

III. FST INVENTORY REBATE

- (61) When the GST comes into force on 1 January 1991, a very broad range of goods and services will be subject to this new tax. Some goods sold in that year will come from inventory acquired earlier, upon which the FST applied. To avoid a double taxation of sales from this inventory, the federal government is offering a transitional provision in the form of a rebate of the FST on existing inventory at the end of the year. These inventory rebate rates are not included in Bill C-62 -- they are determined by regulation.
- (62) The average FST content in a retailer's inventory would generally be lower than the FST content of the inventory of say a wholesaler or importer. Yet, these rebates do not vary according to trade level. The average FST content in a retailer's inventory would generally be lower than the FST content of the inventory of say a wholesaler or importer.
- (63) The general rebate rate is 8.1% of the value of inventory. An exception is made for automobile dealers who get an inventory rebate of 11.1% because the FST for automobiles is applied at the wholesale level. The rebate for building materials is only 5.6% since those products are subject to a lower rate of tax.
- (64) The nature of the FST makes it difficult to determine exactly how much tax is embedded in inventories. Rebate formulae, an acceptable compromise for practical reasons, are potentially arbitrary in application. The Committee has heard some evidence of apparent inequities in the effects of these rules. Automobile dealers are not the only taxpayers whose inventories contain a tax far higher