

than the 8.1% level, nor are they the only ones who can easily calculate and identify the amount of tax in inventories. The Committee has heard from associations of cosmetics and toiletries firms, pleasure craft dealers and importers, all of whom claim that the rebate percentage penalizes them significantly and who also believe that they can identify accurately the amount of tax in their inventory.

(65) The Association québécoise de l'industrie du nautisme, for example, explained to the Committee that "... most Canadian boat manufacturers sell directly to retailers. Retailers thus carry inventories that include the federal sales tax at a real rate of nearly 13.5%" (55:96)

(66) Broadly based rebate rules will penalize some while overly compensating others. If the Government provides the higher rebate to the groups listed above, there is still an equity problem, although not as easily identified, among the remaining taxpayers.

A. Competitive Equity and Price Effects

(67) The federal government has been adamant that cost savings due to the elimination of the FST will be passed on to consumers. It has also argued that the new tax is fairer than the FST because it taxes a wider range of goods and services at more equal rates. This assessment is now in doubt because of the transition rules and the prescribed FST rebate rates.

(68) The Committee has heard evidence from a number of groups that they will be burdened with a GST applied to some inventory upon which only part of the existing FST has been removed. The rebate shortfall is expected to range