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The realities of the HST

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In 2009, the B.C. government, following Ontario's lead, announced the replacement of its antiquated provincial sales tax with the federally and provincially harmonized sales tax. As B.C. voters decide the HST's future, we should separate the myths and the realities, and understand why it got to a referendum in B.C. but not in Ontario.

Myth: The HST increases prices for consumers.

Reality: Prices for many goods actually decline, because manufacturers and retailers receive tax credits for the HST they pay to their suppliers. This was Atlantic Canada's harmonization experience in the 1990s.

Only an additional 17 per cent of B.C. consumer spending is being taxed for the first time. For these items, prices increase – but not by the full 7 per cent, since businesses' costs are reduced by tax credits on their purchases.

The net effect on B.C.'s consumer prices in 2010 was an imperceptible increase of 0.6 per cent – similar to the effect in Ontario.

Myth: The HST raises costs for small businesses.

Reality: Costs decline for most small businesses as they recover sales tax payments on their purchases (like with the federal GST). Harmonizing the provincial sales tax and the federal GST lowers administrative costs for small businesses. Overall, B.C. businesses save \$150-million annually; Ontario's save \$500-million.

Myth: The HST hurts lower-income British Columbians.

Reality: On balance, B.C.'s lower-income families are ahead with the HST. Some argue that the HST falls disproportionately on items purchased by lower-income households. Actually, B.C.'s HST has resulted in lower prices on items that lower-income families are more likely to purchase. As in Ontario, they're benefiting from enhancements to sales tax assistance and personal tax adjustments.

Myth: The HST is business friendly.

Reality: The HST is B.C. friendly. It will increase business investments, thereby creating new, better-paying jobs. Independent economists project that the original tax changes announced by the B.C. government will increase the province's capital stock by \$14-billion and create 141,000 jobs.

Unfortunately, to make it more politically palatable, the government recently announced an HST rate reduction from 12 per cent to 10 per cent by 2014, replacing the lost revenue with a temporary corporate tax increase from 10 per cent to 12 per cent. Like the federal government's two-point GST reduction, this is good politics, but it harms B.C.'s economic welfare. Reductions on corporate and personal income tax benefit the average family more than on sales taxes.

This will water down the economic benefit to B.C. Still, it's better than abandoning the HST.

Myth: B.C.'s decision won't affect Ontario.

Reality: All Canadians have a stake in the B.C. referendum. Rescinding the HST will hurt the 12.5 per cent of the Canadian economy that B.C. represents, and that's simply not beneficial to Canadians. With Ontario's and B.C.'s bold tax initiatives, Canada is much more globally competitive.

B.C. represents more than 15 per cent of Ontario's interprovincial exports; and Ontario represents more than 30 per cent of B.C.'s. It doesn't help Ontario if B.C.'s economy is subpar – the result if B.C. returns to the inefficient PST.

Myth: If Ontario had B.C.'s referendum legislation, it would kill the HST.

Reality: We'll never know. But Ontario implemented the HST differently than B.C., and that might have forestalled an Ontario referendum.

Ontario's HST was part of a significant tax-reform package introduced by the government and supported with a solid implementation plan. The offsets to the tax increase from the HST – personal income tax cuts and transitional payments – were front-end loaded.

In contrast, B.C. always appeared to be playing catch-up. It's not hard to conclude that its government introduced the HST to prevent B.C. from being a significantly worse tax jurisdiction once Ontario acted. Committing not to introduce an HST in the previous election didn't help. The HST was not accompanied by personal tax reductions, besides a modest increase in the income tax

credit. Its transitional payments were announced almost a year after the original HST announcement and were much smaller than Ontario's.

Unlike in B.C., Ontario's opposition parties are not promising to eliminate the HST – perhaps one of those rare situations where good public policy transcends the world of politics.

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