

THE POLITICAL PERSPECTIVE

The GST: Keep it or scrap it?

THE LIBERAL PARTY OF CANADA'S VIEW

by Vaughn MacLellan

The Conservative government implemented the GST with the sound objective of replacing the federal manufacturers' sales tax, an outdated system of taxation which was of a narrow scope and damaging to the competitive ability of Canadian manufacturers. As a multi-stage tax, the GST keeps with the structure of consumption-based taxes in other countries, being collected at each stage of the production and distribution chain.

From the outset of its introduction, the GST prompted great public outcry, and the Liberal Party of Canada has opposed the GST and denounced it as an unprecedented tax grab from the pockets of ordinary Canadians, with many essential services purchased by ordinary Canadians being hit by the tax. Moreover, the Liberals have argued the tax promotes an inflationary impact which is damaging to the economy.

The Liberal Party also criticized the GST as creating a further impediment to small business growth in the country. The Liberals argued that the implementation of the GST would create chaos in the business community and create a "paper nightmare" for small businesses. Finally, the Liberals argued that the implementation of the GST would result in the expansion of the bureaucracy, and initial indications were that between 5,000 to 25,000 new tax collectors and administrative staff would need to be hired and trained to administer the tax. Although streamlined reporting techniques have been introduced to facilitate the adoption of the GST by small businesses and to lessen its impact upon them, many of these criticisms stand.

Federal Liberal leader Jean Chretien is on record as stating that it is the intention of the party to dismantle or scrap the GST if they form the next government. However, neither Mr. Chretien nor other party officials have indicated how they might replace the GST, stating that such an announcement would be forthcoming following the election. Public statements to date are to the effect that the Liberals feel the overall taxation system must be revamped to create a system which is fairer to average Canadians than the current regime. Realistically, any move away from a consumption-based tax may be impractical and would be contrary to the trend in other nations. It is not insignificant that economic advisors to US President Bill Clinton are currently exploring, and in some instances advocating, the imposition of a broad based consumption tax to promote savings over consumption and to provide revenue to contribute to the reduction of the spiralling US national debt.

In the final analysis, it is not likely that the tax burden on Canadians can be practically reduced in the foreseeable future. Federal and provincial debts are at dangerous levels and in need of reduction. Economic stimulus and investment are needed in both infrastructure and human resources to maintain and upgrade Canada's competitive ability. And while Canadians simply cannot sustain further tax increases, it is equally clear that tax burdens may not realistically be lessened, nor perhaps altered in their demographic dispersion in any substantial manner, unless the nations' economic performance markedly improves and sacrifices are made both to reduce government and to make it more effective, efficient and manageable.

THE NEW DEMOCRATIC PARTY'S VIEW

by Wade Tower

The Goods and Services Tax is an unfair tax burden which has hurt working Canadians and businesses. It has also contributed to an unprecedented drop in retail sales and killed thousands of jobs. It helped push us into this long recession and is holding back the recovery.

The NDP is committed to eliminating the GST because it is inefficient, costly to administer, and unfair.

The average Canadian family paid a total of \$2,375 in GST in 1992 for a couple with 1.2 children. A single individual paid about \$950 in the tax. Atlantic Canadians pay even more because provincial Liberal and Tory governments put a tax on the tax—cascading their provincial taxes on top of the GST. This extra tax-on-the-tax means an additional over \$40 a year for those of us living in Canada's poorest provinces. All three NDP provincial government rejected both cascading and harmonizing their tax bases to the GST.

The GST falls most heavily on the poor and middle income earners who have to pay roughly twice as much of their income as people who make ten times as much. The GST low income credit does little to compensate for the increase in taxes. Not only is the amount inadequate to begin with, but its value erodes by the rate of inflation every year.

The GST is very costly to collect. The Canadian Federation of Independent Business estimates that it costs small business over \$9 billion to collect the tax—an average of over 40 cents for every dollar collected. Federal tax collection costs add another over \$1 billion a year.

The Conservatives will not abandon the GST and the Liberals have refused to commit themselves to scrap the tax. Both Tory and Liberal tax policies have been guided by the "trickle down" theory of economics. The capital gains exemption, the GST, lower taxes on the rich, and cuts in corporate taxes are all guided by the belief that if the rich and big corporations get breaks, they'll create jobs for the rest of us.

Obviously, this policy has failed.

New Democrats believe Canadians deserve a fair tax system. The NDP is committed to eliminating the GST and replacing it with a fair system by closing tax loopholes, introducing a wealth tax, bringing in green taxes, and increasing income taxes on upper income earners.

THE PROGRESSIVE CONSERVATIVE'S VIEW

by Dennis McCarron and Jim McGee

No one enjoys paying taxes. New taxes, or taxes that appear to be new, are usually subject to contempt by the general public. Such is the case with the GST. In order for government to operate effectively over a long period of time, it must balance its budget, i.e. the amount of money spent on social programs, national defense, infrastructure, and interest payments on the national debt, must be equal to the amount of money brought in by taxes. Taxes should meet several criteria: they should be visible, fair, revenue accountable, and they should not hinder economic growth. The Goods and Services Tax (GST) meets all of these criteria.

