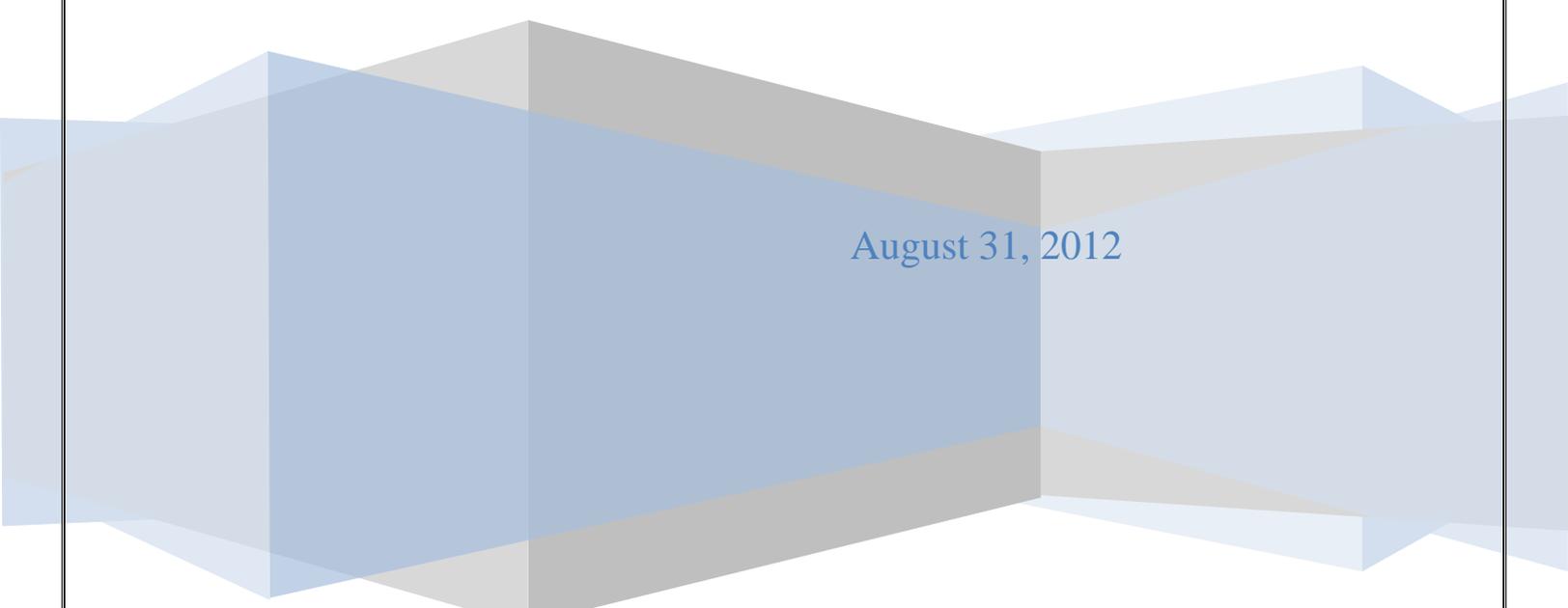


# Report of the Expert Panel on BC's Business Tax Competitiveness

August 31, 2012



September 7, 2012

Expert Panel on BC's Business Tax Competitiveness  
105-617 Government Street  
Victoria BC V8W 9V8

Honourable Michael de Jong  
Minister of Finance  
Room 153  
Parliament Buildings  
Victoria BC V8V 1X4

Dear Minister de Jong:

The members of the Expert Panel on BC's Business Tax Competitiveness are pleased to present our Final Report. We have carefully considered enhancements to BC's business tax competitiveness in the context of the referendum decision to bring back the Provincial Sales Tax (PST). We would like to thank you for giving us the opportunity to serve on this Panel and to make a contribution to building a prosperous future for British Columbia.

The return to the PST will significantly increase the cost of businesses making the capital investments needed to remain competitive. Unless this issue is addressed, BC's businesses will face the highest effective tax rate on new investments among the provinces in 2013. The Panel's principal recommendation is that the BC Government provide an investment tax credit equal to the PST paid on investments in machinery and equipment. The proposed investment tax credit, together with the other recommendations in the Report, will make an important contribution to encouraging BC businesses to invest, expand, and create the jobs that are needed to build prosperous and healthy communities in our Province.

Panel members would like to thank each one of the groups and individuals who took the time to prepare submissions and to meet with the Panel. Our recommendations may not include all the advice we received, but they will improve the competitiveness of all sectors of the BC economy in a fiscally responsible manner. We have also outlined a promising alternative to the PST that the Panel believes should be considered by the BC Government and British Columbians over the next several years.

We trust that our recommendations will assist you and your colleagues as you prepare to present the 2013 BC Budget.

Sincerely,

Expert Panel on BC's Business Tax Competitiveness

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## Executive Summary

The competitiveness of an economy determines the productive potential of businesses and their employees. If businesses are competitive they can increase their share of domestic and global markets. They can invest to expand capacity, hire more people, and pay better wages. Competitive economies attract more investment from other countries and increase their share of national or global income. Competitiveness produces higher standards of living and more prosperous communities.

The Expert Panel on BC's Business Tax Competitiveness was charged with examining how BC's business taxes can be made more competitive in the context of the return to the PST. During its consultations the Panel heard many concerns about how the return to the PST will affect BC businesses' competitiveness within Canada and internationally.

The Panel believes that BC is at a competitive crossroads. Since 1995, BC's per capita GDP has trailed the Canadian average with the gap continuing to widen until 2002. Private sector investment has trailed the Canadian average for several decades and only in the last few years has investment per worker exceeded the Canadian average. The reintroduction of the PST on April 1, 2013 will impose a significant cost on BC businesses that wish to modernize their operations and preserve and create jobs in our Province.

Modern machinery and equipment, including cutting edge computing and communications technology, are tools that BC workers must have in order to compete in Canada and with the rest of the world. Increasing BC businesses' investment in modern equipment, and especially in advanced technologies, is a necessary and critical element to achieving higher productivity and better incomes. After the PST is re-introduced, BC's taxes on new investment will become the highest among all the provinces.

*“With the return of the PST/GST, British Columbia's marginal effective tax rate on capital investment is higher than what corporations will pay elsewhere in Canada and many other locations.”*  
(AdvantageBC)

The Panel spent considerable time considering how BC's tax system could be reformed so that the BC Government could raise the revenue it needs to deliver public services to British Columbians more efficiently and fairly while respecting the results of the referendum. During its consultations many industry groups told the Panel that BC does not necessarily need to have the lowest business taxes. However, BC cannot afford to become a high tax outlier among provinces either. In particular, unless the PST burden on the investments BC businesses must make to remain competitive is reduced, some of BC's recent gains in investment levels will be put at risk and this, in turn, will result in fewer job opportunities for BC workers. This core issue informed the Panel's work and its recommendations.

*“With the reinstatement of the PST in April 2013, BC businesses will lose a significant tax advantage, and Government must use all the policy tools at its disposal to ensure this economic momentum is not lost.”* (BC Institute of Chartered Accountants)

## **Highlights of the Panel's recommendations:**

- The Panel's key recommendation is to introduce a refundable investment tax credit equal to the PST paid on machinery and equipment, claimable over two years.
- The investment tax credit will keep BC's effective tax rate on new investment competitive with those in other Canadian provinces.
- Other recommendations concerning the PST will make the PST fairer in its distribution, more neutral in its application across industries, simpler to administer and easier to comply with.
- The Panel recommends that the BC Government should work with local governments to ensure BC's property taxes remain competitive.

The Panel proposes measures to offset the reduction in revenue from the recommendation to refund the PST on investments in machinery, equipment and technology. Not all taxes affect the key drivers of investment and job creation in the same way and changing the mix of taxes can improve the efficiency and competitiveness of an economy. Taxes on final consumption have a much lower impact on economic growth than taxes that increase the cost of investment. Accordingly, the Panel recommends some increases in consumption taxes, removing selected PST exemptions or replacing them with alternative methods of providing relief, as well as increases in certain taxes on business:

- The exemptions for school supplies and telephone and cable services are complex and costly to administer and should not be re-introduced. Instead the sales tax credit should be increased to offset the PST on these items for lower income individuals and families.
- Candy, confectionaries, snack foods and beverages should not be exempted when the PST is re-introduced.
- The sales tax credit directed to lower income individuals and families should be enhanced to help offset the PST applied on items that were not taxable under the previous retail sales tax.
- The tobacco tax should be increased.

Taxes like the PST that directly increase the cost of investment are more harmful to competitiveness and economic growth than taxes that are imposed on the net income of businesses. For this reason, the Panel also proposes some increases in income-sensitive business taxes:

- The BC Government should consider limited increases in revenue raised from the mining and oil and gas sectors or reducing some of the incentives provided to these industries.
- The BC Government should consider a small increase in the corporate income tax rate.
- Improving BC's investment climate across all sectors has a higher priority than increasing special purpose provincial tax incentives for specific sectors and activities

including apprenticeship training, scientific research and development, and the screen based industries. These credits should be maintained but not increased.

Both individual consumers and businesses contribute to the revenue needed to achieve revenue neutrality for the Panel's recommendations. The financial implications of the Panel's recommendations are shown in Table 1. A full list of the Panel's recommendations is provided in Table 2 at the end of the Executive Summary.

**Table 1: Estimated Revenue Implications of the Expert Panel's Recommendations (\$M)**

Measures	2013/14	2014/15	2015/16	2016/17
Provide investment tax credit equal to PST paid on equipment	(\$239)	(\$489)	(\$511)	(\$534)
Revenue generated by stronger economic growth due to credit	\$0	\$12	\$50	\$115
Net cost of investment tax credit	(\$239)	(\$477)	(\$461)	(\$419)
<b>Revenue recoveries</b>				
<i>PST revenue recoveries</i>				
Apply PST on basic telephone and cable services	\$90	\$93	\$96	\$100
Apply PST on snack foods	\$73	\$76	\$78	\$81
Apply PST on school supplies	\$20	\$21	\$22	\$22
Increase sales tax credit for lower income families	(\$25)	(\$26)	(\$27)	(\$27)
Net revenue from PST changes after relief for families	\$159	\$164	\$170	\$176
<i>Other revenue recoveries</i>				
Increase tobacco tax by 3 cents	\$85	\$85	\$85	\$85
Increase in mining taxes and oil & gas royalties	\$0	\$65	\$69	\$73
Increase corporate income tax rates by 0.5 per cent	\$0	\$147	\$160	\$178
<b>Net revenue recoveries (PST and other)</b>	<b>\$244</b>	<b>\$460</b>	<b>\$483</b>	<b>\$513</b>
<b>Net revenue impact (cost) of measures</b>	<b>\$4</b>	<b>(\$17)</b>	<b>\$22</b>	<b>\$94</b>

The recommendations in the Report are expected to be revenue neutral. By removing the PST on investments in machinery and equipment, the investment tax credit removes the most damaging element of this tax. The resulting mix of taxes is more conducive to growing the capacity of the BC economy to create jobs and will provide more reliable revenue to fund public services.

*“A return to the Provincial Sales Tax regime as a non-value added tax would be viewed as a disincentive to investing in British Columbia versus investing in the other provinces with value added sales taxes in place or no provincial sales tax in place.” (TELUS)*

While these proposals will address some of the most negative aspects of the return to the PST, the tax will remain a drag on businesses' margins, job creation and wages until it is replaced with

a better alternative. The investment tax credit proposed in this Report will relieve businesses of about one-sixth of the PST they pay on all their inputs.<sup>1</sup> Even with the investment tax credit, the PST that remains on other inputs – including construction materials – will increase the cost of commercial/industrial buildings and other structures and hurt BC’s business competitiveness.

The Panel urges the BC Government to undertake a comprehensive assessment of a made-in-BC value added tax. The Panel believes that an alternative such as the Business Transfer Tax (BTT)

*“As a longer-term strategy, we believe the provincial government should consider moving toward a ‘made-in-BC’ value-added tax.”* (Business Council of British Columbia)

discussed in the Report is a feasible option to replace the PST. It is levied on the difference between businesses’ sales and purchases. It offers a simpler and more efficient method of raising the revenue needed to sustain and improve public services with a much lower tax rate. It is an option that merits serious consideration as a future replacement for the PST.

As part of this review, the BC Government must ensure that the process includes full and meaningful input from both British Columbians and industry stakeholders. The Panel believes that BC’s tax system should be reformed, but not at the cost of a failed initiative such as the introduction and subsequent repeal of the HST.

The recommendations respect the referendum result and the Panel believes that they will make a positive and significant contribution to BC’s economic prospects. These proposals will not address all the issues raised by the re-introduction of the PST. At the same time, they are an important contribution to encouraging BC businesses to invest, expand, and create the jobs that are needed to build prosperous and healthy communities in our Province.

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<sup>1</sup> Estimate based on data received from BC Stats.

**Table 2: Summary of Recommendations**

No.	Recommendation	Pg.
1	The BC Government should provide a refundable investment tax credit equal to the BC sales tax paid on all investments in machinery and equipment including computers and software classified as capital under the <i>Income Tax Act</i> .	23
2	Over the next several years a full review of alternatives to replace the PST should be undertaken. A business transfer tax merits consideration as a more broad-based and efficient method of raising revenue.	29
3	The point of sale exemption for adult sized clothing purchased for children under 15 years should be replaced by a system under which parents keep their receipts and claim a refund of the PST paid on these items.	34
4	The exemption for school supplies should be replaced by an increase in the sales tax credit for lower income families.	36
5	The exemption for residential telephone services and basic cable service should not be re-introduced. The sales tax credit for lower income individuals should be enhanced to offset the PST charged on these services.	37
6	All valid PST registration numbers should be accessible to registered vendors on-line.	37
7	Partnerships are considered as a person under the <i>Excise Tax Act</i> and should be treated in the same way under PST legislation.	37
8	The ownership threshold for tax-free related party transfers should be reduced from 95 per cent to 90 per cent of voting shares, the same threshold as used under the <i>Excise Tax Act</i> .	37
9	Whenever possible, definitions should be linked to similar provisions in other taxing statutes to reduce the proliferation of unique concepts and terms in PST legislation.	38
10	All sales to manufacturing plants should be allowed without collecting PST and all equipment should be exempt regardless of whether it is used directly in manufacturing activity. Manufacturers would be responsible for self-assessing PST on purchases that do not qualify for an exemption.	38
11	BC businesses that make sales to an out of province commercial purchaser should not have to collect PST regardless of how the product is delivered if there is adequate documentation that the sale was for export.	39
12	Business purchasers should not be required to pay PST on purchases from out of province suppliers, but simply self assess and remit the tax directly.	39
13	The provision governing waivers of appeals should be revised so that a person under audit may cancel a waiver on 60 days' notice as permitted under the <i>Excise Tax Act</i> .	39
14	Rather than the Minister hearing appeals of provincial tax assessments, an independent appeals commissioner should be appointed.	40
15	The BC Ministry of Finance should engage the federal government to negotiate an agreement to pay the other's sales tax and resolve the net sales tax revenue flow without involving vendors.	40
16	The Ministry of Finance and federal officials should cooperate to reduce duplication by tax administrators and compliance costs for businesses, including coordinating their registration, education, and audit efforts.	40
17	The Ministry of Finance should develop options that allow businesses to register and file returns on-line.	41
18	The Ministry of Finance should work with business to accommodate electronic documentation and storage of records of exempt transactions.	41

