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The Feasibility of a Canadian
Federal Sales Tax

by

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THE FEASIBILITY OF A CANADIAN FEDERAL RETAIL SALES TAX

INTRODUCTION

The case for levying the Canadian sales tax at the retail level, in preference to any other, rests fundamentally on the accumulated defects inherent in that other level that would thus be avoided. Ideally, a single-rate commodity tax, unless otherwise specifically intended, should be "neutral" as to the spending patterns of consumers and investors. Perhaps the most reliable indication of a commodity tax's impact on spending behaviour is its final price ratio. If these ratios vary among competing goods, it is evident that the relative tax-included prices of these goods have been altered by the tax. Consequently, "...some readjustment of consumer purchasing will occur, and inevitably lead to shifts in the relative prices of ...[productive] factors." ^{1/} It can be shown that, as a practical matter, this sort of effect is probably unavoidable, no matter what the level of imposition of the tax. The question of the most appropriate tax base, by this criterion, therefore turns on the degree of relative disturbance that is concomitant with the various alternatives.

An outstanding obstacle in the path of complete economic neutrality, with respect to the over-all allocation of resources, in addition to the general existence of diverse distribution channels, both within and among most industries, is the practically unlimited range of the elasticities of the demands for, and the supplies of, the myriad consumer goods in the Canadian economy, and of the derived demands for,

and the supplies of, their innumerable inputs. For these and other reasons no common degree of tax-shifting, indispensable to full neutrality, is attainable at any time, given a single-rate general commodity tax system. Indeed, even the most sophisticated multi-rate system could not fail to violate the canon of economic neutrality in an economy, such as the Canadian, in which relative prices and their determinants are never static and are often highly dynamic, to say nothing of the staggering administrative problems it would entail.

It seems reasonable to suggest that, if total economic neutrality is beyond our grasp, we should not be deterred thereby from attempting to minimize the number of antineutral tendencies, and their respective scales. The one that seems most susceptible to remedial treatment is the diversity of distribution channels, mentioned above. As our own research has revealed, it is only by levying a general, single-rate sales tax at the last distributive level and point in time before title to a good is transferred to its final consumer that we can avoid discriminating between goods variously distributed, and between domestically produced and imported goods. Hence the relative desirability of the retail sales tax base. 2/

This does not, however, necessarily demonstrate that a federal retail sales tax is most appropriate to current and foreseeable Canadian conditions, in comparison with a federal sales tax imposed at the manufacturing or wholesale level. That requires more and different analyses. After all, Canada has had a federal sales tax for some thirty years, and although her national taxation authorities have effected or contemplated many changes in it, they have been unremitting

in their reluctance to make its base at the retail level (or, for that matter, at any level but the manufacturing).

Their attitude has not, however, prevented other taxation authorities in this country from stepping into the ensuing fiscal vacuum (indeed, it may well have contributed to this phenomenon), and this cannot be regarded as conclusive as to the relative merits involved. Many of the provinces, animated by the persistent need to maintain unprecedented levels of expenditure, and constrained by prevailing interpretations of the British North America Act (B.N.A. Act), have successively levied retail sales taxes of their own.

All this suggests strongly that the sine qua non of any attempt to discuss meaningfully the question of the most advantageous base for this country's federal sales tax must be an examination of the current and prospective structures of Canada's retail market and related institutional considerations. The transitional implications of a shift of the federal sales tax base are also clearly significant. These and other noteworthy matters, including federal-provincial tax coverages and exemptions, are taken up below.

REFERENCES

- 1/ John F. Due, Sales Taxation, London: Routledge and Kegan Paul Ltd., 1957, p. 21. The containing chapter, Chapter II, deals briefly with many of the implications that a single-rate sales tax has for the over-all allocations of resources, in the short run and the long run, and lists much of the literature on the subject.

- 2/ This statement is really an intuitive presumption, rather than a factually supportable contention. The fact is, of course, that it is not inconceivable in the abstract, that at least some of the forces that disrupt the manner in which resources would otherwise be allocated are, in reality, mutually conflicting, wholly or partly, and therefore tend to neutralize each other. It would follow that the suppression of one or more of these forces might actually increase the degree of over-all disturbance. There is an utter dearth of relevant empirical data on this, as well as other aspects of this study's general subject. Nevertheless, because of their apparent nature, and due to the absence of evidence to the contrary, it will be assumed that the effects of the specific neutrality-disturbers (primarily diverse distribution channels), whose elimination is here advocated as desirable, tend to parallel those of others not affected by the following analysis (notably variable tax-shifting at the retail level) and thus tend to augment rather than mitigate total resource misallocation.

Since there is a basic presumption that, in general, entrepreneurs, voluntarily or otherwise, tend to organize their operations in an essentially optimal fashion, it follows that such misallocation is not in Canada's best interests and should therefore be restricted, if possible.

CHAPTER I - THE EVOLVING STRUCTURE OF CANADA'S RETAIL MARKET

Precedents

The application of a general, regional sales tax at the retail level is by no means without precedent. National sales taxes exist at the retail level, exclusively, in Norway and Sweden; in turn-over form in West Germany, Austria, Italy and Luxembourg; and as a "local" tax, administered nationally, in France. In addition, eight Canadian provinces and numerous states of the United States impose their own single-stage retail sales taxes. As will be seen below, these precedents, especially the Canadian ones, help refute the arguments most frequently advanced against the appropriateness of the retail level of imposition.

The Letter of the B.N.A. Act and Its Current Interpretation

In Canada, the situation with respect to the general subject of sales tax, at any level of imposition, is rather distinctive, at least in so far as the respective prerogatives of the federal government and the provinces are concerned. In general, the B.N.A. Act prescribes the levying by the provincial governments of indirect taxes, reserving direct taxation for the federal government. Juridical treatment of the terms "direct tax" and "indirect tax" has, however, blurred the distinction between them but it does appear that a general sales tax is still to be regarded as indirect unless levied upon the consumer.

Thus it is that those provinces which levy their own sales tax (all but Alberta and Manitoba) require the retailer to collect and remit the tax, not because the tax is a retail tax in the sense that the federal sales tax is a manufacturers' tax (i.e., levied on the manufacturer's sale price, or equivalent), which in fact it is, but because the retailer has been designated as merely the agent of the province for purposes of collecting the tax. This procedure, obviously contrived to circumvent, in effect, the constitutional prohibition, has been upheld by the courts, 1/ and is now standard practice.

Current Provincial Coverages

The various taxes apply, by and large, 2/ to similar tangible personal (final consumer) goods; and also, in some cases, to certain intermediate goods used in production, notably machinery and equipment. This latter feature, involving double taxation is especially characteristic of British Columbia, Newfoundland, Saskatchewan and, in part, Quebec.

Costs of Collection: A Cautionary Word

The following figures are derived from a table provided by J. F. Due 3/

Province	Costs of Collection as a Percentage of Sales Tax Revenue, 1962	Tax Rate, 1962
British Columbia	.7	5%
Saskatchewan	.7	5%
Newfoundland	1.0	5%
Nova Scotia	1.5	5%
Ontario	1.7	3%
New Brunswick	1.88	3%

Although these figures may have some value as a point of departure for discussion of the subject, they are not to be taken literally as a basis of comparison of relative costs by province -- if only because the criterion of sales tax revenues in relation to costs is of highly dubious validity. In addition, any suggestion that there is a positive functional relationship between collection costs and the rate of tax is far more likely to mislead than to enlighten. It seems apparent that the costs of administering a sales tax will be virtually independent (constant) with respect to the rate of tax -- at least up to that certain rate beyond which the incidence of evasion becomes widespread. Assuming that the 5% rate would be below this ceiling, the cost percentage for Ontario becomes 1.02 and that for New Brunswick 1.13.

The nature of the exemptions allowed in a given province will moreover, also materially affect the costs in that province. In general, exemptions decrease revenues while increasing costs; for exemptions, by the very fact of their existence, necessitate more elaborate audits and higher compliance costs. Another important cost determinant in a given province is the nature of the preponderance of the tax-collecting firms. The less industrialized provinces, where most of these establishments are independently owned, small, multitudinous and widely dispersed are likely to require more elaborate, and hence more expensive, enforcement programmes than the more urbanized provinces.

Interprovincial Transactions

In principle, taxable goods sold in one province and delivered to or brought in by consumers in another are subject to the sales tax of the importing province. They are exempted from that of the exporting

province only when physical delivery to the consumer is made in the importing province. Largely because there is (inevitably) no machinery extant, in regard to interprovincial movements of goods, that is analogous to the federal customs administration, the possibility arises that some such transactions thus avoid any provincial sales tax. On the other hand, the limited exemption afforded exported goods by the exporting province suggests the probability that certain other such transactions are ultimately subjected to double sales taxation.

The loss of revenue involved in the former of these contingencies is alleviated by a number of factors. For one thing, an undoubtedly large proportion of imports is delivered to business firms, for the majority of whom it is routine both to reflect the fact of tax liability in their accounts and to remit the tax when due. For another, all motor vehicles imported into a given province must, within certain intervals, be registered in that province and thus enter the purview of its taxing authorities. In addition, the large mail order houses have permitted themselves to be persuaded 4/ to bill their customers with the appropriate provincial sales tax and, when collected, to remit it to the province in question. They will even go so far as to send recalcitrant customers notices instructing them to remit the tax directly to the provincial authorities. (Having done this, they apparently feel that they have done their duty, and go no further; refusing, in most cases, to report the delinquents to their respective provinces.) 5/

Finally, some firms having various provincial offices are registered with the respective provinces, and remit the appropriate taxes. Quebec recently legislated a requirement that all firms sending catalogues into

that province or accepting orders for delivery in it, register with her taxing authority. This may become a general effort on the part of all the provinces in the sales tax field, if it is endorsed by the courts.

On the other hand, certain other commodities, notably motor vehicles which require registration in the province of residence, often tend to attract the sales taxes of two (and in rare cases, more) provinces, when purchased in one and imported into another. The amounts involved are, for practical purposes, indeterminate, but as J. F. Due puts it: "The amount of potential double taxation ... is substantial." 6/

It seems rather doubtful whether the problems of the leakage of sales tax revenues, and to a lesser extent, that of double taxation in regard to the interprovincial movement of goods are entirely soluble ones, even given far more co-operative attitudes of the provincial authorities involved than currently prevail. If one accepts the principle that a commodity should be taxed by the province of use rather than the province of sale, it is plain that there is no feasible means of accurately controlling and computing, for sales tax purposes, the total volume of goods carried over interprovincial borders by consumers, especially when those goods were bought for cash and physically received by the consumer in the province of sale.

On the other hand, those articles which attract double taxation do so precisely because there exist means of control and computation of tax, although these means may not have been originally created with that particular end in view. The difficulty, in this situation, is in reconciling the criterion of taxing in the place of use with that of equity to the taxpayer. An article, especially of the more durable type --

precisely the kind most exposed to double taxation -- may be located in several provinces during its useful life. What is needed to avoid the multiple taxation that would otherwise ensue is a common definition, by all the provinces, of "settlers' effects" (these are invariably tax exempt) and, more important, a common acceptance of "depreciation" rates applicable to the goods involved. This would permit taxpayers to recover from their immediately preceding province of residence the exact amount of tax paid to their current province of residence.

The advent of a combined federal-provincial retail sales tax, however administered, will not eliminate these problems, although a federally administered tax may alleviate them somewhat, since a single national administration is likely to be a more efficient device to deal with interprovincial firms and to handle the adjustments and rebates discussed above. However, as long as provincial tax rates and coverages differ between one province and another, it seems inevitable that taxpayers in the higher-rate provinces will be able to realize a tax saving on purchases made and delivered in lower-rate provinces.

The Case Against a Federal Retail Sales Tax for Canada

In an address to an assemblage of tax specialists on the subject of the relative merits of the manufacturing and retail bases of sales tax, delivered a decade ago, a responsible officer of the Canadian government most actively concerned with formulating national tax policy declared as follows:

... when all has been said for and against a manufacturers' excise and a retail sales tax the comparison of the two from the administrator's viewpoint comes down to weighing the comparatively small number of taxpayers but more complicated procedures under a manufacturers' excise, against the straightforward sales price but greater costs and difficulties of six to ten times as many points of collection under a retail sales tax. 7/ [Underline added]

This view, essentially unaltered, has remained the cornerstone of official thinking on the subject; and it constitutes the quintessence of the official case against the adoption of the retail base for a sales tax. Supplementary contentions are that there is likely to exist a greater tendency toward conscious evasion and, indeed, fraud (deliberate diversion of tax proceeds by vendors), in the retail sector than in any other; and that retailers, as a group, tend to maintain accounting records that are inferior and therefore more difficult to control (and more costly to verify) than those of manufacturers and wholesalers. 8/

The Structure of the Canadian Retail Market

This position must be examined against the background of contemporary Canadian reality, wherein the federal manufacturers' sales tax coexists alongside eight mutually independent retail sales taxes. The very fact of this coexistence renders inescapable the conclusion that whatever the relative merits and costs of the two bases, the Canadian economy is, in effect, saddled with the shortcomings and costs of both. Thus we incur the costs of the federal machinery and its numerous, smaller, private opposite numbers in industry, all devoted to the search for multitudinous notional sale prices, along with the undoubted, if immeasurable, costs of a system inherently incapable of avoiding the disruption of a better allocation of resources, 9/ plus the costs of a nearly pervasive but non-integrated network of autonomous provincial systems.

