

Dear members,

The provincial government has announced that as of July 1, 2010, the PST will be eliminated in favour of a Harmonized Sales Tax that combines the provincial 7% with the federal 5% GST. After reviewing what the HST will mean for our industry, we've found both positives and negatives for BC's construction companies.

#### **Tax credits on business costs**

The HST will remove all current provincial sales tax from business inputs, meaning the things you buy for your business. This covers everything from buying lumber to machinery to copy paper. The HST will be applied to everything that is currently subject to GST, meaning services and some goods that were only subject to GST before will now have 12% tax on them. This includes labour costs so the government's take will go up.

On the positive side, you get most or all of this back. When a contractor charges PST currently, the tax collected is submitted in whole to government. Under the HST the business can claim back in input tax credits the whole 12%. For your customers who are other businesses, they can claim the HST you charged as their input tax credit.

On the negative side, non-business consumers will be paying more tax.

#### **Effect on new home prices**

Also on the negative side, a big concern for us is the effect on the price of new homes, which will now be subject to the full HST. The government plans to offer a rebate on new homes costing up to \$400,000 to make up for the added cost under HST. We believe this \$400,000 threshold needs to be indexed, so that the rebate keeps up with market costs and inflation.

Also, we think the government should consider regional differences in housing prices when setting the maximum home price for HST rebates. \$400,000 will buy a lot less home in Vancouver or Kelowna than it might in Williams Lake or Trail.

For the ICI part of our industry to flourish, we need a strong residential home construction market. To the extent that introducing HST may dampen the demand for new homes, this is not a good thing for us.

#### **Leading to increased investment**

On the positive side, the HST will likely increase business investment, which will lead to more construction activity. That has been the experience in Quebec and the Atlantic provinces when they replaced their provincial sales tax with the HST. The Atlantic provinces witnessed a 12% increase in capital spending that was attributed to the HST introduction.

#### **Less paperwork**

For those of you tasked with the administration of both the PST and the GST, perhaps the best part of moving to the HST is that you will now have just one tax filing and one tax auditor to deal with.

We will continue to keep an eye on developments, and will provide more information on the HST transition as we learn more.

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