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ND PLANNING DIVISION

DEPARTMENT OF TRANSPORTATION

GOVERNMENT OF THE NORTHWEST TERRITORIES

EFFECTS OF THE FEDERAL GOODS AND SERVICES TAX ON TRANSPORTATION IN THE NWT

TRANSPORTATION

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ANALYSIS OF THE GOODS AND SERVICES TAX AND ITS EFFECTS ON TRANSPORTATION IN THE N.W.T.

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EXECUTIVE SUMMARY

This study is an analysis of the effects of the federal governments proposed Goods and Services Tax (GST) upon transportation in the Northwest Territories. It considers (1) the effects of the GST on the provision of transportation infrastructure by the Government of the Northwest Territories; (2) the effects of the tax on the transportation industry in the Northwest Territories; and (3) the effects of the tax, with respect to transportation, on final consumers.

The major findings of the study are as follows:

(1) EFFECTS OF THE GST ON THE PROVI: ION OF TRANSPORTATION INFRASTRUCT RE BY THE GNWT

(a) The GST should not have any appreciable impact on purchases made by the Department of Transportation: direct costs to the Department should not increase. Cash flow costs, however, may increase in the order of $14,000 to $28,000 annually should the provinces and territories be required to pay GST and then subsequently file for a refund of tax paid.

(b) The GST should have no effect on the Department of Transportation's primary mandates of construction, maintenance and operation of transportation infrastructure; it may, however, have a slight effect on the Department's secondary mandates of devolution, local economic development and privatization.

(2) EFFECTS -OF THE GST ON THE TRANSPORTATION INDUSTRY IN THE NORTHWEST TERRITORIES

(a) Fuel prices to registrants (entities registered with the federal government to collect the GST and who can therefore recover the tax paid on their purchases) will likely decrease by up to a maximum of 9 or 10 per cent.

(b) The GST will likely have an overall slightly positive effect on northern regional charter/scheduled air carriers. It is unlikely, however, that any cost savings experienced by these carriers will be passed on to customers in the form of reduced air fares or freight rates. Prices of charter flights to both registrants and non-registrants (those not within the GST system and who therefore cannot recover the tax paid on their purchases), however, should decrease as the fuel portion of the total charter bill is reduced post-GST.

(c) The structure of the motor transport industry should not be affected by the GST: the tax will have no effect on the decision of registrant firms to employ private versus for-hire motor carriage, nor on the decision of a motor carriage firm to employ owner-operator sub-contractors versus employees to operate vehicles transporting freight.

(3) EFFECTS OF THE GST, WITH RESPECT TO TRANSPORTATION, ON FINAL CONSUMERS

(a) Northern consumers may re-evaluate their spending patterns with respect to high value, manufactured goods post-GST . The absolute and percentage advantage to purchasing these goods in the south increases post-GST as one is able to avoid paying tax on a high northern mark-up. Given reduced discretionary spending power post-GST, there may be an increased incentive for consumers to conserve wealth, and, as a result, an incentive to switch to southern suppliers for the purchase of high value, manufactured goods. Groceries, however, will be tax-free; therefore, there is not the same incentive to purchase these goods in the south.

(b) Motive fuel prices to northern consumers (non-registrants) could increase by up to 3 or 4 per cent post-GST . The change in price will depend, in part, upon the level of savings resulting from the removal cf the federal sales tax (FST) which is passed on to consumers by oil companies and other intermediaries.

(c) The GST can be considered a tax on distance in that It applies to passenger and freight transportation. Consumers living in remote regions of Canada will experience a disproportionate increase in their cost of living post-GST as the GST wi 11 be applied to transportation costs which are higher than those in central regions of Canada.

(d) Low income northern families (Gross income less than $16,500 for a family of four; gross income less than $19,425 for a family of five; and gross income less than $22,285 for a family of six) should not be worse off post-GST since the GST credit given these individuals will, in most cases, fully reimburse them for all tax paid on purchases. In some cases, the GST credits given these families will exceed their total expenditures on GST. Therefore, the fact that the GST taxes northerners disproportionately with respect to transportation costs should not impact upon low income families as they will effectively be reimbursed for all GST paid.

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(I) INTRODUCTION

This report constitutes an analysis of the federal government's proposed Goods and Services Tax (GST) and its effects upon transportation in the Northwest Territories. It includes a study of the effects of the GST on the provision of transportation infrastructure by the Government of the Northwest Territories (GNWT); the effects of the tax on the transportation industry in the N.W.T., specifically motor carriers and smaller, regional air carriers; and the effects of the GST, with respect to transportation, on final consumers.

(II) OVERVIEW OF THE SST SYSTEM

On January 1, 1991, the federal government intends to replace the existing Federal Sales Tax (FST) with a new value-added sales tax. This new tax, known as the Goods and Services Tax (GST), will be levied at a rate of 7 per cent and will apply to the vast majority of goods and services consumed in Canada, including goods and services employed in, and produced by, the transportation industry.

The Goods and Services Tax is a tax on the consumption of goods and services in Canada. To the final consumer, the tax will be very much like a retail sales tax and will apply at the rate of 7 per cent to most retail sales.

The main difference between the GST and a retail sales tax will be its operation at pre-retail levels. While businesses throughout the production and distribution chain, including retailers, will charge tax on their domestic sales, they will also be able to claim a fully refundable input tax credit for any tax paid on purchases of goods and services used in the course of doing business. This negates most direct cost effects of the tax on these intermediaries. These intermediaries are known as registrants because they are registered collectors of GST for the federal government.

At the end of each reporting period, when a firm files its GST return, it will remit the difference between the tax charged on its sales and its input tax credits for the period. If these credits exceed the amount of tax collected on sales (for example, when a major capital purchase has been made), the difference will be refunded. Given that the administration of the tax operates in this manner, firms producing and selling output will have inflows of tax revenue to offset their outflows of tax paid on purchases.

Like a retail sales tax, the GST is a tax on final domestic consumption. They are equivalent taxes that differ only in the way the tax is collected. Effectively, the value added at each stage in the production-distribution process is taxed under the GST, rather than only at the point of final delivery of goods and services to consumers, as is the case under a retail sales tax.

The following table illustrates this concept:

	Purchases	Sales (excluding tax)	Tax on Sales	Input Tax Credit	Tax to Gov't
Mine	N/A	$100	$ 7	--	$ 7
Steel Maker	$100	$300	$21	$ 7	$14
Appliance Manufacturer	$300	$400	$28	$21	$ 7
Washing Machine Dealer	$400	$600	$42	$28	$14
				TOTAL	$42

The rationale for choosing the value-added tax over the retail tax is that tax evasion is more difficult when intermediaries must all collect and pay the tax, receiving credits only when a GST return is filed. A retailer is not as likely to refrain from charging his customers GST because this could impact upon his ability to collect input tax credits for his own purchases; firms may be audited as Revenue Canada sees fit. The same holds true for transactions between other intermediaries in the production and distribution chain. A second reason for choosing the value-added tax over the retail sales tax is that retail taxes do not succeed in completely avoiding the taxation of productive inputs, and thereby unnecessarily increase production costs and final prices to consumers.

The federal government intends the GST to achieve some important objectives:

- After the imposition of the GST, the federal sales tax system will be more equitable than it is today. The GST will apply to a much broader base of goods and services and at a much lower rate than the existing FST. This will provide a more equitable treatment of goods and services across sectors of the economy.

- In addition, the further integration of the federal sales and income tax systems will result in a more progressive tax system. Lower and modest income Canadians will be better off, while higher income Canadians will pay their fair share of tax. Without the GST credits to lower and modest income Canadians, the tax would be regressive, taxing lower wage earners proportionately more with respect to income than higher wage earners.

The specific details of how the GST will be applied to the transportation industry may be found in Appendix 1.

(III) EFFECTS OF THE GST ON TRANSPORTATION INFRASTRUCTURE

(A) APPLICATION OF GST TO DEPARTMENT OF TRANSPORTATION PURCHASES

Purchases made by the GNWT for its own use will be completely tax free. This includes direct wholesale and retail purchases as well as the acquisition of goods and services by public tender and contract. The GNWT will be relieved of any liability for GST on its purchases in one of two ways:

(1) point of sale relief through the provision of exemption certificates; or

(2) payment of tax at time of purchase with a subsequent full rebate.

The federal government has not yet announced which of these two methods it will employ. It has made known that it prefers the latter approach as "in this way, the operation of the GST can be kept as simple as possible for businesses making sales to the provinces - they would not have to make special and, possibly, cumbersome provisions for relieving the provinces of tax at the time of sale."[1] Most provinces, however, prefer the former approach as no outlay of tax is required.

If the federal government chooses to give the provinces and territories point of sale relief through the provision of exemption certificates, businesses will bear the additional administrative costs for sales made to these governments and will likely attempt to pass these costs on to the governments. The GNWT Department of Finance has also concluded this.

If the federal government should decide that provincial and territorial governments will be required to pay the tax and subsequently apply for a full refund, the Department of Transportation will experience increased administrative costs as all tax paid must be accounted for and GST returns be filed. Given that the Department of Transportation will normally be in a tax refund position as it will not be collecting GST on any sales, the Department may experience some slightly negative cash flow impacts while awaiting refunds from the federal government. It should be noted that GST on purchases becomes due only as payment for these purchases becomes due; thus, in the case of large contracts paid on an installment basis, GST will become due only as each payment is made. It is thought that this cash flow effect on the Department of Transportation will be small in terms of dollar cost; an example is shown below.

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1) Goods and Services Tax Technical paper, Department of Finance, Government of Canada, August 1989, p.136

EXAMPLE 1 :

ASSUMPTIONS :

- Total Department of Transportation annual expenditures of $24 million.
- Roughly $2 million in expenditures per month.
- GST of 7%.
- Interest rate of 10%.
- GNWT submits GST returns on a monthly basis.
- Revenue Canada has 21 days after it recieves a claim to have it processed, with interest being applied after 21 days.

If it is assumed that the GNWT makes its expenditures at the end of the month, just prior to submitting its GST return, then the government would have to finance all GST only over the 21 days (month) it would take the federal government to process the GNWT's GST return. This would result in annual cash flow costs as follows:

(a) ($2 million/month) * (.07) = $140,000 GST each month
($140,000) * (.10) = $ 14,000 interest annually

If, however, the GNWT were to make its purchases at the beginning of every month, its cash flow costs would increase as the government would have to finance the $140,000 in GST over both the month in which the purchase was made and the month until the rebate was received. This would result in cash flow costs as follows:

(b) ($2 million/month) * (.07) = $140,000 GST each month

But because puchases are made at the beginning of the month, the GNWT will need to finance $140,000 over two months for each month's purchases. This will result in a need for financing of $280,0&0 of GST each month.

