

# Harmonized sales tax a taxing issue for MDs in Atlantic Canada



**Nancy Robb**

## In brief

PHYSICIANS IN 3 ATLANTIC PROVINCES say the linking of provincial sales taxes with the GST exacerbates the inequity physicians face because it yet again adds to their overhead costs. Physicians in Nova Scotia have already won an annual rebate to compensate them for the heavier tax burden. Doctors in the Maritimes warn that heavier taxes make recruiting there even more difficult.

## En bref

DANS TROIS DES PROVINCES DE L'ATLANTIQUE, les médecins affirment que l'harmonisation de la taxe de vente provinciale et de la TPS a amplifié l'injustice fiscale qu'ils subissent déjà, parce qu'elle a haussé d'autant leurs frais généraux. Les médecins de la Nouvelle-Écosse ont déjà réussi à obtenir une remise annuelle en compensation du fardeau fiscal alourdi. Les médecins des Maritimes donnent aussi un avertissement : la charge fiscale plus lourde rendra encore plus difficile de recruter des médecins pour cette région.

**M**edical associations on the East Coast are starting to look to their provincial health departments to ease the impact of the harmonized sales tax (HST). The tax, introduced in Nova Scotia, New Brunswick and Newfoundland last spring, and earlier in Quebec, replaced provincial sales taxes and the 7% goods and services tax with the 15% HST.

Doctors, already livid because they are the only professionals who are not allowed to claim GST tax credits, say the HST has driven another nail into the income coffin. According to briefs provincial associations have presented to the federal government, the HST is expected to increase physicians' overhead costs by more than \$1000 a year and to double the amount of tax they pay on office expenses such as rent, heat and electricity.

To add insult to injury, doctors, unlike businesses and even some other health services and industries, still can't recover what they pay in HST because they aren't eligible for certain tax credits or rebates. And, as with the GST, they can't pass the HST on to consumers. "We are treated like small businesses in some ways, but not in others," says Liverpool, NS, internist Kim Crawford, president of the Medical Society of Nova Scotia (MSNS).

Since the GST was introduced in 1991, the CMA has been lobbying the federal government to have medical services "zero rated" so that physicians may claim input tax credits (ITCs) and get back some of the tax they pay on overhead costs. According to recent CMA estimates, doctors have paid \$360 million in GST over the past 6 years while other professional groups are able to claim ITCs or rebates.

Before the HST came into effect last April, provincial medical associations in Eastern Canada also took their case to Ottawa and the Senate Standing Committee on Banking, Trade and Commerce. "The medical society views this as an issue of fundamental fairness in how physicians are treated by the provincial and federal tax systems," Dr. Cynthia Forbes, then president of the MSNS, told the committee last March. "On the issue of fairness, the HST will perpetuate an inequity that has been in place since the introduction of the GST."

## Features

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**Dr. Kim Crawford: "an issue of fundamental fairness"**



Forbes added that the HST also creates inequities within the medical community and works against initiatives to strengthen community-based care. "By allowing a rebate to hospitals, the HST and GST create an incentive for physicians to move their practices into hospitals," she said. "For many physicians, the choice is clear: practise in a hospital and receive a rebate on the HST, or practise in a community and pay the full cost."

But the pleas fell on deaf ears in Ottawa. "It wouldn't be feasible because provincial governments are exempt from paying federal taxes and it would create an unfair situation in which physicians would charge HST and then in fact take [input tax credits], yet they wouldn't pay it or remit it to the federal government," said a spokesperson at the federal Department of Finance. He noted that doctors can deduct the HST as an expense.

He said it is up to the provinces to resolve the tax dilemma. "Our argument has always been we do not set the pay scales of doctors," he said. "They are set by the provincial governments, which should, in figuring out the fee schedules, bear in mind the costs doctors have to incur."

That's what's happened in Nova Scotia, where the Department of Health agreed to compensate each physician for the provincial component of the HST with an annual rebate of 2.15% of gross income for the duration of the 4-year contract. "It's nice to have someone acknowledge that there was a problem," said Crawford.

However, he predicted that the recent contract, which also included pay hikes, won't stem the flow of physicians who have already made up their minds to leave. In 1995, for example, 58 of the province's doctors sought greener pastures, although the net loss was only 2 physicians. Nova Scotia's net loss since 1990 is 78 physicians, with the greatest net loss — 36 physicians — occurring in 1994.

Crawford said the HST can "make a substantial difference" to doctors, who now spend 40% or more of their income on overhead. "The morale among physicians here has been so low lately that [the HST] was just another kick in the head. That's why I suspect we'll see another large number of physicians leaving."

Crawford said the issue could also affect physician recruitment, an issue that is increasing in importance in Atlantic Canada. "Anything that affects overhead costs and your ability to make a living affects where you're going to set up shop," he said.

St. John's family physician Karl Misik said the situation is especially grim in Newfoundland, which has even been losing doctors to Nova Scotia because its fees are about 20% higher.

Misik, president of the Newfoundland and Labrador Medical Association, says the HST has "added another burden" in the province with the country's lowest fee schedule and highest income taxes. "To say the least, it's not a pleasant circumstance," he said.



**Dr. Karl Misik: adding yet another burden**

In his own practice, Misik and his three associates have had to increase the amount of money committed to office expenses by \$150 a month, partly to cover the HST. He said doctors in Newfoundland and Labrador, like their Nova Scotia counterparts, have asked the province to offset the impact of the new tax.

Will they succeed? "Time will tell," said Misik, who noted that doctors also want fee parity with the other Atlantic provinces. "Certainly physicians are getting to the point where if things don't soon happen,

there's going to be more and more areas of crisis in this province. Individual doctors will vote with their feet."

Although Misik believes the provinces shoulder some responsibility for the HST — it's not just a federal tax — the past president of the New Brunswick Medical Society argues that seeking redress from provincial health departments is not the right answer.

"I'm not sure that is the correct method," said Dr. Tony Wade, a family physician in Bathurst. "It moves a federal tax from the ones who should really be paying for it to the provinces. . . . It's another way the federal government is passing the buck to the provinces on anything to do with health. Our coffers are meagre enough as it is."

Wade, who calls the HST "an added aggravation," cautioned that provincial governments can be fickle and collective agreements short-lived. However, now that Nova Scotia doctors have gained compensation from their government, he concedes that New Brunswick physicians may push to follow suit. "Perhaps then the taxpayers of New Brunswick will end up paying for an unfair tax imposed by the federal government," he said.

Crawford realizes that making headway at the provincial level doesn't mean the problem is resolved. "The federal government should recognize in one form or another that physicians across the country should be treated fairly. This is a national issue, not just a provincial one." ?