



Third Report of the Standing Committee on Consumer and Corporate Affairs and Government Operations

Living with the GST

Car prices may drop by 4% with GST

By F. FAGAN
The Canadian Press

Car prices will drop when the tax, Canada says, along with all other taxes levied. In 1991, it will be a 10 per cent appearance and corporate tax levied on their savings. President Terry...

Canada prepares for GST

ALTHOUGH the provinces say they don't like the goods and services tax, provincial budgets introduced in the past two months indicate many are preparing to levy their own sales tax on top of the provincial federal tax.

Kenneth Graydon, executive vice-president of Automobile Dealers Association, says the weak state of the economy means savings are...

GST to drive rents higher, landlords warn

By Kelly Taylor
Manitoba could see a 10 per cent increase in rents.

Pass through GST savings CMA urges

By George Brett
TORONTO STAR

Price cuts promised under GST

By Nathan Ferguson
TORONTO STAR

How much will consumers save? The proposed 7 per cent goods and services tax implemented Jan. 1? Will it replace the current 15 per cent tax on manufacturers?

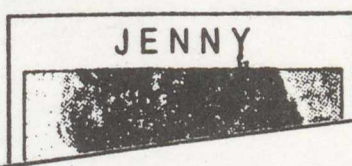
prices and investigate complaints will ensure the savings are passed on to consumers. "There's no doubt the price reductions will be passed on because the government doesn't want to lose the support of consumers."

also rise under the new GST. Finance Minister...

Consumers must demand GST savings

THERE'S NO way prices will drop when the proposed Goods and Services Tax comes in... right? Like most of us, that's the feeling right about now. Put upon. Angry,

taxation for Price Waterhouse in Vancouver. Two major factors govern prices: market competition and consumer acceptance. We should not underestimate our power. If we accept...



The department of finance estimates that basic grocery prices will drop 10 per cent.

June 1990

Garth Turner, MP
Chairman

HOUSE OF COMMONS

CHAMBRE DES COMMUNES

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Le lundi 18 juin 1990

Chairman: Garth Turner, M.P.

Président: Garth Turner, député

Minutes of Proceedings and Evidence of the Standing Committee on

Procès-verbaux et témoignages du Comité permanent de la

Consumer and Corporate Affairs and Government Operations

Consommation et des Corporations et de l'Administration Gouvernementale

RESPECTING:

Pursuant to Standing Order 108(2), inquiry into the effect of the Goods and Services Tax on prices and the role of the Consumer Information Office

CONCERNANT:

Conformément à l'article 108(2) du Règlement, enquête sur l'incidence de la taxe sur les produits et services sur les prix ainsi que le rôle du Bureau d'information aux consommateurs

INCLUDING:

The Third Report to the House

Y COMPRIS:

Le Troisième Rapport à la Chambre

Second Session of the Thirty-fourth Parliament,
1989-90

Deuxième session de la trente-quatrième législature,
1989-1990



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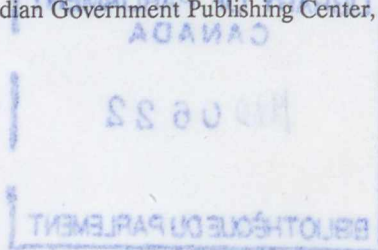
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**THE STANDING COMMITTEE ON
CONSUMER AND CORPORATE AFFAIRS AND
GOVERNMENT OPERATIONS**

has the honour to present its

THIRD REPORT

In accordance with its mandate under Standing Order 108(2), your Committee undertook an inquiry into the effect of the Goods and Services Tax on prices and the role of the Consumer Information Office and has agreed to present this report.

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Executive Summary

The Committee believes competition and an informed consumer are the best protection against marketplace abuse.

The government should fund an independent, arm's-length agency to educate consumers on the effects on prices of the GST and removal of existing federal sales taxes. This agency should be composed of people from business and consumer groups. It should be small, temporary and cost-efficient.

The Committee does not believe that it is possible to monitor all individual prices. The private sector also has a role to play, and should be a partner in telling Canadians how prices will be affected. The agency should play a role in helping to accomplish this.

LIST OF RECOMMENDATIONS

1. The federal government establish a comprehensive program to educate consumers about the proposed Goods and Services Tax (GST) and that this program be carried out in part by the GST Consumer Information Office.
2. Outstanding technical issues which are of concern to businesses as they plan for the implementation of the GST be resolved promptly.
3. Information on the impact of the GST be provided to businesses as they plan for GST implementation, and well before implementation of the tax.
4. The Department of National Revenue urge businesses to register without delay for GST collection, in order to receive basic information.
5. A message be sent to the Senate by the House of Commons detailing the costs to consumers, business and government of delaying the passage of Bill C-62.
6. The GST Consumer Information Office provide general information on the price impact of the GST for broad categories of products and services, well in advance of the implementation of the tax.
7. The GST Consumer Information Office work closely with trade associations, businesses and consumer groups to educate consumers about the anticipated impact of the GST and, where appropriate, undertake GST education and information programs jointly with these groups.
8. The GST Consumer Information Office actively encourage trade associations and businesses to provide consumers with information on the anticipated price effects of the GST, and deal promptly with consumer inquiries.
9. The GST Consumer Information Office not attempt to monitor all prices or to regulate prices in the marketplace after the implementation of the GST.

10. The GST Consumer Information Office explore the feasibility of establishing a program to recognize businesses that make public commitments to pass on all federal sales tax (FST) savings to consumers.

11. The federal government continue to pursue negotiations with the provinces to achieve a single, visible national sales tax.

12. The Director of Investigation and Research work with the GST Consumer Information Office to monitor GST-related advertising and alert consumers to misleading advertising claims.

13. The GST Consumer Information Office focus its research to support its role of educating consumers about the GST and its effect on prices.

14. The GST Consumer Information Office be reviewed no later than six months after the implementation of the GST and disbanded no later than one year after implementation.

15. The total initial operating budget of the GST Consumer Information Office be significantly reduced.

LIVING WITH THE GST

INTRODUCTION AND APPROACH

A. Overview of the Operation of the Goods and Services Tax

The existing Federal Sales Tax (FST) applies to goods manufactured in Canada and to finished manufactured goods imported into Canada. A number of goods, however, such as clothing, food, footwear and pharmaceuticals are exempt from the tax. All services except for telecommunications services are also exempt.

The FST is generally levied at the manufacturers' level of the production and distribution chain, although, for some products, it is levied at the wholesale level. The following are the applicable FST rates: 13.5% for most goods, 19% for alcohol and tobacco products, and 9% for construction materials. An 11% tax is also applied to telecommunications services at the user level.

The FST has been widely criticized. The most commonly voiced concerns relate to the very narrow base of products and services to which it is applied, its uneven application, the fact that it can favour imported products over Canadian-made goods and its unreliability as a source of revenue for the government. It is generally accepted that the FST is beyond repair and must be abolished.

The Goods and Services Tax (GST), the tax that the federal government has proposed as a replacement for the FST, is a tax on final consumption. It would apply at a rate of 7% on almost all goods and services consumed in Canada. Unlike the FST or a provincial sales tax, the GST is a value added tax, and would thus apply at each stage of the production and distribution chain.

Businesses will charge GST on the price of their taxable goods and services. Businesses that purchase goods and services and pay the GST will be able to claim an input tax credit for the tax paid. Because the amount of the GST remitted to the government by a business will be the amount of the GST collected from customers minus the GST paid on its purchases, the tax applies to the value added to a product or service. Final consumers, however, will pay the full amount of the GST on the selling price of a product.

The GST will apply to a broad range of goods and services. There are some goods and services, however, on which the tax will not be assessed. These are classified as either exempt or zero-rated. The difference between these categories lies in whether or not a

vendor can claim an input tax credit for the GST paid on goods and services used in the production and distribution chain. Suppliers of zero-rated items (for example, basic groceries, prescription drugs) will be able to claim an input tax credit. Suppliers of exempt goods and services (including day-care services, most domestic financial services, and most educational, medical and dental services), on the other hand, will not.

B. Approach to the Committee's Study

Many economists have suggested that the proposed shift from the FST to the GST should provide certain long-term benefits to the Canadian economy. Economic efficiency should be enhanced as a result of an improved allocation of resources. Business investment should be stimulated as the cost of capital is lowered. Over time, economic growth is expected to increase as the positive results of the reform of the tax regime take effect. Both the manufacturing sector and exports should become more competitive and imports will no longer be accorded an unnecessary competitive advantage.

This having been stated, the real challenge in ensuring that benefits emerge from tax reform is to manage the transition from the existing FST to the GST. As the Conference Board of Canada aptly noted in its brief to the Committee, the anticipated two-year transition period will be unduly prolonged if business and labour react adversely to the initial price effect of the change in tax regime. The Board stated that "if wages start to accelerate and interest rates are raised in response, the gains from a more efficient tax system will take longer to realize" and "if manufacturers try to increase profit margins when removing the 13.5 per cent FST and adding the 7 per cent GST, this, too, will be more inflationary than necessary and lead to interest rate increases which will delay the adjustment process."

It was precisely to ensure that the transition from the FST to the GST would take place smoothly and in a relatively short period of time that the Committee undertook a study of the effects of the proposed tax change on consumer prices. A number of pertinent questions were of interest. Would manufacturers, wholesalers, distributors and retailers pass on the tax savings realized through the replacement of the FST by the GST? Would these potential savings be difficult to ascertain? What price effects would be experienced in various economic sectors? What would be the overall direct price effect of the tax switch? What would be the response of organized labour to the predicted increase in the price level? If labour was successful in achieving sizeable wage gains as a result of the initial price effect of the GST, how would the monetary authorities respond?

Equally important for the Committee's study was to determine the proper role for government in helping to ensure that the full savings brought about by the tax change were realized. The Committee wanted to ascertain precisely how difficult it would be for the proposed price monitoring agency, the GST Consumer Information Office (CIO), to collect specific price information and scrutinize companies' pricing policies, and what powers the agency should be accorded to carry out its mandate. In particular, should the CIO be given the authority to roll back unwarranted price increases, or should its role be to provide consumers with appropriate information about the predicted direction of consumer prices in the various sectors of the economy?

The Committee heard evidence from 57 witnesses (see Appendix I for the complete list). Businesses and industry associations were asked to commit themselves and their membership to a full passthrough of any tax savings from the change in tax regimes. Labour groups were questioned on the likelihood of wage demands based on perceptions that the change in the tax regime would increase inflation. Economists and tax lawyers were asked for their opinions on the macroeconomic effects of the move to the GST, the direct price effects on various economic sectors and the specific difficulties expected with the transition. The Governor of the Bank of Canada was invited to discuss possible monetary responses to GST-related inflationary pressures. Consumer groups and experts were called upon to relate the concerns of consumers. In virtually all cases, witnesses were asked for their opinions on the merits of the proposed Consumer Information Office.

Our report is divided into two sections. The first examines the price effects expected from the shift to the GST, the problems which arise when attempting to estimate these effects, and the potential impact of the tax shift on inflation and monetary policy. The second section examines the need for consumer protection and contains recommendations on the role of the Consumer Information Office. These, it is hoped, will assist the government in providing information to consumers and lead to a smoother transition from the existing tax regime to the GST.