($280,000/month) * (.10) = $ 28,000 interest annually

The GNWT may wish to take these costs into account when making purchases.

It is agreed with the GNWT Department of Finance that the GST should not increase the direct costs to the Department of Transportation for any of its purchases. The Department could actually benefit slightly from the implementation of the GST because some items it purchases are now taxed under the Federal Sales Tax. Under the GST regime, the current tax will be removed and the government will be entitled to a full refund of any GST paid. It should be noted, however, that a higher overall price level resulting from the new tax may lead to higher industry costs as salaries are increased, and that eventually, higher inflation will have an effect on the Department.

(B) EFFECT OF GST ON DEPARTMENT OF TRANSPORTATION MANDATES

(1) Primary Mandates

The Goods and Services Tax should have no effect on the Department of Transportation's delivery of its primary mandates in the construction and maintenance of land, air and marine infrastructure since all of the Department's purchases will be tax-free. Any cost, and subsequently price, effects resulting from the GST on firms from which the department purchases goods or services should be only negligible (ie. slightly increased administration costs). These firms will be able to receive a full refund for any tax paid on purchases made in the course of their business activities, and should therefore not experience directly increased costs. They, too, may actually see decreases in the prices of some purchases as the FST is withdrawn and the refundable GST is implemented.

(2) Secondary Mandates

The GST may, however, have some effect on the Department of Transportation's delivery of its secondary mandates such as devolution, local economic development, and privatization of government services.

Devolution of transportation responsibilities from the territorial government to municipalities may be affected by the implementation of the GST as the territorial government is able to claim full credits for any GST paid on its purchases while municipalities may only claim a partial rebate based on a certain percentage of GST paid. As a result, programs which are devolved to municipalities will likely cost these authorities somewhat more to operate, and municipalities may therefore demand increased funding to administer them. If additional funding is granted to these municipalities, the GNWT's budget may be affected to some extent.

The federal government has not yet stated what the percentage rebate for municipalities will be. It has, however, stated that the same percentage rebate will apply to all municipalities and will be set so that on average, municipalities will pay the same amount of tax both before and after the GST is implemented.

The fact that one percentage rebate will apply to all municipalities across Canada will likely have some negative consequences for northern municipalities which face higher price levels than do municipalities in the south. Municipalities now have FST included in the price they pay for some goods, but the tax is based on the wholesale price; this results in the payment of the same amount of tax by all municipalities regardless of the final selling price in any community. The change to a tax based on the final price will cost northern municipalities more than their southern counterparts; a rebate based on the average cost increase to all Canadian municipalities will not fully compensate these institutions in the N.W.T. Thus, it is anticipated that costs to northern municipalities will increase to some extent after the implementation of the GST, and that this may cause a slight rise in the implementation and operating costs of any programs devolved from the territorial government to municipalities.

Further to this, the implementation of the GST may affect local economic development performed by municipalities. Given that territorial grants to municipalities will not possess the same purchasing power post-GST as pre-GST (a net increased federal tax and some additional administrative costs associated with the GST will be experienced), municipalities may exert pressure on the Department of Transportation for additional funding.

The GST may have a slight effect upon the decision to privatize government services. If the federal government decides to grant the provinces and territories relief from GST liability through a rebate for tax paid, then the Department of Transportation, in the course of providing government services in-house, will be required to pay GST on any materials and services it purchases from the private sector, receiving a subsequent rebate for this tax. This will result in certain cash flow impacts based upon the amount of GST paid on inputs purchased from outside the government. If, however, the Department contracts these services out, or privatizes them, it will also pay GST on the contractors mark-up and manpower costs which would be reflected in the total contract price. This could increase cash flow impacts for the Department during the time between the payment of the tax and the receipt of the rebate, as a larger amount of GST would be paid in this case. It is believed that the additional cash flow costs incurred with privatized services would be minimal and not likely to affect the Departmentts budget to any appreciable extent.

If, in contrast, the federal government should decide to give the provinces and territories relief from the GST at the point of sale, then the decision to privatize government services would be based on the same criteria as at present; the imposition of the GST would have no new effect on this decision save for some small indirect administrative costs (due to the GST) which may be factored into contract prices by contractors.

(IV) EFFECTS OF THE GST ON THE TRANSPORTATION INDUSTRY

(A) VALUE ADDED FOR TRANSPORTATION SERVICES

Value is added to transportation services in the same manner that value is added to manufactured goods. The value added by the transportation firm is the difference between the cost of inputs attributable to a particular movement of passengers or goods and the selling price of that movement of passengers or goods. The consumer is taxed on the final selling price, of the good or service; this price is the accumulation of the total value added throughout the production chain.

Transportation firms are entitled to claim input tax credits for all purchases they make "to the extent that the goods/services (acquired) were acquired for use in a commercial activity.[2]" In this way, carriers are reimbursed for any outlays of GST made, and double-taxation is avoided. In turn, manufacturers, retailers and distributors, as purchasers of transportation services, receive input tax credits for all tax paid on purchases of these services.

(B) APPLICATION OF GST TO CARRIER PURCHASES

Purchases made by carriers are either taxable, tax-free or tax-exempt.

Most purchases are taxable; that is, they will be taxed at a rate of 7 per cent. An input tax credit, however, may be claimed for all tax paid on these purchases. Examples of taxable items include capital goods, lease payments, repairs and maintenance (outside contractors), parts and supplies, shop expenses, overhauls, electricity, heating fuel, advertising, data processing, agent's fees, professional fees, training costs and business travel.

Some purchases made by carriers will be zero-rated; that is, they will be taxed at a rate of zero per cent, and will therefore bear no GST (tax free). Suppliers of these goods and services may claim Input tax credits in respect of any tax paid on purchases relating to the production of these zero-rated supplies. Examples of these items are salaries and wages, property taxes, and water expenses.

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2) Goods and Services Tax Technical paper, Department of Finance, Government of Canada, August 1989, p. 59

Other purchases will be rated tax-exempt; no tax will be charged on these purchases, but costs of these goods may increase slightly post-GST as firms supplying exempt goods and services cannot claim any input tax credits in respect of these supplies. Tax-exempt items include finance charges, financial services, and all types of insurance.

Presently, some purchases made by carriers include Federal Sales Tax. If the new tax is implemented, this FST will be removed and will be substituted with the refundable GST. This will result in certain cost decreases to carriers; these arise most notably in the areas of fuel costs and long distance telephone charges.

(C) PREDOMINANT COST CHANGES TO CARRIERS POST-GST.

(1) Fuel

Currently, consumers and business users of gasoline, diesel and aviation fuel pay a flat federal excise tax and a 13.5 per cent FST which is based on the wholesale price of fuel. The current rates in the Northwest Territories are approximately as follows:

AB E

(all rates are in cents/litre)

	FST[3] (13.5% of product price) (varies)		EXCISE TAX (constant)	NWT TAX (constant)
GASOLINE	3.55	(2.50-4.50)	8.5	8.5 (on road)
GASOLINE	3.55	(2.50-4.50)	8.5	5.1 (off road)
DIESEL	2.71	(2.50-4.80)	4.0	7.2
AVIATION (turbo B)	4.01	(4.00-5.00)	4.0	1.0
AVIATION (diesel)	2.71	(2.50-4.80)	4.0	1.0

3 The federal government presently prescribes the FST on diesel and gasoline fuels every three months; it bases these figures on 13.5% of a Canada-wide indexed cost of these products during the previous quarter, Therefore, generally, every purchaser of these fuels pays the same FST no matter what the wholesale product price. The Petroleum Products Division of the GNWT (P.O.L.), however, has not been following this same regime. It has been paying 13.5% of the actual wholesale product price at the time of purchase. Therefore, because P.O.L. supplies the majority of northern territorial communities with fuel , and because the purchase price of this fuel varies depending upon the original source, the FST on gasoline and diesel fuel paid in the north varies from community to community. With the implementation of the GST. the federal tax will ‘no longer be prescribed quarterly; the GST will simply be 7% of a ‘base price inclusive of product cost, freight charges, provincial/territorial fuel tax, federal excise tax and any mark-ups by wholesalers or retailers. The tax will therefore vary depending upon the level of these charges in different jurisdictions.

With the removal of the FST, the 13.5 per cent tax presently levied on motive fuels at the manufacturer's trade level will be discontinued, but federal excise taxes will be retained at the present (pre-GST) rates. The new GST will be levied on these motive fuels and will be calculated on a base inclusive of federal excise taxes, provincial fuel taxes, product and distribution costs, and retail mark-ups.

The federal government's intent, through these changes, is to generate the same total revenue from the GST and the excise tax on consumer purchases of motive fuels as is now produced by the FST and the excise tax on these purchases. The amount of GST levied per litre of fuel, then, will, on average, equal the amount of FST per litre currently applied to fuels. Prices of fuels to final consumers will, on average, remain at present levels; however, some regions may experience slightly increased or decreased prices.

After the GST comes into effect, commercial users of fuel (ie. carriers, registrants purchasing fuel for firm use) will be able to claim input tax credits for any GST paid on fuel purchases. Being able to cl aim a ful 1 credit for al 1 GST paid on fuel wi 11 reduce the final price to registrants by an amount equivalent, on average, to the FST currently being paid (up to approximately 10% of the final price per litre in some cases) as this group will effectively be paying only the excise tax. Registrant users of motive fuels, then, will experience lower fuel prices post-GST.

The post-GST price of aviation fuel (Turbo Jet B) to a representative regional charter/scheduled air carrier operating out of Yellowknife is shown next page:

TABLE 2 **YELLOWKNIFE**

(all figures are cents per litre)

AVIATION FUEL (Turbo-B):

	NOW	AFTER GST-NWT TAX IN
Product Cost (includes freight and commission)	32.042	32.042
Excise Tax	4.00	4.00
FST	4.01	----
NWT Tax	1.00	1.00
Airport Fee	0.454	0.454
GST (7%)	-----	2.625
Retail Selling Price	41.506	40.121
Cost to Registrant (net of GST)	41.506	37.496

POST-GST : 9.66% (4.01 cents/L) reduction in price to registrant (input tax credit available)

SOURCE: Ptarmigan Airways Ltd., Yellowknife, N.W.T.