19	A benchmark to track the time and cost to comply with provincial taxes should be developed and the results should be published regularly.	42
20	The BC Government should engage the federal government to coordinate their SR&ED credits and venture capital programs.	45
21	The sunset provision in the SR&ED credit should be removed to make this incentive an ongoing part of the BC tax system.	45
22	The tax credits for film and TV productions and for interactive digital media should be maintained at their present levels.	48
23	The previously announced expansions to the IBA program (AdvantageBC) should be implemented. The corporate income tax refund should be limited to 75 per cent of the income qualifying for a refund of tax.	50
24	The Ministry of Community, Sport and Cultural Development should initiate and lead a process with local government and business groups to agree on a set of benchmarks for measuring municipal business taxation.	53
25	The Ministry of Community, Sport and Cultural Development should measure municipal taxation against these benchmarks and advise municipalities before they make their annual tax rate decisions, of where they stand relative to these benchmarks.	53
26	The Ministry of Community, Sport and Cultural Development should negotiate with the Union of British Columbia Municipalities (UBCM) to develop an appropriate action plan for remedial steps to be taken when local tax rates move outside the benchmarked range.	53
27	The Ministry of Community, Sport and Cultural Development, should work with business groups and local government organizations to develop a best practice guide to municipal business tax policy, including tax rate setting and the use of revitalization tax incentives.	53
28	The BC Government and UBCM should negotiate an effective framework for ongoing dialogue and joint action on containing municipal costs.	54
29	BC Assessment should be allowed to phase-in sharp increases to assessed value.	54
30	The BC Government should work with local governments to improve the integration of economic development strategies, so that local, regional and provincial efforts at building the economy are more effectively synchronized	54
31	Food items other than basic groceries as defined in the federal <i>Excise Tax Act</i> (primarily candy, confectionaries, snack foods and beverages), should not be exempted when the PST is reintroduced. Prepared take-out meals purchased from grocery stores, and meals sold at restaurants and other eating establishments would remain exempt.	56
32	The sales tax credit for low income people should be increased by \$15 per adult and \$25 per child to help offset the additional PST that results from removal of PST exemptions.	56
33	The tobacco tax should be increased by three cents per cigarette.	57
34	A surcharge on provincial mining and oil and natural gas revenues equal to the estimated amount that these sectors would receive from the investment tax credit should be introduced.	57
35	An increase of 0.5 per cent in the corporate income tax rate should be implemented.	57
36	The BC and the federal Governments should examine the role of taxation as a barrier to small business growing into mid-size and large businesses.	60
37	The BC Government should emphasize stability and predictability in the BC business tax regime. Stakeholders should be provided with an adequate opportunity to provide input on significant changes or reforms.	60
38	A clear and comprehensive description of the federal, provincial and municipal tax system should be developed to help promote BC abroad.	61

**Recommendations from the Panel's interim Report that have already been accepted:**

- The existing federal business number (BN) will be adopted to simplify the PST registration process.
- The eight per cent Hotel Room Tax will be levied under the PST legislation, eliminating separate registration, remittances and returns, and reducing paperwork.
- The dates of filing and remittances for the PST and GST for monthly filers will be aligned at the end of the month following the reporting period.
- Retailers will be allowed to refund tax directly to their customers in more circumstances;
- The Ministry will use plain language in drafting legislation, regulations, and in all communications related to compliance.
- The Province will update the Taxpayer Fairness and Service Code to reaffirm the government's commitment to fairness and service values.
- Businesses that collect and remit tax will again receive a commission of up to \$198 per reporting period.

# Report

## 1. BC's competitive challenge

To achieve a sustainable and prosperous future with thriving communities, plentiful jobs, and a rising standard of living, BC's businesses must improve their competitiveness – thus enhancing their capacity to maintain and increase their share of local and export markets. A larger market share generates the revenue BC businesses

need to expand and hire more British Columbians. The reintroduction of the Provincial Sales Tax (PST) on April 1, 2013 will significantly increase the cost of all business inputs, including the modern equipment and technologies that allow businesses in every industry to innovate and make the products their customers demand at competitive prices.

*“Forest industry focus is on cost as we are price takers and competitors in the global market. BC mills will operate or shut down relative to the economics of our competitors. If we remain competitive we will re-invest, contribute to government revenue and create jobs.”* (Council of Forest Industries)

Under the PST, BC's tax rate on new business investment will become the highest among all provinces. This is a major concern. Until quite recently BC businesses' investment levels have chronically trailed the Canadian average. The lower levels of investment in equipment and technology contributed to lower productivity levels, and average GDP per capita in BC fell below the Canadian average in the mid-1990s. During the last decade this trend began to turn in BC's favour. However, if the increase in the cost of new investments in productive equipment is not addressed, some of the recent gains and future potential in British Columbians' productivity and incomes will be put at risk. The principal aim of the recommendations in this Report is to reduce this threat to the economic base of BC communities, British Columbians' future prosperity and their standard of living.

## 2. The Panel's Mandate

The Expert Panel on BC's Business Tax Competitiveness was appointed to consider how to enhance BC's business tax competitiveness in the context of the referendum decision to bring back the PST. The terms of reference for the Panel are provided in Appendix A. The BC Government introduced PST legislation on May 14, 2012 and expects to release regulations and other legislative requirements later in 2012. The PST will come into force on April 1, 2013.

The Panel assessed how BC's tax competitiveness would be affected by the reintroduction of the PST and considered how to alleviate the features that most negatively affect BC's

competitiveness. The Panel examined the role of other business taxes, business tax credits, and other incentives on BC's prospects for building an economy that delivers more jobs, better incomes, and a higher standard of living for British Columbians.

A competitive tax system encourages businesses to locate or expand their operations in BC which, in turn, creates more jobs for British Columbians. A competitive tax system helps ensure that our standard of living keeps pace with the rest of Canada and raises more revenue to fund public services.

While the Panel's mandate concerns business taxation, it recognized that there are many other considerations and policies that affect a business's choice to locate its operations in a particular country or province. BC is an attractive investment destination within Canada with many unique advantages provided by our geographic location and the people who live and work here. With appropriate policies to address the most negative features of the PST, the Panel is confident this progress can continue after April 1, 2013.

*"Today, BC has a significant opportunity to transform and expand its economy through the development of its natural resources, shipbuilding, and other major projects across Canada that could provide both the private sector and the province with long-term prosperity."* (Canadian Manufacturers & Exporters)

### **3. The Panel's consultations and research activities**

Through the Panel's website, interested individuals and stakeholders were invited to submit their recommendations on issues related to re-implementing the PST and on improving BC's tax competitiveness. Organizations representing major industry groups, as well as sectors that receive targeted support through the Province's business tax credits, were invited to prepare submissions and meet with the Panel.

The organizations, firms, and individuals that made submissions or sent comments are listed in Appendix C. Submissions will be posted on the Expert Panel website.<sup>2</sup> The Panel also met with officials from the Ministry of Finance and the Ministry of Jobs, Tourism, and Innovation, including the Ministry's Trade and Investment representatives, to discuss how BC's taxes are perceived internationally.

Fifteen industry organizations and representatives of eleven firms met with the Panel. Several industry organizations included representatives of individual firms in their delegations. Another twenty eight groups or firms prepared written submissions. In addition, a number of individuals

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<sup>2</sup> [http://www.fin.gov.bc.ca/experts\\_panel\\_tax.htm](http://www.fin.gov.bc.ca/experts_panel_tax.htm)

made submissions or sent e-mails. Small and medium-sized business owners provided input through two surveys of the Canadian Federation of Independent Businesses' members in BC.

The Panel would like to thank the groups and individuals who took the time to prepare submissions, complete survey questionnaires, and meet with the Panel. Individual Panel members and staff also received valuable input and advice from individuals who freely contributed their time and expertise. This input gave the Panel important insights into how taxes and related policies affect industries and shaped the proposals made in this Report.

The Panel conducted a literature review of studies on BC's investment environment and how business taxes affect the Province's competitiveness and economic development. These included studies prepared for the BC Competition Council, the BC Progress Board and BC Ministries, as well as studies published by think tanks, professional organizations and academic researchers.<sup>3</sup>

The Panel commissioned Dr. Enid Slack and Dr. Harry Kitchen to review BC's municipal taxes and their implications for the province's competitiveness. This study will be available on the Panel's website. Mr. Satya Poddar of Ernst & Young India advised and assisted the Panel with economic and tax policy analysis. Officials from the Ministry of Jobs, Tourism and Innovation and BC Stats provided the Panel with background information and data. Ministry of Finance officials assisted the Panel in estimating the cost and revenue implications of its recommendations.

#### **4. What is competitiveness and why does it matter?**

The World Economic Forum defines competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates.”<sup>4</sup>

An economy grows when more people are working, when they work more hours, and as productivity (the output per hour worked) rises. These channels of growth are all needed to generate high and sustained levels of per capita GDP. The most important contributor to increasing prosperity, however, is high productivity. Countries and provinces that achieve sustained growth in productivity usually see this improvement translated into higher GDP and standards of living.

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<sup>3</sup> These studies are listed in the Bibliography on p. 59.

<sup>4</sup>Xavier Sala-i-Martin, *The Global Competitiveness Report 2011-2012*, World Economic Forum, p. 4

Increasing productivity, particularly in high value added activities, enables businesses to pay higher wages and support sustainable increases in the standard of living. The measure most commonly used to compare countries' and provinces' performance in providing a high standard of living is per capita GDP. This is the value of final goods and services produced each year divided by the number of people in the jurisdiction. While a higher GDP per person does not always mean a better quality of life, low or falling per capita GDP means that the possibilities available to those societies are more limited than in more productive economies.

The factors that make a nation or province competitive have been studied extensively and typically include considerations such as:<sup>5</sup>

- Geographic advantages such as the presence of natural resources and ready access to markets;
- Openness to fair competition from domestic and outside firms to promote efficiency and innovation;
- The availability of highly educated and skilled workers;
- The willingness of entrepreneurs to undertake risks;
- A regulatory environment that does not place onerous or unnecessary barriers in the way of investment and employment;
- The quality of a jurisdiction's transportation and energy infrastructure;
- The stability and predictability of a jurisdiction's regulatory and taxation regimes;
- A supportive macro-economic environment, including low and stable rates of inflation; and
- The influence of business taxes on the return that firms earn on their investments.

Competitive businesses maintain or increase their market share of the goods and services they produce. They make superior strategic decisions. They innovate, organize their production and distribution processes efficiently, and invest in equipment, buildings and technology. If they succeed, they hire more people and are able to pay their employees higher wages. Highly competitive economies attract

*“The ability of companies to succeed in the face of these challenges lies in their capacity to invest in people, products, and processes to drive productivity and innovation.”* (Canadian Manufacturers & Exporters)

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<sup>5</sup> Don Drummond et. al., *Reform of Ontario's Public Services – Public Services for Ontarians: A Path to Sustainability and Excellence*, Queen's Printer for Ontario, 2012, p. 299. Conference Board of Canada, *Western Canada: Productivity, Competitiveness, and Potential*, 2009 p. 5

investment, increase their share of national or global income and provide a higher standard of living.

## **5. Canada's and BC's competitiveness**

BC's economy is closely tied to Canada's as a whole. British Columbians are governed by the same federal laws as other Canadians and use the same currency. They benefit from, and pay for, the same basic national programs, public pensions, and Employment Insurance. BC receives federal funding for infrastructure, social programs and health care services. British Columbians move freely across Canada to live, study, and seek employment. Other Canadians come to BC to live and to work. Despite variations in provincial laws and programs, most of BC's institutions have close parallels in the other provinces.

The Panel heard that international perceptions of BC's business climate are closely tied to foreign investors' views of Canada as an investment destination. Canada's reputation as an attractive place to do business is important to all Canadian provinces, including BC. As more international firms consider investing in Canada, all provinces are presented with opportunities to attract new investment. Investor interest in Canada has increased significantly in recent years, partly as the result of fiscal and economic uncertainty in many other developed countries. In this environment the competitiveness of individual provinces receives more attention, and influences the level of investment each province is able to attract.

Quite apart from problems in other countries, Canada's competitiveness has also improved dramatically over the last decade against most developed nations. The most widely followed studies that track and compare countries' competitiveness show that Canada has made significant improvements since at least the middle of the last decade.

- KPMG's *2012 Competitive Alternatives* places Canada 3<sup>rd</sup> among nine developed economies;<sup>6</sup>
- The World Economic Forum ranks Canada 12<sup>th</sup> out of 142 nations;<sup>7</sup>
- The International Institute for Management Development (IMD) ranks Canada 7<sup>th</sup> among 59 countries.<sup>8</sup>

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<sup>6</sup> KPMG, *Competitive Alternatives KPMG's Guide to International Business Location Costs 2012 Edition*, p. ii

<sup>7</sup> Xavier Sala-i-Martin, *The Global Competitiveness Report 2011–2012*, World Economic Forum, 2011, p. 15

<sup>8</sup> KPMG, *ibid.*, p. 51

Canada's improved international competitiveness ranking is fairly recent. It is the result of several developments; some are a direct result of policy choices and others are related to recent international economic events:

- Canada's progress in reducing the federal public debt and maintaining a relatively strong fiscal position;
- The resilience of the Canadian economy and financial sectors through the recent financial crisis;
- Significant improvements in Canadian business taxes at both the federal and provincial levels;
- The relatively strong position of Canada's pension plans (particularly the CPP); and,
- Canada's abundant resource endowment at a time when commodities, particularly energy, are in high demand.

Within Canada, there are few studies that compare the competitiveness of provinces. KPMG's 2012 edition of *Competitive Alternatives* ranks a number of cities on the basis of all costs paid by representative firms – including wages, facility costs, transportation charges, interest and depreciation, and taxes. The survey includes 44 international cities with populations of more than 2 million including Toronto, Montreal and Vancouver. Vancouver ranks 10<sup>th</sup> among all the cities surveyed, but it is behind Montreal and Toronto, which are ranked 2<sup>nd</sup> and 5<sup>th</sup> respectively in overall competitiveness. For all the manufacturing industries covered in *2012 Competitive Alternatives*, Vancouver ranks behind Montreal and Toronto. Vancouver generally ranks ahead of Toronto in R&D, digital industries, and corporate service businesses when all costs are considered. Montreal ranks ahead of both Vancouver and Toronto in almost every category of business modeled by the KPMG study.

In *Competitive Alternatives 2010 Special Report: Focus on Tax*, Vancouver ranked 1<sup>st</sup> among the 44 major cities compared on the basis of their business taxes. Vancouver's Total Tax Index of 50.5 was significantly better than Montreal's (60.3) and Toronto's (67.6). Vancouver ranked best in manufacturing, corporate and IT services, and second (after Montreal) in R&D industries.<sup>9</sup> In part, the city's high ranking in that year resulted from the removal of PST on business inputs when BC adopted the HST.

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<sup>9</sup> KPMG, *Competitive Alternatives Special Report: Focus on Tax 2010*, p.5. The 2012 edition of this publication was not available when this Report was completed.

## 6. How important is tax competitiveness?

Business taxation is one of many considerations that influence business investment and location decisions. The effect of business taxation in these studies, however, is often difficult to disentangle from other factors and there is some debate on how much taxation affects location decisions among countries. However, subnational governments – like Canadian provinces – share a common currency, legal systems, and institutions. The non-tax risks associated with choosing a province within Canada are much lower than choosing locations among countries and, therefore, taxation is more important to interprovincial competitiveness.

Taxes comprise up to 18 per cent of location sensitive costs in KPMG’s analysis. *Competitive Alternatives 2010 Special Report: Focus on Tax* observes that “even though taxes do not comprise the largest proportion of overall costs, there is much greater variation in tax costs among locations. Since tax costs are likely to range more widely than other costs they can take on greater importance than other costs in business location decisions”.<sup>10</sup> Taxation scores highly on surveys of executives on site selection factors.<sup>11</sup> This assessment is consistent with what the Panel heard from many business groups – that taxation typically ranks among the top five of business concerns. In a Canadian Federation of Independent Businesses survey undertaken for the Panel, small business respondents identified the total tax burden as the most important constraint on small business growth.

## 7. BC’s advantages and challenges to competitiveness

BC has unique characteristics that bear on the Province’s competitiveness and that differentiate BC from other Canadian provinces. These include BC’s demography, geography, and a number of other distinctive features of the provincial economy.

Two demographic issues have an important influence on BC’s economic performance and on many other per capita indicators. First, BC’s population has grown faster than that of the rest of Canada, especially up to the last decade. Second, BC has a higher proportion of senior citizens than the rest of Canada.<sup>12</sup> Seniors typically have lower savings rates, incur higher health care costs, enjoy favourable provisions under other public programs and services, and pay lower income taxes than non-seniors with the same income.

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<sup>10</sup> KPMG, *ibid.*, p. 3

<sup>11</sup> For example, *Area Development Magazine’s US Annual Corporate Surveys* cited in KPMG, *Competitive Alternatives KPMG’s Guide to International Business Location Costs 2012 Edition*, p. 66

<sup>12</sup> Statistics Canada, *Table 051-0001*

These demographic trends mean that the BC economy must substantially outperform the rest of Canada to maintain or improve BC's per capita ranking on virtually any economic indicator. During most of the 1990s, BC lagged Canadian per capita GDP growth, but since 2003 the gap with the rest of the country has begun to narrow.

