

June 2010

The Impact of the HST on British Columbian Families

Main Conclusions

- Lower- and middle-income families will be better off under the HST as a result of offsetting provincial income tax reductions (an increase to the basic personal exemption to \$11,000) and the introduction of the new BC HST Credit.
- The HST, combined with an offsetting personal income tax reduction and BC HST Credit, will result in an average tax cut of \$411 for families with incomes between \$20,000 and \$40,000; an average tax cut of \$159 for families with incomes between \$40,000 and \$60,000; and an average tax cut of \$34 for families with incomes between \$60,000 and \$80,000.
- Families in the upper income groups will experience a slight increase in their total tax bill. However, these increases are negligible given the total taxes paid by families in these income groups.
- The total tax bill of the average British Columbian family will increase by \$44 from \$37,562 under the PST, to \$37,606 under the HST. This increase is negligible as it represents only 0.12 percent of the average family's tax bill.
- Tax Freedom Day, the day in the year the average family has earned enough money to pay the taxes imposed on it, would fall on June 8th in 2011 under either the HST or the PST.
- The average family will pay slightly more provincial sales tax under the HST than it would under the existing PST. Specifically, provincial sales taxes paid by the average family would be \$249 higher under the HST in 2011; \$3,382 in HST compared to \$3,133 in PST.
- Personal income tax reductions implemented to offset the impact of the HST will result in a decrease in income taxes for the average family. Specifically, the average British Columbian family's income taxes will decline by \$205 in 2011, from \$11,245 to \$11,040.
- While the HST essentially will have no impact on the total tax bill paid by the average family, it will lower investment costs and spark more business investment and development. This will ultimately make BC workers more productive, drive up their wages, and enhance employment opportunities.

Introduction

On July 1st, 2010, British Columbia's provincial sales tax (PST) will be integrated with the federal Goods and Services Tax (GST) creating a single harmonized sales tax (HST) of 12 percent—a 7% provincial portion and 5% federal.

Many British Columbians have been led to believe that harmonizing the PST with the GST will significantly increase the total taxes they pay. It is hard to blame them for holding this view. After all, the words “tax increase” and “HST” have appeared together in over 177 articles in BC newspapers over the past year.¹

Several BC politicians have also tried to persuade British Columbians that the HST will result in a massive tax increase. For example, the BC NDP has called the HST a “\$2 billion tax hike” (BC NDP, 2010); the BC Conservative party claims the HST will “increase the tax burden on... the average household” (BC Conservative Party, 2009); and former BC Premier Bill Vander Zalm has stated that, “the average family in B.C. will pay in excess of \$2,100 per year in more sales taxes with the HST” (Vander Zalm, 2010). These claims are not based on accurate measurements of the impact of harmonization.

This Alert provides an empirical measurement of the impact of the HST on the average British Columbian family. The Fraser Institute is well suited to provide such an analysis; it has a long history of measuring how much tax, in all forms, British Columbians pay. For example, the Fraser Institute annually calculates and publishes the most

popular and easily accessible measure of the total taxes Canadians pay: Tax Freedom Day.²

Using the Fraser Institute's Canadian Tax Simulator, which is based on Statistic Canada's Social Policy Simulation Database and Model (SPSD/M),³ this Alert measures the total amount of tax the average British Columbian family will pay under the HST versus the status quo PST. It also examines how the implementation of the HST will affect Tax Freedom Day in British Columbia. The Alert concludes by examining the impact of the HST on BC families at different income levels.

The difference between the PST and HST

The PST

British Columbians currently pay seven percent provincial sales tax (PST) on many of the goods they purchase. (Several services are also taxable. See British Columbia, Ministry of Finance, 1993, rev. Feb 2009.) The main problem with the PST is that it applies to business inputs as well as final goods and services. When businesses are charged PST on production supplies and capital inputs (i.e., machinery and equipment), production costs increase and these increased costs are largely passed on to consumers in the form of higher prices.

