

(13) As the Government has designed these percentages to reflect the average sales tax component in inventories, the rebate provided to some firms will obviously exceed the amount which they actually paid while the compensation to other firms will be less than the tax paid. In general, the tax content in a merchant's inventory is likely to vary according to the trade level and the number of stages in the production chain.

(14) For instance, the sales tax in the inventory of a wholesaler that purchases directly from the manufacturer could amount to 11.9% (13.5/113.5). The proportion of a retailer's inventory accounted for by Federal Sales Tax would tend to be lower reflecting other price markups at the wholesale level. This will also tend to vary according to the price markup on a particular product and the number of trade levels between the manufacturer and the retailer. In addition, inventories held at great distance from the point of importation or manufacture will have a relatively low FST content because transportation costs to the retail market are not directly subject to FST.

(15) Complicating matters still further is the fact that some products are taxed at the wholesale level rather than at the manufacturer's level. While the Government has decided to increase to 11.1% the rebate provided to automobile dealers, this has not been extended to other industries, such as cosmetics, which are also taxed at the wholesale level. The Committee also heard from the Canadian Importers Association, autoparts dealers, building supplies dealers, pleasure craft dealers and a furniture retailer that the 8.1% rebate would fail to fully compensate for the tax content of their inventories.