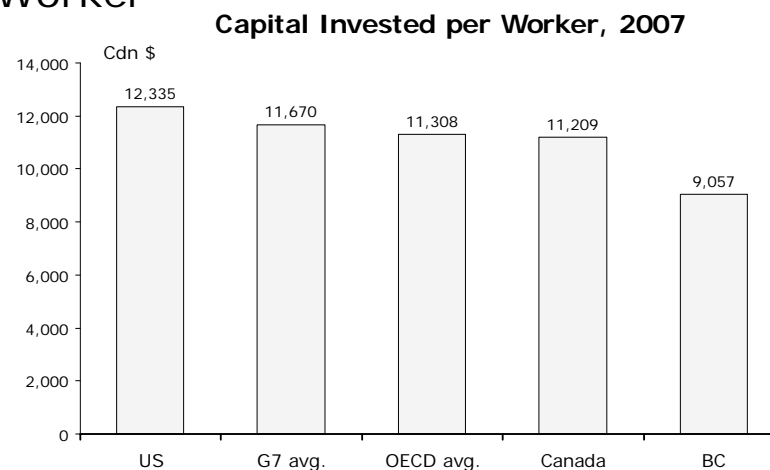
HST: Expected Economic Impacts Over the Long Term

- Increased business investment in productive assets (plant, equipment, technology, structures...)
- Higher productivity (output per worker rises because investment increases)
- Higher average real wages (higher productivity lays the foundation for increased real wages)
- More exports – PST adds to the cost of producing goods/services for export, HST removes these costs
- Enhanced competitiveness, globally and within Canada, for most BC industries

BC's Fundamental Economic Challenges

- 1) Insufficient investment, outdated capital stock in some sectors, too little M&E investment
- 2) Low level of productivity, coupled with a pattern of sluggish productivity growth
 - » hard to 'fix,' partly reflects industry mix, but important to address nonetheless
- 3) Weak export base and sub-par export growth over time
 - » highlights the need to develop stronger 'traded clusters' – industries capable of producing goods and services of value to customers outside of local markets

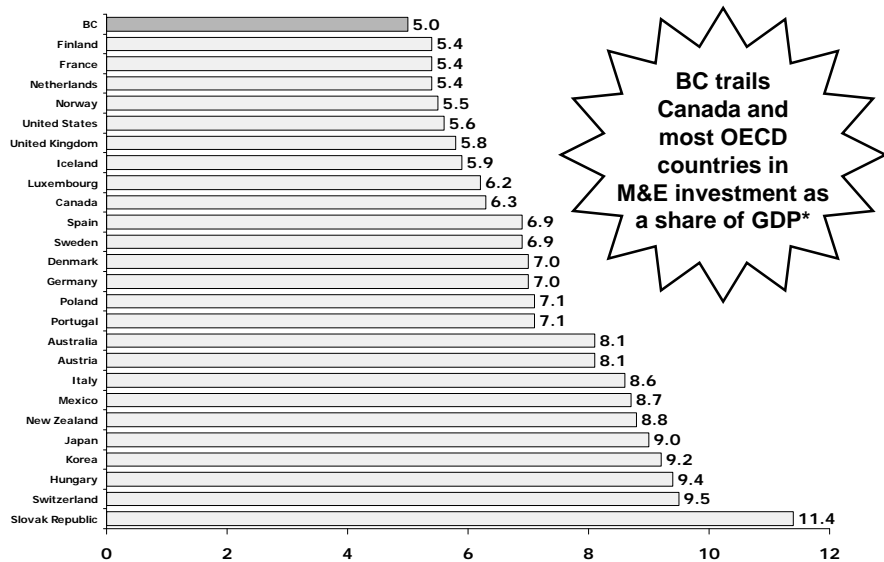
BC Lags in Capital Investment per Worker



The typical worker in BC had \$9,057 in new capital investment in 2007, well below investment per worker in Canada, the US and the OECD.