In many cases, a product can be taxed multiple times before it is taxed one last time when the final consumer buys it. For example, when British Columbians purchase a bottle of BC wine, they pay the

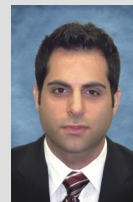
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PST on the final price. That final price, however, already contains a significant amount of PST. The winemaker must pay PST on inputs he uses to make the wine (i.e., bottles, labels, corks, equipment used to grow grapes, etc.), all of which is passed on to consumers in the form of higher prices. But that's not all. In addition, the inputs that winemakers purchase already include PST, since the companies making these supplies are also charged the PST on inputs *they* purchase (i.e., the paper to make the labels, machines to shape the corks, etc.). As a result, the PST can be compounded many times depending on the number of stages of production. The PST that businesses pay on inputs is therefore a hidden

tax; it is embedded in the price of goods and services and although consumers don't see this tax, it is passed on, often multiple times, to the final purchaser.

Even goods and services that are currently exempt from the PST (i.e. restaurant meals, dry cleaning and house cleaning, financial services, and many professional services) contain embedded PST, since those service providers pay PST on many inputs they purchase, including machinery, computers, software, office equipment and supplies.

All told, approximately 40 percent of the provincial sales tax revenue (approximately \$1.9 billion) comes from taxing business inputs (British Columbia, Ministry of Finance, 2010).

The HST

The HST, on the other hand, is a "value added tax," like the federal Goods and Services Tax (GST), meaning that only the value added by the business selling the good or service is taxed. In other words, all inputs that go into the creation of a product or service are exempt from the HST. Under the HST, businesses will receive refunds (input tax credits) for the sales tax they pay on inputs. Past experience with harmonization in Canada shows that competitive pressures will cause businesses to pass most of these savings on to consumers through lower prices (Smart, 2007). Put simply, experience shows that prices will likely fall.

Not only will prices decrease, but so will the costs to business of investing in machinery, equipment, and technology (computers and

software). Since the PST applies to business inputs, including much of the machinery, equipment, and technology that firms purchase, its effect is to discourage business investment. Under the HST, lower investment costs will spark more business investment and development.⁴ Increased business investment, particularly in machinery and equipment, will make BC workers more productive and drive up their wages. An added benefit will be the expansion of employment opportunities for British Columbians.⁵

Here again, past experience with sales tax harmonization in Canada is telling. After three Atlantic provinces harmonized their PST with the federal GST in 1997, investment in machinery and equipment (on a per person basis) rose by more than 12 percent compared to that in the provinces that had not harmonized their taxes (Smart, 2007).

Finally, British Columbia's competitiveness will be improved under the HST since businesses in the province that export goods will see their prices become more competitive on international markets.

To recoup the \$1.9 billion in lost revenue from refunding the tax paid on business inputs, the HST will apply to a wider array of goods and services than did the PST (that is, the tax base will be broader). Broadening the tax base this way will ensure that more goods and services will be treated equally. This means that the HST will produce a more uniform tax burden on all forms of goods and services consumed.

Opponents of harmonization claim that the elimination of sales taxes on business inputs and the

expansion of the sales tax base would result in a shift of the tax burden from business to individuals. But that view ignores a stark reality: the ultimate burden of all taxes falls on people. People will pay the taxes as consumers, workers, or owners of shares in businesses directly, or through their retirement plans or RRSP accounts. That payment will take the form of higher prices, lower wages, or reduced rates of return (Clemens and Veldhuis, 2003).

Furthermore, the HST will be less expensive to collect. Since the PST and GST have differing tax bases and a host of different rules, businesses are currently forced to operate with two sets of sales records so they can meet two different sets of compliance and reporting requirements. Under the HST, businesses will have to comply with just one tax system, which will save them an estimated \$150 million in tax compliance costs (British Columbia, Ministry of Finance, 2010: 93). In addition, since the HST will be administered federally, the provincial sales tax bureaucracy will be eliminated, saving BC taxpayers another \$30 million annually (British Columbia, Ministry of Finance, 2010: 93).