**Table 3: Economic & Population Growth, BC and Canada 1990 to 2010**

<b>Economic Growth 1990 to 2010</b>	
Canada	60.50%
British Columbia	64.80%
<b>Population Growth 1990 to 2010</b>	
Canada	23.20%
British Columbia	37.60%
<b>Real Per Capita GDP Growth 1990 to 2010</b>	
Canada	30.30%
British Columbia	19.80%

Source: Statistics Canada, Tables 384-002 and 051-001

While BC's economy grew more than Canada's between 1990 and 2010, it did not expand enough to offset the effect of BC's population increase over the same period. In 1990, BC's per capita GDP was about \$1,000 higher than the Canadian average. After falling to almost \$3,400 below the Canadian average in 2001 the per capita income gap began to narrow, but in 2010 it was still \$1,900 below the Canadian average.

While demographic trends in BC and the rest of Canada are beginning to converge, BC's population will likely continue to grow faster and remain somewhat older compared to that of the rest of Canada for some time yet.<sup>13</sup> To maintain and improve BC's standing in terms of per capita income, a higher proportion of the working population must be employed or the average output of BC workers must increase much faster than in the rest of Canada.

<sup>13</sup> Statistics Canada, *Table 052-0005*

Some distinctive elements of BC's economy and institutions may explain part of the Province's lagging productivity and bear on the prospect of better performance on this measure in the future.

- BC's economy is broadly similar to Canada's, although goods producing industries are a somewhat smaller share of BC's economy than Canada's – 23 per cent (BC) compared to 26 per cent (Canada);<sup>14</sup>
- BC is the province least reliant on the US for exports. BC's trading links with the Pacific Rim countries are more developed than they are in the rest of Canada. BC is the gateway through which most Canadian goods are exported to the rapidly growing Asian economies. This is an advantage no other province shares with BC;
- BC has an increasingly rare and valuable AAA credit rating.<sup>15</sup> BC's business taxes have become much more competitive than they were at the beginning of the last decade. The BC Government's strong fiscal position compared to other provinces provides a good foundation for maintaining stable and competitive business taxes;
- Relative to other provinces, BC invests more per student and has a lower high school dropout rate, and BC students have among the best scores in literacy and numeracy tests among Canadian provinces;<sup>16</sup>
- Personal indebtedness in BC (debt to income ratio) is 25 per cent higher than the Canadian average and over 10 per cent higher than in Alberta – the province with the second highest debt to income ratio in 2010. In part, British Columbians' higher debt levels reflect BC's relatively expensive housing market. The average home price to income ratio is 8.4 in BC compared to 5.3 in Ontario – the province with the second most expensive home prices relative to income;<sup>17</sup>
- BC's personal savings rate is lower than in any other province except Prince Edward Island. Indeed, personal savings have been persistently negative.<sup>18</sup> This, in turn, means that funds for investment must come either from outside BC or from net savings in the corporate or government sectors. Low personal savings rates may mean that BC residents have fewer funds to invest in starting and expanding businesses;

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<sup>14</sup> Statistics Canada CANSIM tables 379-0025 and 379-0026

<sup>15</sup> BC Government Online News Source, *AAA ratings confirm BC's solid fiscal plan is working*, April 12, 2012, <http://www.newsroom.gov.bc.ca/2012/04/aaa-ratings-confirm-bcs-solid-fiscal-plan-is-working.html>

<sup>16</sup> Alexander Murray and Andrew Sharpe, *Human Capital and Productivity in British Columbia*, Centre for the Study of Living Standards (CSLS), 2011, p.1

<sup>17</sup> Jock Finlayson and Ken Peacock, *BC Economic Review and Outlook*, Business Council of British Columbia, February 2012, p. 5

<sup>18</sup> Statistics Canada; *Economic Accounts*, 13-0160X

- BC's share of small businesses and self-employed workers are among the highest in Canada. In 2010 small businesses accounted for 33 per cent of wages paid in BC compared to 27 per cent for Canada. BC's share of self-employed workers is 19.2 per cent compared to 15.7 per cent for Canada. In 2011 BC's share of part-time employment was 18.3 per cent higher than the Canadian average. The average employee of BC small businesses earned \$37,812 in 2010, about \$7,500 less than the \$45,337 earned by their counterparts employed by large businesses.<sup>19</sup>

An important factor in BC's slower growth in per capita GDP is lower productivity. Between 1997 and 2011, the hourly output of BC's business sector averaged about 92 per cent of Canada's.<sup>20</sup> It is unlikely that BC's lagging productivity can be explained by a single factor. This suggests that policies to increase BC's productivity will have to address multiple issues.

Regardless of the exact reasons for BC's relatively poor productivity performance, an essential condition for increasing productivity is access to more and better equipment and technology.

From 1981 to 2007, non-residential business investment in BC was 74.4 per cent of the Canadian average. In the same period, the capital employed per worker fell from 113.5 per cent to 88.9 per cent of the Canadian average and BC's share of

*“The transportation and telecommunications industries are central to a broader competitiveness strategy because they are capital intensive and play important roles in enabling and facilitating trade and other aspects of commercial activity for the broader business community and the economy as a whole.”* (Business Council of British Columbia)

Canadian GDP fell from 13.1 per cent to 12.4 per cent.<sup>21</sup> BC's economy had become less competitive compared to the rest of Canada. It is only since 2009, that BC's private sector investment levels have exceeded the Canadian average.<sup>22</sup>

*“Investments in software and IT development are a critical enabler of innovation and increased productivity.”* (TELUS)

Investment in information and computer technologies (ICT) is especially important to productivity and competitiveness. ICT is integrated into almost every aspect of modern business operations, not only to increase the efficiency of productive processes, but

also to enable more innovation. It is used in organizing firms' operations, managing processes, and in identifying and accessing new markets. Technology amplifies the productive capacity of

<sup>19</sup> BC Stats, *Small Business Profile 2011*, accessed from <http://www.resourcecentre.gov.bc.ca/pdf/SmallBusEngWeb.pdf>

<sup>20</sup> Statistics Canada, *Table 383-0011*

<sup>21</sup> Andrew Sharpe, Jean-François Arsenault and Peter Harrison, *Investment in British Columbia: Current Realities and the Way Forward*, CSLS, 2008, p.3

<sup>22</sup> Colin Busby and William B.P. Robson, *The Retooling Challenge: Canada's Struggle to Close the Capital Investment Gap*, C.D. Howe Institute, 2011, p. 4

investments in equipment and of labour. As new technologies are introduced and their use expands, commercial practices change throughout the economy and “spillovers” or new opportunities for innovation are created for other businesses. It is concerning, therefore, that ICT investment levels in BC have lagged the Canadian average for at least the last two decades.

**Table 4: ICT Investment in BC Compared to Canada**

Canada = 100	Telecommunications equipment	Software	Computers & related equipment	Total ICT
1990	84.2	86.0	82.1	84.4
2000	76.1	72.9	80.0	76.6
2007	98.3	74.2	86.4	82.2
2011	100.7	77.2	85.8	85.0

Source: Data provided by BC Stats

In order for BC to increase per capita GDP to the Canadian average, productivity must increase substantially. Achieving this goal is unlikely unless businesses substantially increase the level of investment in productivity enhancing equipment. It is of critical importance, therefore, that BC maintains a competitive tax environment for investment in modern productivity enhancing equipment.

## **8. Maintaining BC’s business tax competitiveness**

### **Recommendation 1**

Over the last decade, Canada made major advances in most international rankings of competitiveness. Within Canada, BC’s tax environment for investment in relation to other provinces has also become significantly more competitive.

A commonly-used indicator of the tax burden on investment is the Marginal Effective Tax Rate (METR). The METR is calculated as the pre-tax rate of return minus the after-tax rate of return on a new investment, divided by the pre-tax rate of return. It includes the effect of statutory corporate tax rates, sales taxes on business inputs, investment tax credits and other incentives, capital cost allowance rates, inventory accounting methods, capital taxes, and the ability to deduct interest costs. Finance Canada publishes Marginal Effective Tax Rates (METRs) to compare the tax burden on investment by industry, type of investment, and size of the firm.

In 2011 federal Finance estimated that the METR in BC would fall from 34.0 per cent in 2006 to 16.8 per cent in 2012.<sup>23</sup> Both BC and federal tax changes contribute to the reduction in BC's METR. Both governments reduced corporation income tax rates and increased Capital Cost Allowances for manufacturing equipment and for computers and related equipment. Most of BC's reduction in the METR, however, results directly from replacing the former BC sales tax with the HST – removing sales tax on business inputs. The 2012 federal budget included estimates of the 2014 METRs, after changes announced by federal and provincial governments have been put into effect.<sup>24</sup> Table 5 shows Finance Canada's published METR estimates for 2006, 2012, and 2014, after the changes that have been announced are implemented.

**Table 5: Marginal Effective Tax Rates (%), 2006 and 2012 and 2014  
(BC's rank, 1=highest)**

Province	2006	2012	2014
<b>British Columbia</b>	<b>34.0 (4)</b>	<b>16.8 (5)</b>	<b>27.1 (1)</b>
Alberta	23.4	16.2	16.2
Saskatchewan	30.0	24.2	24.2
Manitoba	39.3	26.3	26.3
Ontario	37.8	17.9	17.9
Quebec	30.3	13.8	13.8
New Brunswick	14.7	1.7	1.7
Nova Scotia	21.3	11.9	11.9
Prince Edward Island	35.1	27.8*	n.a.*
Newfoundland & Labrador	17.6	9.0	9.0

\*P.E.I. has announced that it will replace its PST with the HST in 2013.

Source: Finance Canada estimates

At 27.1 per cent, the METR in BC in 2014 will be the highest in Canada after the PST is re-introduced. (Prince Edward Island – the province with the highest rate now – has

*“When the HST is replaced by the PST/GST, the average METR will [leave] BC with the highest rate among all provinces.”*

(Business Council of British Columbia)

announced its intention to replace its retail sales tax with the HST in 2013.) The Panel heard that BC's business taxes do not need to be the lowest in Canada, but they cannot be significantly

<sup>23</sup> Hon. James M. Flaherty, *Canada's Economic Action Plan – A Seventh Report to Canadians*, 2011, accessed at <http://www.fin.gc.ca/pub/report-rapport/2011-7/ceap-paec-2a-eng.asp>. As these rates were projections made in 2011, the METRs published here do not reflect subsequent changes to federal or provincial taxes. It is the most recent federal Finance comparison of 2012 METRs among provinces.

<sup>24</sup> Finance Canada, *Jobs Growth and Long-term Prosperity: Economic Action Plan 2012*, p. 304

higher than competing provinces' taxes either. A province that is a tax "outlier" faces a disproportionate competitiveness penalty.

*"Most critically, the PST applied to capital inputs such as machinery and equipment, which increased the cost of investing in plants, machinery, equipment, and new technologies like computers and software. The PST made it more expensive for businesses to invest, expand, upgrade, and innovate because it increased the cost of investment"* (Fraser Institute)

When the PST is reintroduced in 2013, businesses will pay approximately \$2.8 billion in sales tax on business inputs annually (about \$2 billion more than under the HST).<sup>25</sup> Nearly \$500 million of PST will be imposed on private sector investment in machinery and equipment including information

and communications technologies. This will increase the METR in BC, to 27.1 per cent according to Finance Canada's calculations for 2014.

Table 6 shows the impact of PST by industry. All sectors of the economy face an increase in their METR, even in manufacturing where machinery and equipment used directly in manufacturing processes is exempt under the PST.

**Table 6: Marginal Effective Tax Rates, British Columbia, by Industry and Sales Tax Regime**

Industry	METR under HST Regime (%)	METR under PST Regime (%)
Agriculture & Fishing	13.5	20.5
Communication Services	15.6	36.9
Construction	19.5	34.1
Forestry	9.2	18.5
Manufacturing Sector	15.4	19.6
Other Services	16.2	32.1
Professional Services	15.3	37.8
Transport & Storage	13.6	22.6
Utilities	15.6	21.8
Wholesale and Retail	18.7	28.1
<b>Total BC Economy</b>	<b>15.7*</b>	<b>27.1</b>

\*This value differs from the estimate of 16.8% in Table 5 because of differences in the tax parameter values assumed in the two simulations.

Source: British Columbia Ministry of Finance

<sup>25</sup> Based on estimates for 2011 prepared by BC Stats.

The METR calculations do not capture the full impact of the PST on BC competitiveness. They take into account only the PST on capital investment. The PST also applies to non-capital inputs that are used in business operations. In fact, the PST paid on non-capital inputs is four to five times the amount levied on capital inputs.<sup>26</sup> The tax on these inputs also has an adverse impact on the competitive position of BC producers, but is not factored into METR calculations, which assume that the tax on non-capital inputs can be passed on to consumers. This is not always the case, for example, where consumers can source goods and services from other provinces which allow a full credit for the tax on business inputs.

However, imposing tax on investment in machinery and equipment is the most harmful aspect of the return to the PST. This conclusion is supported by academic research and by the submissions received from many business organizations. Many groups called for new or expanded exemptions for capital investment, while others called for a restoration of input tax credits available under the HST.

The previous PST provided exemptions for certain machinery and processing equipment used in manufacturing and agriculture.

While these exemptions provided important relief for these sectors, they are limited, complex to administer and, as

the Panel heard, have created significant compliance issues in the past. Refunding the PST on machinery and equipment for all business sectors is simpler and will bring BC's METR back into the mid-range of Canadian Provinces

*“Within the definition of qualifying production machinery and equipment (PM&E) there are two notable exclusions: (a) machinery or equipment used to transport raw materials or finished products from, or between, eligible logging sites (i.e. logging trucks); and (b) equipment used in the construction or maintenance of landings, log haul roads or other roads.”* (Truck Loggers Association)

**Recommendation 1: The Panel recommends that the BC Government provide a fully refundable investment tax credit claimed on businesses' income tax returns equal to the PST paid on all acquisitions of machinery and equipment (including computers and software) but excluding buildings and structures with a capital cost allowance rate of 5 per cent or less.**

Businesses will not be required to separately document the use of equipment and the definition of qualifying capital will be explicitly linked to the definitions in the *Income Tax Act*. The credit will be claimable on all capital acquisitions with a capital cost allowance rate higher than

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<sup>26</sup> Based on data provided by BC Stats.

5 per cent. Where the capital assets are leased, the PST on leasing charges would also be eligible for the investment tax credit.

Any excess of credits over income taxes payable would be refundable. To manage the revenue impact of the ITC, it is proposed that the credit claims be spread over two years in equal amounts. When the BC Government's fiscal circumstances permit, the full credit should be provided in the year that it is earned.

Buildings and structures not eligible for the credit include any component parts such as electric wiring, plumbing, sprinkler systems, air-conditioning equipment, heating equipment, lighting fixtures, elevators and escalators, depreciable at or below the rate of 5 per cent. There is no PST on buildings and structures as such. The tax may apply to the building materials and certain fixtures, which would form only a part of the total cost of the building or structure.

Consistent with the restrictions placed under the HST as well as income tax, the credit would also be denied in respect of the PST paid on passenger automobiles (as defined in Sec 248 (1) of the *Income Tax Act*). Similar restrictions should be placed on the PST paid on private watercraft, yachts, and aircraft not acquired for use in commercial transportation business.

As shown in Table 7, the ITC would substantially reverse the increase in METR as a result of the PST.

**Table 7: Marginal Effective Tax Rates (%), British Columbia, by Industry and with PST before and after the Investment Tax Credit**

<b>Industry</b>	<b>METR under PST Regime, without ITC (%)</b>	<b>METR under PST Regime, with ITC (%)</b>
Agriculture & Fishing	20.5	17.3
Communication Services	36.9	20.0
Construction	34.1	20.6
Forestry	18.5	14.0
Manufacturing Sector	19.6	17.6
Other Services	32.1	19.5
Professional Services	37.8	16.9
Transport & Storage	22.6	18.0
Utilities	21.8	19.7
Wholesale and Retail	28.1	20.8
<b>Total BC Economy</b>	<b>27.1</b>	<b>19.0</b>

Source: British Columbia Ministry of Finance

## **9. The Business Transfer Tax – a long term alternative to the PST**

### **Recommendation 2**

While the investment tax credit will reverse much of the detrimental impact of the PST on the competitiveness of BC businesses, the PST will remain an inefficient method of raising revenue. It is a tax that applies to business inputs at all points in the supply chain and results in cascading or the application of tax on tax. Business inputs account for nearly 45 per cent of the total PST revenue. Consumer expenditures account for the remaining 55 per cent of the PST revenue.<sup>27</sup> However, as a result of the wide range of exemptions, consumer expenditures that are taxable under the PST represent only one-third of final consumption expenditures in BC.

