Burnaby BOARD OF TRADE
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October 14, 2015

Select Standing Committee on Finance and Government Services
Room 224, Parliament Buildings
Victoria, B.C.
V8V 1X4

Attn: Wm. Scott Hamilton, MLA
Chair

Dear Mr. Hamilton,

The Burnaby Board of Trade (BBOT) would like to thank the Select Standing Committee on Finance and Government Services for the opportunity to present to you as part of the Budget 2016 consultation process.

In Budget 2016, the Burnaby Board of Trade would encourage the provincial government to prioritize fixing the Provincial Sales Tax (PST) system by removing the provincial tax on key business investments in new equipment, machinery and software with the creation of a refundable input tax credit.

April 1st of this year marked the two-year anniversary of the return of the PST from the previous Harmonized Sales Tax (HST) regime. While the HST was a controversial issue at the time, one fact that was undisputed was the benefit that harmonizing our sales taxes provided BC's business community. The HST had many advantages to the PST and most notably among those was the availability of input tax credits that allowed businesses to recoup the taxes paid on investments in new equipment, machinery, equipment or software. When the HST was eliminated, businesses also lost these credits and had to pay the full 7% PST on most business investments.

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 businesses in many 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 all of this by encouraging firms to make those investments that help them perform better and produce more.[1]

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.

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Canada as a whole has long lagged behind both the USA and its international peers in business investment and BC sees even less such investment than the Canadian average.[2] The Burnaby Board of Trade believes that the provincial government, by implementing an input tax credit for new equipment, machinery and software, 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 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 capital investment.

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 on capital investments 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.

Table 1

Province	*Aggregate Marginal Effective Tax Rate on Capital Investments*
New Brunswick	4.8
Newfoundland	10.7
PEI	11.4
Nova Scotia	13.4
Quebec	15.9
Alberta	17.0
Ontario	18.2
Canadian Average	19.0
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.

[2] See Dachis, Robson and Chesterley, "*Capital Needed*" (2014)

[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.

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 possible improvements. As part of its final report, the Panel similarly 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 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 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 $1.68 billion for fiscal year 2014/15 and projected surpluses over the next three years of just over $1 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 in Budget 2016, with the goal of eventually phasing in a full 7% PST input tax credit for those investments in the future.

As the premier business association in Burnaby representing nearly 1,200 businesses, entrepreneurs and organizations from across our city and the Lower Mainland, we again thank you for the opportunity to present to the Select Standing Committee on Finance and Government Services and comment on the creation of Budget 2016.

[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%2014,%202012.pdf