It is seen, then, that this registrant air carrier will experience an effective price reduction of 9.66% in the price of fuel purchased in Yellowknife after it obtains its input tax credits for the GST paid on these purchases. It is important to note that this calculation assumes that the refinery or oil company supplying this customer passes along all cost savings generated by the withdrawal of the FST and does not use them to increase its operating margin. Should this refinery and others choose to view this tax change as an opportunity to better their profits, carriers such as the one studied will not experience the full reduction possible in the effective price of Turbo-B jet fuel. The degree of competition in the marketplace will play an important role in this matter.

Considering a registrant purchaser of diesel fuel in Coppermine, the following price reduction Is seen post-GST:

TABLE 3 **COPPERMINE**

DIESEL FUEL:	NOW	AFTER GST-NWT TAX IN
Product Cost	27.50	27.50
Freight	20.43	20.43
Excise Tax	4.00	4.00
FST	3.71	----
NWT Tax	7.20	7.20
Other charges	9.16	9.16
GST (7%)	-----	4.78
Retail selling Price	72.00	73.07
Cost to registrant (net of GST)	72.00	68.29

POST-GST: 5.15% (3.71 cents/L) reduction in price to registrant (input tax credit available)

SOURCE: Petroleum Products Division, Department of Government Services, GNWT

Therefore, the registrant purchaser of diesel fuel in Coppermine should experience an effective price decrease of approximately 5.15%. It is important to note that this calculation again assumes that the refineries or oil companies pass along to their customers all direct cost savings generated by the withdrawal of the FST and do not use them to increase their margins. P.O.L., the Petroleum Products Division of the GNWT which supplies fuel to northern territorial communities, operates on a break-even basis, so in the case of Coppermine and other settlements served by this Department, any savings passed to P.O.L. by the refineries will be passed on to consumers. Table 4 shows approximate absolute and percentage price changes to registrants for diesel fuel, gasoline and aviation (diesel) fuel in the communities of Coppermine, Arviat and pond Inlet post-GST. The table considers the cases of 100% removal and 70% removal of FST from the price of fuel. Actual prices pre- and post-GST may be seen in Appendix 2.

TABLE 4 REDUCTIONS IN **MOTIVE** FUEL PRICES **POST-GST** TO REGISTRANTS IN SELECTED COMMUNITIES

	GASOLINE		DIESEL		AVIATION (DIESEL)	
	100%*	70%*	100%	70'%	100%	70%
ARVIAT						
(c/L)	3.89	2.72	4.66	3.26	4.66	3.26
(%)	5.48%	3.83%	6.56%	4.59%	7.28%	5.09%
COPPERMINE						
(c/L)	4.43	3.10	3.71	2.60	3.71	2.60
(%)	5.993	4.19%	5.15%	3.61%	4.58%	3.21%
POND INLET						
(c/L)	2.75	1.92	2*51	1.76	2.51	1.76
(%)	4.10%	2.87%	3.80%	2.67%	4.18%	2.93%

* 100% - assumes 100% removal of FST from product price
* 70% - assumes 70% removal of FST from product price

SOURCE : Petroleum Products Division, Department of Government Services, GNWT.

In general, then, as is seen in Tables 2, 3 and 4, northern registrant users of fuel will experience effective price reductions of up to a maximum of approximately seven, eight, or nine per cent in some cases after the implementation of the GST, given that input tax credits are available to them.

(2) Administrative Costs

Carriers will realize increased administrative costs **post-GST** as they will have to record all **GST** paid out on purchases as well as all **GST** collected on sales revenues. If a carrier generates taxable or tax-free revenues of more than $6 million annually, it must file a **GST** return monthly, but if it generates revenues less than this, it need only file a **GST** return quarterly. Carriers generating annual revenues not exceeding $500,000 will have the option of quarterly filing or annual filing with quarterly installment payments.

It is expected that administrative costs will increase relative to the number of returns a carrier must file annually and to the current degree of carrier sophistication in the area of accounting and record-keeping systems. Carriers with more sophisticated systems may need to make only minor changes to current procedures, while carriers with unsophisticated systems may need to update their procedures.

The Coalition of Canadian Transport Associations and Carriers submits that carriers, especially for-hire truck carriers which transport large volumes of small shipments, will encounter significant transitional costs of restraining clerical employees, creating new documentation control procedures, and creating new software programs. While it is agreed that carriers will no doubt encounter some additional costs in these areas, it is felt that the degree of costs indicated in this lobby submission is overstated for carriers in the **N.W.T.**[4]

Presently, carriers must save all purchase receipts for income tax purposes and must post these amounts, in some manner, to the appropriate asset or expense accounts; the recording of the **GST** paid on purchases will therefore impose only a marginally increased on-going burden on carriers as it will be-necessary only to post an additional (tax) number to an additional account when these receipts are processed. In the same manner, carriers can record **GST** collected on sales revenues when they process their monthly invoices. Most carriers in the **N.W.T.** have operations of a scale which would allow this, and consequently, in the transitional stage, would need only establish an additional ledger account in which to record the **GST** (either manually or on computer) and train one or possibly two clerical employees to record the **GST** and submit **GST** returns.

4) **"The GST** and the Trucking Industry", **N.W.T.** Motor Transport Association Newsletter, December 1989, p. 1-3

One impact of this increased administrative burden on for-hire trucking will be on small carriers such as lease operators (truck owner-operators) who have unsophisticated accounting procedures and who must account for GST on their purchases and therefore file GST returns. Given that transactions between motor carriers and owner-operators performing subcontracting services for these carriers will be tax-free, owner-operators will not be required to collect tax on their "sales". They will, however, be required to pay tax on their purchases, but will also be able to claim input tax credits in respect of these purchases. Because these small carriers will not have incoming GST to offset outgoing GST, they may be placed in a negative cash-flow situation. In order to minimize this effect and receive their refunds more quickly, they would likely file their GST returns on a monthly basis. This, however, would increase reporting requirements and, as a result, administration costs. Depending upon the knowledge of tax matters and the amount of spare time that these owner-operators possess, they may, as a consequence of monthly filing, find it necessary to employ the services of someone else to complete their GST returns; this could result in additional administrative costs. Overall, for small and unsophisticated carriers such as owner-operators, administrative costs will likely increase to some degree.

A further impact of the GST on the administrative costs of for-hire trucking will arise when freight bills require adjustments due to over or under charges or damage claims after the bill and the GST have been calculated and/or paid. Each adjustment will require a re-calculation of the GST paid or payable as well as modifications to the amount of tax either remitted or collected from the government. These adjustments will require a small amount of additional time spent by motor carriers on accounting.

To help offset compliance costs, the federal government will offer small businesses a one-time transitional credit of up to $1000. Owner-operators and carriers with annual sales of $60,000 or less will receive a credit of $300, and carriers with annual revenues exceeding this amount will receive a credit equal to 0.5% of sales to a maximum of $1000 (carriers with revenues between $200,000 and $2,000,000 will receive the full credit).

Overall, it is felt that any increases in administrative costs experienced by carriers in the N.W.T. will not be such as to cause increases in the present (pre-GST) prices of transportation because offsetting cost reductions will occur in other areas (ie. fuel, long-distance telephone).

(3) Long-distance Telephone, Insurance, and Finance Charges

Three minor effects on carriers resulting from the removal of the FST and the imposition of the GST arise in the areas of long-distance telephone, insurance, and finance charges.

With the removal of the Federal Sales Tax, the present 11% federal tax on telecommunications will be withdrawn and replaced with a refundable?% GST. This wi 11 result in an effective 9.91% (11/111) reduction in the cost of FST tax-inclusive long distance telephone charges to registrant carriers. The absolute cost reduction will depend upon each carrier's present long-distance charges.

Insurance and finance charges will be rated tax-exempt, meaning that these services will not be taxed, but that firmsproviding insurance, mortgages and loans will not be able to claim any input tax credits for purchases made in respect of these tax-exempt supplies. In order to recover the tax paid on inputs and to maintain their margins, firms offering these services may increase their prices. This could result in somewhat higher insurance and financial costs to carriers.

Overall, FST tax-inclusive long-distance telephone charges should decrease by 9.91% (11/111) , and insurance and finance charges should increase marginally. The effect of increased insurance and finance charges should be offset by lower long-distance telephone charges and lower fuel costs.

(D) EFFECTS OF THE GST ON NORTHERN CHARTER/SCHEDULED AIR CARRIERS AND H RS

(1) Effects on Charter/Scheduled Regional Air Carriers

The overall cost effect on northern charter/scheduled air carriers should be a slight decrease in total cost in absolute dollar terms, but a negligible decrease in percentage cost terms (about .25%).

The major cost reduction realized by air carriers will result from fuel cost savings. Carriers will experience decreased fuel costs to the extent that their fuel costs are included in their unit costs from which their prices or rates are determined. Most charter operators do not include fuel costs in the price of their charters as these costs vary widely throughout the territories and therefore vary from charter to charter depending upon destination (s). Fuel costs are applied on top of the charter price and are billed to the charterer without any mark-up by the carrier. Thus, air carriers providing charter services will realize no cost saving on charter flights from a reduction in the cost of fuel ; the charterer will realize these savings.

Air carriers, though, will experience reduced costs through the operation of scheduled flights, because the cost of fuel is calculated into aircraft operating costs upon which passenger fares and freight rates are based. A study of one representative Yellowknife air carrier which uses approximately 14% of its fuel on scheduled flights and 86% of its fuel on charters shows savings of about $14,500 if all savings from the removal of the FST are passed on by the oil company with which it contracts for fuel. If only 70% of these savings are passed on, the cost saving to this air carrier would be approximately $8,500. Increased competition between oil companies in Yellowknife will likely help ensure that FST savings are passed along to consumers in this city after the government withdraws the FST. Even if up to 73% of the FST is left embedded in the price of aviation fuel, the carrier studied should not experience any overall cost increases after theGST. The worst case scenario for this carrier, where no FST savings are passed along, shows an overall cost increase in the order of $5,200. Table 5 shows a more detailed calculation of these effects.

