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Debunking myths about the HST

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Last March, the Ontario government introduced bold tax reforms that will benefit all the province's citizens.

The reform package has several elements: It replaces the province's antiquated retail sales tax with a value-added tax harmonized with the federal goods and services tax. It reduces corporate income taxes. It eliminates capital taxes on business assets. It reduces personal income tax rates. Taken together, these reforms will make Ontario one of the most favourable places in the world for new business investment - it's currently one of the worst.

The most contentious part of the package is the harmonized sales tax. HST critics are recalling the imposition of the unpopular federal GST. But focusing on this part without considering the whole package isn't very useful. It's like complaining that your auto shop removed the regular tires from your car - without acknowledging that they put on snow tires to improve your safety.

With the proposed HST, businesses will no longer pay sales taxes on goods they purchase. They currently pay the provincial sales tax and pass the cost on to us. The elimination of sales tax paid by business will lower the cost of business investment, which means more high-paying jobs in Ontario.

Apart from ignoring the complete package of reforms, critics have been passing along some myths about the HST that need to be dispelled or clarified. These include:

The HST will increase prices paid by consumers. For goods such as furniture and appliances, consumers already pay provincial sales tax and federal GST. The HST will not change that. But manufacturers, wholesalers and retailers will see their costs go down, as they will no longer be paying the provincial sales tax. Competition will force them to pass these lower costs on to consumers. So, prices on goods where the provincial sales tax is assessed will fall. That is exactly what happened in Quebec and Atlantic Canada when they harmonized their provincial sales taxes with the GST.

For services that currently don't attract the provincial sales tax, such as haircuts or legal fees, prices paid by consumers will increase - but not by the full 8 per cent tax rate. This is because service providers will see their costs drop, since they will no longer be paying provincial sales tax on the items they purchase. A study by TD Economics estimates that the impact on the final prices paid by Ontarians will be an increase of just 0.7 per cent. In Quebec and Atlantic Canada, the net effect on prices was, in fact, a *decrease* of 0.3 per cent.

The HST is an excuse for producers and service providers to gouge consumers. The experience in Quebec and Atlantic Canada was that market forces pressured producers and retailers to pass on their savings to consumers.

The HST raises costs for small businesses. The costs for small businesses - indeed, for all businesses - will decrease, because they will no longer have to pay provincial sales tax on goods they purchase to operate. While the current provincial sales tax is called a "retail" sales tax, about a third of it is paid by businesses making investments or purchasing goods.

In addition, harmonization with the federal GST will significantly reduce small businesses' administrative costs.

The HST hurts lower-income Ontarians. If the provincial government were only introducing the HST, this might be true. But the tax reform package provides for sales tax credits aimed at lower-income Ontarians, similar to the current GST tax credits. In addition, personal income-tax reductions that are part of the reform package will help lower-income Ontarians.

The HST is just a tax grab. Again, that would be true if the only tax change announced by the government was the introduction of the HST. But it's part of a package of reforms that will actually reduce the province's tax take. Along with the introduction of the HST, the province is reducing personal and corporate income taxes and providing tax credits to help compensate for higher sales taxes paid by lower-income Ontarians.

The HST is "business friendly." The HST is Ontario friendly. A recent study by international tax expert Jack Mintz estimates that the tax reforms announced by the government will boost business investment by $47-billion. In turn, this expansion will create an estimated 591,000 new jobs. These investments and jobs will lead to a combined increase in labour and investment income of $29-billion - 8.8 per cent of 2008 labour income.

The HST should be delayed until the recovery is under way. Even if this were a good argument, we won't know when the recession is over until we're well into the recovery. But even if the recovery is well down the road, this is the perfect time to increase businesses' motivation to invest and create jobs.

The provincial government is proposing bold tax reform. Part of it is politically unpopular - but the package will improve Ontario's global competitiveness and benefit us all through more investment, more jobs and higher incomes. If we want to improve economic prospects for us and for our children, we should implement these proposals.

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