Moreover, the above stereotyped conception of this country's contemporary retail sector deserves closer consideration than it has received heretofore, 10/ as does the question of its future structure,

given the continuation of apparent current trends. Although available empirical data are very much less comprehensive than one might desire, an attempt to assess these factors seems appropriate. 11/

Table I, below, is offered as a means of outlining a basis for a general perspective.

Table I

An Estimate of Total Retail Stores * in Canada, and Total Retail Sales, in Census Years from 1930 - 61 inclusive.

<u>Census Years</u>	<u>Number of Stores (in thousands)</u>	<u>Sales, Current Dollars (in millions)</u>
1930	114	\$ 2,590
1941	128	\$ 3,241
1951	137	\$ 9,483
1961	153	\$16,073

*"Retail stores" as defined by the 1961 Census. This excludes inter alia, restaurants and the like.

Source: Dominion Bureau of Statistics

This table indicates vividly that, even allowing for very substantial price inflation 12/ between 1930 and 1961, Canadian retail stores handled at least a several-fold increase in their physical sales volumes without increasing their numbers by much more than a third. Clearly, then (if relative physical sales volume is a reliable criterion of relative size, over time, and of relative administrative potential), the representative retail store 13/ in this country is larger in physical capacity and is more sophisticated administratively than were its fore-runners; or the larger stores are steadily capturing an increasing share

of the retail market; or - and this seems highly probable - both these trends are operative. In any event, the evolution of a retail sector with greatly improved administrative facilities is quite apparent.

Relative sales volume is, of course, only one of the important criteria of administrative capability; organization size is another. It appears reasonable to expect that, in general, stores which are operated by employees on behalf of owners who are, to varying degrees, absentee will be characterized by more sophisticated and more comprehensive administrative systems than individual stores operated full time by owner-managers. Thus, chain stores and department stores will, as a group, 14/ probably have the most elaborate administrative regimes, with three-store firms and one-store firms (other than department stores) having progressively less sophisticated systems and with the last of these groups being significantly inferior to its immediate predecessor in this respect.

It might be useful to pause briefly, at this point, in order to clarify the sense in which the administrative systems of retail stores, and their evolution, are of substantial interest for the general purposes of this study. Assuming complete good faith on the part of retailers, the critical nexus between their respective internal administrative machineries (and their essential components, the accounting systems) on the one hand and the retail sales tax on the other, must be the sales records - in both their aggregate and disaggregate forms.

It seems reasonable to expect that a given store's total sales volume (and its constituent elements in the case of multi-product stores) will be, inter alia, matters of primary concern to its owner. If that owner presides over anything but the most compact, modestly sized opera-

tion, or if he has other interests as well, or if he is a shareholder or partner not engaged in the management of an incorporated store, as opposed to a working proprietor or partner, or if the firm operates more than one store, then he must rely on others for this, and other, essential information.

For this reason, if for no other, it seems likely that measures will be taken to ensure that this information will be accurately compiled, even if nothing more is involved than the installation of a reliable cash register and, if credit sales are also made, an accounts receivable record, however rudimentary. Even relatively small owner-operated establishments are prone to this rather pressing need, though probably to a smaller extent, simply because of physical volume - a tendency greatly facilitated by the emergence in recent years of efficient and relatively inexpensive mechanical equipment.

Granted the basic soundness of this reasoning, and assuming the absence of wilful concealment or misrepresentation, it follows that the essential means of complete and accurate reporting by retailers of the retail sales tax collected by them - a reasonably reliable and comprehensive sales record - is likely to exist in virtually all multi-store firms, department stores and larger single-store firms. The smaller single store and owner-operated store, too, will probably possess some verifiable basis for sales tax computation. Throughout - and this is a most encouraging fact - these records will exist for reasons and purposes that are quite independent of sales tax. Thus, the sales tax would rest on an administrative edifice which had natural raisons d'être of its own, rather than on one that had been created artificially to serve the taxation authorities' own unique ends.

This, of course, is not intended to suggest that the subsector of the retail market which is likely to include the stores with the least adequate and reliable sales records - the independent, single-owner stores - is necessarily without relative significance. Table II, below, suggests that any such conclusion might be premature, at best.

Table II

Number of Canadian Retail Stores and Sales Volume,
by Ownership Size, 1961

	<u>Number of Stores</u>	<u>Number of Firms</u>	<u>Sales, 1961</u> <u>\$000,000</u>	<u>per cent</u>
Single stores	136,496	136,496	10,239.4	64
Two-store multiples	4,095	2,048	595.2	4
Three-store multiples	1,208	403	192.6	1
Department and chain stores	10,821	550	5,045.8	31
	<u>152,620</u>	<u>139,497</u>	<u>16,073.0</u>	<u>100</u>

Source: Dominion Bureau of Statistics

Although it appears, intuitively, 15/ that the relative sales volume of single stores has been diminishing in recent decades (and that of the chain and department store group increasing), the fact remains that this group still constitutes the largest single element on the contemporary Canadian retail scene, in terms of relative sales volume, and accounts for more than 97% of the number of retail vendors. All this, however, takes on a rather less formidable aspect as certain modifying factors are taken into consideration.

The first of these is the fact that under the current federal Sales Tax Act, and the various provincial Sales Tax Acts, food products are

generally exempted. Another is the fact that in Table II are included certain types of retail establishments whose main products are generally not subject to the various existing provincial retail sales taxes (if not tax exempt, they are usually taxed through some form of excise tax), and which might retain this status following the advent of a federal retail sales tax. Some of these involve the single-store group 16/ - the most critical one in the present context.

Table III

Estimated Single-Store Firms in Canada and Sales
Volumes, 1961

		<u>Number of Stores</u>	<u>Sales in \$ Millions</u>
Total, all products		136,496	10,239.4
Total, food stores		<u>43,924</u>	<u>2,383.6</u>
Total, non-food stores	(A)	<u>92,572</u>	<u>7,855.8</u>
Service stations		18,623	1,231.2
Tobacco stores and newsdealers		<u>2,300</u>	<u>100.0</u>
	(B)	<u>20,923</u>	<u>1,331.2</u>
Residual stores	(A - B)	<u>71,649</u>	<u>6,524.6</u>

Source: Dominion Bureau of Statistics

Generally, gasoline is not subject to the various provincial sales taxes, although it is very substantially taxed via excises. If it is assumed, as in Table III, that it would similarly be exempted from a prospective federal retail sales tax as well it will, together with the food exemption which has traditionally been granted by the federal sales

tax, achieve a very significant reduction in the number of single-store firms and their sales volume. A similar, though much smaller reduction is effected by the exclusion of newsdealers. The essential point suggested here will not be affected if it is assumed that gasoline will not be sales tax exempt. The highly mechanized pumping system by which gasoline is commonly delivered will undoubtedly provide, without prohibitive adaptation, an admirable means of computing and recording taxable sales and applicable sales taxes. 17/ Thus, it seems that the sector of the retail market that is likely to prove at all troublesome in the administration of a retail sales tax is almost certainly restricted to a maximum of approximately one half the number of firms (and stores), accounting for approximately one fifth of the total sales volume. In reality, given the foregoing reasoning, it is highly likely that the area of difficulty will be very much smaller, both in terms of the number of establishments and sales volume.

It will be recalled that the main administrative requirement for adequate sales tax computation is the sales record of the vendor, and that it seems reasonable to expect a high qualitative correlation to exist between a given vendor's general administrative system and any important part of it. More explicitly, this is intended to infer that a vendor who maintains, as a matter of principle or necessity, some basic aspects of an accounting system is also more likely to maintain other basic aspects than one who does not. For example, if a vendor operates with the assistance of one or more employees, the need to maintain at least rudimentary records to reflect that fact (e.g., in respect of time, wage rates, deductions at source, etc.), may encourage him to maintain other records as well. This stimulation seems likely in respect of sales, if only because of the need for some minimal degree of internal control in a vital aspect

of the retail operation. Carrying this argument to a logical if somewhat extreme conclusion, it would appear that those single stores which are operated by their respective owners, who employ no hired labour whatever, are the ones most likely to maintain the least adequate (sales) records.

Table IV

Estimated Single Stores in Canada, Operated by One
Person Only, and Sales Volume, 1961

	<u>Number of Stores</u>	<u>Sales in \$ Millions</u>
Total, all products	51,804	973.7
Total food stores	<u>21,895</u>	<u>399.6</u>
Total non-food stores	<u>29,909</u>	<u>574.1</u>

Source: Dominion Bureau of Statistics.

Assuming that food remains tax exempt, it is apparent from Table IV that the group likely to present the greatest potential difficulty to the retail sales tax authorities may not, in fact extend beyond some 20% of the total number of retail firms, and may not account for more than about 3% of total retail sales. (Actually, the area may be even narrower because, as tabulated, it includes an indeterminate number of tobacco stores, newsdealers, and the like.)

It seems to be part of the folklore of retail sales tax that the rural retailer is, by nature, more likely to maintain inadequate accounting records, and is generally less competent administratively than his urban counterpart. He is also allegedly more prone, again by nature, to a sort of disdainfulness toward his responsibilities as sales tax collector and remitter. Moreover, the very fact of his rural location places grave

difficulties in the path of the taxation authority in its administrative and enforcement endeavours. Altogether, then, this doctrine runs, the rural retailer constitutes a vexatious maverick capable of seriously undermining the smooth functioning of the entire retail sales tax mechanism.

Admittedly, sales tax enforcement is easier (less costly), and generally more effective when the taxation machinery has to deal with vendors who are densely clustered geographically, and who are fully aware of their ready accessibility to the authorities, than when it attempts to deal with the relatively sparse, far-flung rural retailers who tend to regard the government apparatus as a somewhat ethereal, remote entity which is perpetually preoccupied elsewhere. Whether such conditions actually obtain in Canada's rural areas, and whether their prevalence is sufficiently extensive to represent a significant peril to any prospective federal retail sales tax are, however, questions whose answers are not self-evident - folklore, however traditional, notwithstanding. ^{18/} As for the other allegations, quoted above, it would appear that there is little that is axiomatic about them, in contemporary terms, whatever merit they might have possessed in the past.

The advent of the shopping centre and various other largely postwar phenomena have brought about the large scale spread of chain stores into the countryside. In addition, an undoubtedly substantial portion of retail sales in rural areas are effected by mail order houses. These firms, together with chain stores, possess administrative mechanisms which would seem superlative for the fulfilment of the requirements of an effective sales tax programme.

As in urban areas, the overwhelming majority of rural retail stores,

apart from chain stores, department stores, and mail order houses, are independent single stores. These are, of course, of various sizes and administrative qualities, but there is no reason to doubt that a considerable proportion of them do possess accounting records that yield reliable sales and related figures. ^{19/} It is likely that although its relative importance may be greater than that of its urban counterpart, the subgroup that would conform most fully to the stereotype of the rural retailer described above is restricted to the smaller retail stores; with the degree of resemblance varying directly with the degree of smallness.

Table V

Estimated Single Stores in Canada and Sales Volume,
1961, by Area Population Size

	<u>Number of Stores</u>	<u>Sales \$ Millions</u>
Total stores, all products, Canada	136,496	10,239.4
Total stores, all products, city areas over 30,000 population	<u>63,006</u>	<u>5,895.2</u>
Total stores, all products, rural areas	<u>73,490</u>	<u>4,344.2</u>

Source: Dominion Bureau of Statistics.

Table VI

Estimated Single Stores in Rural Areas of Canada and
Sales Volume, 1961, by Food and Non-Food Categories

	<u>Number of Stores</u>	<u>Sales \$ Millions</u>
Total rural stores, all products (A)	<u>73,490</u>	<u>4,344.2</u>
Total stores in Canada, food products	43,924	2,383.6
Total stores in city areas over 30,000 population, food products	<u>19,266</u>	<u>1,320.9</u>
Total rural stores, food products (B)	<u>24,658</u>	<u>1,062.7</u>
Total rural stores, non-food products (A)-(B)	<u>48,832</u>	<u>3,281.5</u>

Source: Dominion Bureau of Statistics.

