

*Jan/90*

# **GST**

## **Gouge and Screw Tax**

**or**

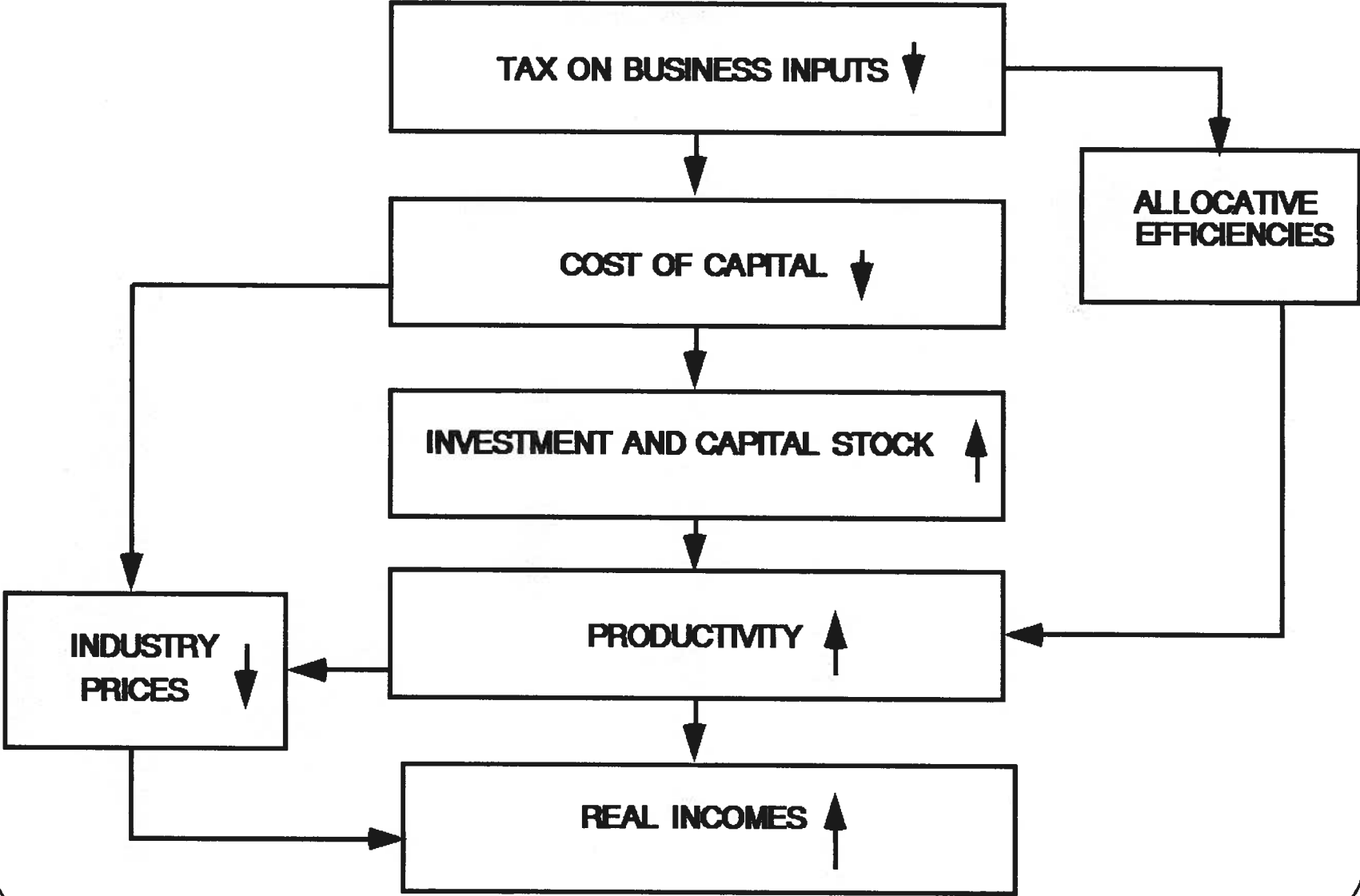
## **Good Sensible Tax?**

①

# Why the GST?

- **Remove Distortions of Relative Prices**
- **Remove Taxes on Business Inputs**
- **Remove Taxes from Exports and Advantage from Imports**
- **More Stable and Broader Revenue Base**

