

**PROVINCIAL SALES TAX**

L. F. DETWILLER, B.A., M.A.

Commissioner of Social Security and Municipal Aid Tax,  
British Columbia.

Mr. Chairman, Gentlemen: Before presenting the paper that I have been asked to give to the meeting this afternoon, I would like to convey to the Conference the sincere regrets of Dr. Fisher, who was unable to attend because of matters of business. Dr. Fisher was to give a paper on provincial sales tax, and, when your programme committee learnt that he would not be able to attend this Conference, they kindly extended an invitation to me. It is with rather mixed feelings that I stand before you today, for after listen-

ing to the remarks made this morning by the Acting Mayor and by the President of the Institute, I cannot help but recall certain experiences which I have had during the war years, which, to me, illustrate the hidden bond of friendship which exists between the French-speaking people and the English-speaking people in Canada.

In 1942 and 1943, when planes were going over the invaded countries by thousands, there were a great many men who did not return; some of them who did return home have stated that they owe their lives to the courses in French which they took in High School. Possibly your own sons have told you a story of how they were going through the streets of Paris after having been shot down behind the lines. The Gestapo would stop and speak to them, attempting to find out if they were French civilians or members of the allied forces. It was a French phrase such as "J'en ai d'argent" or "Bon Jour", which was sufficient to convince the Gestapo that these chaps were French. In most cases our service men were allowed to proceed through the streets of Paris where they were able to contact the underground and to go back to their respective squadrons or units to enter again into active duty. In Ireland I flew for a year and a half from a base located near Donegal Bay. There were three squadrons, one French-speaking Canadian, one English-speaking Canadian and the third American. It was not very long until we had found friends in each group, and were soon one large unit and worked together as a team instead of three separate organizations. My own crew was composed of five English-speaking Canadians, three French-speaking fellows who were bilingual, three Englishmen, one Australian and two Americans. A bond of friendship existed between us all which was very strong. Returning to Canada, I shall never forget the morning of September 3rd, 1945, when I heard the deep throated wail of one of our passenger locomotives. I reached the deck of the ship just as we were rounding the turn of the river, and this magnificent structure, the Chateau Frontenac, came into view against the rising sun—we were home. How appropriate that my first sight of Canada should be of Quebec, the Province of so many of my service friends.

While the Institute will provide a much needed organization in the field of public administration, it can also do a great deal to

strengthen the bonds which already exist between the French-speaking people and the English-speaking people of Canada.

Prior to the depression of 1929 the sales tax formed a very small part of the taxing systems of both the United States and Canada. However, by the end of 1933 the sales tax had become an important part of the tax structure of at least fourteen States in America, and today about thirty States use this form of tax as a means of raising revenue. In Canada, the City of Montreal passed a by-law in 1935 imposing a tax at the retail level and in 1937 Saskatchewan passed its Education Tax, Quebec entering this field in 1940. Last year the British Columbia Legislature passed the Social Security and Municipal Aid Tax Act imposing a Consumer Purchase Tax at the retail level, and it seems very likely that this field of taxation will be adopted by many of the other States and Provinces who have not utilized it up to the present time.

In some taxing jurisdictions the returns from this type of tax have accounted for as much as 55% of the total tax collections, decreasing to as low as 7% in others, depending, of course, entirely on the rate of tax imposed and the exemptions which are allowed in each taxing statute. However, in general, it has been found in America that the returns from the retail sales and use taxes which have been imposed have been responsible for approximately 25 to 30 per cent, of the total tax collections of the States using this type of revenue measure. In Canada this proportion has been smaller, although in British Columbia it would appear that our collections will be equal to the average of those experienced in America.

Though levied primarily to offset declining Government revenues during the depression years, this type of tax is now becoming an integral part of the tax systems which have adopted it as a means of raising revenue to meet the ever increasing Government expenditures in the field of social welfare. The present trend of thought in terms of the welfare state whereby better education facilities, old-age pensions, health insurance, etc., have become a responsibility of the State must, of necessity, result in greater expenditures on the part of Governments in the above mentioned fields. In most of the States where these facilities are provided, the rising cost of such services has been met generally by the imposition of a sales tax to raise the funds necessary to provide the increase in social services which were demanded.

