



**Presentation to Finance Standing Committee
October 7, 2009**

Introduction

Good morning. My name is John Juricic and I am the Chair of the Greater Victoria Chamber of Commerce. Beside me is Shannon Renault, the Chamber's Manager of Policy Development and Communications with the Greater Victoria Chamber of Commerce. On behalf of the Chamber, we would like to thank you for this opportunity to contribute to the budgeting process for 2010.

The Greater Victoria Chamber of Commerce is the oldest business organization in the Capital Region and one of the largest chambers in British Columbia. We are Accredited with Distinction by the Canadian Chamber of Commerce. As the "Voice of Business" for the region, we represent over 1500 business members – businesses that represent more than 22,000 employees. We are pleased to present you with budget priorities on behalf of our membership.

Our presentation today will focus on the economic impact of the Harmonized Sales Tax (HST) and tax recommendations to mitigate those impacts in areas related to tourism, BC Ferries, residential construction, and consumers.

Harmonized Sales Tax

The Greater Victoria Chamber recognizes that the HST is a sound policy move for the overall economy of the province in the long term. The tax will position British Columbia as a more competitive place to do business and encourage companies to invest in measures to increase productivity.

However, at the same time there are specific areas of concern regarding significant impacts of the HST – most notably to tourism, to BC Ferries, to the cost of new homes, and to consumers.

We further appreciate that there are limited substantive changes that can be made to the HST in terms of tax exemptions under the memorandum of understanding with the federal government.

This is not to say that areas of concern cannot be addressed in other ways.

Mitigation for the Tourism Industry

The Victoria Chamber is supportive of the work that the Council of Tourism Associations is currently undertaking to bring detailed mitigation strategies to the government concerning the impacts of HST. However, we would like to offer three specific recommendations which we believe will be broadly supported by our tourism partners.

1. ***Change the date of self assessment for Tourism Contracts for 2010 calendar year signed before HST was announced.***

It is common practice for tourism operators to sign fixed-price tax-included contracts for future seasons to allow the inclusion of the tourism product in tour packages. Packages sold and used after July 31, 2010 would result in the tourism operator remitting 7% of its revenue as HST. In an industry that has had a very trying year and narrow profit margins this will result in significant fiscal harm and preclude profitable operations by some businesses.

A change in the transitional rules allowing that fixed-price contracts in the tourism industry not be subject to self assessment in the 2010 calendar year would resolve this issue.

2. ***Increase the threshold*** for the temporary delay in the provision of input tax credits for certain purchases by businesses with taxable sales exceeding \$10 million. The proposed threshold of \$10 million seems an arbitrary amount and is significant for the tourism sector with their extremely thin profit margins. The change in this threshold to \$50 million would match the Statistics Canada definition of small business and benefit a number of tourism operators.

3. Determine in the 2010 budget, ***in consultation with tourism, a stable and long term funding plan to replace the 2% Additional Hotel Room Tax (AHRT).***

The AHRT, which currently funds Destination Marketing Organizations, has been extended to 2011. But tourism is an industry that relies on long term strategic planning and needs funding security, controlled regionally in order to adequately market the destination. Establishing this surety is vital for the health of the industry.

BC Ferries

The service of BC Ferries is a business necessity anywhere off of the Mainland. Increases in ferry costs directly impact the cost of doing business on Vancouver Island and the Gulf Islands. Those increases will mean either reduced profits to business or increased prices to customers.

HST will increase the cost of ferry service. Fares themselves are HST exempt, however, because fares are exempt, BC Ferries is unable to claim back their increased HST expenses through Input Tax Credits.

That increased cost will put approximately \$6 million of upwards pressure on ferry fares, based on preliminary calculations from BC Ferry Corporation.

In order to neutralize the cost pressure to BC Ferries and increased costs to business and passengers, ***the Greater Victoria Chamber recommends that the province increase its subsidy to BC Ferries to a level matching the increased operational cost pressures to the corporation attributed to HST.***

Cost of Residential Housing

The application of HST to the purchase of newly constructed homes adds significantly to the cost of living in British Columbia. An increased cost of living makes it difficult to attract and retain labour and puts intense upwards pressure on wages.

According to a BC Progress Board report (*Current Realities and the Way Forward, Dec. 2008*), and based on the sale of new homes only, if the HST had been introduced in 2002, it would have added \$549 million in new taxes to home purchasers. According to the Canadian Mortgage and Housing Corporation (CMHC), there has been a 97% increase in the cost of new housing in British Columbia since 2002. Using those figures, one could make a rough but reasonable estimate that the HST will add approximately \$1 billion in new taxes to home purchasers.

While the chamber understands that the overall goal of the HST is to be revenue neutral to government and to spread taxation to a broader base, the residential home purchaser is clearly bearing a disproportionate increase.

Using figures from the CMHC, on median prices for new homes in 2008 and applying the HST onto those median prices in various markets in the province, as represented by Prince George and Vancouver, we find the following:

- The cost of new homes will increase by 1.9% in rural markets to 3.7% in urban markets.
- After allowing for all HST and GST rebates, there will be a 27% to 59% increase in the amount of taxes paid.
- In real dollars, the tax increase will range from just over \$7,000 in Prince George to more than \$26,000 in Vancouver.

Note that these cost increases are for the cost of homes only and does not include increased costs in real estate fees, home inspections and legal services associated with home purchase.

Increases of this magnitude will have an inevitable impact on the market. Less people will be able to purchase new homes, driving up the cost of resale homes in an already expensive market. Overall, new home purchasers will have less money available for ancillary purchases related to home ownership – these purchases currently exceed \$32 thousand per home in retail activity in 2008. The decrease in demand for new housing may also slow employment and economic activity in this important sector of the construction industry.

The Chamber supports the recommendation of the BC Home Builders Association to increase the new housing exemption threshold from \$400,000 to \$600,000, and to index that threshold to the increase in new housing costs, to mitigate the impact of HST

We also understand that the province of BC has only 5% of the total tax revenue leeway for tax exemptions and this recommendation may be difficult to attain.

If adjusting the threshold is not a current option for the government, other tax changes can be exercised.

The Greater Victoria Chamber offers two recommendations as alternative mitigations to keep home ownership attainable and to support the ongoing economic contribution of the sector. Adopting either recommendation would be a bold mitigation measure and would re-assure confidence in consumers.

1. Reduce the Property Transfer Tax on new home purchases. (Note that a complete elimination of the PTT still leaves a 10% to 34% tax increase with the threshold at \$400,000.

or

1. Adopt the recommendation of the BC Progress Board to reform the base for tax treatment of new housing by removing the land component from the taxable base. The land component represents a significant portion of the price to which HST and PTT is applied.

Consumer Impacts

A recently released study by TD Economics notes that the net effect of the HST “will be a permanent 0.7% increase in the consumer price index” in British Columbia. Ideally, this impact will be ameliorated in the longer term by increased productivity and wages in the private sector. However, in the short term, consumers will be impacted.

The Greater Victoria Chamber recommends that tax relief in the one to two years time frame should be focussed on benefiting consumers and bolstering consumer confidence.

Closing

In closing, we would like to acknowledge the number of tax revisions the province has made over the last number of years to the benefit of our provincial economy. Now, at this time of economic fragility, we encourage the government to exercise thoughtful mitigation on those industries that are significantly impacted by the introduction of HST with the goal of bolstering both business and consumer confidence to sustain economic growth.

Thank you.

