The British Columbia Harmonized Sales Tax (HST)  
It’s impact on the B.C. golf industry.

ECONOMIC IMPACT OF GOLF FOR CANADA

The game of golf accounts for an estimated $11.3 billion of Canada’s Gross Domestic Product (GDP), which includes:
- 341,794 jobs;
- $7.6 billion in household income;
- $1.2 billion in property and other indirect taxes; and,
- $1.9 billion in income taxes.

In August of 2009, the National Allied Golf Association (NAGA) released an economic impact study (EIS) of the golf industry in Canada.

Golf in Canada generates an estimated $29.4 billion in total gross production through direct, indirect and induced spending impacts. The total direct economic activity (total direct sales) resulting from the Canadian Golf Industry is estimated at $13.6 billion.

Of this total, the revenues generated directly by golf courses and their facilities and stand-alone driving and practice ranges ($4.7 billion) rivals the revenues generated by all other participation sports and recreation facilities combined ($4.8 billion) in Canada.

Additional key benefits and impact of golf in Canada include:

- Environmental Benefits – Over 200,000 hectares of green space managed by golf course operators, including 41,000 hectares of unmanaged wildlife habitat under golf course stewardship.
- Golf Participation – the study demonstrated that approximately 70 million rounds of golf were played in 2008, a level of play that was as much as 10% lower than the average number of rounds based on prior years.
- Employment Opportunities – The Canadian Golf Industry provides an excellent employment opportunity, with as many as 43% of those employed at Canadian golf courses being students.
- Estimated Impact on Property Values – The location of houses adjacent to golf courses provides benefits to homeowners that stem from higher home values compared to similar homes that are not adjacent to courses. The total incremental impact on home values is estimated at $1.4 billion.
- Charitable Activity – Each year there are at least 25,000 charitable events hosted at Canadian courses. Using conservative estimates, these events raise more than $439 million for charitable causes across Canada.
• Golf Tourism – Canadian travelers make more than 1 million trips involving golf, spending an estimated $1.9 billion annually on golf-related travel within Canada.

The game of golf contributes an estimated $1,580.7 million toward British Columbia’s Gross Domestic Product (GDP) at market prices.

This includes:

• 46,685 jobs;
• $1,087.8 million in household income;
• $160.7 million in property and other indirect taxes; and about
• $256.5 million in income taxes.

ECONOMIC IMPACT FOR GOLF IN BRITISH COLUMBIA

Golf in British Columbia generates $4,005.6 million in total gross production through direct, indirect and induced spending impacts.

The total direct economic activity (total direct sales) resulting from the British Columbia’s Golf Industry is estimated at $2,016.9 million. Of this total, the revenues generated directly by golf courses, and their associated facilities is estimated at $617.1 million.

The game of golf is played by an estimated 812,000 resident golfers in British Columbia at over 316 golf course facilities.

On July 23, 2009 the Government of British Columbia announced its intention to harmonize the provincial sales tax (PST) with the federal Goods and Services Tax (GST), effective July 1, 2010. Harmonization will have a significant impact on the price structure of golf related businesses in B.C.

This report should be considered a work in progress aimed at understanding the scale of impacts at an order of magnitude level. The report is significantly challenged by the short decision-making timeline of government, complexity of the HST for the tourism industry, and the lack of HST-related analysis undertaken by provincial and federal authorities.

The Harmonized Sales Tax

Background

On July 23, 2009 the Government of British Columbia announced that it will harmonize the BC Provincial Sales Tax (“PST”) with the Goods and Services Tax (“GST”) effective July 1, 2010.

Harmonization would result in a combined tax rate of 12% on a wider array of goods and services as well as eliminating the three percentage point differential applied to hotel
Harmonization of sales taxes can be beneficial for manufacturing and a variety of other BC and Canadian industries. The BC Chamber of Commerce, among others, has been an advocate of harmonization. However, the impacts on tourism and recreation may not have been thoroughly considered.

