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Countering the Myths Surrounding British Columbia's Harmonized Sales Tax

by Charles Lammam, Niels Veldhuis, and Milagros Palacios

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Executive Summary

On July 1st, 2010, British Columbia's provincial sales tax (PST) will be integrated with the federal Goods and Services Tax (GST) creating a single, harmonized sales tax (HST) of 12%, composed of a 7% provincial portion and 5% federal. Unfortunately, many British Columbians are not aware of the benefits that harmonization will bring and have been exposed to much misinformation regarding the HST, especially by those seeking to derail the reform.

Harmonizing the PST with the GST is a critical reform that will create a more efficient tax system, one that will increasingly tax consumption rather than production. While all taxes impose economic costs, the key to an efficient tax system is to rely most heavily on the least damaging types of taxes. Economists generally accept that taxes on production (i.e., corporate income taxes, personal income taxes, sales taxes on capital goods, etc.) impose much higher costs on society because of the negative incentives they create (i.e., lower savings, less investment, and ultimately less income growth based on lower productivity) than other taxes deemed to be less costly (and less harmful), such as consumption taxes. Indeed, a large body of academic studies have estimated the economic cost of different types of taxes and found that consumption taxes are among the least economically damaging.

Currently, a significant portion of British Columbia's 7% provincial sales tax is a tax on production rather than consumption since the PST applies to business inputs including machinery and equipment. In contrast, the HST is a "value added tax," like the federal Goods and Services Tax (GST), meaning that only the value added by the business selling the good or service is taxed. In other words, all inputs into the creation of a product or service are exempt from the HST. Under the HST, the costs to businesses of investing in machinery, equipment, and technology (such as computers and software) will fall. As previous reductions in production taxes in BC have shown, the tax reform will have a profound positive impact on business investment and on economic growth.

Dispelling the myths

There is widespread misunderstanding about how the HST will work and what its impact will be. The main reason is that since the plan to harmonize British Columbia's PST with the federal GST was announced, ideologically-driven opponents have sought to derail this important reform. Unfortunately, those opponents have tended

to rely for their ammunition on anecdotes and poor research about the HST.

Myth #1: The HST is a tax grab that will increase government revenues.
Reality: The HST is revenue-neutral for BC's provincial government. While the government will collect approximately $410 million more in sales tax revenue, it will cut personal income taxes to offset the gain.

Myth #2: The HST is a massive tax increase on average British Columbian families.
Reality: The average family *will* pay slightly more in sales taxes under the HST. However, the provincial government has introduced personal income tax reductions to offset those increased revenues. As a result, the HST will have almost no impact on the average family's total tax bill. Neither will the HST affect BC's Tax Freedom Day.

Myth #3: The HST will hurt low income groups disproportionately.
Reality: Under the HST, BC's tax system becomes slightly more progressive, due to the reductions in provincial income taxes and the new HST credit. This means most families with lower incomes will end up paying less tax overall, while most families with higher incomes will pay slightly more.

Myth #4: The HST will increase the price of all goods and services sold in British Columbia.
Reality: The HST will have little impact on the overall price level in BC. The prices of previously exempt goods will increase (though not by 7%), and the prices of goods and services currently taxed under the PST will decrease as businesses pass cost savings on to consumers. Past experience in Newfoundland & Labrador, New Brunswick, and Nova Scotia, which harmonized their provincial sales taxes with the GST in 1997, resulted in cost savings being passed on to consumers through lower prices, as did the move from the federal Manufacturers Sales Tax (which taxed business inputs) to the GST in 1991.

Myth #5: The HST will increase the price of new homes by 7%.
Reality: Only new homes over $556,150 will experience a modest sales tax increase after the HST is implemented, but nowhere near 7%. For example, the after-tax price of a new $600,000 home will increase by around 0.3%.

Myth #6: The HST will shift the sales tax burden from businesses to average British Columbians.
Reality: The ultimate burden of all taxes falls on people (as consumers, workers, or owners of shares in businesses directly or through their pension plans or RRSP accounts). The HST will eliminate around $2 billion in hidden sales taxes that British

Columbians pay every year and replace them with a more visible sales tax that ultimately makes the tax system significantly more transparent.

Myth #7: The HST helps industry but hurts ordinary British Columbians.
Reality: The HST will make BC more competitive by reducing the tax rate imposed on investment. Lower investment costs will spark more business investment, which will positively affect British Columbians through increased productivity, higher wages, increased job opportunities, and higher rates of economic growth.

Myth #8: The HST is complicated and will be a nightmare to comply with and administer.
Reality: The HST will save businesses an estimated $150 million in tax compliance costs, which will be largely passed on to consumers through lower prices and will also save BC taxpayers $30 million annually in government administration costs.

Myth #9: The HST is an attack on restaurants, hairdressers, and other specific sectors of the economy.
Reality: The HST will lead to a more uniform tax burden by broadening the tax base to include a wider array of goods and services to ensure that fewer sectors will receive preferential treatment.

Myth #10: The HST will hurt BC's economy as it rebounds from the recession.
Reality: The HST will help the province recover from the recession more quickly by making BC a more attractive place for investors to locate their capital and expand their operations.

Introduction

On July 1st, 2010, British Columbia's provincial sales tax (PST) will be integrated with the federal Goods and Services Tax (GST) to create a single, harmonized sales tax (HST) of 12%, composed of a 7% provincial portion and 5% federal. Harmonizing the PST with the GST is a critical reform that will create a more efficient tax system, one that will increasingly tax consumption rather than production. As a result, British Columbia's investment climate will be greatly improved, business investment and development will increase, and employment opportunities will expand. Ultimately, higher rates of investment will make BC workers more productive and drive wages upward.

Unfortunately, many British Columbians are not aware of the benefits that harmonization will bring and have been exposed to much misinformation regarding the HST, especially by those seeking to derail the reform. For example, the BC NDP has claimed that the HST "will eliminate jobs" and "will make life more expensive" (NDP, 2010b). On the other side of the political spectrum, the BC Conservatives have claimed that the HST will make "BC businesses un-competitive with our closest trading partners" and that it "imposes grave hardships on British Columbians" (BC Conservatives, 2009).

The HST has also been mischaracterized as a massive tax increase. For example, the BC NDP has called the HST a "$2 billion tax hike" (NDP, 2010a); the BC Conservative party claims the HST will "increase the tax burden on… the average household" (BC Conservatives, 2009); and former BC Premier Bill Vander Zalm stated that "the average family in BC will pay in excess of $2,100 per year in more sales taxes with the HST" (Vander Zalm, 2010).