Following the practice of the Dominion Bureau of Statistics, it is assumed that urban and rural areas may be validly delineated at the 30,000 population mark. Thus, Table V suggests that the relative significance of the rural single-store group appears to be in the vicinity of 48% of the total stores in Canada and involves something in excess of 20% of total retail sales volume. 20/

Realistically, however, these figures must be revised downward to a very considerable extent for the purposes of the present study. To begin with, they include an indeterminate, but undoubtedly significant, element composed of service stations and the like, which, as we have seen, are likely to be either unaffected by a federal retail sales tax or very readily regulated within one. All things considered, it may not be an excessively wild surmise to place the proportion of small retailers with any degree of intrinsic unreliability potential in the vicinity of one third of the total number of stores in Canada, but accounting for no more than approximately one tenth of the total national sales volume.

However one contemplates Canada's current retail market, there are a number of relevant variables, in addition to those already considered, which tend to militate against the image of the inherent weakness of the small, single-store pillar of the retail edifice; or which help set it into a more meaningful perspective. The most operationally important of these would appear to be the established existence of a general provincial retail sales tax in eight provinces. 21/ It seems undeniable that the mere fact of the existence of these taxes must, at the very least, have undermined whatever pervasive unreliability there might otherwise have existed among small retailers, if only to the extent of impressing upon their collective consciousness an awareness of the need to manifest at

least nominal compliance with their legal obligations.

Another probable stimulant in favour of the maintenance of at least minimal accounting records by retailers, however small, is the increasing spread of the personal income tax administration of the federal government. 22/ Since it seems highly probable that the overwhelming majority of these establishments are unincorporated (those that are incorporated would almost certainly maintain proper records, ipso facto), it follows that their operating results are bound to loom large in the personal tax returns of their proprietors or partners - hence, another strong reason to anticipate the existence of reasonably reliable sales records.

In addition, even if one postulates the inevitable existence of a hard-core group of small retailers who effect an indeterminate, but probably very minute, proportion of total retail sales, and who either do not collect or do not remit the applicable sales tax, or both, and who are not worth the trouble involved in policing them properly, this might still have little direct bearing on the main issue at hand - the relative merits of the various alternative sales tax bases. After all, there would probably exist corresponding groups at all levels of distribution: the current actual analogue being the "small manufacturer" specifically defined under the federal sales tax regulations and deliberately exempted therefrom, for reasons that apply fully to the circumstances described above. 23/

Finally, given the validity of the expectation that current retail trends will continue into the indefinite future - namely that an increasingly greater share of the total volume will be borne by the larger

and multiple-unit stores, and that single stores will become larger and more proficient administratively over time - it does not seem unduly optimistic to expect the ultimate shrinking into significance of the very smallest, most obdurate single stores.

If the foregoing analysis is reasonably sound, the distinct impression emerges that however one assesses a priori unreliability - whether in terms of ownership and/or physical size, or in terms of rural versus urban geography, or, as was attempted here implicitly, in terms of a synthesis of all these and other criteria - the traditionally dire forebodings about the relatively populous retail sector may be much less than fully warranted. Indeed, while recognizing the inherent difficulties of attempting to demonstrate a negative proposition, it would seem that whatever the degree of vulnerability of previous retail markets to what might be termed the "classic" indictment, the contemporary retail market may well be evolving, quite rapidly, from a state of substantial to almost total invulnerability. In any event, even if some elements of the case against the retail base still apply, they must be set against the intrinsic relative merits of that base, within the context of Canadian conditions. These will be considered further elsewhere in this study. 24/

REFERENCES

- 1/ Cairns Construction Ltd. v. the Government of Saskatchewan [1960] S.C.R. 619.
- 2/ See below for a more detailed discussion of exemptions.
- 3/ Included in a paper submitted to this Commission by Professor J. F. Due, derived from a study by him for the Canadian Tax Foundation, entitled Provincial Sales Taxes, published in 1964.
- 4/ J. F. Due, ibid., p. 16. It is interesting to note that this practice has, apparently, not been adopted by the various chain stores which conduct interprovincial operations. It appears, however, that only negligible volumes of goods are involved.
- 5/ J. F. Due, Provincial Sales Taxes, Toronto, Canadian Tax Foundation, 1953, p. 153.
- 6/ J. F. Due, op. cit. (reference 3) p. 17.
- 7/ Delivered at the National Tax Association Conference in Bretton Woods, September 1954, by F. R. Irwin, Taxation Division, Department of Finance, Ottawa. Reproduced in Canadian Tax Journal, Vol. III, No. 1, January-February 1955, p. 11.
- 8/ Vouchsafed to the writer by various officials in the Department of Finance, the Department of National Revenue, and in other government agencies, who have asked to remain anonymous.
- 9/ See A. Tarasofsky, "Two Aspects of the Manufacturers' Sales Tax; Differential Treatment of Standard and Private Brands, and of Imported and Import-Competing Goods," a study for this Commission.
- 10/ As far as the writer has been able to ascertain, from inquiries addressed to various experts, virtually no measurements have ever been made for the Canadian scene. This impression is strengthened by a perusal of the very sparse literature on the subject.
- 11/ Most of the following discussion, on this particular subject, is based on the impressions that the writer formed from various unpublished material made available by the Dominion Bureau of Statistics, particularly certain aspects of the 1961 Census. Inasmuch as these latter data were still undergoing processing and verification by the Bureau at the time of examination by the writer, it is probable that the results quoted here will not be definitively precise. It is expected, however, that any divergencies that might ultimately appear will not materially affect the issues under review.

- 12/ No reasonably sound index is readily available and, given the necessarily limited time at the writer's disposal, none could be constructed.
- 13/ This term is used in the sense suggested by the great economist Alfred Marshall, in the following words: "But our representative firm must be one which has had a fairly long life, and fair success, which is managed with normal ability, and which has normal access to the economies, external and internal, which belong to that aggregate volume of production; account being taken of the class of goods produced, the conditions of marketing them and the economic environment generally. Thus a representative firm is in a sense an average firm." A. Marshall, Principles of Economics, 8th ed., London, Macmillan and Co., Limited, 1930, pp. 317-8.
- 14/ The practice of the Dominion Bureau of Statistics is to classify firms owning more than three stores as chain stores.
- 15/ In spite of the writer's extensive efforts to do so, with the assistance of various personnel of the Dominion Bureau of Statistics, it did not prove possible to formulate a reasonably reliable statistical comparison, in terms of even the most recent census, let alone earlier ones. The two main difficulties were that numerous classification changes have occurred which have materially altered the composition of the four ownership sizes, and that when the Bureau moved to its present premises, in the early forties much of the underlying detailed data were destroyed.
- 16/ But not all: nor do those discussed below necessarily involve the single-store group to the exclusion of the others. Examples include liquor stores, invariably owned by the various provincial governments, retail beer outlets (in some provinces), newsdealers, and tobacco shops. Estimates, however, have been made, based on data from the Dominion Bureau of Statistics, and unless identified to the contrary, the figures quoted will refer to the single-store group alone.
- 17/ Although the only reliable data source in this regard, the 1961 Census, is not yet completely tabulated, it appears that apart from labour and other non-taxable goods, non-gasoline sales by service stations are practically negligible, except for motor oil.
- 18/ The writer raised this question, inter alia, with various responsible officials of certain of the provincial retail sales tax administrations. Without exception, they denied that the rural retailer was noticeably less reliable than the urban retailer, irrespective of store size. Indeed, there were some who maintained that he was, if anything, the more co-operative and reliable one. The matter could not be explored more substantially because of the pervasive paucity of relevant data, but it seems obvious that even the purely intuitive views of these thoroughly experienced individuals are neither irrelevant nor without significance. As usual, it is not possible to identify these respondents.

- 19/ It did not prove practicable to attempt to distil from the still diffuse 1961 Census data the details necessary for even the most tentative estimate. This statement, however, reflects the thinking of experienced officials at the Dominion Bureau of Statistics.
- 20/ It is estimated, without current documentation, by various officials at the Dominion Bureau of Statistics that firms that are primarily engaged in manufacturing or wholesaling account for some 10% of Canada's total retail sales volume: an estimate reflected throughout the above discussion. This estimated magnitude is worth noting, also, because critics of the concept of a Canadian retail sales tax have a tendency to lump together all vendors-to-consumers into an enormous total (see quotation on page 11: reference 7). They also tend to display an implicit inconsistency by neglecting to recognize that Canadian manufacturers undoubtedly maintain excellent records of their sales, if only because of the decades-long influence of the manufacturers' sales tax, and that the same is true (for other reasons) of Canadian wholesalers.
- 21/ According to estimates of the Dominion Bureau of Statistics these provinces (all but Manitoba and Alberta) account for approximately 90% of this country's retail sales volume. They also contain a similar proportion of the total single stores, both food and non-food, and of those in rural areas.
- 22/ Although empirical evidence is lacking, the claim of increasingly broad income tax coverage is supported by various responsible officials of the Department of National Revenue. The existence of separate provincial income tax mechanisms, as in Quebec, will, of course, emphasize further the point suggested here.
- 23/ Section 34(2) of the Excise Tax Act, R.S.C. 1952, c. 100 as amended, authorizes the Minister of National Revenue to exempt "small manufacturers" from the provisions of the Act. Currently this exemption is extended to manufacturers who produce for users or consumers at a sales volume not exceeding \$3,000 annually. Another category of producers, such as dentists, milliners, opticians, plumbers, shoemakers, custom tailors, etc., are also exempted, without restriction as to their annual sales volume. The writer attempted, without success, to obtain even a rough estimate of this subgroup's number and market share in conjunction with various officials of the Department of National Revenue. The total absence of any statistics on the subject renders it permissible to hazard the guess that this subgroup may not be much less of a defect in the structure of the manufacturers' sales tax than its retail counterpart would be in regard to a prospective federal retail sales tax.

24/ It should be emphasized, explicitly, that the mere existence of consumer goods that are exempted from retail sales tax constitutes a source of administrative difficulty and increased collection cost: the more numerous and complex the exemptions, the greater the difficulties and costs. Analytic problems also arise. The statistics quoted above distinguish, where relevant, between food and non-food stores (because food is the classic exempt category), but the distinction is inevitably arbitrary and, to some extent, artificial. The reasons for this situation lie in the nature of aggregate groupings, where the "dominant" characteristics must determine the classifications. In reality, of course, innumerable food stores sell significant quantities of non-food items and vice versa. On the other hand, the question of exemptions goes to the heart of another vital tax consideration - equity. The administrative and associated factors must, therefore, be discussed within a broader context, wherein competing desirable ends must be defined and weighed. These matters will be touched on further on.

CHAPTER II - TRANSITIONAL PROBLEMS ARISING FROM A SHIFT OF THE
FEDERAL SALES TAX BASE FROM THE MANUFACTURING TO THE RETAIL LEVEL

Tax-Paid Inventories

Three distinct forms of tax-paid inventories exist in the Canadian economy at any given time, and their holders would be materially affected by a shift of the federal sales tax base to the retail level, unless measures to mitigate these effects were taken. These are retail inventories, wholesale inventories, and certain manufacturers' inventories, such as those subject to the "unlicensed wholesale branch technique." Included among these inventories would be the unconsumed imports of those fully manufactured goods subject to federal sales tax. Assuming that a federal retail sales tax would be levied at that rate which would produce the same total revenue as did the preceding manufacturers' tax, and assuming that tax-included consumer prices would remain unchanged when the sales tax base changed, it follows that the holders of tax-paid inventories would inevitably bear losses to the extent of their respective sales tax outlays. Given an approximate tax rate of 11% of manufacturers' prices to wholesalers, or equivalent, plus the fact that many firms must perforce carry large inventories at all times, the results might be rather destructive for the firms affected.

Here, again, is an area where the literature is virtually barren, 1/ perhaps because a shift of sales tax base along the lines contemplated here, involving a high tax rate, is without precedent. Inevitably,

therefore, any discussion of the problem will be essentially intuitive rather than empirical.