TABLE 5

STUDY OF THE EFFECTS OF THE GST
ON A REPRESENTATIVE N.W. T. REGIONAL CHARTER/SCHEDULED AIR CARRIER

* negative numbers denote savings *

Net Altered Costs Post-GST	BEST CASE	LIKELY CASE	BREAK-EVEN CASE	WORST CASE
FUEL	-$19,593	-$13,717	-$5,277	-----
LONG-DISTANCE TELEPHONE	-$ 2,273	-$ 2,273	-$2,273	-$2,273
ADMINISTRATIVE	$ 7,500	$ 7,500	$7,500	$7,500
	-$14,366	-$ 8,490	0	$5,227

ASSUMPTIONS :

(1) Carrier uses 14% of total fuel purchases on scheduled flights and 86% of total fuel on charter flights.
(2) Increased insurance and finance charges and reduced prices of manufactured goods now bearing FST are considered only qualitatively as they cannot be predicted post-GST.
(3) Long-distance telephone saving of $2,273 reflects the removal of the present 11% federal telecommunications tax levied on long-distance telephone tolls.
(4) Administrative cost increase of $7,500 represents increased clerical and reporting costs associated with GST.
(5; Best Case Assumes that all FST presently embedded in the price of aviation fuel is removed. This represents a 9.66% reduction in the price of aviation fuel.
(6) Likely Case - Assumes that 70% of the FST presently embedded in the price of aviation fuel is removed (the provinces collectively estimate that about 30% of FST will remain in manufactured goods post-GST). This represents a 6.76% reduction in the price of aviation fuel.
(7) Break-Even Case - Assumes that 27% of the FST presently embedded in the price of aviation fuel is removed. This represents a 2.61% reduction in the price of aviation fuel.
(8) Worst Case - Assumes that none of the FST presently embedded in the price of aviation fuel is removed. This represents a 0% reduction in the price of aviation fuel.

Northern charter/scheduled air carriers will experience slightly increased administrative costs. A study of the same representative northern air carrier shows that these costs could increase by up to approximately $7500; this increase is the result of increased administrative staffing requirements and is based upon an assumption that the higher administrative burden would require one employee to record GST data for the equivalent of one week per month. This figure also assumes that the air carrier is a monthly filer (revenues in excess of $6 million annually); carriers earning less than $6 million annually need file less frequently and would likely need less employee time spent attending to GST matters. This estimate of $7500 for the carrier in question may be slightly high. None of the transitional credit offered by the federal government to help ease compliance costs would be available to this carrier as it earns revenues in excess of $2 million.

In evaluating the effects of the GST on air carriers, possible small increases in insurance and finance charges, which may occur given the tax exempt status of these services, as well as small decreases in the costs of manufactured goods presently bearing FST, have been ignored in qualitative calculations. These potential price changes cannot be estimated with any degree of accuracy as the present FST burden to institutions offering these goods and services is unknown; these price changes have therefore been left as a qualitative consideration.

Because the cost decreases to charter/scheduled regional air carriers will be small on both percentage and absolute terms, and because air carrier operating and profit margins on scheduled flights are presently low (for smaller, regional carriers), it is very unlikely that these carriers will pass on any cost savings to scheduled flight customers through reduced passenger fares and/or freight rates. It is expected that the present (pre-GST) level of passenger fares and freight rates will be maintained after the GST is implemented; charter prices, however, (inclusive of fuel costs), will decrease as the effective cost of fuel falls post-GST.

It should be noted that large airlines operating predominantly scheduled flights in the N.W.T. should realize greater fuel cost savings than smaller carriers offering mostly charter flights, as fuel costs are calculated into passenger fares and freight rates. These savings should more than offset any administrative and other cost increases accruing to these larger carriers from the imposition of the GST. Given that cost savings should be greater for these carriers than for the carrier studied, larger airlines may be willing and able to pass along some of these savings to passengers and shippers in the form of reduced fares and freight rates.

(2) Effects on Regional Charter Flight Shippers/Passengers

The GST will have two very different effects on registrants and non-registrants who contract with an air carrier for charter transportation services.

Registrants (government and business) will realize reduced charter costs as all fuel savings arising from the removal of the FST will be passed on to them. This group will receive tax credits for all GST paid on input purchases and will thus see an effectively reduced price of fuel. Under a 7% GST, then, this group will see decreases of up to a maximum of about 9 or 10 per cent in the fuel portion of charter bills (in the case of our representative carrier), depending upon the degree of FST savings passed along by the refinery or oil company. All GST charged on the charter price is also refundable, so no net price increase will be seen in the charter portion of the bill (net of fuel).

Non-registrants (individuals) contracting for charter air services will experience slightly reduced fuel costs on charters after the GST is implemented. A study of the same representative carrier shows that these may be in the order of 3.34% if all FST savings are passed on by the refinery. It was found that prices of aviation fuel to individuals chartering aircraft will likely decrease under the GST regime because the Northwest Territorial Tax on aviation fuel is lower than that imposed by provinces in southern Canada. This means that N.W.T. purchasers of aviation fuel will see the GST levied on a smaller base price than will southerners, and will therefore be liable for a smaller amount of GST. Non-registrants will, however, see effective increases of 7% in the charter portion of the invoice (portion net of fuel costs) once the GST is implemented; this group cannot claim input tax credits and will bear the burden of the tax.

(3) Effects on Regional Scheduled Flight Shippers/Passengers

The GST will affect registrant and non-registrant scheduled-flight shippers and passengers differently.

(a) Shippers

Registrant scheduled-flight shippers will likely encounter effectively static freight rates on regional charter/scheduled carriers after the implementation of the GST since it is unlikely that the freight rates of these carriers will change as a result of the tax, and as this group will be able to claim credits for all tax paid on transportation services. Non-registrant shippers, though, will see prices inflated by 7% as a direct result of the GST's application to freight rates.

Registrants shipping goods on scheduled flights of larger airlines may see some reductions in freight rates as these carriers realize savings on fuel costs. Larger airlines operating predominantly scheduled flights have the potential to realize greater fuel savings and thus net savings than do charter operations, and these larger carriers may pass any realized savings on to their shippers. Registrant shippers may experience some reductions in freight rates if savings are passed along; the GST will have no net effect on this group as it will receive input tax credits for any GST paid. Non-registrant shippers, however, will not receive any rebates for the 7% GST paid, so this group may see increases of up to 7% in freight rates depending upon the level of savings passed on to them.

(b) Passengers

Currently, both government and business as well as individuals must pay an Air Transportation Tax (ATT) on all passenger air fares for travel on aircraft weighing over 18,000 pounds inclusive of payload; after January 1, 1991, these travelers will be required to pay GST on the total of the ticket price plus a modified ATT. Under the new tax regime, the ATT on domestic and transborder flights will be modified from 10% plus $4 to a maximum of $50 per ticket, to 7% plus $10 to a maximum of $40 per ticket. This will serve to reduce the amount of ATT paid by travelers on tickets over $200; for tickets under $200, more ATT will be paid under the new regime.

Registrants (government and business) purchasing tickets at prices greater than $200 will benefit from this change as they will experience a reduction in the ATT and will also be able to claim tax credits for all GST paid; this will effectively reduce after-tax ticket prices to this group, assuming constant air fares. Registrants purchasing tickets at prices under $200 will see an increase in the amount of ATT charged, but will be able to claim credits for all GST paid; prices will therefore effectively increase by the amount of the increase i n the ATT.

Non-registrants will see price increases of up to 7% on passenger fares over $200 as the ATT will be reduced and the new GST levied on top of the ticket price and the lower ATT. For fares less than $200, however, the amount of ATT charged increases after the implementation of the GST; this effect, coupled with an added 7% GST increases fares by greater than 7%. Table 6 shows the effects of the new GST and the modified ATT on domestic and transborder air fares.

It must be noted that air carriers operating smal 1 aircraft (the majority of smaller, regional carriers in the N.W.T. fall into this category) do not charge ATT; they are exempted from this tax by the federal government. This is not scheduled to change with the imposition of the GST. Therefore, following the implementation of the GST, air fares offered by smaller carriers will increase by 7% as a direct result of the GST. Non-registrants or consumers will bear this increase, while registrants will be able to claim an input tax credit for all GST paid on the ticket price.

International travelers, those traveling from Canada to overseas destinations, will experience an ATT increase from the current 1 evel of $19 per ticket to $40 per ticket. These travelers, however, will not be charged GST on either the ticket price or the ATT; international travel will be tax-free. Registrants and non-registrants will face the same final net ticket price in this case, albeit increased by $21.

TABLE 6

EFFECTS OF THE NEW GOODS AND SERVICES TAX (GST) AND THE MODIFIED AIR TRANSPORTATION TAX (ATT) ON THE TAXATION OF AIR FARES

FARE	OLD ATT		NEW ATT						
	10% + $4 MAX $50	EFFECTIVE TAX RATE	7% + $10 MAX $40	G.S.T. BASE	G.S.T. AMOUNT	TOTAL TAX	EFFECTIVE TAX RATE	CHANGE IN TAX	TAX INCL. PRICE CHANGE
$	$	$	$	$	$	$	%	$	%
60	10	16.7	14.2	74.2	5.19	19.39	32.3	9.39	13.4
80	12	15.0	15.6	95.6	6.69	22.29	27.9	10.29	11.2
100	14	14.0	17.0	117.0	8.19	25.19	25.2	11.20	9.8
110	15	13.6	17.7	127.7	8.94	26.64	24.2	11.64	9.3
120	16	13.3	18.4	138.4	9.69	28.09	23.4	12.09	8.9
150	19	12.7	20.5	170.5	11.94	32.44	21.6	13.44	8.0
200	24	12.0	24.0	224.0	15.68	39.68	19.8	15.68	7.0
300	34	11.3	31.0	331.0	23.17	54.17	18.1	20.17	6.0
360	40	11.1	35.2	395.2	27.66	62.86	17.5	22.86	5.7
400	44	11.0	38.0	438.0	30.66	68.66	17.2	24.66	5.6
460	MAX 50	10.9	MAX 40.0	500.0	35.00	75.00	16.3	25.00	4.9
500	50	10.0	40.0	540.0	37.80	77.80	15.6	27.80	5.1
600	50	8.3	40.0	640.0	44.80	84.80	14.1	34.80	5.4
1000	50	5.0	40.0	1040.0	72.80	112.80	11.3	62.80	6.0
1500	50	3.3	40.0	1540.0	107.80	147.80	9.9	97.80	6.3
2000	50	2.5	40.0	2040.0	142.80	182.80	9.1	132.80	6.5
3000	50	1.7	40.0	3040.0	212.80	252.80	8.4	202.80	6.6

(E) EFFECTS OF THE GST ON THE STRUCTURE OF THE MOTOR TRANSPORT ND RY

(1) Private versus For-Hire Carriage

The motor carriage industry can be split into two sectors: private carriage, wherein the equipment and labour used to transport goods are under the direct control of the owner of the goods, and for-hire carriage, wherein an independent carrier charges the owner of the goods for the service of moving those goods. The imposition of the GST should not serve to favour either of these methods of carriage over the other in the estimation of firms requiring transportation services because any tax paid by a registrant in the course of using either method will be refundable. Therefore, the decision to employ private or for-hire carriage will be based upon the same criteria post-GST as at present.