Revenue implications⁶

The provincial portion of the HST is expected to generate \$5.4 billion in revenues in its first full year of implementation, 2011/12.⁷ This is approximately \$400 million more than what the government would have collected from the PST during the same fiscal year (\$4.9 billion).

While the HST will increase sales tax revenue for the province, personal income taxes will be cut to offset the increased revenue. Specifically, personal income tax relief will be provided through an increase in the basic personal exemption (i.e., the amount of income British Columbians can earn tax free) to \$11,000 in 2010 from \$9,373 in 2009.⁸

In addition, a BC HST Credit will be introduced to help roughly 1.1 million British Columbians with low or modest incomes.⁹ The maximum BC HST Credit is \$230 per family member and is gradually reduced as a family's net income exceeds \$25,000.¹⁰

After taking into account the increase in the basic personal exemption and BC HST Credit, the HST is expected to be revenue neutral for government—that is, it will raise about the same money for government (see table 1).

While the HST is expected to be revenue neutral for government, it will affect families in different ways depending on their income and spending patterns. The next section examines the impact of the HST on BC families.

Impact of the HST on the average British Columbian family

Using the Fraser Institute's Canadian Tax Simulator (see the Methodology section), we estimate the income and total tax bill of the average family in British Columbia for 2011 and 2012 under two scenarios: (1) the status-quo provincial sales tax

Table 1: Estimated Revenue Impact of Harmonization, 2011/12

	Millions of \$
BC HST revenue ¹	5,376
BC HST credit	(283)
Tax relief from increasing basic personal amount	(183)
Net BC HST revenue	4,910
Revenue loss from PST elimination ²	(4,910)
Net revenue impact of harmonization	0

Notes:

¹Figure for BC HST revenue includes point-of-sale rebates, partial point-of-sale rebates, the new housing rebate, and the Residential Energy Credit. It also includes the additional revenue from the temporary input tax credit restriction for large businesses.

²Revenue loss from PST elimination includes elimination of the BC sales tax credit (a tax expenditure) of \$56 million.

Source:

British Columbia, Ministry of Finance, 2010 (Table 3: 101, and Table A9: 158); calculations by authors.

(PST) and (2) the harmonized sales tax (HST).¹¹

Since the HST will be implemented on July 1st, 2010, three months into the 2010/11 fiscal year, 2011/12 represents the first full year under the new HST system. We also include an analysis of 2012 since the BC government forecasts its tax revenues out three years, 2010/2011 to 2012/13.¹²

Table 2 presents the income and total tax bill of the average family in British Columbia for 2011 and 2012 under the two scenarios. In 2011, the average British Columbian family (comprising two or more individuals) is forecasted to earn \$86,862 in income.¹³ Under the status-quo PST system, the average family would pay \$3,133 in provincial sales taxes, \$11,245 in personal income taxes (federal and provincial combined),

and \$37,562 in total taxes to all levels of government (federal, provincial, and municipal). The total tax rate that the average British Columbia family would face in 2011 under the status-quo PST system would be 43.2%.

If the average family was required to pay their entire \$37,562 total tax bill up front, they would have to pay each and every dollar they earned to governments prior to June 8th in 2011. In other words, June 8th would be Tax Freedom Day in 2011 for the average British Columbia family under the status-quo PST system.

Under the harmonized sales tax (HST) system, the average family would pay \$3,382 in provincial sales taxes, \$11,040 in personal income taxes (federal and provincial combined), and \$37,606 in total taxes to all levels of government.

