



Harmonized Sales Tax Business and Community Information Sessions Summary

September 2012



**Finance, Energy and
Municipal Affairs**
Wesley J. Sheridan
Minister

Introduction

In the Budget Address on April 18, 2012 Minister of Finance, Energy and Municipal Affairs, Wes Sheridan announced that Prince Edward Island would implement the Harmonized Sales Tax (HST) effective April 1, 2013.

Although the budget address included core HST decisions which would protect low and modest income Islanders from the impact of tax increases, the Minister assured Islanders that there were many HST implementation decisions to be finalized and that he would be seeking input from stakeholders to ensure a smooth transition.

Over the past three months, Minister Sheridan and members of the HST Implementation Team hosted eight information sessions across the province. Four sessions were targeted toward an Island business owner audience and four were designed for community members as a whole.

Close to 400 individuals participated. The level of participant engagement was high as evidenced by the number of questions posed and the quality and insightfulness of feedback provided. Feedback received covered many aspects of the implementation of HST and will provide a valuable resource in guiding HST transition and implementation decisions.

Copies of information session presentations have been posted on the HST website.

Information Session presentations available at
www.peihst.ca

In addition to the business and community information sessions, a series of one-on-one industry sector meetings have been held. These meetings provided the opportunity to examine HST from the perspective of each sector recognizing unique needs and transition challenges. This information exchange enhanced mutual understanding of HST impacts and benefits.

Information Sessions

Information Session Summary

A standard format for the HST information sessions was key to achieving session objectives including information sharing, stakeholder consultation and feedback. Each session began with an economic outlook provided by Minister Wes Sheridan followed by a technical HST overview presented by staff. Following the formal presentations Minister Sheridan opened the floor to questions and comments.

Minister Sheridan moderated the question period while staff documented all feedback received on HST directions, decisions and impacts.

Economic Outlook

The economic outlook portion of the presentation provided an overview of economic factors and drivers, key pre-budget 2012/13 considerations, the development of economic and financial objectives for Prince Edward Island and the detailed decision making processes used by Government to identify and evaluate options for meeting these objectives.

To provide context for the discussion, factors contributing to the current fiscal situation for Prince Edward Island were highlighted:

- The historical federal-provincial funding relationship is changing adding to fiscal pressures for Prince Edward Island;
- Deficit risk is increasing due to the rising cost of meeting health care and social program demands;
- Prince Edward Island must move away from economic stability through stimulus funding toward economic growth through private sector investment and opportunity.

Prince Edward Island must meet fiscal challenges without the natural resource advantages enjoyed by many Canadian provinces

The public communicated a clear understanding of this fiscal context during pre-budget 2012/13 consultations. Public feedback challenged government to:

- Reduce the deficit - it is simply too high
- Strike a balance between increasing revenues and reducing program spending - they are equally important sides of the equation
- Eliminate waste and duplication inside government - efficiency represents opportunity

Reduce red tape and competitive disadvantage for the private sector - recognize that the private sector is key to economic growth

Armed with context and mandate, government developed a three year budget plan. The introduction of the Harmonized Sales Tax (HST) would become an integral part of this plan.

Overarching policy objectives were set to guide the development of this three year plan:

- Foster private sector growth
- Develop educational strategies focused on student achievement
- Modernize the health system to focus on patient needs and sustainability
- Restore fiscal balance

Although expenditure restraint to limit growth in expenditures across government and the streamlining and consolidation of administration within government would yield significant financial benefits, expenditure restraint alone would not be enough. Government would need to increase annual revenues by \$25M. Revenue increases through traditional means, such as an increase in program fees, would not be enough.

Given the need for additional revenue, **government set the following three revenue policy objectives:**

- **Balance the budget while protecting public services**
- **Focus government policy to improve economic growth in the private sector**
- **Protect low and modest income families**

Three revenue options were considered:

(1) Raise personal income taxes

Raising personal income taxes was one possible solution to meeting increased revenue requirements. This option, however, was not deemed viable for Prince Edward Island as Prince Edward Island has already high income tax levels as compared to other Canadian provinces. High personal income tax levels have proven a deterrent to employment growth in our province.