In any community, aside from the social services which are provided by the government, there is an obligation on the part of every group to contribute to the establishment and maintenance of the government and its services. This can best be accomplished by the imposition of a tax which is paid by all members of the community and not just a few. A Retail Sales Tax is one which accomplishes this end, provided it is imposed in its all inclusive state. In practice, it has been found in most cases that exemptions have been allowed, easing the impact of the tax on lower income groups.

In British Columbia our experience has been similar in many respects to that which has taken place in other States and Provinces. However, in addition to the above expenditures in the field of social welfare there were other reasons for the imposition of a Consumer Purchase Tax in this Province.

During the post-war years the expanding economy of British Columbia made necessary the carrying out of a tremendous amount of work which had been postponed during the depression and the war years. A road building and construction programme was entered into which was far in excess of that ever undertaken previously, and while revenue surpluses had been built up during the war years because of the shortage of man-power and materials, it was apparent that these funds would be taken up largely with the post-war capital expansion programme in the Province and could not be used to finance the increased social services which were demanded by the public. While the road development and construction programme could be financed as a capital expenditure, it was not desirable or possible that, the funds for essential services be obtained through capital borrowings. These commitments should be made from current revenue.

By the terms of the Dominion-Provincial agreement, which had been entered into by British Columbia with the Dominion, the fields of corporation, corporation income, personal income taxation and succession duties, with the exception of the 5% corporation income tax, were leased to the Dominion Government for a rental fee paid by the Dominion to the Province and, therefore, these fields of revenue were not available for provincial purposes. When the over-all situation was examined by the Government it was realized that if the social services, which were asked for, were to be established and maintained on a permanent basis, there would

have to be provided a source of revenue which would meet these services and which, at the same time, would not be as sensitive to the cyclical fluctuations of the business cycle as some measures of revenue had been in the past. Also if a satisfactory and successful programme of social services were to be put into effect, it would have to be financed on an over-all contributory basis whereby everyone in the community would contribute to a central fund to be used in providing for the services mentioned above.

While the Province had assumed 80% of the costs of social services which had formerly been considered a municipal responsibility, and this was of course reflected in higher social service expenditures on the part of the Provincial government, it was decided that a portion of the revenue derived from the imposition of this new tax would be distributed to the cities, municipalities and villages of the Province to assist them in expenditures which they undertook on their own behalf. Education costs were a real municipal problem and it was expected that this tax would assist in meeting these expenditures although the money was not designated for any specific purpose.

During the depression years, British Columbia, along with other Governments, experienced a marked decrease in revenue, and while all government services had to be reduced, the greatest reduction took place in the social services at the very time when they were most needed. To ensure that this would not recur, and to provide the funds necessary for an over-all social service programme, the Government enacted the Social Security and Municipal Aid Tax Act, two-thirds of the revenue of which is placed into a fund known as the "Social Security Fund" and one-third of which is distributed to the municipalities and villages throughout the Province to assist them in their financial programmes.

In view of the fact that this type of tax was, for the most part, introduced by State Governments in order to strengthen their respective financial positions which had been weakened by the depression years, it seems reasonable to assume that the revenue-obtained from this source should not be affected too severely if a recession should occur in the future. This being the case then, social services such as old age pensions, hospitalization, etc., will be able to be continued to be provided during depression years and

not be reduced at the very time when they are needed most, as was the case in most States and Provinces during the early 30's.

In theory the most common objection to a retail sales tax has been made on the charge that it is regressive, that in contrast to the income tax, it bears more heavily on the lower income groups of our society. Possibly in its all inclusive state this is to some measure true, but it must be remembered that this form of tax is levied along with other forms of taxation in our economy and must be considered along with them when analyzing the effect of the complete tax structure on the income of any one individual. The progressive feature of our taxation structure is, to a considerable measure, taken care of by the Dominion Income Tax. The retail sales tax is applied upon the residual portion of a person's income after the Dominion income tax has been paid. If the necessities of life are exempted under a sales tax, then this imposition will fall upon what could be termed non-essential, or, in many cases, luxury items. In British Columbia an exemption was provided for the necessities of life and this move met, for the most part, the charge of regressiveness. It was found that *on* applying the tax to a sample budget put out by a Trade Union Bureau in Vancouver that the impact of the tax on this budget of \$178.00 per month was less than 1%. However, the incidence of the tax when applied to higher incomes is found to increase, for it is generally found that a larger portion of such an individual's income is spent on such taxable items as cars, furniture, electrical appliances, etc. While no definite figures are available on this matter it is quite possible that a retail sales tax with certain exemptions as provided in British Columbia, rather than being regressive possibly has an element of progressiveness in it.