This study will address many of the myths and misunderstandings about the HST, highlight the shortcomings of the current provincial sales tax system, and explain the differences between the PST and the harmonized sales tax.

The study is divided into two parts. The first section examines the economic efficiency of different types of taxes and summarizes the main differences between the current provincial sales tax (PST) and harmonized sales tax (HST). The second section dispels many commonly held myths about the HST: that it will increase the amount of tax that British Columbians will pay, that it is good for business but bad for regular British Columbians, that it will hurt low-income groups disproportionately, and that it will reduce jobs and employment opportunities.

Section I: Not all Taxes are Created Equal

To fund the many goods and services British Columbians demand from their government (i.e., a police force, a judicial system, roads, general infrastructure, health care, and education), the government imposes taxes to extract the necessary resources from society to pay for these things.[1] Every service that governments provide must be paid for, and imposing taxes are the most common method they use to raise the revenue to do so.

Taxes change people's behaviour, so they impose economic costs. However, some taxes impose greater costs on society than others. If British Columbians want a better standard of living, including more resources to pay for critical services like health care and education, then they will benefit from the most efficient, least damaging types of taxes that are needed to raise the revenue the government spends. The key, then, is to rely more on less costly taxes, and less on more costly taxes. This section focuses on how governments can extract revenues by imposing taxes in the least costly manner and whether the integration of the PST with the federal GST moves British Columbia closer to that goal.

The impact of taxes on incentives and behaviour

Though economists differ on many issues, virtually all agree on a few basic concepts. One of the most important is that people respond to incentives. They make decisions by comparing the costs with the benefits of a particular action. When either the costs or the benefits change, people's behaviour will also change. For instance, when the price of beef rises, consumers will likely purchase less and substitute with alternatives (i.e., chicken). Similarly, when the price of an input (such as the cork used in the wine industry) rises, businesses will search for ways to compensate for the increased costs through substitution and innovation (such as developing plastic cork alternatives).

Taxes change the relative prices of goods, services, and inputs by making some things more expensive and others relatively less expensive. Since individuals and firms

1 Governments also impose taxes to redistribute income and/or to change behaviour they deem undesirable. That is, governments use taxes to make some goods (i.e., tobacco products) more expensive and therefore decrease their consumption

make decisions based on prices, taxes distort the behaviour of individuals, families, and businesses.

With taxation, governments have three basic choices. (1) They can tax production (activities that increase economic output) through personal income taxes, corporate income and other business taxes, payroll taxes and taxes on interest, dividends, and capital gains. (2) They can tax consumption through general value-added sales taxes[2] or taxes on the consumption of specific goods (i.e., alcohol and tobacco). Or finally, (3) they can defer the tax bill by running deficits. But doing so does not make the debt go away. Today's deficits are tomorrow's taxes.[3]

Taxes on production

To understand the impact of taxes on production and consumption, consider our gross domestic product (GDP), the value of all the goods and services produced within an economy, as a pile of goods in the middle of a town square. As individuals and businesses contribute to the pile, society has more and better goods and services available to it. For example, we get more advanced technologies, more powerful computers, new products like Blackberries and iPhones, better health equipment such as MRI machines and CT Scanners, and many more.

When governments tax production, they penalize the process through which individuals and businesses add to the pile of goods and services that makes us all better off. As a result, we get fewer goods and services, less innovation, and fewer technological improvements.

For example, personal income taxes decrease the take-home pay for workers, and thereby affect the total number of hours they work and diminish their overall effort.They also reduce the benefit (i.e. increased after-tax income) that workers get from taking advanced training or education.

Of particular concern is the marginal personal income tax rate, the tax rate that applies to the next dollar of income earned. The marginal tax rate directly affects the proportion of increased income that is left after taxes and is therefore a critical determinant of economic behaviour. The higher the marginal rate, the lower the return to productive activities, and thus the lower the incentives for individuals to work hard, increase their skills, invest, and engage in entrepreneurship.

2 Value added sales taxes only tax the value added by the business selling the good or service. In other words, all inputs into the creation of a product and service are exempt from the tax. The federal Goods and Services Tax (GST) is one example of a value-added tax.

3 Since the increased debt that results from a deficit must one day be paid back, taxpayers respond to deficits by increasing savings or paying down debt in anticipation of higher future taxes. See Law and Clemens, 1998, for a detailed analysis of this phenomenon known as the Ricardian Equivalence Theorem.

In British Columbia specifically and Canada generally, personal income tax rates increase as an individual's income increases. That is, our personal income tax system is progressive. A progressive personal income tax structure especially penalizes income growth. Think of taxes as "fines" like those we impose on people who choose to drive above the speed limit. The more income you earn, the greater the rate of the fine (such as the progressive fines applied to those who speed). We have those progressive fines because we want to stop fast driving. While the intent of progressive taxes is not to stop faster income growth, it has that effect.

A large body of academic studies has shown the destructive effect of high marginal personal income tax rates and a progressive income tax structure.[4]

Likewise, taxes on savings, such as personal income tax on interest, dividends, and capital gains, and taxes on capital, such as corporate income taxes, reduce the after-tax rate of return that investors receive, reducing their incentive to save and invest.[5] This can have significant adverse effects on productivity-enhancing investment, and ultimately wage rates. With decreased returns and less investment, both investors and workers lose.

Taxes on consumption

Returning to our example of GDP as a pile of goods in the middle of a town square, when we tax consumption activity, we penalize people for taking goods off the pile. While the demand for goods and services is somewhat diminished by this consumption tax, the people who produce the goods and services are not directly penalized.[6]

Since consumption taxes discourage people from consuming, they increase the incentive to save. Increased savings finances the investments in machinery, equipment, new technologies, and research and development. These types of investments make workers more productive which ultimately results in higher wages and benefits for them.

Since consumption taxes are less damaging to economic activity than other taxes (such as personal income taxes, and capital-based or business taxes), both economists who think that governments should spend more and those who think it should spend less agree that the revenue to finance the spending should come mostly from consumption taxes like the HST rather than other more economically-damaging taxes.

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4 For a detailed literature review of the evidence of the impact of taxes on economic growth, labour supply, investment, and entrepreneurship and risk-taking, see Palacios and Harischandra, 2008.

5 For information on the ultimate incidence of business taxes please see Clemens and Veldhuis, 2003.

6 Sales taxes do indirectly affect the incentive to work because they reduce a worker's real wage rate by increasing the prices of consumer goods.

BC's PST, part consumption, part production tax

Many people mistakenly think that British Columbia's 7% provincial sales tax (PST) is a pure consumption tax and therefore more efficient than other economically-damaging taxes on income and investment. Put differently, British Columbians think of the PST as a sales tax because of its name.

