

For its part, the federal government has recently developed a new initiative to reduce the compliance burden on small business: the introduction of an optional simplified GST collection scheme known as the "Quick Method." This would remove the need for many small businesses to retain transaction-related documents such as bills, contracts and cash register receipts. Instead of calculating the amount of tax paid on purchases of goods and services and deducting this from the amount collected, under the new method, small businesses will be able to choose to remit to the government a fixed percentage of sales, with the percentage based on the type of business.

For roughly one-half of expected GST registrants, the new simplified accounting procedure represents a major development in that it will remove a sizeable paperwork burden. As one witness told the Committee, compliance costs as a percent of total revenues are much higher for small business than for large firms, since there are significant economies of scale in gathering and remitting taxes of this type. However, while some 800,000 small firms collecting the GST will be eligible for simplified accounting, the new system will only apply to a minor portion of the total GST collected. Large retailers, who will collect most of the GST, will not qualify for the Quick Method. They will thus continue to bear a significant compliance burden.

C. Relative Price Effects

As has been implied above, it is difficult to be sure how specific prices will change when the 13.5% FST is eliminated and the 7% GST is implemented. An additional complicating factor is that price changes will take place in an environment where prices in general are rising. Certain consumers anticipating absolute price declines may be disappointed to discover that the implementation of the GST has not brought about price declines for certain products, but rather has only kept them from increasing at greater rates.

It is also the case, as several witnesses argued, that it is virtually impossible to attribute a certain price shift to the tax, primarily because a relatively minor tax change would be dwarfed by the many other pricing considerations. It is therefore difficult to be precise about the specific impact of the change in tax regime on specific prices.

While most leading forecasters do not expect the overall direct effect on consumer prices to be significant, certain relative price effects will be so. The calculation, however, is not always as easy as subtracting 7 from 13.5, to obtain a net reduction of 6.5%. For one