



May 1, 2017

The Honourable Brad Wall  
Premier of Saskatchewan  
226 Legislative Building  
2405 Legislative Drive  
Regina, SK S4S 0B3

**RE: PST ON CONSTRUCTION SERVICES**

Dear Premier Wall:

March 22 was a transformative day in Saskatchewan and for the construction industry, it was monumental. With the introduction of a tax on construction services, the focus of the industry was redirected to transitioning to an entirely new taxation system in just 8 days. Our industry understands the reasons for introducing this tax, and we are willing to do our share to support the province's long-term financial stability. However, we remain anxious about the effect it will have on investment and construction activity moving forward.

We thank the Ministry of Finance for working with our industry committee to facilitate a smooth transition for contractors to the new tax system. They have been cooperative and collaborative in all respects, but we find that we have come to an impasse on one particular issue.

This key issue is regarding the "10% rule." In simple form, when a project that was started prior to April 1, incurs change orders (contractually agreed-to additions and changes that happen in the normal course of any project) exceeding 10% of the initial value of the contract, then the work conducted under that and future change orders must fall under the "new rules" for PST. While the 10% rule may seem deceptively simple on the surface, it is extremely complex on an operational level and is causing contractors a great deal of frustration for the following reasons:

1. The 10% threshold is too low. Some contractors estimate up to 80% of their projects would exceed the 10% threshold. This puts an excessive administrative burden on contractors, both keeping track of the change orders, and running a project under two sets of rules.

2. Many initial contracts, especially for retrofit or renovations are based on estimates because the actual costs aren't determined until walls are opened up, etc. Therefore, the 10% rule is even more arbitrary.
3. Project owners that started construction and created construction budgets under the old rules should not be financially penalized for unexpected occurrences that are a natural part of the construction process.

To give some insight into how the 10% rule would roll out, imagine being an electrical contractor for example on a \$10 million project that was signed off prior to April 1. Firstly, the project falls under the old rules, so the contractor must separate out the materials used on that project and self-assess PST on them if they haven't already paid PST. Secondly, the contractor must also keep a running balance of all change orders to comply with the 10% rule. Thirdly, if change orders exceed 10%, the contractor must then separate out the materials used on the change orders only and purchase them PST exempt, but continue to self-assess PST on the materials for the core of the project. When purchasing supplies in bulk for a large project, that's an extremely difficult process to manage.

The PST Transition Committee, which is made up of contractors that deal with these issues on a day-to-day basis, developed what we believe to be an ideal solution to simplify the situation.

We have suggested that projects falling under the old rules would apply to a provincially-operated Registry to certify they qualify. If the Ministry of Finance approves that project to fall under the old rules, then construction would proceed under the old rules for its entirety. Please note that a change in scope of the project would not have the same advantage, and would fall under the new rules.

We believe this is the best, most workable solution to a very complicated and convoluted situation. Not only would a Registry with no 10% rule eliminate confusion for the contractors, it would also provide clarity for the Ministry for audit purposes in the coming years.

Without being immersed in the very complex world of construction, it is difficult for Ministry officials to understand how challenging it would be to implement and subsequently audit based on the 10% rule. Contractors cannot simply "turn the tap off" and switch to new rules mid-project. We desperately need a workable solution that will allow contractors to move forward and do what they do best – build our province.

We hope we can rely on you, our elected officials, to support our industry's position in this matter.

Sincerely,



Mark Cooper  
President and CEO  
Saskatchewan Construction Association



Karen Low  
Executive Director  
Merit Contractors Association of  
Saskatchewan

Cory Richter  
President  
General Contractors Association  
Saskatchewan



Chris Guérette  
CEO  
Saskatoon and Region Home Builders'  
Association



Shantel Lipp  
President  
Saskatchewan Heavy Construction Association

cc: The Hon. Don Morgan, Minister of Education  
The Hon. Kevin Doherty, Minister of Finance  
The Hon Jeremy Harrison, Minister of the Economy  
Mr. Warren Michelson