CHAPTER 1 – PRICE EFFECTS

The implementation of the GST is expected to exert a number of price effects. First, the GST is expected to cause the overall consumer price level to rise, although to what extent is unclear. Much of this chapter is devoted to an assessment of the factors which affect the passthrough (to the consumer) of the tax savings from the elimination of the FST, a critical ingredient in the determination of the GST's impact on prices. While it is clear that the GST will impose a 7% tax charge on many retail prices of goods and services, effective FST rates vary widely and the exact amount of tax included in the retail price is not entirely certain. It is therefore difficult to determine what the precise impact on prices will be.

The implementation of the GST will also cause relative prices to change. Industries such as manufacturing and telecommunications, which are now being charged a high rate of tax, should expect the shift in tax structure to lessen the tax cost, and thus, all other things being equal, to lower prices. On the other hand, industries, such as those in the services sector, which have previously not faced a federal sales tax burden other than the FST charged against their business inputs, should experience higher prices.

Finally, while the GST is expected to result in some tax-induced inflation, most of the evidence presented to the Committee minimized the probable magnitude of this effect. As mentioned above, it is of critical importance for the successful future performance of the domestic economy that a wage-price inflationary spiral be avoided.

A. Transfer of Tax Savings to the Consumer

As the FST is removed, and replaced by a value-added tax collected at the retail level, potential savings will accrue for buyers of products whose tax component is lowered. Such goods as automobiles, appliances, furniture and other durable goods should exhibit price decreases, but only if the FST is passed through. As was implied above, a crucial element in ensuring that the transition period is successfully managed is a major passthrough of the tax savings generated by the removal of the FST. The likelihood of an adequate passthrough, in turn, depends critically on the state of competition in various economic sectors.

Will competitive market forces ensure that a healthy portion of the tax savings is passed on to consumers? The response from witnesses to this question was generally positive. Most suggested that consumers would benefit extensively from the removal of the FST, since an adequate level of competition was to be found in most markets. It was claimed that it is difficult for firms to defy the market if they are facing competition. Companies that attempted to retain the tax savings and add this to their profit margins would run the risk of losing their market share; without this strong customer base, a firm would soon find its

future placed in jeopardy. In many instances, it only takes one rival firm unwilling to price in this "opportunistic" fashion for competition to arise.

Apart from strong domestic competition, Canada is also exposed to international competition, since we import a sizeable number of goods and an increasing number of services into the economy. As several witnesses pointed out, the lowering of domestic tariffs as a result of the Canada-U.S. Free Trade Agreement will add measurably to the competitive nature of the marketplace.

We find these explanations to be compelling and are satisfied that market forces will by and large cause firms to be responsible in their pricing. We are also swayed by the argument of numerous witnesses that a soft economy at the time of the tax's introduction would make it more difficult for firms to avoid passing on the tax savings; weak markets will, in most instances, force the passthrough of benefits to buyers.

Furthermore, several witnesses pointed out that in very competitive markets some firms would not even be in a position to pass on the full cost of the GST and would have to absorb part of it in the form of reduced profit margins in order to retain market share. As the Business Council on National Issues pointed out, this situation would most likely arise in those industries experiencing soft market conditions.

The degree of competition is certainly the critical factor in ensuring that firms do not take advantage of the tax change to boost profits, but it should also be noted that public commitments to pass on the tax savings can also be effective. The Committee was able to obtain pledges from virtually all the businesses and business associations appearing before it that they would pass on the full tax savings that could be identified or would urge their membership to do so. A complete list of the firms and associations that committed in front of the Committee to pass on the savings is included in Table 1.

At first glance, it is reasonable to doubt the significance of major corporations' or trade associations' public commitments not to profit from tax reform. After all, would they likely say otherwise? On analyzing the situation further, however, taking into account the competitive advantage that price reductions can bring about, it becomes evident that there is much to support these public statements.

When a business commits itself to passing along the FST savings to its customers, whether they be wholesalers, retailers or final consumers, it must back this undertaking with a serious effort to identify the amount of FST embedded in the price of the goods it sells. Manufacturers must ask suppliers well in advance of the GST implementation

TABLE 1**BUSINESSES WHICH PROVIDED THE COMMITTEE WITH
A COMMITMENT TO PASS THROUGH ANY IDENTIFIABLE FST SAVINGS
AND BUSINESS ASSOCIATIONS WHICH COMMITTED TO
URGE THEIR MEMBERS TO DO SO.****(A) Businesses**

| Type of Business | Product Line |
|--------------------------------------|--|
| Manufacturers | |
| Black and Decker Canada Inc. | Housewares, lawn equipment |
| Ford Motor Company of Canada Limited | Automobiles |
| General Motors of Canada Limited | Automobiles |
| Chrysler Canada Ltd. | Automobiles |
| WCI Canada Ltd. | Household appliances |
| Inglis Limited | Household appliances |
| Camco Inc. | Household appliances |
| Du Pont Canada Inc. | Chemicals, agricultural products, medical equipment. |
| Retailers | |
| Sears Canada Inc. | Wide range of products |
| Eaton's | Wide range of products |
| Hudson's Bay Company | Wide range of products |
| Canadian Tire Corporation, Ltd. | Automotive, hardware, sporting equipment |
| Utilities | |
| Bell Canada/Northern Telecom | Telecommunications |
| Ontario Hydro | Electricity |
| Unitel Communications Inc. | Telecommunications |
| Hydro-Québec | Electricity |

(B) Business Associations

Canadian Construction Association
Canadian Chamber of Commerce
Canadian Retail Hardware Association
Canadian Federation of Farm Equipment Dealers
Canadian Association of Japanese Automobile Dealers
Federation of Automobile Dealers Association
Automotive Industries Association of Canada
Used Car Dealers Association of Ontario
Canadian Council of Grocery Distributors
Business Council on National Issues
Funeral Service Association of Canada
Tourism Industry Association of Canada
Canadian Manufacturers Association
Canadian Bankers Association
Municipal Electrical Association
Canadian Real Estate Association
Canadian Apparel Manufacturers Institute
Canadian Home Builders' Association
Retail Council of Canada.

Source : Various issues of *Minutes of Proceedings and Evidence* of the Standing Committee on Consumer and Corporate Affairs and Government Operations.

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.

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.

As we have argued, it is extremely difficult to calculate with precision the actual FST component of goods and services. While the nominal rate may in many instances be 13.5%, the effective tax rate at the retail level is not as easy to determine. For this reason, the government decided to provide inventory rebates on the basis of broad estimates. Seven different rebate percentages were developed, based on product line. These include:

- a general rebate percentage of 8.1%, which covers most inventories
- 11.1% for motor vehicles
- 5.6% for building materials
- 2.8% for mobile homes and modular building units
- 2.5% for small grocery and convenience stores
- 1.4% for propane
- a per-litre amount on gasoline and diesel fuel, to be made public in December of this year.

We recognize that these payments are not tied to the actual FST deemed to have been paid on inventory. Nevertheless, they do provide important pricing signals for broad categories of goods and should help businesses in their efforts to establish prices. For many retailers, the general rebate figure of 8.1% may be viewed as representative of the FST component of their inventories. Pricing may thus be simplified for these businesses, in that detailed calculations of the FST can be avoided. For a more complete assessment of the FST component of a company's product line, however, a thorough appraisal of the firm's inputs would be required.

Finally, another issue arose during the Committee hearings which warrants attention: the appropriateness of firms maintaining the same absolute dollar margins when their business costs would be lower because of the removal of the FST. Margins under the current system are normally applied on the FST-included cost of goods purchased. When the FST is removed, the base on which these margins are determined is reduced. One would thus expect the mark-ups measured in absolute dollar terms to decline. Yet the Committee heard from a number of witnesses that they were going to strive to maintain the same absolute dollar margin after the elimination of the FST as before. **We believe that for the consumer to benefit fully from the elimination of the FST, businesses should not increase their percentage mark-ups after the GST has been implemented, given that operating costs have been reduced.**

B. Overall Direct Price Effect

The majority of forecasts presented to the Committee indicated that the changeover to the GST is expected to exert a minimal one-time increase in the level of consumer prices. Estimates of the direct price effect vary, from 1.25% (Department of Finance, Informatrica Ltd., Economic Council of Canada, Governor of the Bank of Canada) to 3% (Canadian Union of Public Employees, Canadian Labour Congress). The Department's estimate assumes that there will be full passthrough and that firms know with certainty the amount of FST in their products. Those who produced higher estimates assumed uncertainty about the amount of FST buried in products, about the percentage of tax savings likely to be handed on by businesses, about compliance costs, and the possible attempts of firms to take advantage of consumer confusion.

As Table 2 indicates, most predictions of the overall direct price effect presented to the Committee are near the lower limit. This is important for two reasons. First, it indicates confidence that adequate competitive pressures, particularly evident in a period of soft market conditions like the present, can contribute to responsible pricing decisions. The minor adjustment in price levels expected also suggests that both business and labour need not be overly concerned that wages will have to be adjusted significantly. It should be stressed that the perception of inflationary pressures caused by the implementation of the GST is a critical variable in determining the actual inflationary effect of the tax.

The precise impact of the tax change on consumer prices is virtually impossible to determine. The accuracy of the outcome depends critically on the assumptions used. For instance, while the government has assumed a 100% passthrough of the FST savings, other groups, such as the Canadian Home Builders' Association (66.7% passthrough) and the Canadian Union of Public Employees (30%), have presented alternative scenarios. Ultimately, the marketplace will decide, as it normally does, the pricing decisions that will be taken by industry participants.

Compliance costs must also be addressed in any discussion of price effects. Uncertainty exists about vendors' potential compliance costs, and the extent to which business will be able to pass these additional costs on to consumers. Many firms are currently in the process of planning their adjustment strategies for the implementation of the GST; until they have finalized their compliance response procedures, precise costs will be unavailable. On the question of transferring compliance costs there is some evidence that the current weak state of the economy will force some retailers to absorb a significant proportion of these costs. The full extent of this effect, however, remains unclear.

TABLE 2

ESTIMATES OF THE DIRECT EFFECT ON 1991 CONSUMER PRICES OF THE IMPLEMENTATION OF THE GST (%)

| | |
|--|---------|
| Economic Council of Canada | 1-1.25% |
| Department of Finance | 1.25% |
| Bank of Canada | 1.25% |
| Mike McCracken (Informetrica Ltd.) | 1.25% |
| Conference Board of Canada | 1.4% |
| Ontario Hydro | 1.4% |
| Hydro-Québec | 1.4% |
| Fraser Institute | 1.7% |
| Institute for Policy Analysis (University of Toronto) | 1.7% |
| Professor Neil Brooks | 2-2.5% |
| Canadian Union of Public Employees | 3% |
| Canadian Labour Congress | 3% |

Source : Various briefs presented to and issues of *Minutes of Proceedings and Evidence* of the Standing Committee on Consumer and Corporate Affairs and Government Operations.

For its part, the federal government has recently developed a new initiative to reduce the compliance burden on small business: the introduction of an optional simplified GST collection scheme known as the "Quick Method." This would remove the need for many small businesses to retain transaction-related documents such as bills, contracts and cash register receipts. Instead of calculating the amount of tax paid on purchases of goods and services and deducting this from the amount collected, under the new method, small businesses will be able to choose to remit to the government a fixed percentage of sales, with the percentage based on the type of business.