A retail sales tax applied to a narrow base is complex to design and administer. It requires determination of the last point of sale (the retail sale) where the tax applies. This is not easy where vendors make sales at wholesale as well as retail levels. The system is susceptible to leakage when final consumer sales are misclassified as intermediate business sales. Another source of complexity is the delineation of sales of goods from those of services where the two

<sup>27</sup> Based on data provided by BC Stats.

are bundled together. Such difficulties are especially pronounced in the software and digital sectors, where the dividing line between products and services is blurred.

These drawbacks are common to most forms of single-stage taxes on goods, including those levied at the wholesale or manufacturing levels. The federal GST was introduced in 1991 precisely to address these concerns with the federal manufacturers' sales tax. The system of input tax credits for business inputs under the GST eliminated tax cascading, which resulted in incremental growth in GDP of 1.4 percentage points. The replacement of provincial sales taxes by the HST allowed these economic benefits to be replicated in the participating provinces, along with substantial reductions in compliance and administration costs. Single-stage taxes have now been replaced by multi-stage taxes levied on a broad base of goods and services in virtually all advanced jurisdictions (with the notable exception of the retail sales taxes applied by the US States).

The investment tax credit will reduce the effect of the PST on the cost of investing in machinery and equipment but it will not eliminate all tax cascading and the PST will remain a complex and costly tax to administer. Many industry groups asked the Panel to explore alternatives designed for the BC economy (a "made-in-BC VAT"). The Panel spent considerable time reviewing more fundamental reforms of the consumption tax system in BC that would address other flaws in the PST. One reform option that the Panel believes deserves further consideration is the Business Transfer Tax (BTT).

*"A 'Made in BC' VAT would deliver many of the same economic benefits as the HST." "The benefits of a value-added tax are well known. It remains the single best public policy lever to enhance competitiveness of the BC economy."*  
(Coast Forest Products Association)

The BTT is a form of value-added tax that is not calculated on each transaction but on the basis of total sales and purchases reported by a business in its books of account. The calculation of tax in this manner requires a broad base, including virtually all goods and services. The broad base permits the tax to be levied at a much lower rate to raise a given amount of revenue. Moreover, it can be much simpler to comply with and administer. The BTT might not have the advantage of a common administration or using the same base as the other Canadian provinces that have harmonized their sales taxes with the GST. However, it is far more efficient in eliminating tax cascading than the PST and it is simpler to administer.

## What is a BTT?

A BTT is a multi-stage sales tax that applies to the value added at each stage of production and distribution.<sup>28</sup> The value-added at any given stage is defined as the difference between total sales and purchases.

At a very broad conceptual level, the tax for a given tax reporting period would be calculated as follows:

$$\text{Tax} = (\text{Taxable Sales} - \text{Taxed Purchases}) \times \text{Tax Rate}$$

The first variable in the computation above (Taxable Sales) serves to compute the total output tax, and subtracting the second variable (Taxed Purchases) serves the same purpose as allowing an input tax credit. Taxed purchases are those on which the tax is paid by the supplier. Under a value-added tax, a deduction for the tax already paid on taxed purchases eliminates tax cascading.

Taxed purchases in the BTT formula above would generally include only the purchases from dealers registered for tax within British Columbia. Purchases from dealers outside the Province (i.e., imports and inter-provincial purchases) would not be deductible since they would not have paid the BC tax on the sales made to BC dealers.

The most important difference from the GST/HST is that under a BTT these amounts are calculated on the basis of aggregate sales and purchases, as opposed to by adding up the input and output taxes for individual transactions during a reporting period. Using aggregate sales and purchases can be much simpler, but is feasible only if the tax base is comprehensive and the tax is applied at a single rate. Exemptions or multiple rates require segregation of individual transactions and add a great deal of complexity to the computation and administration of the tax.

The Japanese consumption tax comes closest to this model of a value added tax. It is levied on a comprehensive base at a single rate. The New Zealand VAT, though computed on each individual transaction, also has the simplicity of a BTT because of its comprehensive base and single tax rate. Another model of the BTT is the Michigan Modified Gross Revenue Tax

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<sup>28</sup> A description of the BTT is provided in Peter Wood, Satya Poddar, and Morley English, *Business Transfer Tax: An Alternative to the GST?*, a study prepared for the Coalition on GST Replacement (Toronto, Ernst & Young, May 1974). The BTT is also discussed in Charles E. McLure Jr., *The Value Added Tax: Key to Deficit Reduction?* (Washington, DC: American Enterprise Institute, 1987), and Charles E. McLure Jr., "Economic, Administrative, and Political Factors in Choosing a General Consumption Tax" (September 1993), 46 *National Tax Journal* 345-58, and Jonathan R. Kesselman, "Assessing a Direct Consumption Tax to Replace the GST" (1994), 42 *Canadian Tax Journal* 709-803.

(MGRT) introduced in 2008. It is levied at the specified tax rate on the difference between total sales and purchases.

In defining taxable sales and purchases for any consumption tax, including a BTT, there are some important considerations that must be addressed:

- Rules are needed to specify how sales and purchases are to be measured and the period in which they are to be reported. If the tax base is comprehensive, sales would include revenues from the supply of any goods, services or real property.
- To limit the application of tax to consumption expenditures, purchases (which are deducted from the base) are defined to include all current input costs, as well as the full amount of capital expenditures (e.g., purchases of fixed assets or inventory) in the period they are incurred.
- Under the destination principle, the application of tax is limited to sales for consumption within the jurisdiction. Thus, sales do not include export sales, or sales to other provinces (in the case of a tax levied at the provincial level). By the same token, goods and services imported from abroad or from other provinces for consumption within the jurisdiction are fully included in the base. Imports or inter-provincial purchases are excluded from the measure of taxed purchases, since the non-resident suppliers of such goods and services would not have paid any tax of the destination province (BC).

### **BTT compared to the PST and the HST:**

The BTT has a much broader base than the HST which is currently applicable in BC and in the other participating provinces in Canada. As a result, the BTT rate can be much lower to yield a given amount of revenue. The Panel estimates that the revenue-neutral BTT rate could be between four per cent and five per cent to raise the same revenue as under the PST. Its broad base would lead to a significant improvement in tax compliance, and reduce the need for many of the tax rebates and credits that are a feature of other consumption taxes.

*“Broaden the scope, reduce or eliminate the exemptions and reduce the rate.”* (CFIB survey respondent)

A broader base offers opportunities for simplifying the operation of this tax. The HST legislation and rules stretch into hundreds of pages, drawing fine distinctions between taxable and non-

*“Please limit the amount of exemptions. The more you make the more people find loop holes, and cheat. Keep it as simple as possible so everyone can follow it.”* (CFIB survey respondent)

taxable supplies. Elimination of these distinctions permits the BTT to be levied and computed on the basis of aggregate cash flows, or such other proxy measures of sales and purchases. The BTT legislation can be much simpler, reducing the costs of compliance as well as

administration. The BTT would also be simpler than the PST, which is replete with arbitrary and complex distinctions between taxable and exempt sales, manufacturers and non-manufacturers, tangible personal property and real property, and goods for final consumption and for resale or intermediate use.

The New Zealand Goods and Services Tax (GST), the base of which comes closest to that of a BTT, offers a glimpse of the extent to which legislation and operation of the tax can be simplified. The GST legislation (including schedules, rules, regulations, and interpretations) in New Zealand is a small fraction of its counterpart under the HST. It can all fit into a small pocket-size book. The group in charge of ongoing review and updates of the GST legislation consists of just two people in the New Zealand Treasury Department, who have plenty of time to attend to the frequent dignitaries from abroad who visit the Department to study the system.

The Panel believes the merits of a more comprehensive and simpler tax in the form of a BTT warrant its serious consideration by the BC Government. It would be a fairer and more efficient tax, providing a boost to investment and economic growth. With reduced risk of leakage, it would also provide a more secure and stable revenue base.

**Recommendation 2: The Panel recommends that the government appoint a task force to explore and fully develop the design of a BTT.**

Among the key issues to be examined by the task force would be the linkages between a BTT and the HST, specifically, in defining inter-provincial sales and purchases, and whether the tax could be administered and collected by the Canada Revenue Agency. This would mean that BC businesses would have to deal with only one administrator.

## **10. Reducing compliance costs by streamlining the PST**

### **Recommendations 3 to 19**

BC businesses are incurring significant transition costs while preparing for the implementation of the PST next April. They must upgrade their point of sale equipment, train employees, and develop the record keeping systems needed to correctly collect and remit the PST. After the PST is in place, BC businesses will continue to pay ongoing costs in complying with two sales taxes; the PST

*“There are now more than 30,000 businesses, many of them small, independent retailers, who were not around when the transition to HST took place. These businesses will now need to be oriented on what the rules are with regards to a dual tax system as well as what their obligations will be.”*  
(Retail Council of Canada)

and the GST. Businesses will incur costs filing PST returns, providing ongoing training for employees, and dealing with two administrative bodies. A large number of businesses have started operations since the HST was implemented in July 2010. Most of these are small vendors who do not have previous experience with the requirements of the PST. Compliance costs fall disproportionately on small businesses. A survey of small businesses undertaken by the CFIB for the Panel earlier this year suggested that small businesses will have to pay an average of \$3,051 in transition costs alone.

There are few, if any, recent studies of compliance costs associated with retail sales taxes in a Canadian setting. An extensive survey of retailers' costs associated with retail sales taxes was conducted in American states in 2003.<sup>29</sup> The costs for vendors of different sizes, estimated from data collected across the US in 2003, are shown below. The study is particularly helpful as it identifies activities with the highest costs.

**Table 8: Gross Compliance Costs as a Percent of Collections by Size of Firm and Category of Compliance Activity – US in 2003<sup>30</sup>**

	Sales \$150K to \$1M	Sales \$1M to \$10M	Sales over \$10M
Training personnel on sales tax	1.87%	0.55%	0.35%
Documenting tax exempt sales	3.80%	0.87%	0.13%
Customer services issues – sales tax	0.74%	0.21%	0.06%
Sales tax software & licenses	1.86%	0.36%	0.06%
Program & service cash registers	1.17%	0.35%	0.10%
Returns, payments, refunds, etc.	5.35%	1.19%	0.12%
Audits and Appeals	1.03%	0.46%	0.12%
Other	1.03%	0.23%	0.05%
<b>Total</b>	<b>16.84%</b>	<b>4.21%</b>	<b>1.03%</b>

The average cost of compliance was 3.09 per cent of sales tax collected.<sup>31</sup> The structure and administration of retail sales taxes in Canadian provinces and American states are quite similar. A Canadian study based on 1995 data estimated that “compliance costs for provincial retail sales tax systems were in the range of about three per cent to five per cent of taxes collected”.<sup>32</sup> There

<sup>29</sup> *Retail Sales Tax Compliance Costs: A National Estimate*; prepared by PwC for the Joint Council of Collection Study (JCCS a non-profit partnership of several major retail chains and tax administrators) in 2006.

<sup>30</sup> The gross costs of compliance exclude vendor commissions and vendors' "float" that result from taxes collected before they are remitted to the government.

<sup>31</sup> *Retail Sales Tax Compliance Costs: A National Estimate*; p. E-1

<sup>32</sup> Cited in *Cutting the Costs of Tax Collection Down to Size: Estimating the Magnitude of Compliance and Administrative Costs of Canada's Tax Systems — and the Impact of Single Administration*, Robert E. Plamondon, C.A. p. 30. A study prepared for the Canada Customs and Revenue Agency in 1997 and downloaded from

is no reason to believe that costs will be lower now. Since then, the number and complexity of exemptions has grown and multiple rates are now features of the PST.

Accordingly, it is reasonable to expect that complying with the PST will cost BC businesses between \$100 and \$200 million annually. The additional cost will place BC businesses at a competitive disadvantage in relation to international competitors and provinces where only one sales tax is in effect. In 2013, this will include every province except Saskatchewan and Manitoba.

*“Exemptions are what cause the most issues when we have an audit. The exemptions are sometimes poorly defined or are open to interpretation.”* (CFIB survey respondent)

The largest cost components are documenting tax exempt sales, filing returns, making payments, and training staff. The effort required in these areas is entirely a function of the rules and administration of the sales tax. The World Bank and PwC publish an annual international comparison of the burden of tax administration and compliance.<sup>33</sup> The comparison measures the time needed to meet filing and remittance requirements for all taxes (estimated for a standardized medium sized business) in 183 countries. General conclusions drawn from this international comparison are that time and costs are greater when rules are complex or ambiguous, and when filing and payment frequencies are higher. Paper based filing and record keeping are costly from both businesses’ and administrators’ perspectives. Rules that are seen as unfair or especially vulnerable to abuse may undermine the legitimacy of the tax. Voluntary compliance rises with the ease of meeting administrative requirements.

*“If taxes are fair and reasonable people may be more willing to pay them.”* (CFIB survey respondent)

*“The old PST system was confusing and unfair with countless exemptions. ... Please keep it simple and uniform, so as a business we can be relatively confident that we are onside with the rules.”* (CFIB survey respondent)

Legislators and administrators should consider complexity and compliance costs carefully in the course of designing and amending PST rules, regulations, and administrative policies. The reintroduction of the PST in BC is an opportunity to reassess features of the former PST that were excessively complex, difficult to administer, and costly to comply with.

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[http://www.ppforum.ca/sites/default/files/Tax\\_Collection\\_Costs.pdf](http://www.ppforum.ca/sites/default/files/Tax_Collection_Costs.pdf). This research is also cited in *The Hidden Tax Burden: A business perspective on the cost of complying with taxes*, published by the Canadian Federation of Business in 2008.

<sup>33</sup> PwC and World Bank/IFC, *Paying Taxes 2012 - The global picture*

The Panel made a number of administrative recommendations to simplify and streamline the administration of the PST in a March 28, 2012 letter to former Minister of Finance Falcon. Some of these were announced when the PST legislation was introduced on May 14, 2012 (reproduced in Appendix A):<sup>34</sup>

- The existing federal business number (BN) will be adopted for PST registration;
- The eight per cent Hotel Room Tax will fall under the PST legislation, eliminating separate registration, remittances, and returns, as well as reducing paperwork;
- The dates of filing and remittances for the PST and GST will be aligned at the end of the month following the reporting period for monthly filers;
- Retailers will be allowed to refund tax to their customers in a broader range of circumstances;
- The Ministry will use plain language in drafting legislation, regulations, and in all communications related to compliance;
- The Province has updated the Taxpayer Fairness and Service Code to reaffirm the Government's commitment to fairness and service values, and taxpayers' right to courtesy, respect, confidentiality, fair treatment, help, information, dispute resolution and timely appeals;
- Businesses that collect and remit tax will again receive a commission of up to \$198 per reporting period.

*“Under the PSTA, the due date for PST2 returns has been extended from 15 days after the end of the previous month to a full month after that date. This is a welcome change, and will result in fewer amended returns.”*  
(Tax Executives Institute)

The Panel heard several organizations express their appreciation that the BC Government took these steps to streamline and improve PST administration. The Panel received numerous recommendations and suggestions for further actions to reduce the complexity and costs entailed in the re-implementation of the PST.

*“Our primary goal is a tax system that is simple and easier to administer. We appreciate that the Ministry of Finance has adopted a number of recommendations set out in the progress report of this panel including changing filing deadlines and affirming the Taxpayer Fairness and Service Code.”* (BC Wharf Operators' Association)

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<sup>34</sup> BC Ministry of Finance Fact Sheet, May 14, 2012.

Four principles were used to prioritize recommendations to streamline the application and reduce the time and cost of compliance with the PST.