For Canada, the situation is further complicated by some of the unique features of the current federal sales tax. Because manufactured goods are distributed via various marketing channels, this tax is characterized by a literal maze of ad hoc, non-statutory regulations and discounts designed to ensure that a given taxable good, marketed diversely, bears a constant effective rate of tax. In addition to the intrinsic weaknesses of this system, further difficulties arise from the practices of taxing imported goods on a special base ("fair market value" for duty purposes, plus duty) and specially branded goods on the actual selling price to retailers. ^{2/} Thus, a given wholesaler or retailer, even if he maintained the most detailed and sophisticated accounting system, ^{3/} would have, at best, an enormously difficult task in determining the tax content of his inventory. The enormity of this task is magnified by yet another distinctive feature of the current manufacturers' sales tax - the variability of the ways in which the amount of the tax is reflected on the sales invoices of licensed vendors. These range from showing the taxable price, the rate of sales tax applicable, and the amount of sales tax on the invoice to the unlicensed wholesaler or the retailer; to showing only the tax-included (or tax-paid) price with no indications as to the amount of tax, its effective rate, or its basis of computation; with a number of intermediate treatments in between these two terminals. There exists, moreover, the inescapable, and very widespread, problem of those goods, included in retail inventories, which were purchased from unlicensed wholesalers who, when billing the retailer, quoted only their selling price, with no reference

whatever to the sales tax charged by the manufacturer, or to any basis of imputing it.

Now there is not the slightest doubt that the dictates of prudence, to say nothing of those of simple justice, will compel the tax authorities to give more than token recognition to this state of affairs, and to the substantial losses to which firms with large tax-paid inventories are exposed. This will be necessary not only to prevent the possible demise of certain of the weaker firms, but also to avoid significant changes in the relative short-run profits of firms carrying inventories of various sizes, with consequent artificially induced changes in existing patterns of resource allocation. It will also be necessary to abort, at least partially, the otherwise inevitable disruption of those patterns of allocation, which will ensue from changes in entrepreneurial thinking and expectations occasioned by the government's announcement of the impending change in the tax base.

Canadian fiscal experience is virtually devoid (as far as the writer has been able to determine) of any systematic, concerted attempt to minimize losses on tax-paid inventories, when sales tax changes were in the offing. While it is true that British experience in this regard is only of limited relevance here, because the techniques adopted on occasion were intended to cushion the impact on tax-paid inventory carriers of a reduction of the tax rate, two of these techniques are worth describing briefly. ^{4/} The first is the so-called "split-delivery" scheme, which appears to have been fairly efficacious in the case of the tobacco industry.

The Split-Delivery Scheme

This scheme involves the division ("splitting") by wholesalers of their periodic orders to manufacturers into two parts: one part for immediate delivery and the other for delivery as soon as possible after the new tax rates have been announced (Budget day). By mutual agreement, both parts are regarded as one for the purposes of price and credit arrangements. The Committee describes the results, for this one trade, in the following words:

By this means, the retailer would be able, if he wished, to run down his shop stocks at the time of a Budget to quite a low level:....

For all goods sent out for post-Budget delivery, the manufacturers... would charge the distributor the price appropriate to the new rate.... The retailer, for his part, was recommended to alter his price to the public on the third day after the Budget.... We understand that for technical reasons it would in any event have been impossible to bring about a general reduction of prices earlier than this. In the intervening two days the retailer would no doubt succeed in selling some part of the stocks he held on Budget evening; and by then he would be receiving, or be about to receive, new supplies at post-Budget prices. In this way, had there been a reduction of duty, he should have been able to avoid serious loss in making the transition to the new price level. [Underline added.]

Success in operating a scheme which reduces retailers' holdings... to such a low level depends on the ability of manufacturers to make fresh supplies available to the retailer very rapidly after the Budget; and for this purpose special arrangements for transport and storage of...stocks...at Budget time have been made by the manufacturers. 5/

In addition to whatever intrinsic merit this device might have in reference to Canada's general economic structure, it may be of some significance that it was applied to a British market which, as far as sales tax treatment is concerned, bears a certain structural resemblance to many domestic manufacturing markets. The British tobacco trade is subject to an excise duty, which is applied to the imported leaf, at an

"extremely high" rate. 6/ This places the British manufacturer of tobacco products in a position that, in this restricted sense, is somewhat analogous to that of a Canadian manufacturer operating an "unlicensed wholesale branch." Also, this industry is characterized by the existence of independent wholesalers (distributors) and very numerous, small retailers.

As the Committee recognized, much of the validity of the scheme depends upon the manufacturer's being able to recoup his pre-budget tax outlay in the event of a rate reduction (for it is he who agrees to carry the lion's share of the trade's inventories during the critical interval.) 7/ The relevant implication for Canada, in this respect, lies in the likelihood that it is precisely the domestic manufacturer who is in the best position to measure the tax content of the inventory stocked in his "unlicensed wholesale branch." He almost invariably maintains adequate accounting records; he knows, exactly, the effective tax rate that he applied to shipments to his "wholesale branch;" and he is therefore in a vastly superior position to determine the amount of the tax rebate to which he would be entitled, in the event of a shift in the tax base, than his wholesaler and/or retailer customers would be.

There are, on the other hand, severe limitations on the degree of analogy that this scheme bears to the Canadian scene. One of these is the fact that this device depends for its success on "the ability of manufacturers to make fresh supplies available to a retailer very rapidly after the Budget...." 8/ This condition takes on a very different magnitude indeed in an enormous country like Canada, where urban centres are very often far apart, than it does in a small, compact area like Great Britain.

However, not too much should perhaps be made of the fact that this procedure has not been more widely adopted in Great Britain. This may be due, at least in part, to the fact that only a few British trades are subject to the sort of excise taxes that bear the closest resemblance to Canada's manufacturers' sales tax: the vast majority of British goods are subject to a "purchase tax," which is, in effect, a sales tax imposed at the wholesale level. And, in addition, many British firms in a number of industries engage in other schemes to mitigate losses on tax-paid inventories. Some of these will now be considered.

Speaking in another but analogous regard, the Committee observes that:

It is clear that any system of compensation ought ideally to involve paying...[vendors]... a rebate equal to the...tax on each item of stock in their possession (or in course of delivery to them) on Budget day. Such a rebate would enable them to make a corresponding reduction in all their selling prices forthwith and would be payable on condition that they did so. 9/ [Underline added.]

As mentioned earlier, the great obstacle in the path of this "ideal" solution, in the case of Canadian firms, is the manifold difficulty that most wholesalers and retailers will encounter in their attempt to calculate the appropriate rebate to which they are entitled. Moreover, since even the most responsibly calculated and certified 10/ computation would have to be verified by the taxation authority, the utterly inevitable interval between the date of computation and that of verification would effectively rule out any possibility of a general, mutually acceptable basis of rapprochement between the various interests involved. This would result from the fact that "unless the ...[vendor]

...maintained a very full and exact record of all his subsequent transactions, both purchases and sales, a stock declaration would cease to be verifiable immediately trading were resumed." 11/

The Stock-Turn Scheme

This rather glaring weakness inspired consideration of another device: the so-called "stock-turn" scheme. This involves determining a given firm's inventory (and tax content), not by actual count but by inference, from the purchases of an avowedly representative period during which the current inventory was accumulated. Having done this, the firm would then claim from the various suppliers of its imputed inventory the amount of tax charged on the goods that each shipped to it during the critical period. The supplier, in turn, would scrutinize each claim and, if found accurate, would credit the claimant with the amount involved. He would then proceed to deduct the amount of all such credits from his own future tax remittances.

Apart from the obviously immense problem of arriving at a stock-turnover period that would be acceptable to both the firms involved and the taxation authority, with respect to each firm or group of firms, however aggregated, this approach is subject to some serious weaknesses when considered in relation to the Canadian scene. While it might have substantial validity (though demanding much administrative effort) in the case of retailers who buy entirely, or almost entirely, directly from manufacturers, it is very difficult to conceive of it as being applicable to other retailers who do not.

The difficulty is essentially this: those suppliers who are in the best position to compute their customers' tax claims accurately, namely

licensed manufacturers, are not the ones to whom these claims would be addressed. And, conversely, those to whom the claims will be addressed, the unlicensed wholesalers, will often be either totally incapable of calculating the appropriate retailers' tax credits, or will be forced to reveal very intimate details of their operations (i.e., pricing and margin policies, etc.) to customers if they attempted to do so - or both these acute difficulties might obtain.

The situation with respect to imported manufactured goods is rather distinctive. Because the importer pays sales tax, not to the actual manufacturer, but directly to the taxation authority at the time of importation it will be relatively easy to compute and verify the tax adjustment when the importer-claimant is the retailer. The same is true in the case of the importer as wholesaler, with respect to his own inventory. But when the claimant is a retailer who is holding imported goods purchased from an importer-wholesaler, the sort of problems described above will arise.

The Sale-or-Return Agreement Scheme

The Committee learned that another scheme, designed to bypass the logistical problems inherent in the split-delivery method, was being adopted in some industries. This device revolves around what is known as a sale-or-return agreement; 12/ which is, in effect, indistinguishable from a consignment arrangement. Because, under this agreement, title to the goods does not accompany their physical transfer (so long as the consignee retains possession of them) no tax is chargeable throughout the interval that they are held by the recipient. While there may be certain advantages in applying this procedure as a means of avoiding

inventory losses due to a reduction in the rate of tax where the consignee is the retailer and his supplier is invariably, as in Britain, the licensed vendor, it is difficult to conceive of it as having any general applicability to Canada; especially with respect to a shift of the entire tax base. This, however, does not exclude the possibility that the consignment method, or some variant of it, might well be efficacious in certain restricted circumstances. One such situation that springs to mind is the one involving goods whose units are somehow clearly identifiable, say by serial number (e.g., motor vehicles, etc.), where the prevailing channel of distribution is from manufacturer to retailer, and where the rate of inventory turnover is reasonably determinate. For obvious reasons such situations in Canada are likely to be quite rare.

The Absence of a Panacea; the Need for Administrative
Flexibility to Prevent Taxpayer Hardship

It is apparent, from the foregoing, that no definitive technique can be devised which will achieve a completely equitable tax adjustment for all Canadian firms carrying tax-paid inventories, and will also be administratively feasible. This, however, does not mean that no palliatives of considerable efficacy are available. Indeed, as the foregoing discussion suggests, there seems to be a reasonable number of these, each applicable to particular types of situations and sets of circumstances, but falling short, aggregatively, of a full coverage of the field. Consequently, additional procedures and techniques will be required. Just what these will entail is, of course, impossible to detail in a priori terms, although it seems probable that they, too, will be less

than perfect and subject to limitations. Hence the overriding need for one more "tactic", described in the following way by the Committee:

"...we feel confident that if...[an entrepreneur]...found himself temporarily embarrassed..., and proved the relevant facts to the satisfaction of the...[taxation]...authorities, some accommodation would be available as to meeting his taxation obligations." 13/ (This, together with a preference for the split-delivery method, where practicable, composes the main substance of the remedial measures proposed by the Committee.) 14/ It would appear, also, to constitute a particularly appropriate device for the Canadian scene. Its judicious application, in conjunction with the array of measures described, explicitly or implicitly, above, would ensure that if absolute justice and equity were unattainable, large scale injustice would be avoided and undue hardship at least minimized.

Admittedly, this complicated mechanism 15/ will require a fairly elaborate and complex government apparatus and, as such, is something of an obstacle in the path of a smooth transition from the old to the new sales tax base. Here too, however, the only useful comparison is in relation to the currently existing situation rather than to some Utopian abstraction. For the fact is that the present manufacturers' sales tax administration is characterized by nothing that is more striking than this very elaborateness and complexity, especially where questions of valuation are involved.

Given the fact that the transition to the new base will be a non-recurring phenomenon, plus the fact that a national government machinery already exists for the purpose of making detailed value judgments and computing adjustments with respect to both firms and industries, it does not seem unreasonable to expect that the hurdle of tax-paid inventories,

though fraught with difficulty, is not insurmountable.

Price Effects

It is assumed that a shift in the base of the Canadian federal sales tax, from the current manufacturers' level to, say, the retail level, would be accompanied by such new tax rate as would achieve the same total revenue yield as did the rate for the previous base. In other words, the new tax rate would be so calculated as to have the same impact on final (tax-included) consumer prices as the old rate, and thus leave them unchanged.

It is not entirely inconceivable, however, that some, and perhaps many, tax-included prices of consumers' goods might rise as the result of the shift in the sales tax base; because of the not unrestricted degree of competition that prevails in most of the markets that compose the Canadian economy. More specifically, this means that there would exist domestic manufacturers whose post-shift sale prices would either remain at the pre-shift-tax-included level or would not decline to the full extent of the now shifted sales tax. The application of the new retail sales tax would, of course, render the costs to consumers of the goods affected higher than they were previously.