The application of HST on visitor-related goods and services will result in widespread increases to the total price paid by the end consumer. The effect on individual foreign travelers and domestic leisure and recreation travelers will be far greater than for domestic business travelers though as the HST paid will be claimed by domestic business travelers as an input tax credit and offset against the HST charged.

Foreign businesses and leisure travelers have no such recourse, with sales tax harmonization simply resulting in higher prices paid for most purchases on a typical trip.

Visitors, and for that matter residents, to and within BC are currently subject to a variety of taxes on goods (and in some cases services) that can add from 5% to as much as 15% to the end price.

The federally-levied GST and provincially-levied PST are the two most common forms of taxation but exemptions or modification to these two taxes as well as other taxes layered above the GST and/or PST provide a somewhat complicated taxation landscape.

**Provincial Sales Tax (PST)**
The PST is a consumption tax charged to the person who “consumes” taxable goods or services. PST is imposed on the consumer or user of:

- taxable goods
- taxable services
- admission prices
- insurance premiums

Most services are exempt from PST while most goods are subject to the PST.

**Goods and Services Tax (GST)**
The GST, a federal tax, was introduced on January 1, 1991 replacing the Manufacturers Sales Tax. The GST is a value-added tax applied to the monetary value added to a product throughout the production process.

Businesses are responsible for collecting GST from customers and remitting the tax. Businesses are able to deduct GST paid from the amount collected (referred to as Input Tax Credits).

GST of 7% was applied to most goods and services when the tax was first introduced in 1991. Subsequently, GST was reduced to 6% in July 2006 and to the current level of 5% in January 2008.
GST is charged for almost all goods and services offered by Canadian tourism industry operations. Most PST exempt products and services are subject to the GST.

**PST on Recreation**

Most charges or fees for the rental or use of recreational facilities have been PST exempt.

Recreational facilities include golf courses (greens fees), pitch and putts, driving ranges, natural parks and campgrounds, ski hills (lift tickets), rifle ranges, bowling alleys, go-cart tracks, swimming pools, tennis courts, etc.

Similarly, lessons (i.e., golf lessons) are exempt from the PST. However, most charges for the rental of recreational equipment (i.e., golf clubs and carts) are currently subject to 7% PST.

**PST on Accommodation**

- lodging in a hotel, motel, hostel, apartment house, lodging house, boarding house, club or other similar accommodation;
- prepared food products provided pursuant to the American plan, modified American plan or other arrangement that combines the provision of lodging and prepared food products at a single price.

**PST in Restaurants/Eating Establishments**

Prepared foods sold by eating establishments (for consumption on or off the premises) are subject to PST of 7%.

PST of 15% is charged on sales of alcoholic beverages.

**PST in Retail**

Most groceries are PST exempt. PST of 7% is charged on snack foods and candy. Examples of taxable items include chewing gum, chocolate bars and other candies, potato chips, and soft drinks (which includes fruit juice etc).

**Introduction**

Effective July 1, 2010, the proposed 12% HST will be implemented in British Columbia. Many organizations such as the Council of Tourism Associations (COTA), have attempted to enter into negotiations with the Provincial and Federal Governments in an effort to overturn the HST implementation or at minimum mitigate its impact.

The following recommendations have been established by COTA through intensive consultations with its membership since the HST was announced on July 23, 2009.

1. Establish Income Tax Credits for labour for tourism related businesses, at least for a three year HST transition period (FY 2010, 2011, 2012). This could be modeled on effective programs already in place.
2. Maintain full eligibility for Input Tax Credits (ITCs) for all tourism related businesses (i.e., eliminate the $10 million revenue cap for ITC eligibility).

3. Work with Ottawa to ensure that the Foreign Convention and Tour Incentive Program (FCTIP) makes eligible the full twelve (12) per cent HST for foreign visitor rebates, reintroduce rebates for individuals, and streamline the application process with a particular emphasis on re-enabling point of sale rebates.

