

Summary of the BC Mintz Report on HST - March 2010

Impending British Columbia tax reforms will create increased capital investment, jobs, and incomes in the province, and will make BC one of the most competitive economies in the world.

- **Small Business Marginal Effective Tax Rate (METR)**

HST will reduce the METR on capital investment from 24.7% in 2009 to 11.5% in 2010, and 9.9% by 2018. By 2018, BC's METR on capital will be lower than the current G20 average, and lower than all other provinces except the three HST Atlantic provinces.
- **Tax Rate Reduction**

The B.C. government reduced the general corporate income tax rate to 10.5% on 1 January 2010. This will be followed by a further 0.5% reduction 1 January 2011, and the elimination of corporation capital tax. The effective tax rate on new investment will decline from 29.5% in 2009 to 17.9% in 2018, also below the 21.3% average of 20 major industrialized and emerging economies.
- By 2020, the combined effect of the corporate tax cuts and HST will be to increase the capital stock by more than \$14 billion, which translates into an increase of 141,000 jobs.
- Small businesses will see their effective tax rate on new investment decline by almost three-fifths, from 24.7% to 9.9%. This will make British Columbia's businesses much more competitive in export markets since costs of production will decline.
- The provincial tax burden for small businesses has already declined sharply from 19.1% in 2000 to 2.2% in 2010, and by 2012 the tax burden on small business investment will be virtually eliminated (Figure 6).
- **Sectors Affected**

All industrial sectors in British Columbia will benefit from sales tax harmonization (Figure 5). The largest beneficiaries will be construction, communications, business, and household services sectors, which will see their effective tax rates on new investment drop by more than one third.
- **Competitiveness**

Small businesses are intensive users of machinery and equipment in production. Figure 5 shows the sharp decline of METR on small business investment (from 24.7% in 2009 to 11.5% in 2010), primarily due to sales tax harmonization. The competitiveness of the small business sector will benefit primarily from sales tax harmonization and the elimination of sales taxes on business inputs will more than halve small businesses' tax burden on new investment.

FIGURE 6: Provincial Only Marginal Effective Tax Rate on Capital Investment, by Business Size, British Columbia, 2000-2018

