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The Impact of Sales Tax Reform on Ontario Consumers: A First Look at the Evidence

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Abstract


Ontario's new Harmonized Sales Tax applies to a broader base of consumer purchases than before, but it also removes some of the "hidden" taxes on business inputs. This paper offers a first look at how the change has affected consumer prices and the welfare of Ontario families. While consumer prices initially rose 0.9% due to the reform, the price impact has since fallen, reflecting the way that input tax credits are being passed on to consumers, or the new taxes are otherwise being absorbed by sellers. With the compensating income tax changes also enacted by the Ontario government, the net impact of the reform for most families by the end of 2010 was a gain or very small loss in after-tax real incomes. Since input tax credits are likely passed on as lower prices or higher wages only gradually over time, the effect of the policy on after-tax real incomes will likely continue to improve over time.

Keywords: HST, Tax, Ontario, Consumer, GST

JEL Classification: H20, H21, H24, H25

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