Table 2: The Impact of the HST on the Average British Columbian Family, 2011-2012¹

Income and taxes of the average family with the status-quo PST

	2011	2012
Income ²	\$86,862	\$89,142
Total tax bill	\$37,562	\$39,566
Income tax	\$11,245	\$12,309
PST	\$3,133	\$3,279
GST	\$2,338	\$2,451
Other taxes ³	\$20,845	\$21,527
Average tax rate	43.2%	44.4%
Tax Freedom Day ⁴	June 8	June 12

Income and taxes of the average family with the HST

	2011	2012
Income	\$86,862	\$89,142
Total tax bill	\$37,606	\$39,622
Income tax	\$11,040	\$12,102
HST—provincial portion	\$3,382	\$3,541
HST—federal portion	\$2,338	\$2,451
Other Taxes (3)	\$20,846	\$21,528
Average tax rate	43.3%	44.4%
Tax Freedom Day (4)	June 8	June 12

Impact of the implementation of HST on the average family

	2011	2012
Total tax bill	\$44	\$56
Income tax	-\$205	-\$207
Provincial Sales Tax (PST/HST)	\$249	\$262

Notes:

¹The calculations in are based on families with two or more individuals.

²The income measure used is “Cash Income,” which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

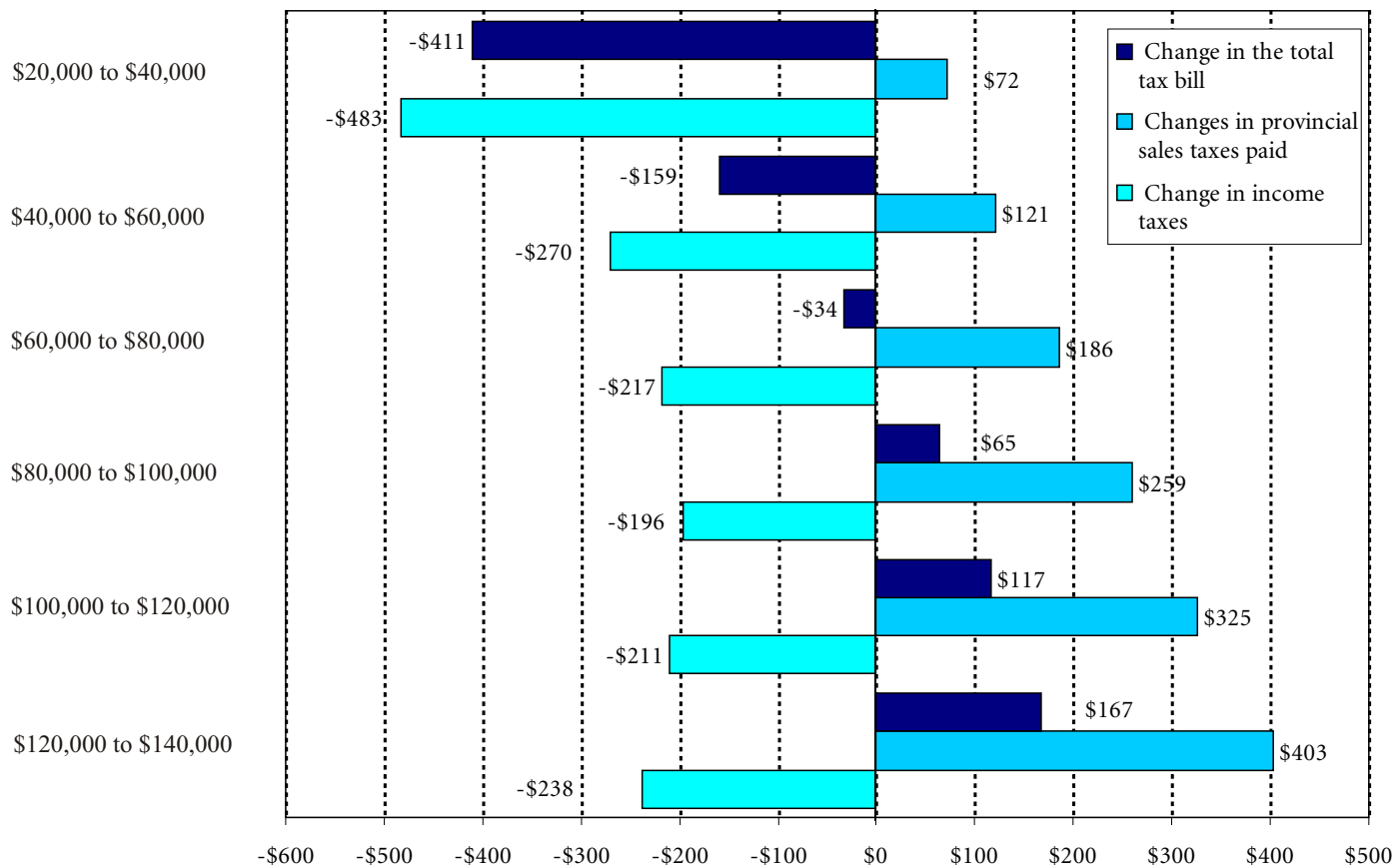
³Other taxes includes liquor, tobacco, amusement and other excise taxes; auto, fuel and motor vehicle license taxes; social security, medical, and hospital taxes; property taxes; import duties; profit taxes; and natural resources levies.

