

February 25, 2009

The Hon. James Flaherty
Minister of Finance
House of Commons
Centre Block Building
Room 435-S
Ottawa, Ontario K1A 0A6

Dear Minister:

RE: Harmonization of the GST/PST

The **Hamilton Chamber of Commerce** believes that the time is long overdue for Ontario to harmonize its Retail Sales Tax with the federal Goods and Services Tax. We believe the status quo can no longer be an option, and as such would like to add our voice to the growing chorus that supports sales tax harmonization in Ontario.

As we have seen in recent months, the world is changing dramatically. Governments from around the world are approving budgets that contain massive spending in order to provide stimulus to their respective economies. The stock market has weakened, jobs are being lost, and economies – including Ontario's – are transforming. In this global economy, Ontario needs to redefine itself and implement smart policies that serve to ensure our competitiveness, create wealth and encourage investment. Sales tax harmonization is one of a few policy options at your disposal that will create almost immediate stimulus to the economy, improve productivity, increase GDP and raise the standard of living.

Our retail sales tax system in Ontario is archaic. It is cumbersome, inefficient, confusing, and adds enormous costs to business – costs that are ultimately borne by the consumer. Canada is the only country among 30 OECD nations that administers both a value added tax at the federal level, and a retail sales tax at the provincial level. As you are aware, business purchases of goods and services used in the production process are subject to sales taxes. These taxes become a part of the cost of production and are, ultimately, passed on in the sale price of the business' goods or services. The purchaser of these goods and services is not, however, aware of the amount of sales tax hidden in the cost of their purchase – much of it derived from Retail Sales Tax inputs. The amount of sales tax hidden in the cost of a good or service varies by industry and by type of tax.

In fact, if the RST were eliminated and harmonized with the GST, not only would the hidden taxes as described above be largely removed, Ontario's businesses would save (conservatively) more than \$100 million annually in administration costs alone. It's also been estimated that harmonization will result in a reduction in the amount of tax paid on investments by about 30 per cent. This would lead to more foreign direct investment in Ontario, leading to more jobs and more government revenues.

It is incumbent upon our governments to ensure their policies make Canada and the provinces stronger and more competitive. We understand that harmonization is a difficult issue to understand, let alone communicate to the taxpayers of Ontario. Indeed, we understand and appreciate the politics surrounding sales tax harmonization. But such issues are not insurmountable, and our organization will assist your governments in developing and communicating the benefits of harmonization.

Recent statements that indicate a willingness of your governments to discuss sales tax harmonization have encouraged us. We understand that you, Minister Flaherty, had expressed a desire to work with provinces to ensure harmonization is achieved. Similarly, Premier McGuinty has said Ontario will give serious consideration to its merits. We believe the time has never been better to modernize Ontario's tax regime, and we urge your ministries to work together in as timely a manner as possible to find the best model for Ontario so that harmonization is achieved.

Further, we do agree with the Ontario Chamber of Commerce that the federal government should design a short-term compensation package for the Ontario government that would leave both governments at least no worse off in the short-run for any of the three tax reform scenarios suggested by them.

Thank you for your time and consideration on this important issue.

Yours sincerely,

Tyler MacLeod, President
Hamilton Chamber of Commerce