For roughly one-half of expected GST registrants, the new simplified accounting procedure represents a major development in that it will remove a sizeable paperwork burden. As one witness told the Committee, compliance costs as a percent of total revenues are much higher for small business than for large firms, since there are significant economies of scale in gathering and remitting taxes of this type. However, while some 800,000 small firms collecting the GST will be eligible for simplified accounting, the new system will only apply to a minor portion of the total GST collected. Large retailers, who will collect most of the GST, will not qualify for the Quick Method. They will thus continue to bear a significant compliance burden.

C. Relative Price Effects

As has been implied above, it is difficult to be sure how specific prices will change when the 13.5% FST is eliminated and the 7% GST is implemented. An additional complicating factor is that price changes will take place in an environment where prices in general are rising. Certain consumers anticipating absolute price declines may be disappointed to discover that the implementation of the GST has not brought about price declines for certain products, but rather has only kept them from increasing at greater rates.

It is also the case, as several witnesses argued, that it is virtually impossible to attribute a certain price shift to the tax, primarily because a relatively minor tax change would be dwarfed by the many other pricing considerations. It is therefore difficult to be precise about the specific impact of the change in tax regime on specific prices.

While most leading forecasters do not expect the overall direct effect on consumer prices to be significant, certain relative price effects will be so. The calculation, however, is not always as easy as subtracting 7 from 13.5, to obtain a net reduction of 6.5%. For one

thing, as we have seen, the effective rate of the FST at the retail level exhibits great variation across categories of goods. The level of variation is largely a function of the number of stages in the distribution chain through which the product in question must pass. It is thus effective, and not nominal, tax rates that must be taken into account.

Most importantly, only about one-third of all Canadian goods and services are now subject to FST. Price increases are therefore likely for those consumer goods not currently subject to the FST. The extra charge may not be the full 7%, however, since even those products which are not now charged FST have some FST embedded in their costs. The prices of most services, which are currently not taxed, should rise. On the other hand, price reductions should occur for those goods, such as most durable goods, which currently have effective tax rates exceeding 7%.

Anticipated price changes have been gleaned from a research paper produced by Informetrica Ltd. ("The Goods and Services Tax At 7 Per Cent"), and the evidence provided to the Committee by various witnesses. A breakdown of expected price impacts on a number of significant personal expenditure categories is presented in Table 3. It bears mentioning that these figures are merely forecasts of price impacts of the GST; actual price effects may differ.

Generally speaking, price reductions should be most noticeable on major purchases such as automobiles, and durable goods such as furniture, carpets, floor coverings and household appliances. For example, the three large Canadian car manufacturers were consistent in their predictions to the Committee that the wholesale price of a \$20,000 car should, on average, decrease by approximately 4%, or \$800. Given the close relationship between new car prices and used car prices, it is also reasonable to assume, like General Motors, that the price of used vehicles will also decline.

TABLE 3**ANTICIPATED CONSUMER PRICE CHANGES RESULTING
FROM THE REPLACEMENT OF THE FEDERAL SALES TAX
BY THE GOODS AND SERVICES TAX
(PERCENT OF BASE LEVEL)****Durable Goods**

| | |
|------------------------|-------|
| New Automobiles | -2.08 |
| Net Used Automobiles | -2.05 |
| Recreation Equipment | -2.02 |
| Household Appliances | -1.81 |
| Furniture and Carpets | -0.83 |
| Auto Repairs and Parts | 1.16 |

Semidurable Goods

| | |
|---------------------------------|-------|
| Jewelry, Watches and Repairs | -0.56 |
| Household Furnishing | 0.48 |
| Footwear and Repair | 4.84 |
| Books, Magazines & Stationery | 5.36 |
| Men's and Boys' Clothing | 5.80 |
| Women's and Children's Clothing | 5.86 |

Nondurable Goods

| | |
|-------------------------------|-------|
| Food & Nonalcoholic Beverages | -3.43 |
| Drugs & Sundries | -3.38 |
| Toiletry Articles & Cosmetics | -2.24 |
| Household Supplies | -1.15 |
| Alcoholic Beverages | 0.00 |
| Tobacco | 0.00 |
| Gasoline, Oil and Grease | 0.00 |
| Electricity | 6.85 |
| Other Fuels | 7.00 |
| Natural Gas | 7.26 |

Services

| | |
|---------------------------------|-------|
| Paid Space Rent | -0.17 |
| Medical Care | 0.27 |
| Hospital Care | 0.44 |
| Communications | 0.84 |
| Domestic Services | 1.09 |
| Educational Services | 2.26 |
| Travel Receipts | 4.20 |
| Personal Business Services | 7.15 |
| Purchased Transportation | 7.31 |
| Personal Care Services | 7.31 |
| Laundry and Dry-Cleaning | 7.35 |
| Restaurants, Hotels and Taverns | 7.38 |
| Recreational Services | 8.02 |

Source : Informetrica Ltd., *The Goods and Services Tax at 7 Per Cent*, 5 March 1990, p. 29-30

According to Table 3, fewer categories of goods expect price reductions than expect price increases. The absolute value of the price impact is considerable, however, given the high cost of many of these goods. Thus, while the price decline for an automobile may not appear at first glance to be a significant percentage, the savings in dollar terms is material.

The Informetrica model suggests that prices should rise in three broad areas: residential energy, clothing and footwear and consumer services. The cost of residential energy in the form of oil, natural gas and electricity is expected to rise as the 7% tax is applied. This is because utilities producing electricity, natural gas and other fuels are virtually exempt from tax under the FST. The model suggests that the price increase will be in the 6.8 to 7.3% range, depending on the energy source selected.

Clothing and footwear, while not currently subject to the FST, do nevertheless require the use of manufactured inputs in their production. As the Informetrica model suggests, these industries are therefore not expected to be faced with an increased tax cost of 7% under the GST, but rather one ranging from 4.8% to 5.9%. The Committee, however, heard evidence from the Canadian Apparel Manufacturers Institute that given the soft state of current market conditions, retailers would likely maintain existing prices so as not to lose market share to imported products.

The Informetrica model also predicts price increases for certain services, many of which will be charged the 7% rate under the GST. The Committee heard some evidence of this. The Funeral Service Association of Canada projected that the imposition of the GST would increase the cost of an average funeral by approximately \$100. The Tourism Industry Association of Canada estimated that the GST would increase the price of tourism-related services by between 4 and 7%, depending on the amount of FST currently included. The Minister responsible for Tourism, the Honourable Thomas Hockin, claimed that, while some difficulties were expected for the industry in 1991, the longer-term impact of the GST on tourism would be favourable.

For its part, the Canadian Bankers Association estimated that the banks would not be allowed input credits on some 90% of their annual GST costs, owing to the exempt status accorded to the vast majority of financial transactions. Representatives from the Association identified three options which financial institutions could choose from in dealing with the additional tax charge: reduce returns on investment; reduce non-interest expenses to offset the increase in tax cost; and attempt to pass through the additional cost to consumers through the imposition of price increases.

Certain services are expected to come down in price. Both Bell Canada and Unitel Communications Inc. stated that the cost of telecommunications services would decline as the 11% Telecommunications Services Tax is replaced by the 7% GST. The cost of a long distance telephone conversation, for instance, would fall with the shift in tax regime.

While the government and the homebuilding industry, represented primarily by the Canadian Home Builders' Association, both suggested that the price of new housing would be negatively affected, there was a considerable difference of opinion about the extent. The Association suggested that the price of the average new home (\$150,000) would rise by 2%, whereas the government suggested it would be by less than 1%. Such a variation in the expected impact can be attributed to differences in estimates of effective tax rates on housing inputs and in assumptions regarding the passthrough of FST savings.

Rental housing, according to the government, should be relatively unaffected by the tax change, given the tax exemption of short-duration and long-term residential rents and the fact that new construction adds less than 2% annually to the total rental housing stock. While the GST will be charged against operating costs, it is argued that this effect will be offset to some extent by the provision of GST tax credits to families with low and moderate incomes.

The effect of the GST on home renovation will be largely a function of the labour-intensiveness of the activity in question. Since labour was previously not taxed, renovation involving proportionately few building materials may be adversely affected. The Canadian Home Builders' Association expressed some concern lest additional renovation costs would cause individual renovators to evade taxes imposed chiefly on labour.

Finally, gasoline, alcohol and tobacco should not be affected by tax reform as the government intends to alter the tax structure to maintain the present revenue.

D. Potential Impact On Inflation and On Ensuing Monetary Policy

1. Concerns about Inflation

It is important to distinguish between (a) a one-time effect on the price level brought about by the introduction of the GST and (b) an inflationary effect, which can be broadly characterized as a continuing increase in the broad level of prices. This is a key point, since it is the perception of inflationary pressures that is so important. If labour and business (who set prices) mistake the one-shot effect for an increase in inflation, serious inflation-causing forces could actually set in and undermine the positive benefits of the GST.

It will be in the best interests of all Canadians if an inflationary response to what is largely a one-time price effect is avoided. An inflationary response would delay the realization of the benefits from the shift in sales tax and reduce employment and economic output. Moreover, the rise in domestic unit labour costs would reduce our competitiveness in both domestic and world markets, and lead to possible net export losses.

Most witnesses doubted that an explosive wage-price spiral would stem from the change in the sales tax regime. For example, according to Informetrica Ltd., its model of the economy found no evidence of this, nor was this phenomenon a feature of past economic history. A more likely effect, according to the consulting company's head, Mike McCracken, would be an increase in the number of labour contracts with COLA (Cost of Living Adjustment) clauses and in the number of one-year contracts. This trend is apparent during periods of uncertainty about inflationary tendencies. The benefit of COLA clauses is that they incorporate a portion of future CPI changes into wages, thereby removing the element of uncertainty. It would appear that organized labour is moving in this direction, as it positions itself to recover the expected decline in real wages. As was pointed out to us by the Canadian Labour Congress, some 40% of the Canadian workforce was already benefiting from some form of COLA at the beginning of 1989. Recent settlements suggest that some enhancement in COLA protection may be realized.

Both the Conference Board of Canada and the Business Council on National Issues provided interesting observations on why few are expecting a wage-price spiral. The collective bargaining process is entered into by two parties: business and labour. As the Business Council put it, since the extra revenue generated by a tax increase does not accrue to businesses, but rather to the government, private sector firms will not have the financial resources with which to accommodate labour's wage demands. Labour would therefore be constrained in its attempts to cover the real wages that it perceived itself to have lost.

Labour's efforts will be further muted during periods of weak economic activity like the present, when corporate profitability has been reduced. The appearance of lower corporate profits, soft economic markets and higher debt-equity ratios would also, as the Business Council suggested, lead to stiff resistance by employers to inflationary wage demands. Current labour market conditions should also, according to the Conference Board, help ease wage pressures.

This is not to suggest that labour will not attempt to achieve higher wage increases to compensate for lower purchasing power brought about by the implementation of the GST. It bears repeating that it is vitally important for the realization of the economic benefits of tax reform that the wage response be limited to the immediate price impact of the tax. It is, of course, hoped that productivity improvements resulting from tax reform will more than compensate for this additional wage cost.