Even should some degree of regressivity remain it is well to remember that the reason for the imposition of this tax is the requirements by a certain part of our population for social welfare services and education benefits. This section of our population is now paying tax directly, in many cases, for the first time and as a result they will be in a position to receive greater benefits from more highly developed social service programmes. While it is sometimes claimed that any additional taxation is an added burden on the lower income groups, this charge is more than met by the fact that while a certain amount of tax may be paid by this group they are the

individuals who directly benefit in the end by a more fully developed social service programme.

This field has been the subject of many studies in the United States and, generally speaking, it is considered that a tax of from 2 to 3 per cent, imposed at the retail level does not place an appreciable burden on any one, other than possibly a small minority of any community, and it is doubtful if it is even noticeable in this case. However, in those taxing jurisdictions where the necessities of life are exempted from this tax, then it can be said that a retail sales tax does not impose any burden on the lower income groups because their income is nearly all spent on rent, food, heat, etc., which are exempted from taxation under these statutes. This is the situation in British Columbia for these items have been exempted under the Social Security and Municipal Aid Tax Act.

The authors of these studies have gone even further and state that if an over-all tax were to be imposed with no exemptions, it would not result in an appreciable burden upon any group. That is, the standard of living on the whole in the area in which the tax is imposed would not be decreased for the standard of the very poor and aged would be increased since the revenue produced by the sales tax, in a major degree, was in almost every case used by the States in rendering government services and assistance to the very people who it was claimed could not afford to pay the tax. While this group might have contributed very slightly to the central funds built up under this revenue measure, they received their contribution back along with that made by the other groups in the community in the form of increased social services. The studies further indicated that probably more than ninety-five per cent, of all taxable purchases are made by persons upon whom the burden of the tax was negligible. Why, then, exempt ninety-five per cent, of the purchases solely to relieve the persons purchasing the other five per cent, when the latter class are the primary beneficiaries directly, or indirectly, of the revenue derived from the tax? Undoubtedly simplicity of administration of any act, and the revenue accruing therefrom, is greatly affected by the inclusion of liberal exemption provisions. However, in British Columbia it was felt that because of food prices, which were the highest in history, and other reasons, that exemptions should be allowed under the Social Security and Municipal Aid Tax Act.

These exemptions included such items as food, fuel, rent, medicaments, meals and, of course, savings and insurance, so that the only items subject to tax in an essential living budget would be clothing and possibly certain expenditures for household effects. This provision met, in large measure, any charge of regressivity which has been the common criticism of this form of taxation in the past. However, from the point of view of the administration, while the exemptions have caused very little trouble in the setting up of our administrative organization, it is our opinion that if the tax were to be levied on all merchandise sold within the Province that the same revenues would accrue even if a substantially lower rate of tax were imposed. It has been experienced elsewhere that by exempting food, approximately thirty per cent, of the tax revenues are lost, therefore, a drop of one per cent, could be allowed in British Columbia if the tax were imposed on an over-all basis. A tax of this type is levied in the State of Washington directly across our border and as a result of having no exemptions to speak of, and a business or privilege tax making for simplicity of administration, their collection costs are very low.

The Social Security and Municipal Aid Tax, which has been imposed in British Columbia, is comparable to the Retail Sales taxes imposed in Saskatchewan and Quebec. While this form of tax is more commonly known as a Retail Sales Tax, it is in reality a Consumer Purchase Tax imposed upon an individual for the right of purchasing tangible personal property for consumption or use in the taxing jurisdiction. The present Provincial Sales Taxes imposed in Canada, while continually compared to those in the States, are in many cases quite a different form of taxation altogether. In British Columbia and the other Provinces imposing this revenue measure, it is the consumer or purchaser who is taxed, the amount of tax which he pays being measured by the sale or purchase price of the merchandise passing at any transaction. As stated previously, it is a tax imposed upon an individual and not upon business or merchandise sold within the Province. In many of the States to the south the tax is not imposed on the individual but is a tax imposed on business and can be described as a tax for the act or privilege of engaging in business. It is determined by applying the rate of tax against the gross profits of sales or gross income of a business, as the case may be, although required usually to be passed

on to the purchaser. This type of business or privilege tax is often combined with a tax imposed on the purchaser, similar to our own Consumer Purchase Tax. It is also combined with what is known as the Use Tax, which is a tax imposed upon an individual bringing property into the State for use therein. In America the States using this type of taxation have, in most cases, two separate Laws, one to cover sales within the State, the other to cover property purchased outside the State and brought into the State for use in the taxing jurisdiction. In Canada these have usually been combined into one taxing statute which covers both cases where an individual purchases for his own consumption or use in the Province, or brings property in to be used for the same purpose.

