

# **HST or PST?**

## ***The truth about the HST and why returning to the PST is better for BC...***

The HST, also known as a Value Added Tax (VAT), is responsible for a decreasing standard of living wherever it is implemented. In Europe so much of the economy has been driven underground in nations like Greece, Italy and Spain it is estimated that over 80% of people do not pay taxes. Newfoundland, Nova Scotia and New Brunswick have had the HST for decades, yet unemployment and per capita government debt are the highest in Canada.

British Columbians will decide in an historic Referendum on June 24 whether to repeal the HST. This research paper has been prepared to give you the information you need so you can make an informed decision.

### ***Following are the top ten reasons why the HST is not good for BC – and why returning to the PST is the better choice:***

#### **10. HST hurts families, seniors and low income people most:**

The HST is a regressive tax that forces middle and lower income people to pay a greater proportion of their income to acquire the same goods and services as those with higher incomes. The HST hurts poor people the most. [MORE](#)

#### **9. HST is inflationary:**

To avoid a decrease in the standard of living, HST paid by consumers must be charged back to employers in the form of higher wages - ultimately wiping out any benefits to business. In Europe, the VAT started at about 6% in most countries and has grown to as high as 25% in places like Denmark, Hungary and Sweden. [MORE](#)

#### **8. HST is economically counter-intuitive:**

BC's big resource companies get most of their money from selling goods overseas and to the United States – which is *new money* coming in from consumers outside BC. Exempting business from sales taxes means government is taking all of its sales tax revenues from consumers *inside our economy* and then transferring \$2 billion of it back to corporations mostly headquartered in Europe, Asia or the U.S. That doesn't make economic sense. [MORE](#)

#### **7. HST curbs consumption, reduces tax revenues and increases the tax burden:**

The HST in BC will take a total of \$2 billion per year out of our economy – or an average of \$400 more from every man, woman and child. Reduced consumption results in reduced government tax revenues. Governments must then either cut spending, increase debt, or raise taxes. Under the HST, they will end up doing all three. [MORE](#)

## **6. HST drives the economy underground:**

In 2009, the *Institute for Fiscal Studies* produced a report that showed “leakage” from VAT evasion in the UK of between \$20 billion - \$30 billion per year. When the HST is evaded the government loses twice – the HST not charged, and the income not reported. [MORE](#)

## **5. HST kills jobs and hurts the economy:**

The provinces with the highest unemployment - Newfoundland 12.4%, Nova Scotia 9.5%, New Brunswick 9.1%, BC 8.2% and Ontario 8.1% - all have the HST. The three provinces with the lowest unemployment – Manitoba 5%, Saskatchewan 5.4% and Alberta 5.9% do not have HST. If the HST really stimulated growth – then corporate income taxes would increase to offset lost sales taxes so consumers would not have to pay more HST. [MORE](#)

## **4. HST is unnecessarily complicated:**

Under the HST, business accountants must track millions and millions of transactions and remittances, and file thousands of quarterly reports to government. But none of that is necessary. Simply exempting business from sales taxes would be a far simpler system than the cumbersome HST. [MORE](#)

## **3. HST is revenue neutral to the BC government:**

One of the biggest myths surrounding the HST is that it will help to pay for government services such as health care and education. But the HST is really a \$2 billion tax transfer from the corporate sector to the consumer with no new revenues going to government. [MORE](#)

## **2. HST is a loss of provincial sovereignty:**

The HST gives control of BC’s sales tax authority to the Federal Government. It turns BC into the equivalent of a giant municipality, awaiting transfers of our own money back from Ottawa. [MORE](#)

## **1. HST threatens democracy:**

The BC Liberals want us to believe that repealing the HST will be too costly... and that’s probably true - for them. A defeat of the HST in the Referendum will change the way governments operate in BC forever. Never again will *any* government in BC be able to lie, obfuscate or deliberately cheat people out of their hard earned tax dollars. [MORE](#)

## **The truth about the HST and why returning to the PST is better for BC...**

### **10. HST hurts families, seniors and low income people most:**

“Progressive” taxes are based on one’s ability to pay. “Regressive” taxes apply equally to all people regardless of income. The HST is a regressive tax because it forces middle, fixed and lower income people to pay a greater proportion of their income in HST to acquire the same goods and services as a wealthier person.

The HST adds 7% more to hundreds of goods and services such as:

*Accounting, airline tickets, appliance repairs, basic cable TV, bicycles, campgrounds, coffee shops, commercial leases, computer servicing, condo management fees, delivery services, dry cleaning, dietary supplements, fast food, first aid kits, fishing charters, fitness clubs, funeral services, golf fees, grass cutting, haircuts, home maintenance and/or renovations, in-home health care, housecleaning, magazines, newspapers, membership fees, movies, non-prescription medications, parking, postage, private coaches, rail travel, real estate fees, roofing, restaurant meals, RV parks, school supplies, shoe repairs, skiing, snow removal, some groceries, storage lockers, tailoring, taxis, telephone, veterinarian, and vitamins to name only a few.*

Even private sales of used cars and boats have had 5% added. And although apartment rentals and stratas are not directly affected, renters will see indirect increases due to HST on maintenance, grass cutting, garbage disposal, management services, etc.