While the PST is applied to many of the goods British Columbians purchase, it also applies to business inputs.[7] Most critically, the PST applies to capital inputs (i.e., machinery and equipment), which increases the cost of investing in plants, machinery, equipment, and new technologies (computers and software, for instance).[8] BC's sales tax makes it more expensive for businesses to invest, expand, upgrade, and innovate because it increases the cost of buying machinery, new technologies, and equipment. Since the PST raises the costs of machinery, equipment, and technology that firms purchase, it discourages business investment.

Some 40% of the government's PST revenues are actually derived from businesses buying the things they need to produce goods and services (British Columbia, Ministry of Finance, 2010). In other words, 40% of British Columbia's PST is a tax on production (business inputs) rather than consumption (final sales of goods and services).

By reforming the province's sales tax to focus on final sales and not investment, BC will markedly improve its competitiveness and critically reduce the cost for investment, benefiting everyone, particularly workers.

Why the HST?

The HST is a "value added tax" like the federal Goods and Services Tax (GST), meaning that only the value added by the business selling the good or service is taxed. In other words, all inputs into the creation of a product and service are exempt from the HST.

Past experience with sales tax harmonization in Canada is telling. After three Atlantic provinces harmonized their PST with the federal GST in 1997, investment in machinery and equipment (on a per person basis) rose by more than 12 percent above trend in the years after the reform (see Smart, 2007).

To understand the beneficial effect of the HST on investment decisions and on the competitiveness of BC's business tax environment, consider the impact of the

7 Several services are also taxable. See British Columbia, Ministry of Finance, 1993, rev. Feb 2009.

8 Some manufactures in BC do qualify for a PST exemption when they purchase certain production machinery, equipment, and raw materials. However, as the Canadian Tax Foundation showed in a 2004 publication, British Columbia "seems to be limiting the exemption by narrowly interpreting its key aspects." Specifically, the author points to narrow interpretations of "manufacture" in the regulations, which makes the exemption unavailable to many businesses (see Wang, 2004).

change on the marginal effective tax rate (METR) on capital investment, an overall measure of all the taxes imposed on business investment.[9] BC's marginal effective tax rate would fall from 29.5% in 2009 to 20.5% in 2010 largely as a result of sales tax harmonization (Mintz, 2010).[10] In other words, the HST would reduce the tax penalty on new investment in BC by approximately 25%.

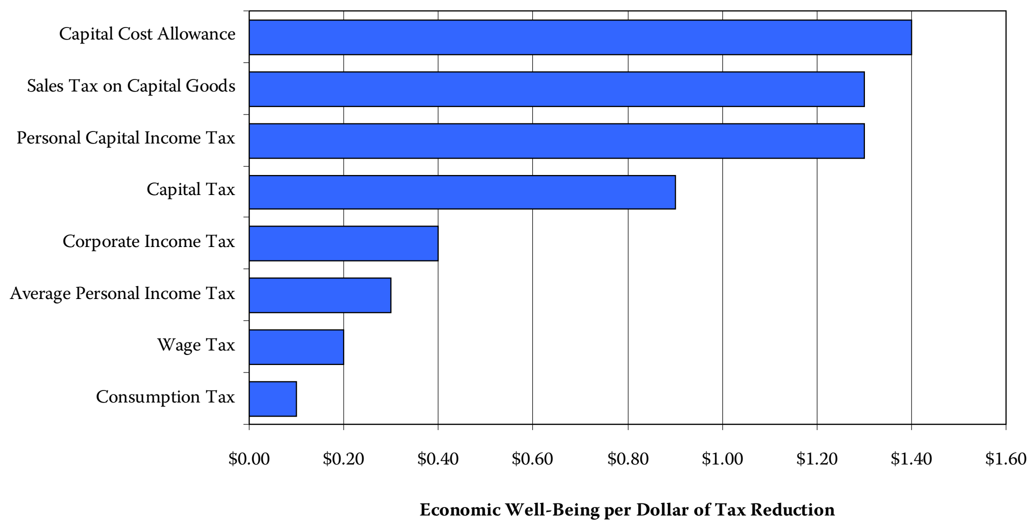
In addition to reducing taxes on business investment, the HST would also improve the competitiveness of export-oriented firms in BC. Since businesses currently pay sales tax on the things they need to produce goods and services, export-oriented firms in BC have higher costs than their counterparts operating in other provinces and countries that do not apply sales taxes on inputs. Right now, BC firms operate at a considerable competitive disadvantage. Since businesses would no longer pay sales tax on business inputs under the HST, costs would be reduced and businesses would be able to offer more competitive pricing on international markets.

Furthermore, the HST will be less expensive to collect. Since the PST and GST have differing tax bases and a host of different rules, businesses are currently being forced to operate with two sets of sales records and two varying sets of compliance and reporting requirements. Under the HST, businesses will no longer have to comply with two separate sales tax systems, which will save them an estimated $150 million in tax compliance costs (British Columbia, Ministry of Finance, 2010: 93). In addition, since the HST will be administered federally, the provincial sales tax bureaucracy will be eliminated, saving BC taxpayers another $30 million annually (British Columbia, Ministry of Finance, 2010: 93).

9 An METR is a measure of the tax wedge between the pre-tax and after-tax rate of return on incremental business investment. The METR includes corporate income taxes, capital taxes, depreciation and inventory cost deductions, and sales taxes imposed on business inputs. See Chen (2000) for a detailed explanation of how METRs are calculated and why they matter most for capital allocation.

10 The reduction in the METR includes the provincial corporate income tax reduction from 11% in 2009 to 10.5% in 2010 and the federal rate reduction from 19% in 2009 to 18% in 2010. Specifically, Mintz estimates that 79% of the reduction in BC's METR will come from sales tax harmonization once the federal and provincial corporate income tax reduction are fully implemented and the input tax credit for large businesses are fully phased in (see Mintz, 2010).

Figure 1: Welfare Gains from Tax Reductions



Source: Baylor and Beausejour, 2004.

Research on the economic costs of different taxes

Numerous academic and government studies have estimated the economic cost of different types of taxes.[11] Recent calculations for Canada were published by the federal Department of Finance and calculated the long-term economic costs imposed by the country's main taxes (see Baylor and Beauséjour, 2004).[12]

The Department of Finance study found that taxes on production, including sales taxes on capital goods purchased by businesses (i.e., the PST), personal income taxes on investment income, and corporate income taxes, imposed substantially larger burdens on society than consumption taxes (i.e., the HST and GST).