It is interesting to note that while the United States and Canada are both Federal in nature and have many of the same problems of jurisdiction, one of the differences which exists directly concerns the Provinces in the levying of retail sales or consumer purchase tax for revenue purposes. Under the British North America Act, which contains the principles of the Canadian Constitution, fiscal powers are delegated between-, the Federal and Provincial Governments. The central authority, the Dominion, has far greater powers in that it is given the right to raise money by any mode or system of taxation, while the Provinces are limited to direct taxation within the Province, for Provincial purposes. With the growing importance of direct taxation, and the Dominion entering into the field during World War I in 1917, the position of the Provinces has been materially affected.

Being excluded from the field of indirect taxation, it is not possible for any Provincial authority to impose a Sales Tax whereby the retailer is held responsible for the tax, it being imposed on his right of privilege of doing business, being passed along by the retailer to his customers in the form of increased prices. This is the form which the Retail Sales Tax assumes in many of the States using this revenue measure in America where the division of power between the State and Federal governments allows indirect taxes to be levied by the States themselves. They are not limited to the field of direct taxation, as are the Provinces in Canada under the British North America Act. Any tax which is imposed in any Province in Canada must be collected from the person who it is intended should pay it.

Continual comparison is being made between the Dominion Sales Tax and the taxes imposed by the provinces at the retail level. It is pointed out that from the viewpoint of the public and retailers it would be much simpler if the Provinces would impose their Sales Taxes at the Manufacturer's level, as is done by the Dominion. However, this is not possible, for the Dominion tax is a tax imposed on the manufactured article, and being incorporated in the price of the article when it is passed along from manufacturer to wholesaler, retailer, etc., it is an indirect tax. When an individual purchases the article at the retail level for his own consumption or use, he pays a purchase price which includes the Dominion Tax, although it is seldom shown as a separate item. Therefore, the tax being included in the price is indirect and outside of the scope of the Province. However, when the article is finally sold to a purchaser for his ultimate consumption or use, it is at this point that the Province imposes the Consumer Purchase Tax, and taxes the individual on the right to purchase the article concerned, the amount of tax due being measured by the sale or purchase price. The Consumer Purchase Tax being levied upon the individual is quite different from the Dominion Sales Tax, which is imposed upon the article. The Provincial tax is direct, the Dominion tax is indirect.

With the imposition by the Province of a tax on property brought into the Province by an individual, it has on occasion been claimed that this is a deterrent to into-provincial trade and is therefore contrary to the British North America Act, which states that merchandise is to move freely between the provinces, and its movement is not to be impeded by any Provincial tax imposed on merchandise entering into Provincial territory. In considering this question and others, it might be well to examine the Atlantic Smoke Shop Case which was taken to the Privy Council, in which it was claimed that a tax imposed by the Province of New Brunswick on tobacco sold at the retail level was indirect and outside of the right of the Province.

By Section 4 of the New Brunswick Act, a Tax was imposed at the rate of 10 per cent, of the price of tobacco purchased at a retail sale in the Province and was imposed on every consumer of tobacco purchased in this manner. Section 5 of this Act imposed a tax on every person who brought into the Province, or received therein,

any tobacco for his consumption or the consumption of other persons at his expense, or on behalf of an agent or principal.