1. Focus on areas with undue complexity and potential for abuse;
2. Prioritize improvements in areas that offer both economic benefits and ease of compliance;
3. Protect the integrity of the PST and the BC Government's revenue; and,
4. Where the reduction or elimination of exemptions increases PST paid by consumers, the effect on low income people should be offset through targeted credits.

### **Recommendation 3**

The Panel heard that one of the most complex and costly compliance areas for retailers is the exemption for adult sized children's clothing and footwear. The former PST provided an exemption for clothing purchased for children under age 15. Under the HST, no sales tax is charged on items of children's clothing items under specified sizes. When clothes or footwear in adult sizes are purchased for children under 15, the vendor must complete and retain a certificate that identifies the date of purchase, the invoice number, the price, the purchaser's address and telephone number, and the purchaser's signature.<sup>35</sup> The retailer must retain the list and if the information is incorrect or incomplete the vendor may be liable for the tax.

*"Where the exemption is based on the size of the clothing and footwear, it is clean, clear and simple: If the size tag identifies the garment or shoe as one that can normally be worn by only a child – it is tax free."* (Retail Council of Canada)

This information is provided on a prescribed list (referred to as a certificate) where the personal information of the previous claimants may be visible to other purchasers. The form is completed by the cashier and the buyer when the sale is made. The process raises privacy issues and is time consuming not only for the cashier and the purchaser, but also for other customers waiting to be served.

*"We would prefer a clearer model for the PST exemption on clothing and footwear for children under 15, Prefer to just go by size and do away with collecting of customers names etc. when purchasing items for their children who wear adult sizes."* (CFIB survey respondent)

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<sup>35</sup> BC Ministry of Finance, *Bulletin SST 009 Children's Clothing*

*“Completion and verification of the certification form takes time – which can be an irritant and inconvenience to other customers who are waiting in line to make their transaction.”* (Retail Council of Canada)

The Panel concluded that this process is almost certainly ineffective in preventing the exemption from being misused. Information on purchasers is presumably collected to allow auditors to follow-up with the purchaser to ensure that the items were bought for a qualifying child. In addition to the inefficiency of pursuing purchasers to enforce the provisions of the exemption, it is unlikely that the information provided by the customer could be used to establish that the articles were not intended for a child under age 15 in any case. The buyer does not need to be the parent or guardian of a child

under age 15 – the purchase could be intended as a gift, for example. As the required forms are paper lists of purchases and purchasers held at each retail outlet, there is no practical way for administrators to determine how often individual purchasers use the exemption. The potential for abuse of the certificates is quite large.

The Panel also heard that audits frequently targeted the children’s clothing exemption and that errors in the recorded information resulted in reassessments of the retailer’s sales tax liability. The Panel was also told that, in the past, vendor liabilities for PST were based on extrapolations from small samples. If the certificate system is retained, these practices should not be resumed when the PST comes back into force. The onus for compliance with this exemption should rest with the purchaser not the vendor. Only the purchaser knows whether the item is intended for a qualifying child. At the same time, the wide scope of the exemption and the small amount of tax involved means pursuing purchasers is hardly an effective use of auditors’ time.

If the PST administration does not make use of the information on the certificates to enforce compliance on the part of purchasers, it should not be collected. Its utility as a deterrent to purchasers abusing the exemption is questionable. All these administrative and compliance issues would cease if the certificates were replaced by an alternative method of delivering PST relief for purchases of these items.

**Recommendation 3: The Panel recommends that the sized-based point of sale exemption for children’s clothing should be retained in the same form as under the HST and the former PST. The point of sale certificates for adult sized clothing purchased for children under 15, however, should be replaced by a system under which parents or guardians would keep their receipts and use them to claim an annual refund of the PST paid on these items.**

#### **Recommendation 4**

The former PST also provided an exemption for school supplies purchased for students. This included items such as educational books, certain kinds of pens and pencils, erasers, some paper supplies, binders, and other items.<sup>36</sup> While the exemption for school supplies does not require a certificate from the purchaser, the definitions are often hard to apply, and are poorly targeted. The Retail Council of Canada's submission describes the process.

*“When making such purchases:*

- 1. Customers need to bundle all items they claim are for school supplies.*
- 2. Cashiers need to review the Bulletin SST 012 to ensure all the items qualify for the exemption.*
- 3. Cashiers are often challenged on qualifying items. Customers feel that the list is not all encompassing, leaving many decisions to the discretion of the cashier.*
- 4. Cashiers then need to manually override the SST tax on each qualifying item.*

*This slows down the checkout process to ensure that the retailer has handled the administrative requirements to process conditional exemptions. As the SST 012 has many contentious items that turn the onus on the cashier's discretion, they often become audit issues.”<sup>37</sup>*

There is also scope for revenue leakage. The administrative policies developed when the former PST was in place produced many arbitrary distinctions that are hard to rationalize and defend – sometimes creating disputes between customers and retailers' employees. The definitions are often vague, judgment is required, and individual auditors may arrive at different interpretations, resulting in inconsistent application of the tax.

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<sup>36</sup> Ministry of Finance, *Bulletin SST 012 School Supplies*

<sup>37</sup> Retail Council of Canada, Submission to Expert Panel on Business Taxation, June 19, 2012, p. 4

*“The return of the provincial SST (Social Services Tax) needs to be simplified and consistent. Example: If we sell a pencil to both an architect and an artist that have an SST exemption number. We charge the architect the tax but not the artist, because the tax is based on how a product is used. I can give over 50 examples where we need to know how our customers will use the product. That is, will it become part of the finished product, or be exempt from one of the hundreds of explanatory tax release notices.”* (CFIB survey respondent)

The previous exemption was based on a concept of school supplies that no longer reflects conditions in modern classrooms. The Panel favours replacing exemptions, particularly those that are conditional on use, with more efficient ways of assisting the intended group or activity.

In the case of school supplies, an enhancement of the sales tax credit to adequately offset the PST on school supplies for lower income parents with school aged children should replace the exemption for school supplies. Assistance in this form would target the relief to school children more effectively, and cover a more flexible selection of supplies. It would relieve administrators and vendors from the requirement of classifying products into exempt or taxable categories.<sup>38</sup>

**Recommendation 4: The Panel recommends that the exemption for school supplies be discontinued and replaced by an increase in the sales tax credit sufficient to offset the increased PST on school supplies for lower income families.**

### **Recommendation 5**

The former PST exempted basic telephone and cable services. The exemption creates inequities among users of the many technologies available to provide the same service. Basic cable television service is exempt but it is not available in all areas of the Province. Satellite subscription services, which may provide the only access to television in remote areas, are taxable. Telecommunications and television services are frequently bundled together, creating complexity and requiring constant updating of the rules to separate taxable from non-taxable services. With continuing technological changes, this exemption will only grow more archaic and arbitrary in the future. In

*“We charge/collect the PST on items we believe are taxable but some customers disagree with our interpretation – for example on pre-paid long distance phone cards – and can get quite obnoxious and threatening. Some stores collect PST on certain items while others don’t. It’s a mess.”* (A Retail Council of Canada member in Abbotsford)

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<sup>38</sup> School districts also qualify for the exemption for school supplies. The BC Government should consider adjusting its support for school districts to compensate for the loss of the exemption.

the Panel's view the effort required to keep this exemption current is simply not worth the time and cost.

**Recommendation 5: The exemption for telephone services and basic cable services should be removed and the sales tax credit should be increased to reduce the impact of this change on lower income British Columbians.**

### **Recommendation 6**

Goods purchased for resale are exempt under the PST. It is presently difficult for sellers to verify that the purchaser has a valid registration number. This is an area with a substantial potential for revenue leakage.

**Recommendation 6: All valid PST registration numbers should be accessible on-line to registered vendors.**

This will allow vendors to protect themselves against abuse of the exemption for goods purchased for resale and help the BC Government protect PST revenue.

### **Recommendations 7 and 8**

Changes in partnership interests can trigger PST liabilities, creating inequities with other forms of business organization.

**Recommendation 7: Partnerships are considered as a person under the *Excise Tax Act* and should be treated in the same way under PST legislation.**

**Recommendation 8: The ownership threshold for tax-free related party transfers should be reduced from 95 per cent of voting shares to 90 per cent, the same threshold as used under the *Excise Tax Act*.**

The principle underlying this rule under the two Acts is the same and the provision should be aligned.

### **Recommendation 9**

Concepts and terms such as "purchase price" and "substantially" for example, should be matched as closely as possible to those used to define these concepts in other taxation statutes.

**Recommendation 9: Whenever it is possible, definitions should be linked to similar provisions in other taxing statutes to reduce the proliferation of unique concepts and terms in PST legislation.**

**Recommendation 10**

*“PST exemptions should be simplified by designating all equipment within a manufacturing site exempt under the Production, Machinery and Equipment Exemption.”* (Spectra Energy)

Under the former PST the exemptions for equipment and supplies used in manufacturing, farming, and fishing were conditional. The exemption was limited to specific equipment and supplies, and it had to be used in a qualifying activity. The purchaser had to certify that the supply was intended for a qualifying purpose.

However, the vendor could also be liable for an assessment if it was held that there was reason to believe the purchaser did not qualify for the exemption. In the Panel’s view, the liability for remitting PST on supplies that are conditionally exempt should fall on the purchaser rather than on the vendor. It is the purchaser who holds the information needed to determine whether or not the purchase qualifies for an exemption. The vendor should be liable for an assessment only when it can be demonstrated that he/she accepted a purchaser’s claim in bad faith. While adopting this approach may result in a delay before the Province collects the tax, the total liability is not affected.

Certain equipment purchased by manufacturers and processors may be used for purposes other than in the manufacturing process itself. Examples related to the Panel include loading equipment that is exempt if used inside a plant but taxable if it is used outside the plant. Documenting the allocation of uses

*“The former PST was a nightmare for manufacturers - even the PST auditors couldn't figure out what it applied to and what was exempt. If you bought a rag for one purpose then used it for another you had to fill out some forms and send the government 8 cents.”* (CFIB survey respondent)

between taxable and exempt activities is frequently onerous. In other cases computers that are incorporated into manufacturing and processing equipment are exempt, but if they are not a part of the equipment they control they are taxable. If the Panel’s recommendation to provide an investment tax credit for capital investments is implemented, many of these distinctions would lose their significance for both businesses and the BC Treasury.

**Recommendation 10: The Province should allow all sales to manufacturing plants to be sold without charging PST and all equipment should be exempt regardless of whether it is used directly in manufacturing. Manufacturers would be responsible for self-assessing PST on purchases that do not qualify for an exemption.**

### **Recommendation 11**

To qualify for the exemption for out of province sales under the previous PST, a vendor had to deliver the product or arrange for its delivery by a third party carrier.

**Recommendation 11: BC businesses that make sales to an out of province commercial purchaser should not have to collect PST regardless of how the product is delivered if they have adequate documentation that the sale was for export.**

The rules for out of province sales under the PST should be harmonized with those under the HST.

### **Recommendations 12 and 13**

Several submissions pointed out that out of province suppliers are required to register, collect, and remit PST on sales to BC businesses. As businesses with a presence in BC are also required to self-assess PST on their imported purchases, this rule creates an unnecessary administrative requirement. The recommended approach would eliminate the administrative workload related to registering vendors who do not have a presence in BC.

*“The PSTA contains a provision requiring certain suppliers ... not resident in the Province, to register and collect PST2 on sales to both retail and business customers. This requirement is unnecessary with respect to sales to businesses already resident and registered in British Columbia since the PSTA already requires them to self-assess PST2 on import purchases.”* (Tax Executives Institute)

**Recommendation 12: Business purchasers should not be required to pay PST on purchases from out of province suppliers, but simply self-assess and remit the tax directly.**

**Recommendation 13: The provision governing waivers of appeals while firms are under audit should be revised so that a person under audit may cancel a waiver on 60 days’ notice as permitted under the *Excise Tax Act*.**

This would expedite resolution of issues under dispute by allowing taxpayers to initiate more timely challenges to assessments and resolve legal disputes more quickly.

#### **Recommendation 14**

The former PST legislation contained a provision that permitted taxpayers to appeal assessments to the Minister. It is important that taxpayers have access to an inexpensive, arm's length appeal process that is seen to be impartial.

**Recommendation 14: Rather than the Minister hearing appeals of provincial tax assessments, an independent commissioner should be appointed.**

#### **Recommendation 15**

Under the HST, the BC and federal governments paid the HST on their purchases and vendors did not have to determine whether the purchaser was exempt. Under the former PST each government was exempt from the other's tax, creating compliance issues for vendors making sales to provincial or federal government entities.

*“Providing exemptions from PST for the federal government and its related entities and obtaining and storing the documentation to validate such exemptions is time consuming and costly for businesses. The same is true of exemptions from GST for the provincial government and its related entities. The federal and provincial governments should agree to pay each other's taxes and recover those taxes through a rebate program rather than force businesses to undertake costly system changes and document retention processes.” (TELUS)*

**Recommendation 15: The BC and federal governments should negotiate an agreement for each government to pay the other's sales tax and settle the resulting net sales tax revenue flow with each other without involving vendors.**

#### **Recommendation 16**

Under the HST businesses dealt with a single administrator. After the PST is re-implemented two agencies will be performing many of the same functions, potentially creating unnecessary duplication of compliance activities and costs on the part of both businesses and administrators.

**Recommendation 16: The Ministry of Finance and the federal officials should cooperate to reduce duplication by tax administrators and compliance costs for businesses wherever opportunities arise, including coordinating their registration, education, and audit efforts.**

## **Recommendations 17 and 18**

The ability to register, file returns, and make payments electronically provides significant benefits to both businesses and administrators. It reduces the number of errors and the inherent inefficiency of paper-based records. Electronic records allow administrators to assess potential collection and audit risks more effectively.

**Recommendation 17: The Ministry should work with businesses to develop options to register and file returns on-line.**

**Recommendation 18: Electronic storage of records and documentation of exempt transactions should be accommodated as quickly as possible.**

*“Hopefully we can perform this efficiently with more web based services.”* (CFIB survey respondent)

The Panel believes that these measures will significantly reduce the ongoing compliance costs that businesses will face after the PST is re-introduced. The recommendations place the onus for compliance on the party that has the information needed to determine liability for the tax, and address areas where there is substantial potential for tax leakage. They are expected to increase voluntary compliance and help protect the BC Government’s revenue.

## **Recommendation 19**

Audits and enforcement activities are a necessary and unavoidable feature of all taxes. As there is substantial cost and effort required on the part of businesses that are being audited, the Ministry should ensure that audit and enforcement activities are prioritized on the basis of risks to PST revenue. Fewer, more effective audits would significantly reduce compliance costs, increase the productivity of audit activity, and reduce taxpayers’ annoyance with frequent audits.

Retail sales taxes are more complicated and entail higher compliance and administration costs than alternatives that target end user consumption directly. It is another reason why, over the medium term, the BC Government should consider alternatives to the PST that are simpler and more efficient. At the same time, the Panel believes that there are measures in addition to those recommended in this Report that could reduce the complexity and the administrative and compliance costs associated with the PST. These include replacing point of sale exemptions with more effective ways of targeting relief for lower income people and families, ensuring that rules and administrative policies are clear and consistent, and developing audit and enforcement policies that focus on the most significant risks to the tax base and the integrity of the PST.

Reducing compliance costs should be an area of ongoing attention and improvement by the Ministry of Finance. At present, there is no objective tracking of the compliance burden placed on businesses by exemption policies or administrative practices. Such tools are available and could provide a useful indicator to both legislators and administrators of the effect their actions have on business costs.<sup>39</sup>

*“The goal should always be streamlining the process - to keep the cost of collection and remittance down. ... it is important to the economy of BC that the cost of doing business in the province be competitive.”*  
(British Columbia Printing & Imaging Association)

**Recommendation 19: The Ministry of Finance should develop a benchmark that tracks the time and cost required to comply with provincial taxes, monitor, and regularly publish the results.**

## **11. BC’s tax incentives**

### **Recommendations 20 to 23**

Along with most provinces, BC has introduced a number of personal and corporate income tax credits and incentives to support various activities and sectors. The value of these credits has more than doubled since 2004/05 as shown in Table 9.

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<sup>39</sup> The methodology developed by PwC for the World Bank and IFC’s *Doing Business* project and published in its *Paying Taxes* series, may be applied or adapted for use in BC. See *Paying Taxes 2012 - The global picture*, p. 95 Accessed at [www.pwc.com/payingtaxes](http://www.pwc.com/payingtaxes).