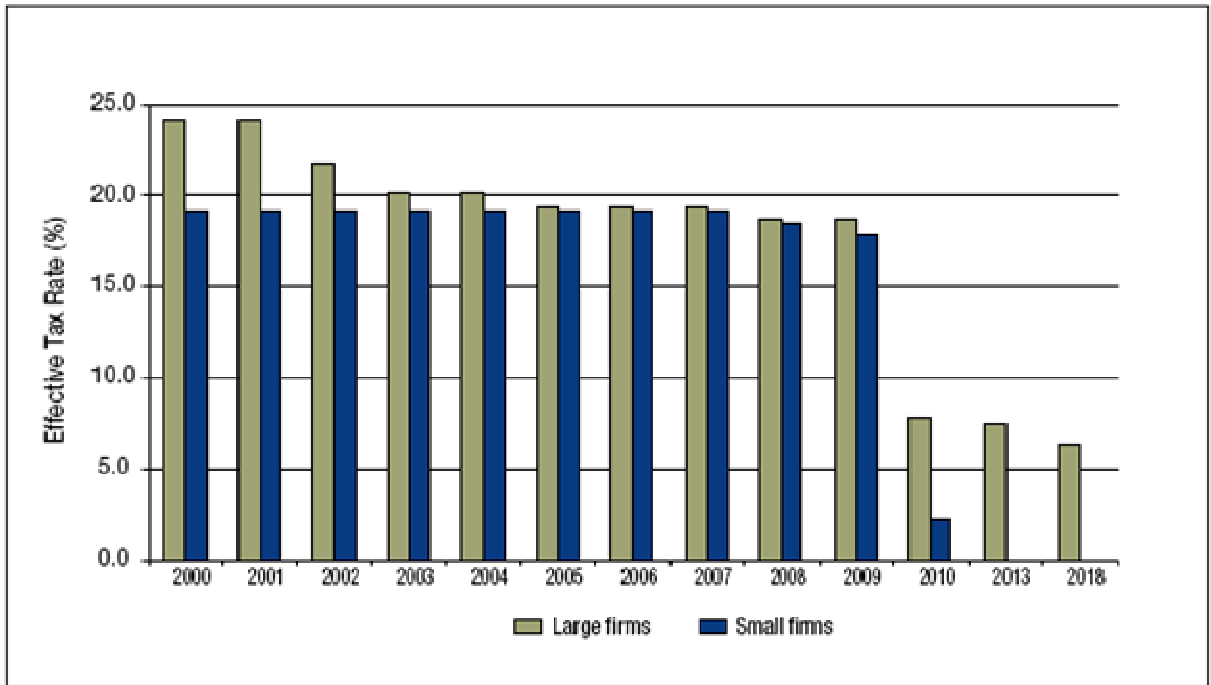
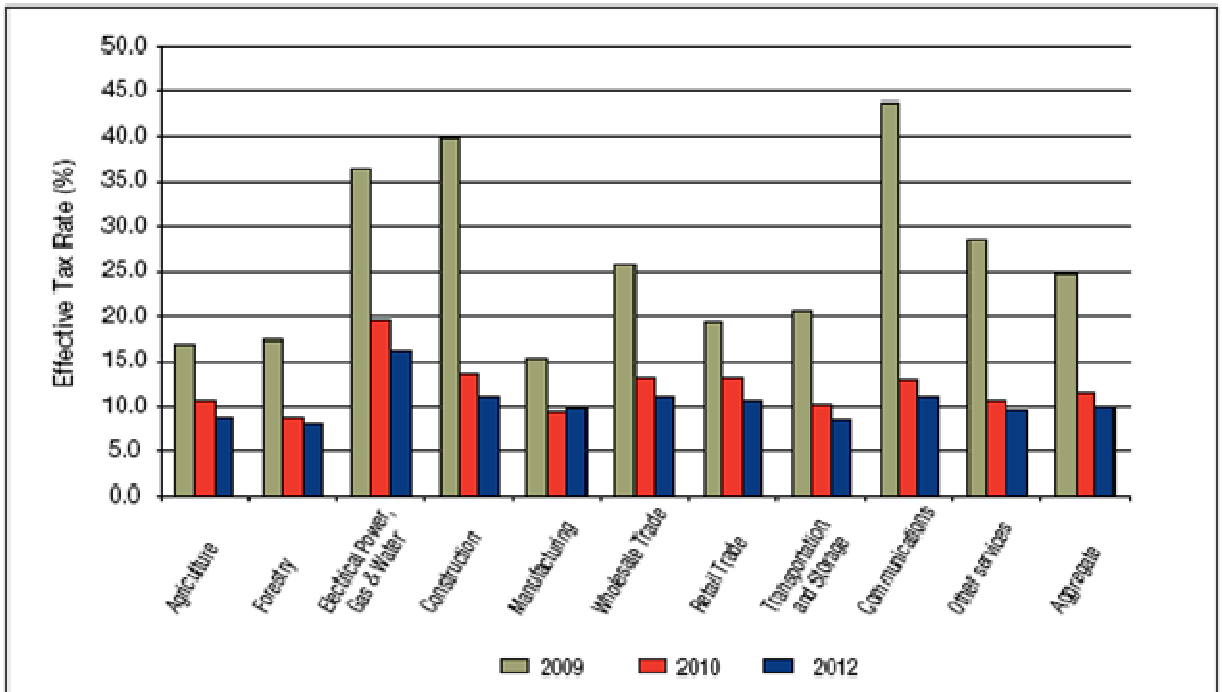


FIGURE 5: Marginal Effective Tax Rate on Capital Investment, by Small Businesses, British Columbia, 2009, 2010, and 2012



➤ **Attracting Foreign Investment**

Corporate income tax rate reductions enable governments to collect tax on a much larger base, reducing potential revenue loss. With federal and provincial corporate tax rate reductions resulting in a combined corporate rate of 25% (down from 33% in 2009), multi-jurisdictional companies will be much more willing to shift profits into British Columbia, especially from foreign jurisdictions.

➤ **A lower tax burden for consumers**

It has been suggested that British Columbia's adoption of the HST will raise product prices for consumers, but this is far from clear. Currently, the prices that consumers pay incorporate various hidden and embedded retail sales tax on business inputs that will be removed once the HST is implemented. Prices fell in the Atlantic provinces that eliminated retail sales taxes on business inputs when they harmonized their sales taxes with the federal GST. Savings passed on to consumers means that household incomes will have increased purchasing power.