

## E. Taxing All Food

- (84) Taxing basic groceries would generate sufficient tax revenue to lower the general GST rate by at least one percentage point. The Fraser Institute thinks the general rate could actually drop to 5% by taxing all food. All of the competitive problems associated with a two-tiered system would be eliminated if all food were to be taxed equally. And many of the compliance costs faced by retailers would vanish with the complete taxation of all food. Food retailers who are faced with the list of non-basic groceries must spend considerable resources in determining which of their products are taxable and which are not. This function represents a very large proportion of total compliance costs which could be eliminated with the taxation of all food products. The European experience also indicates that the use of differential tax rates is an inefficient means of altering the distributional consequences of a GST or VAT. A system of tax credits is more effective.
- (85) The Committee has examined the direct impact of a 5% GST on all household expenditures, with the exception of finance, insurance and real estate. In this experiment, all basic groceries would be taxed, with the tax content of food and non-alcoholic beverages increasing by a factor of 3.4 times. The services of charities and non-profit organizations would also be fully subject to tax. Despite this broadening of the base total revenues would decline by 13%, or approximately \$2.4 billion in 1991.
- (86) If the lost revenues were recovered via a tax alternative which does not burden lower income households, e.g. a selective income tax surtax, the Government's stated objective of improving the financial position of