

## Estimated Timeline for Reimplementation of the Provincial Sales Tax (PST)

### Notes on Tasks

#### **1. *Negotiations with federal government regarding end of HST***

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Negotiations with the federal government would include, at a minimum, a repayment schedule for the \$1.6 billion transitional assistance and rules for determining BC's HST revenue allocation during the transitional period and upon/after the elimination of the HST.

#### **2. *Federal government develops HST wind-down rules***

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In transitioning to the HST, there were approximately 22- 25 categories of rules ranging in complexity. For example, there were transitional rules related to purchases and leases of tangible property and intangible property, purchases of services, purchases and leases of non-residential real property and purchases and leases of residential real property. Each of these areas would need wind-down rules.

Provincial transitional rules to re-instate the PST would have to mirror the federal rules, to ensure there are no gaps or double taxation <sup>S.16</sup>

<sup>S.16</sup> There are approximately 13 categories of transitional rules which must be mirrored (i.e., both HST and PST would apply).

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#### **3. *Drafting and approval of new federal legislation***

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**4. CRA to update systems, processes (e.g., final returns, audits etc.) and public information and implement transition from HST (including outreach)**

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**5. Provincial policy decisions**

As the *Social Service Tax Act* is over 60 years old and there are various issues which would have to be addressed, such as:

- ambiguous provisions; and
- administrative concessions provided over the years for which there is questionable or insufficient legal authority.

The *Hotel Room Tax Act* is almost 40 years old and has similar issues.

Legislative counsel would be unlikely to support the introduction of new legislation which is ambiguous or lacks appropriate legal authority. In addition, as it is expected that legislation be administered in accordance with the letter of law. In a number of circumstances, the SSTA and HRT were administered somewhat more leniently than the legislation provided for (in part due to ambiguities or out of date sections). Therefore, policy direction will be required to determine how to address the ambiguities and those areas that are out of date (i.e., the sections related to the application of tax to technology based goods and services).

Moreover, confirmation of how to deal with a number of related decisions which accompanied the implementation of the HST would be required (e.g., ICE Fund levy, taxation of propane, taxation of disposal diapers, additional daily tax for passenger vehicle rentals, revenue sharing of hotel room tax for resort municipalities, etc.).

**6. *Development of PST and HRT transitional rules and wind-down rules for Tax on designated property and Energy Credit and Rebate Program***

Provincial transitional rules must mirror federal transitional rules to avoid either gaps or double taxation and therefore can only be developed after the federal rules are developed.

The time estimate of 6-9 months is based on the development of the PST wind-down rules.

**7. *Drafting and approval of new provincial tax and transitional legislation and regulations (includes reimplementing of sales tax credit)***

Estimate of 9-12 months is based on and previous drafting and approvals and recognizes that imposing a new PST, even if essentially the same as the old tax, may be more complex than winding-down the PST and provincial hotel room tax.

Drafting of the legislation and regulations is dependent on completion of the PST/HRT policy decisions and the development of the transitional rules.

While ideally, legislation and regulations would be completed prior to undertaking staff training and outreach activities. However, given the compressed timeframe, training and outreach will need to begin based on policy decisions/ rule development.

**8. *Communication/Training (Notices/ Bulletins/ Forms/ Web sites/ Outreach) – or both transitional rules and ongoing new PST and HRT***

This item encompasses all written public information in paper and electronic format, business forms, and website communication. It also includes outreach activities such as tax seminars and informational audits, as required. In addition, it includes training for staff (other than systems training) on the transitional rules and new PST/HRT.

For some businesses, the time period without the PST could be long enough to have forgotten the rules and there would also be a number of new businesses that will have started up after July 1, 2010 and for whom the tax would be brand new. In addition, even minor changes to the tax base or rules would have to be clearly communicated.

With the transition to the HST, the CRA did extensive outreach - even though the majority of the day-to-day (non-transitional) HST rules were the same as for the GST.

All PST communications that existed prior to July 1, 2010 has been wound down. In some cases, ministry staff may be able to undo some of these changes. However, in many cases, the PST information would need to be redeveloped. In addition, new information would be required for the transitional rules.

The estimate of 10 – 12 months is based on past experience developing and completing communications for other implementation projects, including the PST wind down project. It also assumes that similar, if not identical, communications materials would be required to that which existed prior to July 1, 2010.

**Note:** There is a risk to developing outreach materials and conducting outreach activities prior to the completion of the legislation and regulations. However, given the compressed timeframe, the outreach will need to be partly based on policy decisions and rule development.

### ***9. Systems development PST/HRT (includes procurement, development, testing and training)***

To effectively administer any tax, the Ministry of Finance requires appropriate systems. Systems refers to appropriate information technology adequate to meet business requirements for the administration of a tax and also includes all administrative forms, letters and related reporting required for all activities. As of July 1, 2010, the Ministry of Finance dismantled most of these systems to collect, administer and enforce the PST.

Systems development for PST/HRT includes procurement for the system or system work, the development of the systems requirements the testing and training.

The current system on which the PST and HRT were administered previously is incapable of providing the e-service options that are available to businesses registered for GST/HST. In addition, the system technology is unsupported. Therefore, the Ministry is proposing that the reimplementation of the PST and HRT be done on a newer version of the software technology. While this version will not address the legislative complexities that make the PST difficult for businesses to administer, it will simplify aspects of the administration where e-services are available.

The estimated 8-14 months for the system rebuild is based on timelines for previous tax implementation projects including the carbon tax and the transition to HST. However, it is expected that some work/training will continue to be required after implementation.