This very claim was made by an already quoted participant before this Commission, 16/ and cited, in rather unrestrained terms, as a significant reason for refraining from shifting the federal sales tax to the retail level. The point of departure for this argument is the fact that "...parts of Canadian manufacturing industry are highly concentrated (in the sense that most or all of the output is produced by a very small

number of firms)." 17/ From this it is deduced that the mere existence of concentration militates powerfully in favour of general price rigidity in the industries subject to it; because, says the Council:

A firm [in a highly concentrated market] which reduces its price is likely to find that its competitors retaliate by reducing theirs, rather than allowing it to take a substantial part of their business away from them. On the other hand, a firm which increases its price is likely to find that its competitors leave their prices unchanged and welcome the substantial extra business which is being pushed their way. 18/

Therefore, the Council reasons, there is a definite prevalence of "...very considerable price rigidity in Canadian manufacturing," 19/ which means, in effect, that there exist "... firms ...which are held to lower prices than they wish to charge." 20/ When the shift in the sales tax base is announced, it appears to these firms as "an opportunity to increase profits without 'rocking the boat' by simply not passing the whole of the tax saving on." 21/ This they now proceed to accomplish, and the hapless consumer is the loser.

The foregoing skein of abstraction is not without some of internal cohesiveness; and this, rather than any real relevance and general validity, is what gives it a certain plausibility. The fact is that some degree of concentration is to be found in virtually every single Canadian market: and in some, and perhaps more than some, of these areas it is probably very high indeed.

The further fact is that undoubtedly, where the degree of concentration is sufficiently high the scorpions-in-a-bottle type of relationship that is generated may well create such mutual tensions and fears as to produce the sort of price rigidity under review, inter alia. Nor is the possibility entirely escapable that given these two essential conditions

(and the resultant price rigidity) there may indeed exist manufacturers who would warmly welcome higher effective prices but who are deterred from initiating steps toward them by their rivals, who happen to be similarly motivated but, also, similarly constrained.

Hence, it is not beyond credibility that some of these might view the impending shift in the tax base as precisely the sort of desirable but all too rare pretext which would inspire a spontaneous dissolution of the collective inhibitions against price rises, and thus permit each member of the industry to raise his prices with impunity. This sequence of contingencies is, once again, not inconceivable: but its significance to the question of a shift of the current sales tax base depends not on this criterion but on whether such a shift of base would qualify as such a pretext; whether the firms that would and could make use of it are likely to be quantitatively important; and whether this sort of response, whatever its scale, is likely to have far-reaching consequences over time, even in the markets most directly affected.

It should be noted, to begin with, that the very point of the above argument (that consumer price rises are inevitable given a shift of base) moves from a basic premise that is by no means comprehensive to a conclusion that is, even in its own hopeful terms, extremely narrow. Thus, this sort of outcome would, at best, be much less than universal throughout the Canadian economy. Canadian markets are manifestly seldom, if at all, characterized by such a degree of competition as to preclude the existence of producer concentration - the mere pervasiveness of "brand names" suffices to prevent that. It is, however, not the fact of concentration but its degree that is pertinent here. Still, the markets whose degree of concentration is sufficiently great as to instill in each of

the significant firms an acute awareness of, and respect for, the retaliatory capacities of its rivals with regard to any overt moves in the direction of price competition, are probably very considerable indeed; both quantitatively and qualitatively. Nevertheless, the requirement of a "high" degree of concentration causes some narrowing of the field of candidates.

It is at this point that the winnowing process gathers momentum. As seen earlier, the ultimate occurrence of higher consumer prices depends on the pre-existence of frustrated price-raisers among the highly concentrated manufacturers, whose aspirations are unleashed by the shift of tax base. Given the prevalence of price rigidity (due to concentration), it is possible, one supposes, that the would-be price-changers will include firms who feel that price levels are unduly low, and to the same degree.

To imagine, however, that their number in any given industry is likely to be such as to produce their preponderance, or that this sort of preponderance is likely to obtain in numerous, significant markets, is surely to deny the more important properties of oligopoly (a market dominated by a few sellers) in favour of secondary tendencies. Unquestionably, oligopoly imposes restraints on some firms which would increase prices in its absence; but this in no way diminishes its more probable effort of discouraging, to the point of eliminating, any form of price competition, whereby firms attempt to woo and win one another's customers by means of lower prices. In short, the suggestion that intense concentration brings such artificially low prices (rather than the reverse) as to cause the firms affected to chafe under it gives it praise that appears not to have occurred to most students of the subject.

If one is to speculate about abstract probability - and those who postulate higher consumer prices do just that - it seems eminently more plausible to forecast that some oligopolists, faced with an industry-wide pretext for raising effective prices, will prefer to allow their rivals to plunge ahead while they themselves demur, so as to penetrate and capture new markets, provided that no collusion exists between firms.

However, even if the urge to raise prices were general, the predicted end would still not materialize unless all the firms involved, including the least important in the market, increased them simultaneously, to exactly the same extent, leaving them unchanged relative to one another. Anything less than this would bring precisely that price competition which oligopolists dread above all else. The remoteness of this spontaneous, non-collusive collective action seems evident.

Assume, however, that some price-raisers, in some industries, have indeed attained their ends, with their rivals following suit. What does this imply for the post-short-run interval? Very few industries, however highly concentrated they may be, produce commodities that are non-substitutable. Now it would strain the odds greatly to postulate any situations whatever, let alone generalized ones, wherein given commodities and their substitutes all have markets characterized by such oligopolistic tendencies as to produce in each a magnetic, spontaneous upsurge of liberated price-raisers, who cause all prices in all affected markets to rise in precisely the same proportion.

Failure, however, to meet this requirement gravely debilitates the thesis under review; because a general price rise in one market, not accompanied by a proportional increase in the prices of competing goods

will, in time, achieve neutralizing results not dissimilar to those produced by effective intra-market price competition.

The few surviving markets which met the foregoing stringent requirements would achieve higher ex post price levels - but this effect might very well be vulnerable to the eroding effects of time. For one thing, the higher price levels would obviously produce increased profits for the constituent firms of the industries involved; and it would be most unrealistic to expect that this could be a terminal result. At some time, and in some way, the higher profitability of these firms would provoke responses which would tend to vitiate it. Whether these responses will involve the entry of new firms into the markets in question, or whether the advent of new, competing products will ensue, or whether both these effects will occur is, of course, unknowable in advance; but there can be little doubt that, in the end, forces are likely to develop which will militate toward restored relative profits and reduced prices. 22/

It is thus fairly evident that the argument that generally higher effective manufacturing prices and, concomitantly, generally higher tax-included consumer prices will result from a shift of the entire base rests, at best, on premises which are inherently dubious; and proceeds along a chain of speculation that is at once increasingly fanciful in itself, and increasingly flimsy in its potential application to reality.

This is not intended to imply that no consumer price increases would follow the shift of the federal tax base, especially in the short run. In addition to the sort of contingencies considered above, there

may exist certain types of goods whose pre-shift retail prices might be subject to some tendency toward rigidity, so that the application of the new retail tax results, in effect, in higher costs to the consumer. One such example may be goods which "traditionally" retail at a certain price: e.g., the ten-cent candy bar, etc. It is not inconceivable that the shifting of the tax base might operate as a pretext for concerted attempts to raise effective prices behind the screen of tradition, and a certain interval might elapse before market forces responded.

Similarly, some branded goods are marketed, at retail, on the basis of manufacturers' "suggested retail prices," which are often widely advertised and symbolically linked (in the consumers' minds) with the products in question. This facade, too, might inspire some attempts to elevate tax-included consumer prices; these might persist for some time, over and beyond the inevitable time lag of adjusting the "suggested" prices to correspond to the new tax situation. 23/

For a variety of significant reasons, the shift to the new sales tax base will perforce be preceded by some sort of orientation programme, conducted by the various taxation authorities involved. Under this aegis, or parallel to it, measures could be implemented and devices installed which would have as their object the prevention of the sort of price increases under review.

For example, the fact might be publicized that the new federal tax rate was so calculated as to have the same impact on final tax-included prices as the old rate. 24/ This would thus awaken all intermediate firms, at the wholesale and retail levels, to the expectation that post-shift manufacturers' prices should, legitimately, decline from their

previous tax-included levels by the amount of the sales tax formerly applicable. The general public would similarly be alerted. The overall effects, almost certainly, would be to confront most manufacturers with an array of price expectations on the part of their customers and consumers which, in the absence of illegal collusion, will be so forbidding that the manufacturers will hesitate to outrage it. 25/

Additional devices are also available. One of these, referred to earlier, would involve the withholding of refunds on tax-paid inventories from firms which failed to hold to their pre-shift effective price levels. Another might take the form of publicizing the identities of those firms which exploited the opportunity of raising prices, after due warning had been given that such action was both possible and contemplated.

On balance, it appears likely that there are only the slightest grounds for entertaining any fears that the structure and competitive nature of the Canadian economy will permit significant increases in consumer costs, if the sales tax base is shifted from its current level. These grounds shrink to the point of practical disappearance when the variety and potency of preventive measures available to the authorities are considered.

REFERENCES

- 1/ The subject was discussed, briefly, by one participant, the Retail Council of Canada, in its submission to this Commission. Some aspects of it were considered by a British body of inquiry, The Committee on Tax-Paid Stocks, which reported early in 1953 (see its Report, Cmd. 8784, London, H.M. Stationery Office). This latter reference, however, is only marginally relevant, as to our conclusions, because the Committee's main concern was with changes in tax rates rather than with a shift of the entire tax base. The interest to us of its discussion of the relevant variables is, nevertheless, not necessarily diminished by this qualification.
- 2/ See A. Tarasofsky, op. cit., for a fuller discussion of the sales tax treatment of these types of goods.
- 3/ In the course of preparing the above-mentioned study, the writer had occasion to visit several of Canada's largest retailers, and the subject of their accounting systems was discussed, inter alia. The distinct impression emerged that the comprehensiveness and depth of their systems left much to be desired, and that those of the lesser lights in the retail field were even less adequate. These shortcomings, however, were almost entirely related to costs, and do not affect the argument, developed above, as to the general adequacy of retailers' records with respect to sales revenues.
- 4/ This material was derived, in substance, from the Report of The Committee on Tax-Paid Stocks (see reference 1). The Committee was "impressed" by these devices as ameliorating factors, and this may have had a bearing on its ultimate decision to recommend no adjustments or allowances to business firms in case of tax changes. The much greater probability is, however, that this finding was inspired, decisively, by the fact that the Committee was concerned, as was explained earlier, with changes in tax rates. Since these changes can be (and frequently are) in either direction, the need for compensation to retailers when the change is downward, and its magnitude, are both modified by the occurrence of windfall gains when the change is in the upward direction.
- 5/ Report of The Committee on Tax-Paid Stocks, op. cit. pp. 10-11.
- 6/ Ibid., p. 2.
- 7/ Ibid., p. 11.
- 8/ Ibid., p. 11.
- 9/ Ibid., p. 18.

- 10/ It was widely suggested that the claimant's auditor, or some other independent professional person should certify the refund claim.
Ibid., p. 19.
- 11/ Ibid., pp. 18-19.
- 12/ Ibid., p. 39.
- 13/ Ibid., p. 37.
- 14/ Ibid., p. 43.
- 15/ The Retail Council of Canada, who, as mentioned earlier, was the only party to raise the subject with this Commission, favoured (without supporting evidence and without reference to the difficulties discussed above) the method of allowing holders of tax-paid inventories an adjustment calculated, arbitrarily, by the taxation authorities on "some reasonable basis." This approach was considered superior to the "tax holiday" method; whereby no sales tax would be charged on retail sales for an interval of three months, the estimated average time of inventory turnover by Canadian retailers. It was also considered superior to the method of refunding to manufacturers the sales tax which they had remitted during a certain period of arbitrary length. It seems relevant to mention, in this connection, that the Council opposed the establishment of a composite federal-provincial retail sales tax; but in terms that might have been inspired by a preference that the administrative and other responsibilities of the sales tax be vested outside its membership, rather than by a demonstrated superiority of any other base.
- 16/ Retail Council of Canada.
- 17/ Retail Council of Canada, Submission, p. 31.
- 18/ Ibid., p. 32.
- 19/ Ibid., p. 32.
- 20/ Ibid., p. 32.
- 21/ Ibid., p. 33.
- 22/ It is assumed that the price changes under consideration will have magnitudes that are more than marginal: otherwise they would scarcely warrant discussion here.
- 23/ It should be noted, parenthetically, that post-shift prices may, in some cases, actually be lower than their pre-shift equivalents because of the disappearance of whatever pyramiding that might have operated previously.