# GAINS FROM GST - I



## GAINS FROM GST - II

MST OUT  
GST IN

REMOVE HIDDEN MST  
ZERO RATE EXPORTS

INDUSTRY  
PRICES ↓

REMOVE RELATIVE  
INCENTIVE FOR SOME  
IMPORTS

INCREASE  
EXPORTS

IMPORT  
SUBSTITUTION

# GST Package

FOREX

**BLOCK 1**  
**REPLACE  
MST  
WITH  
GST**

BOC

LAB

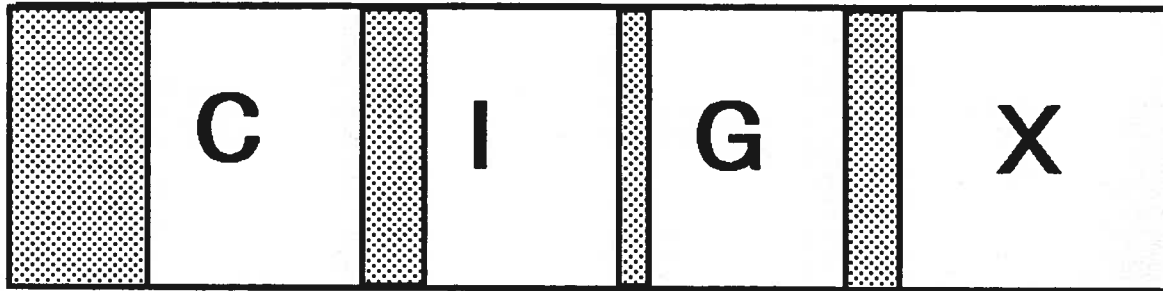
**BLOCK 2**  
**INCOME  
RE-DISTRIBUTION**

PROV

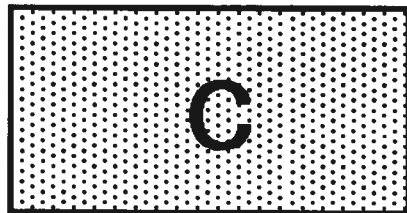
BUS

# The Policy Parts

MST  
OFF



GST  
ON



7 %

**Income  
Redistribution**

# Income Redistribution

**Refundable Sales Tax Credit \$1.2B**

**Housing Rebate \$0.5B**

**Indexing Effects \$0.1B**

**Subtotal \$1.8B**

**Large Corporation Tax \$0.2B**

**High Income Surtax \$0.2B**

**SIN Taxes \$0.7B**

**Expenditure Reductions \$0.7B**

**Subtotal \$1.8B**

# Bank of Canada

## Effects

CPI impact small, one-time

Small real impact

Positive for productivity

## Actions

No increase in interest rates

Accommodate change

# Foreign Exchange

## Effects

- No major price impacts
- Modest current account impact
- Positive for productivity

## Actions

- No exchange rate pressure
- Lower cost of investment

# Provincial Governments

## Effects

- Not liable for GST on purchases**
- Small impact on balances**
- Minimal effect on MUSH**

## Actions

- Make sensible decisions on GST system**
- Avoid distorted departmental decisions**
- Push for exclusion of MUSH**

# Business

## Effects

Investment prices Down  
No MST on inputs  
Zero-rate on exports  
Even playing field re imports

## Actions

Increase capital stock  
Increase exports  
Import substitution  
Normal collective bargaining

