

October 21, 2009

Mr. Tim Hudak, MPP
Leader of the Official Opposition
Leader of the Progressive Conservative Party of Ontario
Room 416, Main Legislative Building
Queen's Park
Toronto, Ontario
M7A 1A8

Ms. Andrea Horwarth, MPP
Leader of New Democratic Party of Ontario
Room 112, Main Legislative Building
Queen's Park
Toronto, Ontario
M7A 1A5

Dear Mr. Hudak and Ms. Horwarth:

As you are well aware, the Ontario Chamber of Commerce has been a strong proponent of a harmonized sales tax - as an integral part of a larger, comprehensive tax reform strategy - for a number of years.

Since 2004, our chamber network of 160 local chambers of commerce and boards of trade, representing some 60,000 businesses of all sizes from all areas of the economy, have strongly endorsed this comprehensive tax reform.

In late 2007, the OCC commissioned an in-depth study on how a harmonized sales tax would affect governments, business and consumers. This report also analyzed three potential policy options available to government as it contemplated a move to merge the federal and provincial sales taxes.

In January 2009, the OCC released *Made in Ontario, The Case for Sales Tax Harmonization*. The report clearly concluded that Ontario's households, businesses and government will all experience a win-win-win from a harmonized sales tax.

Unfortunately, sales tax reform is not an easy issue to communicate or quickly understand, as its complexities lead to both subtle and nuanced changes to the economy as well as to dramatic improvements overall. As such, it is important to understand and communicate the issue of sales tax reform comprehensively, rather than examine its constituent parts individually. Indeed, the effects of a harmonized sales tax are greater than the sum of its parts.

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It is likely due to the complexities of this issue that our report, Made In Ontario, The Case for Sales Tax Harmonization, has been consistently misunderstood and erroneously quoted in recent weeks. Specifically, it has been reported in several media that our report concluded sales tax reform will lead to the loss of some 40,000 jobs in the province.

Let the record show that this narrow interpretation of the report is categorically not true.

In the context of employment growth, the report examined the increase in employment *over the next 25 years*, relative to the status quo. The analysis clearly showed that employment will continue to grow, albeit at a slightly lower rate than the status quo, depending on which of the report's options the government adopted. In fact, the report explicitly states that the level of employment does not decline as a result of sales tax reform.

It is important to note that none of our report's scenarios were wholly adopted by the provincial government; therefore our report's analysis on employment does not fully quantify the positive effects that increased Foreign Direct Investment, combined with other personal and corporate tax reductions, will have on employment growth.

To quote our report, "Business in Ontario benefits from tax reform through a reduction in the cost of capital. This stimulates an increase in investment. The increase in capital boosts productivity and improves the competitive position of business in the province." (P. 36)

Our report also states that productivity improvements are welcome, as "in an environment of looming labour shortages the benefits of this outcome should not be discounted." (P. 34)

The above is of particular importance when one considers the demographics of Ontario's current and future labour force. It is a fact that Ontario is facing a growing skilled labour shortage as a result of an aging and retiring workforce combined with a declining birthrate. The Conference Board of Canada reports that Ontario faces a shortage of more than 360,000 skilled employees by 2025 and a shortage of more than 560,000 skilled employees by 2030. This is consistent with the OCC's own research on this subject.

Therefore, with our economy facing a shortage of over half a million skilled workers over the next generation, sales tax reform will help to address that employment gap through increased productivity.

Thank you for allowing us the opportunity to set the record straight and to provide the appropriate context for our employment projections contained in our sales tax report. As noted, sales tax reform is a complex subject, one

that could easily be misinterpreted or misunderstood. If you have the occasion to quote our report in the future, then we ask that you help us to convey the accurate meaning and context of our employment figures and other data in your references.

Should you have any questions, we would be pleased to meet with you or your staff at a time of your convenience. You may direct your staff to contact Stuart Johnston, Vice President Policy and Government Relations at (416) 482-5222 ext 232, or stuartjohnston@occ.on.ca.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Len Crispino', with a small dot above the final 'o'.

Len Crispino
President & CEO

Cc: The Hon. Dalton McGuinty, Premier of Ontario
The Hon. John Wilkinson, Minister of Revenue
The Hon. Dwight Duncan, Minister of Finance
Mr. Norm Miller, MPP
Mr. Michael Prue, MPP
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