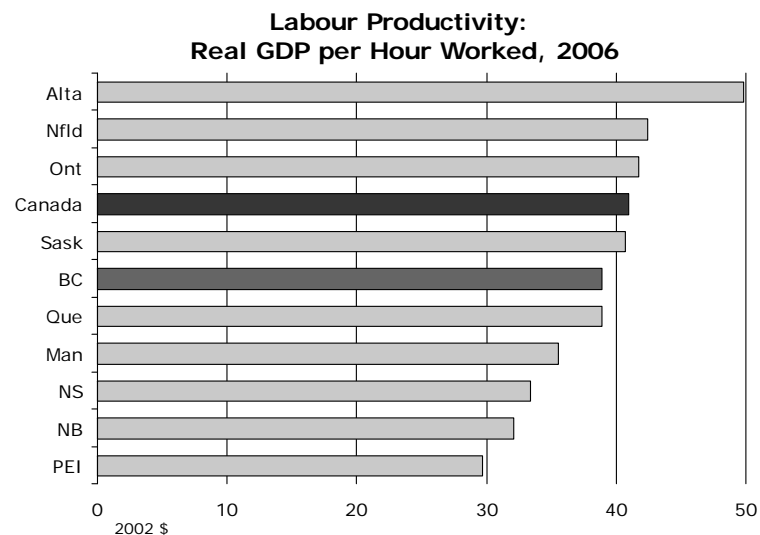
Source: CD Howe Institute.

M&E Investment Intensity



Source: OECD and BC Progress Board. * 2004

Productivity Below Canadian Benchmark



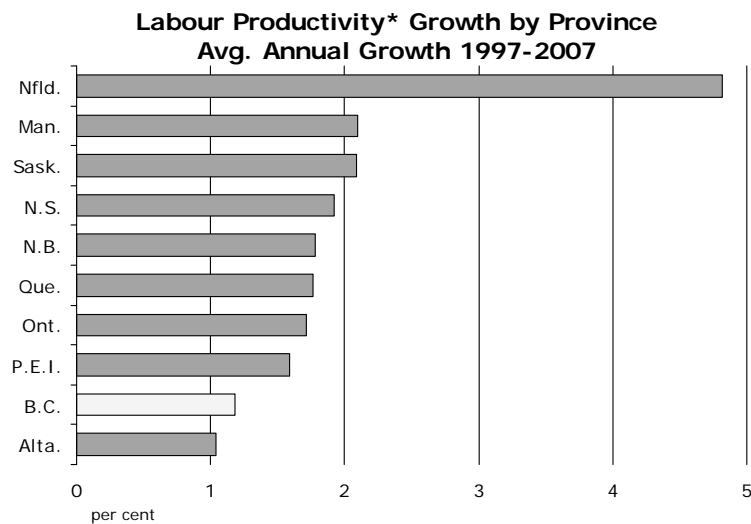
Source: Centre for the Study of Living Standards.

BC's Poor Productivity Record



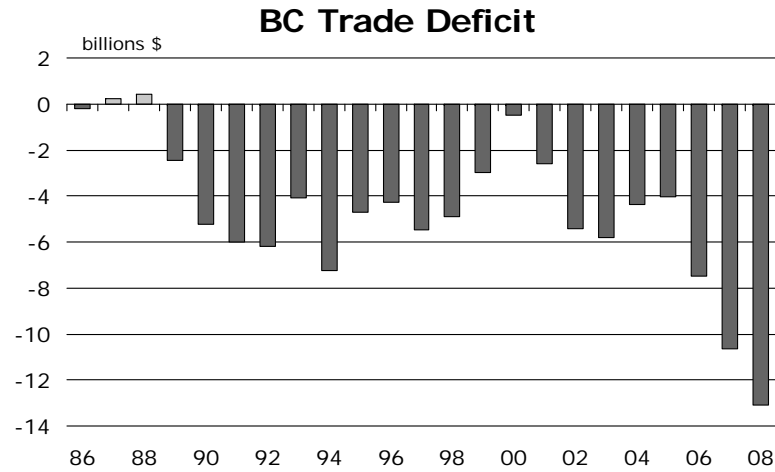
Source: TD Economics, January 2010.

BC Also Lags in Productivity Growth



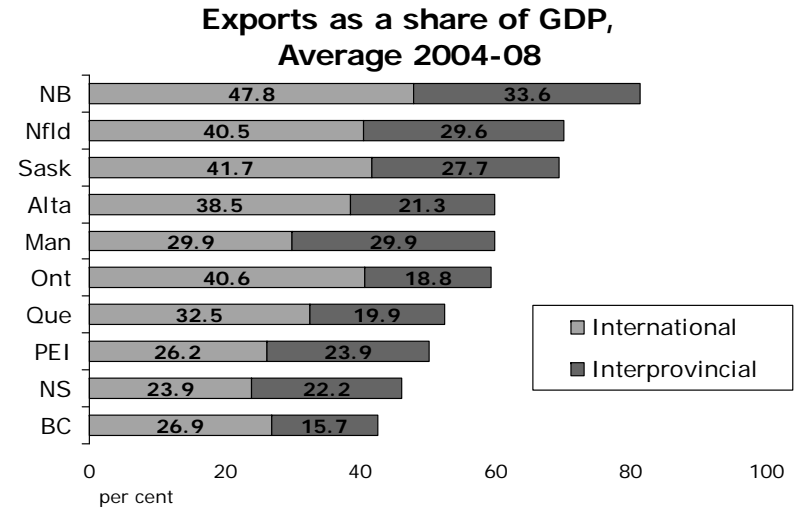
Source: Centre for the Study of Living Standards. * real GDP per hour worked

A Widening Trade Deficit



Source: Statistics Canada, Provincial Economic Accounts.