Specifically, the study estimated the benefits of different types of tax cuts on economic well-being. For example, decreasing sales taxes on capital goods (i.e., machinery and equipment) purchased by businesses by $1.00 and imposing an offsetting $1.00 increase in consumption taxes would result in a net increase ($1.30 - $0.10) of $1.20 in society's well-being (see table 2 and figure 1). This is precisely the tax reform that is

11 For a complete literature review on marginal efficiency cost and marginal excess burden (MEB) calculations, see Clemens et al., 2007.

12 In 2005, the Ministry of Finance in Quebec calculated the benefits to Quebec's economy from reducing different provincial taxes (Ministere des Finances du Quebec, 2005). The results of their analysis corroborate Baylor and Beausejour's findings.

Table 1: Welfare Gains from Tax Reductions[1]

Capital Cost Allowance	$1.40[2]
Sales Tax on Capital Goods	$1.30
Personal Capital Income Tax	$1.30
Capital Tax	$0.90
Corporate Income Tax	$0.40
Average Personal Income Tax	$0.30
Wage Tax	$0.20
Consumption Tax	$0.10

Notes:
[1]Revenue loss is assumed to be recovered through "lump-sum" taxation. Welfare gains are calculated as the gain in economic well-being per dollar of tax reduction.
[2]The estimate for an increase in capital cost allowances (CCA) is for new capital only. Increasing CCA is not a tax reduction *per se*, but rather an increase in a deduction against corporate income taxes.
Source: Baylor and Beausejour, 2004.

occurring in British Columbia from the elimination of sales tax on business inputs, under harmonization.

The proof of the pudding is in the eating: BC's 2001 incentive-based tax cuts worked

With harmonization taking effect on July 1st, it is a good time for British Columbians to reflect on how past tax reductions on production have affected BC's economy. In 2001, British Columbia enacted a series of tax cuts aimed at improving economic incentives in order to turn the province's ailing economy around. This was done by reducing the taxes on production.

Specifically, the BC government reduced the corporate income tax rate from 16.5% to 13.5%. As a result, BC went from having the second highest corporate income tax rate among the provinces to having the third lowest. The province also eliminated the economically damaging general corporate capital tax.[13]

The largest portion of the reductions, however, was a 25% across-the-board reduction in personal income tax rates. Again, British Columbia went from having the

13 The capital tax on financial institutions remained in place until it was gradually phased out from 2008 to 2010. See http://www.sbr.gov.bc.ca/business/income_taxes/Corporation_Capital_Tax/cct.htm.

second highest top marginal personal income tax rate (19.7%) to the second lowest (14.7%), behind only Alberta (10.0%).

The economic fortunes of the province changed dramatically following the 2001 tax cuts on production. BC went from having the lowest per person GDP growth among the provinces in the five years preceding the reductions (1997 to 2001) to being one of the fastest growing economies in the country in the five years after the reduction (2002 to 2006).

Not surprisingly, the influence of the personal and corporate income tax rate cuts on BC's economic turnaround has been hotly debated. Many people, particularly those that opposed the tax cuts (who are many of the same groups who now oppose the HST), simply pointed to strong commodity prices and a hot real estate market as the sole reason for the province's economic improvement.

However, a 2008 Fraser Institute study by one of Canada's leading economists, University of Alberta Professor Bev Dahlby, assessed the economic impacts of the 2001 tax cuts on production and found that the cuts had a profound impact on economic growth, and will continue to exert long-term positive effects that will benefit generations to come (Dahlby and Ferede, 2008). Specifically, Professor Dahlby found that BC's 2001 corporate income tax rate reductions will increase GDP per person by 18% above the level that would have resulted without the tax cut. Likewise, the personal income tax rate reductions will increase GDP per person by 7.6% above what would have prevailed in the absence of the cuts. In total, over the long term, British Columbians will see their average incomes increase by more than 25% as a result of the 2001 tax cuts.

The message from BC's experience is clear: reducing taxes on production leads to increased economic growth and prosperity. And while there are many ways in which this can be done, harmonizing the provincial sales tax with the GST to exclude business inputs from taxation significantly reduces taxes on production.[14]

Conclusion

While all taxes impose economic costs, the key to an efficient tax system is to rely on the least damaging types of taxes. It is generally accepted by economists that taxes on production (i.e., corporate income taxes, personal income taxes, and sales taxes on capital goods) impose much higher costs on society due to their disincentive effects (lower savings, less investment, and ultimately less income growth based on lower productivity) than other taxes deemed to be less costly (more efficient) such as con-

14 See Clemens, Palacios and Veldhuis, 2007 for various options to reduce taxes on production in BC.

sumption taxes. Many academic studies have estimated the economic cost of different types of taxes and found that consumption taxes are among the least economically damaging.

Currently, a significant portion of British Columbia's 7% provincial sales tax is a tax on production rather than consumption since the PST applies to business inputs including machinery and equipment. On the other hand, the HST is a "value added tax," meaning that only the value added by the business selling the good or service is taxed and all inputs into the creation of the product or service (including machinery and equipment) are exempt. As previous reductions in production taxes in BC have shown, the tax reform will have a profound and positive impact on business investment and on economic growth.

Section II: Dispelling the Myths

There is wide-spread misunderstanding about how the HST works and what its impact will be. Since the plan to harmonize British Columbia's PST with the federal GST was announced, ideologically-driven opponents have sought to derail this important reform. Unfortunately, their opposition is fuelled with anecdotes and poor research. This "Dispelling the Myths" section explains and debunks some of the more common misunderstandings about the HST.

MYTH #1: The HST is a tax grab that will increase government revenues.

REALITY: The HST is revenue-neutral for BC's provincial government. While the government will collect approximately $410 million more in sales tax revenue, it will cut personal income taxes to offset the gain.

Explanation and evidence

The provincial portion of the HST is expected to generate $5.4 billion in net revenues in 2011/12, its first full year of implementation (see table 2). This is approximately $410 million more than what the government would have collected from the PST during the same fiscal year (about $5 billion).

The BC government is instituting several measures that will decrease the total revenue it could generate from the provincial portion of the HST. Specifically, the government is implementing a combination of the following rebates and credits:

- Point-of-sale rebates on purchases of motor fuel, books, items for children (clothing, footwear, car/booster seats, diapers), and feminine hygiene products. (A point-of-sale rebate means British Columbians will not pay the 7% portion of the HST on the item when they buy it.)
- Partial rebates for public service bodies such as municipalities, post-secondary institutions, school and hospital authorities, charities, and non-profits. Partial rebate rates are designed to ensure that public service bodies do not pay more in provincial HST than they paid in PST.
- A new housing rebate. Buyers of new homes can claim a rebate on the provincial HST they pay up to a maximum of $26,250. The rebate partially offsets the increased sales taxes on new home purchases due to harmonization.