In a study titled: *Impact of HST on Ontario and British Columbia Households* Dr. Robert Murrell, PhD, a senior fellow at the *Canadian Centre for Policy Studies* and a professor of Economics at the University of New Brunswick, says, "The HST is a pure tax increase and is regressive."

<http://www.policystudies.ca/library-mainmenu-76/102-economy/393-impact-of-hst-on-ontario-and-british-columbia-households->

Government rebates (which total \$230 per year - or .63 cents per day) are not high enough to offset the extra cost of HST to low income people since they only cover the 7% paid on the first \$3,300 of discretionary spending per person. (7% x \$3,300 = \$230) Do you know anyone that can live on \$3,300 a year after rent and groceries?

Low income rebates are also an admission by government that the HST *does not* result in lower prices, but adds significant costs for all consumers.

Ironically, both wealthy business owners and low income earners get HST refunds leaving middle class families and individuals to pay the largest share of this tax.

The HST hurts the people least able to afford it the most. [RETURN TO FRONT](#)

### **9. HST is inflationary:**

Some argue that businesses ultimately do not pay taxes since any costs incurred in the delivery of a product or service is passed on to the consumer.

But consumers have only wages or savings. So any taxes paid by them must be charged back to the companies they work for in the form of higher wages in order to avoid dipping into their savings or suffering a loss in their standard of living - ultimately wiping out any benefit to business.

## ***The HST always goes up***

Once the initial inflationary adjustment from the HST is met by increasing wages, HST caused inflation can remain static until the tax is increased again – and it always increases.

In Europe, the HST (VAT) started at about 6% in most countries and now averages around 20%. In places like Denmark, Hungary and Sweden it is as high as 25%. Each successive increase in the HST (VAT) has set off a new round of inflation, and wages always lag behind the cycle of tax increases.

VAT rates worldwide: <http://www.uscib.org/index.asp?documentID=1676>

In addition, many companies use the opportunity of an HST (VAT) increase to piggy back price increases on goods or services. The natural pressure to keep prices competitive is diminished when government increases sales taxes, since it provides a “coincident window” for companies to raise prices at the same time.

In BC, we saw this when the price of coffee, haircuts, condo management fees, commercial leases, fast food, ski lifts, tourism fees and other services increased after the HST was introduced. And when worldwide demand rises for wood, minerals and energy, prices go up creating even more inflation.

The Guardian UK reported that recent VAT increases in Great Britain between March 2010 and January 2011 have doubled the rate of inflation there to 4.2%, leading the Governor of the Bank of England to say he may need to push up interest rates to compensate.

<http://www.guardian.co.uk/business/2011/feb/15/cost-of-living-vat-rise>

Under the HST businesses increase their bottom line at their employees’ expense. They also enjoy the use of roads, water, utilities and infrastructure while the costs for those benefits are disproportionately shouldered by citizens.

The BC Liberals say BC business needs the HST to be “globally” competitive. How long will it be before the HST is raised to 20% to “level the playing field” with our global competitors? [RETURN TO FRONT](#)

## **8. HST is economically counter-intuitive:**

The government says the HST is revenue neutral. This means that the HST generates no new money for government programs like health care, education, or other services.

Instead, the HST transfers the tax burden from corporations to consumers by an amount of \$2 billion per year. That is why the government must charge 7% more for so many goods and services previously exempt under PST – to make up for the lost revenues that corporations used to pay.

### ***Jobs will not be created because of a tax refund***

BC’s big resource companies do not sell directly to consumers, and so cannot pass on any “savings” to them.

The cost of lumber, coal, copper, aluminum or gas and oil are set by world commodity prices and will not come down because of an HST refund cheque from government. Similarly, jobs are created when demand for those resources increases and production expands to meet demand, not when the companies get a refund cheque.

Those HST refunds will go directly to the bottom line of corporations and banks headquartered in Toronto, Europe, Asia, and the United States.

As a resource based province, most big companies who pay taxes here get their money from selling goods outside our province – which is *new money* coming in from consumers outside BC. Exempting those businesses from paying sales taxes means government is taking all of its sales tax revenues from consumers *inside our economy* and transferring \$2 billion of it back to corporations mostly headquartered *outside our economy*.

That doesn't make any economic sense. [RETURN TO FRONT](#)

## **7. HST curbs consumption, reduces tax revenues and increases the tax burden:**

While HST style taxes are theoretically supposed to have a positive effect on business productivity, any benefits are quickly offset by a corresponding drop in consumption.

The HST will take an average of \$400-\$500 per year more from every man, woman and child in BC – or approximately \$800 - \$1,000 from each working person. That works out to a total lifetime increase in the tax burden for every person in BC of approximately \$30,000 - \$40,000 at the current rate of 7%.

Without a corresponding increase in wages to make up for that tax increase, citizens are forced to cut back on purchases. This slows the economy and reduces tax revenues to government.