# Labour

## Effects

CPI up by 1.2%

RSTC increased

Modest overall employment effects

## Actions

Normal collective bargaining

Sectoral employment concerns

# **GST Concerns**

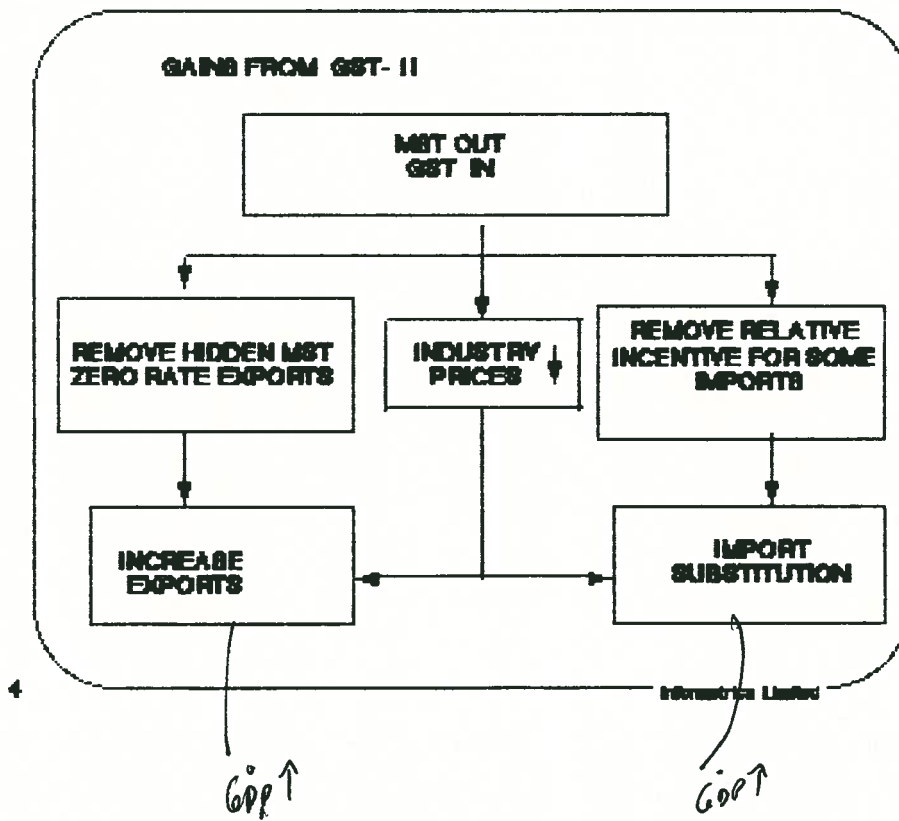
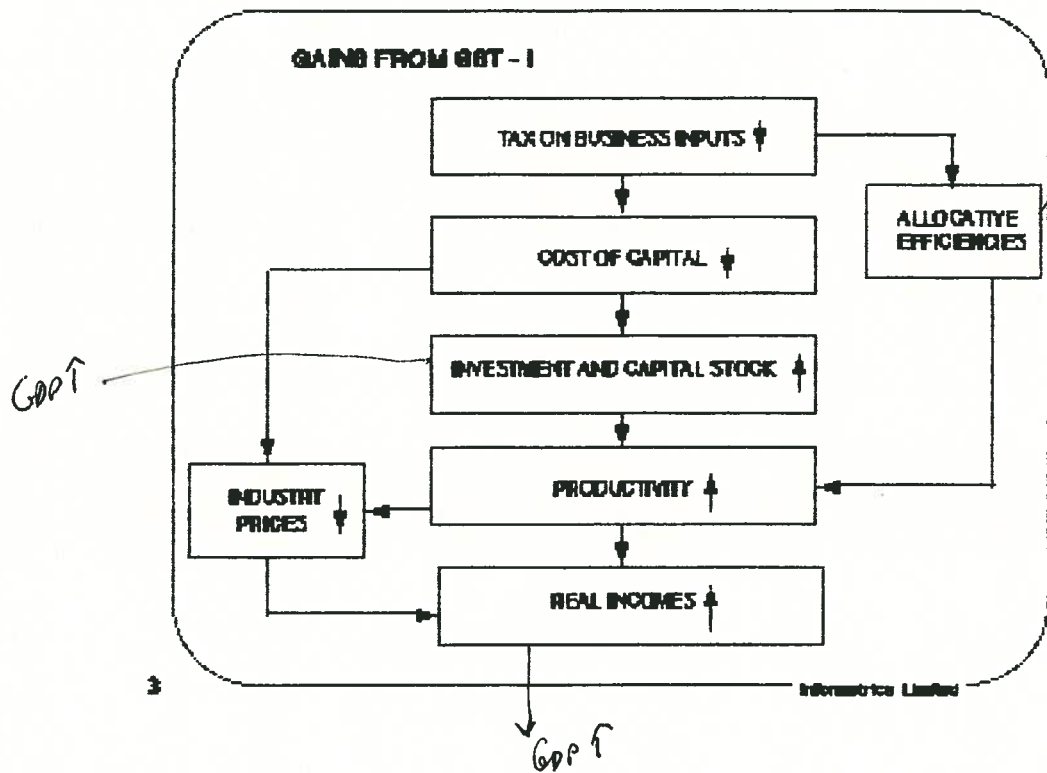
- **Transitional Issues**
  - **Consumption distortions**
  - **Investment distortions**
  - **Management focus**
  