4. Provide rebates or exemptions for tourism services provided after July 1, 2010 and for which PST was not charged, if the contract was signed before October 14, 2009 (the HST Transitional Rules announcement date).

5. Ensure the provincial marketing system (provincial, regional, and community) retains the following properties:
   a. Funding is predictable and performance based, preferably as a fixed percentage of industry derived revenues.
   b. Funding levels remain at least on par with those in existence prior to the announcement of HST.
   c. Marketing agencies at all three levels should continue to maximize their effectiveness and accountability by observing industry led professional standards and governance best practices.

We will not know the results of COTA’s efforts until some time in the New Year.

**Implementation Timeline**

Based on the recently signed Memorandum of Agreement between the Government of British Columbia and the Government of Canada the following is the timeline:

- Announcement in BC       July 23, 2009
- MOA signed               September 30, 2009
- Legislation to be passed March 31, 2010
- Harmonization implemented July 1, 2010

As stated earlier the HST is not a new tax. All of the same general rules and tax base will continue to apply as are presently found with the GST.

The primary differences are:
- It will be federally administered. The province will no longer be involved with the administration of provincial taxes.
- Businesses will submit one return to one administration. Businesses will be subject to only one audit.

For the majority of tourism and recreation goods and services, the tax burden will increase following the introduction of the HST.

**Taxes will increase (generally from 5% to 12%) on the following:**

- Golf Green fees
- Golf Club dues
- Golf lessons
- Golf Club entrance fees
• Retail sales in golf shops
• Equipment rentals (e.g., Golf clubs, carts etc.)
• Campground sites (i.e., tent and trailer site rentals)
• Bed & Breakfast Accommodations
• Admissions to provincial or municipal attractions
• Admissions to attractions previously exempt from PST
• Tickets to theatres with less than 3,200 seats (virtually all theatres in the province)
• Ski lift tickets
• Park admissions
• Prepared food
• Taxi fares
• Train and boat transportation
• Charter bus services
• Meeting space rentals
• Convention planning and support services
• Retail sales to international visitors

Taxes remain the same:
• Rental cars
• Convention exhibit/Audio Visual services
• Domestic retail sales

Taxes decrease:
• Alcohol in licensed premises (from 15% to 10%)
• Hotels and Motels (from 13% to 12%)
• Selected amusements/attractions

**Downside to the golf industry**
One of the supporting arguments used by the provincial government in positioning the PST is the resulting lower cost base for BC (as well as Canadian) businesses. As with the GST, businesses will be eligible to claim “Input Tax Credits” (the amount of harmonized tax paid) against harmonized tax collected.

For manufacturing and similar businesses these amounts are substantial given the quantity of goods purchased for resale or used in the manufacturing process. However, the primary expense for most tourism and recreation operators such as golf courses is labour, which is not subject to PST and therefore does not generate Input Tax Credits.

**Upside to the golf industry**
The provincial and federal governments have championed the introduction of a harmonized sales tax as a benefit for the economy and for business in particular. The following is a list of the most obvious benefits:
• There will generally be reduced costs for businesses given that no more unrecoverable PST (this is subject to ITC restrictions)
• There will be reduced compliance in that only one government body will regulate the taxes.
• Exemption certificates will not be required by the various consumers when applicable.
• Businesses will no longer be dealing with PST complexities
• Goods for your own use will be exempted
• Businesses will be required to submit only one return and subsequently will only be subject one audit.

**Cost and Price Structure Analysis**

The Council of Tourism Associations surveyed 49 businesses to determine the average net price structure impact of HST on tourism-related businesses. It was 4.66%.