⁴The increase in Tax Freedom Day from 2011 to 2012 under both the PST and HST scenarios is due to improvements in the province’s economy following emergence from the recession of 2009, and not tax increases enacted by the provincial government. When the economy recovers and incomes increase, the family tax burden also tends to increase, but to a greater extent than incomes. The accelerated increase in the tax burden compared to income is due to the progressive nature of the Canadian tax system. Progressivity means that as people earn more income, they pay proportionately more tax. In addition, other cyclically-related tax increases result in a later Tax Freedom Day during an economic recovery. For example, household consumption increases, which results in an increase in the amount of sales and other consumption taxes.

Source:

The Fraser Institute’s Canadian Tax Simulator, 2010.

Figure 1: The Impact of the HST by Income Group, 2011



The average family will pay slightly more provincial sales tax under the HST than it would under the existing PST. Specifically, provincial sales taxes paid by the average family would be \$249 higher under the HST in 2011; \$3,382 in HST compared to \$3,133 in PST.

However, personal income tax reductions implemented to ensure the HST is revenue neutral for government will decrease income taxes for the average family. Specifically, the average British Columbia family's income taxes will drop by \$205 in 2011, from \$11,245 to \$11,040.

All told, the total tax bill of the average British Columbia family will increase very slightly from \$37,562 under the PST, to \$37,606 under the

HST, an increase of \$44 or 0.12 per cent. Despite the rhetoric of the HST being a major tax grab, it essentially will have no impact on the total tax bill paid by the average family in 2011.

As a result, Tax Freedom Day, the day in the year the average family has earned enough money to pay the taxes imposed on it by the three levels of Canadian government, will fall on June 8th in 2011 under either the HST or the PST scenario. Clearly, the HST will have no impact on Tax Freedom Day in British Columbia in 2011. In fact, the \$44 increase in the total tax bill means the average family will only work an extra 63 minutes more a year for government under the HST. Similar results hold for 2012.¹⁴

Impact of the HST by family income

How will the HST affect families with different income levels? Table 3 presents the average incomes and tax bills for six different income groups under two scenarios: (1) the status-quo provincial sales tax (PST) and (2) the harmonized sales tax (HST). The groups consist of families with incomes between \$20,000 and \$40,000; \$40,000 and \$60,000; \$60,000 and \$80,000; \$80,000 and \$100,000; \$100,000 and \$120,000; and \$120,000 and \$140,000.¹⁵

Figure 1 displays the change in the average provincial sales tax, income tax (federal and provincial) and total tax bill (federal, provincial, local) for each income group.