- **Mst Out?**
  
- **Integration with Provinces?**
  
- **Adverse Sectoral Impacts**
  - **Clothing and Footwear**
  - **Recreational Services**
  - **Hotels, Restaurants, Taverns**

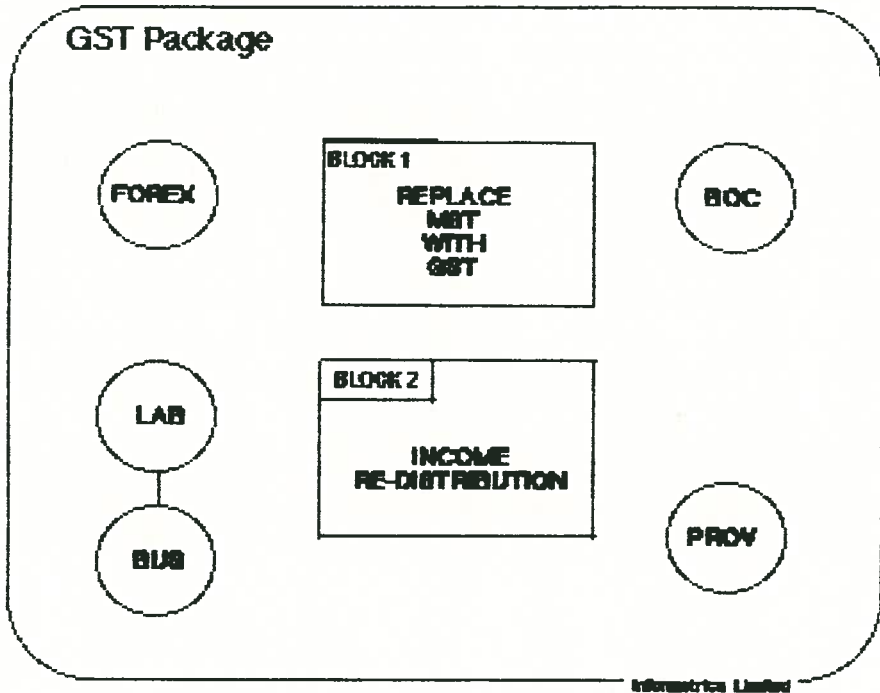
# Future of GST

- Will be adopted by federal government
- Provincial governments will come in eventually
- Seen as a major improvement over the MST
- U.S. will come to study our system
- Small business will like it
- Rate will be 20% (combined) before 2000

