

## Flanagan, Paul FIN:EX

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**From:** Flanagan, Paul FIN:EX  
**Sent:** Wednesday, July 18, 2012 4:36 PM  
**To:** Armstrong, Glen E FIN:EX; Cole, Elizabeth FIN:EX; Wood, Heather FIN:EX; 'Ewald Boschmann'  
**Subject:** ewald comments.xlsx  
**Attachments:** ewald comments.xlsx

Ewald. Here are some comments on your table. Please email me if you have questions.

Paul

Recommendation	Full year cost (2013)	2013/14	2014/15	2015/16	2016/17
Investment Tax Credit equal to PST paid on eligible	-498	498	521	544	569
Phased In Cost		249	509	532	556
Revenue from stronger economic growth	25	0	12	50	115
Net revenue reduction	473	249	497	482	441
Recoveries					
PST on basic telephone and cable services	79	79	81	84	87
PST on snack foods	54	54	56	58	60
PST on school supplies	61	61	63	65	67
Subtotal	194	194	200	207	214
Less: Sales tax credit increase (\$15 per adult & \$25	-25	-25	-26	-27	-27
Net revenue after relief for lower and moderate inc	169	169	174	180	187
2 cent increase in tobacco tax	70	70	68	67	65
Increase in mining taxes and oil & gas royalties*	56	0	60	64	68
0.5% CIT increase*	140	0	150	160	178
(*or equivalent effect with business program reduc	435	239	452	471	498
Net cost of recommendations	38	10	45	11	-57

1. The investment tax credit is assumed to be effective for purchases made after March 2013.
2. The revenue from stronger economic growth comes from all areas of taxation, including corporate and personal taxes.
3. It is assumed that the additional revenue is 5% in the 2nd year, 10% in the third year, 15% in the fourth year and remaining at 20% thereafter.

No offsetting revenue loss is assumed from the measures to pay for the cost of the investment tax credit for three reasons.

- the estimate is conservative;
- the impact of the investment tax credit on revenues is much stronger than the impacts of the measures to replace the revenues; and
- the tax credit itself will directly result in an modest increase in corporate income tax revenues because capital depreciation will be reduced by the credit.

The following is the current estimate of a one percentage point change in the CIT rates.

General/SB Rate +1% in April 2013	2012/13	2013/14	2014/15	2015/16	2016/17
GR 1% increase in April 2013	49	162	191	204	228
SBR 1% increase in April 2013	27	91	108	116	128
			299	319	356
			150	160	178

#### Questions and comments

1. I did not change the column titled "Full year cost (2013)) as I am not sure what it means.
2. Is there an assumption that the tobacco tax increase is avoided somehow in future years or is that a natural decline in consumption assumption? We think the estimate is high.
3. The bottom line numbers show a net revenue loss, albeit small. Do you want to plug it at nil by adjusting the mining and royalty revenue recapture to net the whole set at nil?
4. You might want to explain in a footnote what is meant by equivalent business program reductions.

0.5% CIT increase\*

(\*or equivalent effect with business program reductions)

The province provides a range of tax programs for business sectors including film, digital media, international business activities and mining. Rather than raise corporate income tax rates, the province could consider reductions in their business tax programs to help pay for the more broadly applicable investment tax credit.

5. The investment tax credit could require heavy compliance and administrative burdens. The proposal would require two key elements. First, proof that PST was paid on an item, and second, that item is within a particular capital cost allowance pool. It would appear that this could place a significant compliance task on business to record the required information. Moreover, the tax administrators would need to audit the two key elements of PST paid and whether the purchase was an eligible expenditure for purposes of the credit. Some of the downsides to an investment tax credit are the timing of the benefit (it might not help secure a decision to make a purchase when the cash comes later), what to do in situations where the asset is sold, and the fact that the measure would result in a fiscal flow from the province to other governments, primarily the federal government.

6. the snack food measure could perhaps need to be described further. We wondered why this particular measure is recommended, given its complexity and that is purely a revenue measure.

7. the school supply estimate - we don't have a better estimate and we are not too confident of the one you took from our budget document. We think it might be a high estimate.

## Flanagan, Paul FIN:EX

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**From:** Flanagan, Paul FIN:EX  
**Sent:** Tuesday, July 31, 2012 4:53 PM  
**To:** 'Ewald Boschmann'; Cole, Elizabeth FIN:EX  
**Cc:** Armstrong, Glen E FIN:EX; Wood, Heather FIN:EX  
**Subject:** Estimates

Ewald: Here are Beth's comments on the various consumption tax issues:

### Snack Foods

I'm still unclear what this estimate is trying to get at. Is it all food subject to GST/HST, other than food purchased from restaurants, or some subset of that? A variety of food sold at places other than restaurants is taxable (prepared food like salads, small containers of certain drinks – snack size, junk food, etc.). Our estimate for zero-rating of basic groceries is consistent with federal and Ontario tax expenditures. Food purchased from restaurants is a separate category. Of other food, less than 15% is taxable (10-15%) – snack foods, prepared foods, etc.

### Tobacco

Somewhere in the \$55-60 million range is probably reasonable but maybe we want to look at this again.

### School supplies

I think \$60 million is far too high for school supplies. We have very limited information and no hard data, so ours is also a very rough estimate. However, the internal estimate, which comes from work done as part of the PST Review in 2007, is that we lose about \$40 million annually because of the exemption.

I'm fine if they want to lower the estimate of revenue we would generate from this measure, but I'm not clear that the assumptions behind the \$10 million estimate take into account all the facets I mentioned on previous calls. A few things to keep in mind:

- 1) There are TWO different components to the exemption (see below)
- 2) The exemption is not restricted to school age children
- 3) The cost of the exemption is not just the "legitimate" cost, it also includes leakage.

Background:

Under the PST, school supplies were exempt from PST:

- 1) when purchased **by or for** a student (includes kindergarten **to post-secondary**) for the student's use; or
- 2) when purchased by a school board or similar authority **for use in instructing students**.

#2 may be broader than people are thinking. Examples of sales to schools or school boards that are exempt when used in the direct instruction of students: arts and crafts materials, including paint brushes and modelling clay; audio and visual aid materials, such as film clips and film strips, photographs, slides etc.; automotive engine parts and consumable supplies for automotive courses; CDs containing books in electronic format; items that are quickly consumed, such as paints, paint brushes, pens, pencils, paper, glue and paper clips, and materials for courses, such as fabric for home economics courses, gases for science courses, and pipes and fittings for industrial arts courses.

The 2007 estimate was that the cost of the exemption was about \$30-35 million plus leakage of \$5-10 million for a total of \$35-45 million. The "legitimate" cost was split about 60% school board purchases and 40% individual purchases. However, the leakage associated with the individual portion is much higher, so the split of the total exemption cost is estimated to be roughly 50/50.

For many years, retailers in British Columbia have provided an abundance of anecdotal evidence suggesting there was significant abuse. To claim the exemption for listed school supplies purchased by or for students for school use, a purchaser simply told the retailer that the item was for school use. A number of retailers, particularly in late August and early September, exempted all the listed school supplies sold to all purchasers.