2. Impact on Monetary Policy

Much of the opposition to the government's original proposal for a 9% GST was based on the potential inflationary reaction to the higher rate and to the tightening of monetary policy which was expected would take place to counteract these price pressures. Moving to the 7% rate has reduced these concerns significantly. Yet the Governor of the Bank of Canada's resistance to any higher wage response has not lessened: his position continues to be that the Bank will not finance an inflationary wage-price spiral, although it is quite willing to accommodate the direct price impact of the tax.

The message from the Governor is clear. Canadian businesses that use the implementation of the GST to boost prices and profits, and workers who use the tax to increase wages, risk triggering higher interest rates, which would in turn reduce aggregate demand, thereby lowering output and employment. We believe that it is important for business and labour to recognize the importance of sound pricing practices and responsible wage bargaining.

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.

There was general agreement among the witnesses that consumers must have information about the GST and its anticipated effect on prices. The Consumers Association of Canada (CAC) told the Committee that clear, consistent information was needed so that consumers could make proper price comparisons and determine which goods would be cheaper under the GST and which would not. Others, including major business associations and corporations, felt that there was a definite need for the government to educate consumers about the forthcoming changes to the tax system and called for a broad consumer information program.

The Committee believes that it is essential for consumers to understand the proposed tax changes. We therefore place great emphasis on the need to educate consumers. Providing consumers with information on the GST and its anticipated effect on prices would serve a number of objectives. It would reduce the level of confusion in the marketplace, assist consumers in making decisions about whether to buy goods and services, before or after the introduction of GST, and provide a basis for consumers to question price changes. Perhaps, more importantly, consumer education would buttress the competitive market forces that will ultimately ensure that the FST savings are realized by consumers and reduce opportunities for unfair pricing practices.

Because the transition from the FST to the GST is likely to be somewhat difficult for consumers, it is incumbent upon the federal government to anticipate and meet consumers' information needs. We strongly urge the government to act quickly in this regard. The Committee therefore recommends that:

The federal government establish a comprehensive program to educate consumers about the proposed Goods and Services Tax (GST) and that this program be carried out in part by the GST Consumer Information Office.

B. Business Education

Educating business about the GST is just as important as educating consumers. A number of witnesses felt that business operators with knowledge about the tax would be better equipped to deal with consumer queries about the impact of the GST on prices and to ensure that suppliers passed on any relevant FST savings.

The CAC suggested that the government should educate merchants about the operation of the GST. In fact, the CAC was of the view that spending money on educating consumers and members of trade associations would be more appropriate than creating a regulatory agency to monitor GST-related price changes. It contended that merchants who

knew how to apply and calculate the tax and who were aware of the products for which FST savings might be expected could help to reduce confusion in the marketplace and lessen the potential for abuse.

The Committee was advised that a number of trade associations had not yet received responses from the government to their members' many questions about the implementation of the tax in relation to their businesses. The Funeral Service Association of Canada stated that it has yet to receive clear, consistent answers to questions about the application of the GST to moneys held in trust for prepaid funerals. Other witnesses indicated that negotiations with the government concerning the application of the GST were ongoing.

The Committee notes that there is a high level of uncertainty and confusion among some businesses about the operation of the GST. Unless alleviated quickly, this will make the transition from the FST to the GST more difficult and have a negative impact on consumers. The Committee believes that it is essential for all businesses to have a clear understanding of how the GST applies to their operations. We therefore strongly urge the government to act as quickly as possible to resolve any outstanding issues in this regard. It is also our view that the government should initiate a comprehensive information program for the business community. The Committee therefore recommends that:

Outstanding technical issues which are of concern to businesses as they plan for the implementation of the GST be resolved promptly.

Information on the impact of the GST be provided to businesses as they plan for GST implementation, and well before implementation of the tax.

The Minister of National Revenue informed the Committee that upon registration to become GST collectors businesses would have access to programs and information to assist them in preparing for the tax. Some 1.6 million businesses and organizations are expected to register.

The Committee believes that the confusion and uncertainty about the GST could be reduced considerably if businesses register with Revenue Canada as soon as possible. The Committee therefore recommends that:

The Department of National Revenue urge businesses to register without delay for GST collection, in order to receive basic information.

Legislation to implement the GST (Bill C-62) has passed the House of Commons and is now before the Senate of Canada. A number of witnesses were of the view that prolonging the passage of the GST legislation would be detrimental to business and to consumers. One felt that delay would increase opportunities for double taxation and for higher prices for consumers. Another, the Retail Council of Canada, called for early passage of the bill so that "customers and merchants will know ... the rules of the game." The Minister of Finance contended that uncertainty caused by legislative delay would impose additional costs on business and consumers. He also argued that delay would postpone the sizeable economic benefits that are expected from sales tax reform. The Minister of National Revenue told the Committee that a delay in the implementation of the tax would cost business, government and consumers millions of dollars.

It is the Committee's view that delaying the movement of Bill C-62 through the legislative process would jeopardize a smooth transition to the GST regime. Business requires certainty; the rules must be clear. Ultimately, consumers will benefit if business understands what is required.

The Committee strongly urges that there be no further delays to Bill C-62 becoming law. We therefore recommend that:

A message be sent to the Senate by the House of Commons detailing the costs to consumers, business and government of delaying the passage of Bill C-62.

C. The GST Consumer Information Office

In the Technical Paper on the Goods and Services Tax the government expressed the view that consumers capable of forming their own opinions about the price consequences of implementing the GST would strengthen the competitive market forces at work to ensure the passing on of the FST savings and would act as a safeguard against any unfair pricing practices that might arise.

To assist consumers, the government has established a special GST Consumer Information Office (the CIO) within the Department of Consumer and Corporate Affairs. The CIO will operate as an independent body and report to the Governor in Council and to the public. The CIO's mandate is (1) to provide, prior to the implementation of the GST, information to consumers on anticipated price increases and decreases for key goods and services; (2) to monitor prices to encourage businesses to pass on to consumers savings from the elimination of the FST; (3) to receive and investigate consumer complaints about pricing practices; (4) to assess the implications of the GST on consumer prices through

independent research and by receiving complaints; and (5) to inform the public of any irregular pricing practices.

While most witnesses agreed that consumers should have information about the GST, there was considerable debate about the need to create an agency like the GST Consumer Information Office to provide it. A number of witnesses also expressed concern about the CIO's investigatory role in relation to complaints about unfair pricing practices.

Organizations such as the Canadian Chamber of Commerce and the Canadian Retail Hardware Association (CRHA) were totally opposed to the creation of a GST Consumer Information Office. They felt that establishing such an agency would be a waste of taxpayers' money. Moreover, they contended that it would perpetuate the myth that businesses are likely to take advantage of the tax to increase prices unfairly. In their view, market forces alone would be enough to determine that the savings from the removal of the FST would be passed on to consumers. According to the CRHA, losing business as a result of the failure to pass on FST savings is more of an effective threat than a government "watchdog" would be.

Other witnesses felt that the CIO could play a useful role in informing consumers about the GST. Both the CAC and the Association des consommateurs du Québec endorsed the concept of a consumer information office, while the Business Council on National Issues was of the view that such an office could help reduce confusion by: (1) providing consumers with information to explain the practical effect of the move from the FST to the GST; (2) generally identifying the price effects of the GST for broad product categories; and (3) engaging in research and monitoring activities.

The Committee strongly supports the creation of a neutral, independent information agency to educate consumers about the GST. It is important that this agency not be seen as a channel for the government to promote the GST or to deflect criticism of the tax. Its primary role must be to assist consumers through the transition period from the FST to the GST by providing factual, non-biased information.

1. Information on the Anticipated Price Effects of the GST

As mentioned earlier, the CIO has been assigned the task of providing information on the anticipated price effects of the GST. It is therefore important to assess the ability of such an agency to isolate the price effect of the tax. Several witnesses argued that this would be a difficult task.

If the impact of the tax cannot in fact be determined, what role should the CIO play and how useful will it be? Is there some merit in having the agency provide information on the expected price movements of broad categories of products and then receiving and investigating complaints? These are critical questions which need to be addressed. To examine them more fully, it will be necessary to focus on some of the problems associated with the application of the current FST.

Witnesses suggested that it would be virtually impossible to determine precisely how much FST is embedded in the price of most products. This, it was argued, would make it extremely difficult for the CIO to provide information on anticipated price increases and decreases. Professor Neil Brooks told the Committee that, though it is possible to use Statistics Canada data to arrive at a general determination of the amount of FST in the prices of broad categories of consumer products, information would not be available on the amount of FST in the hundreds of individual products that make up those categories. To complicate matters further, different tax rates can apply to different models of the same product.

As mentioned earlier, variations in value added and mark-ups after a product has been manufactured also pose a problem for determining GST-related price increases and decreases. The value added or mark-up can vary, depending on how a product is sold. This, the Committee was told, could raise the price to consumers even though on average there is evidence of a likely tax saving from the removal of the FST. According to the Fraser Institute, much of the information on value adding and corresponding mark-ups which affect product prices is not available and any CIO publication of average figures indicating tax savings could create confusion and convey misinformation to consumers.

Information about the structure of various industrial sectors and individual businesses will also be important for the CIO's examination of anticipated price increases and decreases. Manufacturers who have sought to reduce their federal sales tax by transferring goods to wholly-owned marketing and distribution companies are likely to be more limited than other companies in their ability to pass on tax savings. In addition, importers that pay FST on the duty-paid value of goods often increase prices after importation or incur marketing and distribution costs that reduce the effective FST rate.

Yet another factor with implications for the CIO's ability to determine price effects is the timing of the passthrough of FST savings. Will these savings be passed through promptly upon implementation of the GST or some time after the implementation date? The FST paid on machinery and equipment used in the manufacturing process will not be refunded, and the FST rebate for inventories on hand on the GST implementation date may not in all circumstances cover the full amount of FST paid. These facts suggest that there may not be

a full passthrough of FST savings until inventories are depleted. One witness suggested to the Committee that it could be some time before full price savings attributable to the elimination of the FST are completely available on a broad range of goods.

Finally, the sheer volume of products on the market also militates against the examination of specific prices. At most, the CIO could sample only a small fraction of these.

What implications does all of this have for the mandate of the GST Consumer Information Office to provide information to consumers on anticipated price increases and decreases for certain goods and services?

The Committee strongly believes that the government has an important role to play in providing information to consumers about the GST. We are of the view also that consumers must have some information about the potential price effects of the tax. If this information is not available, the many misconceptions about the effects of the GST will continue and the level of confusion among consumers will remain high.

The Committee, however, has grave concerns that the government could inadvertently provide inaccurate information or information that might be easily misinterpreted by consumers. It is our view that it would be worse to provide inaccurate information than to provide no information at all. Moreover, we are concerned that public authorities might be held responsible for prices that did not conform to predicted amounts. The fact that some businesses might use the introduction of the GST as an opportunity to increase profit margins is something for which the government should not be held accountable.

