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British Columbia's Harmonized Sales Tax: A Giant Leap in the Province's Competitiveness

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Abstract


British Columbia's harmonization of its sales tax with the federal goods and services tax (GST) will result in a giant leap in the province's competitiveness, both domestically and internationally.

By 2020, the combined effect of federal and provincial corporate tax cuts and sales tax harmonization is expected to increase the province's capital stock by more than \$14.4 billion and add 141,000 new jobs. Sales tax harmonization alone will account for an increase of \$11.5 billion in capital investment and a net increase of 113,000 jobs by the end of the coming decade.

British Columbia's tax reform, especially its adoption of the harmonized sales tax, also will reduce the marginal effective tax rate (METR) on capital for all industrial sectors and all sizes of businesses. Even though selected exemptions were provided to relieve some capital goods from the existing retail sales tax, sales tax harmonization will remove most taxes on capital purchases after July 1, 2010. Sales tax harmonization will reduce the METR on capital for large and medium-sized companies from 29.5% in 2009 to 21.6% in 2010, while additional corporate tax reductions will further reduce the METR to 20.5% in 2010 and to 17.9% by 2018. For small businesses, the METR will decline sharply from 24.7% in 2009 to 11.5% in 2010, primarily due to sales tax harmonization. With the reduction of the small business tax rate to zero in 2012, the METR on small business investment will decline further to 9.9%. By 2018, British Columbia's METR on capital will be internationally competitive — lower than the current rate in Australia, France, Germany, Italy, Japan, South Korea, the United Kingdom, and the United States, about the same as in New Zealand, and only slightly above that in the Netherlands and China. It will also be lower than in all other provinces — notably including Alberta — except Newfoundland and Labrador, Nova Scotia, and New Brunswick, which have already harmonized their sales taxes with the federal GST.

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