

On again – off again – ON AGAIN! The HST controversy

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In its recent provincial budget on March 26, 2009, Ontario published its intention to abandon the province's 8% Retail Sales Tax and move to the Harmonized Sales Tax (HST) on July 1, 2010. This development brings the HST controversy in PEI back to the forefront. Rumblings have been heard from certain business sectors in the PEI economy that want to move to the HST as soon as possible.

The view from 20,000 feet

Prince Edward Island sits in the midst of HST provinces New Brunswick, Nova Scotia and Newfoundland. Quebec also has a blended tax, although the Quebec Sales Tax rules are not quite the same as the federal HST rules. When Ontario moves to the HST, Prince Edward Island will be the only eastern province of Canada with a separate provincial tax regime

To complete the coast-to-coast picture, Manitoba, Saskatchewan and British Columbia have their own provincial sales taxes, and wealthy Alberta has none.

From a business standpoint

Most PEI businesses in the Greater Charlottetown Area Chamber of Commerce membership are fully taxable. We pay GST and often PST on goods bought to consume in our businesses and charge GST and PST to customers. While we can get the GST back on goods and services purchased for the business, we can't get the PST back. This creates a hidden cost, which is ultimately passed on to the consumer in the form of higher prices. For these businesses, the GST/PST combination is costly and inefficient.

Additionally, there is an extra paperwork burden for PEI businesses that collect GST and PST versus our Atlantic province counterparts that only collect HST. PEI businesses have to complete two sets of forms with different deadline requirements, and keep track of and send in two separate payments, one to the Federal government and one to the Province. We are subject to two sets of audits under significantly different rules. Cash registers and invoices must be set up to show the specific and different requirements for each taxing jurisdiction.

For these businesses, there would be clear advantages if PEI adopted the HST, not the least of which would be regaining an equal playing field with our Maritime competitors.

Not for everyone

As with most things in life, there are winners and losers. Some businesses in the Greater Charlottetown Area Chamber of Commerce membership would not benefit from a move to HST. These are businesses that cannot recover their GST paid, either because they are in tax-exempt activities or because they are small suppliers. For example, a business involved in residential apartment rentals is tax-exempt; this type of business can't recover GST paid on items purchased, since no GST is charged to tenants. Similarly small suppliers (non GST registered businesses with sales of less than \$30,000 annually) don't charge GST on their sales and can't recover any GST paid on goods or services purchased for the business. For these types of business, the HST would mean an increase in costs that would not be easily recoverable in the short term.

However, over time this increase could gradually be passed on to consumers in the form of increased prices. Eventually most of these businesses should be able to recover their usual profit margins.

All businesses would have to factor in the cost of systems changes under a new tax regime. This would include costs for converting point-of-sale and accounting systems.

Make your voice heard

Last time the HST was topical, business members sent mixed messages to the Greater Charlottetown Area Chamber of Commerce. Many members voiced no opinion on the subject at all. Without a clear majority of member viewpoints in one direction, how can we expect our Chamber to pick its stand on this issue? If you have a strong opinion, now is a good time to voice it. Let the Chamber know.