(2) Sub-contractors versus Employees

Within the for-hire motor carriage industry there exist entities known as owner-operators, or brokers, who own their own truck tractors and lease themselves and their vehicles to for-hire motor carriage firms for remuneration. They provide freight transportation services to motor carriage firms for a given period of time at a given rate of pay per mile or per trip. Brokers are normally responsible for the upkeep, maintenance and repair of their own vehicle, their own fuel costs, and their own insurance, licence and registration costs. Advantages of this arrangement to motor carriage companies include greater flexibility to meet market demand, avoidance of high vehicle maintenance costs, and avoidance of large investment in capital equipment.

In contrast with this, other motor carriage companies employ vehicle operators directly-as employees-to -operate company vehicles.

The imposition of the GST on freight transportation services should not create a bias in favour of either of these methods of hiring vehicle operators. The federal government has exempted transactions for the subcontracting of freight transportation services between carriers, such as those between motor carriage companies and owner-operators, from GST. This will reduce the administrative and reporting burdens of owner-operators as it will not be necessary for these relatively unsophisticated carriers to calculate and charge GST on their "sales" of subcontracted transportation services. Owner-operators and carriage companies, will, however, both qualify to claim input tax credits for GST paid on business purchases. This being so, the decision of a motor carriage company to employ vehicle operators directly as employees or through a service contract as owner-operators will be based upon the same criteria post-GST as at present.

(V) EFFECTS OF THE GST ON THE GENERAL PUBLIC AS CONSUMERS

(A) EFFECT OF THE GST ON CONSUMER SPENDING PATTERNS

(1) Durable Goods

An analysis of the effect of the GST on prices of a few consumer durables in communities of the Northwest Territories as compared to their southern F.O.B. points shows that northern consumers may re-examine their spending patterns post-GST.

Five durable goods - a Skidoo snowmobile, a Johnson outboard motor, a Winchester 30.30 rifle, a Snow Goose down parka and men's Sorel snow boots - were priced in the communities of Fort Simpson, Yellowknife and Cambridge Bay; Arviat and Baker Lake; and Iqaluit and Pond Inlet, and these prices were then compared to those of the same items in Edmonton, Winnipeg and Montreal, respectively. As was expected, all goods were less expensive in the southern cities. After pricing transportation costs to move these goods north to these territorial communities, it was found in eighty-five per cent of the cases that it was still less expensive to buy the good in the south and to arrange for transportation north oneself rather than to purchase the good in one's northern community. This price differential arises from the high mark-up, necessary to cover high operating costs, which is applied to goods sold by northern retailers. There is presently, then, under the Federal Sales Tax regime, an absolute advantage to purchasing particular goods in the south and arranging for their transportation north oneself.

When considering this same scenario under the GST regime, it appears that in all cases where there was an advantage to purchasing a good in the south and to shipping it north oneself under the FST, that this advantage only increases, both in absolute dollar and percentage terms, after the-implementation of the GST. The predominant reason for this effect is that one avoids the payment of GST on the high northern mark-up. Given that consumers will experience higher overall price levels after the implementation of the GST, and therefore reduced discretionary spending power, it may become more important to them to save a dollar where they are able; a dollar after the implementation of the GST will be worth more, in relative terms, than a dollar before the GST. This conservation effect would likely occur only in the long term, however, as consumers begin to feel the effect of the GST upon their disposable income. It may therefore occur, also in the long run, that more northerners begin purchasing high value, manufactured goods in the south and shipping them north themselves as opposed to buying them in their own communities. This could impact negatively on northern retail outlets.

In considering probable consumer behaviour, another variable must be considered: the amount of FST actually removed from the prices of goods post-GST. Manufacturers, wholesalers and retailers within unregulated industries are under no obligation to remove any or all of the 13.5% tax from the price of manufactured goods after the withdrawal of the FST. Given the fact that consumers are unknowledgable about the dollar amount of FST currently embedded in the prices of manufactured items, it may occur that some portion of the current tax will remain included in prices after the FST is withdrawn by the federal government. The provinces have collectively estimated this figure to be about thirty per cent; this figure may, however, be slightly high.[5]

If it is assumed that each member of the distribution chain passes along the full value of FST savings to the final consumer, then it is found that northern prices of high value, manufactured goods decrease negligibly. In this case, it is unlikely that consumers will alter their spending patterns and begin purchasing high value, manufactured goods in the south if they do not feel that doing so is worth their while presently.

If it is assumed that approximately thirty per cent of the FST remains embedded in the selling price of these high value, manufactured goods, and that a 7% GST is then levied on this amount, it is found that prices in northern communities increase slightly. This incremental increase in the final price to the northern consumer post-GST may be the inducement necessary for him to shift his spending to southern suppliers. Much of this effect will depend upon the individual consumer and his spending habits. It must be noted that this effect is not attributable to the GST; it is, rather, attributable to the fact that one or more members of the distribution chain have realized an opportunity to increase their operating margins. This will be possible to the extent that competition is low or absent in markets in which these goods are sold. Competition between-wholesalers and/or retailers at the free-on-board (F.O.B.) points (Edmonton, Winnipeg, and Montreal- points from which goods are generally shipped to the north) will likely ensure that most, if not all, of the FST is removed from the prices of these goods; therefore, the northern retail store and the northern individual purchasing these goods in the F.O.B. cities should realize these savings. Northern retailers, however, being essentially monopolists or oligopolists in the smaller communities, may attempt to increase their margins by not passing all of these savings on to their customers. If they choose to do this, they must remember that there is an increased advantage to the consumer to buy in the south; they must monitor their level of sales as well as shifts in the spending patterns of their customers. Table 7 shows examples of the final prices of a Safari Scout Skidoo and a

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5 "Protecting Alberta's Future...Why We Oppose the Goods and Services Tax (GST)", Government of Alberta, 1989, p.13

Johnson 30 H.P. Outboard Motor in both northern communities and southern F. O.B. points, along with the absolute advantages attainable if these goods are purchased at these F.O.B. points.

Overall, then, after the imposition of the GST, consumers will be faced with a generally higher cost of living resulting from an overall higher price level. They will, as a result, experience reduced discretionary spending power and may seek, over the long-term, to conserve wealth or income. Given that the advantage to purchasing high value, manufactured goods in the south increases post-GST, consumers may, depending upon their individual degrees of wealth, attitudes toward spending money, and knowledge of southern marketplaces and transportation alternatives, shift their spending patterns over the long-term; when purchasing high value itmes, they may turn to southern suppliers rather than suppliers in their own communities. It is felt that consumers will not shift their purchases of less expensive goods to southern suppliers as the cost saving to doing so is much less than that saving encountered with higher priced goods.

(2) Groceries

Groceries will be zero-rated under the GST regime; there will be no GST incorporated into the price of basic foodstuffs bought for preparation at home. Each firm operating in the distribution chain, including the final grocer, " will receive full input tax credits for any tax paid on goods or services purchased which relate to the selling of groceries; this will serve to remove all tax from the price paid by consumers. This being so, consumers in the N.W.T. should not be any worse off than they are now relative to Canadians residing in more southern locations.

Given that the transportation and mark-up components of the price of groceries will not be taxed under the GST, there is not the same incentive to purchase these goods in southern locations and then arrange for transportation north oneself as there is for larger, higher value consumer durables. Contrarily, there is a disincentive to doing so because the freight charges on groceries transported for an individual consumer by a hired carrier would bear GST. Therefore, it appears that the imposition of the GST should not cause northerners to shift their spending patterns to southern suppliers in the case of groceries.

TABLE 7

PRICE COMPARISONS OF DURABLE GOODS IN NORTHERN COMMUNITIES AND SOUTHERN F.O. B. POINTS

SAFARI SCOUT' SKIDOO	PRICE NOW	PRICE (GST) WITH ALL FST OFF	PRICE (GST) WITH 70% FST OFF	RESOLUTE SAVING NOW FROM SHIPPING 0000 NORTH ONESELF	ABSOLUTE SAVING (GST) WITH ALL FST OFF WHEN SHIP N. ONESELF	ABSOLUTE SAVING (GST) WI TH 70% FST OFF WHEN SNIP N. ONESELF
	S	s	s	s	s	s
EDMONTON: TO	3600	3510	3612	---	---	---
YELLOWKNIFE						
Truck	3728	3647	3719	572	612	612
Air	----	----	----	---	---	---
Buy in Yellowkni● .	1300	4259	4361	---	---	---
FORT SIMPSON						
Truck	3717	363s	373a	878	939	939
Air	----	----	----	---	---	---
Buy in Ft. Simpson	15%	4574	1677	---	---	---
CAMBRIDGE BAY						
Truck/Barge	3918	3850	39s2	777	831	832
Air	1161	1110	4213	534	571	571
Buy in Cambridge	16%	4681	4784	---	---	---
WINNIPEG TO:	3540	3445	3548	---	---	---
ARVIAT						
Rail /Barge	3770	3692	3791	92s	989	990
Air	3971	3910	4013	721	771	771
Buy in Arviat	4695	4681	4784	---	---	---
BAKER LRKE						
Rail /Barge	3770	3692	3794	92s	989	990
Air	4188	1139	1211	507	512	543
Buy in Baker Lake	469S	4681	4784	---	---	---
MONTREAL TO:	33s0	3212	3345	---	---	---
IQALUIT						
Ship	3489	3391	3191	1311	1403	1102
Air	3941	387s	3977	859	919	919
Buy in Iqaluit	4800	1791	4096	---	---	---
POND INLET						
ship	3566	3473	3s76	1231	1321	1320
Air	5570	5619	S720	-770	-824	-824
Buy in Pond Inlet	4800	1791	4896	---	---	---

TABLE ? (cont'd)