**Methodology**

49 businesses completed a survey in order to calculate the net impact on their business price structure. Individual businesses extrapolated the net pricing structure impacts by:

1. Calculating the total percentage of their total suite of products and services to be subject to a 7% tax increase due to HST

2. Assessing the impact of this increase on total business costs.

3. Calculating the amount of Input Tax Credits based on the parameters outlined in the Canada-B.C. Memorandum of Agreement

The following was utilized to estimate the net price structure impact of HST:

**HST NET COSTS CALCULATOR - FICTITIOUS EXAMPLE**

Total Revenue $10,000,000
% revenue currently charging PST 15%
% revenue not currently charging PST 85%
7% increase in tax on sales $595,000.
Total additional tax on sales $595,000.

Expenses:

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage</th>
<th>Tax Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>44%</td>
<td>no PST</td>
</tr>
<tr>
<td>Cost of goods</td>
<td>14%</td>
<td>no PST</td>
</tr>
<tr>
<td>Bank</td>
<td>4.0%</td>
<td>no PST</td>
</tr>
<tr>
<td>Fuel</td>
<td>3.5%</td>
<td>no HST rebates</td>
</tr>
<tr>
<td>Insurance</td>
<td>1.7%</td>
<td>no PST</td>
</tr>
<tr>
<td>Property taxes</td>
<td>0.8%</td>
<td>no PST</td>
</tr>
<tr>
<td>Management fees</td>
<td>0.7%</td>
<td>no PST</td>
</tr>
<tr>
<td>Hydro</td>
<td>2.0%</td>
<td>($14,000)</td>
</tr>
<tr>
<td>Leasing</td>
<td>3.4%</td>
<td>($23,800)</td>
</tr>
<tr>
<td>Parts</td>
<td>1.5%</td>
<td>($10,500)</td>
</tr>
</tbody>
</table>
Supplies 2.2%    ($15,400)
Uniforms 0.8%    ($5,600)
Advertising 0.8%    ($5,600)
Propane 0.7%    ($4,900)
Contractors 0.7%   ($4,900)
Other 9%     ($63,000)

Profit before tax 10%
Maximum pst savings 100%   ($133,700)
Capital improvements $120,000   ($8,400)

Total maximum PST savings   ($142,100)

Net cost to customers of HST   $452,900

Cost and Price Analysis con't:

The following is an example of the impact the HST will have on typical tourist destination golf courses. The numbers are actuals.

<table>
<thead>
<tr>
<th>Golf Course</th>
<th>Golf Course</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>#2</td>
</tr>
<tr>
<td>Revenue</td>
<td>3,780,731</td>
</tr>
<tr>
<td>% revenue currently charging PST</td>
<td>10%</td>
</tr>
<tr>
<td>% revenue not currently charging PST</td>
<td>90%</td>
</tr>
<tr>
<td>7% increase in tax on sales</td>
<td>238,186.05</td>
</tr>
<tr>
<td>Total additional tax on sales</td>
<td>238,186.05</td>
</tr>
</tbody>
</table>

Expense:

<table>
<thead>
<tr>
<th></th>
<th>Golf Course #1</th>
<th>Golf Course #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>N/A no PST</td>
<td>N/A no PST</td>
</tr>
<tr>
<td>Cost of goods</td>
<td>14% no PST</td>
<td>14% no PST</td>
</tr>
<tr>
<td>Bank</td>
<td>11.0% no PST</td>
<td>4.0% no PST</td>
</tr>
<tr>
<td>Insurance</td>
<td>2.0% no PST</td>
<td>1.7% no PST</td>
</tr>
<tr>
<td>Property taxes</td>
<td>2.0% no PST</td>
<td>0.8% no PST</td>
</tr>
<tr>
<td>Management fees</td>
<td>0.5% no PST</td>
<td>0.7% no PST</td>
</tr>
<tr>
<td></td>
<td>2.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Hydro</td>
<td>(6,616.28)</td>
<td>-</td>
</tr>
</tbody>
</table>
In addition, the typical private or semi private golf club must now collect the additional 7% tax on entrance fees. This will add to the burden facing clubs that do not have a waiting list.

It has been estimated that the average annual member expenses at a private or semi private club will be increased by $500 with nothing to show for the increase. Many clubs have a number of senior members who may find this increase, with no tangible benefit to them, a sufficient enough excuse for them to leave the club.