- 24/ The implicit assumption, made above, that a single-rate tax is capable of achieving this result without altering relative factor payments (e.g., relative profits, etc.) is, of course, technically unrealistic. It seems reasonable however, to expect that the long-run effects will not be significantly detrimental to any sector of the economy - in other words, that the degree of overall competition in the economy is adequate to achieve sufficient uniformity among price spreads of the various levels of distribution as to make possible a constant rate tax without undue disequilibrium.
- 25/ The implementation of a public education programme has no real bearing on the question of whether or not the retail sales tax should be "hidden." This question is discussed more fully later.

CHAPTER III - SOME IMPLICATIONS OF A SHIFTED FEDERAL SALES

TAX BASE AT THE RETAIL LEVEL

The decision to shift the federal sales tax base to the retail level would give rise, immediately, to the question of whether the newly based tax was to be integrated with, or coexistent with, the existing provincial retail sales tax structure. Because a separate, non-integrated federal retail sales tax would obviously limit the over-all net benefit to be derived from the change of base, and because it would cause such onerous, vexatious administrative difficulty and waste of resources for governments, vendors and consumers alike, it seems reasonable to suggest that this contingency may be excluded, summarily, from serious consideration here. (The bare mention of the need to create a new federal administrative machine, to duplicate those of the provinces, the chaotic multiplicity of rates and exemptions, the duplicated calculations, records and remittances by vendors, and the like, seem sufficient to make the necessary point.)

A combined federal and provincial retail sales tax would, however, be attended by various other questions, the facing of which at the very outset could not be postponed. Included among them would be the following.

1. How, and, perhaps more important, by whom, would the new mechanism be administered?
2. Which exemptions would have to be created or eliminated?
3. Will the new composite tax be "hidden" or "revealed"?
4. Will the "compositeness" of the new tax tend to restrict the fiscal elbow-room of any or all of the contracting jurisdictions? 1/

Federal or Provincial Administration of a Composite Tax

There does not appear to be any manifest inherent technical superiority or inferiority in either a federally or a provincially administered composite retail sales tax. The choice between them must, therefore, be made on the basis of the relative merits and shortcomings of each. As mentioned above, there exist, currently, eight separate provincial retail sales tax administrations, (embracing all the provinces except Alberta and Manitoba), almost all of them of sufficient longevity to suggest a generally satisfactory level of technical quality and popular acceptance. On the other hand, the absence of any such mechanism in two provinces tends to militate in the direction of a federal edifice.

But any federal machinery would have to be built on virgin ground, or very near it, since the existing federal system operates on an entirely different distributive level, and is concerned with economic institutions of a radically different form. Thus it is not likely to provide much in the way of a foundation or a skeletal nucleus for an equivalent mechanism at the retail level. The provincial administrations, however, vary widely among themselves, with respect to such things as organizational structure, personnel qualifications, enforcement practices, frequency and nature of audits of licensed vendors, etc. Hence it is clear that the provincial machineries cannot properly be regarded as homogeneous elements capable of a ready amalgamation into a much larger entity with a nationwide scope (assuming away, for the moment, the vacuums in Alberta and Manitoba). A great deal of co-ordinated reconstruction and reshuffling would be necessary, no matter what sort of structure turned out to be mutually acceptable to all of the provinces plus the federal government.

The net result of all this administrative engineering may well be akin to the creation, within the shell of the old provincial systems, of a new mechanism, which bears a superficial resemblance to its fore-runners but which is really distinct from them in substance. The subject of economies of scale is obviously relevant here, but just how it affects the choice between a relatively monolithic federally operated machine and a relatively hydra-headed provincially operated equivalent, is much less apparent, in the abstract. And again, the fact of the two provincial-tax-devoid provinces intrudes forcefully, as it does throughout the consideration of this entire question.

On balance, then, it would appear that, after making due provision for Alberta and Manitoba, any administrative system which is acceptable to the various taxation authorities involved, and which is so structured as to make possible that delicate but vital union between national cohesiveness and bureaucratic decentralization and flexibility, is likely to prove technically sound. 2/

Exemptions Under a Composite Tax

The subject of exemptions under a composite federal-provincial retail sales tax is a difficult one, partly because the obvious need to synchronize the federal and provincial coverages 3/ impinges on the salient economic considerations of the progressivity or regressivity of the total tax (with respect to disposable personal income) and its effect on the allocation of resources. The basic fact is that - the provincial coverages being, on the whole, what they are currently - any attempt at integration with them involves choices between serious administrative and revenue difficulties and economic shortcomings. That is to say that most

of the provincial taxes have applications that are regressive or which misallocate resources through multiple taxation of certain goods to the benefit of their competitors.

Perhaps the most striking example of the former feature is the taxation of restaurant meals, generally when their price is above a specified maximum. They are not now subject to federal sales tax. Thus, a composite tax system would be confronted by the following alternative treatments: to extend the federal coverages to restaurant meals; to remove the existing provincial taxes; to preserve the status quo, applying only the provincial rates. 4/

The first alternative would mean a very substantial increase indeed in federal revenues, but this would be accompanied by a definite social cost. There is little question that the over-all contemporary pattern of consumer expenditure is such that outlays on food (including restaurant meals) diminish relative to income, as personal disposable income increases. 5/ The exemption of meals below a certain price tends, of course, to ameliorate matters but probably not entirely, and involves administrative difficulties. 6/

On the other hand, the removal of the provincial taxes, the second alternative, would diminish provincial revenues so severely as to bring into question whether the provinces could continue to maintain their tax rates at existing levels and still meet their revenue needs.

The third alternative would perhaps be more feasible, administratively, with respect to restaurant meals than to a great many other consumer goods. These meals are supplied either in establishments especially designed for that purpose, or in specially equipped and staffed sections

of more general establishments. Consequently, they are insulated against the sort of intermingling with other goods which generally renders this type of tax treatment so troublesome for all parties concerned.

Most of the eight provinces which impose retail sales taxes provide for the exemption of children's clothing and shoes, defined in terms of the size and style of the articles rather than the age of the user. Though undoubtedly significant, the revenue loss that this exemption would mean for the federal government, if it were adapted to its coverage, would in all probability be tolerable. That this alternative might be preferable to either removing the provincial exemption or preserving the dual treatment seems reasonably apparent. The justification for exempting children's wear rests entirely on grounds of equity - to tax them would be to "discriminate" against large families - and it would seem to be asking a great deal of any government to expect it to publicly commit such an act by extending a "direct" tax to these goods. 7/

The application of only the federal tax is similarly less than ideal, for administrative reasons. The operations of retail stores are rarely so arranged as to permit the easy segregation of boys and girls clothing and shoes from their more adult equivalents that would be essential to the efficient application of a special rate of tax, as provincial experience in this area testifies.

The treatment of fuels, electricity and other utilities sold to private consumers varies among the various provinces that impose sales taxes. These variations are considerable, ranging from total exemption in Nova Scotia and Prince Edward Island to the taxation of most of the commodities in this group by British Columbia and Newfoundland. Given

the manifest desirability of similar coverage throughout the country, it follows that distinct changes will have to take place in the provincial taxes in order to realize the administrative potential of a national composite tax structure. Thus, either certain provinces will extend their coverages or others will contract theirs. In view of the fact that consumer expenditures on fuel seem to be regressive with respect to income; 8/ and the fact that this group of goods is not subject to federal taxation, thereby again raising the question of multiple rates, 9/ it would appear logical to prefer the latter course. Admittedly, this will mean revenue losses for some provinces, perhaps amounting to considerable sums.

It should not be impossible, however, for the out-of-pocket provinces to be compensated - mainly by the administrative economies produced by a national composite tax, but also, if necessary, by the other parties who, after all, also reap their shares of the administrative harvest. It is difficult to believe that contraction of certain provincial coverages, in this and other possible areas, done in the interests of uniformity, will prove unattainable as a practical matter - once the various taxation authorities concerned achieve such mutual harmony and understanding as the acceptance of the basic principle of an integrated federal-provincial retail sales tax will imply.

Somewhat similar considerations arise in connection with the category of goods that is subject to special excise taxes or excise duties at the federal and/or provincial level: i.e., beer, tobacco, gasoline, etc. Most of the provinces exempt these goods from their sales taxes, but to varying degrees, while the federal government, in effect, does not. The manner in which these goods are marketed is not always conducive to

the application of multiple tax rates (tobacco is an outstanding case in point), and the fact that the "luxury" or equivalent, nature of most of these goods probably renders them non-regressive with respect to income combine to suggest that the most expedient approach might be to remove the provincial exemptions, thus achieving national uniformity, even if some provinces feel inclined to compensate their own residents by a removal or reduction of the excise taxes involved.

Only certain types of books, periodicals and newspapers are currently subject to federal and/or provincial sales taxes; the great majority are exempted, either by statute or regulation or tacitly by administrative practice. In consequence, it seems highly likely that the revenues derived from any of these goods that are subject to a sales tax, or indeed from all of them, are not of particular moment. This implies that the adjustments necessary for uniform federal-provincial coverage in this general area ought to be readily attainable, with no government's revenues seriously affected. It may also be inferred, similarly, that this entire group can be exempted from all sales tax without undue cost, given the considerable degree of administrative nuisance that it seems to produce. 10/

With the sole exception of Saskatchewan, each of the provinces imposing its own sales tax applies it also to sales of those second-hand goods which were taxable when new. This application is inevitably difficult to enforce, because of the numerous transactions that are consummated informally by private individuals where sales tax is neither collected nor remitted. Perhaps the only area where the tax is always properly charged is the used car and truck market; for the obvious reason that all motor vehicles must be registered with the provincial licensing

body, thus rendering tax administration simple and practically without cost. Other such commodities covered with reasonable thoroughness are those handled by ordinary retailers, who also sell some used goods, and retailers who specialize in second-hand merchandise and who operate on a regular formal basis.

The revenues gained from those sales of second-hand goods that are reported and taxed are probably substantial. In addition, second-hand goods are almost invariably marketed in ways that are readily distinguished from sales of new goods. There is, furthermore, no a priori general inequity in the taxation of second-hand goods. These considerations suggest that while federal coverage may validly be expanded to embrace it, this field can, if as a matter of policy it is desired to do so, feasibly be confined to the application of provincial sales tax only.

There are, however, two questions of considerable significance that would demand attention if the second-hand goods market were to be excluded from federal coverage. The first of those concerns goods returned to vendor which were purchased new. The purchaser's refund or credit will, perforce, include all sales taxes originally charged. Upon acceptance by the vendor, the goods will generally move into the second-hand market, by one route or another. There they will ultimately be sold; and, if no federal tax is exigible, will, as a consequence, have escaped the federal sales tax altogether. This sort of outcome need not, however, compel the federal tax authority either to bring the entire second-hand market into its purview (if on other grounds it had resolved not to do so), or to face what might well be an appreciable revenue drain. It should be entirely possible to devise appropriate means of obstructing the leakage without vitiating general policy. 11/

The closely related subject of trade-ins (many second-hand goods come into the market in this way) is the second question that arises here. Provincial treatments vary in this respect, both in principle and in practice: the predominant effect appears to be that the trade-in allowance for the used good constitutes a deduction from the new good's taxable sale price. For reasons suggested above, it is quite conceivable that this process does not involve any significant loss of provincial revenues; but it will clearly diminish those of the federal tax authority unless specifically designed measures are implemented, short of extending the over-all federal coverage. Inasmuch as the essentials of this situation with respect to sales tax are identical to those of second-hand goods generally, it is evident that it can be dealt with concomitantly with them.

In shifting to the retail base, the federal sales tax regime will encounter, for the first time, the phenomenon of individual taxable sales in amounts that are too small to bear sales tax. (The provinces, of course, are thoroughly familiar with this reality, and have always provided specific exemptions for those amounts, which are a function of the rate of sales tax.) It is readily conceivable that the ensuing loss of federal revenue, together with the long-standing and continuing drain on provincial tax yields, may be sufficient to constitute one reason for departing from the traditional practice of levying retail sales taxes only on individual transactions, rather than on aggregate sales volume. This entire question is discussed more fully below. Here, it suffices to note that, given a retail sales tax of the traditional type, no means of stopping up this leakage seems feasible.

As might be expected, the manner in which the various sales-tax-levying provinces handle real property contractors and subcontractors varies distinctly, both in substance and in form. The most common approach is to distinguish between two basic types of contract, cost-plus and lump-sum, and to define the contractor as licensed vendor or tax-paying consumer accordingly. Where the customer commits himself to pay the contractor a fixed, predetermined total price that is entirely independent of any changes in the contractor's costs, sales tax is paid by the contractor on the cost of his materials, at the time he purchased them, and entering into his total costs like any other item. In short, the contractor is deemed to be the consumer of the materials involved.