JOHNSON 30 HP OUTBOARD NOTOR	PRICE NOM	PRICE (GST) WITH ALL FST OFF	PRICE (GST) WITH 70% FST OFF	ABSOLUTE SAVING NOW FROM SHIPPING GOOD NORTH ONESELF	ABSOLUTE SAVING (GST) WITH ALL FST OFF WHEN SHIP N. ONESELF	ABSOLUTE SAVING (GST WITH 70% FST OFF WHEN SHIP N.ONESELF
	s	s	s	s	s	s
EDMONTON: To	222s	2156	2223	---	---	---
YELLOWKNIFE						
Truck	2280	221s	2282	662	700	709
Air	----	----	----	---	---	---
Buy in Yellowknife	2912	2923	2991	---	---	---
FORT SIMPSON						
Truck	2277	2212	2279	672	719	719
Air	----	----	----	---	---	---
Buy in Ft. Simpson	2919	2931	2998	---	---	---
CAMBRIDGE BAY						
Truck/Barge	2332	2270	2338	663	710	709
Air	2398	2341	2109	597	639	638
Buy in Cambridge	299s	2980	3017	---	---	---
WINNIPEG TO:	2s2s	2477	2s11	---	---	---
ARVIAT						
Rail /Barge	2611	2569	2636	384	411	411
Rio-	26SS	2616	2684	340	364	363
Buy in Arviat	2995	2920	3017	---	---	---
BAKER LRKE						
Rail /Barge	2611	2569	2636	587	628	629
Air	2719	2685	27S2	179	512	513
Buy in Baker Lake	3198	3197	326S	---	---	---
MONTREAL 70x	2178	2106	2173	---	---	---
IQALUIT						
Ship	2222	21S9	2227	971	1039	1039
Air	2358	2298	2366	841	900	900
Buy in Iqaluit	3199	3198	3266	---	---	---
POND INLET						
Ship	22S6	2169	22s7	1043	1116	1116
Air	2859	2031	2902	440	171	171
Buy in Pond Inlet	3299	3305	3373	---	---	---

(B) EFFECT OF THE GST ON CONSUMER MOTIVE FUEL PRICES

It is estimated that fuel prices to northern individuals will increase slightly because higher northern transportation costs and mark-ups on fuel will be taxed post-GST. The GNWT Department of Finance supports this view. Price increases to northern individuals may be in the order of up to three or four per cent depending upon the type of fuel purchased and the purchase location. The new price of motive diesel fuel to residents of Coppermine, served by the Petroleum Products Division of the GNWT, is considered below:

TABLE 8 COPPERMINE

DIESEL FUEL:	NOW	AFTER GST NWT TAX IN
Product Cost	27.50	27.50
Freight	20.43	20.43
Excise Tax	4.00	4.00
FST	3.71	----
NWT Tax	7.20	7.20
Other Charges	9.16	9.16
GST (7%)	-----	4.86
Retail Selling Price	72.00	73.07

AFTER GST: 1.49% (1.07 cents/L) increase in Price to non-registrant consumer (no input tax credit)

Therefore, the individual consumer of diesel fuel in Coppermine will likely experience a price increase of about 1.07 cents per 1 itre or 1 .49%. It must be noted that this calculation assumes that refineries pass along all FST savings to their customers and do not treat the repeal of this tax as an opportunity to increase their margins. P.O.L., which serves Coppermine and other northern communities, operates on a break-even basis, and will therefore pass on any FST savings it realizes. Should refineries and/or retailers choose to use this as an opportunity to increase their margins, consumers will pay correspondingly higher prices. This, however, is not an effect of the GST.

Table 9 shows approximate absolute and percentage price changes to final consumers for diesel fuel, gasoline and aviation (Diesel) fuel in communities of Coppermine, Arviat and pond Inlet. The table considers the cases of 100% removal of FST and 70% removal of FST.

For actual prices both pre- and post-GST, see Appendix 2.

TABLE 9 CHANGES IN MOTIVE FUEL PRICES POST-GST TO FINAL CONSUMERS IN SELECTED COMMUNITIES

	GASOLINE		DIESEL		AVIATION (DIESEL)	
	100%*	70%*	100%	70%	100%	70%
ARVIAT						
(c/L)	0.81	2.06	(0.02)#	1.48	(0.51)	0.99
(%)	1.14%	2.90%	(0.03%)	2.08%	(0.80%)	1.553
COPPERMINE						
(c/L)	0.44	1.86	1.07	2.26	1.70	2.89
(%)	0.59%	2.51%	1.49%	3.14%	2.10%	3.57'%
POND INLET						
(c/L)	1.75	2.64	1.93	2.74	1.51	2.32
(%)	2.61%	3.94%	2.92%	4.15%	2.52%	3.87%

* 100% - assumes that 100% of FST is removed from the product price of motive fuels.
* 70% - assumes that 70% of FST is removed from the product price of motive fuels.
\# - numbers in parentheses () indicate price reductions

SOURCE : Petroleum Products Division, Department of Government Services, GNWT.

Overall, then, northern consumers could experience increases of up to about three or four per cent in the prices of motive fuels as they pay GST on high mark-ups and transportation costs.

(C) EFFECT OF THE GST ON FREIGHT AND PASSENGER RATES

(1) Freight Rates

It is unlikely that the GST will cause an increase in the levels of freight rates other than that increase resulting from the direct application of the tax itself. Fuel costs to carriers will decrease by up to a maximum of approximately 9 or 10 per cent with the elimination of the FST and the application of the refundable GST; administration costs will increase slightly as firms' tax reporting burdens increase; and the costs of manufactured goods presently taxed under the FST (exclusive of capital equipment) wi 11 also decrease as this tax is removed and the refundable GST is implemented.

Overall, carrier costs should decrease, but whether or not these savings will be passed on to final consumers in the form of decreased freight rates depends upon whether or not carriers use this as an opportunity to increase their operating margins. The degree of competition in the markets that the carriers serve will, in large part, determine the savings passed on.

Individual consumers, then, should experience up to a 7% increase in the post-GST level of freight rates as a direct result of the tax; the exact percentage will depend upon whether or not any cost savings resulting from the removal of the FST are passed on to them. Government and business consumers of freight transportation will likely experience static freight rates post-GST as any GST payments made by these groups on transportation services will be fully refundable. This group could experience cost reductions if FST savings are passed on to it. Freight rates seen by either of these groups should not, however, increase as a direct result of the GST.

(2) Passenger Rates

As was pointed out previously, the Air Transportation Tax (ATT) for large airlines will be modified from its present level of 10% plus $4 to a maximum of $50 per ticket, t. 7% plus $10 to a maximum of $40 per ticket. Registrants purchasing domestic passenger air fares at prices greater than $200 will experience a net reduction in prices post-GST as the ATT on these tickets will be reduced and as any GST paid will be refundable. Non-registrants, however, will experience increases of up to 7% on domestic passenger air fares as the ATT is reduced and the new 7% GST is applied. For air fares at prices less than $200, the ATT charged will increase after the imposition of the GST. This will serve to increase after-tax prices to registrants by the amount of the increase in the ATT, and to non-registrants by greater than 7’%. These projections have not taken Into consideration any potential fare reductions on the part of larger airlines operating predominantly scheduled flights; any fare reductions would serve to lessen the impact of the ATT and the GST on air fares.

Since airlines operating aircraft weighing under 18,000 pounds (inclusive of payload) are presently exempt from charging ATT and will continue to be so post-GST, passenger air fares on these airlines will increase by 7% for non-registrants as a direct result of the application of the GST, and will remain effectively static for registrants who can claim input tax credits for any GST paid.

(3) The GST as a Tax on Distance

As the second largest nation in the world, Canada relies heavily on transportation to provide economic and social links between its many regions. Cost-effective and efficient transportation is essential for the expedient movement of people and goods over the long distances between different regions of the nation and between Canada and other nations.

Under the GST proposal, both domestic passenger and freight transportation services will be subject to the 7% GST. No other nation in the world with a value-added tax possesses the geographic size of Canada, and as a result, transportation does not play the same unification role in these smaller countries that it does in Canada. Transportation is a vital element to linking the many regions of Canada together, and the application of the GST to the cost of transportation will serve to magnify the distance problem in Canada and exacerbate regional disparities.

(a) Freight Transportation

The cost of transportation is reflected in the selling price of nearly every good consumed in Canada. For consumers living in remote regions of the country, the price level of goods is relatively higher than that in more central regions as a result of the higher cost of transporting goods from distant sources of supply. Given that the GST will apply to transportation costs, consumers living in peripheral regions of Canada will experience a disproportionate increase in their cost of living. Table 7 shows examples of the pre- and post-GST prices of a Skidoo and an outboard motor in both northern communities and southern F.O.B. cities.

(b) Passenger Travel

Various 1 obby groups have argued that the ATT and the GST are both taxes on distance. Given that they are ad valorem in nature, these taxes place a greater burden on travelers who live outside the central regions of Canada, who travel further than the average Canadian, and who in turn pay higher fares for surface and air transportation. Regional disparities already experienced by travelers living in remote regions of Canada, such as the Northwest Territories, will be magnified, at the consumer level, through these taxes. It is further argued that the application of the GST to the ATT is tax cascading or double taxation, and that this lies in direct contradiction to the federal government's rationale for the replacement of the FST with the GST.

These arguments hold true for residents of the Northwest Territories: the more remote the location one resides in, the higher the air fare one pays to travel to central Canada; the higher the air fare one pays, the higher the ATT that one is responsible for (to a maximum of $40); and the higher the air fare and ATT, the more GST one must pay. Given that consumers will experience higher overall price levels post-GST and will, as a result, have fewer dollars to spend on discretionary goods and services, it is likely that they will spend less on air travel, a mode of transportation which is elastic with respect to income and which is also very often the only practicable mode of travel available to northern residents. This income effect, coupled with higher after-tax air fares, could have a great effect on consumers living in remote regions of the Territories. Travel south could, become much more expensive than at present, in relative terms, given reduced discretionary income and higher net air fares.

(c) Low Income Residents

An analysis which considers the effect of the GST with respect to transportation costs on northerners with low incomes must acknowledge the fact that these families and individuals will receive a GST credit equal to $190 per adult and $100 per child per family. Single parents will be able to claim an adult credit in respect of one dependent child, and single adults, including single parents, who maintain their own household will be able to claim an additional credit of up to $100. Thus, for a family of four (two adults and two children) with a net income of less than $24,800 in 1991, a GST credit of $580 will be received. A schedule of tax credits may be seen in Appendix 3.

Table 10 shows average gross incomes for twelve northern communities.

TABLE 10 AVERAGE GROSS INCOME BY COMMUNITY

	1987 Dollars	1990 Dollars*#
Clyde River	$14,221	$16,229
Pangnirtung	13,563	15,478
Broughton Island	12,029	13,727
Baker Lake	14,196	16,200
Repulse Bay	10,847	12,378
Coppermine	14,344	16,369
Spence Bay	13,057	14,900
Tuktoyaktuk	16,464	18,788
Fort Good Hope	12,640	14,424
Rae-Edzo	13,271	15,144
Wrigley	10,444	11,918
Snowdrift	11,009	12,563
Average Income	$13,008	$14,843

* 1987 average incomes were inflated at a rate of 4.5%
\# GST Credit Benefits paid out in 1991 will be based on 1990 incomes.