### ***10. Staffing – HRA Amendment Wave 4***

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130 staff are scheduled to transition to the CRA on July 1, 2012. As a result of attrition, there are approximately 120 staff currently expecting to transition. Although the province will not begin undertaking audits on the new PST/HRT until a year or two post implementation, there are a number of other functions, that the wave 4 staff will be able to fulfill leading up to that point. For example, they will be able to help respond to taxpayer questions, re-register businesses and conduct outreach activities.

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***11. Staffing – hiring and training of additional staff (additional auditors can be hired post implementation)***

To reinstate the PST and HRT as it was prior to July 1, 2010, additional staff would be required in the areas of registration and close of business, field and desk audit, rulings, provincial tax information phone lines, collections and refunds.

Assuming the wave 4 staff remain with the Ministry and are able to support the functions of responding to taxpayer questions, re-registering businesses and conducting outreach activities, it is expected that approximately 50 new staff would be required in the 6-9 months prior to implementation and the remaining 100 (approximately) would be hired and trained in the two years following implementation.

***12. Facilities (obtaining office space, computers/furnishings at multiple locations)***

Since June 2010, the Ministry of Finance has been actively downsizing its space requirements and surrendering equipment. There is currently a hold on reducing space further (until the outcome of the referendum is known).

The estimated time required to complete this task is heavily dependent on the availability and suitability of space as well as how many employees are being hired in each area. The timeframe for facilities is the same as the hiring and training estimate.

***13. Negotiations with key stakeholders: Canada Border Services Agency (CBSA), Canada Post, ICBC***

Negotiations could not start with these stakeholders until the provincial transitional rules are completed.

In order to effectively administer the PST, the Ministry of Finance relies on partners to ensure efficient tax collection and compliance. In the past, CBSA and Canada Post collected PST on goods imported into British Columbia from outside Canada, while ICBC, through its auto brokers, collected PST at the time of registration of vehicles purchased in BC at a private sale and vehicles brought into BC.

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#### ***14. Changes required by other stakeholders (e.g., ICBC/ financial institutions)***

ICBC, through its network of auto brokers, currently collects the provincial tax on designated property on vehicles purchased privately in BC and on vehicles brought into BC from another province as well as the provincial portion of the HST on vehicles imported from outside of Canada into BC. To be able to accurately collect the appropriate tax, ICBC has developed systems and forms and provided extensive training to auto brokers.

In preparing to implement the HST, ICBC required appropriate lead time to make changes to its business systems and to provide corporate and broker communications and training materials to all auto brokers. A shift back to a PST would require ICBC and all of the auto brokers to not only start collecting the PST again, but also to fully understand the circumstances in which the PST, the tax on designated property or the provincial portion of the HST, was payable during the transition period.

The estimated timeline for this task assumes no changes to the tax base from what it was prior to July 1, 2010 as even minor changes could result in significantly longer implementation time to train ICBC brokers.

Based on the experience of switching to the HST and the tax on designated property, this would require 6 - 10 months of lead time for ICBC, most of which have to occur after the establishment of the transitional rules.

#### ***15. Registration of businesses (approx 100,000 registrants)***

Assuming an identical tax base to the previous PST, the Ministry of Finance would have to register approximately 100,000 businesses as tax collectors before the tax could be implemented.

The time estimate of 3 - 6 months for registration assumes that the PST registrant database as it existed prior to July 1, 2010, is largely accurate. For many existing businesses extra time would be required to update business information. New businesses would need to be registered on a case by case basis.

#### ***16. Business/taxpayers updating their computer and accounting systems***

Businesses and taxpayers can only start updating their computer and accounting systems after the transitional rules have been finalized and their legal obligations are clear.

Any time a tax is changed, businesses are required to adapt their computer systems to account for the change in tax rate or tax base. This is required of all businesses and they are expected to bear the cost of those changes.

However, the transition to a new PST also requires businesses to modify their tax reporting and accounting systems to comply with a new set of provincial requirements.

Given the recent transition to the HST, a subsequent shift back to a PST with new transitional rules would be both difficult and costly for businesses.

The time estimate of 6-9 months is based on previous tax changes where both computer and accounting changes were required and reflects the recent experience of the transition to HST where many businesses were able to complete the changes within 6-9 months. However, for large businesses with customized systems, this timeframe may be unrealistic.

#### ***17. Program wind-down: tax on designated property & residential energy credit and rebate program***

The tax on designated property and the energy credit and rebate programs were implemented with the implementation of HST to continue tax programs under the PST (one requirement to pay PST and one exemption from PST) that could not be administered as part of the HST. While these programs would cease to exist once the new PST was implemented, some administration of these programs would continue over the next four years as assessments, collections, refunds and appeals would continue for transactions that occurred before the programs ceased.

The estimate for the completion of this task is based simply on the four year limitation period in the legislation.

#### ***18. OCG –Core Policy and Procedure Amendments***

***19. OCG – CAS Systems changes***

***20. OCG – SFO Training***





31	Develop and assist with risk management framework to help guide project			ongoing	Low	Dependent on development of individual decisional branch task plans and identification of dependencies
32	With Tax Policy and Revenue Programs Division, develop provincial legislation and regulations in transition to and implement provincial PST and related taxes			RICHARD PYTE, ALTERNATE: ROD FRYER (LEGISLATIVE COUNSEL - BPP POTTINGER) (SUPERVISING SOLUTION)	Low - medium 9 - 12 mos	Dependent on completion of the provincial transition of rules and all provincial policy decisions
33	PST Transition Project Management			DEPUTY MINISTER'S OFFICE: Lead: Doug Foster, Alternates: Shelley Maclean	Low - med 18 mos	
34					Low	