### ***Governments have to make up for losses under the HST***

A 2004 study conducted by the *Organization for Economic Cooperation and Development* (Paris: OECD Publications 2004) showed that between 1963 – 2003 wherever an HST (VAT) was implemented in Europe, the *overall tax burden increased dramatically*, growing 34% faster in VAT countries than in non-VAT countries.

In Canada, Patrick Blagrove of the Department of Economics at Mount Allison University in New Brunswick produced a study titled: *An Analysis of the Impact of the Harmonized Sales Tax on Provincial Revenues in Atlantic Canada*. The report shows that in Atlantic Canada between 1997 to 2003 provincial government revenues fell substantially in Newfoundland, Labrador and New Brunswick as a direct result of the implementation of the HST.

<http://economics.ca/cgi/jab?journal=cpp&view=v31n3/CPpv31n3p319.pdf>

It is important to note that, unlike in BC, harmonization of provincial taxes with the GST in Atlantic Canada actually *reduced* the overall combined rate of sales taxes. However, like in BC, the HST was applied to a much broader range of goods and services not previously taxed under PST.

When consumers cut their purchases, businesses lose revenues and the corporate tax base shrinks as well.

Government is then forced to cut social programs, increase its debt financing, or make up for losses with new taxes or tax increases. [RETURN TO FRONT](#)

## **6. HST drives the economy underground:**

### ***The HST and Fraud***

In 2009, the *Institute for Fiscal Studies* (IFS) in the UK produced a comprehensive report for the British Government that showed “leakage” in the tax base in Britain due to VAT evasion of between \$20 billion - \$30 billion per year.

IFS Study on VAT Fraud and Evasion: <http://eprints.ucl.ac.uk/17221/1/17221.pdf>

The primary causes of this leakage were failure by businesses to report sales subject to VAT (off-invoice underground economy) and actual VAT fraud such as multi-jurisdictional trading (also known as Carousel Fraud) between the UK and outside economies wherein businesses charge the VAT but do not report it as revenue to their home government.

To compensate for the losses, the UK government raised the VAT from 14% to 17% and then to 20% within a 12 month period, and added the VAT to previously exempt items such as groceries and some medicines.

Greece has a 23% VAT rate. The national government there has recently declared insolvency, and economists estimate that over 80% of Greek citizens no longer pay taxes. The majority of transactions now take place outside the legitimate Greek economy. Bribes are common place and business and government fraud are systemic.

<http://www.csmonitor.com/Business/Mises-Economics-Blog/2010/0503/Why-are-Greeks-not-paying-their-taxes>

Ireland, Spain, Portugal and Italy, with VAT rates between 18% and 23%, are essentially insolvent with declining tax bases and shrinking government revenues due to excessive taxation and stagnant economies.

France was forced to reduce their VAT rate on restaurant meals from 19.5% to 5.5% to end the practice of VAT evasion and save the restaurant industry. There, VAT avoidance had escalated to the point where police began stationing themselves outside French restaurants to check customer invoices. Rather than increasing VAT collections, it had the effect of further decimating the restaurant industry.

A *National Retail Institute* study done in 1993 by Paul V. Tepliz, Ph.D, of the Cambridge Research Institute estimated that 25% of Canadian small business was driven underground after introduction of the GST in 1991.

Home based businesses such as grass cutting, appliance and machinery repair, gutter cleaning, house cleaning, haircuts, house repairs, etc. all began transacting in cash to avoid GST. Whereas at one time those businesses declared the incomes from their goods and services, after GST they no longer reported even the incomes.

### ***Shrinking government revenues***

After less than one year under the HST in BC, businesses in the construction renovation industry admit to as much as 50% or more in sales being conducted “off invoice” without HST collected. When sales taxes are not reported, the business income attributable to those taxes cannot be reported either without the fraud being detected. The government then loses twice – the HST not charged, and the income not reported.

Peter Simpson, President of the Greater Vancouver Homebuilder’s Association, says, “Suffice it to say, HST will fuel an already burgeoning underground economy.”

[http://www.househunting.ca/story\\_print.html?id=64365b1b-718f-4d98-b0fb-9dd2259dc2be&sponsor=](http://www.househunting.ca/story_print.html?id=64365b1b-718f-4d98-b0fb-9dd2259dc2be&sponsor=)

Once the economy is pushed further and further underground, desperate governments in an attempt to recover the lost funds begin a vicious cycle of increasing the HST. In Denmark, Hungary, Croatia, Finland, Poland, Romania, Greece, Portugal, Iceland, Norway, and Sweden the VAT has skyrocketed to between 23%- 25%, and is hidden in the price of goods to prevent citizen rebellion.

The principle of HST (VAT) style taxes is that they incentivize businesses to collect the end user tax in order to offset their own tax liability. But this is mitigated by business going underground and/or consumers “withholding purchases” particularly on non-essential items, thereby shrinking the economy and reducing the tax base.

Not surprisingly, the jurisdictions with the highest HST (VAT) often have the worst economies.

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## **5. HST kills jobs and hurts the economy:**

### ***Government wants you to shoulder the risk***

The structure of the HST itself is proof that it will not stimulate the economy.... Let's take a closer look.

