



## **Clearing the Way for Harmonization in Manitoba**

**November 2009**

## **Introduction**

The issue of a Harmonized Sales Tax (HST) for Manitoba is one that has been discussed for many years. But with recent developments by the federal government and other provinces in regards to this issue The Winnipeg Chamber of Commerce believes it is no longer time to discuss harmonization it is time to act.

In its 2009 budget, the government of Ontario proposed that, starting July 1, 2010, Ontario's Retail Sales Tax (RST) would be converted to a value-added tax structure and combined with the federal Goods and Services Tax (GST) to create a federally administered single sales tax. The single sales tax (HST) would have a combined tax rate of 13 percent. The provincial portion would be eight per cent and the federal portion five percent.

The federal government would provide Ontario with \$4.3 billion in cash transfer payments — \$3 billion upon implementation of the combined sales tax on July 1, 2010 and \$1.3 billion on July 1, 2011, to support the transition to the new value-added tax.

On July 23, 2009, the Government of British Columbia also announced plans to implement a Harmonized Sales Tax by July 1, 2010. British Columbia will have the lowest Harmonized Sales Tax in Canada, by combining a seven per cent B.C. rate with the five per cent federal GST for an HST tax rate of 12 per cent.

The federal government will provide B.C. with \$1.6 billion in transitional funding in recognition of the improvement this change will make to business competitiveness in Canada. The transition will save the B.C. government an estimated \$30 million annually in administration costs.

On Aug. 4, 2009, federal Finance Minister Jim Flaherty indicated transitional funding would be available to the three hold-out provinces, Manitoba, Saskatchewan and Prince Edward Island if they were to move to a harmonized sales tax (HST).

The Winnipeg Chamber of Commerce has had long standing policy in favor of a Harmonized Sales Tax as we believe this tax policy would create greater accountability and transparency and be more clearly understood by taxpayers and administered in an impartial, predictable and cost-effective manner.

It is The Chamber's belief that with federal resources available, the move by other provinces and the positive financial impact this move would have on the business community in the wake of the recent recessionary pressures the time to move forward is now.

The Winnipeg Chamber of Commerce believes by working with the province, industry associations, and our more than 2,050 members that employ over 90,000 Winnipeggers we can create a “Made in Manitoba” HST program that provides benefits to consumers, business and government. In addition, we will play a vital role in helping inform local businesses on the measures necessary to implement the program.

### **The Case for Change**

The timing to harmonize could not be better. This measure will provide substantial savings to Manitoba businesses following the economic challenges of the past year. This move will ensure that they emerge in a stronger and more competitive position that will result in increased economic growth, employment and more competitive pricing.

With Ontario and British Columbia moving forward on harmonization it will result in close to 94 per cent of the Canadian population being governed under a Harmonized Sales Tax environment with only three provinces; Manitoba, Saskatchewan and Prince Edward Island still having both a provincial sales tax (PST) and the Goods and Services Tax (GST). By not taking moving forward at the current time, we would be putting ourselves in jeopardy of being in an economically competitive disadvantage with other provinces.

Moving to a Harmonized Sales Tax will lead to a simplification of the tax system and result in administrative savings for government and business and a reduction in the price of goods for consumers.

The Ontario finance ministry said implementing a single sales tax would bring Ontario into line with “what is viewed as the most efficient form of sales taxation around the world.” It would reduce the cost of goods that Ontario exports, making the province more competitive and boosting key sectors of their economy that have been particularly hard hit by the economic downturn.

According to a recent report released by the Canada West Foundation “Bold Tax Moves for a More Competitive Western Canada” resistance to harmonization works against western Canada’s success in reducing Corporate Income Tax rates.

For example, if Manitoba were to follow the lead of British Columbia and Ontario and harmonize, they would reap an improvement in their Marginal Effective Tax Rate (METR) on capital investment. If an HST was in play in 2007, METR in Manitoba, it would have been 23.40% instead of 32.50%.

If all PST systems in the West were operating as an HST in 2007, the average western METR would have been 22.75%. This result would have been lower than the potential HST results in Ontario and Quebec, and would have put the West in a much improved position relative to Atlantic Canada.