The evidence plainly indicates that attempting to provide information on the specific price effects of the GST would be a time-consuming, costly exercise fraught with difficulty. But there is also clear evidence that consumers need information in order to cope with the transition from the FST to the GST. The Committee concurs with the view of the Minister of Consumer and Corporate Affairs (the Minister) that it would be inappropriate for the CIO to undertake to tell consumers that the price of a particular product will increase or decrease by a certain dollar value or percentage amount. Anticipated price changes for broad categories of goods and services, however, could be made available. Such information would make consumers aware of the general price trends that could be expected but at the same time avoid the problems associated with attempting to predict specific price movements.

The Committee notes that the CIO is to provide pricing information prior to the implementation of the GST. Several witnesses felt that it was imperative for the CIO to act as quickly as possible to get information out to the public. The Committee concurs. False expectations about the GST are prevalent; if consumers are to take advantage of the

positive effects of the tax and to understand its negative implications, it is essential that information be available months before the proposed implementation date for the tax. The Committee therefore recommends that:

The GST Consumer Information Office provide general information on the price impact of the GST for broad categories of products and services, well in advance of the implementation of the tax.

The Committee heard evidence from several companies whose products are now subject to the FST—household appliance manufacturers, automobile and automobile parts manufacturers, housewares manufacturers, and telecommunications suppliers, among others. We also heard from representatives of large and small retailers. All these witnesses informed the Committee that, where possible, they would pass on the FST savings to consumers. Given the difficulty associated with determining the amount of FST in the price of most products, the Committee feels that it is incumbent upon individual businesses and trade associations, who would possess the most accurate information of this nature, to inform consumers how the GST will affect prices. Indeed, some manufacturers have already made public announcements in this regard. Also, we would urge these businesses to provide this information voluntarily to the CIO and ensure that the Office's information about particular industries is correct.

The CAC called on consumers, retailers and businesses to work together to ensure that consumers receive adequate information and are protected from unwarranted price increases. A number of industry groups have already indicated that they would be providing information to consumers. The Canadian Chamber of Commerce felt that business had an important role to play in informing the public about the impact of the GST on prices and is encouraging its members to participate in the education process. Sears indicated that it is committed to providing its customers with “an explanation of the FST/GST impact...”. The Retail Council of Canada told the Committee that it is developing a public information program to help consumers understand the GST and to inform them of what to expect at the retail level. We believe that all major trade associations and businesses should be involved in this effort. The Committee therefore recommends that:

The GST Consumer Information Office actively encourage trade associations and businesses to provide consumers with information on the anticipated price effects of the GST, and deal promptly with consumer inquiries.

The Committee believes that government should work together with consumer groups and the business community to ensure that accurate, timely information is provided to consumers. The Retail Council of Canada and other witnesses indicated that it would be willing to work closely with the CIO in this regard. Where appropriate, the government might consider joint information programs with the business community and consumer groups. The Committee therefore recommends that:

The GST Consumer Information Office work closely with trade associations, businesses and consumer groups to educate consumers about the anticipated impact of the GST and, where appropriate, undertake GST education and information programs jointly with these groups.

2. Monitoring Prices, Investigating Consumer Complaints and Providing Information on Pricing Practices.

Part of the mandate of the CIO will be to monitor prices, to receive and investigate complaints about pricing practices and to inform the public of irregular pricing practices.

Several witnesses questioned whether the CIO should have the power to order a price reduction if it found that the FST savings had not been passed on to consumers. None felt that this would be appropriate. The CAC was of the view that an agency with price-reduction powers would have to be a large, costly organization requiring broad investigatory powers and quasi-judicial procedures. In its opinion, this would be neither useful nor cost-effective. Others suggested that price roll-back powers were impractical because of the difficulty in determining whether a price increase or a lower than expected price decrease could be attributed to failure to pass on an FST saving or to other factors.

The Committee does not support the granting of formal investigatory and price reduction powers to the CIO. None of the evidence suggests that these powers are needed. It is the Committee's view that the primary mandate of the CIO is to educate and to provide information. Anything beyond that would be a costly, bureaucratic exercise with marginal utility. We believe that it is best to let the competitive forces of the market work to ensure that the FST savings are passed through and to strengthen these forces by having well-informed consumers.

Furthermore, the Committee does not contemplate any formal role for the CIO in monitoring specific price changes. Several witnesses argued that it was virtually impossible to identify the components of price changes for specific products and attribute a particular price shift to the tax. This is because a relatively minor tax change could be overshadowed

by other considerations, for example, increases in wages, increases in the price of materials and inflation. Full-scale monitoring could be costly and largely ineffective. We feel that it would contribute little to consumer knowledge about the price effects of the GST. The Committee therefore recommends that:

The GST Consumer Information Office not attempt to monitor all prices or to regulate prices in the marketplace after the implementation of the GST.

Witnesses suggested that the most effective weapon the CIO could bring to bear in fulfilling its mandate to investigate complaints would be its ability to exercise moral suasion in direct dealings with trade associations and industries. According to the CAC, the possibility that an industry sector would be accused of price-gouging should encourage its members to passthrough FST savings.

Some witnesses, however, expressed concern about this aspect of the CIO's mandate. Some felt that an agency for receiving and investigating complaints would have no effect on whether the FST savings would be passed on to consumers in the form of lower prices. Others were concerned that the work of the CIO could become a "witchhunt" or a game of identifying non-typical price changes without adequate consideration of the many factors that go into the setting of a price.

Although part of the CIO's mandate is to inform the public of irregular pricing practices, we cannot support any CIO action that might involve publicizing the names of businesses that had not passed on the FST savings to consumers. We have argued that it is virtually impossible to determine precisely how much FST is embedded in the prices of most products and to separate price changes resulting from the removal of the FST from changes due to other factors. For these reasons, only the most flagrant cases of abuse could be identified and even then with the risk of legal action.

We believe that positive, rather than negative, publicity would be a more effective method of promoting the passthrough of FST savings. The government should encourage businesses to communicate their pricing strategies to the public and to provide this information to the CIO. Moreover, businesses should be prompted to make a public commitment to pass on any relevant FST savings to consumers. Those businesses who act as good corporate citizens in this regard should be duly recognized for their contribution to easing the transition from the existing tax regime. The Committee therefore recommends that:

The GST Consumer Information Office explore the feasibility of establishing a program to recognize businesses that make public commitments to pass on all federal sales tax (FST) savings to consumers.

Finally, a major point of concern for the Committee is that the public should fully understand the limited mandate of the CIO. We feel that it is incumbent upon the government to ensure, for example, that the public is aware that the CIO does not have the power to order price reductions. It would be most unfortunate to repeat the experience of the Food Prices Review Board in the early 1970s, where much of the public was under the impression that the Board had the power to stop food price increases and to require that unwarranted prices be rolled back; in reality, its mandate was to carry out research, investigate food prices and pricing practices and receive complaints about the prices of food products.

3. Research

Part of the mandate of the CIO as announced in the GST Technical Paper was to undertake and publish independent research into the consumer aspects of sales tax reform. Few witnesses addressed this aspect of the CIO's mandate. Those who did, however, expressed divergent views. Some felt that the CIO's research would be valuable while others questioned whether it was necessary.

In his statement to the Committee, the Minister indicated that the CIO's research would be limited to assessing the implications of the GST on consumer prices. The Committee does not envisage a broad research mandate for the CIO. In our view, general research into the consumer aspects of sales tax reform would be better handled by consumer groups and other organizations that work in the consumer interest. The Committee therefore recommends that:

The GST Consumer Information Office focus its research to support its role of educating consumers about the GST and its effect on prices.

4. Transitional Nature of the Consumer Information Office

It is generally accepted that the CIO will be established to deal with consumer concerns during a short transition period from the FST to the GST. The Minister of Consumer and Corporate Affairs told the Committee that the Office would be discontinued at the end of 1991. The Committee recognizes that the consumer issues arising from the implementation of the GST are transitory. We strongly urge the government to ensure that the CIO does not continue after it has served its purpose. The Committee therefore recommends that:

The GST Consumer Information Office be reviewed no later than six months after the implementation of the GST and disbanded no later than one year after implementation.

5. Operating Budget

The Minister stated that the operating budget of the CIO would total \$19 million. The Committee is of the view that this sum is too high. We believe that the mandate of the Office can be achieved with a lower budget. The Committee therefore recommends that:

The total initial operating budget of the GST Consumer Information Office be significantly reduced.

D. Visibility of the GST at the Retail Level

Pursuant to clause 223 of Bill C-62, a vendor has the option of showing the GST on the invoice in one of two ways: (1) separately from the price or (2) included in the price with a note confirming that this is the case.

The Technical Paper set out a model presentation of the GST as shown by retailers which contained two key components. These are: separate identification of the amount of the tax on cash register receipts and prominent in-store display of prices showing the total of the cost of the product and the applicable federal tax. Where vendors choose to incorporate the GST in their shelf prices, this fact should be clearly indicated.

If the GST is included in the price of the goods, the government will provide retailers with signs to inform consumers of this fact. The Committee believes that it is important for the government to consult with consumer associations and business organizations prior to creating these signs. Advice from these groups would help to ensure that the signs convey the intended message in the simplest, most effective manner.

The visibility and uniform presentation of the GST at the retail level are important issues for consumers. The CAC told the Committee that consumers need clear information at the point-of-sale so that they can compare prices. It wants the tax to be added on only after the consumer has had the opportunity to consider the price without the tax. A survey conducted by Sears in February 1990 showed an "overwhelming" preference for identifying the GST separately from the price.

The large retailers who appeared before the Committee, Eaton, The Bay, Sears and Canadian Tire, indicated that they would be pricing their products net of the GST and adding the tax on when the consumer reached the cash register. Sears, for example, will show the GST and any applicable provincial sales tax separately at the point-of-sale and also intends to inform its customers of the GST-included price of an item before they reach the cash register. The Retail Council did indicate, however, that one of its large members would be including the GST in its retail prices.

Some witnesses were of the view that the option to include or exclude the GST in the prices of goods and services presented significant problems for small businesses and for consumers. According to the Canadian Federation of Independent Business (CFIB), the fact that the GST is not harmonized with provincial sales tax systems will make comparison shopping impossible because the complexity of administering a two-tiered tax system will force small retailers to price their products on a GST-included basis. The Canadian Council of Grocery Distributors claimed that the competitive nature of the market will put pressure on all businesses to exclude the GST from retail prices. The Council felt that small retailers who cannot readily adapt to pricing products net of the GST will thus be at a distinct disadvantage compared to their larger competitors, who can do so.

The Technical Paper acknowledges that not all businesses will be able to adopt the model presentation of the tax because many of the cash register systems currently in place in small and medium-sized stores cannot simultaneously identify two separate sales taxes. The CFIB confirmed this. It was indicated that upgrading and replacement of this equipment could not be completed by the proposed implementation date for the tax.

The Committee supports all efforts to ensure that the GST is both visible and uniformly presented at the retail level. While our preference would be to have the GST displayed as described in the Technical Paper, we recognize that this will not be possible in all circumstances. There is no doubt that the lack of uniform pricing and display requirements will cause a certain amount of confusion among consumers and will make comparison shopping difficult. Moreover, including the GST in the price will compromise the principle of tax visibility. We believe that it would be unjust, however, to require small retailers who lack advanced cash registers to price all products net of the GST. The Committee encourages all retail businesses, however, to display prominent in-store signs that will inform customers as to how the GST is being applied. Consumers must know how much a product or service will cost before the provincial sales tax is applied.

