TABLED DOCUMENT NO. 45-90-(2) TABLED ON OCT 29 1990

GOODS AND SERVICES TAX

Description of the GST

The Goods and Services Tax (GST) is a seven per cent tax that the federal government proposes to levy on virtually all goods and services sold in Canada. Although the tax is scheduled to go into effect on January 1, 1991, enabling legislation is still before the federal Senate.

The GST will replace the existing federal Manufacturers' Sales Tax (MST). This tax is currently charged mainly at the manufacturing level on most manufactured goods at a rate of 13.5 per cent. A higher rate of 19 per cent applies on tobacco and alcohol products and a 9 per cent rate applies to construction materials. Services are generally exempt, with the exception of long distance telephone services, cable television and other communications services, on which an 11 per cent tax applies.

All purchasers, both business and consumers, will pay GST on all taxable purchases. However, most businesses will pay no net tax, as all the tax paid on inputs will be eligible for full input tax credits. The net effect of the tax will be to impose a retail sales tax of 7 per cent on most purchases of goods and services by final consumers.

Rate of Tax

Goods and services will be taxable at either a rate of seven per cent (taxable sales) or zero per cent (zero-rated sales), or they will be GST-exempt. Most will be taxable at seven per cent.

Vendors will charge the seven per cent tax at the time of purchase. They will be entitled to a full tax credit for all tax they have paid on inputs used to produce taxable goods and services.

Some items, such as basic groceries, wheelchairs and other medical devices, and prescription drugs, will be zero-rated and no tax will apply on their sale. Vendors will still be entitled to a full input tax credit for all the tax they pay on all inputs, both direct and indirect, used for tax free sales.

Certain goods and services will be GST-exempt. Such items include health and dental care services, educational services, child care and residential rents. No GST will be charged on the sale of these items but vendors will not be eligible to claim an input tax credit for tax paid on inputs, both direct and indirect.

The sale of new housing will be taxed, but purchasers of new homes priced under $350,000 will receive a rebate of 2.5 percentage points of the 7 per cent tax. Purchasers of new homes costing between $350,000 and $450,000 will receive a smaller rebate.

Agents' commissions and legal fees on the sale of used housing will be taxed.

Commercial rent will be taxed fully, but will be eligible for input tax credits.

GNWT Position

The GNWT does not support the GST in its present form. The tax does not recognize the special circumstances of the North and it will have a disproportionate impact on the economy and residents of the North. The GST will increase the already disproportionately high tax burden that the current tax system imposes on our residents.

Over the longer term, some resource industries in the Northwest Territories should benefit from the GST because the cost of their capital inputs may fall. However, it is unlikely that these benefits to our Northern industries will be enough to significantly increase jobs or increase production.

The GNWT has asked for compensatory measures from the federal government to minimize the adverse impact of the GST on Northern consumers. Strong representations have been made to federal officials and politicians by the Minister of Finance. As well, briefs were submitted to committees of the House of Commons and the Senate with several important recommendations on how the tax could be improved.

In its brief to the Senate Standing Committee on Banking, Trade and Commerce, the GNWT made five recommendations for reducing the burden of the GST on Northwest Territories residents.

1) The current northern deduction should be increased from $5400 to $7600 to reflect inflation since 1982, and should be indexed to the Consumer Price Index.

2) The Goods and Services Tax Credit should be 50 per cent higher in the Northwest Territories, and the income threshold at which the credit begins to be reduced should be increased to $37,200, about 50 per cent more than in the south.

3) The rebate for municipalities, schools, hospitals and Arctic College should be set at a higher rate in the Northwest Territories, to reflect the higher costs and therefore higher tax payable by these institutions in the north.

4) The recent decision to terminate the subsidy to Canada Post for the Northern Air Staging Network should be reversed in partial recognition of the effect of the GST on transportation costs.

5) Measures should be taken to compensate northern residents for the increased costs of utilities. This could be accomplished through either a tax reduction administered by utility and fuel companies or a rebate program.

The GNWT has also met with representatives of business, labour and community groups to hear views on the GST. The Government Leader and the Ministers of Finance and Transportation have made separate representations to the federal government in an effort to obtain concessions which would lessen the impact of the GST on Northern consumers.

Tax Treatment of the GNWT and other Public Sector Bodies

<u>Territorial Government</u>

Purchases (Expenditures)

The GNWT will be treated as tax free and will not pay tax on any of its purchases. All GNWT direct purchases of goods and services will be tax free. An "exemption certificate" will be provided by the federal government for use when making purchases.

Sales (Revenues)

The GNWT will have to charge tax on most of its sales to entities considered to be outside the definition of "government" for purposes of GST. The list of GNWT taxable sales is under discussion with Revenue Canada. However, residential rents, most licence revenues and certain fees will be exempt.

Definition of Government

GNWT Finance officials are still negotiating with the federal government on determining the definition of "Government" for purposes of the exemption certificate.

Commercial entities such as the Northwest Territories Power Corporation would be treated as outside the definition of government. These entities would have to charge tax on their sales, but would receive full input tax credits for the tax paid on their inputs.

The federal government would like to treat all purchases made by third parties on behalf of Government, including travel expenses reimbursed to employees and petty cash, as taxable. If billed directly to the GNWT, however, such expenses would not be taxable.

<u>Public Sector Bodies</u>

Public sector bodies include municipalities, hospitals and health boards, universities, colleges, schools and school boards. These organizations will be taxable but will also qualify for a prescribed percentage rebate of tax paid on purchases if they are not included in the definition of government for GST purposes. The rebate levels will be as follows:

Municipalities	57 per cent
Hospitals	83 per cent
Universities and Colleges	67 per cent
Schools	68 per cent

The rebates are designed so that, on average across Canada, these entities will not pay more tax after the GST is implemented than they are currently paying in federal sales taxes.

GNWT Finance is negotiating with the federal government as to the taxable status of its boards and agencies and the tax status of the smaller municipalities. The position being put to the federal government is that the GNWT considers that its boards and agencies, including the Housing Corporation, divisional boards of education and regional health boards, should receive tax-free status as part of the definition of "Government" for purposes of the GST. The treatment of these organizations has not yet been agreed to. If these organizations are not recognized as part of government for purposes of the GST, they would pay the GST but would be eligible for the above rebates.

GNWT Finance officials and federal officials are currently establishing the list of boards and agencies and the kind of treatment they would receive under the GST.

Prepared by:
Fiscal Policy Division
October 24, 1990