Table 2: Estimated Revenue Impact of Harmonization, 2011/12

	$ millions
BC HST revenue[1]	7,077
Point of sale rebates	(331)
New housing rebate	(615)
Residential energy credit	(220)
Rebates for municipalities, charities, non-profits	(307)
Rebates for schools, universities, colleges, hospitals	(228)
Net BC HST revenue	5,376
Revenue loss from PST elimination[2]	(4,910)
BC HST Credit	(283)
Tax relief from increasing basic personal amount	(183)
Net revenue impact of harmonization[3]	0

Notes:
[1]Figure for BC HST revenue includes the additional revenue from the temporary input tax credit restriction for large businesses.
[2]Revenue loss from PST elimination includes elimination of the BC sales tax credit (a tax expenditure) of $56 million.
[3]This analysis does not include the $1.6 billion in transitional funding the federal government has agreed to give BC to facilitate the transition from the PST to HST. This transfer will reduce the provincial deficit from 2009/10 to 2011/12.
Source: British Columbia, Ministry of Finance, 2010: 101, table 3; calculations by authors.

- The Residential Energy Credit. The credit is provided for energy purchased for residential use; it equals the provincial portion of the HST owed on energy (excluding service and administrative charges). The credit is similar to a rebate or exemption since for most residential consumers it will appear directly on their utility bills.

The government is also cutting taxes to offset the impact of the HST. Specifically, the government is implementing the following:

- The BC HST Credit. This credit will help roughly 1.1 million British Columbians with low and modest incomes. The maximum BC HST Credit is $230 per family member and will gradually decline after a family's net income exceeds $25,000.

- Personal income tax relief. An increase to the amount of income British Columbians can earn tax free (i.e., the basic personal amount) to $11,000 in 2010 from $9,373 in 2009.[15]

These rebates, credits, and tax relief are designed to make the HST revenue neutral for government—that is, the HST will raise the same revenue for government as the PST did (see table 2).

Ensuring revenue neutrality

While the HST is expected to be revenue neutral in 2010/11 and 2011/12, the government did not introduce a mechanism to ensure the HST is revenue neutral over the longer term. If revenues exceed expectations over time, the current legislation does not require the government to lower other taxes.

When the BC carbon tax was introduced in 2008, the government introduced legislation requiring it to offset all revenue raised by the tax with tax reductions, and to report the numbers on a yearly basis. (For more information, see the BC Carbon Tax Act: http://www.leg.bc.ca/38th4th/3rd_read/gov37-3.htm#part2.)

British Columbia's government should enact similar legislation to ensure that the HST remains revenue neutral.

MYTH #2: The HST is a massive tax increase on average British Columbian families

REALITY: The average family *will* pay slightly more in sales taxes under the HST. However, the provincial government has introduced personal income tax reductions to offset those increased revenues. As a result, the HST will have almost no impact on the average family's total tax bill. Neither will the HST affect BC's Tax Freedom Day.

Explanation and evidence

Some BC politicians have claimed that the HST will lead to a massive tax increase for BC families. These claims are based on inaccurate measurements of the impact of harmonization.

A recent Fraser Institute study calculated the amount of tax the average BC family will pay under two scenarios: (1) the status quo provincial sales tax (PST) and (2) the har-

15 In addition, the spouse and equivalent-to-spouse credit will increase to $9,653 in 2010 from $8,026 in 2009.

Table 3: The Impact of the HST on the Average British Columbian Family, 2011-2012[1]

Income and taxes of the average family with the status-quo PST	2011	2012
Income[2]	$86,862	$89,142
Total tax bill	$37,562	$39,566
Income tax	$11,245	$12,309
PST	$3,133	$3,279
GST	$2,338	$2,451
Other taxes[3]	$20,845	$21,527
Average tax rate	43.2%	44.4%
Tax Freedom Day	June 8	June 12[4]
Income and taxes of the average family with the HST	**2011**	**2012**
Income	$86,862	$89,142
Total tax bill	$37,606	$39,622
Income tax	$11,040	$12,102
HST—provincial portion	$3,382	$3,541
GST—federal portion	$2,338	$2,451
Other taxes[3]	$20,846	$21,528
Average tax rate	43.3%	44.4%
Tax Freedom Day	June 8	June 12[4]
Impact of the implementation of HST on the average family	**2011**	**2012**
Total tax bill	$44	$56
Income tax	-$205	-$207
Provincial Sales Tax (PST/HST)	$249	$262

Notes:
[1]The calculations are based on families with two or more individuals.
[2]The income measure used is "Cash Income," which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).
[3]Other taxes include liquor, tobacco, amusement and other excise taxes; auto, fuel and motor vehicle license taxes; social security, medical, and hospital taxes; property taxes; import duties; profit taxes; and natural resources levies.
[4]The increase in Tax Freedom Day from 2011 to 2012 under both the PST and HST scenarios is due to improvements in the province's economy following emergence from the recession of 2009, not because of tax increases enacted by the provincial government. When the economy recovers and incomes increase, the family tax burden also tends to increase, but to a greater extent than incomes. The accelerated increase in the tax burden compared to income is due to the progressive nature of the Canadian tax system. Progressivity means that as people earn more income, they pay proportionately more tax. In addition, other cyclically-related tax increases result in a later Tax Freedom Day during an economic recovery. For example, household consumption increases, which results in an increase in the amount of sales and other consumption taxes.
Source: Veldhuis et al., 2010.

monized sales tax (HST) (Veldhuis et al., 2010). While it is true that the average family will pay slightly more sales tax under the HST, the provincial government has also introduced personal income tax reductions that will offset increased money the HST will bring in.

In 2011, the average British Columbian family (of two or more individuals) is expected to earn $86,862 in income (see table 3).

The average family will pay slightly more provincial sales tax under the HST than it would under the existing PST. Specifically, provincial sales taxes will be $249 higher for the average family in 2011 ($3,382 in HST compared to $3,133 in PST). However, personal income tax reductions implemented along with the HST will decrease income taxes for the average family. Specifically, the average British Columbian family's income taxes will drop by $205 in 2011 (from $11,245 to $11,040).

All told, the average British Columbian family's total tax bill will increase slightly from $37,562 under the PST, to $37,606 under the HST, an increase of $44 or 0.12%. The HST is not a major tax grab; it will have virtually no impact on the average family's 2011 total tax bill.

As a result, Tax Freedom Day, the day in the year when the average family has earned enough money to pay the taxes imposed on it by government, will fall on June 8th in 2011 under both the HST and PST scenarios. The $44 increase in the average family's tax bill is the equivalent of working an extra 63 minutes a year for government.