## **Benefits to Change**

There are many benefits to the business community if Manitoba were to move to a Harmonized Sales Tax system:

*Deduction on HST inputs will provide savings for business*— Currently businesses pay the Provincial Sales Tax on many inputs, including capital goods, related to the production of goods and delivery of services. The prices consumers pay reflect these embedded taxes. In contrast, businesses are able to recover HST on the materials and services that they purchase to produce further goods or services directly or indirectly sold to end-users; thus, they are able to price their products, including those that are exported, more competitively.

- In British Columbia they estimate this measure will reduce taxes on business investment by as much as 40 per cent or \$1.9 billion annually
- According to the C.D. Howe Institute, more than one-third of RST revenue collected in the Province of Ontario is from taxing intermediate and capital goods. The Institute estimates that Ontario's RST on capital investment increases the Province's METR on capital from 28.2 percent to 37.0 percent. Removing it in favor of a tax system that does not bear on business inputs would boost capital investment in Ontario by \$36 billion. This would serve to increase productivity and economic growth.
- In Budget 2009, the federal government stated: "If all five provinces currently imposing an RST were to adopt harmonized value-added taxes, the METR for Canada on new business investment would be reduced by more than 7 percentage points." A reduction of this magnitude would have a significant positive impact on the competitiveness of Canadian businesses.

*Reduction in administrative costs* - through a more simplified tax system the HST would reduce compliance and administrative costs on businesses by combining paperwork and related efforts into one system instead of two.

- Currently in Manitoba there is a litany of exemptions under the retail sales tax that would be simplified by moving to an HST.
- In British Columbia they estimate harmonization will reduce business administration costs by \$150 million annually and will save the B.C. government \$30 million annually in administration costs.
- In Ontario, the Ontario Chamber of Commerce estimates savings of an estimated \$500 million a year through administration of a single tax instead of two.

*More Competitive Pricing* - Reduction in costs will allow for more competitive pricing and an increased ability for business to deal with tough economic times

- A 2007 C.D. Howe Report showed that after Nova Scotia, New Brunswick and Newfoundland and Labrador) harmonized their provincial sales tax with the GST to create the harmonized sales tax (HST) in 1997 per capita investment in these Atlantic provinces rose by more than 11 per cent, total investment in machinery and equipment increased by more than 12 per cent annually and consumer prices fell.

### **Addressing Issues of Concern in Manitoba Prior to HST Implementation**

The Winnipeg Chamber of Commerce recognizes that prior to implementation of a Harmonized Sales Tax (HST) there are a number of areas where greater clarification and consultation with various stakeholders needs to take place to ensure all pertinent information is available prior to the development of this policy change.

#### *Manitoba Home Builders Association*

In discussions with the Manitoba Home Builders Association - while understanding the rationale and benefits of an HST system they raised serious concerns about the impact the HST would have on new home construction in the province of Manitoba. They estimate it would raise the price of an average new home by over \$13,000 and would like to see a new home tax credit implemented as is being done in both Ontario and BC which would eliminate this increased cost.

#### *Canadian Manufacturers and Exporters*

The Canadian Manufacturers and Exporters – Manitoba are in favor of an HST model and believe it should be as consistent as possible with policies in other provinces and would prefer to see reductions in personal income taxes instead of tax credits and exemptions

#### *The Institute of Chartered Accountants of Manitoba*

The Institute of Chartered Accountants of Manitoba are supportive of moving to a Harmonized Sales Tax system and indicated that moving to a tax system that mirrors the federal tax system would be best

They also pointed out that there could be a provincial savings in that the investment tax credit would no longer be needed and that the PST department in government could also be reduced which provides additional cost savings.

## Winnipeg Realtors

Winnipeg Realtors recognize that the HST needs to be simple and transparent and should simplify things in government and added that a core value and benchmark of moving towards an HST system should be that it is revenue neutral.

They do have concerns in regards to the impact of the HST on realtor fees and on new home construction in the province and would encourage an exemption similar to what British Columbia and Ontario have proposed.

