

BBOT Policy Bulletin

Burnaby Board of Trade Says It's Time To Start Fixing the PST

April 1, 2015 -- As British Columbia marks the two-year anniversary of the return of the provincial sales tax (PST), the Burnaby Board of Trade is calling on the provincial government to fix the PST by beginning to remove the tax burden on business investments in new equipment, machinery and software with the creation of a refundable input tax credit. The Burnaby Board of Trade believes there is now sufficient fiscal room to begin to address this issue in light of the increased tax paid by businesses due to the re-implementation of the PST, the 1% increase in the corporate tax rate announced in 2013, as well as the \$1.06 billion in projected surpluses over the next three fiscal years. The Burnaby Board of Trade is asking the provincial government to commit to improving the PST and to begin consultations with it and with other business associations on ways to address this issue.

While the BC Government has succeeded in making BC more competitive by many measures, the taxes paid on business inputs is an outlier that forces BC companies to pay more than business in almost all other provinces and serves as a drag on business investment.

Business investment is crucial to both innovation and economic growth. When companies invest in improvements to the tools, equipment and infrastructure which their workers use, it increases their productivity, spurs innovation and drives economic output. Input tax credits can serve as a catalyst for this by encouraging firms to make those investments that help them perform better and produce more.¹

“A PST input tax credit could help invigorate business investment in the province and help boost the competitiveness of our local firms.”

Canada as a whole has long lagged behind both the USA and its international peers in business investment and BC sees lower business investment than the Canadian average.² The Burnaby Board of Trade believes that government, by implementing an input tax credit for new equipment, machinery and software in particular, could help invigorate business investment in the province and help boost the competitiveness of our local firms.

Under the previous HST regime, businesses in BC could claim a credit for the tax paid on business investments including new equipment, machinery and software. However, with the switch back to the

¹ “Capital spending produces the new tools that workers use on the job, the structures they work in, and the engineering infrastructure that makes them more productive.” - Benjamin Dachis, William B.P. Robson and Nicholas Chesterley, “*Capital Needed: Canada Needs More Robust Business Investment*”, C.D. Howe Institute, July 2014, p. 2.

² See Dachis, Robson and Chesterley, “*Capital Needed*” (2014)

PST those credits were eliminated for the provincial portion of the tax in what amounted to a 7% tax increase on key business investments. This resulted in BC trailing other provinces with one of the worst Marginal Effective Tax Rates (METR) for businesses.

The METR represents the tax imposed on an incremental dollar invested and takes into account all taxes applied to revenue/profits as well as to the investment required to make that profit. This measure is often seen as a more accurate depiction of the total tax burden placed on business.

As shown in Table 1, the provinces with the least competitive METRs are the provinces of BC, Manitoba and Saskatchewan. It is interesting to note that these provinces “continue to levy the retail sales tax, which results in a significant tax on capital investments (other provinces have harmonized their sales tax with the federal GST, and Alberta has no sales tax, so capital taxation is less severe).”³ This is the impact of the PST--- it contributes to BC having the second-worst marginal effective tax rate for businesses in the country.

While the METR is just one measure of tax competitiveness, it highlights the impact of tax policy on interprovincial competitiveness. The return of the PST and the elimination of the input tax credits previously available under the HST is directly responsible for placing BC second-last among provinces in this measure.

Before BC reverted to the PST, the Minister of Finance at the time, in an acknowledgment of the impact of tax policy on competitiveness and economic growth, appointed the *Expert Panel on BC’s Business Tax Competitiveness* to review the tax competitiveness of the province and make recommendations on improvements to the PST. As part of its final report, the Panel also recommended the provincial government introduce a refundable tax credit on equipment, machinery and software.⁴

The Panel also suggested a 0.5% increase to the provincial corporate tax rate as part of a suite of changes to offset the decrease in revenue from the implementation of the tax credit. However, in the

Table 1

| Province | Marginal Effective Tax Rate |
|------------------|-----------------------------|
| New Brunswick | 4.8 |
| Newfoundland | 10.7 |
| PEI | 11.4 |
| Nova Scotia | 13.4 |
| Quebec | 15.2 |
| Alberta | 17.0 |
| Ontario | 18.2 |
| Canadian Average | 18.8 |
| Saskatchewan | 24.3 |
| BC | 27.5 |
| Manitoba | 27.9 |

Source: D. Chen and J. Mintz. (2015). The 2014 Global Tax Competitiveness Report: A Proposed Business Tax Reform Agenda. *The School of Public Policy: SPP Research Papers*. 8(4) University of Calgary.

³ D. Chen and J. Mintz. (2015). The 2014 Global Tax Competitiveness Report: A Proposed Business Tax Reform Agenda. *The School of Public Policy: SPP Research Papers*. 8(4) University of Calgary, p. 11.

⁴ Expert Panel on BC’s Tax Competitiveness (August 31, 2012). *Report of the Expert Panel on BC’s Business Tax Competitiveness*. Retrieved from: <http://www.fin.gov.bc.ca/docs/Final%20Report%20as%20of%20September%202014,%202012.pdf>

following year's budget, the provincial government raised the corporate tax rate by a full 1% without any corresponding PST tax credit. This tax increase on businesses is still in effect today but there has not yet been any implementation of a PST input tax credit.

The Burnaby Board of Trade recognizes the government's need to be prudent with the province's finances and has applauded the government's return to balanced budgets in recent years. The Burnaby Board of Trade also understands that both new spending initiatives and new tax reductions must be considered against the need to maintain these balanced budgets and resist going back into deficit.

The net cost of a full PST input tax credit for equipment, machinery and software was estimated at approximately \$461 million in fiscal year 2015/16 by the *Expert Panel on BC's Business Tax Competitiveness* and the Burnaby Board of Trade acknowledges that this would be a substantial reduction in government revenue. However, with a provincial surplus of \$879 million announced for fiscal year 2014/15 and projected surpluses over the next 3 fiscal years of over \$1.06 billion, the Burnaby Board of Trade feels there is fiscal room enough to begin to implement some tax relief for businesses.

Therefore, the Burnaby Board of Trade encourages the provincial government to commit to fixing the PST by implementing some level of refundable input tax credit for equipment, machinery and software today, with the goal of eventually phasing in a full 7% PST input tax credit for those investments in the future. The Burnaby Board of Trade is asking the government to begin consultations with it and other business associations to begin to address this issue for the benefit for BC businesses.

The Burnaby Board of Trade is one of the leading business associations in British Columbia and represents nearly 1,200 businesses, entrepreneurs and organizations from across Burnaby and the Lower Mainland. The Burnaby Board of Trade strives to improve business by providing our membership with insightful leadership, advocacy, education and a platform for collaboration.