Table 3a: The Impact of the HST by Income Group in 2011¹

	Income groups					
	\$20,000- \$40,000	\$40,000- \$60,000	\$60,000- \$80,000	\$80,000- \$100,000	\$100,000- \$120,000	\$120,000- \$140,000
Income and taxes of the average family in each income group with the status-quo PST						
Income ²	\$31,207	\$49,630	\$70,240	\$89,506	\$108,692	\$131,294
Total tax bill	\$8,568	\$16,905	\$27,615	\$38,982	\$50,045	\$58,604
Income tax	\$991	\$3,489	\$7,401	\$11,881	\$17,436	\$21,748
Sales tax (PST)	\$909	\$1,526	\$2,341	\$3,269	\$4,100	\$5,073
Income and taxes of the average family in each income group with the HST						
Income	\$31,207	\$49,630	\$70,240	\$89,506	\$108,692	\$131,294
Total tax bill	\$8,157	\$16,746	\$27,582	\$39,047	\$50,162	\$58,772
Income	\$508	\$3,219	\$7,184	\$11,686	\$17,225	\$21,510
Sales tax (HST)	\$982	\$1,647	\$2,527	\$3,528	\$4,425	\$5,476
Impact of the implementation of HST on the average family in each income group						
Change in the total tax bill	-\$411	-\$159	-\$34	\$65	\$117	\$167
Change in income taxes	-\$483	-\$270	-\$217	-\$196	-\$211	-\$238
Changes in provincial sales taxes paid	\$72	\$121	\$186	\$259	\$325	\$403

Notes:

¹Average family with two or more individuals.

²The income measure used is “Cash Income,” which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

continued ...

In 2011, families in each of the different income groups can expect to pay slightly more provincial sales tax under the HST than they would have under the PST. Specifically, families with incomes between \$20,000 and \$40,000 will see their average provincial sales tax rise by \$72 under the HST. The increase in provincial sales tax that families pay will increase steadily with income. For example, families with incomes between \$120,000 and \$140,000 will experience an average provincial sales tax

increase of \$403 under the HST. This reflects the fact that families in the upper income groups spend more money and therefore will pay more sales taxes.

Given that the increase to the basic personal exemption and BC HST Credit were implemented primarily to assist families with low and moderate incomes, it should not be a surprise that families in the lowest income groups will experience the largest dollar and percentage decrease in income taxes. Specifically, families with

incomes between \$20,000 and \$40,000 will experience an average decrease in income taxes of \$483; families with incomes between \$40,000 and \$60,000 will experience an average decrease in income taxes of \$270 as a result of the increased exemption and BC HST Credit.

In 2011, families in the lower income groups (those with incomes between \$20,000 and \$40,000; between \$40,000 and \$60,000; and between \$60,000 and \$80,000) can expect to pay less tax in total under the HST

Table 3b: The Impact of the HST by Income Group in 2012¹

	Income groups					
	\$20,000- \$40,000	\$40,000- \$60,000	\$60,000- \$80,000	\$80,000- \$100,000	\$100,000- \$120,000	\$120,000- \$140,000
Income and taxes of the average family in each income group with the status-quo PST						
Income ²	\$31,253	\$49,747	\$70,237	\$89,328	\$109,375	\$130,783
Total Tax Bill	\$8,559	\$16,955	\$28,308	\$39,826	\$51,126	\$59,176
Income tax	\$949	\$3,426	\$7,699	\$12,346	\$18,335	\$22,316
Sales tax (PST)	\$906	\$1,529	\$2,365	\$3,298	\$4,186	\$5,091
Income and taxes of the average family in each income group with the HST						
Income	\$31,253	\$49,747	\$70,237	\$89,328	\$109,375	\$130,783
Total tax bill	\$8,144	\$16,815	\$28,270	\$39,888	\$51,254	\$59,361
Income	\$462	\$3,165	\$7,474	\$12,143	\$18,127	\$22,091
Sales tax (HST)	\$979	\$1,651	\$2,554	\$3,562	\$4,521	\$5,498
Impact of the implementation of HST on the average family in each income group						
Change in the total tax bill	-\$415	-\$139	-\$39	\$62	\$129	\$185
Change in income taxes	-\$487	-\$262	-\$225	-\$203	-\$208	-\$225
Changes in provincial sales taxes paid	\$72	\$122	\$189	\$264	\$335	\$407

Note:

¹Average family with two or more individuals.