Proponents of the HST maintain that exempting business from sales taxes will make them *more profitable*. But if this were true, then why ask consumers to pay more HST on more goods and services? If the government and their economists are right - that businesses will be *more profitable* without paying sales tax - then corporate income taxes should increase to offset lost sales tax revenues.

But if eliminating sales taxes for business does *not* reduce prices, increase employment or stimulate economic growth then the HST model does not work and there's no way around it - consumers pay more because business is paying less.

If the government really believed the HST was a driver of economic growth, they wouldn't force consumers to shoulder the burden or take the risk for their model by charging 7% more on so many new goods and services.

### ***Why not eliminate consumption taxes instead?***

If eliminating sales taxes for businesses stimulates productivity, is it not equally true that eliminating sales taxes for consumers will stimulate consumption? And an increase in consumption automatically triggers an increase in productivity, but not necessarily the other way around.

Reducing sales taxes for consumers and increasing demand for goods and services, particularly from small businesses, is a win-win that would benefit the majority of British Columbians more than an HST.

Alberta - with less resources, a smaller population base, *no HST or sales taxes*, and no MSP premiums - has lower unemployment, a lower cost of living and a stronger economy. Clearly, the HST is not necessary to stimulate economic growth.

### ***The European Experience***

A study titled "*Beware the VAT*" conducted by Daniel Mitchell, Ph.D, a conservative economist with the Heritage Foundation and the Cato Institute, shows government spending and overall taxation *increases* wherever the HST (VAT) has been implemented in Europe.

<http://www.heritage.org/research/reports/2005/05/beware-the-value-added-tax>

The report documents that the overall tax burden under the VAT *including income taxes* has increased by an aggregate of 50% more in Europe than in the U.S. since the 1960's when VATs began being implemented there.

The study shows government debt as a share of Gross Domestic Product (GDP) by 2005 was higher in European nations with the VAT than in Canada or the United States. It is this increasingly unmanageable debt that is causing entire nations like Greece and Ireland to default.

Between 1965 and 1982, government spending grew 45% faster in VAT nations than in non VAT nations, and the overall tax burden increased by 34% faster in VAT countries.

One of the theories of high consumption taxes like the HST is that governments can eliminate or at least reduce income taxes. But the study reveals that income taxes in VAT countries rose higher than in non VAT countries. *No government in the world that implemented a VAT style tax has ever eliminated income or corporate taxes.*

The VAT (HST) has always been *in addition* to these taxes, and has resulted in significant increases to income taxes and corporate taxes rather than reductions.

The HST (VAT) is a job killer. The Chartered Institute of Personal Development (CIPD) in Great Britain estimates *1.6 million jobs will be lost* in the UK over the next four to five years as a result of the recent VAT rise to 20%.

[http://www.cipd.co.uk/pressoffice/\\_articles/Treasuryselectcommittee011110.htm?IsSrchRes=1](http://www.cipd.co.uk/pressoffice/_articles/Treasuryselectcommittee011110.htm?IsSrchRes=1)

### ***HST Hits Youth the Hardest***

Unemployment in all of Europe is exceedingly high, but is particularly acute among young workers aged 15-24. Youth unemployment rates in VAT nations range from a staggering 52.7% in Ireland to rates of 47.1% in the Czech Republic, 37.9% in Denmark, and 32.8% in Bulgaria.

While there may be several factors contributing to high unemployment in Europe, it is certainly safe to say that the VAT does not stimulate job creation.

<http://www.newsneconomics.com/2010/01/unemployment-in-europe-its-bad-all-over.html>

### ***The Canadian Experience***

In Newfoundland, Nova Scotia, and New Brunswick where the HST has been in place for decades, there has been no substantive economic growth. Even with the recent development of massive off-shore oil reserves, unemployment in Newfoundland is 12.4% - the highest in Canada. Nova Scotia has one of the highest per capita debts in the country at \$14 billion in a population of only 900,000 people.

Their solution? Like that of virtually every European country where the HST (VAT) has hurt the economy – they raised the tax - to 15%!

A C.D. Howe Institute report in March 2009 says that the HST will slow economic growth and increase unemployment in BC for a minimum of five years, with as much as ten years required for full recovery. The HST creates job losses in large employment sectors like services where sales taxes did not previously apply.

Five of the six provinces with the highest unemployment - Newfoundland 12.4%, Nova Scotia 9.5%, New Brunswick 9.1%, BC 8.2% and Ontario 8.1% all have the HST.

The provinces with the lowest unemployment - Manitoba 5%, Saskatchewan 5.4%, and Alberta 5.9% have *no HST*.

### ***The HST in British Columbia***

Unemployment has climbed steadily in BC since the HST has been implemented. Starting at 7.4% in July 2010, it has increased to 8.2% as of Feb. 2011, with net job losses in the tens of thousands. Many of those jobs lost are in high wage sectors like forestry, energy, entertainment and construction.

