



## **TAX LETTER**

### **BC Harmonized Sales Tax**

### **July 2009 (updated Feb 2010)**

On July 23, 2009, the BC Government announced its plan to harmonize the 7% BC provincial sales tax (PST) with the 5% federal goods and services tax (GST) to create one 12% BC harmonized sales tax (BC HST) effective July 1, 2010.

While details and transitional rules are still required, the following key points have been announced:

- BC HST will be administered by the federal government
  - Will generally follow the same rules and have the same tax base as GST
  - A single sales tax return will be filed to the federal government for each reporting period
  - One tax administration agency (Canada Revenue Agency) will be responsible for all compliance and collection matters
- Businesses currently eligible to claim input tax credits (ITCs) on the 5% GST paid will generally be eligible to claim ITCs on the 12% BC HST paid  
(exception: large businesses with annual taxable sales in excess of \$10 million will not be able to claim the provincial portion of the BC HST for a few items – food, beverages and entertainment, energy, certain telecommunications, road vehicles under 3,000 kgs.; currently, it is announced that this exception will only apply during the first 5 years of BC HST and then be phased out over 3 years thereafter)
- Point-of-sale rebates will be introduced for the 7% provincial portion of BC HST for books, children's clothing and footwear, children's car seats and booster seats, diapers, feminine hygiene products, as well as gasoline and fuel for motor vehicles, boats and aircraft
- The BC hotel room tax (8%) will be eliminated with the introduction of the BC HST. However, the 2% additional tax levied by certain municipalities will continue to apply.
- A new \$230 BC HST credit will be introduced for individuals with annual income of up to \$20,000 and for each member of families with annual income of up to \$25,000

There will certainly be cost reductions to businesses eligible to claim ITCs as they will be able to recover what was previously unrecoverable PST. There should also be a reduction in compliance costs as the two sales tax systems will be streamlined into one.

However, for individuals, as well as businesses unable to claim ITCs, there will be an additional 7% tax on items not previously subject to PST, including the following:

- New home sales (with a rebate equal to 5% of the purchase price up to a maximum of \$26,250 – i.e. no additional tax for new homes up to \$525,000)
- Restaurant meals
- Services (e.g. professional services, repairs, entertainment)
- Fuel, heating, cable and telephone
- Airfares within Canada, when the journey starts in BC.
- Items previously exempted under PST but not under BC HST (e.g. school supplies; non-prescription medicines, vitamins and supplements; safety equipment and clothing; bicycles; energy conservation equipment; food other than basic groceries)

It has been suggested that while there may be additional taxes, business will also reduce prices to pass on their savings obtained from the new BC HST system. Of course, whether that will happen and how much will be passed on in lower prices to consumers will remain to be seen.