

# **The Incidence of an HST in Saskatchewan**

Ka Yi Sit

August 2017

## **Abstract**

This paper studies the sales tax harmonization from a PST to an HST in Saskatchewan and the corresponding effects on income inequality. A political hurdle for the government is the shift in the observed tax burden to final consumers.

This paper will start with some background information of the implementation of Canadian sales tax in different provinces and its history, with an emphasis on the differences between an HST and a PST. The literature review includes discussion of the theoretical arguments on impacts of different taxes with emphasis on sales taxes. An empirical analysis using Saskatchewan data from Statistics Canada investigates the possibility of switching from a PST to an HST under revenue neutrality.

While writing this paper, the Government of Saskatchewan announced a shift of taxes from personal and corporate income to consumption to improve competitiveness. The government increased the Provincial Sales Tax (PST) from 5% to 6% while expanding it to include restaurant meals, kids clothing, insurance premiums and other items. It also applies to services to real property including construction, alteration, repair, erection, remodeling, improvement etc. Maintenance services such as snow clearing and lawn care remain exempt. An investment tax credit for manufacturing machinery will be increased from 5% to 6% to offset the impact of the higher PST.

This paper simulates the harmonization of provincial sales tax in Saskatchewan under the revenue neutrality case and a reduced rate of 8.695% of GST will replace the original 5% GST plus 5% PST due to a broader base. The change will not impact most of the income groups in a noticeable amount except the very low income groups (those with annual consumable income less than \$10000). Increased support for low-income households as an offset to the sales tax increase will be needed and this will be discussed further in a later section.