**SIGNIFICANT CONSUMER PRICE CHANGES**  
(Impact as Percentage of Base Level)

	MST Removed	With GST Block One	With GST Block Two
Recreational Services	-3.7	7.7	7.8
Rest'n'ts, Hotels & Tavns.	-2.1	7.1	7.2
Laundry & Dry-Cleaning	-1.9	7.1	7.2
Natural Gas	-0.3	7.2	7.2
Other Fuels	0.0	7.0	7.0
Electricity	-1.4	6.7	6.4
Other Household Services	-2.1	6.1	6.0
Women's & Child Clothing	-2.4	5.7	5.7
Men's & Boys' Clothing	-2.4	5.7	5.6
Books, Mags. & Stationery	-1.1	5.2	5.2
Footwear & Repair	-3.3	4.7	4.7
Food & Nonalc. Beverages	-4.8	-3.5	-3.7
Drugs & Sundries	-6.9	-3.5	-3.5
Toilet Arts. & Cosmetics	-9.9	-2.3	-2.4
Autos New & Net Used	-9.1	-2.2	-2.2
Recreation Equipment	-10.2	-2.1	-2.2
Household Appliances	-8.2	-1.9	-1.9
Paid Space Rent	-1.8	-0.4	-0.6
Alcoholic Beverages	-6.3	-3.2	0.0
Tobacco	-5.5	-2.8	0.0
Gasoline, Oil & Grease	-4.1	-0.1	0.0

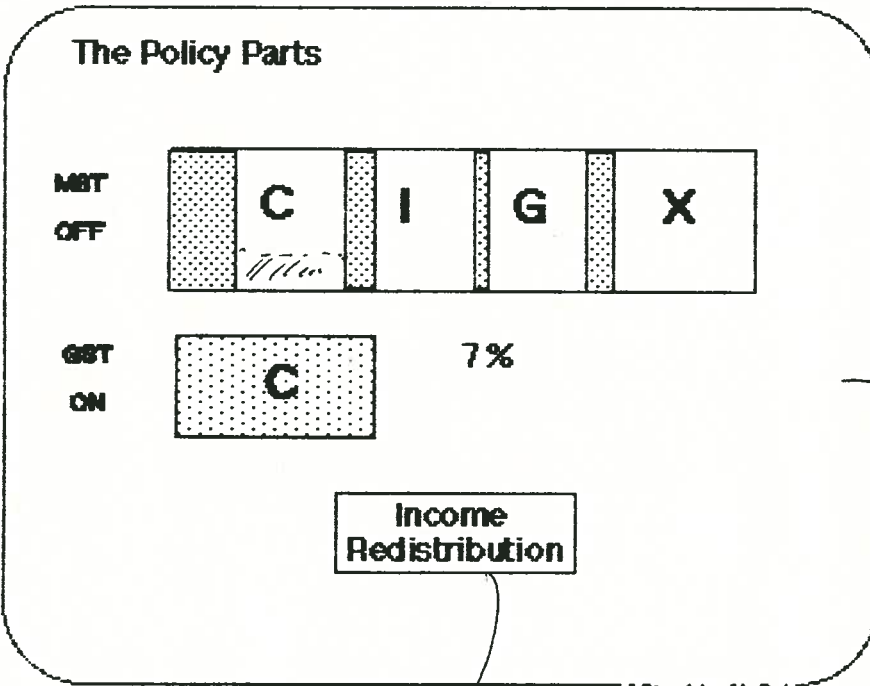




*Cost Activities  
+  
Reactions of Various  
Groups.*

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*Remove existing MST*

*+ Res construction  
+ Fed Exche Commis (FD)  
+ Some exceptions on  
Consumption  
- Food (0)  
- Drugs (0)  
- Medical/Phar (E)*

*next slide*

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*Revenue Neutral 1.8B → 1.8B*

CONSUMERS

**Income Redistribution**

Refundable Sales Tax Credit	\$1.2B
Housing Rebate	\$0.5B
Indexing Effects	\$0.1B
<b>Subtotal</b>	<b>\$1.8B</b>
Large Corporation Tax	\$0.2B
High Income Surtax	\$0.2B
SIN Taxes	\$0.7B
Expenditure Reductions	\$0.7B
<b>Subtotal</b>	<b>\$1.8B</b>

