



So by now anyone reading this article will know that HST in BC is going on an extended vacation out of the province fairly shortly – we just don't know exactly when...by all accounts, sometime in the next 12 to 24 months the old PST and GST system will be reinstated by the Provincial government.

Whilst there have been numerous debates or discussions over whether the HST was a good or bad tax, this article will not touch on those points, nor will it address any effects on purchasers potentially delaying buying real estate. The intent of this article is to comment on the ramifications of the removal of HST from construction costs.

When the HST was brought into effect in BC in July 2010, it affected every construction project underway by putting in place a mechanism that allowed contractors to receive a break on their provincial sales taxes (PST) that, in turn, was passed through to developers. Overall, depending on a developer's negotiating skills and schedule of work completed, the industry should have received credits of between 1.7% and 1.9% of the construction value. The PST credits were calculated based on the amount of a contract's cost to complete at the time the HST came into effect.

Now, as a result of the referendum results of August 26, 2011, we have to reverse the process, which some contractors may look at as an opportunity to raise prices. The government has not produced a timetable for when the HST will be officially repealed so the industry at large is in a holding pattern. Notwithstanding this, prudent developers and owners will be awarding their contracts knowing that they may have to deal with the transition into the new tax regime prior to the completion of those contracts.

So what is a developer/owner to do now during this time of abeyance?

Well, one option is to do nothing at all... sit back and wait and hope that no claim for extra comes in from the contractors. If it does, then take a rear guard action and fight it by requesting all the relevant back up documentation at the time or as we understand some developers have done pretend that you know what you are talking about and do a 'horse deal'...and no one's the wiser.

A second stronger option is available for a developer/owner if their project is at a competitive bidding stage. This is the ideal time for the developer to request that contractors break out their bid into its bottom line material and labour components. This may seem like an arduous exercise for some contractors. However, in compiling their bid, they will have this information at their fingertips. This break out will allow developers to analyze the impending claims for extra costs that will result from the repeal of HST. One can conservatively expect that a 1.8% rebate when the HST was introduced will more than likely result in an over 2% increase as the tax is repealed. Developers/owners should also request, as part of their monthly progress invoices, the split between materials and labour. This will allow owners to analyze how much of the material has been paid for at the time of transition, when it does occur. We have no doubt that contractors will complain about providing this level of detailed information. However, this information is necessary for any contractor to correctly calculate their claim for extra costs.

The fact of the matter is that nobody at the moment knows the actual HST transition date. This means that construction will continue with the potential for extra costs to be incurred before completion of those contracts. The complication with reverting back to the old tax system is that the PST applies to the supply only contracts and materials within a supply and install contract only, so the amount of material that has been purchased at the time of the tax transition, will determine the claim for 'extra'.

So what's going to happen in 2012? Depending on when the HST is repealed, we expect a minimum 2% increase to the bottom line of construction based just on this situation – and that's prior to any true material and labour escalation which we forecast to be in the region of a further 1.5% to 2%.

For further clarifications or questions on this article please contact the writer below.

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