

## **Newsmaker of the year: B.C.'s HST Hated – and headed for a cash register near you**

Richard Chu

Consumers despise it. Some businesses fear it. Love or hate the HST, no one will be left unaffected when it comes into force as expected July 1, 2010.

Its broad impact is one reason why the HST was selected as Business in Vancouver's newsmaker of the year.

Experts agree that the HST will be one of the most significant tax changes in B.C. in the almost 20 years since the Progressive Conservative Party instituted the goods and services tax (GST) in 1991. Like that federal tax, the HST will shift tax income more directly, and transparently, onto consumers to the tune of about \$2 billion.

But while the GST was birthed amidst a fierce national debate, the public and political outcry against the HST has been muted, to date, even though the government's announcement caught supporters and critics off guard.

"The HST came right out of left field," said Ian Tostenson, president and CEO of the B.C. Restaurant and Foodservices Association. "It was literally a phone call, so it was a complete shock."

Tostenson, who represents one of the most vocal anti-HST business sectors, said the restaurant industry has spoken several times with B.C. Finance Minister Colin Hansen about possible measures to mitigate the tax's impact, from allowing restaurants to buy alcohol at wholesale prices from the B.C. Liquor Distribution Branch to providing grants to municipalities to lower restaurant property taxes to asking the government to phase in the HST over three years instead of all at once on July 1, 2010.

But Hansen said most of the suggestions were unworkable.

"What they're asking for is an exemption, and they know it's not technically even possible."

Hansen said the province had already expended the maximum amount the federal government allowed under its agreement to implement the HST.

Those exemptions include:

- \$325 million for point-of-sale rebates for books, children's items and gasoline – the latter of which the Ontario government is not providing for its residents when it institutes its HST on July 1;
- roughly \$580 million dedicated to the new-housing rebate, which was expanded to include homes valued under \$525,000 from the initial \$400,000; and
- \$285 million for rebates to municipalities, charities and non-profits.

The restaurant sector's biggest fear is that the HST will cut consumer spending by at least \$750 million a year in B.C., or nearly \$50,000 a year for the average restaurant, according to a Canadian Restaurant and Food Services Association (CFRA) study.

Restaurants argue that the HST will increase a consumer's restaurant bill 7% – the difference between the GST and HST. That, they say, will either reduce the number of restaurant patrons or how much each spends per meal, force several independent restaurants out of business and cost the economy several thousand jobs.

Tostenson said some local eateries are already cutting spending and reducing staff hours in advance of the HST's implementation.

He added that restaurateurs will be among the businesses that will benefit the least from the HST because most restaurant costs are eaten up by food and labour, “neither of which have input credits restaurant owners can take advantage of. So, there's little savings.”

The CRFA's estimate of the HST's impact was based on the restaurant sector's 9.5% decline in 1991 when the GST came into effect.

The CRFA argues that the GST caused most of that drop in sales.

But Hansen argued that the 1991 recession was the main contributor to the decline.

With a severe recession affecting sales in 2009, he said he's focused on trying to get the economy back on track. Employing the HST is part of that goal.

Said Hansen: “If you look at long-term trends, [restaurants] do well when the economy does well, and leading economists are telling us [the HST] is the single best thing we can do to stimulate the economy. The net effect of a stronger economy is a stronger restaurant sector.”

The CRFA study of Statistics Canada data found that, aside from the severe drop in 1991, the restaurant sector has had only three periods of decline between 1990 and 2006.

He's not completely opposed to the HST, but Tostenson said its impact on restaurateurs needs to be mitigated.

Most of B.C.'s business community is somewhat optimistic that the HST will benefit the provincial economy in the long run.

A Finance Ministry analysis of Statistics Canada data estimates the HST will save about \$2 billion in PST-related taxes and expenses.

Among the sectors that stand to be the biggest beneficiaries of the HST are:

- construction (\$880 million in savings);
- transportation (\$210 million);

- manufacturing (\$140 million);
- forestry (\$140 million); and
- mining and oil and gas (\$80 million).

B.C. businesses will also save an estimated \$150 million a year in administration costs associated with managing the PST.

Keith Sashaw, president of the Vancouver Regional Construction Association, was surprised when the HST was announced.

“There has been talk about harmonization of sales taxes for many years, but I hadn’t heard this was something at the top of the policy agenda.”

But despite the lack of immediate consultation, Sashaw supports the HST’s implementation because the tax will save the industry hundreds of millions in embedded provincial sales taxes and eliminate some of the complex accounting associated with managing the GST and PST.

Sashaw also agreed that the HST would improve B.C.’s competitive advantage for international and interprovincial investment.

“When it comes down to competing for investment dollars, we’re competing against Ontario and Alberta specifically.

“And with Ontario moving quickly into an HST environment, it makes sense to move quickly in terms of harmonizing our sales tax as well.”

Hansen told BIV that if B.C. had decided not to launch the HST this summer, it likely would not have happened for another two years until Ontario had completed its implementation, because of the Canada Revenue Agency’s required system changes.

“We asked them specifically if we could announce this on September 1 with our budget [update], and that would have given us time to do the communications work [with stakeholders], but their answer was no. If we weren’t there in July, we would have to take a number.”

Despite claims that the BC Liberals backtracked on an election promise that they weren’t considering the HST, Hansen was adamant it was only after reviewing an analysis by ministry staff following the election that he recommended the government re-evaluate its position on the HST.

Hansen said his government knew the HST would be unpopular.

“You can’t come with any tax shift like this without it being controversial. But it’s good public policy. It’s good economics, but it’s very brutal politics.”

Had B.C. not implemented the HST, Hansen said the province’s marginal effective tax rate on new business investment would have been roughly 10% more than Ontario’s.

With B.C. and Ontario converting together, B.C. maintains a slight tax advantage.

“In fact, we’ll be better than Alberta,” said Hansen. “That was one of the more compelling charts the ministry produced for me.”

While pre-tax prices for goods subject to the PST in B.C. are expected to fall, some analysts say the overall prices consumers will pay will go up because of the HST.

A TD Economics report released in September said the HST would reduce pre-tax prices of goods and services by 0.8%.

But, because the HST would increase the effective tax rate of consumption by 1.5%, the overall price of goods in B.C. and Ontario would increase by 0.7%, leading to a permanent 0.4% increase in Canada’s average annual consumer price level.

Dino Infanti, a partner at Berris Mangan, also noted that businesses such as insurance brokerages and others exempt from the GST might also see their costs rise because they’re unable to obtain the input tax credit.

He said they might need to restructure their costs or their businesses to mitigate the impact the HST will have on everything from rent and overhead to management and professional fees.

Mark Startup, president and CEO of retail-association Shelfspace, said all merchants will benefit from a simplified HST accounting system. But not everyone will benefit equally from the transition.

“The HST eliminates a number of the current exemptions under the PST and some of those merchants are leaping mad. Many of those merchants are opposing the HST because they feel the cost of their product will rise as a result.”

Startup noted, however, that there are merchants that are simply accepting the HST and preparing to implement it, knowing the government has already cut personal-income and small-business taxes.

The HST raises the cost of goods for some retailers. But, said Startup, “We don’t necessarily see tax reductions in isolation from other things as a panacea that will turn our economy around. We’re too tied to the global economy. That’s one thing that hasn’t played out extensively on the debate over the HST.

“If we can make our exporting industries more competitive as a result of [its] implementation, then that will be a very good thing for local economies and it’ll be good for restaurants and it’ll be good for retailers.” •

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