Cross border shopping has increased under the HST. Even the BC Government is finding ways to avoid paying the HST. The Globe and Mail published a report in May of 2010 titled "*BC alters Health Structure to avoid \$3.5 Million HST bill*" that showed the BC Health Services department bought millions of dollars worth of computers via the Shared Services Division to avoid paying \$3.5 million in HST!

The new homes construction market in BC has declined since implementation of the HST, especially on houses costing over \$520,000 where full HST applies.



The seasonally adjusted annual rate of urban housing starts for January 2011 declined by 7.9% from January 2010, with total losses in housing starts expected to be over 9,300 units less than in 2010. Builders in the over \$520,000 home building market are reporting a drop by as much as 50% in business as projects are cancelled while customers wait to see if they can avoid the HST after the referendum.

In Vancouver, the Olympic Village condominium project was forced to discount prices by as much as 50% when sales stalled in September 2010 after the announcement of the HST referendum. Even then, hundreds of units remain unsold, and the City of Vancouver is on the hook for hundreds of millions in losses.

In the vacation home industry, millions of dollars in inventory from units built “pre-HST” that are now subject to HST are sitting idle while buyers wait to see if the tax will be cancelled. Prospective customers from Alberta, where there is no HST, have pulled out of the BC vacation home market altogether.

The Conference Board of Canada predicts a drop in growth for the BC forestry sector of 11.5% from 2010.

The HST adds 7% more to the cost of all services in BC which were not subject to sales tax under the PST. Services represent BC’s largest job sector and includes restaurants, tourism, entertainment, housecleaning, repairs and maintenance. Adding a 7% tax on services hurts both the consumer as well as the provider, since there is no embedded PST on labour to be able to pass on to customers as “savings”.

BC restaurants are reporting losses of between 10% and 20% since the introduction of the HST, with thousands of job losses and many employees moved from full time to part time. Ian Tostensen, president of the BC Restaurant and Food Services Association, predicts up to 20% of restaurants could close in the first quarter of 2011.

Wherever the HST (VAT) has been introduced, consumption is curbed, economic growth is slowed, and unemployment has increased.

Just where is this HST paradise they want us all to believe in?

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#### **4. HST is unnecessarily complicated:**

The BC government says it instituted the HST because it would eliminate the sales tax burden for businesses to make them more competitive, and to streamline compliance into a single tax. But there are several flaws with this.

Under the HST, businesses need to hire accountants to track every single purchase, every transaction, every invoice, every remittance and every payment to them or by them. They are then required to file quarterly reports to the government claiming a refund or remitting the excess funds collected.

An analysis by J.A. Smith Certified General Accountants on Vancouver Island says the compliance burden under the HST will actually *increase* for large businesses, not decrease. This is due to Input Tax Credit recapture rules which do not allow claims for Energy, Road Vehicles under 3,000 KG, and Food, Beverages and Entertainment – all of which must be reported but cannot be claimed.

<http://webcache.googleusercontent.com/search?q=cache:nZfcVwXu7-sj:www.jasmith.com/hst-and-large-businesses/+Is+HST+Complicated&cd=27&hl=en&ct=clnk&gl=ca&source=www.google.ca>

#### ***There are better ways***

It is not necessary to have an HST in order to free businesses from paying sales taxes.

In the past, governments gave “PST exemption numbers” to farmers and manufacturers so they did not have to pay or charge sales taxes in the production of their goods. If the real purpose of the HST was to streamline compliance or make business more competitive, then simply “exempting” them from sales taxes would be a far simpler and less costly system than the cumbersome and complicated HST.

This would also eliminate the costly overlap of businesses in the middle of the supply chain repeatedly calculating the same flow through taxes. It would significantly reduce the need for a massive and costly sales tax bureaucracy. It would also eliminate cash flow cheating, off invoice purchasing, multi-jurisdictional fraud, and tax theft within the HST system.

Sales taxes could then be applied at the consumer level only, with one calculation, one remittance and no need for rebate cheques and massive government accounting.

Under the HST, businesses are conscripted to act as tax collectors for the government. They must hire accountants to administrate the tax. If government decides to apply different HST rates to different goods or services as France and other European countries have, compliance costs for business will go up even more.

For small businesses without large accounting staffs, the burden is even greater.

### ***HST is not simpler***

The *Comprehensive Integrated Tax Coordination Agreement* (CITCA) that created the HST contains 16 pages of calculus formulas outlining the revenue sharing between BC and the Federal Government.

CITCA (see Document page 19: Annex A pages 4-20): [http://www.hstinbc.ca/media/bc\\_citca\\_nov09.pdf](http://www.hstinbc.ca/media/bc_citca_nov09.pdf)

The formulas are so complicated that only a math genius or a computer (or both) could figure out what they mean. Certainly no MLA, finance minister or premier could begin to know what is owing to BC by Ottawa under the HST at any given time. We will have to rely on federal bureaucrats to do the calculations.

And they call that simpler? At least under the PST, we knew how to multiply 7% by whatever goods it applied to.

Also, under the HST Agreement, BC must ask Ottawa for permission to change an item or exempt a good or service by giving four months (120 days) notice. Ottawa has two months (60 days) to agree, and then more time is required to recalculate the revenue sharing formulas accordingly.