(2) Raise Provincial Sales Tax (PST) by 1%

Raising PST by 1% was another option proposed. Although this option would generate the required additional \$25M in revenue, the option would not stimulate economic growth or protect low and modest income families.

(3) Eliminate the PST and implement the Harmonized Sales Tax (HST) at 14%

The third option, eliminating the PST and implementing the HST at 14%, would meet all three revenue objectives. In addition to generating the required \$25M in revenue, this option would also improve the outlook for economic growth and provide a mechanism for government to protect low and modest income families from the impact of tax increases.

HST would mean access to tax savings for Island businesses. Such tax savings in HST jurisdictions have proven benefits including opportunities for capital investment and enhanced competitiveness. A level playing field across the Maritime region and reduced red tape are also significant benefits for Island business which would result from a move to HST.

The federally administered HST allows for flexibility whereby participating provinces can set the provincial portion of the tax, define point of sale exemptions representing up to 5% of the tax base and implement rebate programs to mitigate unique needs of that province. This flexibility allows an HST design for the unique needs of Prince Edward Island to mitigate all tax increases for low and modest income families.

HST would represent in-roads by government on each of the challenges presented by the public during pre-budget 2012/13 consultation.

After careful consideration of the current fiscal context, public feedback and policy objectives by government, Minister Sheridan announced in the budget address on April 18, 2012 that Prince Edward Island would move to the HST effective April 1, 2013. This announcement set the following broad parameters for HST in Prince Edward Island:

HST will:

- Generate 25 m in revenue;
- Provide tax savings for Island businesses;
- Level the playing field for businesses in the region;
- Reduce red tape for Island businesses;
- Allow flexibility to set provincial portion and define point of sale exemptions; and
- Ensure low and modest income families are protected by developing a rebate program, specific to Prince Edward Island.

- HST would be implemented effective April 1, 2013
- The HST rate would be 14% made up of a 5% federal component and a 9% provincial component
- Point of sale exemptions would be provided for heating oil, children's clothing and children's footwear
- A rebate program would be put in place for low and modest income families
- The HST would be administered by the federal government
- In general, current GST rules would apply to HST

These parameters would be finalized in negotiations between the federal government and the provincial government before the fall 2012 session of the Legislative Assembly.

Technical Presentation - Business

The technical portion of the presentation for business provided general education on HST. Topics included a comparison of the current Goods and Services (GST)/Provincial Sales Tax (PST) system and the HST system, types of suppliers and the criteria for optional registration. Participants were guided through detailed information on the value of new input tax credits for business. Financial benefits were highlighted for each type of supplier.

The technical presentation touched on the work in progress to define transition rules for PEI. In conclusion, benefits of **HST for business were summarized:**

- **Reduces red tape**
- **Reduces tax administration complexity**
- **Enhances competitiveness and economic growth**

