

Tax Memo

British Columbia Sales Tax Harmonization

On July 23, 2009, Premier Gordon Campbell and Finance Minister Colin Hansen announced that the province of British Columbia (B.C.) intends to harmonize the provincial sales tax (PST) with the federal goods and services tax (GST) effective July 1, 2010. B.C.'s harmonization follows Ontario announcement on March 26, 2009, to harmonize its PST with the GST. The new single sales tax rate for B.C. value added tax (BCVAT) will be 12%. However, the B.C. and Canadian federal governments have agreed that after two years from the date of implementation British Columbia can increase or decrease the BCVAT rate.

The BCVAT will be administered by the Canada Revenue Agency. In principle, the BCVAT will follow many of the underlying concepts of the GST and will adopt many of the customizations introduced by Ontario. Nevertheless, the BCVAT will have some B.C.-specific elements as described below.

Temporary Restriction on Claiming Input Tax Credits for Large Businesses

Similar to the restrictions relating to the recovery of input tax credits (ITCs) adopted by Ontario and Quebec, large businesses in British Columbia (annual taxable sales in excess of \$10 million) and financial institutions will be unable to claim full ITCs for the provincial portion of the BCVAT on certain purchases. The details of these restrictions are to be announced in the near future. However, the denial of ITCs—up to 100% of the provincial component—will not apply beyond the list of restricted purchases currently in place under the Quebec Sales Tax. Similar to Quebec, Ontario has proposed to restrict ITCs on the following purchases made by large businesses:

- energy;
- telecommunication services (other than internet access fees or charges for toll-free numbers);
- automobiles and other road vehicles weighing less than 3,000 kilograms; parts, certain services, and fuel for such vehicles; and
- food, beverages and entertainment expenses.

British Columbia has agreed to a maximum period of ITC denial of five years for the select expenses followed by a phase-in period of up to three years. Further details are anticipated as the legislation is drafted and as we approach the implementation date.

Point of Sale Relief

British Columbia announced that it will provide point-of-sale rebates and tax credits for the provincial portion of the BCVAT, for purchases including:

- gasoline and diesel motor fuels, including biofuel components;
- books;
- children's-sized clothing and footwear;
- children's car seats and car booster seats;
- diapers; and
- Feminine hygiene products.

New Housing Rebate

British Columbia has indicated that new homes up to \$400,000 will bear no more tax than under the current PST regime and therefore a partial rebate of the provincial component of the BC VAT will be included in the legislation. Homes over \$400,000 will qualify for a flat rebate of about \$20,000.

Rebates for Public Service Bodies: Charities, Non-Profit Organizations and the MUSH Sector

The BC VAT will also provide rebates to charities, eligible non-profit organizations and municipalities to avoid tax increases for these sectors as a result of harmonization. The federal GST rebates for these sectors are currently set at the following rates:

Charity	50%
Hospital authority	83%
School authority	68%
University/college	67%
Municipality	100%

Insurance Premiums

British Columbia presently levies an insurance premium tax of 7% under the *Insurance Premium Tax Act*. The budget announcement does not suggest that this will be harmonized with the 10% tax levied under Part 1 of the *Excise Tax Act*.

www.pwc.com/ca/harmonization

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