We expect that a uniform pricing policy may develop over time as small retailers upgrade their cash registers. In the interim, however, consumers will have to be particularly vigilant about comparing prices.

The Committee notes that the problems of visibility and uniform application of the GST would be solved with a national sales tax, where the relevant combined federal-provincial tax for each province would be applied at the point-of-sale. Such a tax would have several advantages over a two-tiered tax system. Two of the more significant of these are lower compliance and administration costs and uniform presentation of the tax. These would represent significant improvements for business and consumers. The Committee therefore recommends that:

The federal government continue to pursue negotiations with the provinces to achieve a single, visible national sales tax.

E. Advertising and the GST

As the time for implementing the GST draws nearer, consumers will be thinking about the impact of the tax on prices. Such consideration is expected to become a factor in determining whether to purchase certain products before or after the GST takes effect. Many businesses will likely exhort consumers to "take advantage of lower prices associated with the GST" or to "beat the GST" by purchasing before January 1, 1991. The Retail Council confirmed that it expected the GST to be an important factor in retail advertising.

One witness told the Committee that "perhaps the most practical and important problem facing consumers ... is misleading advertising in the pre-GST period." Given all the problems identified with determining the effect of the GST on prices, the Committee is concerned that some advertising claims associated with the GST might be misleading. The Minister of Consumer and Corporate Affairs informed the Committee that the Director of Investigation and Research would be giving priority to investigating misleading advertising claims associated with the GST. The Committee also understands that the Marketing Practices Branch of the Department of Consumer and Corporate Affairs will be monitoring GST-related advertising and that a forthcoming issue of the Misleading Advertising Bulletin will deal with this issue. During the pre-GST period it will be important for the government to promptly ensure that consumers understand the problems that may arise in connection with GST-related advertising claims. The Committee therefore recommends that:

The Director of Investigation and Research work with the GST Consumer Information Office to monitor GST-related advertising and alert consumers to misleading advertising claims.

**APPENDIX I
LIST OF WITNESSES**

| NAME | ISSUE | DATE | NAME | ISSUE | DATE |
|--|--------------|-------------|---|--------------|-------------|
| Association des consommateurs du Québec: Alain Paquet, Member of the Board of Directors. | 67 | 29/05/90 | Canadian Association of Japanese Automobile Dealers: Grant Ericksen, President; Brian B. Caldwell, Executive Director; Philip Upshall, Counsel and Director of Government Relations. | 61 | 15/05/90 |
| Automotive Industries Association of Canada: Dean H. Wilson, President; Jonh C. Hart, First Vice-Chairman. | 63 | 17/05/90 | Canadian Bankers Association: Allan Cooper, Vice-President and Director, Financial Affairs. Josée Bleau, Assistant Director, Taxation Services, National Bank of Canada | 66 | 28/05/90 |
| Bank of Canada: John Crow, Governor. | 58 | 9/05/90 | Canadian Chamber of Commerce: Tim Reid, President; Wayne Matheson, Chairman, Sale Tax Sub-Committee. | 60 | 14/05/90 |
| Bell Canada: Robin A. Hamilton Harding, Vice-President and Comptroller; Dale F. Orr, Chief Economist; Charles Campbell, Director of Commodity and Property Taxes. | 65 | 23/05/90 | Canadian Construction Association: John C. Halliwell, President; William J. Nevins, Chief Economist; Michael Makin, Director, Government and Public Relations. | 58 | 9/05/90 |
| Black and Decker Canada Inc.: John F. Hayes, Vice-President, Finance. | 61 | 15/05/90 | Canadian Council of Grocery Distributors: Jacques Auger, President and Chief Executive Officer; Milford C. Sorensen, Vice-Chairman of the Executive Committee. | 65 | 23/05/90 |
| Brooks, Professor Neil York University. | 57 | 8/05/90 | Canadian Federation of Farm Equipment Dealers: Allan Hills, Vice-President. | 60 | 14/05/90 |
| Business Council on National Issues: Thomas d'Aquino, President and Chief Executive Officer; Robert Brown, Price Waterhouse, Tax Adviser to the Council. | 66 | 28/05/90 | Canadian Federation of Independent Business: John Bulloch, President; Catherine Swift, Vice-President and Chief Economist; Michel Décaray, Vice-President, Québec. | 64 | 22/05/90 |
| Canco Inc.: Stephen G. Snyder, President and Chief Executive Officer. | 70 | 4/06/90 | | | |
| Canadian Advertising Foundation: John T. Coleman, President and Chief Executive Officer. | 72 | 5/06/90 | | | |
| Canadian Apparel Manufacturers Institute: Jack Kivenko, President. | 68 | 30/05/90 | | | |

| NAME | ISSUE | DATE |
|---|-------|----------|
| Canadian Home Builders' Association: Gordon Thompson, President; Gary Reardon, First Vice-President; John Bassel, Second Vice-President; Henry Stolp, Second Vice-President. | 69 | 31/05/90 |
| Canadian Labour Congress: Nancy Riche, Executive Vice-President; Bob Baldwin, National Director - Technical Services. | 68 | 30/05/90 |
| Canadian Manufacturers Association: Laurent Thibault, President; James Hutchison, Chairman, Taxation and Financial Policy Committee; Raymond Bourque, Chairman, Québec Division, Taxation Committee. | 66 | 28/05/90 |
| Canadian Real Estate Association: Maurice R. Faraggi, President; Pierre J. Beauchamp, Executive Vice-President; Shirley A. Taylor, Manager, Government/Industry Relation; Barry A. Gogal, Chairman, Federal Affairs Committee. | 67 | 29/05/90 |
| Canadian Retail Hardware Association: Thomas Ross, Executive Director. | 60 | 14/05/90 |
| Canadian Tire Corporation Limited: Alan B. Goddard, Vice-President - Corporate Affairs. | 72 | 5/06/90 |
| Canadian Union of Public Employees Jeff Rose, National President. | 64 | 22/05/90 |
| Chrysler Canada Ltd.: G.J. Israel, Vice-President and Controller-Treasurer. | 68 | 30/05/90 |
| Conference Board of Canada: James G. Frank, Vice-President and Chief Economist; Gilles Rhéaume, Director, Forecasting and Analysis Group. | 59 | 10/05/90 |

| NAME | ISSUE | DATE |
|--|-------|----------|
| Consumers Association of Canada: Nicholas Murray, President; Timothy Denton, Project Director. | 59 | 10/05/90 |
| Crispo, Professor John University of Toronto | 56 | 7/05/90 |
| Department of National Revenue: Dick Fulford, Assistant Deputy Minister, Excise | 72 | 5/06/90 |
| Du Pont Canada Inc.: Jack A. Walsh, Vice-President - Corporate Affairs; John A. Carlos, Director - Taxation; Anthony D. Amery, Chief Economist. | 70 | 4/06/90 |
| Eaton's: Tom Reid, Senior Vice-President, Finance. | 70 | 4/06/90 |
| Economic Council of Canada: Harvey Lazar, Deputy Chairman; Ross Preston, Senior Research Director. | 59 | 10/05/90 |
| Federation of Automobile Dealers Associations: Peter Menzel, President; Ken Graydon, Executive - President. | 62 | 16/05/90 |
| Ford Motor Company of Canada Limited: David Rehor, Vice-President and Treasurer. | 62 | 16/05/90 |
| Fraser Institute: Michael Walker Executive Director. | 62 | 16/05/90 |
| Funeral Service Association of Canada: Gilles Poirier, Past President; Robert Schaffner, President; Paul Carrothers, Director from Ontario. | 66 | 28/05/90 |

| NAME | ISSUE | DATE |
|--|-------|----------|
| General Motors of Canada Limited: Terry Holmes, Vice-President and Finance Manager; Neil Macdonald, Tax Counsel; Paul Sullivan, General Director, Business Strategy and Support. | 62 | 16/05/90 |
| Hudson's Bay Company: Steve Wolfenden, Vice-President, Merchandising, The Bay & Simpsons. Harold Chmara, Director, Planning and Tax. | 71 | 5/06/90 |
| Hydro-Québec: John A. Hanna, Executive Vice-President, Finance and Administration; Jacques Finet, Executive Vice-President, Québec Markets; Jean-Pierre Léveillé, Director, Economic and Energy Studies. | 70 | 4/06/90 |
| Infometrics Limited: Mike McCracken, President. | 56 | 7/05/90 |
| Inglis Limited: Lloyd A. Wampach, President and Chief Executive Officer; Alfred C. Chink, Senior Vice-President. | 68 | 30/05/90 |
| Les Rôtisseries St-Hubert Ltée: Robert Panet-Raymond, President and Chief Executive Officer. | 72 | 5/06/90 |
| McKendry, David Price Waterhouse. | 64 | 22/05/90 |
| Minister of Consumer and Corporate Affairs: The Honourable Pierre Blais | 74 | 12/06/90 |
| Minister of Finance: The Honourable Michael Wilson. | 74 | 12/06/90 |
| Minister of National Revenue: The Honourable Otto Jelinek. | 72 | 5/06/90 |
| Minister of State (Housing): The Honourable Alan Redway. | 73 | 6/06/90 |
| Minister of State (Small Businesses and Tourism): The Honourable Thomas Hockin. | 71 | 5/06/90 |

| NAME | ISSUE | DATE |
|--|-------|----------|
| Municipal Electric Association: Frank Heuston, Chairman; Wil Barber, Director of Finance, Ottawa Hydro; Tony Jennings, Chief Executive Officer. | 67 | 29/05/90 |
| National Council of Welfare: Ken Battle, Director. | 72 | 5/06/90 |
| Ontario Hydro: Mitchell Rothman, Chief Economist. | 65 | 23/05/90 |
| Retail Council of Canada: Alasdair McKichan, President; Peter Woolford, Vice-President. | 70 | 4/06/90 |
| Sears Canada: Albina Klowak, Assistant to the President; Robert Westlake, Comptroller for Taxes. | 64 | 22/05/90 |
| Slutsky, Samuel Cassels, Brock and Blackwell, Toronto. | 65 | 23/05/90 |
| Tourism Industry Association of Canada: John Lawson, Executive Director. | 66 | 28/05/90 |
| Unitel Communications Inc.: Pierre Lamarche, Vice-President, Government Matters. Len Vernon, Vice-President, Finance and Administration. | 69 | 31/05/90 |
| Used Car Dealers Association of Ontario: Robert G. Beattie, Executive Director; Brian Calvin, First Vice-President. | 72 | 5/06/90 |
| WCI Canada Ltd: Bill C. Luton, President and Chief Operating Officer; Richard W. Laba, Vice-President and Controller. | 66- | 28/05/90 |

APPENDIX II

THE IMPACT OF THE PROPOSED GOODS AND SERVICES TAX ON CONSUMER PRICES AND THE ROLE OF THE GST CONSUMER INFORMATION OFFICE

House of Commons Standing Committee on Consumer and
Corporate Affairs and Government Operations

Liberal Party Minority Report

June, 1990

1. The Liberal Party is firmly opposed to the implementation of the GST in its present form and will continue in its opposition to this most unfair and regressive tax.