SOURCE: Revenue Canada, 1987

Given the level of the average gross incomes shown in Table 10, it is seen that most families in these communities would be eligible for full GST credits. For a family of four receiving a credit of $580, this means that $8,286 ($580/.07) worth of taxable purchases will be effectively tax free. Considering an average gross income of approximately $14,843 in 1990, and the fact that non-taxable items such as rent and groceries each may account for roughly 25% of gross income, a family of four would be left with a net income of less than approximately $7,422 to spend on other taxable items.[6]

6) **ASSUMPTIONS:**
- -Revenue Canada's average gross income figures for individuals (Table 10) are assumed to be gross income figures for households as there is normally high unemployment in northern communities and generally only one, if any, of a family is working.
- -It is assumed that groceries account for 25% of gross income of a family of four in these communities. This figure may be low according to available statistics based on Yellowknife expenditures and a nutritious basket of

It is thus seen that this family would not be negatively affected post-GST as the tax credit benefits it would receive would exceed any GST liability it could incur with the income that it would have available to spend after meeting its non-taxable food and rent expenses.

It appears that families of four earning a gross income of less than approximately $16,500 in 1990 will be made better off post-GST as the tax credit benefits received by them will be greater than the tax paid out on purchases:

$16,500 - 8,250 (rent & groceries) = $8,250 available to spend on taxable purchases.
GST Credit: $580/ .07 = $8,286 in effectively tax free purchases.

As the number of children in a given family increases, the level of tax credit benefits received by the family also increases (assuming that the family's level of income qualifies it for these credits). The credit benefit of $100 per child will cover GST liability on taxable purchases of $1,429.

A family of five, therefore, earning a gross income of less than approximately $19,425 in 1990 will be better off post-GST as the tax credit benefits it receives will exceed any GST liability it could incur with the income it has available after covering its non-taxable rent and food expenses:

$19,425 - 9,713 (rent & groceries) = $9,713 available to spend on taxable purchases.
GST Credit: $680/ .07 = $9,714 in effectively tax free purchases.

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goods, but given subsistence differences between Yellowknife and these communities, it is felt that 25% is more realistic for these areas. (GNWT Bureau of Statistics states that in Yellowknife, $162.70 per week is spent on groceries by a family of four (August 1989). Given an index based on Yellowknife, the communities noted in Table 10 average expenditures on groceries of 1.42 times the expenditures made in Yellowknife. This results in expenditures of $11,975 per year, or 77.25% of gross income, on groceries.)

-It is assumed that 25% of gross income is spent on rental housing as most families in the communities noted in Table 10 live in public housing; rent payments for public housing are based upon this percentage of gross income.

Further, a family of **six** earning a gross income of less than approximately $22,285 in 1990 **will** also be better off post-GST as the tax credit benefits it receives will exceed the maximum **GST** liability it could incur with the income it has available after meeting its non-taxable rent and food expenses:

$22,285 - 11,143 (rent and groceries) = $11,143 available to spend on taxable purchases.
GST Credit: $780/.07 = $11,143 in effectively tax free purchases.

These calculations are based on the assumption that these families spend 25 per cent of their gross income on each of non-taxable rent and groceries (see footnote 6).

It should be noted that these **GST** credit benefits will be paid to qualified persons by **cheque,** in advance, in four equal installments in July, October, January and April, following the calculation of income tax for the previous year, upon which the **GST** credits will be based. The first **GST** credit will be paid in December 1990, in advance of the introduction of the **GST,** and a second payment will be made in Apri 1 of 1991. Regular payments in July, October, January and April will follow.

It appears, then, that the **GST** and its associated tax credits maintain or better the financial situation of northern Canadian families with low incomes. Therefore, the fact that the **GST** taxes northerners disproportionately with respect to transportation costs should not serve to worsen the financial situation of families with low incomes since the **GST** credit will fully reimburse this group for all tax paid on purchases. In some cases, the **GST** credit benefits provided these low income families will exceed the amount of tax paid out on purchases.

(VI) CONCLUSIONS

A number of conclusions regarding the effects of the federal governments proposed Goods and Services Tax on transportation in the Northwest Territories have arisen throughout this study. These conclusions are summarized below.

(1) EFFECTS OF THE GST ON DEPARTMENT OF TRANSPORTATION PURCHASES

(a) The GST should not increase direct costs to the Department Transportation for any of its purchases. The Department may even experience some price reductions because some items it now purchases are taxed under the FST. Under the GST, the current tax will be removed and the Department will be entitled to a full refund of any GST paid.

(b) If the federal government decides to give the provinces and territories relief from the GST through:

(i) POINT OF SALE EXEMPTION CERTIFICATES, businesses wi 11 bear slightly increased administration costs for sales made to these governments and will likely attempt to pass these costs on to the governments.

(ii) PAYMENT OF TAX AT POINT OF SALE WITH SUBSEQUENT FULL REBATE, then the Department of Transportation will experience slightly increased administration costs in addition to cash flow costs in the order of approximately $14,000 to $28,000 annually.

(2) EFFECTS OF THE GST ON DEPARTMENT OF TRANSPORTATION MANDATES

(a) **PRIMARY MANDATES -** The GST should have no effect on the Department of Transportationis primary mandates of construction, maintenance, and operation of transportation infrastructure.

(b) SECONDARY MANDATES- The GST may affect some of the Departmentts secondary mandates.

(i) **Devolution** - Operating costs of transportation programs devolved from the territorial government to municipalities may increase post-GST as a result of municipalities receiving only a partial rebate for GST paid. Municipalities may therefore demand additional funding from the GNWT to administer these programs.

(ii) Local Economic Development - Municipalities may also demand increased funding from the territorial government for local economic development as post-GST, present territorial grants to municipalities will not possess the same purchasing power.

(iii) Privatization - The decision to privatize Department of Transportation services may be slightly affected by the GST as a result of negative cash flow effects if the federal government requires provinces and territories to pay GST and to then apply for a rebate. Should provinces and territories be exempt from GST at the point of sale, however, then the decision to privatize government services will not be affected by the GST.

(3) EFFECTS OF THE GST ON NORTHERN REGIONAL CHARTER/SCHEDULED AIR CARRIERS AND SHIPPERS AND PASSENGERS

(a) The overal 1 cost effect on northern regional charter/scheduled air carriers should be a slight decrease in total cost in absolute dollar terms, but a negligible decrease i n percentage cost terms (. 25%).

(b) SCHEDULED FLIGHTS - It is unlikely that these carriers will pass on any cost savings to scheduled flight customers through reduced passenger fares and freight rates.

(c) CHARTER FLIGHTS - The fuel portion of the price of charter flights should decrease post-GST as effective fuel prices to registrants are reduced. Registrants chartering aircraft should see effective price reductions of up to a maximum of 9 or 10 per cent in the fuel portion of the charter bill, and non-registrant charterers should see price reductions of up to a maximum of about 3.5 per cent after-tax in the fuel portion of the bill. Non-registrants, however, will not be rebated for the 7% GST charged upon the charter portion of the bill (net of fuel), while registrants will be.

(d) SHIPPERS - Registrant scheduled flight shippers will likely encounter unchanged freight rates on regional charter/scheduled carriers **post-GST.** As this group will be able to claim input tax credits for **GST** paid on freight transportation, the **GST** will have no effect on it. **Non-**registrant shippers, however, should see prices inflated by 7 per cent as a direct result of the **GST's** application to freight rates.

(e) **PASSENGERS** - **Post-GST,** registrants purchasing tickets for passenger air travel at prices greater than $200 will experience effectively reduced after-tax ticket prices as the ATT charged will be lowered and the **GST** charged will be refundable. Registrants purchasing tickets at prices less than $200 will see an increase in the amount of ATT charged, but will be able to claim credits for all **GST** paid; prices will therefore effectively increase by the amount of the increase in the ATT. Non-registrants will see price increases of up to 7 per cent on tickets over $200, and increases of greater than 7 per cent on fares less than $200. Registrants traveling on carriers operating small aircraft which do not charge ATT will experience effectively static air fares as all **GST** paid will be refundable, and non-registrants will experience after-tax price increases of 7 per cent.

(4) EFFECTS OF THE GST ON THE STRUCTURE OF THE MOTOR TRANSPORT NDUS R

(a) PRIVATE VERSUS FOR-HIRE CARRIAGE - The **GST** will have no effect on the decision of a registrant firm to employ private or for-hire motor carriage

(b) subcontractors VERSUS EMPLOYEES - The **GST** will have no effect on the decision of a motor carriage firm to employ owner-operator subcontractors or employees to transport freight. The **GST** is indifferent to this choice.

(5) EFFECTS OF THE GST ON THE GENERAL PUBLIC AS CONSUMERS.

(a) EFFECT OF THE GST ON CONSUMER SPENDING PATTERNS

(i) Durable Goods - Post-GST, consumers will be faced with a generally higher cost of living as the overall-price level-is increased. They will, as a result, experience reduced discretionary spending power and may seek to conserve their wealth in the long-term. Given that the advantage to purchasing high value, manufactured goods in the south increases post-GST, consumers may, depending upon their individual degrees of wealth, attitudes toward spending money, and knowledge of southern marketplaces, shift their spending patterns over the long-term; they may turn to lower-priced southern suppliers for purchases of higher-value items.

(ii) Groceries - Groceries will be zero-rated under the G regime: this being so, there is not the same incentive to purchase-these items in the south as there is with more expensive goods.

(b) EFFECT OF THE GST ON CONSUMER MOTIVE FUEL PRICES

Motive fuel prices to northern individuals could increase by up to 3 or 4 per cent post-GST since higher northern transportation costs and mark-ups on fuel will be taxed. The percentage price change (increase or decrease) seen by individuals will depend upon the type of fuel purchased and the purchase location. The change (increase or decrease) in price experienced by northerners will depend, in part, on the amount of FST savings passed on by oil companies and other intermediaries.

(c) THE GST AS A TAX ON DISTANCE

(i) Freight Transportation - Given that the GST will apply to costs of freight transportation, consumers living in remote regions of Canada will experience a disproportionate increase in their cost of living post-GST; the application of the GST to the cost of transportation will serve to magnify the distance problem in Canada and exacerbate regional disparities.

(ii) Passenger Transportation - The ATT and the GST are taxes on istance: hey also represent double taxation. These t-axes place a greater burden on the consumer living outside the central regions of Canada. This is true for residents of the Northwest Territories, for whom expensive air transportation is often the only practicable mode of transit available. Given that northerners will possess less discretionary income and face higher air fares post-GST, air travel could become much more expensive in relative terms. This could potentially have a great effect on northerners.