If, however, the contractor undertakes to work on any basis whereby his remuneration is a specified function of his costs of materials and labour (plus margin), he is deemed to be a vendor. He thus purchases his materials under licence, and then collects the sales tax from his customer on a taxable price composed of his materials' costs plus margin - provided that this amount is billed separately from labour and other charges.

Since the 1963 Budget, building materials have ceased to be exempt from federal sales tax and by the beginning of 1965, will bear the full 11% rate. Apart from various differences of a purely definitional nature, the contractor stands in roughly the same relationship to the manufacturer of his materials, with respect to federal sales tax, as he does when working on a fixed price contract, with respect to most provincial sales taxes; except when prefabricating, etc. is involved. 12/

Although not necessarily disqualified from this treatment by their

natures and structures, it seems reasonable to suggest that the building materials and construction markets are not ideal loci for sales tax treatments that deviate from the prevailing norms. 13/ It follows, therefore, that the most desirable administrative regime would be a composite, integrated federal-provincial sales tax; rather than either a federal or provincial tax, by itself (such as existed before 1963), or a non-integrated coverage of both taxes. It would thus appear, consequently, that whatever else might be said of the recent extension of federal sales tax into this area, 14/ it has at least the virtue of contributing considerably toward a sound administrative foundation on which a shifted federal tax could be based, at a level where the fact of prior provincial presence is of central importance.

This is not the place to undertake a detailed analysis and assessment of current practice in these markets by both levels of government: that would require far more space than is here available. Suffice it to say, therefore, that the dual status of consumer and licensed vendor, in which contractors very often find themselves; the fact that numerous contractors also carry on regular operations as retailers of materials and supplies; the still embryonic and evolving federal practice; and other complicating factors - all have combined to produce a state of affairs which is neither efficient nor equitable, even quite apart from the question of federal-provincial integration. Thus, it may well be that the advent of a federal retail sales tax, together with a federal-provincial resolve to synthesize the entire field of sales tax, might provide the occasion for a full, cohesive review of the subject with a view to effecting basic modifications. 15/

Much the same sort of situation prevails with respect to many of the goods purchased by business firms for their own use; the most important of these are probably machinery, apparatus and motor vehicles. Four provinces tax machinery and equipment without exemption; three provide fairly comprehensive exemptions; and one provides a partial exemption to firms making interprovincial sales. The treatment of motor vehicles is likewise variable, but with less tendency to exempt.

Like the taxation of construction materials used by producers, the application of retail sales tax to these goods, or, indeed, any of the goods purchased by firms producing taxable vehicles, means burdening those articles with multiple taxes. 16/ This is difficult to justify in terms of equity and impossible to justify in terms of economic neutrality. The only defence that can validly be advanced must rest on the grounds of revenue potential and administrative facility.

The kinds of "producer's goods" the taxation of which is most effectively justified in these terms are those which are also purchased by personal consumers and whose sales to producers would be difficult to administer and verify, if exempted, or which might be improperly bought under licence for personal use. Office supplies and equipment of various kinds and automobiles are two types of goods which come to mind in this connection. Industrial machinery and apparatus are not really eligible for this sort of rationale: their taxation can only be justified on revenue grounds.

Again, however, the very fact that the federal sales tax has recently been extended to embrace production machinery and equipment, to coincide, roughly, with the retail sales taxes levied by a majority of

the provinces, constitutes a potential advance toward a prospective composite tax system.

In addition to those discussed above, there is a variety of other areas where interprovincial treatments vary among themselves and differ also from current federal treatment. A not-exhaustive list includes sales to governments and public institutions, school supplies, railway equipment, vessels, commercial fishing equipment, various goods used in agricultural production and farm machinery and equipment. The most significant fact about these otherwise diverse markets, for present purposes, is that none of them (nor any of those not enumerated here) would be particularly difficult to handle in a uniform, consistent fashion under a composite federal-provincial system, given a few minor modifications; the slight revenue sacrifices (at worst) would be more than compensated for by the administrative efficiencies derived.

Payments to Licensed Vendors

The question of vendor compensation is bound to arise in any contemplation of a composite federal-provincial sales tax. The federal government has never compensated its licensed vendors in any way for whatever pains and costs they might incur in their designated capacities of tax collectors and remitters. The provinces on the other hand, have leaned in the opposite direction - each of them permits vendors to make a specified deduction from remittances. The motivation, in each case, was identical: to maximize revenue yields. It was felt that the federal tax being levied on manufacturers, needed no such sop, because manufacturers were at once sufficiently few to be policed effectively while being administratively well equipped to account accurately for tax. Re-

tailers, however, were regarded, not entirely without cause, as having relatively primitive administrations which, because of their numbers, made effective enforcement difficult, to say nothing of their potential intransigence. 17/ Thus they required payment, if their co-operation was to be obtained.

It seems fairly clear that whatever justification may once have existed for assuaging ruffled retailers in this fashion, little remains now. Retailers and other erstwhile opponents of the retail sales taxes have long since made their peace with it; and, moreover, the allowances provided have generally speaking, never borne any meaningful relationship to vendors' costs of collecting, accounting for, and remitting, the taxes, and certainly do not do so now. Yet the revenue losses to the various provinces involved are by no means inconsiderable. Due supplies current evidence to the effect that, in each provincial case, the allowance is much greater than all other government costs of collection, expressed as a percentage of revenues. 18/

It thus appears, on balance, that vendor allowances have fulfilled whatever valid function they may have possessed at one time; and that they currently succeed only in draining revenues without really compensating vendors against their undeniable costs. Hence it would seem desirable that they be discontinued, especially under the aegis of a composite federal-provincial sales tax, the advent of which might well be an appropriate occasion for their removal.

Mode of Accounting for Tax

As explained earlier, provincial sales taxes, as such, have hitherto

been upheld as constitutional, notwithstanding the exclusion of the provinces from the field of "indirect" taxation, through the use of the device of levying the taxes upon the consumer but designating the retailer as the official collection agent. One consequence of this tactic has been the requirement (unofficially waived for some firms in a few provinces) that firms remit the precise amount of their tax collections. This has necessitated the keeping, by retailers, of more detailed accounting records than might otherwise have been required, and the incurrence of the ensuing extra costs.

The alternative to this method of accounting for tax would be for retailers to be allowed to remit, if they so desired, an amount determined by the application of the tax rate to their total sales of taxable goods. This would mean, in effect (unless specific provision were made in the regulations), that all sales of taxable goods would enter into one aggregate calculation, including sales that were below the minimum taxable amount. On the other hand, the incremental tax collected in some provinces through the raising to the next cent of all fractional tax amounts would be excluded therefrom. In addition, a constitutional amendment would be necessary to give this "indirect" form a firm legal basis.

Although it is not likely that very large amounts would be involved, this modification may still be worth making. Being optional, it would permit those firms which now chafe at having to keep track of each individual tax charge to obtain relief. At the same time, it would enable those firms who make numerous small sales, in amounts below the taxable minimum, and who would be out of pocket if they remitted on an aggregate basis, to continue as always. In reality, it is probable that these very

firms (e.g., five-and-dime stores, etc.) are prominent among those who collect the greater part of the incremental cents on fractional sales, so that neither the tax collector nor the government would lose financially. 19/

A "Hidden" or "Revealed" Composite Tax?

It has been authoritatively suggested to the writer, on a number of occasions, 20/ that any attempt to apply a composite federal-provincial retail sales tax in a manner that revealed the actual tax rate to the consumer would provoke widespread opposition and evasion; even though the total tax content in the amounts paid by the consumer is the same as it had been previously. 21/ This means, in effect, that the consumer who has for years accepted, with tranquil equanimity, the effects on his expenditures of sales taxes which were, in part, built in rather than added on, will be transformed into a premeditated tax evader if the hitherto implicit tax element were made explicit.

Now it may well be that the attitude and behaviour of some consumers will be influenced, in the short run, by an event which constitutes a change in form but not in substance - that is to say that they will temporarily think and act irrationally - and it is possible that some (fewer) consumers will be so influenced for a longer period. But it hardly seems credible that the assumption of long-run irrationality, on a massive scale, is a more realistic postulate than its negation. To accept this is to operate on the principle that the taxpayer is best separated from his money when he does not realize that the extraction is for tax revenue, but thinks it is made by the vendor for his own compensation, as part of his selling price: to proceed, in short, on the

belief that the consumer is more concerned with the ultimate disposition of the constituents of his expenditures than with their aggregate size.

This sort of reasoning may be objected to on two basic grounds: first, that it is not inherently sound, or, at least, is not manifestly so; and second, that it is in any case irrelevant to the realities of current and foreseeable market relationships and is therefore of little practical value.

The demonstration of an argument which depends for its validity on large-scale irrational behaviour over a long period of time, and is therefore essentially unreasonable, must be made in terms of actual experience, in analogous circumstances; it cannot, by definition, be done by the intellectual process alone. As it happens, there is not a shred of empirical evidence in sight that will sustain this claim. Nowhere, as far as is known, has the taxpayer rebelled simply because he became fully conscious of the fact that he was bearing a certain tax load, after he had borne that same tax load for a long time without being fully aware of it - the change in awareness being the only change in his situation. Short of flogging this question ad nauseam, it is most usefully concluded, one suspects, that this apprehensiveness is a function, not of reality, but of the politician's eternal preference for taxing by less, rather than more, visible means; because of his hope that the taxpayer (who is also a voter) is least antagonistic to those taxes that intrude least starkly on his consciousness.

Experience suggests, moreover, that the efficient levying of a retail sales tax in a "hidden" form is, in any case, virtually impossible, as a practical matter. To achieve this, it would be necessary for all

retailers to recalculate all their prices, so as to include therein the tax element. Through a substantial effort, that is possible enough as a first, inaugural step. To maintain this practice, thereafter would be, however, another matter. Quite apart from the occasional disruption that would follow any changes of tax rates or coverage, the task of adjusting prices whenever retailer costs or consumer demand changed would be rather complicated; the marketing of goods having "traditional" prices would be affected; the relative (and absolute) prices of exempt goods might be altered as tax was allowed to seep into their price structures. But, above all, retailers would probably still find some way of apprising consumers of this variation of the phenomenon of old wine in new bottles: that the "new" prices are merely the old ones embellished in their tax vestments. Few retailers, after all, will be eager to expose themselves to their customers' opprobrium when, in fact, they are quite undeserving of it.

Another cavil that is sometimes heard can be dealt with briefly. That is the fear that, by entering into an integrated federal-provincial retail sales tax system the provinces, and other levels of government, etc., 22/ now involved in provincial sales taxes, will tend to lose fiscal autonomy and flexibility, no matter who administers the composite entity.

Presumably the rationale underlying this complaint is, substantially, that the provinces and other tax-levying bodies will be inhibited from increasing the rates or coverages of their respective sales taxes, because these changes will appear to have greater magnitude when seen by the public within a composite system (with its "high" total rate) than they would have appeared in the days before the federal entry into the

retail sales tax field. Or, to put it another way, the alleged inhibition will result from the fact that these bodies will have lost the capacity to raise rates or extend coverages that had been afforded under the traditionally "low", and therefore innocuous, umbrella of a purely provincial edifice, which is ipso facto insulated from the searching scrutiny that its composite counterpart would attract.

This sort of argument rests, at bottom, on the same kind of non-rationalism as was discussed above. It is admissible, therefore, only if one is prepared to agree that the representative member of the public is likely to make, for an indefinite time, a false and utterly unjustified invidious distinction between two synonymous forms. 23/

REFERENCES

- 1/ These are, of course, by no means the only questions that would have to be resolved; nor are they necessarily the most important ones, in practical terms. It may well be that, in the nature of things in Canada, the issues under review will turn on political rather than economic considerations - the very considerations, in short, which the writer is constrained to preclude from the discussion.
- 2/ It appears probably, for obvious reasons, that the federal government would have to administer the system in the Yukon and Northwest Territories.
- 3/ Although coverages need not be entirely identical in all areas (some examples of possible differences are considered below), it is evident that the dictates of efficient administration will demand that differences be kept to a minimum.
- 4/ It would seem desirable, in this eventuality, to have similar provincial maxima, beyond which the tax would apply.
- 5/ Demonstrated by a D.B.S. tabulation, for the years 1947-48, reproduced by J. F. Due in Provincial Sales Taxes, Toronto, Canadian Tax Foundation, 1964, Table 8, p. 67.
- 6/ It becomes necessary to make multiple checks for groups of diners, each of whom consumes less than the maximum amount, and similar vexations.
- 7/ J. F. Due does not agree. See ibid., p. 73. He feels that the administrative inconveniences involved in the exemption outweigh the equity considerations.
- 8/ Demonstrated by a D.B.S. tabulation reproduced by J. F. Due, ibid., Table 11, p. 74.
- 9/ It should be noted, on the other hand, that some of the goods in this category such as the utilities, could quite easily be administered under a system of multiple rates.
- 10/ The Canadian Manufacturers' Association, Sales Tax - Canada, 10th ed. Toronto, 1962, pp. 197-200.
- 11/ One possible approach might be the application of federal sales tax to all sales of licensed retailers of used goods which were taxable when new, whether sold in mint or second-hand condition.
- 12/ Producers of certain structures, or sections thereof, otherwise than at the site of erection are deemed not to be manufacturers or producers, and therefore pay federal sales tax on their costs of taxable materials.