**Table 9: BC Business Tax Credits and Incentives – Estimated Cost  
Selected Years 2004/05 to 2011/12**

BC Business Tax Credits and Incentives (\$M)	2004/05	2006/07	2008/09	2010/11	2011/12
<b>Personal Income Tax</b>					
Training tax credit	-	-	15	20	20
Venture capital tax credit	24	20	25	25	26
Employee venture capital tax credit	5	4	2	2	2
BC mining flow-through tax credit	-	8	16	7	4
<b>Corporate Income Tax</b>					
Training tax credit	-	-	5	11	11
Film and video tax credit	27	35	79	52	57
Production services tax credit	43	95	120	147	162
International business activity program (includes employee income tax refunds)	7	2	20	15	25
Scientific research and experimental development tax credit	95	117	136	160	138
Mining exploration tax credit	3	6	10	25	25
Interactive digital media tax credit	-	-	-	14	35
<b>Total</b>	<b>204</b>	<b>287</b>	<b>428</b>	<b>478</b>	<b>505</b>

Source: British Columbia Ministry of Finance, *Budget and Fiscal Plan* various years

Some of these credits, for activities such as scientific research and development, training credits for the trades, and credits to encourage venture capital investments, are accessible to broad sections of the BC economy. Others are more narrowly targeted to specific industries. These or similar credits are available in most other provinces. Their effectiveness in enhancing overall competitiveness is a matter of ongoing debate.

*“Many of these credits have questionable economic value, while others reward activities that would have still been undertaken in the absence of the tax credits.”* (Fraser Institute)

*“While BC’s approach to targeted incentives is measured and well thought-out, there are opportunities to build on this approach and include other sectors with significant growth potential.”* (Vancouver Economic Commission)

*“We do encourage the government to review current industry- and activity-specific incentives and determine whether they should be maintained in their present form once the province has transitioned back to the PST.”* (Business Council of British Columbia)

## **Training tax credits:**

The Panel heard that many sectors are experiencing considerable challenges in finding workers with appropriate skills. The reasons are varied and in some industries involve such factors as location or housing costs. Some industries pointed to a mismatch between their needs and the training that potential employees receive. Other employers may find it more cost effective to hire fully qualified tradespeople rather than incur the costs of training apprentices even after the tax credit support is taken into account. Smaller businesses may find the programs too burdensome from both administrative and operational perspectives.

The role that BC's training tax credits have in increasing the supply of appropriately trained employees is unclear. The federal government provides tax credit support for both apprentices and employers in the Red Seal trades. Most provinces' tax credits are integrated with the federal program and have additional provincial tax credits for other trades. There are differences in the levels of tax credits and in their emphasis among provinces. Ontario, for example, has a much more generous credit for employers sponsoring apprentices than BC's but, unlike BC, does not provide tax credits to support apprentices directly. Unlike BC, Ontario does not have a sunset provision on its training tax credit.

The supply of skilled labour is an issue that deserves more attention and study. The provincial skills training programs, including the apprenticeship tax credits, should be assessed for their effectiveness in meeting skilled labour needs in BC. Improving their responsiveness to skilled labour shortages could make a cost-effective contribution to improving productivity in BC.

## **Scientific Research and Experimental Research and venture capital tax credits:**

Canada's private sector R&D has chronically lagged its industrialized country peers. Despite having one of the most generous tax credits – the Scientific Research and Experimental Development tax credit (SR&ED) – and a strong record of post-secondary research, the gap between Canada's and other countries' performance has widened in recent years.<sup>40</sup>

Following the Report of an Expert Panel appointed by the federal government and chaired by Thomas Jenkins, the federal government introduced changes in the federal SR&ED credit.<sup>41</sup> These include reductions in the tax credit rate and restrictions to the non-labour expenditures that

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<sup>40</sup> Hon. James M. Flaherty, *Jobs Growth and Long-term Prosperity: Economic Action Plan 2012*, Finance Canada, p. 56

<sup>41</sup> Thomas Jenkins, et. al., *Innovation Canada: A Call to Action, Review of Federal Support to Research and Development – Expert Panel Report*, Public Works and Government Services Canada, 2011

qualify for the credit that will take effect in 2014. The SR&ED tax credit has been criticized as being complex and the federal government is studying ways to make the credit more accessible to smaller and medium sized firms.

### **Recommendation 20**

The federal government has also introduced measures to encourage more venture capital investment in commercializing Canadian discoveries and innovations. The unsatisfactory rate at which BC discoveries are developed and commercialized locally is an issue that the Panel heard throughout its consultations. The vast majority of firms in this sector are small and access to capital was identified as a reason why there are relatively fewer mid-sized and larger technology businesses in BC. The Panel was advised that there may be some opportunities for the BC Government to coordinate the Province's venture capital programs and tax credits with the new federal initiatives. The BC Government is expected to realize some savings in the provincial SR&ED credit from the federal changes to the SR&ED credit and some of these savings could be applied to improving and aligning BC's venture capital programs with the federal government's initiatives in this area.

*“With only 3.5% of companies categorized as mid-sized, BC's technology industry lacks a ‘middle class’.” (BC Technology Industry Association)*

**Recommendation 20: The BC Government should engage with the federal government in a discussion on how the two governments' venture capital programs could be better aligned to address BC's goals in commercializing local scientific and technological discoveries.**

### **Recommendation 21**

BC, like most other provinces, provides a provincial SR&ED credit (calculated as 10 per cent of BC expenditures eligible for the federal credit). The Panel heard that the time limit, or sunset provision, in BC's SR&ED credit creates uncertainty and may be a deterrent to attracting some long term investments that would make ongoing use of this credit. Removing the sunset provision will provide more predictability for businesses considering significant research investments in BC and make BC's tax incentives easier to explain to investors abroad.

*“The BC government can reinforce its long-term commitment to technology and innovation by enshrining the provincial SR&ED program ... thereby eliminating the need for future extensions of the program.” (BC Technology Industry Association)*

**Recommendation 21: That the sunset clause for the SR&ED credit be removed and this credit be made an ongoing feature of BC's taxation system.**

**Tax credits for the screen based industries:**

**Recommendation 22**

Decisions on where film and television productions are produced are highly sensitive to tax incentives. The Panel heard that many segments of these industries are extremely mobile and that their production and investment decisions are largely driven by costs after tax credits are taken into account.

Tax credit competition among North American and other jurisdictions is intense and credits for all segments of the screen based industry have proliferated. Almost all Canadian provinces and many American states now offer tax credits to attract and support industry activity in their jurisdictions.

BC has important natural advantages for these activities including an unmatched natural setting and sharing the same time zone with the major producers in California. However, in the last several years Ontario and Quebec have repeatedly enhanced their tax credits to support both their domestic industries and to attract foreign film productions. During the last decade the BC Government also increased provincial film tax credits substantially and introduced the Interactive Digital Media Tax Credit. Since 2004/05, the value of the tax credits provided to the film and television production industry has more than tripled.

*“Ontario and Quebec have raised their tax incentives on several occasions to levels that exceed those in BC. Although significant differences remain, BC has increased its support in order to maintain a competitive business environment and to protect its long term investment in human and physical infrastructure.” (British Columbia Film + Media)*

**Table 10: Estimated Value of BC Film and Related Tax Credits**

(\$M)	2004/05	2011/12
Film and video tax credit	27	57
Production services tax credit	43	162
<b>Total</b>	<b>70</b>	<b>219</b>

Much of the increase in the cost of tax credits for these industries is the result of enhancements to the tax credit rate and expanded coverage of activities rather than growth in this sector. In 2011 film and television production spending in BC was virtually the same amount as it was in 2000.

BC's tax credits are funding a growing share of the film production industry's costs and there is little doubt that this is the case in other provinces as well.

**Table 11: Film production spending in BC – 2000 to 2011**

(Canadian \$M)	2000	2001	2002	2003	2004	2005
Service Spend in BC	761	857	830	1,235	587	1,009
Domestic Spend in BC	419	252	164	169	214	225
<b>Total</b>	<b>1,180</b>	<b>1,109</b>	<b>994</b>	<b>1,404</b>	<b>801</b>	<b>1,234</b>

(Canadian \$M)	2006	2007	2008	2009	2010	2011
Service Spend in BC	950	536	841	1,099	778	980
Domestic Spend in BC	278	408	366	218	244	209
<b>Total</b>	<b>1,228</b>	<b>944</b>	<b>1,207</b>	<b>1,317</b>	<b>1,022</b>	<b>1,189</b>

BC has developed substantial infrastructure to support these industries and has the facilities and skilled labour required to support major productions. Ontario and Quebec also have well developed infrastructure and presently have more generous tax credits than BC. Representatives from the industry indicated that some segments of the BC industry are struggling to attract new investment and maintain production activity. The Interactive Digital Media Tax Credit provided to the electronic gaming industry has only been in effect since 2010. Until recently, that industry had grown rapidly in BC but continued growth is now challenged by more generous tax credits in Ontario, Quebec and several states.

It is highly uncertain whether the most mobile segments of this industry – film production services, for example – would remain in any jurisdiction that eliminated its tax credits.<sup>42</sup>

Whether the incentives provided by BC are generating more benefits to the BC economy than if these funds were applied to reduce general business taxes is an issue the Panel was unable to resolve to its satisfaction. The Panel heard diverse opinions on this issue. It understands that the BC Government and the industry are conducting research to estimate the indirect economic effects of the activity in this sector.

<sup>42</sup>In 2009, the New York state legislature failed to approve the pre-existing film and television credit and, as a result, New York was unable to offer the subsidy to productions for part of the year. Without the tax credit, new television pilots filmed in New York declined from 20 to 4 productions, an 80% decrease over the previous year. In the following season, when the credits were reinstated, television pilots filmed in the state rose from 4 to 22. Source: Kong, Michael B. and Aniruddha R. Bette. There's No Place Like Home: Bringing Film & Television Production Home to California, February 2012, cited in BC Film + Media's submission to the Panel.

Unrestrained tax credit competition by provincial governments to draw the activities of these highly mobile industries from other provinces is clearly expensive and counterproductive.<sup>43</sup> It is unlikely that the overall level of production activity would be affected greatly if the credit rates in every province were reduced. However, there is no indication that provinces are prepared to address this particular “race to the bottom”. There is little evidence that the successive increases in these incentives have produced a stable competitive advantage for any of the participating provinces. BC has important natural advantages in this industry and could compete more aggressively, but there is no reason to believe that any increase in the tax support for these industries – already at significantly higher levels than for other sectors – would not be immediately matched by the Province’s major competitors. The Panel is not optimistic that an effective agreement among provinces to create a more stable and affordable incentive regime can be reached, however, the benefit to all provincial governments of a coordinated policy is sufficiently large to make the effort worth undertaking.

The Panel heard that many of the activities in this sector are highly capital intensive and that the industry is quite concerned about losing the input tax credits it receives under the HST. Along with other sectors, the screen-based industries will benefit from the investment tax credit proposed in this Report.

*“This industry makes large capital investments in infrastructure (estimated to be in excess of \$1Billion to date according to the Motion Picture Production Industry Association - MPPIA). As this is an increasingly technology driven sector, continued investment in IT is also required in order to keep current and competitive.”* (Canadian Media Producers Association)

**Recommendation 22: In light of the urgent need to address BC’s overall tax competitiveness, the tax credits directed to the screen-based industries be maintained but not increased.**

## **The International Business Activity Program:**

### **Recommendation 23**

The International Business Activity (IBA) program provides tax incentives to attract international financial and other specified activities to BC. The program offers a full refund of BC income taxes for qualifying corporations’ income from international transactions. The refund for the patent component of the program is 75 per cent to a maximum of \$8 million. Qualifying international activities include a wide range of financial services, activities such as

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<sup>43</sup> The base used to calculate the federal credits is reduced by the amount of the provincial credit. Thus, increases in the provincial credits reduce the cost of the federal film and production services credits.

international film/TV distribution, revenue from licensing and sales, as well as life science and clean energy patents.

In addition to the corporate tax incentive, certain high income employees of registered companies who have relocated to BC can receive a refund of their provincial taxes for five years (100 per cent for the first two years then, 75 per cent, 50 per cent, and 25 per cent). The combined corporation and personal income tax refunds are expected to total about \$25 million in 2011/12. The program is administered and promoted by AdvantageBC.

The program was first established after the federal government introduced incentives intended to promote Vancouver and Montreal as international financial centers. The Province introduced legislation in 1988 to complement the federal initiative. The federal government has since withdrawn its incentives. In 2004 the BC Government replaced the original legislation with the *International Financial Activity Act*. The new legislation expanded the types of corporations that are eligible to register under the Act and extended the program to all areas of the Province. It also expanded the list of eligible activities, to include treasury functions and film distribution. The goals established for the program in 2004 were to attract new international financial businesses to BC, encourage the development of other new international activities such as film and television distribution, and create new well-paid, highly skilled jobs. The program was expanded to include patents in 2005 to help retain and commercialize intellectual property in BC.

The Vancouver International Financial Sector Steering Committee was established in January 2009 to make recommendations to develop Vancouver into a top-tier international financial centre, emphasizing trade between Asia and North America. The recommendations focused on key sectors where the Steering Committee felt that BC had a competitive advantage. In addition to financial services, these included clean technologies, digital media, and life sciences.

In 2010 the Government announced it would accept these recommendations. Some of these measures have not been implemented, however, and the Panel heard support for these expansions from a number of organizations. Over 90 per cent of the activity under the IBA program consists of factoring, foreign exchange, and services related to securities. Since 2004 the BC Government has allowed related party transactions to qualify and permitted non-financial corporations to participate in the program. Furthermore, both parties to a foreign exchange transaction no longer have to be non-residents. The relaxation of eligibility requirements may account for some of the growth in the program.

As is the case with many incentive programs, the amount of activity that would not have occurred if the IBA program was not in place is difficult to assess. It does not appear, however, that the program has achieved the level of added activity and employment that was hoped for

when the program was first introduced. The Panel heard that the lack of movement on the expansions has introduced uncertainty about the future of the IBA program and may contribute to some firms' hesitation to establish entities eligible for the benefit in BC.

The Panel also noted that many jurisdictions have policy instruments to attract major foreign investments in targeted sectors. To be effective, these programs must be designed to attract investments that would not otherwise have been secured and that create significant numbers of incremental jobs or other benefits to the BC economy.

**Recommendation 23: To provide greater certainty to the IBA program the BC Government should proceed with the announced program expansions as soon as possible. The IBA program should be modified to limit the refund of corporate income tax to 75 per cent of BC tax otherwise payable.**

The reduction in the refund rate places all firms utilizing this incentive on the same footing as those that derive international income from licensing or commercializing patents. It will help ensure that the BC Government retains some revenue from IBA activities and help contain costs when expansions to the program are introduced. The BC Government should aim to implement these changes within a year, and at the same time examine ways to ensure the program parameters are appropriately targeting incremental jobs.

AdvantageBC's marketing efforts should be better integrated with those of the Trade and Investment Division in the Ministry of Jobs, Tourism and Innovation. The Panel heard that, despite the significant reductions in BC taxes, many potential foreign investors continue to view BC's tax competitiveness unfavourably. BC's tax competitiveness has improved significantly over the last decade and it is important that a strategy to consistently and clearly communicate BC's tax competitiveness be developed.

## **12. Municipal Taxation**

### **Recommendations 24 to 30**

The work of the Panel was to include "an examination of municipal taxation of business and its impact on business competitiveness and investment." Recommendations in this area address issues of affordability and sustainability for local governments within the framework of BC's *Community Charter* legislation. The *Community Charter* establishes a basis for respectful relations between the Province and local governments. It requires consultation before legislative changes to the *Community Charter* and provincial intervention on local government taxation are introduced.

In order to address this part of its mandate, the Panel:

- Commissioned well known Canadian tax researchers Dr. Enid Slack and Dr. Harry Kitchen to undertake independent research for the Panel on this subject;
- Met with representatives of the Union of British Columbia Municipalities (UBCM) as part of its consultations; and,
- Received submissions from a number of business groups that included a discussion of business property taxation.

As well, Adjunct Panel member Dale Wall met with the full UBCM Executive during the course of the Panel's work.