MYTH #3: The HST will hurt low income groups disproportionately

REALITY: Under the HST, BC's tax system becomes slightly more progressive, due to the reductions in provincial income taxes and the new HST credit. This means most families with lower incomes will end up paying less tax overall, while most families with higher incomes will pay slightly more.

Explanation and evidence

The HST will be implemented with several exemptions for particular goods and services in order to offset the impact on low and middle income families.

British Columbians will not pay the 7% provincial portion of the HST on motor fuel, books, items for children (i.e., clothing, footwear, car/booster seats, diapers), and feminine hygiene products.[16] They will also be exempt from paying the provincial and federal portions of the HST (12%) on:

- basic groceries;
- most health and dental services;
- certain medical devices (hearing aids, prescription eyewear, canes, wheelchairs, walkers);
- prescription drugs;
- legal aid services;
- most financial services (i.e. services provided by financial institutions such as arrangements for a loan or mortgage);
- many educational services;
- insurance premiums; and
- resale housing[17]

When the provincial government introduced its HST legislation, it also implemented several new tax credits and decreased personal income taxes.

For example, the Residential Energy Credit gives British Columbians a credit for the provincial portion of the HST on residential energy consumption. For most families, the credit will appear right on their utility bill.

The government also introduced the BC HST Credit to help roughly 1.1 million British Columbians with low and modest incomes. The maximum BC HST Credit is $230 per family member and declines gradually as a family's net income exceeds $25,000.

Finally, personal income tax relief will come in the form of an increase in the amount of income British Columbians can earn tax free (i.e., the basic personal amount) to $11,000 in 2010 from $9,373 in 2009. While most families will pay slightly more in sales taxes under the HST (an average increase of between $72 for low-income families to $403 for high-income families), the provincial government's personal income tax reductions and new credits will make most lower and middle income families better off under the HST (see Veldhuis et al., 2010).

Specifically, families with incomes between $20,000 and $40,000 will see their taxes drop by an average of $411 in 2011; families with incomes between $40,000 and $60,000

16 There is also a rebate for new housing which will help to offset the impact of the HST on new home prices. See Myth #4 for more detail.

17 For a complete list of "What's Taxable under the HST and What's Not?" see https://hst.blog.gov.bc.ca/wp-content/uploads/2010/05/GST_PST_HST_List_v04.pdf.

Table 4: The Impact of the HST by income group, 2011[1]

Income Groups	$20,000-$40,000	$40,000-$60,000	$60,000-$80,000	$80,000-$100,000	$100,000-$120,000	$120,000-$140,000
Income and taxes of the average family in each income group with the status-quo PST						
Income[2]	$31,207	$49,630	$70,240	$89,506	$108,692	$131,294
Total tax bill	$8,568	$16,905	$27,615	$38,982	$50,045	$58,604
Income tax	$991	$3,489	$7,401	$11,881	$17,436	$21,748
Provincial sales tax (PST)	$909	$1,526	$2,341	$3,269	$4,100	$5,073
Income and taxes of the average family in each income group with the HST						
Income	$31,207	$49,630	$70,240	$89,506	$108,692	$131,294
Total tax bill	$8,157	$16,746	$27,582	$39,047	$50,162	$58,772
Income tax	$508	$3,219	$7,184	$11,686	$17,225	$21,510
Provincial sales tax (HST)	$982	$1,647	$2,527	$3,528	$4,425	$5,476
Impact of the implementation of HST on the average family in each income group						
Change in the total tax bill	-$411	-$159	-$34	$65	$117	$167
Change in income taxes	-$483	-$270	-$217	-$196	-$211	-$238
Changes in provincial sales taxes paid	$72	$121	$186	$259	$325	$403

Notes:
[1]Average family with two or more individuals.
[2]The income measure used is "Cash Income," which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as the universal child care benefit).
Source: Veldhuis et al., 2010.

will see their tax bill decrease by an average of $159; and families with incomes between $60,000 and $80,000 will see an average tax reduction of $34 (see table 4).

While taxpayers, regardless of their income levels, will benefit from the increase in the basic personal income tax exemption, the BC HST Credit will decline gradually as family income increases. Families in the upper income groups will see their taxes rise slightly.

The total tax bill for families with incomes between $80,000 and $100,000 will increase by an average of $65; by an average of $117 for families with incomes between $100,000 and $120,000; and by an average of $167 for families with incomes between $120,000 and $140,000.

These increases are negligible given the total taxes that families in these income groups pay. For example, the $167 average increase in the total tax bill for families with incomes between $120,000 and $140,000 is a rise of just 0.3%.

Taxes in British Columbia will become slightly more progressive, not regressive, as a result of the HST and offsetting tax reductions.

MYTH #4: The HST will increase the price of all goods and services sold in BC

REALITY: The HST will have little impact on the overall price level in BC. The prices of previously exempt goods will increase (though not by 7%), and the prices of goods and services currently taxed under the PST will decrease as businesses pass cost savings on to consumers. Past experience in Newfoundland & Labrador, New Brunswick, and Nova Scotia, which harmonized their provincial taxes with the GST in 1997, resulted in cost savings being passed on to consumers through lower prices, as did the move from the federal Manufacturers Sales Tax (which taxed business inputs) to the GST in 1991.

Explanation and evidence

To understand how the HST will affect prices, it is important to highlight a major problem with the PST. The PST applies to business inputs as well as to many of the goods and services that consumers buy.[18] When businesses are charged PST on production supplies and capital inputs, such as machinery and equipment, production costs increase and these increased costs are largely passed on to consumers in the form of higher prices. In many cases, a product can be taxed multiple times before the final consumer pays tax on it one last time.

For example, when British Columbians buy a bottle of BC wine, they pay the PST on the final price. That final price, however, already contains a significant amount of PST. The winemaker must pay PST on inputs he buys to make the wine (i.e., bottles, labels, corks, equipment used to grow the grapes, etc.), all of which is passed on to consumers in the form of higher prices. But that's not all. In addition, the inputs that the winemaker buys already include PST, since the companies making these supplies are also charged the PST on inputs they purchase (i.e., the paper to make the labels, the

18 Business inputs include the equipment, materials, energy, and other goods or services that businesses purchase and use to produce what they sell to their customers.

machines to shape the corks, etc.). As a result, the PST can be compounded many times depending on the number of stages of production. The PST that businesses pay on inputs is a hidden tax; it is embedded in the price of goods and services and although consumers don't see this tax, it is passed on, often multiple times, to the final purchaser.

