

December 15, 2009

**FINANCE MINISTER RELEASES REPORT
ON IMPACT OF HST ON MANITOBANS**

Finance Minister Rosann Wowchuk today released a report on the impact that sales tax harmonization would have on Manitoba families, businesses and public finances.

The report, titled *Sales Tax Harmonization in Manitoba: What it would mean for households, businesses and public finances*, found that implementing a harmonized sales tax (HST) in Manitoba would impose \$405 million in additional sales taxes on families, increasing their share of the sales tax burden to 86 from 54 per cent.

“With the global recession causing so much economic uncertainty for Manitoba families, we don’t think it makes sense to impose \$405 million in new sales taxes,” said Wowchuk. “We are not prepared to risk the economic recovery by undermining Manitoba’s growing consumer confidence.”

The report also provides an overview of the uneven impact of an HST on companies noting, on balance, an HST would provide a net benefit to Manitoba business.

“Manitoba has provided more than \$400 million in tax relief for Manitoba business which will include, by the end of 2010, completely eliminating the Corporation Capital Tax for all business and making Manitoba Canada’s first income tax free zone for small business,” said Wowchuk. “Our experience has been that we can make our business taxes more competitive without imposing millions of dollars in new sales taxes on the backs of Manitoba families.”

The minister noted that Manitoba will continue to monitor and evaluate sales tax harmonization in other Canadian jurisdictions.

The report is available at www.gov.mb.ca/finance/index.html.

- 30 -

BACKGROUND INFORMATION ATTACHED

Note: Copies of the report are available to members of the media in Room 29, Legislative Building.

HARMONIZED SALES TAX (HST) – IMPACT ON MANITOBA – HIGHLIGHTS

Impact on Consumers

- An HST would impose \$405 million in additional sales tax on Manitoba consumers annually. The shift of the sales tax burden from business to consumers would result in the consumer share increasing to 86 from 54 per cent.
- An HST would apply to several items that are not currently subject to the provincial sales tax (PST) including gasoline (\$161 per year for the average household), home heating (\$35 per year for the average household), entertainment (\$63 per year for the average household) and personal services such as haircuts (\$30 per year for the average household).
- An HST would apply to new homes, adding \$17,500 to the cost of a \$250,000 new home. Providing a 50 per cent rebate to offset these additional costs would cost Manitoba \$40 million.
- Prices faced by consumers would likely rise somewhat in the short run as tax costs are shifted to consumers, but economic research suggests prices may eventually decrease by up to one per cent as savings to business are passed on to consumers in the long run.

Impact on Business

- With a value-added tax such as an HST, sales taxes on business inputs are reimbursed in the form of input tax credits. Once fully implemented, an HST would provide \$510 million per year in savings to business. This would more than offset all additional revenue to the province from the expanded sales tax base (\$405 million).
- The relative tax competitiveness ranking of Manitoba manufacturers against other competing cities would not improve with an HST. A very large part of the savings to business would not directly or significantly improve the competitive position of the export sector. The report further notes that Manitoba's American competitors do not operate under a value-added tax like the HST.
- The impact on business would vary greatly by sector:
 - For some businesses that already have the PST levied on their products, an HST would be a significant benefit because these businesses would begin to receive input tax credits for all tax paid on their inputs.
 - For other businesses like doctors' offices that provide PST- and HST-exempt services, an HST would impose new costs on their inputs but, as providers of exempt services, they would be ineligible for offsetting input tax credits. The average additional cost to each medical doctor would be \$1,400 per year.
 - Under an HST, the biggest savings would be enjoyed by the construction sector. The financial, insurance, real estate, rental and leasing sectors would face the largest increase in costs.

Impact on Provincial Finances

- Assuming a basic package of offsets, rebates and exemptions for consumers, schools, hospitals, universities and colleges, charities and municipalities, the net cost of imposing an HST in Manitoba would be \$285 million in year one, rising to more than \$400 million per year once fully implemented.
- More extensive offset, rebate and exemption packages such as those offered in other provinces would increase the cost of an HST to Manitoba.

Federal Transitional Compensation

- To encourage provinces to adopt an HST, the federal government is offering one-time compensation that would amount to \$344 million for Manitoba.
- This one-time federal transitional compensation is less than the \$400 million annual cost of imposing an HST in Manitoba, once fully implemented.

Manitoba Government Position

- Imposing an HST would be too risky for Manitoba families, the Manitoba economy and provincial finances at this time of economic uncertainty and global recession.
- The competitiveness of Manitoba business, particularly exporters and manufacturers, can be supported with tax relief that does not come at the expense of consumers.
- Manitoba will continue to monitor and evaluate the experience with the HST in B.C. and Ontario as it is implemented over the next eight years.

DOC: HST Impact.FI

Contact: Jodee

TRANSLATION