

## **Increase the GST/HST Threshold**

The participation threshold for the Goods and Service Tax (GST) has remained at \$30,000 since introduced in 1991. The Canadian government recognized the burden it was creating for itself and small business if all businesses were required to participate in the collection and administration of the GST and the Harmonized Sales Tax (HST), and set a threshold for this reason.

This low level is out of date due to inflation. If the threshold was merely indexed to the rate of inflation it would be approximately \$55,000 today. Other factors are at play as well – the threshold is not competitive with limits set by countries Canada competes with, and it contributes to the underground economy.

Many countries that Canada competes with have higher thresholds, namely Australia, France, New Zealand, and the United Kingdom. Their values converted to Canadian dollars are approximately: Australia: \$85,300, France \$123,600, New Zealand \$56,000, United Kingdom \$116,140.

Smaller businesses often face a proportionally higher burden than larger businesses in complying with a harmonized tax. Exempting them from collection and filing requirements can reduce the net burden a harmonized tax imposes. By increasing the threshold, administrative costs and compliance burdens can be reduced making businesses more competitive. Moreover, since higher thresholds reduce the number of businesses in the system, they reduce the number of returns the CRA processes, the number of businesses seeking services, the number of input credit refunds, and the number of businesses that are subject to audit.

Businesses that are approaching the current threshold may be inclined to slow business in order to avoid being forced into registering. Such a low threshold does not provide small business an opportunity to see if the revenue trend will continue or if it was simply a spike in sales.

In most cases, the loss of government revenue associated with raising the threshold can be offset by lower administrative costs and lower input tax credit refunds.

### **Recommendation**

That the federal government increase the GST/HST threshold to \$75,000 as of January 1, 2010 and implement annual indexing according to the annual rate of inflation.