A very close parallel can be drawn between this Act and the Retail Sales Tax Acts which are in force in Quebec, Saskatchewan and British Columbia at the present time. As this case is one of the very few concerning retail sales which have come before the Canadian Courts, it is interesting to note that the points under consideration are very similar to queries which have been made concerning the Provincial Sales Tax Acts. In both the Retail Sales Tax Acts and the New Brunswick Tobacco Tax Act there are four main applications of the tax:

- (a) Firstly, in the commonest and simplest form the tax is to be paid by anyone who purchases tangible personal property for his own consumption or use or that of others within the provincial jurisdiction.
- (b) Secondly, if the purchase from the retail vendor is made by an agent for a principal who desires the tangible personal property for his own consumption or use, the tax is payable by the agent. In both of the above cases the tax is payable at the time of purchase.
- (c) Thirdly, if a resident of the Province or person carrying on business brings into the Province tangible personal property or receives delivery of it for his own consumption or use or that of others, he is liable to pay the same tax as if it had been purchased in the Province.
- (d) Lastly, if such a person, as has been referred to previously, brings tangible personal property into the Province as an Agent, then the agent is again liable to report and pay the tax on behalf of the principal.

In dealing with the Atlantic Smoke Shop Case, the Privy-Council in determining the definition of a direct tax has referred to John Stewart Mill's "Principles of Political Economy", in which it describes a direct tax as "one which is demanded from the very persons who it is intended or desired should pay it." This definition has been long and firmly established as the guide in interpreting the phrase "direct taxation". In addition to this definition, the Privy Council made reference to two other passages from Mill's Political

Economy, which are as follows: "Direct taxes are either on income or expenditure, most taxes on expenditure are indirect but some are direct, being imposed not on the producer or seller of an article, but immediately on the consumer". In describing the comparative merits of the two types of tax, Mill takes as the essential factor of direct taxation that "under it everyone knows how much he really pays".

The Privy Council decided that the tobacco tax in this form would fall within the conception of a direct tax and should so be treated in applying the British North America Act. It is a tax paid by the last purchaser of the article, and since there is no question of further resale, it can not be passed on to any other person. The money for the tax is paid by the individual who finally bears the burden of it. Reference was made to the Kingcome Navigation Case where a tax was imposed on the consumer of fuel oil where the fuel oil may be consumed for the purpose of manufacturing or transporting and the tax on the consumption of fuel oil might, as one would suppose, be sometimes passed on in the price of the article manufactured or transported, yet here the Privy Council held that the tax was direct. In the Atlantic Smoke Shop Case, the Privy Council pointed out that under the New Brunswick Act the smoker produced nothing but smoke. Under the Provincial Sales Tax Acts, the tax may be paid by an individual who, on the one hand, may entirely consume the property which he has purchased, producing nothing but smoke in the case of cigarettes, or on the other may pass the tax on in the price of an article manufactured or transported if the tax has been paid on machinery used in manufacturing. The occasion could arise where the tax had been paid on the purchase of property which it was intended would be consumed or used, but which was subsequently resold. In such a case provision is made that if tax has been paid on the original purchase of property which is subsequently resold, a refund may be obtained upon application to the proper authorities in view of the fact that the tax was wrongly paid in the first instance. However, where an individual buys and resells merchandise in the normal course of business, he would be required to retain a Vendor's license under the Provincial Sales Tax Acts, his original purchases being made free of tax for the purpose of resale.

Another question which arose concerning the imposition of this type of tax by the Province was whether the tax, though direct,

when the principal deals personally with the retail vendor across the counter, ceased to be direct if the purchase was made by an agent acting for this principal. In this case the person who bears the tax is really the principal because he either already has given money for the tax to his agent or is bound to repay his agent for any expenses incurred with his authority on his behalf. The test for indirect taxation, according to John Stewart Mill, was the passing on of the burden of duty by the person who first pays it, through subsequent transactions to future recipients in the process of dealing with the commodity or, at any rate, the tendency so to pass on the burden. In this respect the Privy Council held that the position was quite different in the case of the tobacco tax and it was really the principal who both paid the tax and bore it. The Privy Council held that the tax imposed by Section 4 of the New Brunswick Tobacco Act was valid in all cases, and was a direct tax and therefore within the scope of the New Brunswick government. Because of the similarity in principle, the same appears to apply to the Retail Sales Taxes as levied by the Provinces.

