



March 11, 2009

The Honourable James M. Flaherty, P.C., M.P.  
Minister of Finance  
Department of Finance Canada  
L'Esplanade Laurier  
140 O'Connor Street  
Ottawa, Ontario  
K1A 0G5

Dear Minister:

As the national leader in public policy advocacy on business issues, the mission of the Canadian Chamber of Commerce is to foster a strong, competitive and favourable economic environment that enables private enterprise and Canadians to prosper. The cornerstone for sustainable economic prosperity and competitiveness is sound public policies that stimulate innovation and job creation, and promote and enhance flexibility so that our economy and small to large businesses can readily adjust and adapt to changing circumstances now and in the future.

Global competitive pressures and a challenging economic environment underscore the need for a competitive tax system. The Canadian Chamber strongly urges the federal government to redouble its efforts to persuade the provinces that currently levy retail sales taxes (RSTs) – British Columbia, Ontario, Saskatchewan, Manitoba and Prince Edward Island – to harmonize these taxes with the federal tax base – i.e. to adopt a value-added tax (VAT) akin to the Goods and Services Tax (GST). Harmonization would serve to increase the competitiveness of businesses both in domestic and in international markets, now and in the future.

Businesses pay RST on many inputs, including capital goods, related to the production of goods and services. The prices consumers pay reflect these embedded taxes. In contrast, businesses are able to recover VAT on the materials and services that they buy to make further goods or services directly or indirectly sold to end-users; thus, they are able to price their products, including those that are exported, more competitively.

In Budget 2009, the federal government stated that RSTs in British Columbia, Saskatchewan, Manitoba, Ontario and Prince Edward Island significantly

Office of the President and  
Chief Executive Officer

Cabinet du président  
et chef de la direction

420 - 360, rue Albert St.  
Ottawa, Ontario  
K1R 7X7

613.238.4000  
613.238.7643

www.chamber.ca  
info@chamber.ca

increase their respective marginal effective tax rates (METRs)<sup>1</sup> on new business investment. “If all five provinces currently imposing an RST were to adopt harmonized value-added taxes, the METR for Canada on new business investment would be reduced by more than 7 percentage points.”<sup>2</sup> A reduction of this magnitude would have a significant impact on the competitiveness of Canadian businesses.

According to the C.D. Howe Institute, more than one-third of RST revenue collected in the Province of Ontario is from taxing intermediate and capital goods. The Institute estimates that Ontario’s RST on capital investment increases the Province’s METR on capital from 28.2 percent to 37.0 percent. “Removing it in favour of a tax system that did not bear on business inputs would boost Ontario’s capital investment by \$36 billion.”<sup>3</sup> This would have a significant positive impact on the economy – increased productivity and economic growth.

Harmonization would also simplify the tax system. It would reduce compliance and administrative costs on businesses by combining paperwork and related efforts into one system instead of two.

The federal government is right to encourage the five provinces with RSTs to harmonize them with the federal GST. The economic benefits stemming from harmonization of the sales tax are significant. And the timing could not be more right. It will help Canadian businesses weather the economic downturn and ensure that they emerge in a stronger and more competitive position. Ongoing federal government cooperation and support will be essential.

Sincerely,



Perrin Beatty

cc: The Hon. Gordon Campbell, Premier of British Columbia  
The Hon. Gary Doer, Premier of Manitoba  
The Hon. Robert Ghiz, Premier of Prince Edward Island  
The Hon. Dalton McGuinty, Premier of Ontario  
The Hon. Brad Wall, Premier of Saskatchewan

---

<sup>1</sup> METRs on capital include the statutory tax rate, capital taxes, sales taxes on capital inputs as well as deductions and credits associated with purchasing capital goods.

<sup>2</sup> Department of Finance Canada. *Canada’s Economic Action Plan: Budget 2009*. January 27, 2009.

<sup>3</sup> C.D. Howe Institute. “Growth-Oriented Sales Tax Reform for Ontario.” *C.D. Howe Institute Commentary No. 273*. September 2008.