

## **Briefing Note – Sales Tax Harmonization**

**June 2008**

**Saskatchewan Chamber of Commerce**

### **Synopsis**

The Saskatchewan Chamber of Commerce is an advocate for the harmonization of the Provincial and Federal sales taxes as a means to increase business competitiveness and relieve some administrative burden challenging business owners.

This position is not universally supported in the Saskatchewan business community, with notable dissent from the foodservices and the residential construction industry, among others.

The Saskatchewan Government has indicated it is not interested in harmonization at this time. The Provincial Chamber has offered alternatives to full harmonization in recent policy resolutions, including the expansion of the business input sales tax credit to include all business inputs.

### **Briefing**

For the past several years, numerous policy resolutions have been passed by the membership of the Saskatchewan Chamber of Commerce calling for the removal of the Provincial Sales Tax (PST) from business inputs through the provision of a tax credit on these purchases of goods and services. These resolutions have been lobbied to the Provincial Government as a more palatable alternative to full harmonization of the provincial and federal sales taxes. This advice to government was predicated on the assumption that a shift in taxation this measure would bring about would be offset through other tax reductions, such as Personal Income Tax.

At the most recent Annual Conference on Business, the membership of the Provincial Chamber called for the Provincial Government to expand the business sales tax input credit to all business inputs, phased in over a five year period, to lessen the budgetary impact. Expanding the refundable sales tax input credit to all business activities in Saskatchewan, and using a phase in over a period of five years, would be a measure to offset the budgetary impact through an expected increase in investment leading to incremental economic growth.

The Provincial Chamber supports a harmonized sales tax (HST) as a method in which to increase business competitiveness with neighbouring jurisdictions such

as Alberta, which does not have a provincial sales tax. The federal government allows for a GST tax credit on business inputs, and provinces which have adopted an HST have allowed for the same credit regarding provincial sales. Saskatchewan is left in an unfortunate position as consumer goods and services originating in the province cost more due to the extra 5% PST applied on most business inputs.

An HST would also increase Saskatchewan's competitiveness as it would simplify the administrative burden. At present, businesses must apply for a GST credit; however, as some business inputs are PST-exempt, they must also apply for a PST credit, thereby having to complete similar paperwork twice.

Industry associations such as the Canadian Restaurant and Foodservices Association is opposed to harmonization because this change would apply the PST to restaurant meals but maintaining sales tax-free status for most grocery food. The Association also has concerns about the shift in taxation from business to consumers, citing a statistic that when the GST was introduced in 1991, restaurant sales fell by 10.6% and 42,000 jobs were lost. The CRFA wants "flaws" in the GST remedied before any move to a harmonized sales tax, because since the GST was introduced, the CRFA argues it has placed foodservice operators at a competitive disadvantage, because products sold in restaurants are subject to the GST, while similar or identical products sold by their closest competitors – grocery stores – are not.

Some recent developments have taken place in Saskatchewan around this file. In January 2008, the Federal Government, which is supportive of a nationwide harmonized sales tax regime, offered the Province of Saskatchewan \$180 Million in offsets in exchange for harmonizing the PST to the GST. The Province rejected this outright, as the Ministry determined that the change would shift \$400 million to consumers (assuming the provincial rate remained at 5%).

## **Summary**

Sales tax harmonization remains a controversial topic that divides some in the business community and is approached with hesitation by government because of the lack of political palatability. The Saskatchewan Chamber of Commerce has proposed expanding the business sales tax input credit to all business inputs as an alternative to full harmonization, remaining of the view that the improved efficiencies and improved competitive position of Saskatchewan businesses, many of whom are in the export markets, would be sufficient to offset the loss in provincial revenues that business disproportionately pays at the present time.

Sales tax harmonization is a complicated issue, but the Provincial Chamber is determined to continue to work with the Ministry of Finance on workable solutions to help improve business competitiveness and reduce administrative headaches for its members, such as confusion over what goods and services are PST-exempt and which are not.

## **Resources and Related websites**

Saskatchewan Chamber of Commerce

[http://www.saskchamber.com/files/File/research\\_policy\\_issues/2008Policies/finance/policy08\\_salestaxinput.pdf](http://www.saskchamber.com/files/File/research_policy_issues/2008Policies/finance/policy08_salestaxinput.pdf)

Greater Saskatoon Chamber of Commerce

[http://www.eboardoftrade.com/files/Research\\_Papers/RP\\_Sales\\_Tax\\_Harmonization.pdf](http://www.eboardoftrade.com/files/Research_Papers/RP_Sales_Tax_Harmonization.pdf)

Canadian Restaurant and Foodservices Association

[http://www.crfa.ca/news/2008/the\\_harm\\_in\\_tax\\_harmonization.asp](http://www.crfa.ca/news/2008/the_harm_in_tax_harmonization.asp)

CBC Saskatchewan

<http://www.cbc.ca/canada/saskatchewan/story/2008/01/23/saskatchewan-sales-tax.html>

Fraser Institute

[http://www.fraserinstitute.org/Commerce.web/article\\_details.aspx?pubID=5115](http://www.fraserinstitute.org/Commerce.web/article_details.aspx?pubID=5115)

## **Saskatchewan Chamber of Commerce Action to date**

- Creation of this briefing note for the information of members
- Policy Resolutions at 2005, 2006, 2007 and 2008 Annual General Meeting of the Saskatchewan Chamber of Commerce
- Numerous News Releases in support of the change
- Meetings with various Ministers of Finance and officials in the Ministry of Finance to advocate for changes