

NO: **R072**

COUNCIL DATE: **April 22, 2013**

REGULAR COUNCIL

TO: **Mayor and Council**

DATE: **April 16, 2013**

FROM: **General Manager, Finance and Technology**

FILE: **2000-01**

SUBJECT: **Implications of the Re-instatement of Provincial Sales Tax on City Capital Projects**

RECOMMENDATION

The Finance and Technology Department recommends that Council:

1. receive this report as information; and
2. request that the Mayor on behalf of Council forward a letter to the Provincial Minister of Finance that requests that the Province put in place a program to reimburse local governments the amount of the Provincial Sales Tax (PST) that local governments are now paying on capital projects that would not have been paid under the Harmonized Sales Tax and that a copy of the same letter be forwarded to the Union of BC Municipalities with a request that the UBCM also pursue the matter with the Provincial government on behalf of all of BC's local governments.

INTENT

The purpose of this report is to provide information regarding the financial impact that the return to the Provincial Sales Tax (PST) will have on capital projects and to recommend that the Mayor forward a letter to the Minister of Finance requesting a means by which to offset the financial impact to local governments of the re-introduction of the PST.

BACKGROUND

Based on a referendum held in 2011 regarding the continuation of the Harmonized Sales Tax (HST) the Province determined that it would re-introduce the Provincial Sales Tax (PST) in conjunction with the Goods and Services Tax (GST) with an effective date for the re-instatement of April 1, 2013.

The former HST was comprised of a 5% Federal component (effectively the GST) and a 7% Provincial component with the total being 12% in combination. Municipalities were provided a rebate of 85.42% of the total HST or an equivalent to 10.25% of the 12% which resulted in an effective HST rate for municipalities after the rebate of 1.75%. Municipalities do not have any rebate or exemptions in relation to the PST; however will continue to be fully exempt in relation to the GST, which amounts to 5%. With the PST reinstated the effective combined tax rate for municipalities will be 7% instead of the 1.75% as was the case under the HST tax structure.

It is important to note that the list of taxable items for the PST is significantly smaller than for the former HST. As an example, there is no PST on the provision of Professional Services or on labour charges related to improvements to real property or on the purchase of land. In each of these cases the HST was applicable. However, under the PST virtually all materials and equipment utilized in the construction of real property are now subject to the 7% PST even though the associated contracts for these services may have been executed under the HST tax structure. The City has several large Capital projects that will be subject to the impact of the PST on all materials and equipment that are installed after April 1, 2013. The related budgets for these projects did not contemplate these additional taxes.

DISCUSSION

Due to the reintroduction of PST, the City will in certain cases, be incurring additional, unexpected and therefore, non-budgeted direct costs related to capital projects that were already in progress at April 1, 2013, the date on which the PST became effective. The additional tax costs relate to materials and equipment and will amount to approximately 5.25% of the total costs of such items. Materials and equipment typically make up about 50% of the costs of a capital project and, as such, the total cost for capital projects will in effect increase by about 2.6% as a result of the reintroduction of the PST. This is in effect a clawing up to the Provincial level of local government revenues. For example, the New City Hall project that commenced under the HST tax structure but will be completing under the PST/GST tax structure will incur additional costs associated with the PST in the order of \$1.5 million. Similarly, the two aquatic centres that are being constructed by the City will result in the City paying about \$2.5 million of additional taxes in comparison to the HST tax structure.

Given the financial pressures that local governments are facing in delivering the services for which they are responsible while relying primarily on property taxes as the only source of discretionary revenue, the reintroduction of the PST with the effect of pulling resources away from local governments to the provincial government is untenable. As such, it is proposed that the Mayor on behalf of Council forward a letter to the Provincial Minister of Finance that urges the Provincial government to reimburse local governments the amounts that they will now be paying under the PST that would not have been payable under the HST tax structure and that a copy of the letter be forwarded to the UBCM along with a request that the UBCM also pursue the matter with the Provincial government on behalf of all of BC's local governments.

SUSTAINABILITY CONSIDERATIONS

The City's Sustainability Charter includes several goals that are focused on ensuring that the City has sufficient revenues to support the delivery of its mandated responsibilities while maintaining a family-oriented and investment-friendly environment. The recommendation of this report is aligned with these goals.

CONCLUSION:

Based on the above discussion it is recommended that Council request that the Mayor on behalf of Council forward a letter to the Provincial Minister of Finance that requests that the Province put in place a program to reimburse local governments the amount of the Provincial Sales Tax (PST) that local governments are now paying on capital projects that would not have been paid under the Harmonized Sales Tax and that a copy of the letter be forwarded to the UBCM with a request that the UBCM also pursue the matter with the Provincial government on behalf of all of BC's local governments

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