**HST - Benefits**
1. HST will impact all tourism businesses, as visitors will be subject to the tax on many or most of their travel-related expenditures, which will result in fewer visitors overall.

2. The average price structure impact (increase) of HST on businesses (excluding accommodations as a stand-alone sector) is estimated to be approximately **4.66%**.
3. Businesses / packages with relatively higher accommodations and international travel components will be relatively less impacted by HST.

4. Businesses that are relatively more labour intensive will be more heavily impacted by HST.

5. Positive benefits of ITCs for transportation-related products and services will be offset by losses of ITCs on fuel (HST-exempt), one of the top input costs for these businesses.

6. Short-haul / domestic travel should be more heavily impacted than long-haul travel, due to the higher proportion of domestically produced goods and services subject to the HST (e.g., domestic flights/ vehicle rentals).

7. As a result of the ongoing recession, consumers can be expected to be strongly (negatively) responsive to price increases. Even moderate price increases can be expected to have a significant impact on demand levels.

8. Most businesses have little ability to absorb additional costs in their pricing, as most have undertaken major cost cutting measures in response to the recession and dampened demand from B.C.’s major international markets (particularly the U.S. but also Japan and now most of Asia-Pacific and Europe).

9. The provincial government goal of increasing tourism revenues to $18 billion by 2015 will be jeopardized by introduction of the tax if significant mitigation measures are not introduced by the Government of British Columbia.

**Some final points:**

There are some differences worth noting again between the B.C. HST and GST:

- There will be point-of-sale rebates (see list below)
- Residential energy rebates
- Input tax credit (ITC) restrictions
- No B.C. HST will be collected on commercial imports
- Public service body (PSB) rebates will be calculated at different rates
- New housing rebates will be calculated on different amounts

Point-of-sale rebates for B.C. HST on purchases by consumers:
- Books
- Children’s clothing and footwear
- Children’s car seats and car booster seats
- Diapers and feminine hygiene products
- Gasoline, diesel fuel, marine diesel fuel and aviation fuel including bio-fuel components for motor vehicles, boats and aircraft

It is also worth noting again that there will be Temporary Input Tax Credits (ITC) restrictions for large businesses whose taxable sales exceed $10 million.

As per the Memorandum of Agreement, there will be full denial for up to 5 years with a 3-year phase-out. This is also subject to acceleration by the B.C. government.
Input Tax Credits will be denied for the provincial portion of B.C. HST for the following:
  • Energy, except where purchased by farmers or used to produce goods for sale
  • Telecommunications services other than internet access and toll-free numbers
  • Road vehicles weighing less than 3,000 kilograms (and parts and certain services)
  • Meals, beverages and entertainment

**HST Planning and Implementation**

**Following the B.C. Announcement of July 23, 2009**

How did the transitional rules apply to your business?
What tax saving opportunities are available to you?
What measures might you consider prior to implementation that would offer you tax savings?
What are the differences between GST and HST as they apply to your business?

**B.C. HST implementation July 1, 2010**

How much will it cost your customers, your business?
Will you need to hire and/or budget for external resources?
How, if at all, will your cash flow be affected?
Will your IT systems be ready for the transition?
Should you provide a GST refresher course for your staff?
Can your software handle the required changes?
Will you need an internal implementation committee?
What is your implementation strategy?
Will you develop a detailed implementation plan?

**HST Planning Considerations**

- Defer purchases of PST-taxable items to July 1, 2010. If necessary, arrange for equipment rentals to carry you to July 1, 2010.
- Accelerate purchases of PST-exempt items
- Review custom software for use in exempt activities
- Review all documentation (invoices, receipts, contracts, purchase orders, expense reports, etc.)
- Review your pricing strategies
- Review your reporting period frequency in view of new cash flow projections for your company.
- Consider implementing new cash flow strategies now
- Make sure you have sufficient time to test IT changes