It is a political and financial straight jacket on British Columbia for all time.

But then maybe that’s the plan. [RETURN TO FRONT](#)

## **3. HST is revenue neutral to the BC Government:**

### ***Not one new dime to government***

One of the largest myths surrounding the HST is that it will help to pay for government services such as health care and education.

The BC Government has said repeatedly that the HST is *revenue neutral* to government - meaning any new revenues collected will only replace the losses from exempting business from sales taxes.

Under the PST the government collected approximately \$4B per year. \$2B of that came from businesses. Under the HST, the government will collect \$6B per year, but \$2B of that will go back to businesses in the form of tax credit refunds – leaving net revenues of \$4B – the same as collected under the PST.

The HST rate may well be raised in the future, but until then there are no new revenues to the BC Government for services or programs from implementing it.

Indeed, former Finance Minister Colin Hansen said that in the first year of HST, the government will experience a net loss of \$130 million in implementation costs. This could translate into possible cuts to services, not increases.

### ***The Real Beneficiaries***

The biggest beneficiaries of the HST are large resource companies (and companies that contract with the government such as road builders or construction). These companies do not sell directly to consumers. The cost of their goods is set by world commodity prices so there are no savings to pass on.

Most of BC's resource companies are headquartered in other parts of Canada, Europe, the United States or Asia. A refund cheque courtesy of taxpayers will go directly to their bottom line or as a bonus to their shareholders. Jobs and economic activity in these industries is driven by demand for commodities, not by a refund from government.

And after the second year of HST implementation, the advantages to business are diminished by the creation of new economic forecasts which no longer include sales taxes as part of the cost of business. The refunds become a "net zero" equation. They simply cover the cost of sales taxes that are no longer considered a business expense.

### ***BC's HST and the Federal Government***

The Federal Government also stands to gain from the HST at British Columbia's expense in two ways:

First, as the Globe and Mail reported on May 7, 2010, under the HST Agreement BC has given up its GST exempt status – meaning the BC government will pay the full 12% HST on goods and services it purchases, but will not be eligible for a refund on the 5% GST portion. This adds up to *multi-millions* of BC taxpayer dollars going to Ottawa.

Second, Ottawa will benefit in the collection of increased corporate income taxes. This is because PST paid by BC business used to be "written off" as an expense. Under HST, business will receive a credit for sales taxes meaning they can no longer "write off" the expenditure. HST will now be valued as business income for taxation purposes.

It is estimated that this will add between \$200-\$300 million more per year from BC businesses to federal government coffers in increased corporate income taxes.

If you multiply \$300 million by five years (the length of the first term of the HST in BC) it equals \$1.5 billion – almost exactly the same amount of money (\$1.6 billion) the federal government gave BC in "transition funding" to implement the HST.

Just a coincidence?

### ***Giving back the \$1.6 billion in "Transition Funding"***

And speaking of "transition funding" – some have argued that cancelling the HST will cause BC to "lose" \$1.6 billion by having to pay this back. Some in the media have even mistakenly referred to this money as a "penalty" that must be paid if we cancel. Let's examine these arguments.

First, if the \$1.6 billion was “given” to BC for implementing the HST, then giving it back is not a “penalty”. The \$1.6 billion is money we never had. Whatever shortfall that may result from returning it would have to have been dealt with anyway had we not taken on the HST.

Secondly, as pointed out earlier, the federal government is collecting additional corporate income taxes in the hundreds of millions from BC under the HST. These lost BC revenues would have to be included in any negotiation for winding down the HST.

Third, as large as that amount of money seems - and as convenient as it was for Premier Campbell to “grab it” to try to cover his grotesquely incorrect deficit projections - \$1.6 billion is a small amount when compared with overall government spending.

Over the course of the five year HST agreement, the BC Government will spend approximately \$200 billion. \$1.6 billion represents less than ¾ % in spending over that period. But the cost to BC consumers of accepting this money is an additional tax burden of *\$2 billion more per year*.

That is a total of \$10 billion more taken from BC taxpayers just to get \$1.6 billion!

Or another way to look at it is we can each pay an average of \$2,000-\$2,500 more in taxes over five years to get \$400 each in return from Ottawa. Not a very good deal by any measure. And if the HST were to remain in place permanently, *the average individual BC taxpayer over the course of their adult life will pay \$30,000 -\$40,000 more in taxes than under the PST* (even more if you have kids or dependents).

That is the equivalent of an entire year’s after tax salary for the average British Columbian!

### ***Returning to the PST will save taxpayers’ billions***

Accepting the relatively small “bribe” of \$1.6 billion to indenture ourselves to higher taxes forever, to hand over our taxation authority to Ottawa for all time, and to help paper over the BC Liberal’s mistruths at election time about their deficit, is far too costly.