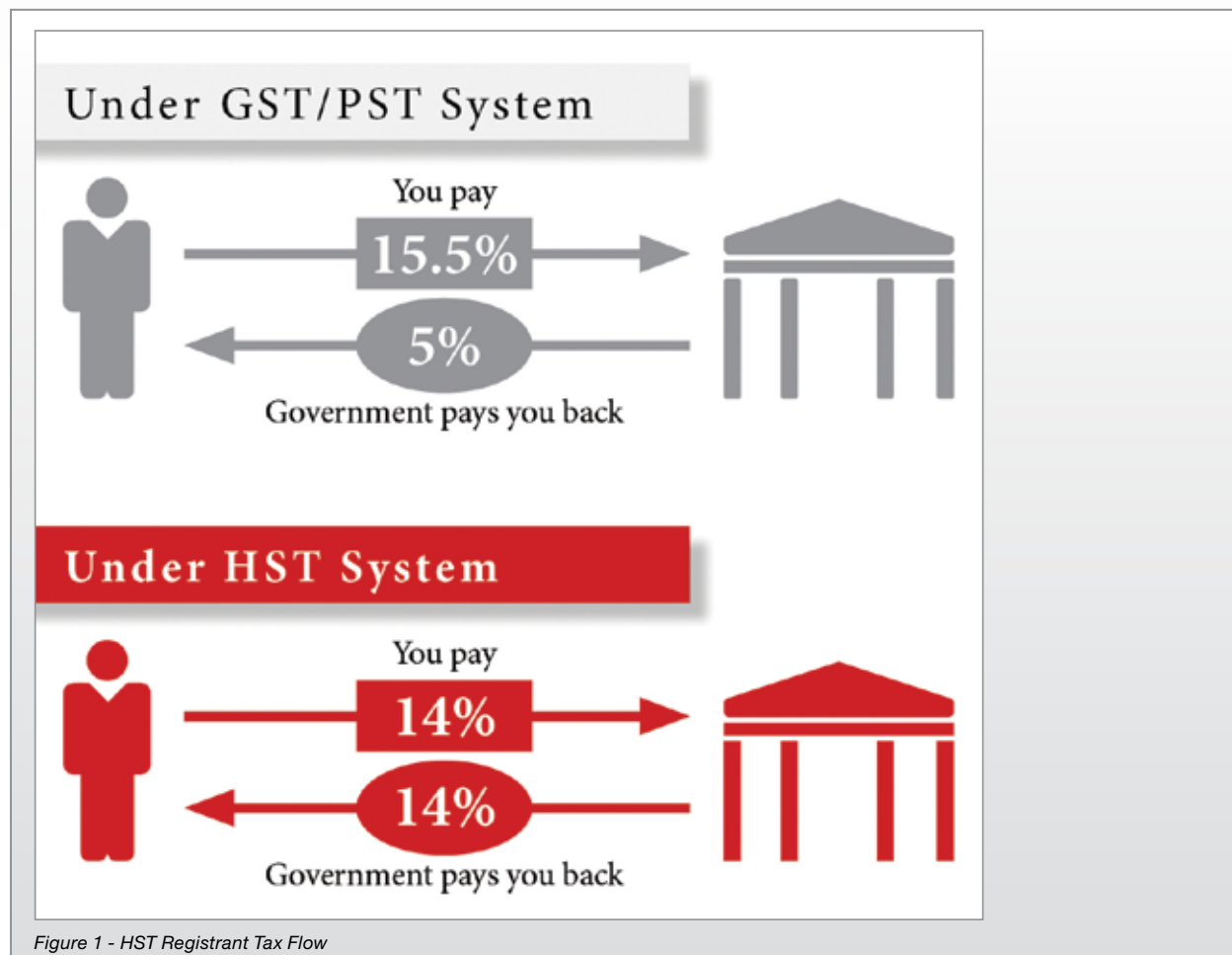


Figure 1 - HST Registrant Tax Flow

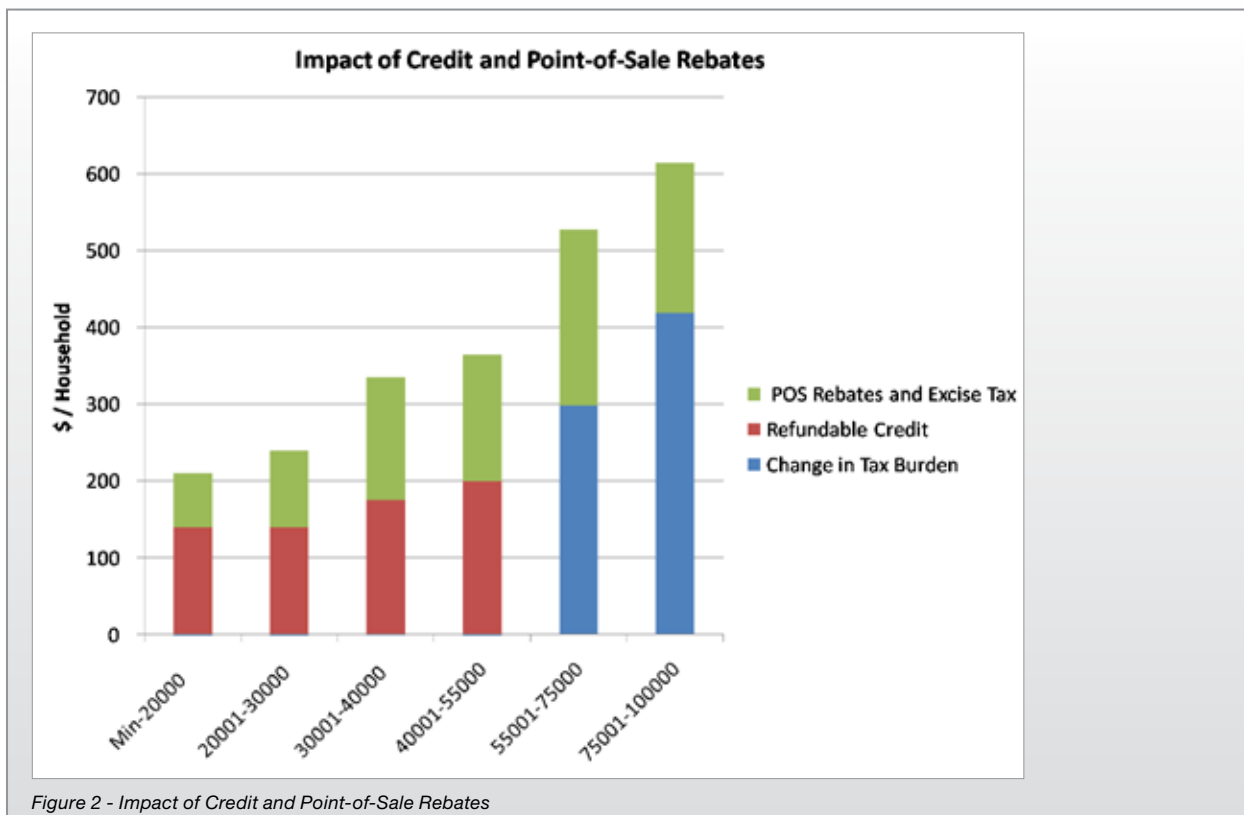
Technical Presentation - Community

The technical portion of the presentation for community introduced HST as a value added tax as compared to PST which is often referred to as a cascading tax. This introduction illustrated that, although under the current PST system it would appear that businesses remit and pay PST, PST paid by business is embedded or hidden in pricing and ultimately paid by the consumer.

HST impact models for household income levels between \$0 - \$100,000 were reviewed in detail. Models illustrated that, through mitigation measures, tax increases associated with the introduction of **HST are on average neutralized for low and modest income households and limited to \$1.00 - \$1.25 per day for households with income levels between \$55,000 - \$100,000.**

Mitigation measures were reviewed in detail and included:

- A reduction in the base consumption tax rate on PEI from 15.5% to 14%
- Point of sale exemptions on heating oil, children's clothing and children's footwear
- A rebate program



Business Information Sessions

Kings County - June 21, 2012

The first of four HST Information Sessions was held for Island businesses at Montague Consolidated School. The session was attended by 58 individuals, business owners and industry sector representatives.

The business community clearly communicated a positive reaction to the HST announcement. Stakeholders requested information specific to implementation issues including transition rules for construction projects, point of sale rebates for PEI First Nations and the definition of children's clothing and children's footwear. Questions were posed regarding the rationale for providing an exemption for heating oil. Consideration for a broader exemption in the area of heat sources was requested.

East Prince - July 4, 2012

The East Prince HST Information Session for business was held at Elm Street School in Summerside. The session was attended by 75 individuals, business owners and industry sector representatives.

A representative of the Retail Sector of Canada indicated that the majority of their members are pleased with the move to HST. The potential impact on clothing retailers was discussed and mitigation measures were reviewed.

Clarification was requested with respect to the impact of HST on groceries, children's clothing and children's footwear. Stakeholders suggested that the announcement with respect to an exemption for heating oil was difficult to understand given government's objectives in the area of renewable energy. The need for the heating oil exemption as a mitigation measure to protect low and modest income households was reviewed.

Representatives of the Summerside Chamber of Commerce indicated that well over 60% of their members supported the move to HST. A clear message that HST is needed for Summerside to grow and prosper was communicated.

