



construction was eligible for the 57.14% rebate. This rebate is now proposed to increase to 100%.

## DISCUSSION

On February 2<sup>nd</sup>, 2004, The Federal Government announced that municipalities would be eligible for a 100% rebate of the GST that they are required to pay in order to provide services to the public. The Department of Finance Canada has now released a notice of 'Ways and Means Motion' to Amend the **Excise Tax Act**. It is expected that the draft legislation will come out with the budget on March 23, 2004. It will then be debated in Parliament and the timing of this is uncertain. In the meantime, although it has been announced that the 100% rebate is effective as of February 1, 2004, municipalities will not receive payment for more than the current rate of 57.14% until the new legislation receives Royal Assent.

The Ways and Means Motion has provided a little more detail on the proposed changes. More clarification will be provided once the draft legislation is published. It is proposed that the rebate percentage be increased from 57.14% to 100%. It is also proposed that those municipalities on the Special Quick Method remit 6.5% (formerly 5.8%) of the revenues, including GST collected on non-exempt services, thus virtually eliminating the previous neutralization factor (6.5% of \$107 = \$6.96).

Municipalities have been instructed to continue to separately account for ITC's as they relate to non-exempt revenue generating capital and the 7% rebate that has replaced the 57.14% of the GST paid. We have taken steps to ensure that we can isolate the additional rebate amounts from February 1<sup>st</sup> onward, which will need to be held until CRA (Canada Revenue Agency) has legislative authority to pay them out.

The Minister of National Revenue will be granted the authority to disclose the amount of the incremental municipal rebate paid to individual municipalities. This measure is intended to allow the federal government to track the money that municipalities spend on critical priorities.

### What This Means to Surrey:

Appendix A of this Report outlines the financial effect of this change. Based on the GST that Surrey collected and paid out in 2003, the net revenue increase related to GST rebates net of the loss of the administration fee should be approximately \$3.4 Million. The following is an estimated breakdown of where the net GST was paid:

<u>Operating</u>	
General	\$1.2M
Utilities	<u>\$0.1M</u>
Total Operating	<u>\$1.3M</u>
<u>Capital</u>	
General Capital	\$0.5M
Water Utility	\$0.3M
Sewer/Drainage Utility	\$0.2M
DCC Program	<u>\$1.1M</u>
Total Capital	<u>\$2.1M</u>

As outlined above, \$2.1 Million of the proposed increase is directly attributable to our Capital Program. These contributions were made based on the requirement to pay GST. Therefore, it is required that the new rebate be allocated back and used to support projects within those programs.

## CONCLUSION

On February 2<sup>nd</sup>, 2004, The Federal Government announced that municipalities would be eligible for a 100% rebate of the GST that they are required to pay in order to provide services to the public. The Department of

Finance Canada has now released a notice of 'Ways and Means Motion' to Amend the ***Excise Tax Act***.

It is estimated that Surrey will receive an additional \$3.4 Million in rebates based on our 2003 experience. Since these contributions were made based on the need to pay GST, it is required that the new rebate be allocated back to the programs that were originally charged the GST.

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