- 13/ The proliferation of small operators, with at best fragmentary records, the profusion of different types of functions: e.g., building, subcontracting, repairs, renovation, retailing of materials, etc., and similar features, militate against the kind of homogeneity that is desirable when selective tax treatment is contemplated.
- 14/ A good deal can, in fact, be said of the adverse effects on the long-run allocation of resources when some goods are singled out for multiple taxation, of the penalties imposed, in this instance and that of production machinery, on capital-intensive industries, and of the consequences for an already sluggish rate of economic growth when capital investment is subjected, in effect, to discriminatory tax rates.
- 15/ Although it may be that deeming all contractors to be consumers would eliminate more administrative problems than any other device, the most realistic outlook is that no administratively ideal practice is possible in this area. The best that can be hoped for is a least imperfect one.
- 16/ If any degree of pyramiding (the application of successive percentage margins to costs, at the various levels of distribution) exists, the excess burden is, of course, magnified.
- 17/ Due chronicles the resistance (short-lived) and dire forebodings (unrealized) that greeted the introduction of the various provincial sales taxes in his earlier work, Provincial Sales Taxes in Canada, Toronto, Canadian Tax Foundation, 1951.
- 18/ J. F. Due, Provincial Sales Taxes, Toronto, Canadian Tax Foundation, 1964, p. 151.
- 19/ It is worth mentioning, in this context, that a composite federal-provincial retail sales tax, with its relatively "high" rate, would greatly reduce the minimum taxable amount, thus curtailing revenue losses to a probable level of insignificance.
- 20/ A number of interviews were held with various responsible officials of certain of the provinces which levy retail sales taxes. While it was unanimously felt by these officials that a composite federal-provincial retail sales tax would be not only possible but also highly desirable, a majority believed that it would be essential to apply this tax in some unspecified "hidden" fashion.
- 21/ This possibility is not to be confused with another, which, though often subsumed within it, is really quite different in nature. That is the contingency that retailers, now that they will have access to tax revenues of a far higher order of magnitude than ever before, will be much more sorely tempted to collect-but-not-remit than they were in the halcyon days of the relatively low provincial tax rates.

Undeniably, the greater the stakes of defalcation, the greater the temptation to commit it. But it is surely improper to expand this truism into an indictment of a system which would, on balance, represent a very marked improvement over its predecessors. The antidote to greater temptation is, beyond question, increased assurance to retailers, and other interested parties, that the new composite tax will be vigorously enforced. Fortunately, as indicated earlier, the current and foreseeable structure of the Canadian retail market lends itself admirably to precisely this kind of policy.

- 22/ In Quebec, for example, until the spring of 1964 the provincial sales tax, though administered by the province, was actually a composite of a provincial-municipal tax.
- 23/ The questionable propriety of formulating taxation policy, in an avowedly democratic society, on the basis of premises which require a state of enforced ignorance on the part of the citizenry is, moreover, surely obvious.

CHAPTER IV

SUMMARY AND CONCLUSIONS

The essence of the foregoing discussion can be summarized in the following terms.

1. A general, single-stage Canadian sales tax levied at any level of distribution other than the retail cannot, whatever its other merits, fail to disrupt the existing allocation of resources to a substantially greater extent than would otherwise occur. This means, in effect, that the only type of sales tax capable of achieving neutrality with respect to goods marketed via diverse channels and with respect to imported and domestically produced goods is that which is levied at the retail level.
2. The only significant criticism of the retail level as the most desirable sales tax base is that it involves by far the largest number of vendors, in comparison with any other base, and is, therefore, relatively costly and difficult to administer. An examination of the current features of, and trends within, the structure of Canada's retail market demonstrates that this complaint is, in fact, of highly dubious validity.
3. Moreover, because there exist in this country both a federal sales tax at the manufacturing level, and eight separate provincial sales taxes at the retail level, the Canadian people are burdened with the combined shortcomings of them all. They are thus denied the relative advantages of each.

4. If the federal sales tax were to be shifted to the retail level a period of transition would inevitably follow in which some firms would be exposed to the risk of loss through holding tax-paid inventories. This contingency is lamentably unavoidable, because there does not appear to exist any adjustment device, or group of devices, which is at once fully efficacious and readily administered. There is every reason to believe, however, that various measures are available which are capable of ensuring that no firm need be condemned to suffer excessive financial hardship. There is, also, little doubt that the shift of the federal base, within the context of the contemporary structure of the Canadian economy, will have no adverse effects on general price levels: not in the short run and still less in the long run.
5. The integration of all existing Canadian sales taxes into one composite system will necessarily demand various modifications in the coverage and exemptions of each. A review of the more material of these suggests strongly that this requirement can be fulfilled without imposing undue difficulties or burdens on any of the parties involved.
6. The relative advantages of the composite federal-provincial retail sales tax will be maximized if it is levied, optionally, on the retailer's total taxable sales; and, if necessary, the B.N.A. Act should be amended to render this legally permissible.

NOTE: Contrary to the implicit suggestion throughout much of the foregoing, current provincial sales taxes are not charged independently of the federal sales tax. They are, in fact, applied on top of it, as it were. This has little practical significance to the issues discussed above, beyond the fact that the shift of the federal tax base will therefore very slightly diminish provincial revenues. It seems inconceivable that any serious problems could arise from this development which could not be easily resolved by the affected parties.

APPENDIX 1

SUMMARY OF PROVINCIAL EXEMPTIONS

	X: Exempt L: Limited exemption S: Subject to special tax or rates							
	Nfld.	N.B.	N.S.	Ont.	P.E.I.	Que.	Sask.	B.C.
Food	X	X	X	X	X	X	X	X
Candy	-	-	-	-	-	-	X	-
Soft drinks	-	-	-	-	X	-	X	-
Meals	-	L2	L2	L2	L2	S1	X	L2
Beer	-	-	-	S2	-	S2	-	S2
Liquor	-	-	-	-	-	-	-	-
Drugs and medicines on prescription	X	X	X	X	X	X	X	X
Other drugs and medicines	-	X	X	-	X	-	X	-
Orthopaedic appliances, etc	X	X	X	X	X	X	X	X
Soap	-	-	-	-	-	X	X	-
Cleaning compounds	-	-	-	-	-	X	X	-
Toothpaste	-	-	X	-	-	X	-	-
Matches	-	-	-	-	-	-	X	-
Tobacco	-	S3	S3	-	S3	S3	-	-
Children's clothing	-	X	X	X	X	X	-	X
Other clothing	-	-	-	-	-	-	-	-
Water	X	X	X	X	X	X	X	X
Local telephone	-	-	X	-	-	-	X	-
Long distance telephone	X	X	X	X	X	X	X	X
Telegraph	X	X	X	X	X	X	X	X
Firewood	X	X	X	X	X	X	X	X
Coal	-	X	X	X	X	X	X	X
Fuel oil (heating)	-	X	X	X	X	X	X	S3
Gas (heating)	-	X	X	X	X	-	X	-
Gas (cooking, etc.)	-	X	X	X	X	-	X	-
Electricity, household	-	X	X	X	X	-	-	-
School text books	X	X	X	X	X	X	X	X
Bibles	-	X	X	X	X	X	X	X
Other books	-	X	X	X	X	X	-	-
Newspapers	L3	X ^a	X	X	X	X	X	L3
Periodical subscriptions	L3	X	X	X	X	X	X	L3
Periodicals, over the counter	-	-	-	X	-	X	-	-
Sand, gravel	-	X	X	X	X	-	-	-
Other building materials	-	-	-	-	-	-	-	-
Gasoline subject to gas tax	X	X	X	X	X	X	X ^b	X
Used goods	-	-	-	-	-	-	-	-
Settlers effects	X	X	X	X	X	X	X	X
Small sales ^f	X	X	X	X	X	X	X	X
Farm produce sold by farmers	- ^c	- ^c	- ^c	X	- ^c	X	X	- ^c
Sales for out-of-province delivery	X	X	X	X	X	X	X	X
Classroom supplies	-	X	X	X	X	X	-	-
Lubricating oils	-	-	-	-	X	-	-	-
Motor vehicles	-	-	X	-	-	-	-	-
Sales to:								
Federal government	X ^d	X	X	X	X	X	X	X
Federal corporations	-	-	-	-	-	-	-	-
Provinces	-	-	X	-	-	X	-	-
Provincial Crown corporations	-	L5	X	L6	-	-	-	-
Municipalities	-	-	-	L6	-	-	-	-
Churches	-	L6	L6	L6	L6	X	-	-
Hospitals	-	-	L6	L6	-	X	-	-
Producers goods:								
Physical ingredients	X	X	X	X	X	X	X	X
Catalysts	X	X	X	X	X	X ^e	X	X
Fuel, manufacturing	X	X	X	X	X	X	X	L7
Electricity, manufacturing	X	X	X	X	X	X	X	-
Electricity, other uses	-	X	X	X	X	-	-	-

	Nfld.	N.B.	N.S.	Ont.	P.E.I.	Que.	Sask.	B.C.
Industrial machinery	-	X	X	X	X	^c	-	-
Railway rolling stock	X	X	X	X	X	-	X	X
Other railway supplies	^d	-	-	-	-	-	L9	-
Trucks	L10	L10	X	L10	L10	L10	L10	L10
Commercial vessels	L11	X	X	X	X	X	-	L11
Commercial fishing equipment	X	X	X	X	X	X	L12	X
Feed, seed, fertilizer	L13	X	X	X ^g	X	X	X	X
Insecticides	L13	L13	L13	X	L13	X	-	X
Weed killers	-	X	X	X	X	X	X	X
Fungicides	L13	X	X	X	X	X	X	X
Fruit trees	X	X	X	X	X	L8	X	X
Farm equipment to farmers	X	X	X	X	X	X	X	X
Farm tools to farmers	X	X	X	-	X ^h	X	-	X
Livestock	X	X	L13	X	X	L13	X	L13
Allowances:								
Cash, trade discount	X	X	X	X	X	X	X	X
Bad debts	-	-	-	-	-	-	-	-
Trade-ins	X ^b	L14	L15 ^b	L15	L14	L15	-	X ^b

- L2: Exempt under \$1.51 in Ontario, \$1.01 in the other provinces.
L3: By subscription if single copy price is less than the taxable figure.
L5: Rebate of 90% of tax paid by N.B. Electric Power Commission.
L6: Rebate on purchases entering into capital investment.
L7: Coal and wood exempt; fuel oil exempt but subject to special tax.
L8: Exempt when sold by producer thereof.
L9: Rails and ties.
L10: In inter-provincial trade and not registered in the province: exempt in Newfoundland and Prince Edward Island; taxed on formula basis elsewhere.
L11: Exemption limited in most provinces to those over specified tonnage.
L12: Exemption limited to fishing nets, which are unconditionally exempt.
L13: Exempt if for farm use only.
L14: On automobiles only.
L15: If new and traded-in article are of same type.
S1: 5% hospital tax on meals.
S2: In Quebec all beer subject to special tax; in British Columbia and Ontario draught beer subject to special tax in lieu of sales tax; bottled beer subject to sales tax.
S3: Special tax in lieu of sales tax, or special sales tax rate.

^a In practice newspapers are not taxed because they sell for prices less than the small sale exemption figure.

^b Provided tax paid on original sale of article.

^c In practice almost all such sales consist of foods and other goods specifically exempt.

^d Tax not paid by Canadian National Railways.

^e All purchases of manufacturers partially exempt, to extent sales of firms are made for out-of-province delivery.

^f Prince Edward Island, below 25¢; Ontario, 21¢; Newfoundland, 17¢ Nova Scotia, 16¢; British Columbia and New Brunswick, 15¢; Saskatchewan, 14¢; Quebec, 11¢.

^g Food producing seed exempt.

^h Very limited exemption.

Source: John F. Due, Provincial Sales Taxes, Toronto, Canadian Tax Foundation 1964, pp. 81-83.