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Chief Executive and President
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March 16, 2009

The Honourable Dalton McGuinty, M.P.P.
Premier
Government of Ontario
Queen's Park
Legislative Building, Room 281
TORONTO, Ontario
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Dan Flynn,

The global downturn that is battering enterprises and workers across Ontario makes it vital to move quickly in reforming the province's outdated provincial sales tax regime.

Conversion of the provincial retail sales tax (PST) to a value-added tax harmonized or compatible with the federal Goods and Services Tax (GST) would be the single most powerful measure your government could take to encourage renewed business investment and growth across Ontario. A commitment to action on this issue in the next provincial budget would be without question the right move at the right time.

The economic evidence is clear. The federal and provincial governments together have made significant progress in reducing the overall burden of corporate taxation in recent years, but in its 2008 Tax Competitiveness Report, the C.D. Howe Institute noted that Canada still has the 11th highest effective tax rate on business investment out of 80 countries it measured.

The Institute concluded that the continued existence of retail sales taxes in five provinces is a major contributor to Canada's poor standing. "If the provinces were to reform their sales taxes to adopt a value-added tax similar to the GST, effective tax rates for both manufacturing and services would drop dramatically, creating greater incentive for these sectors to expand investments."

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The drawbacks of the PST are well known: it leads to uneven rates of tax on different forms of consumption; its cascading effect on the cost of business inputs leads to higher costs for consumers; it saddles Ontario businesses with excessive compliance and administrative costs; and, most significantly, a sales tax applied to business inputs makes it more difficult for Ontario businesses to compete globally and to invest in new equipment and future growth. It is a form of taxation abandoned by most countries outside North America.

Any major tax reform initiative inevitably creates some winners and losers and therefore generates political controversy. However, Canada now has a great deal of experience in dealing with conversion of sales taxes to value-added taxes, both at the federal level and in Quebec, Newfoundland, Nova Scotia and New Brunswick. The potential issues all are well understood, and there is no obstacle to reform in Ontario that cannot be addressed through appropriate design.

Sales tax reform can be pursued without leading to any increase in the provincial deficit. There also is no need to worry about any inflationary impact. Given the intense competitive pressures in today's economy, the cost savings that would flow from elimination of sales taxes on business inputs would be delivered swiftly to consumers.

Effective sales tax reform would have huge benefits for Ontarians, both immediately and over the long term, by stimulating business investment and renewed growth in every sector of the province's economy. The positive impact on employment, wages and productivity in Ontario also would be good for Canada as a whole.

Premier, on behalf of Canada's business leaders, let me commend you for your courage in tackling this difficult but vital issue, and assure you that we stand ready to help you to move the process of reform forward in any way that you would find useful.

*Kindest regards.
Sincerely,
Tom*