

CHAPTER 2 – THE GST AND THE CONSUMER

A. Consumer Education

Consumers are aware that the federal government intends to bring in a tax on most goods and services; however, they are generally not aware of the FST, the tax that the GST would replace. Federal sales tax is invisible to consumers and, in fact, most do not realize that they are paying it. But the FST is costly; the Minister of National Revenue told the Committee that each person in Canada pays about \$700 in FST annually.

The fundamental characteristics of the FST, its invisibility and its application at the manufacturers' level, make it extremely difficult if not impossible for consumers to determine its exact contribution to the retail price of a product. Indeed, experts often disagree on the effective rate of the FST applicable to various commodities. Stated simply, a 13.5% FST rate at the manufacturers' level does not mean a 13.5% rate at the retail level. Even at the manufacturers' level, the effective rate may be lower than 13.5%.

Unlike the FST, the GST will have a visible and immediate impact on consumers. They will know when they are paying the tax and how much they are paying.

As indicated earlier in this report, the GST will have a varied effect on the price of goods and services. It will therefore be essential for consumers to have some knowledge of these price effects. Since most estimate that the tax will increase the Consumer Price Index (CPI) in 1991 by 1.25% to 1.7%, consumers will experience a loss in real disposable income and have less purchasing power. The ability to time purchases so as to take advantage of a lower overall price either before or after the GST comes into force will become increasingly important as the proposed implementation date for the tax draws nearer. Perhaps even more significant, general knowledge about the GST's anticipated effect on prices will enable consumers to question whether the benefits of the abolition of the FST are being passed on.

The Committee heard evidence as to the current state of consumer awareness about the GST. Some witnesses expressed concern over the widely held misunderstanding that the GST would increase all prices by 7%. Officials of Sears Canada Inc. (Sears) indicated that 84% of consumers in its recent study believed that all merchandise prices would increase as a result of the GST. Other witnesses were concerned about another prevalent but erroneous view that the prices of many goods would decrease by the full 6.5%, the difference between the current FST rate of 13.5% and the 7% rate for the GST. All of this points to a considerable amount of confusion among consumers.