The sections of the Provincial statutes imposing a tax on tangible personal property brought into the Provinces have been charged on the alleged ground that they offended against two sections of the British North America Act, namely Sections 121 and 122. It states in Section 121 that "All articles of Growth Produce or Manufacture of anyone in the Provinces shall, from and after the Union, be admitted free into each of the other Provinces". Section 122 states that "The Customs and Excise laws of each Province shall, subject to the Provisions of this Act, continue in force until altered by the Parliament of Canada". The New Brunswick Act has a provision similar to the Retail Sales Tax Act, and when examining this section it was agreed by the members of the Privy Council that if this section purported to impose duty of Customs, it was invalid so far as it referred to tobacco manufactured in any other province. However, their Lordships reached the conclusion that this Section did not impose a Customs duty in that they stated that Customs and Excise duties were in their essence trading taxes, and were more concerned with the commodity in respect of which the taxation is imposed than with the particular person from whom the tax was exacted. In this case the tax was not imposed on the commodity at all and was not imposed on any one as a condition of its lawful

receipt. The particular person from whom the tax was exacted was the recipient in the Province only if he was the prospective smoker. The Privy Council was of the opinion that the Tobacco Tax was not a duty of Customs and also were of the opinion that in view of the fact that the tax was not imposed upon the commodity moving in inter-provincial trade, but was concerned with the particular person who purchased the tobacco for his own consumption or use and paid the tax at that time, that Section 121 of the British North America Act was not affected and the tax was therefore within the scope of the Province.

While there has been some opinion to the contrary, the Provincial Sales Tax Acts now levied in the three Provinces in the Dominion are clearly direct taxes and come within the powers of the Province as defined under the British North America Act. It would be much more convenient for the Provincial authorities to levy an indirect Sales Tax on the privilege or right of doing business within the Provincial jurisdiction, but this field is not available to the Province and therefore cannot be considered when new sources of revenue are being sought by the Provincial authorities. The exclusion of the Provinces from the indirect field of taxation gives rise to many problems in the setting up of an administrative organization which will effectively levy and control a direct sales tax at the retail level. This condition is further complicated by the insertion of the exemptions which exist in all Provincial Acts, thereby necessitating a very comprehensive study in the case of British Columbia, of the way in which retail sales of merchandise are carried out by every retailer in the Province. Possibly the most difficult task of all is to establish the taxable sales of any store, such a figure being required for purposes of audit and inspection and is materially affected by the exemptions referred to above.

One of the major problems which faced the government of British Columbia in the drafting of the Social Security and Municipal Aid Tax Act was how extensive the coverage of the tax should be and at what rate it should be applied. While from an administrative point of view, there could be no doubt that an all-inclusive tax with no exemptions was to be desired, it was decided to provide for the exemption of food and other necessities in order to ease the impact of the tax on family budgets. This exemption was broadened to include many of the implements directly related to food produc-

tion, such as farmers' and fishermen's equipment, feeds, fertilizers, etc. The Act provided for an exemption of these articles when sold to a bona fide farmer or commercial fisherman, but not to other persons. To assist in the application of this provision, farmers' and fishermen's exemption certificates were supplied to retailers which individuals were to sign when requesting the exemptions referred to above. However, the exemption allowing implements of food production to go free of tax was confined to the agricultural items specifically mentioned in the Act, and did not include all purchases made by farmers and fishermen.

Further exemptions were granted to the Dominion Government for constitutional reasons; to gasoline, fuel, oil, coal, coke and wood fuel, as being already subject to tax; to certain medical, surgical, optical and dental requirements; to railway-rolling stock, deep sea ships, and to property entering into inter-provincial or foreign trade. Restaurant meals at a price of less than fifty-one cents were also excluded.

The problem of the taxation of low-priced items gave some concern, for despite the success of some other taxing jurisdictions with tokens, we did not wish to adopt this procedure. The result was that a bracket system was introduced with all purchases less than fifteen cents free of tax.

In the field of manufacturing it was provided that tangible personal property used for the purpose of being processed, fabricated or manufactured into or attached to other tangible personal property for the purpose of retail sale would be exempt from the application of the tax. It was also provided that certain materials used as a catalyst or direct agent would also be exempt, but this did not include any industrial machinery, tools, or implements being confined almost entirely to certain chemicals used in industrial processes. While in some taxing jurisdictions partial exemption is allowed to industry on taxable machinery used in their plants, the tax being paid in the proportion that their domestic sales bear to exports, there is no such provision in the British Columbia Act and industry pays full tax on any machinery and equipment, etc., which it purchases for its own use in industry or commercial undertakings.

