

THE ECONOMIC CLUB OF CANADA

June 15, 2010

An Open Letter to Ontarians and British Columbians:

Effective July 1, 2010, in Ontario and British Columbia Retail Sales Tax (RST) will be replaced with a value-added tax (VAT) and combined with the federal Goods and Services Tax (GST) to create a federally administered harmonized sales tax (HST).

We strongly support implementation of the HST as we believe it will promote investment, jobs, and higher wages. With more than 140 countries and four other provinces having adopted a VAT, the HST will elevate provincial competitiveness. Currently, the RST is charged on a broad range of inputs purchased by businesses to manufacture products and provide services. This tax becomes embedded in the cost of goods at each stage of the production, distribution and retail processes. The result is a compounding of the tax that is ultimately paid by consumers through higher prices.

The RST places British Columbia and Ontario at a competitive disadvantage compared to many jurisdictions when it comes to attracting investment and creating jobs.

The HST, by contrast, will remove this cascading tax by refunding the sales tax paid on most business inputs, including materials, supplies and equipment. Without this compounding tax, Canadian goods and services will be more competitive in domestic and export markets. As was the case with the GST and in the provinces shifting to a value-added sales tax, businesses will pass these savings onto consumers.

Businesses, large and small, will face lower administrative costs from complying with one sales tax system instead of two. Lower business costs, especially on capital equipment, will encourage investment and economic activity. Lower business costs will ultimately allow price reductions on many consumer purchases, including big ticket items, such as automobiles and computers.

The HST will enhance competitiveness, encourage new investment, and create jobs. It represents sound public policy.

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