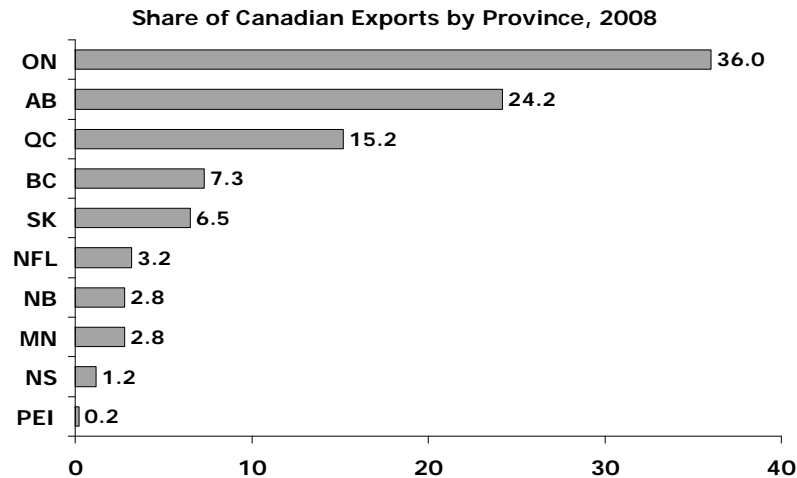
Export Intensity



Sources: Statistics Canada, Provincial Economic Accounts.

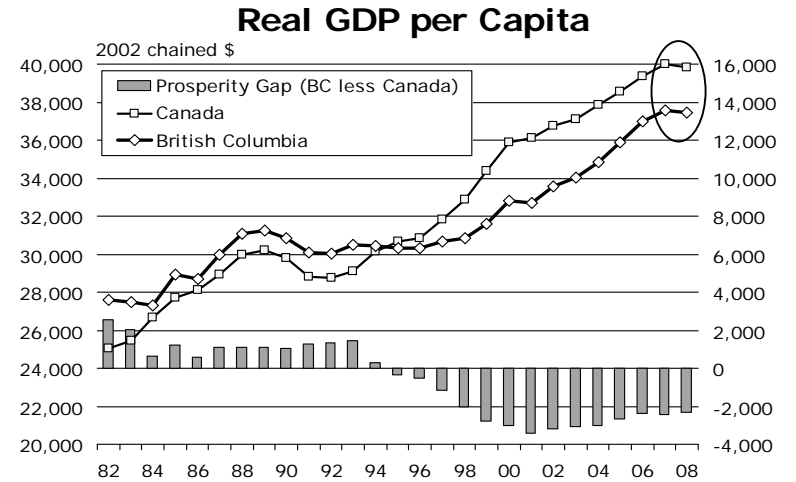
measured in current dollars

Share of BC's Exports Remains Low Relative To The Size Of Its Economy



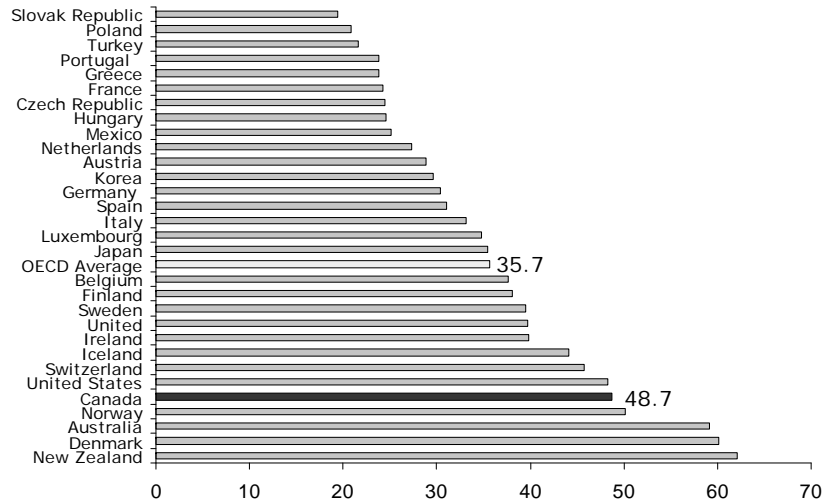
Source: TD Economics, January 2010.