Another point of difference which the British Columbia statute has with those in effect in some of the other States and Provinces is that the tax is applied to individuals purchasing second-hand property, or making casual sales. This is a direct result of the definition of the term "Retail Sale" as contained in the Act. Also the tax is not confined to property sold only through stores and other retail outlets which are located in the retail areas, but applies to sales of merchandise made from manufacturer to industry, if such property is used by the industrial concerns themselves and is not purchased for resale.

Private transactions being taxable under the Act comprise one field of revenue which might be removed if the tax in British Columbia were to be altered to an indirect tax imposed on the right or privilege of carrying on business in the Province. It is doubtful whether the sale of any one item between two individuals could be termed a sale in the ordinary course of business, this type of transaction being considered to be of a casual nature rather than one carried on in the normal course of trade.

While a Retail Sales Tax or Consumer Purchase Tax had been under consideration by the government of British Columbia for some time, any research which had been carried on had been largely concerned with its ability and merits as a revenue measure and the necessary administrative procedures had not of necessity been worked out. When it was decided that this revenue measure was to provide the funds for social services and municipal aid it was necessary to give some serious thought to the way in which such a tax should be administered and the various collection and accounting methods that would be necessary for its application. The Department contacted a great many other taxing jurisdictions who were already established in the retail sales tax field, and sent some of its members to certain areas where they obtained summaries of the procedures which were used in each case. Invaluable assistance was obtained from Quebec, Saskatchewan, California and Washington, where the administrators in these Provinces and States did everything they possibly could to assist us in the drawing up of our collection and accounting methods. Aside from the areas mentioned above, the Department contacted a great many other taxing jurisdictions and consulted certain commercial electric accounting firms as to how the tax could best be handled by modern electrical ma-

chinery methods. By selecting the most appropriate ideas from each plan studied, our own administrative procedures were formulated, and while no complete procedure could be adopted and used in its entirety in British Columbia, we have been able to set up an administrative organization which we feel compares very favourably with those in operation elsewhere. As a result of these analytical studies, the Department has formulated a collection and accounting programme which utilizes almost entirely electric tabulating machines and a statistical analysis of accounts which is made possible by the use of this type of accounting equipment. Our audit and collection programme is based upon a statistical analysis of accounts which requires that certain information be obtained from the vendors concerning total and taxable sales, and tax collected and remitted to the government. By close co-operation between the comptroller, general department and ourselves, an internal accounting system has been set up which has dovetailed into the general accounts of the Province with no difficulty whatsoever.

To ensure that this information would be forthcoming from the field, every effort was made to acquaint the public generally and the various trades in particular, with the basis of the tax, the reason for its imposition and the information which would be requested when the Act came into force. We have since found that our efforts in this direction, which were carried out by interview, public meetings, the press and radio, were well worth the effort and expense put into them, for the Department has obtained the necessary information for its analysis of the accounts from the vendors in the field. It was also found that once the initial opposition, which can be expected against any new taxation measure, had subsided, that there was very little protest from the public generally against this new form of tax, because the reasons for its imposition and the use to which its funds were being put were well known by the public as a result of our educational programme.

On the one hand the public criticized the tax as an imposition upon a customer who was already suffering from a high price level contributed to, in part, by Federal sales and excise taxes, and on the other hand it was attacked by retailers who objected to the work involved in the collection. Some manufacturers claimed that the additional cost would disadvantageously affect their competitive position, but in many cases what was happening was that they were

being restored to a level with their competitors over whom they had held previous advantage.

By holding meetings prior to the coming into force of the Act with the various trade organizations and merchant groups located throughout the Province, it was possible to instruct the vendors who were about to become collectors under the Act, as to how the tax was to be collected and remitted to the Government. The co-operation which was received from these groups was excellent and largely as a result of their attitude a uniform application of the Act was achieved throughout the Province in a very short time. Most of the questions which did arise were, in most cases, a direct result of the rather broad exemptions and provisions contained in the Statute, which not only complicated the work of the trades in collecting the tax, but caused the Department more trouble in the inspection procedure than otherwise would have been required under a straight business or privilege tax.

Our field inspectors and auditors did everything possible to ease the burden on vendors. To compensate for the work required in collecting and remitting the tax, all vendors are paid a 3% commission on any tax which they collect and remit to the Department. In some cases this more than offsets the cost of this work, but in some others admittedly it does not meet the expense involved in collecting and remitting the tax.