(iii) Low Income Residents

When considering the effect of the GST, with respect to transportation, on northerners with low incomes, the effect of the GST credit received by this group must also be evaluated. An average gross income of $14,483 earned by a fami ly of four in 1990 would be eligible for maximum GST ‘credits in 1991, and this would result in full compensation for all GST paid on taxable purchases.

Families of four earning a gross income of less than $16,500: families of five earning a gross income of less than $19 ,425; and families ‘of six earning a gross income of less than $22,286 in 1990 will also be fully compensated for all GST paid on purchases, because the credit benefits received will exceed all tax paid out. It appears, then, that the fact that the GST taxes northerners disproportionately with respect to transportation should not worsen the financial situation of families with low incomes as the GST credit will fully reimburse these individuals for all tax paid on purchases. In some cases, the tax credit benefit received by families exceeds the amount of GST paid on purchases.

(VII) APPENDICES

APPENDIX 1

DESIGN OF THE GST WITH RESPECT TO TRANSPORTATION

The following is a description of how the GST applies directly to the transportation industry; it is quoted from the "Goods and Services Tax Technical Paper" published by the Department of Finance of the Government of Canada in August 1989.

(A) PASSENGER TRANSPORTATION SERVICES

(1) Domestic

GST will apply to fares charged for domestic passenger transportation services provided by all modes, including buses, trains, taxis, ships and aircraft. Passenger surface transportation services provided by local or municipal transit services will be tax exempt (non-taxable).

(2) Transborder Air Travel

Transborder air travel will be subject to GST. This will include any ticket purchased for travel to the continental United States or the islands of St. Pierre and Miquelon, either purchased in Canada or with first emplacement in Canada. Transborder air travel tickets purchased outside Canada and with first emplacement in the Us., however, will not be subject to tax.

(3) International

International passenger transportation (all modes), with the exception of transborder air travel and international day trips will be zero-rated (0% rate of tax levied).

(4) Continuous Journey

Where multiple transportation services are provided on a single ticket, these will be treated as one continuous service and taxed as such. There will be no requirement to prorate ticket prices in order to segregate domestic from international services: as long as there is at least one international origin, destination or stop-over, the entire ticket will be treated as being in respect of a single international transportation service and zero-rated as such. In cases where separate tickets are issued to travelers for a combination of domestic and international travel which is part of a continuous journey, all tickets will be considered to be part of an international travel service whether or not the different tickets are in respect of the same mode of travel. All tickets, however, must be for the same traveller, purchased at the same time, and all intermediate stop-overs must be for connection, refueling or servicing purposes only.

(5) Air Transportation Tax

The Air Transportation Tax (ATT) is a cost recovery measure designed to pay for airport facilities/services and in-flight navigation systems provided by Transport Canada. The ATT represents part of the cost of air travel services consumed. Where GST is applicable (domestic and transborder air travel), it will be calculated on the ATT-included price of air fares.

The ATT will be modified to lessen the impact of the imposition of the GST on domestic and transborder air fares. It will be reduced from its current level of 10% plus $4 to a maximum of $50 per ticket, to 7% plus $10 to a maximum of $40 per ticket; it will continue to be applied to tickets purchased in Canada for air travel within Canada and the continental U.S. The flat rate ATT on international travel will be increased from $19 to $40 per ticket.

(B) FREIGHT TRANSPORTATION SERVICES

(1) Domestic

GST will apply to domestic freight transportation services provided by all modes. Services provided by common carriers, independent carriers and private carriers, as well as postal and courier services will be taxed. Registrant carriers providing domestic freight services will charge tax on those services and will be allowed to claim input tax credits for any GST paid on goods and services supplied to them in Canada. Tax 'paid by a registrant purchasing domestic freight transportation services also will be creditable in the normal manner.

(2) International

International freight transportation services - including both inbound and outbound services - will be generally zero-rated. However, because it is not possible to ascertain at the time of the sale whether postage stamps will be for domestic or international use, and the need to maintain equity in the treatment of postal and courier services, outbound international freight transportation services will be taxable if valued at less than $5.

(3) Interline Settlements

Interline settlements between freight carriers, including transactions where a carrier enters into a contract of carriage to move goods, and then subcontracts that move to another carrier (say to an owner-operator), will not be subject to GST. Only the carrier which settles the freight bill with a customer will be required to collect the GST on the services. However, since interlining wi 11 be considered to be a commercial activity, al 1 carriers will still be able to claim input tax credits in the normal manner for any purchases related to their interlining activities.

APPENDIX 2

ACTUAL PRICES OF MOTIVE FUELS TO REGISTRANTS AND FINAL CONSUMERS PRE- AND POST-GST

ARVIAT

GASOLINE

	NOW	GST 100% OFF*	GST 70% OFF#
Product	28.79	28.79	28.79
Freight	9.82	9.82	9.82
Excise Tax	8.50	8.50	8.50
FST	3.89	----	1.17
NWT Tax	5.10	5.10	5.10
Other Levies	14.90	14.90	14.90
GST	-----	4.70	4.78
Retail Price	71.00	71.81	73.06
Registrant Price	71.00	67.11	68.28

MOTIVE DIESEL FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	34.53	34.53	34.53
Freight	10.98	10.98	10.98
Excise Tax	4.00	4.00	4.00
FST	4.66	----	1.40
NWT Tax	7.20	7.20	7.20
Other Levies	9.63	9.63	9.63
GST	----	4.64	4.74
Retail Price	71.00	70.98	72.48
Registrant Price	71.00	66.34	67.74

* signifies 100% removal of FST
\# signifies 70% removal of FST

ARVIAT (cent 'd)

AVIATION (DIESEL) FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	34• 53	34• 53	34.53
Freight	10.98	10.98	10.98
Excise Tax	4.00	4.00	4.00
FST	4.66	----	1.40
NWT Tax	1.00	1.00	1.00
Other Levies	8.83	8.83	8.83
GST	----	4.15	4.25
Retail Price	64.00	63.49	64.99
Registrant Price	64.00	59.34	60.74

CO PPERMINE

GASOLINE

	NOW	GST 100% OFF	GST 70% OFF
Product	32.83	32.83	32.83
Freight	18.26	18.26	18.26
Excise Tax	8.50	8.50	8.50
FST	4.43	----	1*33
NWT Tax	5.10	5.10	5.10
Other Levies	4.88	4.88	4.88
GST	----	4.87	4.96
Retail Price	74.00	74.44	75.86
Registrant Price	74.00	69.57	70.90

COPPERMINE (cent 'd)

MOTIVE DIESEL FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	27.50	27.50	27.50
Freight	20.43	20.43	20.43
Excise Tax	4.00	4.00	4.00
FST	3.71	----	1*11
NWT Tax	7.20	7.20	7.20
Other Levies	9.16	9.16	9.16
GST	----	4.78	4.86
Retail Price	72.00	73.07	74.26
Registrant Price	72.00	68.29	69.40

AVIATION (DIESEL) FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	27.50	27.50	27.50
Freight	20.43	20.43	20.43
Excise Tax	4.00	4.00	4*OO
FST	3●71	----	1.11
NWT Tax	1.00	1.00	1.00
Other Levies	24.36	24.36	24.36
GST	-----	5.41	5.49
Retail Price	81.00	82.70	83.89
Registrant Price	81.00	77.29	78.40

POND INLET

GASOLINE

	NOW	GST 100% OFF	GST 70% OFF
Product	20• 40	20.40	20.40
Freight	8.70	8.70	8.70
Excise Tax	8.50	8.50	8.50
FST	2.75	----	0.83
NWT Tax	5.10	5.10	5.10
Other Levies	21.55	21.55	21.55
GST	-----	4.50	4.56
Retail Price	67.00	68.75	69.64
Registrant Price	67.00	64.25	65.08

MOTIVE DIESEL FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	18.60	18.60	18.60
Freight	8.70	8.70	8.70
Excise Tax	4.00	4.00	4.00
FST	2.51	----	0.75
NWT Tax	7.20	7●20	7●20
Other Levies	24.99	24.99	24.99
GST	-----	4●44	4.50
Retail Price	66.00	67.93	68.74
Registrant P-rice	66.00	63.49	64.24

AVIATION (DIESEL) FUEL

	NOW	GST 100% OFF	GST 70% OFF
Product	18.60	18.60	18.60
Freight	8.70	8.70	8.70
Excise Tax	4.00	4.00	4.00
FST	2.51	----	0* 75
NWT Tax	1.00	1.00	1.00
Other Levies	25.19	25.19	25.19
GST	-----	4●02	4.08
Retail Price	60.00	61.51	62.32
Registrant Price	60.00	57*49	58.24

ASSUMPTIONS:

- The provinces collectively estimate that an average of approximately 70% of FST will be removed from prices of manufactured/ processed goods. Seventy per cent has thus been assumed as a likely percentage of FST removal.

  Prices used are P.O.L.'S for Nov./Dee. 1989.

  Assumes that product costs, freight charges, NWT tax, and other levies remain unchanged post-GST.

  "Other levies" include: Commissions Payable, Operations and Maintenance Levy, Loss Levy, Bad Debt Levy, Extraordinary Levy, Subsidy Levy and Equalization Levy. These are included in the base upon which GST is charged since they function as would a mark-up by a profit-oriented firm.

  The excise tax on gasoline is now 8.5 cents/L, but P.O.L. is not yet passing this increase on to its customers. This analysis, however, has assumed an excise tax on gasoline of 8.5 cents/L and has therefore increased P.O.L.'s present retail prices by 1 cent/L (previous excise tax on gasoline was 7.5 cents/L).

APPENDIX 3

ANNUAL SALES TAX CREDIT

	SINGLE			FAMILY OF FOUR		
NET INCOME	1988	1990	1991	1988	1990	1991
6,000	70	140	190	210	420	580
10,000	70	140	267	210	420	580
14,000	70	140	290	210	420	580
16,000	70	140	290	210	420	580
18,000	0	140	290	100	420	580
20,000	0	40	290	10	320	580
22,000	0	0	290	0	220	580
24,000	0	0	290	0	120	580
26,000	0	0	228	0	20	518
28,000	0	0	128	0	0	418
30,000	0	0	28	0	0	318
32,000	0	0	0	0	0	218
36,000	0	0	0	0	0	18
40,000	0	0	0	0	0	0

6ST CREDITS:
- $190 per adult
- $100 per child per fami 1 v.
- 'Single parents" may claim an adult credit in respect of one dependent child.
- Single adults, including single parents, who maintain their own household will be able to claim an additional credit of up to $100.

SOURCE : Goods and Services Tax Technical Paper (Revised Edition), Government of Canada, December 19, 1989

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