

Behind the Counter

Impact of change from PST to HST proposed July 2010

I hope that everyone is recovering from the shock of hearing Gordon Campbell announce that BC will be moving to a harmonized sales tax next July 2010, especially when one of the Liberal's election promises was that there would not be an increase in taxes.

Of course, this harmonization still needs to be approved by the BC Legislature as well as the Parliament of Canada, but since Ontario is moving to the harmonized tax at the same time, this process will probably be just a formality.

What this means for small business owners is that your sales will now need to have 12% added onto them instead of the previous 5%. The 12% that the business has paid on its purchases will be deductible as an income tax credit, similar to how the GST is handled currently. If you are not registered for the GST/HST, you will not be required to collect it, nor will you receive the benefit of the income tax credit. So far there has been no discussion on the registration threshold of \$30,000 for profit orientated operations, so we will need to wait to see if there are any changes to that.

It is expected that this shift from PST to HST will make investment into new businesses less costly and promote growth. It is also expected to reduce administration costs for the small business due to the simplification of the calculation of the tax and associated credits.

The businesses that will be negatively impacted by this additional tax will be those in service type industries such as professional services, hair care, appliance repair services, renovation services, health club fees, movie and theatre, real estate commissions, restaurants and airlines. The reason being that they will need to charge a higher tax, but do not have a lot of income tax credits to offset it. In addition to a possible drop in business, as these are not all essential services, there will be a strain on cash flow because the tax is required to be remitted the month, quarter or year following the time that it was collected. So again, cash flow is king and the monitoring of your cash flow will be very important.

Conversely, this tax is expected to provide significant savings to construction, manufacturing, transportation, forestry and mining once it has been totally implemented. The hotel tax for short term accommodation will be rolled into the HST which will allow for a 1% reduction in tax from 8% to 7%.

I believe that implementation costs will be significant as every computer system in the province will need to be updated to facilitate the new tax. BC will receive \$1.6 million from the federal government to help with the changeover.

I can see significant savings for the provincial government because this move effectively sends everyone currently working in the PST department to unemployment which in effect transfers from the provincial government purse to the federal government purse. There has not been a public announcement of how many people will be affected, or if there are any plans to retrain or aid these people into other employment.

Consumers will now pay an extra 7% on items that were previously PST exempt except for basic groceries, gasoline, books, children's items such as diapers, clothing and car seats and feminine hygiene products. Household expenses will increase as utility bills will now be taxed at the full 12%. Any money spent on any service will now be taxed at the full 12% as will non-prescription medication and vitamins. All safety equipment, smoke detectors and energy saving devices are subject to the higher tax.

Entertainment items such as a night out to the restaurant and a movie will be more expensive.

The GST credit will be renamed HST credit and increased by \$230 per family member for those families who have an annual income of less than \$25,000 and individuals with an annual income of less than \$20,000. This additional credit is a non-taxable benefit for income taxes, but to receive it you must file your income tax return.

For new home buyers a rebate will be available up to \$20,000 as long as the home purchase price is less than \$400,000.

The provincial government expects that consumer products that currently have PST imbedded in the price will become cheaper, but I am inclined to believe that the excess will just become part of company profits rather than passing the savings onto the consumer.

For more information on this upcoming tax, please visit the Ministry of Finance website at www.fin.gov.bc.ca/scp/hst/.

Gabriele Banka is a Certified General Accountant , owner of Banka & Company Inc. She can be reached at 250-763-4528 or info@bankaco.com