

An additional complicating factor is the location of any product in the distribution chain. The FST is applied on domestically produced goods sold by manufacturers to wholesalers and retailers and on finished manufactured goods imported into Canada. The cost of the tax is embedded in the price of the product as it passes through the distribution chain to the final consumer. The actual percentage of the retail price that consists of tax, however, varies significantly, owing to the four different tax rates and to wide variations in wholesale and retail mark-ups.

Manufacturers, it is argued, should have the least difficulty in isolating the effect of the FST on prices. Yet even for them, the calculation is not without its problems, in that the tax buried in the cost of the inputs used by the manufacturer must be identified. As the Canadian Manufacturers Association stated in its brief, "the magnitude of this indirect taxation, built into costs, is hard to identify and that makes it difficult for manufacturers to be aware of the federal sales tax content in their purchases and how it affects prices when it is removed."

Because the variation of mark-ups, even across competing products within the same industry, produces a wide range of effective tax rates at the retail level, and because of the hidden nature of the FST, retail businesses will face the greatest challenge in establishing the amount of savings to pass on to its customers. Yet it is retailers whom consumers mostly face when they make purchasing decisions.

Without complete knowledge of all the facts in this area, it will be difficult if not impossible for many firms to determine exactly how much to pass through. While federal sales tax surveys prepared for the Department of Finance calculate effective tax rates for broad categories of goods, pricing decisions are in fact made at the micro-level of individual products and models. These surveys, however, while not providing complete information for individual products, can give important pricing signals for broad categories of goods and may therefore help firms adjust to the new tax regime.

Another element which may facilitate pricing in 1991 and beyond is the government's provision to retailers and wholesalers of tax rebate payments on inventory. The government intends to send to businesses cheques in the order of \$2-3 billion to offset the FST on inventory purchased before 1 January 1991, the date of GST implementation. While the stated purpose of the payments is to avoid double taxation and to bring about an adjustment to inventory on that date, an equally important objective is to inform businesses as to the amount of tax savings that they should pass through to consumers once the GST is in place.