Even if the Federal Government refused to negotiate with BC after a referendum soundly rejecting the HST (some say that would be political suicide) the best investment British Columbians could ever make would be to pay back the full \$1.6 billion, go back to the PST, and *save ourselves \$10 billion in higher taxes!*

It’s a no brainer.     [RETURN TO FRONT](#)

## **2. HST is a loss of provincial sovereignty:**

Besides the destructive impact on families and citizens, perhaps one of the biggest problems with the HST is it gives away control of BC’s sales tax authority to the Federal Government. It is like turning BC into a giant municipality, awaiting transfers of our own money back from Ottawa.

And we all know the “Golden Rule” – the guy with the gold makes the rules.

No longer will we be able to unilaterally exempt items from taxes in order to stimulate areas of our economy as we see fit. No longer will we be able to raise or lower the rate at will in the BC legislature. No longer will we be able to re-organize our tax structure to allow regions or municipalities to collect sales taxes if we wanted.

With the HST we have given Ottawa control of our sales taxes forever - and all for a paltry \$1.6 billion to cover a temporary deficit. That is like owning a Rolls Royce and agreeing to share ownership of it with your neighbour in exchange for a free gallon of gas. *It isn’t worth it.*

## ***Harmonization with Ottawa is not necessary***

Furthermore, it is completely unnecessary to “harmonize” BC’s sales taxes with Ottawa to achieve the so called efficiencies the BC Government claims. A BC based sales tax, controlled by the Province, could do the same thing.

This is what is done in Quebec, where a single tax of 13% *is collected by the province*. It includes the federal GST portion so business has only one form to fill out. The province retains control of its sales taxes and exemptions, and sends a cheque to Ottawa rather than the other way around. Why can’t BC do that?

The Constitution Act 1867 reads:

*92. In each Province the Legislature may exclusively make Laws in relation to Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say, 2. Direct Taxation within the Province in order to the raising of a Revenue for Provincial Purposes.*

This means no other power in Canada may set or collect a sales tax for provincial purposes except the province itself. To get around this, the BC government agreed to give up the PST in exchange for a share of revenues from the HST – which is considered a 100% FEDERAL TAX for the raising of a Revenue for Federal purposes.

To create this monstrosity, Finance Minister Colin Hansen *unilaterally*, and without permission of the legislature, signed a convoluted agreement called the *Comprehensive Integrated Tax Coordination Agreement* relinquishing control of our sales taxes to Ottawa.

Not only did the BC Liberals give up control of our sales taxes, they have set the stage for a future provincial government to re-institute a PST on top of the HST at some point! There is nothing in law to prevent that.

Quebec understands Confederation, and unlike every other jurisdiction in Canada that has combined their sales taxes with Ottawa, they have refused to give up provincial powers to do it.

## ***The long term costs of the HST are staggering***

The long term cost of the HST to BC taxpayers is staggering. At \$2 billion per year in additional taxes British Columbians will add a whopping \$100 billion more in sales taxes in just one generation.

Let’s repeat that - \$100 billion more in sales taxes in just one generation.

And all we are getting in return is \$1.6 billion? The more you think about it, the more apparent it becomes that the HST is not just about money.

Ask yourself - why would a government risk destroying itself over a tax? Why would a government ignore the will of over 85% of its people to proceed with a policy none of them want? Why would a government be so determined to force its people to accept a policy that even they agreed at one time was bad for BC?

## ***It is about power and control of British Columbia***

International companies want an HST (VAT) tax system throughout the world so they do not have to pay sales taxes anywhere. The HST is as much about consolidating provincial taxes with the federal government and ultimately aligning the federal government’s taxes with global objectives, as it is about anything. Nothing else makes sense.

For British Columbians, the decision is not just one of getting out of paying more taxes. It is about saving our province. It is about maintaining our provincial sovereignty so that we can control our destiny and our future.

The best thing British Columbians can ever do for ourselves is vote to repeal this awful, regressive, damaging and costly tax and return to the PST. It will save us, our children and our children's children hundreds of billions of dollars in new taxes that will go directly to corporations, not government services.

Eliminating the HST will save our way of life and secure the future of BC by British Columbians.

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## **1. HST threatens democracy:**

The BC Government lied about the HST not being on their radar before the election. Of that, there is no question.

Despite their denials to the contrary, FOI agreements obtained by the media show that the Finance Ministry were in discussions with Ottawa months before the provincial election.

The documents show officials from BC had detailed, regular discussions with their Ottawa counterparts, going so far as to negotiate a number of complex provisions, such as a 12% rate, length of term, and other detailed clauses.

<http://www.vancouversun.com/news/government+adopted+despite+warnings+negative+impact+economy/3470614/story.html>

Regular communiqués were provided to Finance Minister Hansen throughout the process. Yet the BC Liberal Government told the restaurant industry and the construction industry in writing at election time that they had no intention of implementing the HST. They said it would be bad for BC.

Most people now believe they were lying.

### ***The HST was “rolled out” exactly as planned***

Instead of admitting they were *wrong* to bring in the HST, the BC Liberals have maintained the only mistake they made was in *how* it was presented. They want us to believe that they simply introduced it carelessly - by accident.

But nothing this government has ever done has been an accident - except getting caught.