→ Low Income  
→ Middle class  
→ All  
High Income + some SD  
All

*Large corp*

*Capital Expenditure in alt. (70)*

*Urban Fees ↑ (120M)*

*Student Loans ↓ (61M) (3% change)*

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**Bank of Canada**

**Effects**

CPI Impact small, one-time  
Small real impact  
Positive for productivity

**Actions**

No increase in interest rates  
Accommodate change

*Present*

*2.15 (9)*

*↓*

*1.2 (7) + sin*

*"STAND ON GUARD"*

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## Foreign Exchange

### Effects

No major price impacts  
Modest current account impact  
Positive for productivity

### Actions

No exchange rate pressures  
Lower cost of investment

GDP ~ 0

CPI - Agreement with US

LT → REIN↑

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## Provincial Governments

### Effects

Not liable for GST on purchases  
Small impact on balances  
Minimal effect on MUSH

### Actions

Make sensible decisions on GST system  
Avoid distorted departmental decisions  
Push for exclusion of MUSH

9% was more  
desirable

+ PST ↓ cost province

MUSH should pay

no more ~ 1/3.

Rebate GST to Dept!!  
(Mto Fed)

Lack of budget means to  
pay -

Treat as "business" +  
rebat credit GST point,

Charge GST on all services sold.

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## Business

### Effects

Investment prices Down  
 No MST on inputs  
 Zero-rates on exports  
 Even playing field re imports

### Actions

Increase capital stock  
 Increase exports  
 Import substitution  
 Normal collective bargaining

$\overset{\circ}{DIEP}$  -3 to -10  
 $\overset{\circ}{DIEP}$  -2

~ 1%

Hope they take it  
 in volume, not P.  
 (K)

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## Labour

### Effects

CPI up by 1.2%  
 RBTC increased  
 Modest overall employment effects

### Actions

Normal collective bargaining  
 Sectoral employment concerns

$\overset{\circ}{CPI}$  on the rise on  
 1989 budget + lower

MA +10  
 Ag +5

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-20,000 / (Kids, let, iron) -60 LT (4%)

-7,000 / (reduced main) -20 LT (9%)

## GST Concerns

- **Transitional Issues**
  - Consumption distortions
  - Investment distortions
  - Management focus
- **Mini Out?**
- **Integration with Provinces?**
- **Adverse Sectoral Impacts**
  - Clothing and Footwear
  - Recreational Services
  - Hotels, Restaurants, Taverns

*Harvest / Run like Swiss*

1990  
 + Clothing  
 + Footwear  
 - Autos  
 - Appliances  
 + Services

How "COMPETITIVE" on markets?

Later  
 Will they "help" by paying tax + applying to credit?

M+E - WAIT!  
 TIME SPENT on GST Δ

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## Future of GST

- Will be adopted by federal government
- Provincial governments will come in eventually
- Seen as a major improvement over the MBT
- U.S. will come to study our system
- Small business will like it
- Rate will be 20% (combined) before 2000

Committed  
 Attractiveness will become apparent + pressure to A ↑.

10% Fed  
 10% Prov.

May keep their favorable tax treatment? no tax on I.

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**SIGNIFICANT CONSUMER PRICE CHANGES**  
(Impact as Percentage of Base Level)

	Remove MST	GST - MST	Full Package
Recreational Services	-3.7	7.7	8.0
Rest'n'ts, Hotels & Taverns.	-2.1	7.1	7.4
Laundry & Dry-Cleaning	-1.9	7.1	7.3
Natural Gas	-0.3	7.2	7.3
Other Fuels	0.0	7.0	7.0
Electricity	-1.4	6.7	6.8
Purchased Transport	-1.4	7.0	7.3
Other Household Services	-2.1	6.1	6.3
Women's & Child Clothing	-2.4	5.7	5.9
Men's & Boys' Clothing	-2.4	5.7	5.8
Footwear & Repair	-3.3	4.7	4.8
Books, Mags. & Stationery	-1.1	5.2	5.4
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Toilet Arts. & Cosmetics	-9.9	-2.3	-2.2
Autos New & Net Used	-9.1	-2.2	-2.1
Household Appliances	-8.2	-1.9	-1.8
Furniture & Carpets	-8.9	-1.0	-0.8
Paid Space Rent	-1.8	-0.4	-0.2