Even goods and services that are currently exempt from the PST (i.e., restaurant meals, hair cuts, taxis, dry cleaning services, membership fees, financial services, professional services provided by accountants, etc.) contain embedded PST because these service providers pay PST on many things they buy including machinery, computers, software, office equipment, and supplies.

Unlike the PST, the HST is a "value added tax," which means that only the value added by the business selling the good or service is taxed. In other words, all business inputs are exempt from the HST. Under the HST, businesses will receive refunds (input tax credits) for the sales tax they pay on inputs. Past experience with sales tax harmonization in Canada shows that competitive pressures will cause businesses to largely pass these savings on to consumers through lower prices.[19]

In 1997, three Atlantic provinces (Newfoundland & Labrador, New Brunswick, and Nova Scotia) harmonized their PST with the federal GST. University of Toronto professors Michael Smart and Richard Bird examined the effects of harmonization in Atlantic Canada and found that, with a few exceptions (i.e., shelter, clothing, and footwear), overall consumer prices in the harmonizing provinces fell after the 1997 reforms (Smart and Bird, 2009). Of course, the prices of some items that were previously exempt from sales taxes increased, but the overall price level came down. The authors found that businesses passed on between 60 and 100% of cost savings to consumers in the first year after harmonization.

Additional evidence also suggests that the savings to business from the HST will be passed on to British Columbians (see Ontario, Ministry of Finance, 2010 for a review of this evidence and Carbonnier, 2007, for international evidence from France showing that businesses will pass on sales tax savings to consumers after switching to a value-added tax). For example, the Ontario Ministry of Finance cites a 1992 study by the Consumer and Corporate Affairs Department of the federal government that found "most of the savings" from replacing the federal Manufacturers' Sales Tax, a tax

19 An important disclaimer should be made about the HST's impact on prices in general. Unfortunately, the full extent to which businesses pass on input tax savings to consumers will be delayed for several years. The BC government is planning to restrict large businesses (i.e., those with over $10 million in annual sales) from claiming input tax credits (refunds) on certain business inputs for a period of five years after harmonization, followed by a phase-in period over the subsequent three years. In order to expedite the transfer of cost savings to British Columbians—and the benefits of harmonization—the BC government would do well to eliminate the temporary restrictions on large businesses.

on business inputs much like the current PST, with the GST, were passed on to consumers in the first year following the reform.

Furthermore, economists at TD Bank have estimated the response of businesses in BC and Ontario to the HST (Drummond and Petramala, 2009). Due to strong competitive pressures in these provincial markets, they expect businesses to pass on their savings on quite quickly. In fact, they estimate that 80% of total cost savings will be passed along in the first year of HST implementation, 95% after three years, and 100% in six years.

MYTH #5: The HST will increase the price of new homes by 7%.

REALITY: Only new homes over $556,150 will experience a modest sales tax increase after the HST is implemented, but nowhere near 7%. For example, the after-tax price of a $600,000 new home will increase by around 0.3%.

Explanation and evidence

The HST's effect on new house prices has drawn a lot of attention and dissent from British Columbians. Since new homes are currently PST "exempt" and will be taxable under the provincial portion of the HST, some worry the HST will cause prices to rise by 7%. This will not occur.

First and most importantly, only new homes and apartments will be subject to the HST. Resold homes will not be affected; they were exempt from all sales taxes in the PST system and will continue to be exempt under the HST.

Second, even on new homes, prices will not increase by 7% since the HST will remove the embedded PST–that is, the sales tax paid on all of the inputs (i.e. lumber, construction tools, roofing, toilets) that previously were passed on to consumers. Currently, the embedded sales tax amounts to approximately 2% of the selling price (British Columbia, Ministry of Finance, 2010). Because of intense competition, home builders will pass the savings on to buyers, resulting in lower pre-tax selling prices for new homes.

In addition, the government has introduced a new housing rebate to offset the HST payable on the first $525,000 of any new home. New home buyers will be able to claim a rebate of 5% of the value of the home, up to a maximum of $26,250. Homes above $525,000 will receive a flat rebate of $26,250.

Table 5 presents the net impact of the HST on new homes ranging from $400,000 to $700,000 in BC. Consider that the average price in 2009 for homes in the

Table 5: Net impact of the HST on the price of new homes in BC

New home price before HST system	$400,000		$500,000		$556,150		$600,000		$700,000	
	PST	HST	PST	HST	PST	HST	PST	HST	PST	HST
New home price before taxes	$400,000	$392,000	$500,000	$490,000	$556,150	$545,027	$600,000	$588,000	$700,000	$686,000
Embedded PST (2%)	$8,000	$0	$10,000	$0	$11,123	$0	$12,000	$0	$14,000	$0
GST (5%)	$20,000	$0	$25,000	$0	$27,808	$0	$30,000	$0	$35,000	$0
HST—5% federal portion	$0	$19,600	$0	$24,500	$0	$27,251	$0	$29,400	$0	$34,300
HST—7% provincial portion	$0	$27,440	$0	$34,300	$0	$38,152	$0	$41,160	$0	$48,020
BC new housing rebate	$0	$19,600	$0	$24,500	$0	$26,250	$0	$26,250	$0	$26,250
Property transfer tax	$6,000	$5,840	$8,000	$7,800	$9,123	$8,901	$10,000	$9,760	$12,000	$11,720
Total cost of new home after taxes	$426,000	$425,280	$533,000	$532,100	$593,081	$593,081	$640,000	$642,070	$747,000	$753,790
Net impact of HST (in dollars)	-$720		-$900		$0		$2,070		$6,790	
Percentage difference in price of new home	-0.2%		-0.2%		0.0%		0.3%		0.9%	

Note: Calculations under HST system assume that the before tax price declines by the amount of embedded PST which is assumed to be 2 percent, on average, for new homes in the PST system. Calculations exclude the federal government's GST rebate on new homes. Since the rebate doesn't apply to new homes above $450,000, this exclusion only affects the calculations for the $400,000 price of a new home before HST system. However, the effect is minimal.
Source: Calculations by authors.

Vancouver Census Metropolitan Area (CMA) was $592,441, while the average for the Victoria CMA was $476,137 (Canada Mortgage and Housing Corporation, 2010).

As a result of the reduction in the embedded sales tax that will be passed on to consumers and the new housing rebate, only new homes over $556,150 will experience a modest sales tax increase after the HST is implemented, but nowhere near 7%. For example, the after-tax price of a $600,000 new home will increase by around 0.3%.

MYTH #6: The HST will shift the sales tax burden from businesses to average British Columbians.

REALITY: The ultimate burden of all taxes falls on people (as consumers, workers, or owners of shares in businesses directly or through their pension plans or RRSP accounts). The HST will eliminate around $2 billion in hidden sales taxes that British Columbians pay every year and replace them with a more visible sales tax that ultimately makes the tax system significantly more transparent.