The HST was introduced on a hot summer Friday afternoon in August 2009, the same day the Braidwood Commission published its report on the tasing at the airport that took a man's life. They arrogantly tried to slip it under the radar in the hope that they could get away with it. It was a *deliberate* attempt to deceive the people.

And why not? They had been getting away with worse for their entire term in office with things like BC Rail, BC Hydro, the Carbon Tax and other deceptions.

It was the way they operated – until the HST.

### ***With the HST the people of BC said – enough!***

For the first time in the history of the entire British Commonwealth, the people peacefully rose up and opposed their government using a citizen's Initiative petition to repeal the HST with such force and in such numbers that the government had no choice but to listen.

Or did they?

Consider the government's reaction before, during and after the HST Initiative petition revolt:

- Before the election, the government told us we had a \$485million deficit. When pressed by reporters that the world economy was worsening and the deficit could be higher – the premier gave an emphatic No!
- After the election the real deficit emerged – it was \$2.8 billion - five times worse than projected.
- The premier claimed it was then that he decided to look into adopting the HST.
- FOI documents revealed that the BC Government had been in detailed discussions with the federal government on the HST for 6 months prior to the election.

When the movement to stop the HST emerged, the government continued to defend the indefensible:

- First, they said the HST was a federal tax and the province could not change it.
- Then they said the HST could not be repealed because they had signed a five year agreement.
- Then the premier said he didn't care how many people signed the petition – the HST was a done deal.
- Then they said the Initiative petition was misleading because it said the Legislature could repeal the HST.
- Gordon Campbell appointed an Acting Chief Electoral Officer whose first act was to fire the deputy Chief Electoral Officer after she ruled against a BC Government mail out for contravening the Initiative Act.
- Then, after validating the successful petition, the Acting Chief Electoral Officer refused to forward it to the Legislative Committee despite the clear obligations of the Initiative Act requiring him to do so.
- Then their friends in the Big Business lobby took the people's petition to court try to strike it down.
- Not one BC Liberal MLA opposed their party's stance or the business lobby regarding the HST. Even Blair Lekstrom who initially quit in protest over the HST, later rejoined the Liberals unconditionally.
- Premier Christy Clark strongly supports the HST, the business lobby that demands it, and has said repeatedly that repealing it will "cost British Columbians".

The BC Supreme Court rejected every one of the big business lobby's and the government's arguments, ruling that the HST was a matter for the provincial legislature to repeal if it wanted, and ordered the Acting Chief Electoral Officer to hand the successful petition over to the Legislature.

### ***It's time to hold them to account***

The BC Liberals are either cravenly dishonest, or utterly incompetent. They continue to defend the HST as if the end justified the means. Allowing them to get away with that will only embolden them to do it again. They must be held to account.

Now they are telling us that repealing the HST will be too costly... and that's true. For them.

A defeat of the HST in the Referendum will change the way government operates in BC forever. Never again will a government be able to lie, obfuscate and deliberately betray the people out of their own hard earned tax dollars.

For governments used to doing whatever they want no matter what voters think, that is a very high cost indeed.

*But for the people of BC, it is the bargain of the century.*

Vote **YES** to extinguishing the HST.

Vote **YES** to return to the PST and to take back our province.

Vote **YES** to true democracy.

No matter who we elect in the next election, they will never be able to run roughshod over us again.

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## Summary:

The PST may not be best tax, but it is *far, far superior* to the HST.

The HST hurts the people least able to afford it. It hurts businesses, particularly small and locally owned ones. It hurts the economy by curbing consumption, increasing the tax burden and reducing our standard of living.

The HST drives the economy underground – and makes criminals out of otherwise honest citizens. It kills good jobs and turns full time jobs into part time. *It will not add one penny to government revenues*, and over time may even harm social programs like health and education.

The HST destroys provincial sovereignty over sales taxes. The imposition of it against the will of the people threatens our democracy.

### ***It's decision time***

As Europe collapses under the crushing weight of debt and high taxation from the VAT, we are being asked to imitate their failed system. Cancelling the HST and returning to the PST with the same applications and exemptions will save British Columbians \$10 billion in taxes over the next five years - or an average of \$35,000 each over a lifetime of paying the HST.

We are already overburdened and under serviced in BC. We have a Carbon Tax that is pushing our fuel to \$1.35 a litre vs. Alberta and Manitoba at .95 cents. BC Hydro is increasing our rates by 56% over the next 5 years. Ferry rates will increase by between 20%-100% over the next 3 years, MSP premiums are increasing, and Revenue Canada says *BC's household debt is the highest it's ever been in history.*

Taxes do not create wealth. They never have and they never will. It defies the laws of rational thinking to expect such foolishness. The HST simply transfers the wealth of consumers to corporations.

## **This is our chance for relief – Vote YES to repeal the HST**

Let's return to the PST and then begin the process of determining the best type of tax for British Columbia - using democratic means decided by all the people – not dictated by a badly managed government using an unfair tax as an excuse to make up for their incompetence.

Vote YES to kill the HST and return BC to a society that cares about more than just the bottom line.

A society based on a free, open and honest democracy with a government that serves the people - not a people that serve the government.

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