

**Harmonizing the RSTs and GST in Canada:  
Arguments and Issues**

**Introductory Remarks**

by

Charles M. Beach  
Director of John Deustch Institute  
for the Study of Economic Policy  
Queen's University

Welcome to the John Deutsch Institute webpage discussion of reforming provincial retail sales taxes (RSTs) in Canada by more closely harmonizing them with the federal Goods and Services Tax (GST). The two papers and commentaries to follow come from a workshop organized by the John Deutsch Institute on “Harmonizing the RSTs and GST in Canada: Arguments and Issues” held November 17, 2006, at the Fairmont Royal York Hotel in Toronto. Funding for the workshop was provided by the T.D. Bank Financial Group.

The occasion for a tax reform workshop – and the reason for its timeliness – is the current political debate surrounding the so-called “fiscal imbalance” between the federal and provincial governments in Canada which the present Conservative federal government has indicated they wish to address in the March 19<sup>th</sup>, 2007, federal Budget. There are many aspects to this debate. But one is to use this occasion to encourage a re-examination of the retail sales tax structure in Canada and how it could be made more efficient and improve efficiency of the Canadian economy. Instead of simply transferring more funds from the federal government to the provinces, the two parties could use the occasion to rethink and simplify the sales tax structure in the country, possibly through some form of harmonizing the provincial RSTs with the federal GST. So the John Deutsch Institute wanted to organize a workshop to serve as a catalyst to help encourage federal and provincial governments, and particularly Ontario, to start thinking about the issues involved in harmonizing provincial RSTs and the federal GST, possibly as part of a much broader package of federal-provincial tax reform discussions towards (i) simplifying the burden of the current tax system, (ii) improving Canadian economic efficiency particularly with respect to the business investment sector, and (iii) addressing concerns of possible fiscal imbalance.

The workshop led off with two keynote papers. Professor Michael Smart of the University of Toronto made a presentation on “The Economic Impacts of Sales Tax Reform: Evidence from the HST Provinces” where he estimates the effects of the 1997 Harmonized Sales Tax Reform in Newfoundland and Labrador, Nova Scotia and New Brunswick on business investment and consumer prices in the reforming provinces. He finds that the reform led to significant increases in machinery and equipment investment, at least in the short run, and that the effective tax rate changes were shifted forward onto consumers in most sectors of the reforming provinces’ economies. He concludes that a similar reform in the current RST provinces would result in increases in capital stocks with relatively small distributional effects.

Professor Charles McLure of the Hoover Institution and Stanford University presented a paper on “Harmonizing the RSTs and GST: Lessons for Canada from the Canadian Experience”. He considers three options: the current RST provinces could join the three eastern provinces in an expanded HST system, the provincial RSTs could be reformed to harmonize with the federal GST, and the RST provinces could adopt a Quebec-style Value-Added Tax (VAT). He considers the characteristics of an ideal sales tax system and the major defects of the existing RSTs. He argues that the HST is not the way forward. Options that do offer ways forward include a Quebec-style VAT, reforming the RSTs to allow RST exemptions for all sales that give rise to input credits under the GST, and better coordinating RSTs with the GST.

Commentaries on the harmonization debate are then offered by a panel consisting of Professors Bev Dahlby (University of Alberta), Paul Hobson (Acadia University), Jonathan Kesselman (Simon Fraser University), Tracy Snoddon (Wilfrid Laurier University), and William Watson (McGill University). Some rapporteur's wrap-up comments are then provided by Donald Drummond of the T.D. Bank Financial Group.

In order to enhance the timeliness and accessibility of this discussion, we are putting the above material up on the John Deutsch Institute webpage in PDF downloadable format rather than publishing a hard copy policy volume which we have normally done in past.

I wish to thank all the workshop participants for their contributions to the workshop itself and to this follow-up internet collection of papers and commentaries. I would also like to thank Donald Drummond for his initiative in suggesting and supporting this workshop, and Sharon Sullivan at the JDI office for all aspects of planning the workshop and putting the material up on the JDI webpage.