

date to identify the value of FST in the cost of business inputs. Retailers, on the other hand, will find it more difficult to calculate this tax cost, given that they are situated at a lower stage in the distribution cycle, are selling products with widely varying effective tax rates and, in most instances, are marketing a greater variety of products. Even they, however, should make an effort to contact suppliers. While, as is mentioned below, precise measurements may be difficult to achieve, estimates can be made.

It is one thing to identify the savings, quite another to pass them on. We have stressed that strong competitive pressures in the marketplace will help ensure that the identified savings are not retained. It would also be useful for firms with market strength to emphasize to both suppliers and customers the importance of a full passthrough. Many businesses appearing before us in fact indicated that they were strongly urging those directly above and below them in the production and distribution process to identify savings and to pass them on. We applaud these commitments and urge all Canadian corporations to follow suit.

It is likely the case, however, that not all of the tax savings will be passed on, since not all markets are perfectly competitive. This may be the case where a small number of firms possess a dominant share of the market and can therefore influence prices in the industry in question. Mike McCracken, of Informetrica Ltd., expressed concern that pricing abuses might occur in sectors where firms are regulated by governments, such as electrical and telephone utilities. In regulated sectors of the economy, however, government agencies will often be in place to monitor pricing and attempt to ensure that the existing FST is not retained in the form of increased profits.

Yet another factor may limit the ability of companies to pass through the full tax savings to consumers. Several witnesses suggested that many businesses will find it impossible to determine the precise price impact of removing the FST from certain products; they will thus have to rely on estimates. That is because many firms, and according to one witness, the Department of Finance as well, do not know exactly how much FST is buried in retail prices.

The problem lies with the nature of the tax itself. Introduced in 1924, the manufacturers' sales tax or as we have called it the Federal Sales Tax, has undergone many changes. For one thing, the number of nominal rates has risen, to the current four. On top of this, many exemptions have been granted, in various product groups, and the base on which the tax is applied has narrowed, as manufacturers have established marketing and distribution subsidiaries to reduce their tax payments. These changes all serve to increase the number of effective tax rates.