Prosperity Gap Remains



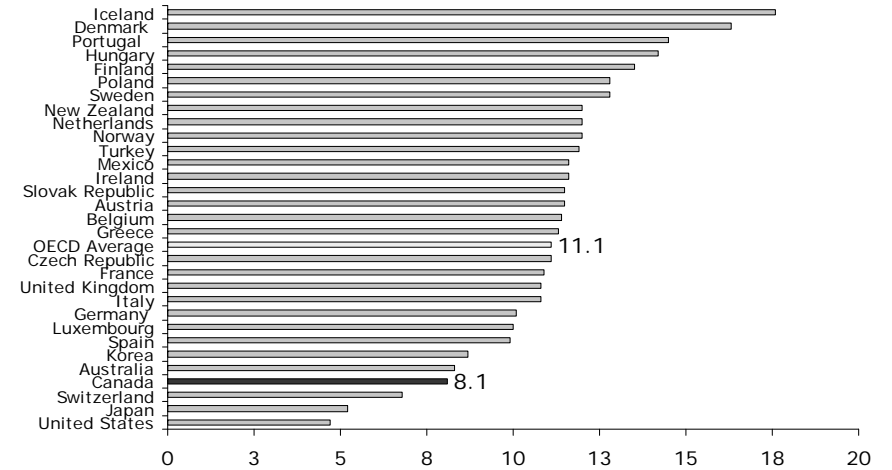
Source: Statistics Canada, Provincial Economic Accounts.

Income and Profit Taxes as % of Total Taxation, 2006



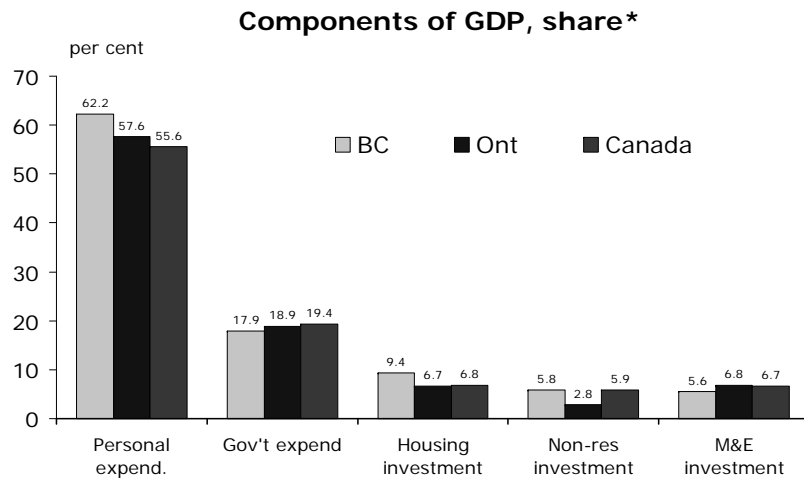
Source: OECD Revenue Statistics (2008).

Goods and Services Taxes as % of Total Taxation, 2006



Source: OECD Revenue Statistics (2008).

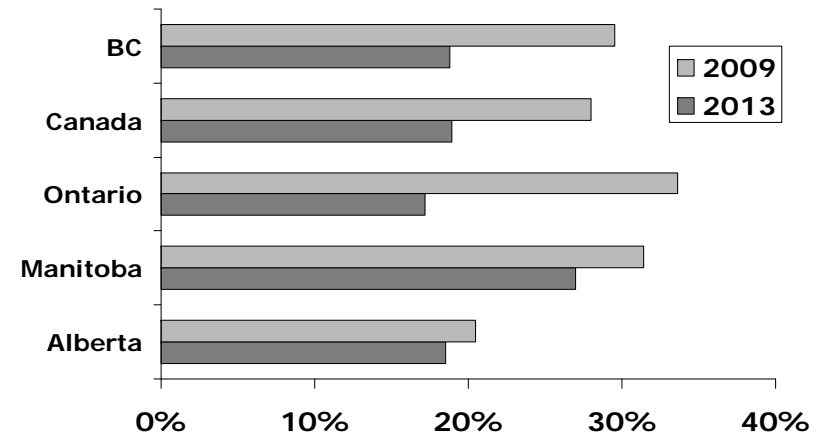
BC Economy Weighted to Consumption and Housing



Source: Statistics Canada.

*average for 2005-2008

Marginal Effective Tax Rates on Capital Investment, 2009 and 2013 (aggregate for all industries)



Source: D. Chen and J. Mintz, *Path to Prosperity*, C.D. Howe Institute (September 2009).