2. The existing Federal Sales Tax (FST) is undoubtedly flawed and must be replaced. The Liberal Party has acknowledged this repeatedly, most notably in their dissenting report on the Technical Paper on the GST as prepared by Liberal members of the Standing Committee on Finance.

3. While certain economic theories suggest there may be some benefit accrue to the Canadian economy from replacing the FST with the GST, this is far from a certainty. In fact, if there was one over-riding theme emerge from the testimony of witnesses heard by this Committee, it was the absolute absence of certainty about the long or short-term effects of this shift in taxation methods.

4. The difficulty in determining the amount of FST currently imbedded in the costing/pricing structure of most manufactured goods cannot be overestimated. Witness after witness before the Committee said the same thing: it will be virtually impossible to determine the amount of FST to which they are currently subject.

5. Given this reality and its fundamental effect on any conclusions this Committee may reach, the Liberal Party is not able to accept the recommendations put forth by the majority Conservative membership of this Committee.

6. Because of the difficulty in isolating the FST in prices, the government's assumption of a full pass-through of any FST savings is founded more on optimism and hope than reality. The same belief was held by most economic think-tanks which appeared before this Committee. Because this assumption also underlies most of the forecasts presented, their validity must be questioned.

7. An equally disturbing caveat of government and think-tank forecasts is that labour groups will not make wage demands to compensate for any real or perceived loss of spending power resulting from the introduction of the GST. Once again, the Liberal Party questions the accuracy and fairness of this assumption.

8. The government assumes that competitive pressures in the marketplace will be sufficient to ensure FST savings will be passed on. While the Liberal Party readily acknowledges the powers and efficiencies of the marketplace, we do not assume that it will always work to safeguard the interests of the consumer. Certain sectors of the economy, other than those which are regulated by government, are simply not competitive enough to ensure consumer protection.

9. Virtually all businesses which appeared before the Committee promised to pass on to consumers any savings resulting from the elimination of the FST, assuming, of course, these savings could be identified. This assurance became much less comforting, however, when several large retailers also said they wanted to keep their current absolute dollar margin. How will market forces protect consumers in this instance?

10. The negative effect of the proposed GST on small business is very worrisome. The Canadian Federation of Independent Business predicts that fully 2 per cent of its membership will file bankruptcy as a result of the GST, while others will be left to absorb the vast compliance costs associated with the GST. The Liberal Party views this as an unjust and needless assault on small business, the number one generator of jobs in Canada.

11. The government is anxious to point out the savings which should accrue to consumers on purchases of durable goods such as automobiles and refrigerators once the proposed GST is in place. Canadians should ask themselves, however, if the savings which occur from buying one of these "big ticket" items every 10 years or so will not be offset by increases in the cost of goods and services purchased daily. The

long-term, net effect on consumer spending power is almost impossible to predict.

12. The Liberal Party cannot accept the government prediction that the tourism industry will prosper as a result of introducing the GST. Tourism is a very valuable contributor to our economy and an important tool of regional development. We simply cannot afford to see it suffer because of the GST.

13. Housing costs will be negatively impacted by the GST and will not be completely offset by credits issued to homebuilders. If the cost of constructing housing increases, so should the cost of renting housing. This will probably have the gravest impact on low income earners, those who can least afford it.

14. According to government, one of the major drawbacks of the FST is that it isn't visible to the consumer. The Liberal Party is far from satisfied that the GST will be any different. A number of witnesses, from small business interests to the Fraser Institute, said it would be very difficult to maintain the visibility of the GST in the long-term. Over time the GST may very well become incorporated into the pricing structure for retailers and become as invisible as the FST is now.

15. The Liberal Party cannot concur with the government's wish to pressure the Senate into passing Bill C-62, the GST legislation. The Senate of Canada has a constitutional role to fulfill and this includes listening to the concerns of citizens. With 80 per cent of Canadians opposed to the GST, these concerns are very real and deserve a fair hearing.

16. The GST Credit must be fully indexed to the inflation rate. As the National Council of Welfare said, the poorest people in our society are going to be the only ones who will see an automatic increase in the amount of GST they pay each year, regardless of its actual rate. This is totally unacceptable to the Liberal Party. Even opponents of Cost of Living Allowance Clauses must concede that low-income Canadians are not the cause of inflationary pressures.

17. It is not enough that the government "urge" provinces to ensure they do not consider GST Credits as income for the purpose of determining eligibility for payment through social assistance programs. The federal government must secure undertakings from the provinces to see this doesn't happen. Low income Canadians must not become the scape-goats for provinces already suffering from reduced federal transfer payments.

18. The Liberal Party does not support the formation of a GST Consumer Information Office. There are several reasons for this. First, the government says its main goal will be to educate consumers about the GST. How credible will the government be as an educator when its first advertising campaign for the GST was ruled as "misleading" by the Speaker of the House of Commons? Why should Canadians believe what they are told by a government who have formal complaints lodged against them by the Better Business Bureau for false advertising?

19. Second, the information needed by the Consumer Information Office simply doesn't exist. How can this small body, staffed by 20 people, fairly deem a company to not be passing on FST savings when the company itself cannot know how much FST it is currently paying? For the Consumers Information Office to have such grandiose goals is not reasonable.

20. Finally, spending 19 million dollars to establish this office is a needless waste of taxpayers' money. The Office, in reality, will be able to do little more than offer consumers a false sense of security. Information similar to that which the Information Office may want is already being sought by the Departments of Finance and Revenue. There is no need for an additional 20 people to try and achieve the impossible.

APPENDIX III

The New Democrats' Party... the Commission... possible impact of the GST on consumers... report prepared... evidence presented... about the impact of the GST on consumers... on unrealistic assumptions... The minority report... responsibility of the... will look at the impact of the GST on consumers... will look at the role of the proposed consumer information office... he could not agree with the... information office... that will be... the GST.

**NEW DEMOCRATS' MINORITY REPORT
ON THE EFFECT OF THE GST ON PRICES
AND THE ROLE OF THE CONSUMER INFORMATION OFFICE**

The... it is... price of... distinction or... component of the price of goods... The... will... a... the... consumer prices of the... the government's... JOHN RODRIGUEZ, MP
LEN TAYLOR, MP
JUNE 1990

The New Democratic Party is opposed to the GST. It took part in the Committee's proceedings in an attempt to assess the possible impact of the GST on consumers. We present a minority report because our worst fears about the tax were realized through evidence presented to the Committee. The government's projections about the impact of the GST on inflation and the economy are based on unrealistic expectations of the behaviour of firms.

The minority report is divided into two sections corresponding to the mandate of the Committee. The first section will look at the impact of the GST on consumer prices. The second will look at the role of the proposed consumer information office. We could not agree with the creation of the GST Consumer Information Office because this will be only a cosmetic exercise that will not be able to track the price impact of the removal of the GST.

I. Price Effects

The overwhelming evidence presented to the Committee was that it is difficult, if not impossible, to identify the FST in the price of manufactured goods. The further down in the production, distribution or retail cycle, the harder it became to identify the FST component of the price of goods.

The question of uncertainty was expressed by the majority of witnesses.

"When considering the question of the true impact on consumer prices of the replacement of the FST with the GST, several of the government's own agencies agree that there is no way of arriving at an accurate answer... Even Canada Post informed the CFIB that it does not have the sophisticated accounting systems in place that would permit it to determine how much FST it is currently paying, and by how much and in which direction it will be adjusting postal rates.

John Bulloch, CFIB

Determining, realizing and passing on price reductions will be an extremely difficult process that many people - retailers in particular - will have little, if any control over.

Samuel Slutsky, (Cassels, Brock and Blackwell)

We have no idea of the present impact of the federal tax and that we cannot actually say whether there is going to be an increase or not, all things being equal.

Maurice Faraggi, Canadian Real Estate Association

There is uncertainty as to how much tax savings will be passed on from the manufacturers as a result of the elimination of the Federal sales Tax and how this will affect our purchase prices.

Unitel Brief, page 4

The question of not being able to determine the price impact of the removal of the FST is one that most, if not all witnesses, raised. This lack of certainty is a source of deep concern for the NDP members on the Committee.

Another major concern for the NDP is that many witnesses - such as Eaton's, the Bay, the Canadian Association of Japanese Automobile Dealers - stated that they intended to maintain the dollar value of the mark-ups. This means that they will realize a higher percentage on their profits as their costs presumably will decrease as a result of the removal of the FST.

The fact that it will be difficult to identify the FST component in prices means that many of the Finance Department's projections about the inflationary impact of the GST are thrown into question. The government's projected one-time price jump of 1.25 is based on a 100 percent passthrough of the FST savings. However, there is no way of knowing what that saving, if it were there at all, will be. Therefore, the projected 100 percent passthrough is just as realistic as a 0 percent passthrough. For instance, the Canadian Homebuilders Association told the committee

that they expect that one-third of the FST will remain for years after its removal.

The Committee heard that a 50 percent passthrough will lead to 2.8% increase in consumer prices. A thirty percent passthrough will lead to a price impact of 3.3 percent. Again, if it is impossible to identify the FST component in prices, projections about the price impact of the GST can be anywhere in the range from 1.25% to 3.3 percent. This leads to a great deal of skepticism about many of the government's projections about the impact of the GST on consumers.

II. Consumer Information

The Committee's second mandate was to look into the creation of a consumer information office. The Minister of Consumer and Corporate Affairs preempted the work of the Committee by announcing the formation of an ill-defined, \$19 million GST Consumer Information Office (CIO).

We can only conclude, given the evidence that the FST cannot be tracked, that such an agency will be a gross waste of taxpayers money. Even Nicholas Murray, the appointed head of the CIO and president of the Consumers Association, told the Committee that he was skeptical that the agency could track the impact of removing. He stated that the agency would be useful to educate merchants and consumers, but "not very useful from a practical point of view."

Laurent Thibault, the head of the Canadian Manufacturers Association, told the Committee that an agency that would try to identify the impact of the removal of the FST would be "the wrong approach" because of the complexity of the task.

The NDP agrees with the chief economist of the CFIB who told the Committee that:

There is absolutely no way that the Consumer and Corporate Affairs committee that is to be set up will be anything but a political; exercise to perhaps make consumers feel their interests are being looked out for. Statistics Canada has already admitted there is no way they can do a GST-related price index, so it cannot be done by the best of experts.

Clearly, the CIO is just an attempt to put a human face on what is a tax that will hit low and medium income Canadians the hardest.

III. Recommendations

Given the uncertainties surrounding the price impact of the GST, the NDP recommends that the government abandon the GST, and attempt a serious effort to provide Canadians with a progressive and fairer system of taxation. The evidence provided to the Committee has confirmed our worst fears with respect to low-income Canadians and wage-earners who are still trying to recoup the losses to their real wages incurred during the 1980s.

If the GST does go ahead, the NDP issues the following recommendations:

1. The GST tax credit be fully indexed, and all plans for partial de-indexation be scrapped. The GST Credit should also be paid monthly.

2. The government cease to attack wage settlements which are only trying to keep up with inflation rates. As many witnesses told the Committee, COLA clauses are perfectly reasonable demands.

3. The federal government must demand that the provincial government do not consider GST Credit as income when determining eligibility or payment levels for social assistance programmes.