It was clear from our consultations that municipal taxation has become a more prominent concern for business over the past 10 years. There was also evidence that local governments have begun to respond to these concerns, as many business submissions referred positively to recent municipal decisions to reduce business tax rates.

The nature of the problem clearly varies between business sectors and municipalities. When this issue was raised, it was often as a specific concern in certain places or with respect to certain types of property. In some cases, very particular solutions to specific problems were advocated. It was less often raised as a broad, province-wide problem that impacted competitiveness in terms of attracting investment to BC, growing BC business or retaining economic activity in BC. However, the fixed nature of property taxation was identified as an issue for capital-intensive firms operating at loss, with a potentially significant effect on their continued operation. As well, the variation in property taxes between jurisdictions could also be seen to impact the location decision of firms within BC.

Based on its review of the independent research and what it heard during its consultations, the Panel makes the following key observations:

- In general, municipal taxes on business are not one of the primary influences on BC's overall competitive position. However, they can be a serious concern to firms in specific situations. In particular, the combination of higher than average tax rates and capital intensive operations can present problems which are pronounced where these firms are in a position of earning low returns on investment or operating at a loss.

- As well, serious problems can occur where property values change quickly – resulting in rapid, unexpected increases to property taxes. This problem can be especially serious where the taxes have been passed from a building owner to a lessee. In these cases, the owner retains the benefit of the increase in capital value and passes the cost onto the lessee who is left with the cost, but no benefit.
- BC has relatively low municipal (and overall) residential property taxes, compared to other Canadian jurisdictions. Non-residential taxes in BC are higher than residential taxes and are not dissimilar with non-residential taxes in other provinces.
- Business tax rates are substantially higher than residential rates in most provinces, but generally more so in BC. The reasons for this are complex and reflect the fact that residential property values have generally increased at a much faster rate than business property values over at least the past 30 years. As a result, even though the share of overall property taxes paid by business has declined over this time, it has not declined as much as the share of overall business property value relative to total property value. That said, there are a large number of other reasons for the disparity in residential and business tax rates, one of which is a tendency of some local governments to pay less attention to the concerns of business than to the concerns of residential taxpayers.
- There is no agreement on what constitutes a reasonable set of benchmarks on which to measure the appropriateness of municipal business taxation.
- Recently municipal costs have been growing faster than the combined rate of inflation and population increase. In many cases, these costs are driven by decisions that are outside the direct control of a municipality and require some form of collaborative action with other governments. The accelerated rate at which municipal costs are rising and the lack of an effective mechanism to address many key cost drivers is a matter of concern and the importance of this issue will grow if municipal expenditures continue to increase at the current trend.
- Given the overall cost pressures on the Provincial budget, the BC Government does not appear to have the capacity to substantially increase the sources of revenue available to local governments. Any additional provincial revenue supplements would most likely be needed to address pressing local government infrastructure requirements. This means that actions to manage the pressure on property taxation are best focused on:
 

*“Municipal government spending must be responsive to the current economic realities. Residents and business seek assurance that local governments are cost-consciously and innovatively exploring all avenues to derive the maximum value and benefit for taxpayers’ dollars.” (Tolko Industries Ltd.)*

- Managing cost drivers, including those created by federal and provincial regulatory requirements, rather than searching for new revenues or shifting taxes between taxpayers. To be successful, management of these cost pressures requires collaborative action between the provincial and local governments; and,
- Improving the level of coordination between provincial, regional and local actions to improve economic performance. Where improved economic results are achieved, local government should share in the resulting revenue gains.

*“Local governments in BC have many interests in common with the business community, including building a strong economy and strong communities. Municipalities are key players in building liveable communities, with a quality of life that attracts and retains business, workers, and customers.”* (Union of British Columbia Municipalities)

This is a good time to begin to take reasonable corrective actions, as there is still time to act in ways that are gradual, appropriately collaborative and respect the municipal position as an order of government under the *Community Charter*.

Based on these observations the Panel makes the following recommendations:

**Recommendation 24: The BC Government, through the Ministry of Community, Sport and Cultural Development, should initiate and lead a process with local government and business groups to arrive at some agreement on a set of benchmarks for measuring municipal business taxation.**

**Recommendation 25: The Ministry of Community, Sport and Cultural Development should measure municipal taxation against these benchmarks and advise municipalities of where they stand relative to these benchmarks before they make their annual tax rate decisions.**

**Recommendation 26: The Ministry of Community, Sport and Cultural Development should negotiate with UBCM to develop an appropriate action plan for practical remedial steps to be taken when particular local tax rates move outside the benchmarked range.**

**Recommendation 27: The Ministry of Community, Sport and Cultural Development should work with business groups and local government organizations to develop a best practice guide to municipal business tax policy, including tax rate setting and the use of revitalization tax incentives.**

This supports recommendations 24 to 26 by providing a common understanding of the considerations that best govern municipal business taxation and how tools available to municipal governments can best be deployed to support a competitive business environment.

**Recommendation 28: The BC Government and the UBCM should negotiate an agreement that creates an effective framework for ongoing dialogue and joint action on containing municipal costs.**

This should include senior representatives from the ministries responsible for policing, public health, transportation and environmental protection as well as the Ministry of Finance as it is these areas that most directly impact municipal costs. It should also include representatives from an appropriate cross-section of local governments. Once established, this group needs to agree on a benchmarked range for municipal costs relative to the overall economy and on-going strategies to manage municipal responsibilities and cost pressures within this range.

**Recommendation 29: BC Assessment, through either its Board or Chief Administrative Officer, should be given the capacity to phase in sharp increases to assessed value.**

This would help address problems when property values change very rapidly and result in large, unexpected increases to property taxes.

**Recommendation 30: The Province should work with local governments to improve the integration of economic development strategies, so that local, regional and provincial efforts at building the economy are more effectively synchronized.**

Arrangements should be made for local governments to share in the revenue gains associated with a sustained, significant improvement in economic performance. Integration of economic development strategies across government levels is also helpful to attracting international investors who often may not understand what falls under the various jurisdictions.

### **13. Recommendations to achieve revenue neutrality**

#### **Recommendations 31 to 35**

The Panel's terms of reference specify that its recommendations must be revenue neutral. This means that some taxes must be increased – by roughly the same amount as the investment tax credit will reduce provincial revenue. If all taxes had the same effect on investment decisions and growth, there would be little purpose in undertaking this exercise. However, theoretical

studies and experience in other countries suggest that raising the same revenue by changing the mix of taxation can improve the efficiency and competitiveness of an economy.

The most widely cited analysis of the effects of raising or lowering taxes using different policy alternatives is a 2004 study by Baylor and Beauséjour published by the federal Department of Finance. The results are shown in the table below.

**Table 12: Effect of Equal-revenue Tax Policy Alternatives<sup>44</sup>**

	<b>Income gain per \$1 of lost present value of revenue (\$)</b>	<b>Percentage increase in GDP for 1% decline in revenue (%)</b>
Increasing capital cost allowance rates	1.35	4.39
Cut in personal capital income taxes	1.30	3.36
Cut in sales taxes on capital goods	1.29	3.05
Cut in corporate income tax	0.37	1.94
Cut in personal income tax	0.32	1.29
Cut in payroll taxes	0.15	0.66
Cut in consumption taxes	0.13	0.19

For example, an increase in capital cost allowances will result, over time, in GDP increasing more than under other equal-value tax reductions. This also suggests that a government will ultimately recover a larger portion of the initial tax reduction than it would if it cut taxes in other ways. These results imply that tax policy choices affect economic performance and that the tax mix is an important determinant of how much revenue a government can raise to fund public services.

International studies also indicate that countries that rely more on value added consumption taxes and impose relatively lower taxes on investment are able to raise more revenue without imposing large penalties on productivity and income growth.<sup>45</sup> The most effective tax policy option available to the BC Government is eliminating the PST on capital purchases.<sup>46</sup> The proposed investment tax credit will eliminate the PST on machinery and equipment, although the PST will

<sup>44</sup> The study on which the table is based is by Baylor and Beauséjour, "Taxation and Economic Efficiency: Results from a Canadian CGE Model," Working Paper 2004-10 (Ottawa: Department of Finance, 2004).

<sup>45</sup> Institute for Competitiveness & Prosperity, *Taxing smarter for prosperity*, 2005, p. 26ff. Conference Board of Canada, *Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform*, 2012

<sup>46</sup> Under the tax collection arrangements with the federal government, BC utilizes the federal personal and corporate income tax bases which include capital cost allowances and the rules governing the taxation of investment income. This effectively precludes BC making changes to these parameters of the income tax system.

still be applied to building materials and increase the cost of new commercial and industrial buildings. The full year value of the investment tax credit in 2013/14 is presently estimated at \$478 million. As businesses will claim the credit over two years, the cost in 2013/14 will be one-half that amount. Consumption taxes have a lower negative effect on economic growth than taxes that affect the cost of investments. The Panel recommends some increases in consumption taxes, removing selected PST exemptions together with increases in low income tax credits, and increases in certain business taxes.

### **Recommendation 31**

To help defray the cost of the investment tax credit, the Panel proposes to include candies, confectionaries, snack foods and beverages in the PST base. While, restaurant meals may not be universally considered as necessities in same way as basic groceries, the Panel recognizes that meals prepared outside of the home are a feature of modern work requirements. Prepared meals purchased in grocery stores should continue to be exempt from PST along with basic groceries. It would be unfair to exempt a take-out meal purchased at a restaurant while taxing similar meals bought in a grocery store. However, the Panel does not believe that it is necessary to extend the exemption for basic groceries and prepared meals to other food items.

**Recommendation 31: The BC Government should not exempt food items other than basic groceries (primarily candy, confectionaries, snack foods and beverages) – as defined in the federal *Excise Tax Act*. Prepared (ready to eat) meals purchased in grocery stores, restaurants and other eating establishments should continue to be exempt from PST.**

### **Recommendation 32**

The Panel believes that tax credits are a better way to deliver PST relief than exemptions. Sales tax credits can be more directly and accurately targeted to income or other groups (parents or senior citizens, for example) that need tax relief. Credits are simpler and easier to administer and they do not erode the PST base, so revenue growth is more stable. They do not create compliance requirements for businesses. Unlike exemptions, tax credits provide relief only to residents of BC.

**Recommendation 32: The BC Government should increase the provincial sales tax credit for lower income people by \$15 per adult and provide \$25 per child to help offset the increased PST that results from removal of PST exemptions.**

The increase in the tax credit will provide about \$25 million annually to lower income families and individuals.

### **Recommendation 33**

#### **Recommendation 33: The tobacco tax should be increased by three cents per cigarette.**

This increase would raise about \$85 million in 2013/14.

### **Recommendations 34 and 35**

Together with phasing in the investment tax credit over two years, these revenue measures are expected to be revenue neutral for 2013/14. After the investment tax credit is fully phased in 2014, the BC Government would face a substantial revenue shortfall. To close this gap, the Province should examine options to increase revenue it receives from the business sector and/or reduce direct incentive and program supports to business. The Panel's proposals in these areas have much smaller impact on BC's tax competitiveness than imposing the PST on business purchases of machinery and equipment.

#### **Recommendation 34: Beginning in 2014, the BC Government should introduce a surcharge on provincial mining and oil and natural gas revenues to raise \$65 million, the estimated value of the investment tax credit that these sectors are expected to receive that year.**

As these taxes and charges are based on income – after deducting specified expenses including capital investments – received from the extraction of natural resources, they do not have the same effect on these industries' competitiveness as the PST on capital investments.

Alternatively, the BC Government could reduce the incentives and direct supports to the industry by a similar amount. BC's mineral and fossil fuel resources are immobile, and while the pace at which they are developed is influenced by taxation, they are not subject to the same competitive pressures as activities that can be moved to any location in Canada or the world. Under the Canadian constitution, BC's natural resources belong to British Columbians. The demand for minerals and energy is expected to continue increasing in response to rapidly growing demand, particularly, in the emerging Asian economies. Accordingly, the Panel believes these industries are able to absorb this increase in resource charges or a reduction in incentives.

#### **Recommendation 35: The BC Government should consider implementing an increase of 0.5 per cent in BC's corporate income tax rates beginning April 1, 2014.**

This increase is expected to raise \$147 million in 2014/15. An increase in the Corporate Income Tax has a negative effect on the rate of return on investment. However, the impact of this increase is considerably less than a direct tax on investment in capital equipment which must be paid on the entire value immediately upon purchase. Businesses are liable for income tax only

after the investment begins earning a profit. This is the principal reason why an increase in profit-based taxes reduces economic growth by less than a tax on investment. This increase in the corporation income tax rate will increase BC's METR by about 0.3 per cent. (The contribution of this increase in the CIT rate is built into the calculation of BC's overall 19 per cent METR if the Panel's recommendations are adopted.) If the BC Government proceeds with the contingent corporate income tax increase announced in the 2012 Budget, BC's general rate will be 11.5 per cent -- the same rate as Ontario's.

The financial implications of the Panel's recommendations are shown in Table 13.<sup>47</sup>

The Panel's recommendations are essentially revenue neutral if the present economic outlook for the BC economy is realized. The investment tax credit is expected to induce more growth in BC's economy than the baseline scenario under which the PST applies to investments in machinery and equipment. BC's tax revenue will benefit from higher economic growth in the later years of this projection. This will give the Government additional fiscal room to expand the investment tax credit or to permit businesses to claim it immediately rather than over two years.

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<sup>47</sup> The estimates of the costs and revenue of the Panel's proposals, and the effect of the investment tax credit on economic growth and the Province's revenue, were developed with the assistance of the Ministry of Finance.

**Table 13: Estimated Revenue Implications of the Expert Panel's Recommendations (\$M)**

<b>Measures</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Cost of investment Tax Credit equal to PST paid on equipment (net interaction with CIT) if fully provided in 1st year/not phased in*	(\$478)	(\$500)	(\$522)	(\$546)
<b>Revenue impact of recommended measures</b>				
Provide investment tax credit equal to PST paid on equipment	(\$239)	(\$489)	(\$511)	(\$534)
Revenue generated by stronger economic growth due to credit	\$0	\$12	\$50	\$115
Net cost of investment tax credit	(\$239)	(\$477)	(\$461)	(\$419)
<b>Revenue recoveries</b>				
<i><b>PST revenue recoveries</b></i>				
Apply PST on basic telephone and cable services**	\$90	\$93	\$96	\$100
Apply PST on snack foods	\$73	\$76	\$78	\$81
Apply PST on school supplies	\$20	\$21	\$22	\$22
<i><b>Subtotal of PST changes</b></i>	<i>\$184</i>	<i>\$190</i>	<i>\$196</i>	<i>\$203</i>
Increase sales tax credit for lower income families	(\$25)	(\$26)	(\$27)	(\$27)
Net revenue from PST changes after relief for families	\$159	\$164	\$170	\$176
<i><b>Other revenue recoveries</b></i>				
Increase tobacco tax by 3 cents	\$85	\$85	\$85	\$85
Increase in mining taxes and oil & gas royalties***	\$0	\$65	\$69	\$73
Increase corporate income tax rates by 0.5 per cent****	\$0	\$147	\$160	\$178
<b>Net revenue recoveries (PST and other)</b>	<b>\$244</b>	<b>\$460</b>	<b>\$483</b>	<b>\$513</b>
<b>Net revenue impact (cost) of measures</b>	<b>\$4</b>	<b>(\$17)</b>	<b>\$22</b>	<b>\$94</b>

\*The Investment Tax Credit will reduce the capital cost allowance pool and result in a partial recovery through higher income taxes.

\*\*Also includes applying PST to 1-800 numbers, etc.

\*\*\*As an alternative, the BC government could consider recovering this amount by reducing incentives provided to these industries.

\*\*\*\* While the recommended rate increase takes effect on April 1, 2014, provisions in BC's Tax Collection Agreement with the federal government may result in some revenue being received in 2013/14.

## 14. Other recommendations

### Recommendations 36 to 38

A recurring issue in the Panel's consultations concerned lack of a substantial "middle class" of businesses. The relatively small and diminishing share of mid-sized firms may well be related to other concerns that were brought to the Panel's attention such as BC (and Canada's) lacklustre record of commercializing local innovations. Mid-sized firms typically are more able to capture economies of scale than small firms, are better equipped, more productive, and are better

positioned to access extra-provincial markets. The reasons why Canada does not produce more of these firms are not fully understood. Nevertheless, many of the policies that place barriers in the way of small businesses growing into major employers in BC – and elsewhere in Canada – involve provisions in federal tax law. These include the preferential provisions for small Canadian Controlled Private Corporations. Businesses encounter powerful incentives not to grow beyond the thresholds where these advantages are no longer available.

