



November 30, 2009

*Office of the President and
Chief Executive Officer*

*Cabinet du président
et chef de la direction*

The Honourable Jack Layton, M.P.
Leader of the New Democratic Party
House of Commons
Room 639-C, Confederation Building
Ottawa, Ontario K1A 0A6

Dear Mr. Layton:

For some years, the Canadian Chamber has asked the federal government to encourage provinces that levy retail sales taxes (RSTs) to harmonize these taxes with the GST.

I am writing all party leaders to urge you to support legislation enabling the provinces – in this case, Ontario and British Columbia – to move forward with harmonization.

Businesses pay retail sales taxes on many inputs related to the production of goods and services, including capital goods like the machinery Canadian workers use to produce the products we sell. The prices consumers pay reflect these embedded taxes. In contrast, businesses would be able to recover the Harmonized Sales Tax (HST) on the materials and services used to produce the goods or services they sell. This important reduction would help them price their products, including those they export, more competitively. Moving to an HST would strengthen Canada's business competitiveness at home and abroad and protect Canadian jobs.

TD Economics estimates that sales tax harmonization will reduce taxes paid on inputs by businesses by \$6.9 billion in Ontario and British Columbia combined. Much of this saving will be passed on to consumers as lower prices. Businesses are expected to save an additional \$650 million in compliance and administrative costs by combining paperwork and related efforts into one system instead of two. Additionally, the provinces will achieve significant savings for their taxpayers through reduced administrative costs.

In the 2009 Budget, the federal government stated that RSTs in British Columbia, Saskatchewan, Manitoba, Ontario and Prince Edward Island significantly increase their respective marginal effective tax rates (METRs) on

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new business investment, and if all five provinces were to adopt Harmonized Sales Taxes, the METR on new business investment in Canada would be reduced by more than 7 percentage points. This new investment would create jobs and greater prosperity throughout Canada.

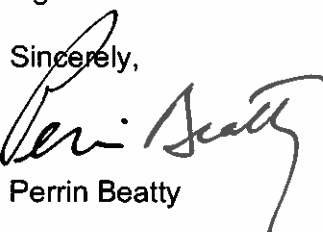
According to the C.D. Howe Institute, more than one-third of RST revenue collected in Ontario comes from taxing intermediate and capital goods. The Institute estimates that Ontario's Retail Sales Tax on capital investment increases the province's marginal effective tax rates on capital from 28.2 percent to 37.0 percent. Replacing it with a tax system that does not bear on business inputs would boost Ontario's capital investment by \$36 billion.

In BC, about one-third of RST revenue comes from taxing business inputs. A report by the BC Progress Board indicates that the province could experience a 12 percent increase in trend investment in machinery and equipment by harmonizing, and would close 70 percent of the machinery and equipment investment intensity gap between BC and the national average.

Investment in machinery and equipment, particularly information and telecommunications technology (ICT), drives productivity. Canadian businesses are well behind other countries, including the U.S., the UK and Germany, in investing in machinery and equipment. In 2007, Canadian businesses invested 16 percent less per worker in all machinery, equipment and software compared to the U.S.; 37 percent less per worker in ICT. Harmonization would help increase capital stock, worker productivity, business innovation, and Canada's global competitiveness. The result would be an improved standard of living for Canadians.

As with any tax reform, it is important to look at the impact on the economy as a whole. The Canadian Chamber recognizes that some currently untaxed products and services will be part of a broader tax base, resulting in higher prices for those goods and services. However, a substantial portion of the tax savings realized by businesses will be passed on to consumers in the form of lower prices as businesses strive to retain customers and remain profitable.

While the transition to an HST will inevitably create challenges, the net economic benefits for Canadian business and Canadian workers will be significant and timely. Harmonization will help our companies emerge from the economic downturn in a stronger and more competitive position. The Canadian Chamber asks all elected officials, especially party leaders, to support tax harmonization legislation to build a stronger economy.

Sincerely,

Perrin Beatty

c.c. Thomas Mulcair, M.P. - Outremont, NDP Finance Critic