3. The GST CIO be scrapped so that Canadians can save \$19 million. The education and technical information can be provided by the existing offices at the Finance Department and Revenue Canada.

4. The Standing Committee on Consumer and Corporate Affairs have an annual study of the impact of the GST on consumers and the economy.

REQUEST FOR GOVERNMENT RESPONSE

Your Committee requests that the Government table a comprehensive response to this Report in accordance with the provisions of Standing Order 109.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 56 to 74 and 75 which includes this Report*) is tabled.

Respectfully submitted,

GARTH TURNER
Chairman

MONDAY, JUNE 18, 1990
(91)

The Standing Committee on Consumer and Corporate Affairs and Government Operations met in camera at 1:12 o'clock p.m. this day, in Room 112-N Centre Block, the Chairman, Garth Turner, presiding.

MINUTES OF PROCEEDINGS

THURSDAY, JUNE 14, 1990

(90)

[Text]

The Standing Committee on Consumer and Corporate Affairs and Government Operations met *in camera* at 10:32 o'clock a.m. this day, in Room 208 West Block, the Chairman, Garth Turner, presiding.

Members of the Committee present: Don Boudria, John E. Cole, Louise Feltham, Gabriel Fontaine, Gabriel Larrivée, Russell MacLellan, Jean-Marc Robitaille, John Rodriguez, Roger Simmons, Len Taylor and Garth Turner.

In attendance: From the Research Branch of the Library of Parliament: Peter Berg and Margaret Smith, Research Officers.

The Committee resumed its inquiry into the effect of the goods and services tax on prices and the role of the Consumer Information Office. (*See Minutes of Proceedings, Monday, May 7, 1990, Issue No. 56.*)

The Committee proceeded to the consideration of a draft report.

It was agreed,—That the two opposition parties each have until 10 o'clock p.m., this day to submit to the Clerk of the Committee minority reports of up to five (5) pages in length.

At 11:50 o'clock a.m., the Committee adjourned until tomorrow morning at 9:30 o'clock a.m.

MONDAY, JUNE 18, 1990

(91)

The Standing Committee on Consumer and Corporate Affairs and Government Operations met *in camera* at 1:12 o'clock p.m. this day, in Room 112-N Centre Block, the Chairman, Garth Turner, presiding.

Members of the Committee present: John E. Cole, Gabriel Fontaine, Jean-Marc Robitaille, Roger Simmons and Garth Turner.

Acting Members present: Allan Koury for Bill Casey; David Bjornson for Gilbert Chartrand; Marcel R. Tremblay for Louise Feltham; and Edna Anderson for Gabriel Larrivée.

In attendance: From the Research Branch of the Library of Parliament: Peter Berg and Margaret Smith, Research Officers.

The Committee resumed its inquiry into the effect of the goods and services tax on prices and the role of the Consumer Information Office. (*See Minutes of Proceedings, Monday, May 7, 1990, Issue No. 56*).

The Committee resumed consideration of the Draft Report.

It was agreed,—That the Committee request a comprehensive response from the government.

It was agreed,—That the Draft Report, as amended, be concurred in.

It was agreed,—That the opposition parties' minority reports submitted to the Clerk of the Committee last Thursday be appended to the Committee's Report.

It was agreed,—That the Draft Report, as amended, be the Committee's Report to the House.

It was ordered,—That the Chairman report the Report to the House.

It was ordered,—That the Committee print 2,000 copies of the Report in English and 1,000 copies in French with distinctive covers.

It was agreed,—That the question relating to the evidence of the Committee raised in the House of Commons last Thursday by John Rodriguez be referred to the Sub-committee on Agenda and Procedure for consideration of the Sub-committee at its next meeting.

At 1:19 o'clock p.m., the Committee adjourned to the call of the Chair.

Bernard G. Fournier
Clerk of the Committee



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C.P. 1990-1104
12 juin 1990

CANADA

PRIVY COUNCIL • CONSEIL PRIVÉ

ATTENDU QUE, le 24 janvier 1990, le ministre des Finances a déposé à la Chambre des communes le projet de loi C-62 intitulé Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt;

ET ATTENDU QUE si le projet de loi est adopté, une meilleure compréhension par le public de la taxe sur les produits et services aidera les consommateurs à prendre des décisions éclairées au sujet de leurs achats et aidera à promouvoir le déroulement concurrentiel du marché,

À CES CAUSES, sur avis conforme du ministre des Consommateurs et des Sociétés et en vertu de l'article 6 de la Loi sur le ministère des Consommateurs et des Sociétés, il plaît à Son Excellence le Gouverneur général en conseil de prendre le Décret constituant le Bureau d'information des consommateurs concernant la taxe sur les produits et services, ci-après.

CERTIFIED TO BE A TRUE COPY - COPIE CERTIFIÉE CONFORME

A handwritten signature in red ink, appearing to read "P. Leclair".

CLERK OF THE PRIVY COUNCIL - LE GREFFIER DU CONSEIL PRIVÉ

DÉCRET CONSTITUANT LE BUREAU D'INFORMATION DES CONSOMMATEURS
CONCERNANT LA TAXE SUR LES PRODUITS ET SERVICES

Titre abrégé

1. Décret sur le Bureau d'information des consommateurs sur la taxe sur les produits et services.

Définitions

2. Les définitions qui suivent s'appliquent au présent décret.

«Conseil» Bureau d'information des consommateurs sur la taxe sur les produits et services constitué en vertu de l'article 3.
(Council)

«projet de loi C-62» Le projet de loi intitulé Loi modifiant la Loi sur la taxe d'accise, le Code criminel, la Loi sur les douanes, le Tarif des douanes, la Loi sur l'accise, la Loi de l'impôt sur le revenu, la Loi sur la statistique et la Loi sur la Cour canadienne de l'impôt, déposé devant la Chambre des communes le 24 janvier 1990. (Bill C-62)

Bureau d'information des consommateurs sur la taxe sur les produits et services

3. Est constitué un conseil consultatif de la consommation devant être connu sous le nom de Bureau d'information des consommateurs sur la taxe sur les produits et services, à partir de la date de la prise du présent décret jusqu'à un an après le jour, le cas échéant, où une taxe devient payable en vertu du projet de loi C-62 par l'acquéreur d'une fourniture de produits ou services.

Organisation

4. (1) Le Conseil se compose d'un président, de deux vice-présidents, d'un directeur exécutif et d'au plus 10 autres membres nommés par le gouverneur en conseil à titre amovible.

(2) Le gouverneur en conseil choisit les membres parmi des personnes qu'il juge représentatives, collectivement, des intérêts des consommateurs, du milieu des affaires et du monde du travail.

5. (1) Le président préside les réunions du Conseil et remplit toute autre fonction que lui confie le Conseil.

(2) En cas de partage dans un vote sur toute question dont est saisi le Conseil à l'une de ses réunions, le président a une deuxième voix.

(3) En cas d'absence ou d'empêchement du président ou de vacance de son poste, le ministre des Consommateurs et des Sociétés peut désigner un vice-président à titre de remplaçant, ce vice-président ne pouvant exercer la présidence pendant plus de 90 jours sans l'approbation du gouverneur en conseil.

6. Les vice-présidents peuvent remplir les fonctions que leur confie le président.

7. (1) Le directeur exécutif est le premier dirigeant et assure, au nom du Conseil, la direction générale des travaux du Conseil.

(2) La personne nommée au poste de directeur exécutif exerce ses fonctions à plein temps.

(3) En cas d'absence ou d'empêchement du directeur exécutif ou de vacance de son poste, le secrétaire de direction peut assumer les fonctions du directeur exécutif, le secrétaire de direction n'ayant pas voix aux réunions du Conseil ou du comité exécutif et ne pouvant assumer ces fonctions pendant plus de 30 jours sans l'approbation du gouverneur en conseil.

8. Un poste vacant au sein du Conseil n'empêche pas les autres membres d'agir.

9. Aux réunions du Conseil, le quorum est constitué par la majorité des membres du Conseil en poste.

10. Le Conseil se réunit aux dates, heures et lieux choisis par le président selon les besoins, et au moins une fois tous les trimestres.

Comité de direction

11. (1) Est constitué un comité de direction du Conseil composé du président, des vice-présidents et du directeur exécutif.

(2) Le comité de direction s'acquitte des fonctions que lui confie le Conseil et présente, à chaque réunion du Conseil, un rapport sur ses activités depuis la dernière réunion du Conseil.

(3) Le président préside les réunions du comité de direction.

(4) En cas de partage dans un vote sur toute question dont est saisi le comité de direction à l'une de ses réunions, le président a une deuxième voix.

(5) Un poste vacant au sein du comité de direction n'empêche pas les autres membres d'agir.

(6) Aux réunions du comité de direction, le quorum est constitué par la majorité des membres du comité de direction en poste.

(7) Le comité de direction se réunit aux dates, heures et lieux choisis par le président selon les besoins.

Rémunération et indemnités

12. (1) Les membres du Conseil, à l'exception du président, des vice-présidents et du directeur exécutif, ont droit à la rémunération fixée par le gouverneur en conseil pour chaque jour pendant lequel ils assistent à une réunion du Conseil ou de l'un de ses comités.

(2) Le président et les vice-présidents ont droit à la rémunération fixée par le gouverneur en conseil pour chaque jour pendant lequel ils assistent à une réunion du Conseil ou de l'un de ses comités, ou pendant lequel ils s'acquittent de services à l'égard du Conseil.

(3) Le directeur exécutif a droit à la rémunération fixée par le gouverneur en conseil.

(4) Les membres du Conseil, y compris le président, les vice-présidents et le directeur exécutif, ont droit à une indemnité pour les frais de déplacement et de subsistance engagés par eux dans l'exercice de leurs fonctions et lorsqu'ils s'absentent de leur lieu de résidence permanent, conformément aux directives du Conseil du Trésor.

Personnel

13. (1) Le secrétaire de direction et le personnel nécessaire à l'exercice des activités du Conseil sont nommés conformément à la Loi sur l'emploi dans la Fonction publique.

(2) Le secrétaire de direction est l'administrateur en chef et relève du directeur exécutif et, sous la direction de celui-ci, assure la gestion du personnel et la direction des activités courantes du Conseil.

Dispositions générales

14. Le Conseil peut prendre des règlements administratifs concernant le déroulement de ses délibérations et l'exercice de ses activités, y compris la création de comités.

15. Le siège du conseil est fixé dans la région de la capitale nationale au sens de l'annexe de la Loi sur la capitale nationale.

Pouvoirs et fonctions

16. Le Conseil renseigne les consommateurs sur la taxe sur les produits et services proposée en entreprenant des recherches pour en déterminer l'incidence probable sur les prix des principaux produits et services de consommation et en publiant des renseignements à ce sujet.

17. Si, en vertu du projet de loi C-62, une taxe devient payable par l'acquéreur d'une fourniture de produits ou services, le Conseil :

- a) entreprend des recherches sur l'incidence de la taxe sur les prix des produits et services de consommation et en publie les résultats;
- b) reçoit et étudie les plaintes des consommateurs au sujet de l'incidence de la taxe sur les prix des produits et services de consommation;
- c) présente au gouverneur en conseil des rapports périodiques sur ses activités.

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