

As we have argued, it is extremely difficult to calculate with precision the actual FST component of goods and services. While the nominal rate may in many instances be 13.5%, the effective tax rate at the retail level is not as easy to determine. For this reason, the government decided to provide inventory rebates on the basis of broad estimates. Seven different rebate percentages were developed, based on product line. These include:

- a general rebate percentage of 8.1%, which covers most inventories
- 11.1% for motor vehicles
- 5.6% for building materials
- 2.8% for mobile homes and modular building units
- 2.5% for small grocery and convenience stores
- 1.4% for propane
- a per-litre amount on gasoline and diesel fuel, to be made public in December of this year.

We recognize that these payments are not tied to the actual FST deemed to have been paid on inventory. Nevertheless, they do provide important pricing signals for broad categories of goods and should help businesses in their efforts to establish prices. For many retailers, the general rebate figure of 8.1% may be viewed as representative of the FST component of their inventories. Pricing may thus be simplified for these businesses, in that detailed calculations of the FST can be avoided. For a more complete assessment of the FST component of a company's product line, however, a thorough appraisal of the firm's inputs would be required.

Finally, another issue arose during the Committee hearings which warrants attention: the appropriateness of firms maintaining the same absolute dollar margins when their business costs would be lower because of the removal of the FST. Margins under the current system are normally applied on the FST-included cost of goods purchased. When the FST is removed, the base on which these margins are determined is reduced. One would thus expect the mark-ups measured in absolute dollar terms to decline. Yet the Committee heard from a number of witnesses that they were going to strive to maintain the same absolute dollar margin after the elimination of the FST as before. **We believe that for the consumer to benefit fully from the elimination of the FST, businesses should not increase their percentage mark-ups after the GST has been implemented, given that operating costs have been reduced.**