²The income measure used is “Cash Income,” which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit).

Source: The Fraser Institute’s Canadian Tax Simulator, 2010.

than they would have under the PST. Specifically, the HST combined with offsetting personal income tax reductions will result in an average tax cut of \$411 for families with incomes between \$20,000 and \$40,000; a drop of \$159 for families with incomes between \$40,000 and \$60,000; and a \$34 decline for families with incomes between \$60,000 and \$80,000.

Families in the upper income groups will see a slight increase in their total tax bill. Specifically, the total tax bill they pay will increase by an average of \$65 for families with incomes

between \$80,000 and \$100,000; by an average of \$117 for families with incomes between \$100,000 and \$120,000; and by an average of \$167 for families with incomes between \$120,000 and \$140,000. However, these increases are negligible given the total tax bill that families in these income groups pay. For example, the \$167 average increase in the total tax bill for families with incomes between \$120,000 and \$140,000 represents an increase of just 0.3 percent. Similar results hold for 2012 (see table 3b).

Harmonization of BC’s PST with the federal GST, coupled with the decrease in provincial income taxes and the BC HST Credit, will therefore result in a slightly more progressive tax system in the province. Slightly more money will be extracted from higher-income families and taxes will decrease a little for families with middle- to lower-incomes.

Conclusion

While many British Columbians have been led to believe that the

HST is a significant “tax grab,” the reality is that it is not. The HST will have a negligible impact on the average family’s total tax bill.

The average family will pay slightly more provincial sales tax under the HST than it would have under the existing PST (\$3,382 in HST compared to \$3,133 in PST, an increase of \$249). However, personal income tax reductions implemented to ensure that the HST is revenue neutral for government will result in an income tax decrease for the average family (from \$11,245 to \$11,040, a decline of \$205). All told, the average British Columbian family’s total tax bill will increase by \$44 (0.12 percent) from \$37,562 under the PST to \$37,606 under the HST. As a result, the HST will have no impact on Tax Freedom Day in British Columbia in 2011.

Of course, the HST will affect families in different ways depending on their income and spending patterns. Harmonization will result in slightly more money being extracted from families on the higher end of the income scale, while taxes will decrease for those on the middle- to lower-end of the income spectrum. This means that the HST, coupled with the decrease in provincial income taxes and the BC HST Credit, will result in a slightly more progressive tax system. Specifically, the HST combined with offsetting personal income tax reductions will result in an average tax cut of \$411 for families with incomes between \$20,000 and \$40,000; a cut of \$159 for families with income between \$40,000 and \$60,000; and a cut of \$34 for families with income between \$60,000 and \$80,000.

The political rhetoric from opponents of the HST has distorted and misrepresented the impact of the combined tax. The truth is that low- and middle-income families will be better off under the HST because of concurrent decreases in provincial income taxes. Interestingly, many groups including unions (i.e., the BC Federation of Labour) and the BC NDP have come out against the HST and income tax changes despite the fact that it actually achieves what they want, a more progressive tax system.

Methodology

The figures contained in this Alert were calculated using the Fraser Institute’s Canadian Tax Simulator (CANTASIM) which is based on Statistic Canada’s Social Policy Simulation Database and Model (SPSD/M), a statistically representative database of individuals and families, with enough information on each individual to compute taxes paid to, and cash transfers received from, government. We use the SPSD/M to calculate a distribution series for each specific type of tax and income. For example, we calculate the amounts of provincial personal income tax paid by each family as a share of the total provincial personal income tax collected. We then use the distribution series to distribute the 2011 and 2012 tax revenue figures forecasted in the provincial and federal budgets to the individual families. The assumptions and calculations underlying the SPSD/M simulation results were prepared by the Fraser Institute; the responsibility for the use and interpretation of these data is entirely that of the authors.

