

HST Information for SFSS Members

On July 23, 2009, the Province of British Columbia announced the elimination of the PST and its extensive list of exemptions. This will result in a harmonized sales tax (HST) of 12%, effective July 1, 2010.

A HST is the combination of the federal Goods and Services Tax (GST), an almost universal consumption tax on goods and services of 5%, and a provincial sales tax (in BC, currently at 7%).

Provincial sales taxes differ from the GST because they allow a provincial government a certain level of policy flexibility to decide what gets taxed with the PST and what does not.

In Canada, only Newfoundland & Labrador, Nova Scotia, and New Brunswick have a HST of 13%. Ontario announced in its March 2009 budget the July 1, 2010 implementation of a 13% HST coupled with extensive rebates and grants to Ontario citizens to mitigate the effect of the tax introduction.

In the history of the B.C. PST, many services and items have been exempted from PST taxation. These include:

- New home construction
- Bicycles
- Restaurant meals
- School supplies
- Alternative fuel vehicles
- Jet aircraft
- Energy efficient products

The new HST has only a few exemptions:

- Children's clothing
- Car seats
- Diapers
- Books
- Feminine hygiene products
- Gasoline and diesel fuel

(For a full list of exceptions and newly taxed items, please see:

http://hst.blog.gov.bc.ca/wp-content/uploads/2010/05/GST_PST_HST_List_v04.pdf)

Some changes have been made since the introduction of the tax to the public.

These include:

- Basic personal income tax credit has been raised to \$11,000. This will create a \$72 tax break for individuals who pay taxes. (Cost to the province: \$173 million in foregone revenues)

- Municipalities, schools, universities, hospitals, colleges, charities and non-profits are receiving some form of rebates on HST equivalent to what they would have paid in the era of PST (cost to the province: \$515 million)
- Residential fuels for home heating are now exempted (cost to the province: \$210 million)
- Threshold for new home purchase rebate from HST was raised to \$525,000 from \$400,000 (cost to the province: \$100 million)

The effect of these changes is that the provincial government will now be taking in \$370 million less in revenues than they were pre-HST, argues Vaughn Palmer in the Vancouver Sun (February 3, 2010 A3) This means, contrary to the original claim of the BC Government, the HST will not be revenue neutral and actually will cost the province a substantial sum of money to implement, at least in the short term.

Current arguments about the HST can be categorized as follows:

Those in favour of an HST argue the PST taxes “business inputs” (raw goods and materials used in production) and that the cost of this tax is passed onto the consumer. Thus, while the initial impact may seem to hurt individual consumers, the eventual outcome will mean lower prices. The Fraser Institute, in an editorial in the Vancouver Sun on July 28, 2009, cited a study by one economist affiliated with the pro-HST CD Howe Institute that some consumer prices fell after HST was introduced in the three Atlantic provinces. This is because businesses theoretically could pass the savings of the taxes onto consumers.

Those opposed to an HST argue consumption taxes are already a higher burden on low-income people compared to other forms of taxation (like income tax) and that an expansion of the PST into an HST actually increases costs substantially for lower income people.

In a November 2009 poll commissioned for the BC branch of the Canadian Restaurant and Foodservices Association, 64% of respondents wanted restaurants exempted from the HST.

In general, there is no policy consensus about an HST. In Ontario, the Liberal government is implementing the tax change and both the Progressive Conservatives and NDP are opposed. In BC, the NDP is opposed, as is Bill Vander Zalm, the former Premier of BC (Social Credit Party). The federal NDP is opposed to the tax while the federal Liberal Party supports it, as does the federal Conservative Party which proposed its implementation.

In a study of the Ontario HST, the Canadian Centre for Policy Alternatives calculated most families would be marginally affected, in the range of \$50 to \$75 per year by the implementation of the HST combined with increased tax credits.

The impact on students of an HST would likely be felt as follows:

- Purchases on life and education essentials are likely to go up 7%:
 - o School supplies other than textbooks
 - o Hair cuts, dry cleaning, etc
 - o Bicycles
 - o All restaurant meals
- Because so few students likely pay any income tax at all, the tax will be one of the few taxes in BC that students see immediately.
- Students who file their taxes will most likely be eligible for a new HST credit of \$230 a year, paid quarterly to low income individuals who file their taxes, apply for the credit and who earn less than \$20,000 a year. Marc Lee of the CCPA calculates this likely will lead to a positive benefit for low-income people such as students.
- The credit would offset ~\$3200 in taxable purchases a year, or \$275 a month. As long as an individual spends less than \$275 in taxable purchases per month, they will likely receive a net positive benefit.
- **These rebates are conditional on students filing their taxes, even if they earn no income.**