During the panel following the one on which I appeared yesterday, CFIB's Dan Kelly referred back to what I had said during the earlier panel. Specifically, Dan took issue with my point about Input Tax Credits (ITCs) benefitting retailers financially where the status of goods changes from being t*axable supplies* to *zero-rated supplies*. Dan stated something to the effect that ITCs are "a wash" because the zero-rating applies throughout the supply chain.

That part, re goods paid for and delivered to retailers within the GST-HST holiday window is true as far as it goes - but that is not the full picture. Though normally very good on these sorts of issues, Dan had perhaps forgotten the full extent of how ITCs actually work.

ITCs are not only on cost of goods (COGS) but also apply on a wide array of costs that are NOT zero-rated throughout the supply chain, including, inter alia, commercial rent, fuel and vehicles, inbound and outbound delivery and freight costs, the former a significant cost for all retailers and the latter a major cost in e-commerce, Also generating ITCs are utilities, internet and phone, construction, maintenance, cleaning and repairs, professional (accounting, legal, etc.), consulting, trades, and temporary help agency services, IT services, some payments-related costs and most equipment. This is by no means an exhaustive list.

Additionally, any goods already in stock at the outset of the GST-HST holiday will generate ITCs on GST-HST already paid. Bear in mind that all of the foods, beverages and hard goods to which the newly zero-rated status applies are shelf-stable and do not include "fresh" items, so in essence, all stock in-hand will qualify for ITCs when sold through to the consumer. Lastly, though perhaps less commonly, any prepaid goods that are then delivered during the window will also generate ITCs to the extent that GST-HST has been paid on them.

In essence, all these ITCs, when netted-out against sales taxes collected on a smaller base of taxable goods than previously, will lead to a financial benefit to the merchant. It may be a modest benefit, depending on the extent to which the merchant's product mix includes newly zero-rated goods but a benefit it is and a quantifiable one. Unused ITCs can also be carried forward for up to four years.

I did walk Dan through all of this after the 8pm session had concluded but too late to make a correction yesterday evening.

Regards,

Karl

Karl Littler (He/Him)
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