

## **Tax disharmony; The wallets of British Columbians could feel the pinch if a proposed union of the GST and PST goes ahead**

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If there's one thing Canadians can rally around -- other than hockey and the weather -- it's our shared dislike of the Goods and Services Tax. Sixteen years after the GST was introduced, it's still the tax we love to hate.

It's easy to see why the Harper government's promise to cut the GST was so popular with the average citizen. Any move that mitigates the impact of this regressive, flawed tax is a winner as far as most Canadians are concerned.

Several accountants and economists, however, have recently advanced a more philosophical viewpoint. They defend the GST as "efficient" and argue that not only should it stay at its current rate or higher, it should be combined with the provincial sales tax.

It's called tax harmonization, but it would create a lot of disharmony for the average consumer in British Columbia. What the economic philosophers fail to mention is that the HST would apply to all goods and services that are subject to the GST -- including those items that are currently exempt from the seven-per-cent PST.

Harmonization really means a new supertax of 13 per cent on many goods and services that are currently taxed at six per cent (soon to be five per cent with the latest cut to the GST planned for Jan. 1, 2008). Under harmonization, we'll pay more sales tax on a host of everyday items, such as heating and utilities, books, children's clothing and footwear, restaurant meals and a long list of services -- from car washes to haircuts.

The Canadian Tax Foundation estimates that tax harmonization would result in a whopping \$7.5-billion shift in taxes from businesses to consumers in British Columbia, Saskatchewan, Manitoba, Ontario and PEI. No wonder the pro-harmonization forces rarely talk about the impact on consumers.

In the restaurant and food-service industry, the HST is particularly unappetizing because it exacerbates a competitive disadvantage .

The restaurant industry is in a uniquely unfavourable position when it comes to both the GST and potential HST, because the products we sell are subject to the tax, while similar or identical products sold by our closest competitors -- grocery stores -- are not.

For consumers, this creates an unfair situation in which the bottle of juice they buy at a restaurant is taxed, while the same bottle of juice at a grocery store is tax-free. Pizza ordered from a restaurant is taxed, but a frozen pizza is tax-free, which you can heat up at home in about the same time it takes for a delivery order to arrive. Advertising campaigns for ready-to-heat meals from grocery stores make it very clear that these tax-free products are competing head-to-head with restaurant meals.

The economists and accountants who sing the praises of tax harmonization are out of tune with the average taxpayer and the entrepreneurs who will be hard hit by a new supertax. They acknowledge there are flaws in the system, but argue that the benefits outweigh the drawbacks.

If there's some collateral damage along the road to harmonization, so be it.

But for the business owners and their customers who will be penalized by the HST, this isn't a philosophical discussion. Tax harmonization will have a direct impact on their livelihoods and their family budgets.

Rather than shrugging off the inequities and shortcomings of the GST and extending the tax across more goods and services that British Columbia residents use every day, the federal and provincial governments ought to take time to fix the flaws. If not, they will be embedded and exaggerated in a new, higher tax.

The real impact of the HST would come as quite a shock to most British Columbians when they see a new, higher tax on many of their day-to-day purchases and payments.

They would soon learn to loathe the HST as much as the GST, and they would be reminded of it throughout each and every day -- from picking up their morning coffee and newspaper on the way to work, to paying their heating bill at night.

Unfortunately, media coverage of this issue has been largely dominated by proponents of tax harmonization, and has spent very little time explaining to consumers what it means to their pocketbook. With tax harmonization, as with most things, the devil is in the details.

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