

TAX REFORM: WHY NOW IS THE RIGHT TIME

By Dwight Duncan, Minister of Finance

For many years, a succession of provincial governments has resisted making fundamental and necessary changes to an outdated sales tax structure. In fact, our own government said that a number of factors would have to exist before we would consider a change of this magnitude. One factor was an appropriate level of support from the federal government.

In late 2008, the global recession struck. Even before it hit, Ontario's manufacturing, resource and automotive sectors had begun to experience profound changes some time earlier. Now, as we've seen, every sector of our economy – and every family – is feeling the pressure associated with the global situation.

In its 2009 provincial budget, our government chose to confront the challenges Ontario is facing and to prepare our people for when the global economic situation improves.

Starting July 1, 2010, Ontario proposes to move to a single sales tax, combining the current Retail Sales Tax (RST) with the federal Goods and Services Tax (GST). This tax package is tailored to meet the specific needs of Ontarians and will help ensure that we emerge from our current economic situation stronger and better able to compete.

Much of our past economic strength has relied on the success of our manufacturers which export to the U.S. and beyond. The new tax structure will help exporters by making them more competitive.

Leading experts, from such organizations as the Ontario Chamber of Commerce to the CD Howe Institute, have long argued for a value-added tax structure for Ontario. The current tax system has been built into business costs, manufacturing and delivery costs, and ultimately, added to the tab that the consumer pays at the cash register for many goods and services. The single sales tax will remove these inefficiencies.

The current system, introduced in 1961, is outdated. Our government believes it is unnecessary and worse – uncompetitive – for Ontario businesses to be forced to use two sets of rules, requiring two sets of auditors and two sets of paperwork. So we are scrapping one entire set of tax regulation. In fact, a single sales tax could save businesses approximately \$500 million a year in paperwork alone.

Since the Budget was announced in March, some people have been saying that a single tax is not good for Ontarians. The truth is, it's the most important thing we can do to help our businesses be more competitive. Competitive businesses mean a stronger economy which in turn means more jobs.

For some items and for some people, there will be price increases. We also know that consumers begin to see the savings generated from a single sales tax in the form of lower costs for some products as soon as the first year. To help Ontarians through the transition to a single sales tax, we are sending payments to Ontarians totalling \$1,000 for households with incomes less than \$160,000 and \$300 for individuals earning less than \$80,000. And 93 per cent of Ontarians will enjoy a permanent personal income tax cut.

Furthermore, we are cutting corporate tax rates and eliminating the capital tax. Taken together, these changes will cut Ontario's marginal effective tax rate on capital investment in half, from 32.8 per cent today to 16.2 per cent when fully phased in – making Ontario one of the most competitive jurisdictions in the industrialized world for new investment.

These actions will help Ontario create the wealth we need to continue to support the best publicly funded schools for all our children and the best public health care for all our families.

Now is the right time to signal to Ontario businesses that they have a bright future.

Now is the right time to signal to Ontarians that stronger businesses will create more jobs – and more jobs to help fund quality schools and hospitals.

Now is the right time to make, not the politically convenient choice, but the right choice. That's why we are confronting this global crisis head-on by taking aggressive steps to prepare Ontario for future growth, future employment and future opportunity for all Ontarians.