*“Maybe introduce a secondary step between full taxation and small business amounts. The gap between them is currently so big, that we have no incentive to work harder, because the government gets such a huge portion of our extra efforts.”* (CFIB survey respondent)

**Recommendation 36: The Ministry of Finance should work closely with the federal and other provincial governments to address the role of taxation as a barrier to small businesses growing into mid-size and large firms.**

### **Recommendation 37**

The Panel repeatedly heard that stability and predictability in the BC Government’s tax policy environment make an important contribution to the willingness of businesses to make large investments in new ventures and expansions of existing businesses. This does not preclude the Government from implementing changes and reforms. However, the Government must be clear in communicating aims, goals, and policy intentions. It must ensure that stakeholders have an adequate opportunity to provide meaningful input on significant changes or reforms.

**Recommendation 37: The BC Government should acknowledge the value of a stable and predictable business tax regime.**

### **Recommendation 38**

The BC Government also needs to develop a clear and compelling message to promote BC abroad. BC has unparalleled opportunities for investors from within Canada and from other countries. Panel members heard that potential foreign investors are often confused by BC’s incentives and the multiple levels of taxes imposed by the three orders of government. BC is still perceived as a high tax jurisdiction by some overseas investors. The Panel believes that a tool that provides a cogent account of the tax environment in BC could generate increased interest and opportunities to attract new, job-creating investments by foreign businesses seeking to locate in Canada.

**Recommendation 38: To take advantage of the growing interest in Canada from investors abroad, the BC Government should develop a concise and clear description of the tax system in BC including its federal and municipal components.**

## **Carbon Tax**

The Panel also notes that many submissions and presentations raised the effect of the Carbon Tax on BC businesses' competitiveness. While most of the industries affected by this tax support the aim of carbon reduction, they observed that BC remains the only jurisdiction in North America to apply this tax and that the present rate at which the tax is applied is among the highest in the world. The Panel has not made any recommendation on this matter but understands that the BC Government is undertaking a review of the Carbon Tax. However, the Panel believes the BC Government should address the competitive concerns with this tax as expeditiously as it can.

*“This [HST input tax credit] better positioned trucking and bus operators to replace older equipment with newer and more efficient equipment. At a time when the industry is facing increasing fuel costs ... this has provided some welcome relief.” (British Columbia Trucking Association)*

## **15. Conclusion**

The key issue considered in this Report is how BC's business taxes can be made more competitive in the context of the return to the PST. The Panel respects the results of the referendum and accepts that the PST will be BC's primary tax on consumption for some time to come. Accordingly, the principal recommendations of the Report concern how the BC Government could improve the PST in order to minimize its effect on investment and raise revenue more efficiently and fairly.

BC is at an important crossroads for tax competitiveness. At present, BC's business taxes are competitive with other Canadian provinces. However, if the PST is reintroduced in a form identical to the previous BC sales tax, BC businesses will face a significant additional cost on investments made to modernize their operations. This will make it harder for them to remain competitive and preserve and create jobs in our Province. BC's effective tax rate on new investment will become the highest of all the provinces. BC's non-taxation competitive advantages mean that the Province does not necessarily have to have the lowest business taxes in Canada, but it cannot afford to become a high tax outlier among provinces either. BC's recent gains in investment levels could be put at risk unless the PST imposed on the investments BC businesses must make to remain competitive is reduced. Lower investment, in turn, will result in fewer job opportunities for BC workers.

The Panel believes that the PST can be improved substantially and that the recommendations contained in this Report will make a positive contribution to the ability of businesses to invest and expand their operations in BC and, in doing so, sustain and create jobs for British Columbians. However, there are limits on how much a single stage retail sales tax can be reformed to become a fair and efficient revenue source to fund public services or to meet the competitive challenges that modern, open economies face. The PST base will not grow with the economy as consumer spending shifts toward services or goods with high service components. The PST applies to business inputs and cascades throughout the production chain, creating biases against industries that seek to add more value by processing BC's resources locally, and it disadvantages BC's export industries.

Accordingly, the Panel believes the BC Government should initiate a serious examination of a made-in-BC value added tax to replace the PST in the medium term. This tax should be more broadly based, simpler, and more efficient than the PST. The Panel has put forward the business transfer tax as an alternative that has these characteristics. It could raise the same revenue for the BC Government at a much lower rate of tax and with a significantly lower compliance burden.

*“Make the new PST a value added tax so that small businesses in the province can remain competitive.”*  
(CFIB survey respondent)

As Canada's gateway to the Pacific Rim economies, BC plays an important role in helping diversify Canada's trade base. BC's natural attractions and cultural richness are unsurpassed as a draw for visitors from abroad and elsewhere in Canada. BC has world class universities and vocational colleges and one of Canada's most educated and skilled workforces. A solid financial position allows the BC Government to assure potential investors of a stable tax and fiscal policy climate. Economic crises and uncertainty in other major economies have created significant interest in Canada as an investment destination. The Province is well positioned to take advantage of these opportunities, but the BC Government must maintain a competitive environment for businesses to build on these advantages. The Province has all the elements needed to be a Canadian and global leader in the coming decades.

The recommendations in this Report will create a more competitive tax environment and make the PST a more effective tax to fund services for British Columbians. A more competitive tax system will enhance BC's prospects for economic growth and job creation, contribute to improving the quality of life in BC communities, and help sustain a rising standard of living for British Columbians.

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## **Appendix A: Terms of Reference (January 10, 2012)**

The task of the Expert Panel is to generate ideas and provide recommendations for a business taxation system for British Columbia that balances the principles of competitiveness, fairness and simplicity.

The panel will provide analysis and recommendations to government on the following issues:

### **Business tax competitiveness**

- Consider the competitiveness of British Columbia's tax environment for business and develop recommendations concerning which taxes most influence competitiveness and economic growth. It will involve a broad review of all business taxes and provincial business tax credits or other provincial business tax expenditures.
- Identify and develop recommendations for ways in which the Government of British Columbia may address tax avoidance within the business or personal taxation systems.

### **Administrative Improvements to Streamline the Provincial Sales Tax**

- Develop recommendations for administrative improvements to streamline the Provincial Sales Tax.

### **Guidelines**

- Acknowledging that the Harmonized Sales Tax was intended to improve the competitiveness of the BC economy, the review is intended to identify other ways to maintain and improve BC's economic competitiveness, while respecting the referendum result to return to the Provincial Sales Tax.
- The review will be restricted to provincial business taxes of general application, including tax expenditures and property taxation but excluding resource royalties and non-tax issues.
- The review will include an examination of municipal property taxation of business and its impact on business competitiveness and investment. Recommendations must address issues of affordability and sustainability for local governments within the framework of the Community Charter.
- Tax reforms or other recommendations must be fiscally neutral and sustainable for the Province within the Province's balanced budget framework.
- The Expert Panel may commission independent research as necessary to conduct its review.
- The Minister of Finance must receive the expert panel's final report no later than August 31, 2012.

## **Appendix B: March 28, 2012 letter to Minister Falcon on streamlining PST administration**

March 28, 2012

Expert Panel on Business Tax  
105-617 Government Street  
Victoria BC V8W 9V8

The Honourable Kevin Falcon,  
Minister of Finance and Deputy Premier  
Room 153  
Parliament Buildings  
Victoria BC V8V 1X4

Dear Minister Falcon:

One of the tasks included in the Expert Panel on British Columbia's business tax competitiveness is to make recommendations on how the administration of the Provincial Sales Tax (PST) could be improved and streamlined. I am writing on behalf of the Panel to convey its initial advice on administrative improvements for your consideration. We trust these recommendations will assist you and staff in the Ministry of Finance in developing rules and legislation governing the reintroduction of the PST.

The Panel recognizes that the Government of British Columbia is committed to restoring the Provincial Sales Tax (PST) at the same rate and with the same exemptions that were in place before the Harmonized Sales Tax (HST) was introduced. The Panel has reviewed submissions made by several organizations and believes the recommendation outlined in this letter will improve the administration of the PST in three ways:

- 1) By reducing the administrative workload and cost of compliance by aligning filing dates, and remittances with those of other taxes collected by BC businesses.
- 2) By enhancing consistency and clarity in the application of the PST by aligning definitions of taxpayers and of taxable or exempt transactions as closely as possible with those of other taxes collected or paid by BC businesses.
- 3) By increasing transparency and accountability through ensuring that the liabilities for errors and abuses are imposed on the correct party, and that help ensure that businesses, especially small vendors, are dealt with fairly and expeditiously by the PST administration.

## **1) Recommendations to reduce the administrative workload and cost of compliance:**

- a) The existing federal business number (BN) should be adopted for PST registration. This number is already being used as a business identifier for other provincial registrations both in British Columbia and in other provinces. Using a single number reduces the potential for confusion and error and decreases record management requirements.
- b) The 8% Hotel Room Tax should fall under the PST legislation. This would help ensure that the same administrative rules, filing, and compliance requirements apply to both taxes.
- c) An election that allows consolidated reporting for closely related entities should be introduced. The requirement to have each entity file separately creates administrative burdens for both taxpayers and the taxing authorities.
- d) While the reporting frequencies will differ between the PST and GST, the dates for filing and remittances should be aligned – that is at end of the month following the reporting period for monthly filers.
- e) In order to reduce duplication of work by tax administrators and compliance costs for businesses, the Panel urges the Ministry and the Canada Revenue Agency to coordinate their audit efforts.

## **2) Recommendations to improve consistency and clarity:**

- a) Vendors should be allowed to net refunds of PST previously remitted against their current collection liabilities. Sellers may claim refunds of PST that they have previously remitted in a number of circumstances, as when a receivable becomes a bad debt, for example. Rather than having to make a separate claim and wait for a refund, vendors should be allowed to subtract these claims from their current PST collections. Sellers would be required to support the claim in the same way as they would if they were making a separate claim. This process would also reduce requirements on the Ministry to process forms and payments.
- b) The definitions of terms, such as “purchase price”, and “substantially” for example, should be matched as closely as possible to those used to define these concepts in other taxation statutes.
- c) The Ministry should strive to use plain language in drafting legislation, regulations, and in all communications related to compliance. These documents should be available in multiple formats, online as well as printed, to ensure small businesses have ready access to the information they need. This was identified as the most important priority of BC small businesses in a survey conducted by the Canadian Federation of Independent Business.

### 3) Recommendations to increase transparency and accountability:

- a) For purchases of equipment and supplies used in manufacturing, farming, fishing and other industries, the liability for remitting PST on items that are not exempt should, in general, fall on the purchaser rather than the vendor. The exemption for manufacturing equipment, for example, is limited to specified types of equipment, to firms that are classified as manufacturers, and to its use by qualifying purchasers. While the purchaser of qualifying equipment is required to certify that the purchase qualifies for the exemption, the vendor may also be liable for an assessment if it is held that there was reason to believe the purchaser did not qualify for the exemption. The Panel believes that it is unreasonable to expect vendors to train their front-line employees in the intricacies of these rules. Furthermore, it is the purchaser who holds the information needed to determine whether or not the purchase qualifies for an exemption. The vendor should be liable for an assessment only when he/she accepts a purchaser's claim in bad faith.
- b) The provisions governing the exemptions for manufacturing equipment and supplies are complex and create significant compliance issues for sellers. The Province should consider allowing all sales to manufacturing plants to be sold without charging PST. Manufacturers would be responsible for self-assessing PST on purchases that do not qualify for an exemption. While adopting this approach may result in a delay before the Province collects the tax, the total liability is not affected.
- c) The provisions of the Taxpayer Fairness and Service Code should be retained and strengthened. Key elements of the Code include businesses' right to receive advice in writing from tax administrators and assurance that small businesses are able to rely on written advice. The fifth edition of the Code reinforces the ideal relationship between the government and the taxpayer: "We believe you will voluntarily comply with the law if you are treated fairly, have the information and the timely services you need to meet your obligations and understand your entitlements."
- d) The previous *Social Service Tax Act* contained a provision that permitted taxpayers to appeal assessments to the Minister. It is important that taxpayers retain access to an inexpensive and transparently impartial appeal process. Rather than having the Minister hear appeals, an independent commissioner to hear appeals of provincial tax assessments should be appointed in British Columbia.
- e) The provision barring waiver rules should be revised so that a person under audit may cancel a waiver on 60 days' notice as permitted under the *Excise Tax Act*. This would allow taxpayers to initiate legal challenges to assessments more expeditiously.
- f) Vendor compensation for collecting PST should be restored at the same levels as under the former Social Service Tax.

These recommendations are expected to have only a minor effect on PST revenue. The Panel is confident that the reduction in compliance costs for businesses and the savings in administration will significantly outweigh any revenue loss associated with these recommendations.

The Panel is concerned that the effort and the compliance costs associated with the reimplementation of the PST will be particularly challenging for small businesses. We encourage the Finance Ministry to provide timely updates on the progress of returning to PST, to develop plain language information focused on the requirements facing small businesses, and to make this information available as far in advance of the PST implementation date as possible. A summary of the results of a survey conducted by the Canadian Federation of Independent Business is enclosed.

The Panel continues to assess other ways in which the administration of the PST could be streamlined on its reintroduction on April 1, 2013 and its structure and application enhanced over the longer term. It expects to report on these improvements in its Final Report.

Sincerely,

A handwritten signature in cursive script, reading "Sarah Morgan-Silvester".

Sarah Morgan-Silvester  
Chair  
Expert Panel on Business Tax

## **Appendix A: Submissions reviewed by the Panel**

- 1) Budget 2012/13: Recommendations by the Chartered Accountants of British Columbia. A submission to the Select Committee on Finance and Government Services on October 14, 2011.
- 2) Preliminary Advice on the 2012 Provincial Budget. A submission to the Select Committee on Finance and Government Services by the Business Council of British Columbia on October 14, 2011.
- 3) British Columbia Provincial Sales Tax: Practical Administrative Improvements. A letter from the Tax Executives Institute Inc. to Hon. Kevin Falcon, November 15, 2011.
- 4) A survey conducted for the Panel by the Canadian Federation of Independent Business. A summary of the survey results is enclosed.

## **Appendix C: Organizations, firms, and individuals who made submissions or oral presentations**

1. AdvantageBC
2. Association of Book Publishers of BC
3. BC Salmon Farmers Association
4. BC Wharf Operators' Association
5. British Columbia Film + Media
6. British Columbia Printing & Imaging Association
7. British Columbia Real Estate Association
8. British Columbia Technology Industry Association
9. British Columbia Trucking Association
10. Business Council of British Columbia
11. Canadian Association of Petroleum Producers
12. Canadian Energy Pipeline Association
13. Canadian Finance and Leasing Association
14. Canadian Manufacturers & Exporters
  - a. BL Innovative Lighting
  - b. Williams and White Machine Inc.
15. Canadian Media Production Association
  - a. Nerd Corps Entertainment
  - b. Omni Film Productions
16. Canadian Pacific
17. City of Burnaby
18. City of Trail
19. Coast Forest Products Association
20. Council of Forest Industries
21. DigiBC
  - a. Electronic Arts Canada
22. Fraser Institute
23. Greater Vancouver Gateway Council
24. Institute of Chartered Accountants of BC
25. Mercer International Inc.
26. Mining Association of British Columbia
27. Motion Picture Production Industry Association
  - a. North Shore and Mammoth Studios
28. Retail Council of Canada
  - a. London Drugs
  - b. Best Buy
  - c. Walmart
  - d. HBC
29. Rob Fitzgerald and Norm Stickelmann
30. Spectra Energy
31. Surrey Board of Trade

32. Tax Executives Institute, Inc.
33. Teck Metals Ltd.
34. TELUS
35. Tim Hortons
36. Tolko Industries Ltd.
37. Truck Loggers Association
38. Union of British Columbia Municipalities
39. Urban Development Institute
40. Vancouver Board of Trade
41. Vancouver Economic Commission
42. Vancouver Fair Tax Coalition
43. West Fraser Mills Ltd.

The Canadian Federation of Independent Businesses contributed with two member surveys.

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