Explanation and evidence

Opponents of harmonization claim that eliminating sales taxes on business inputs and expanding the number of goods and services that will be taxed under the HST will shift the tax burden from business to individuals.

They assume that the 40% ($1.9 billion) of the government's PST revenues that come from businesses buying the things they need to produce goods and services are not currently passed on to consumers in the form of higher prices (British Columbia, Ministry of Finance, 2010).

That view ignores a stark reality: when businesses are charged PST on production supplies and capital inputs, such as machinery and equipment, production costs increase. These increased costs are largely passed on to consumers in the form of higher prices.

Even goods and services that are currently exempt from the PST contain embedded PST since service providers pay PST on many inputs they purchase including machinery, computers, software, office equipment, and supplies.

Under the HST, all business inputs are exempt from sales tax. Competitive pressures will cause businesses to pass most or all of these savings on to consumers through lower prices. Past experience with harmonization in Newfoundland & Labrador, New Brunswick, and Nova Scotia in 1997, and the move from the federal Manufacturers Sales Tax (which taxed business inputs) to the GST in 1991, resulted in cost savings for consumers in the form of lower prices. (See Myth #4 for a more detailed explanation and empirical evidence.)

Rather than shift the sales tax burden, the HST simply replaces a hidden business tax (the PST) with one that is visible. In fact, the HST will eliminate around $2 billion in hidden business taxes per year, which will make BC's tax system more transparent.

MYTH #7: The HST helps industry but hurts ordinary British Columbians.

REALITY: The HST will make BC more competitive by reducing the tax rate imposed on investment. Lower investment costs will spark more business investment, which will positively affect British Columbians through increased productivity, higher wages, increased job opportunities, and higher rates of economic growth.

Explanation and evidence

Since the PST applies to business inputs, including much of the machinery, equipment, and technology that firms purchase, it increases the cost of investing in these capital goods and makes BC less competitive relative to other jurisdictions that have value-added sales taxes (or no sales taxes at all, such as Alberta).[20]

Under the HST, businesses will receive refunds (input tax credits) for the sales tax they pay on inputs. As a result, the costs to businesses of investing in machinery, equipment, and technology (computers and software) will fall. Lower investment costs will in turn spark more business investment.

Past experience with sales tax harmonization in Canada is instructive. After three Atlantic provinces harmonized their PST with the federal GST in 1997, investment in machinery and equipment (on a per person basis) rose by more than 12% above trend in the years after the reform (see Smart, 2007).

Professor Jack Mintz of the University of Calgary estimates that harmonization in BC will account for an $11.5 billion increase in capital investment and a net increase of 113,000 jobs over ten years (Mintz, 2010).

Investments in machinery, equipment, and technology make workers more productive and ultimately result in higher wages and benefits for average workers. With more investment and business development, the HST helps, not hurts, ordinary British Columbians.

20 Internationally, at least 130 countries rely on a value added sales tax system (British Columbia, Ministry of Finance, 2010). In Canada as of July 1, 2010 all provinces except Saskatchewan, Manitoba, and Prince Edward Island will have adopted a value added sales tax by harmonizing their PST with the federal GST.

MYTH #8: The HST is complicated and will be a nightmare to comply with and administer.

REALITY: The HST will save businesses an estimated $150 million in tax compliance costs, which will be largely passed on to consumers through lower prices and will also save BC taxpayers $30 million annually in government administration costs.

Explanation and evidence

The HST is less onerous to comply with than the PST and will result in compliance and administrative cost savings.

The tax base upon which the PST is applied differs from the tax base used for the GST. Differing tax bases, along with a host of different rules, force businesses that collect sales taxes to operate with two sets of sales records and two sets of reporting requirements. Harmonization will simplify the process by eliminating the need to comply with multiple sales tax systems. This will save businesses an estimated $150 million in tax compliance costs, which will in large part be passed along to consumers through lower prices (British Columbia, Ministry of Finance, 2010).

BC taxpayers will also save an extra $30 million per year in administrative costs from a reduction in the provincial government's bureaucracy (British Columbia, Ministry of Finance, 2010). Rather than have two levels of government administer two sets of sales tax systems, the HST will be administered by just one: the federal government.

MYTH #9: The HST is an attack on restaurants, hairdressers, and other specific sectors of the economy.

REALITY: The HST will lead to a more uniform tax burden by broadening the tax base to include a wider array of goods and services to ensure that fewer sectors will receive preferential treatment.

Explanation and evidence

Unlike the PST, which through its many exemptions gives some sectors preferential treatment over others, the HST will generally tax goods and services in all sectors of the economy uniformly. Since the HST will be a uniform tax burden that applies to most forms of goods and services, the groups that will be affected are those who, under the current arrangements, receive preferential treatment. As is usually the case, those who will lose their preferential treatment with the implementation of the HST oppose such a move (i.e., those in the home building, restaurant, personal and professional services trades, etc).

British Columbians should question why those sectors got special exemptions to begin with. There really are no compelling reasons why certain sectors receive PST exemptions. Exceptions are often politically, rather than economically, motivated and are rarely in the best interest of British Columbians.

MYTH #10: The HST will hurt BC's economy as it rebounds from the recession.

REALITY: The HST will help the province recover from the recession more quickly by making BC a more attractive place for investors to locate their capital and expand operations.

Explanation and evidence

This is the best time to implement the HST and set BC on a path to greater prosperity and better economic fortunes.

In a world where jurisdictions constantly compete for investment dollars, the HST will improve the investment climate and make BC a more attractive place for investors to set up or expand.

With more investment, job creation will follow, which will lead to economic growth and higher levels of prosperity. Increased investment will also spark productivity growth, which is especially important for an aging population. The mounting demands on a shrinking pool of workers to support a growing share of elderly people means that productivity improvements in BC and Canada are critical. The HST is an important step toward achieving productivity gains.

In addition to reducing taxes on business investment, the HST will also improve the competitiveness of export-oriented firms in BC. Since businesses currently pay sales tax on the things they need to produce goods and services, firms that export their goods and services find they face higher costs than their counterparts operating in other jurisdictions that do not apply sales taxes on inputs. In other words, BC firms currently operate at a considerable competitive disadvantage. Since under the HST businesses would no longer pay sales tax on business inputs, their costs would be reduced and they could offer more competitive prices for their products on international markets.

Other provinces, including populous Ontario, are committed to implementing a harmonized sales tax. If British Columbia is left behind, it risks losing much-needed investment that will instead gravitate to jurisdictions with more competitive tax policies.

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