Central - July 25, 2012

More than 120 individuals, business owners and industry sector representatives attended the Business Information Session held at the Murchinson Centre in Charlottetown.

Representatives of industry sectors including clothing manufacturers, home health care for seniors, wood lot owners, community recreational facilities, taxi operators and bookstores communicated industry impact concerns in light of the current PST exemption for respective goods and services. The availability of new input tax credits and the commitment of government to tax increase mitigation measures were reviewed in response. Questions on the announced heating oil exemption were also raised and an overview of rationale provided.

The positive benefits of HST for tourism on PEI were demonstrated and assurances were provided that savings coming back to tourist operators as a result of HST will be re-invested in the PEI economy. A representative from the small business community on Prince Edward Island indicated that HST was an important step in reducing “red tape” and further communicated that there is a belief among small business owners that HST will boost the economy on PEI.

West Prince - August 8, 2012

A joint Business and Community Information Session was held at the Tignish Legion with 24 individuals and business owners in attendance. This meeting was redefined as a joint meeting to accommodate those who were unable to attend the previously rescheduled Community Information Session on July 10, 2012.

Clarification on the impact of HST on books, electricity, school supplies, child car seats, dance instruction, gym memberships, golf memberships and recreational facility rentals was requested. Information on tax reductions due to a decrease in the tax rate from 15.5% to 14%, the availability of input tax credits and HST impact mitigation measures were reviewed in response. Information on tobacco pricing after April 1, 2013 was requested. Plans for tobacco price adjustments using tobacco tax rates were discussed.

Significant benefits of HST for business were cited and thanks were expressed to the Minister for bringing HST to PEI.

Community Information Sessions

Central - June 27, 2012

The first Community Information Session was held in Charlottetown. Minister Sheridan and staff hosted 47 people at West Royalty School.

Discussion focused on the impact of HST on low and modest income households, mitigation measures and rebate program design. It was clear from this session that Islanders will be interested in validation data over the next number of years showing actual HST impacts as compared to impacts projected in models presented.

Consumption tax reductions for business were cited as a possible source of revenue loss for the province under the HST system. An explanation of embedded or hidden tax under the current PST system, which is ultimately paid by the consumer, was provided in response to this concern.

Increased costs in areas such as electricity, other home heating sources, personal care services and home health care for seniors were discussed. Mitigation measures for associated tax increases were highlighted. It was also noted that HST will increase costs for municipal governments and that work is underway to quantify such impacts.

West Prince - July 10, 2012

The Community Information Session in Tignish was attended by 23 people from across various communities in West Prince.

Once again, discussion focused on the impact of HST on low and modest income households, mitigation measures and rebate program design. There was also debate with respect to the fairness of placing the burden of increased tax revenue on Island households at or above \$55,000.

Kings County - July 18, 2012

Approximately 22 individuals attended the Community Information Session at Montague Regional High School.

The value of consultation on HST was discussed and questions were raised with respect to the benefits of HST for business. Information was provided to alleviate concerns that business will prosper at the expense of the individual under the HST system. Mitigation measures for low and modest income households were reviewed to illustrate how such measures will neutralize the impact of tax increases for such households. In response to questions surrounding tax on electricity and the announced exemption for heating oil, policy objectives were reviewed. Stakeholders were looking for information on the rebate program and provided feedback on program eligibility criteria and rebate levels.

East Prince - August 1, 2012

Just over 20 people attended the Community Information Session at Elm Street School in Summerside.

Minister Sheridan responded to concerns including the announced exemption for heating oil as opposed to all home heating sources, the impact of HST on seniors and comments that the advantages of HST for business were at the expense of individual Islanders. Components of the economic outlook presentation were highlighted to promote understanding that these concerns would be addressed through mitigation measures including a reduction in tax rate from 15.5% to 14%, point of sale exemptions for home heating oil, children's clothing and children's footwear and a rebate program for low and modest income households.

The suggestion was made that the implementation of HST should provide the opportunity for government to reduce in size. Assurances were provided that this would be the case.

Participants recognized that, although not all HST decisions would be popular, they appreciated the efforts of the Minister and staff to make themselves available to listen to concerns.