

MAY 14 2010

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**Grand Chief Stewart Phillip
and Chief William Charlie
and Chief Robert Chamberlin
Union of British Columbia Indian Chiefs
342 Water Street, 5th Floor
Vancouver BC V6B 1B6**

Dear Chiefs Phillip, Charlie and Chamberlin:

Thank you for your email of April 20, 2010, addressed to British Columbia MLAs regarding your opposition to the proposed harmonized sales tax (HST) in British Columbia. I appreciate your concerns. Allow me to explain why the government has decided to take this important step.

Businesses in British Columbia currently pay provincial sales tax (PST) on their business purchases, the cost of which is built into the price of their goods and services. This embedded PST makes our goods and services more expensive, both for British Columbian consumers and in export markets, and reduces our competitiveness. As such, the PST on business inputs represents a serious drag on competitiveness, investment, productivity and job creation.

British Columbia has to sell its goods and services to the rest of the world to prosper and grow. To do so successfully we must compete with companies from more than 130 countries and five Canadian provinces which have shifted to a value-added tax like the HST which removes embedded taxes from their prices. Unless British Columbia moves to an HST, all of these jurisdictions will have a competitive advantage over British Columbia business.

Since 2001, the government has taken significant steps to improve the British Columbia tax system. We have worked hard to reduce taxes for individuals and to improve the competitiveness of British Columbia business through the reductions in personal and corporate income taxes and the elimination of corporate capital taxes.

The September Budget Update 2009 raised the small business corporate income tax threshold to \$500,000 from \$400,000, effective January 1, 2010, and affirmed government's commitment to reduce the small business corporate income tax rate to zero by April 1, 2012. In 2008, the rate was reduced from 4.5 per cent to 2.5 per cent — a reduction of 44 per cent.

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Over the last few years, both federal Liberal and federal Conservative governments have been urging provinces to harmonize their sales taxes with the goods and services tax (GST) to enhance the competitiveness of the national economy. In late May, in light of Ontario's decision to move ahead with harmonization on July 1, 2010, we revisited the idea of harmonizing our tax system. It was only with the Ontario announcement that it became apparent that British Columbia could use the new flexibility to create a made-in-British Columbia solution, one with a 12 per cent HST rate, the lowest in Canada. Given our need to remain competitive and the new flexibility to set our own lower HST rate we decided we had to act.

With a single HST tax rate, one substantially harmonized tax base, and one set of administrative rules instead of the duplication that currently exists with the PST, compliance costs for British Columbia businesses are expected to fall by about \$150 million annually. When fully phased-in, British Columbia will also save about \$30 million annually in administrative costs due to the fact that the federal government will administer the HST at no cost to the Province. In addition to these benefits, British Columbia will also receive one-time funding of \$1.6 billion from the federal government which will help maintain vital public services such as healthcare and education.

Generally, the HST will apply to the same goods and services that are currently taxable under the GST. If there was five per cent GST on a good or service, there will be 12 per cent HST unless the item is eligible for a provincial point-of-sale rebate or provincial credit. No additional tax will be paid on the overwhelming majority of purchases, including basic groceries, most goods, fuel, home heating, and child care services, because they are either not taxable under the HST, or they are already subject to the PST.

In particular, your email expresses concerns about the impact of HST on low-income First Nation families. The design of the HST, with tax relief for residential rent and basic groceries, helps to reduce the impact on low-income individuals and families. British Columbia is implementing a number of measures designed to mitigate the impact of HST on British Columbia families and individuals, including:

- *BC HST Credit.* To further reduce the impact on low and modest income British Columbians, British Columbia will provide a new BC HST Credit along with the quarterly GST credit payments. The annual amount of the credit will be \$230 per family member for individuals with incomes up to \$20,000 and families with incomes up to \$25,000. The credit will be phased out by four per cent of income above the thresholds. About 1.1 million British Columbians will benefit from the credit. Note that the BC HST Credit is available to low-income First Nations individuals and families regardless of whether they live on reserve or off reserve and whether or not an *Indian Act* tax exemption applies to the HST on their purchases.

- *Point-of-Sale Rebates.* British Columbia will provide point-of-sale rebates for the provincial portion of the HST on motor fuels, books, children-sized clothing and footwear, children's car seats and car booster seats, children's diapers and feminine hygiene products.
- *Residential Energy Credit.* British Columbia will provide a provincially administered credit for energy – i.e., electricity, natural gas, heating fuel, heat, steam, propane, kerosene, firewood, and pelletized fuel – purchased for residential use. The credit will be generally equal to the provincial portion of the HST paid or payable on the energy, excluding administrative and service charges. The credit ensures that harmonization does not increase the cost of residential energy for British Columbians.
- *Increase to Basic Personal Amount – Personal Income Tax.* Effective January 1, 2010, the basic personal amount tax credit is increased to \$11,000 from the 2009 amount of \$9,373, an increase of \$1,627. In addition, the spouse and equivalent to spouse credits are increased by \$1,627 above the 2009 amounts. This measure will reduce provincial personal income taxes payable by up to about \$80 for all single taxpayers and by up to \$160 for taxpayers claiming a spouse or equivalent to spouse. This also ensures that those earning up to \$18,800 pay no provincial income tax.

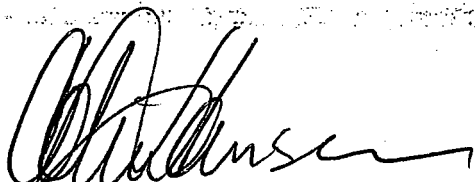
The measures above will alleviate some of your concerns about the impacts on low-income First Nations families.

We strongly believe the HST is the most important change we can make to ensure a strong and growing economy. Although there will be adjustments required by British Columbians in the short term, it is a decision which will pay dividends to all British Columbians.

For more information about the HST, please visit <http://www.gov.bc.ca/hst/>.

I would like to thank you again for taking the time to write.

Sincerely,



Colin Hansen
Minister and Deputy Premier

cc: Honourable Gordon Campbell
Premier

Honourable George Abbott, MLA
Shuswap

Honourable Shirley Bond, MLA
Prince George – Valemount

Honourable Michael de Jong, MLA
Abbotsford West

Honourable Kevin Falcon, MLA
Surrey – Cloverdale

Honourable Mary Polak, MLA
Langley

John Slater, MLA
Boundary – Similkameen