

# The StarPhoenix

## **Fix GST's faults without moving to harmonization**

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Following is the viewpoint of the writer, vice-president for Manitoba-Saskatchewan in the Canadian Restaurant and Foodservices Association.

If there's one thing Canadians call rally around -- other than hockey -- it's our shared dislike of the GST. Sixteen years after the federal goods and services tax 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 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.

This new supertax, likely in the 10-per-cent range in Saskatchewan, would be added to all goods and services, just like the GST. That means consumers would pay far more tax on services such as haircuts and snow removal, as well as on products that are currently exempt from provincial sales tax including reading materials, children's clothing and other family essentials, and restaurant meals.

It's called a harmonized sales tax, or HST, and it would mean a \$7.5-billion shift in taxes from businesses to consumers in Saskatchewan, Ontario and British Columbia, according to the Canadian Tax Foundation. What's worse, it would hit lower income earners the hardest, because they spend a larger share of their income on goods and services than do higher income earners.

In the restaurant and foodservice industry, the HST is particularly unappetizing because it exacerbates a competitive disadvantage for restaurateurs. The restaurant industry is in a uniquely unfavourable position when it comes to both the GST and a 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.

This creates an unfair situation for consumers. 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, and you can heat it 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 who sing the praises of tax harmonization are out of tune with the average taxpayer and entrepreneurs who will be hit hard by the new supertax. Economists 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 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 family budgets.

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

And consumers will 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.

Twice in recent years there have been proposals in Saskatchewan to add the provincial sales tax to restaurant food. Each proposal was loudly opposed by taxpayers who clearly had "no appetite for a tax on restaurant meals," in the words of former finance minister Eric Cline.

A harmonized supertax would no doubt elicit the same backlash from Saskatchewan residents. And as the GST has shown, Canadians have long memories when it comes to ill-conceived taxes.