Notes

- 1 This search of the media was done using the online database at www.fpinformart.ca on June 14th, 2010.
- 2 Tax Freedom Day is the day in the year the average family has earned enough money to pay the taxes imposed on it by the three levels of Canadian government. If the family was required to pay all of its taxes up front, it would have to pay each and every dollar it earned to governments prior to Tax Freedom Day.
- 3 Statistic Canada’s Social Policy Simulation Database and Model (SPSD/M) is a statistically representative database of individuals in their family contexts, with enough information on each individual to compute taxes paid to and cash transfers received from government. For more detail on the Fraser Institute’s Canadian Tax Simulator, see the Methodology section.
- 4 The HST will significantly lower taxes on new business investment. Economist Duanjie Chen and University of Calgary professor Jack Mintz estimate that BC’s marginal effective tax rate (METR) on new investment will fall by almost one third as a result of sales tax harmonization (Chen and Mintz, 2009).
- 5 Professor Jack Mintz estimates that harmonization in BC will account for an \$11.5 billion increase in capital investment and a net increase of 113,000 jobs over ten years (Mintz, 2010).
- 6 The \$1.6 billion HST transitional funding provided by the federal government over the three years 2009/10 to 2011/12 is not included in this analysis. The transitional funding will be used to reduce the provincial deficit, thereby reducing the deferred tax bill that is being passed on to future taxpayers.
- 7 The \$5.4 billion in HST revenue includes point-of-sale rebates, partial point-of-sale rebates, the new

housing rebate, and the Residential Energy Credit. It also includes the additional revenue from the temporary input tax credit restriction for large businesses (see British Columbia, Ministry of Finance, 2010).

- 8 In future years, the basic personal exemption will increase by the rate of inflation.
- 9 Like the federal GST Credit, the BC HST Credit will give certain BC individuals and families quarterly payments. The annual amount of the credit is \$230 per family member for individuals with incomes up to \$20,000 and families with incomes up to \$25,000. The BC HST Credit will be integrated with the Goods and Services Tax (GST) credit and the BC Low Income Climate Action tax credit payments.
- 10 The annual credit is reduced by 4% of family income in excess of \$20,000 for individuals and \$25,000 for families (see British Columbia, Ministry of Finance, 2010: 81).
- 11 The income measure used is cash income, which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as universal child care benefit). The calculations are based on families with two or more individuals.
- 12 The calculations in this Alert are based on forecasts of personal

income, and on federal and provincial tax revenue forecasts. When final revenue numbers become available at the end of each fiscal year and personal income data are updated by Statistics Canada, the calculations will change. In other words, these are preliminary estimates and will be subject to revision when updated government forecasts are made available in the 2011 BC and federal budgets.

- 13 The HST will affect family income since increased investment under the HST will lead to increased productivity and ultimately higher

wages. This positive impact on the income of taxpayers has not been included in the analysis. However, this effect would likely reduce the ratio of taxes to income, the total tax rate of the average family.

- 14 The increase in Tax Freedom Day from 2011 to 2012 under either the PST or HST scenario is due to improvements in the province's economy following its emergence from the recession of 2009, and not on tax increases enacted by the provincial government. When the economy recovers and incomes increase, the family tax burden also

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tends to increase, but to a greater extent than incomes. The accelerated increase in the tax burden compared to income is due to the progressive nature of the Canadian tax system. Progressivity means that as people earn more income, they pay proportionately more tax. In addition, other cyclically-related tax increases result in a later Tax Freedom Day during an economic recovery. For example, household consumption increases, which results in an increase in the amount of sales and other consumption taxes.

- 15 Due to sample size limitations, our calculations are restricted to families with incomes above \$20,000 and below \$140,000.

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