## **Winnipeg Chamber of Commerce Recommendations**

The Winnipeg Chamber of Commerce believes it's imperative that we move forward and learn from the approach of B.C. and Ontario to ensure a smooth transition. Here are our thoughts on what should happen from here:

1. The Provincial government should immediately commit to harmonizing the PST and GST.
2. Set a timeline for implementation, preferably to be in line with both Ontario and British Columbia.
3. An all-party committee of the legislature be established to conduct a series of public consultations to ensure that the details of implementation are fully discussed and greater awareness of the impacts, both positive and negative can be assessed.
4. Confirm details of a "Made in Manitoba" solution for harmonization that will include a small but comprehensive list of exemptions.
5. Areas of relief that should be considered are as follows
  - a. Consumer products in support of families on items such as children's clothing and footwear, diapers, books, etc.
  - b. New Home Construction Tax Credit
  - c. Financial Services Credit (Mutual Funds)
  - d. Municipalities, Academics, Schools and Hospitals
  - e. Charities and Not for Profits
6. Protection of low income consumers through the following measures:
  - a. HST Tax Credit
  - b. Potential Tax Reductions

## **Conclusion**

No longer is it a question of whether or not Manitoba should do this. The risk of standing alone in the country with two separate rates that add cost to business is not one we can afford to take in a competitive global business environment. We need to aggressively and strategically pursue the implementation of a harmonized sales tax.

The Winnipeg Chamber of Commerce is committed to playing a significant role in ensuring it is done in a collaborative manner which will inevitably lead to the best system for all Manitobans.

## Addendum

### **Harmonization in Other Jurisdictions**

In creating a “Made in Manitoba” Harmonized Sales Tax it is also important to look at the measures that Ontario and British Columbia are taking to ensure Manitoba is not placed at a competitive disadvantage.

#### Ontario

In Ontario the proposed HST would not be charged on the following items that are currently not subject to PST:

Basic Groceries	Prescription Drugs	Some medical devices
Municipal Public Transit	Legal Aid	Most Financial Services
Child Care	Tutoring	Music Lessons
Residential Rents	Condo Fees	
Health & Education Services		

Consumers would also not have to pay the provincial portion of the proposed HST for:

- Children’s clothing and footwear
- Children’s car seats and car booster seats
- Diapers
- Feminine hygiene products
- Books (including audio books)

Buyers of new homes would receive a rebate of up to \$24,000 regardless of the prices of the new home.

To help Ontarians transition to the HST, the Ontario government has proposed \$10.6 billion over three years in direct payments and permanent personal income tax cuts.

#### British Columbia

The following are some of the GST/HST zero-rated or exempt goods and services that the British Columbia government has identified:

##### Zero-rated goods and services

- Basic groceries such as milk, bread, and vegetables.
- Agricultural products such as grain, raw wool, and dried tobacco leaves.
- Most farm livestock.
- Most fishery products such as fish for human consumption.

- Prescription drugs and drug-dispensing fees.
- Some medical devices
- Exports.

Under the proposed HST, a number of products will be exempt from the seven per cent provincial portion of the B.C. HST:

- Gasoline, ethanol, diesel and biodiesel when used in motor vehicles as well as locomotive fuel used for trains, marine diesel used for boats, and aviation fuel and jet fuel used for aircraft.
- Books
- Children's-sized clothing and footwear
- Children's car seats and car booster seats
- Diapers
- Feminine hygiene products
- B.C. will also provide a provincially-administered point-of-sale rebate for residential energy.

Exempt goods and services:

- imports of zero-rated goods (goods that are specifically taxed at zero per cent in Canada, such as prescription drugs)
- goods imported by a charity or public institution that have been donated to the charity or institution
- used residential housing
- long-term residential accommodation (of one month or more), and residential condominium fees
- some sales of vacant land or farmland
- most health, medical, and dental services performed by licensed physicians or dentists for medical reasons
- child-care services (day-care services for less than 24 hours a day) for children 14 years old and younger
- personal-care services for children, underprivileged individuals, or individuals with disabilities, when provided by a person operating an establishment for these individuals, in either institutional or non-institutional settings
- bridge, road, and ferry tolls (ferry tolls are taxed at zero per cent if the ferry service is to or from a place outside Canada)
- legal aid services
- many educational services, such as courses from a vocational school that lead to a certificate or a diploma to practice a trade or a vocation; or tutoring services for an individual who takes a course approved for credit by a school authority or the education service follows a curriculum designated by a school authority
- music lessons

- most food or beverages sold in an elementary or secondary school cafeteria primarily to students of the school and most meal plans provided in a university or public college
- most services provided by financial institutions such as arrangements for a loan or mortgage
- arranging for and issuing insurance policies by insurance companies, agents, and brokers
- certain goods and services provided by non-profit organizations, governments, and other public service bodies, such as municipal transit services and standard residential services such as water distribution
- Most goods and services provided by charities.