The GST replaced the Federal Sales Tax (FST) in 1991. The FST was an 11 per cent tax levied on all manufactured goods made in Canada. The FST was a hidden tax, as it was applied when the manufacturer sold the product to their retailers. The tax was then directly added to the price of the product. The GST is a visible tax where the amount of the tax paid is shown on the receipt instead of being just added in to the price without the consumer seeing the amount of the tax. This means that the government cannot increase the rate of the tax without anyone noticing - unlike a hidden tax.

The GST is a fairer, more progressive tax than the FST. With the GST there is no tax charged on key items such as basic groceries, prescription drugs, medical devices, residential rent, and most health, education and day-care services. Some Canadians have calculated the amount of GST paid and may have incorrectly assumed that his represents a direct increase in their taxes. This conclusion overlooks the fact that every Canadian paid, on average, \$700 per year with the former hidden tax, the FST. It also overlooks the benefits, in many cases, of the GST credit. Canadian families with incomes under \$30,000 receive a GST credit four times a year which is used to offset the tax to these families. The GST credit is significantly larger than the FST credit, having been increased from \$140 per adult and \$70 per child to \$190 per adult and \$100 per child. Single parents are also eligible for an additional credit of up to \$100, and may also receive a full adult credit of \$190 for one child.

The GST also provides significant economic benefits. Under the FST, Canadian made goods were taxed more heavily than imports, putting Canadian producers at a disadvantage in both domestic and world markets. The Canadian Exporters Association notes that, with the introduction of the GST, the tax content of export prices has been reduced by 1.6 per cent, thereby increasing our ability to compete internationally. The removal of the FST has also reduced the cost of capital investment by 4 per cent. The effects of this is to encourage investment in Canada, and thus to help create jobs.

All GST revenues go directly to the Debt Servicing and Reduction Account, first to pay the cost of servicing the public debt and then to reduce the debt. In conjunction with the Spending Control Act, this Account will ensure that GST revenues will not be used to finance new or higher program spending. The GST is also a more reliable tax and less prone to avoidance than the FST. This, coupled with the long term economic growth that will result from the elimination of the FST, will help, in the long term, to reduce the deficit.

The Goods and Services Tax is not a new tax. The GST is not providing any windfall revenues for the government. Rather, it is a tax which replaced an old, hidden, unfair tax which harmed the economy and hindered economic growth. The GST is the best alternative to the FST - which is exactly why no opponent of the GST has been able to come up with a viable alternative.

THE REFORM PARTY'S VIEW

by Sean Tracy

Probably no other federal Progressive Conservative policy is as sickening and as ill-conceived as the Goods-and-Services (GST) Tax. Certainly the Canadian public overwhelmingly oppose this oppressive revenue grab. Yet despite universal opposition to it, it will likely remain in place by a future Liberal or Progressive Conservative government.

The GST tax itself, like many of the other policies of the Progressive Conservatives, was brought forth with utter dishonesty. It was rammed through the House of Commons and the Senate with insufficient debate. The Progressive Conservative government claimed that the GST would "replace" the federal manufacturing sales tax on a dollar-for-dollar basis—yet since its imposition the tax has reaped billions of dollars more than the manufacturing sales tax ever did. The GST was rushed into place at the start of 1991, just in time to worsen the recession and to create a "cross-border" shopping exodus—bankrupting thousands of retail and tourist businesses and throwing thousands more Canadians (mostly women and young people) out of work.

The GST tax itself hurts Canada's poor. Yes, a federal Department of Finance study claimed (before the tax came into being) that the poor would end up as net beneficiaries. But studies done after 1991 by independent tax economists found the GST to be regressive—the poor pay proportionately more of their meagre incomes on the tax, even with the GST "rebate" crumb, than do the rich.

The GST hurts small businesses. Small enterprises—like the corner grocery store and small hardware stores—must keep track of two separate tax bases, one for the federal GST and one for the provincial sales tax. For large corporations with computerized inventories this is easier; for small businesses it becomes difficult indeed.

The tax also hurts the small customer. Today, as I write this short essay, I had to pay GST tax on two academic books I had imported from the United States. Not only did I pay a \$2.75 and \$1.75 GST on the \$37.14 and \$25.00 books, I was charged a \$5.00 "handling fee" for each item by Canada Post—a "handling fee" that monopoly corporation can unilaterally charge me for "handling" the tax that the federal government charges me! Such non-arms-length monopoly cronyism (between the Mulroney government and Canada Post) artificially raises the GST from its stated 7 per cent to, for my two books, 21 and 27 per cent respectively. What is next—the federal government charging another \$6.00 "handling fee" to handle the Canada Post's \$5.00 "handling fee"? The small Canadian consumer bleeds on.

But what to do? The federal government taxes us to death because it is so big and so wasteful. It has enormous public debt and deficit problem. Some 27 per cent of total federal expenditure dollars go to pay the interest on the debt—a payment that in itself is greater than the entire GST tax yield. So a Reform Party government would first cut our overinflated federal government drastically, in order to reduce the yearly deficits drastically. As we reduce the deficit, we would phase out the GST. Gradually eliminating the GST tax would benefit poor people, small businesses, and the small, individual consumers. It is these people who have been ignored by the Progressive Conservatives.