A registration system was set up and a certificate issued to all vendors in the Province. Because of the broad application of the term "retail sale", which is defined under the Act as a sale for consumption or use, it became apparent to many manufacturers and wholesalers that as they made such sales to individuals it was necessary for them to register under the Act as vendors, even though they previously had not included themselves in this group because of the normal interpretation of a retail sale. Also, as it was now not possible to obtain tangible personal property free of tax for manufacturing or further resale purposes without the use of a registration number or exemption certificate, these same concerns along with other groups such as jobbers, industrialists, etc., found it to their advantage to register under the Act in order to obtain a number for use in their business. This system was necessary to prevent the paying of the tax at the manufacturer's, wholesaler's and jobber's levels, and thereby prevent any pyramiding of tax before an article

was finally sold for consumption or use. By providing a registration certificate number to suppliers, manufacturers and wholesalers, they could obtain tangible personal property for further processing or resale purposes free of tax, the tax only being collected on the manufactured article when it was finally sold through the retail outlet.

Because of the statutory limitation of the Provinces to the Retail Sales or Consumer Purchase Tax field, the problem of inspecting and auditing vendors' accounts is somewhat complicated when compared to a system of control which could be devised under an indirect tax placed upon the privilege or right of engaging in business in any taxing jurisdiction. The problem confronting our Department was to devise a scheme whereby control could be maintained over all of the vendors' accounts and, at the same time, segregate out those vendors who were applying the Act incorrectly, or were attempting to evade the tax. At first it appeared that this would entail a large and costly inspecting and auditing staff, but to overcome this difficulty it was decided to apply statistical measures which had been used successfully in other commercial fields in the handling of similar types of work.

As in nearly all other jurisdictions in which a sales tax is imposed, the Province was divided into districts and by means of a business coding system the various types of industries, wholesalers, retailers, etc., operating within the Province were placed in business classifications. Each vendor has been allotted a specific account and business number which enables us to segregate out on our electrical accounting machines all vendors located in a certain district, and further break it down into each type of trade operating within each district. From the information given by the vendors' monthly return forms, the Department computes the percentage relationship which each vendor reports of his taxable sales to total sales and taxes collected to total sales. By arranging these relationships from the lowest to the highest in each group, it is possible to group the vendors of any one trade into a frequency distribution according to this relationship and determine the average percentage for each trade.

Thus, as long as vendors are reporting a relationship of say taxable to total sales, which is in line with the average for the group in which they are placed, they are considered to be applying the

tax correctly. However, if an examination of the distributions or charts indicates that certain vendors appear to be out of line with the majority of concerns operating in the same trade, then the latter cases are selected out by our central office and lists of vendors of this type are sent out to our inspectors and auditors in the field comprising what we term our "out-of-line accounts". It is these accounts which are examined by our inspectors in the fields and are also the basis of our selection of vendors for audit purposes.

This system will, of course, require continued study to deal with special cases, but it has proven very successful in that the out-of-line vendors can be segregated out by using this analysis without having to deal with the large majority of vendors who are applying the tax correctly as provided under the Statute.

We were at first in some doubt as to the practicability of this scheme, for its success depended entirely on the vendors located in the field in that the information required for its operation would have to be compiled from the returns submitted by 25,000 different individuals applying the tax throughout the Province. However, even the first returns for the months of July and August, 1948, were made out more carefully than was originally anticipated, and by an educational programme carried out by our inspectors, we have been able to obtain very complete information from the vendors registered under the Act.

In addition to the returns received from registered vendors throughout the Province, tax is also received from persons making casual sales, and in the case of property such as motor vehicles, boats and aircraft, which are all registered, it is possible to retain complete control of these items and ensure that tax is paid on each transaction. As an individual making a casual sale is not required to register under the Act, the tax is received in every way imaginable. To insure that a tax return is credited to the proper sale, it has been necessary to set up cross-alphabetical files for the transactions referred to above in order that the tax money received by the Department will not be credited to the wrong transaction.

In planning the administrative and accounting procedures necessary to obtain the information outlined previously, it was apparent that normal bookkeeping equipment could not be used because of the work involved in carrying out our statistical analysis which entailed the sorting of hundreds of thousands of cards each

month as well as the posting of vendors' accounts. To do the work effectively electrical accounting machine equipment was installed and at the present time all posting of accounts, addressing of return forms, certificates, delinquent notices, etc., are handled on our electrical accounting equipment. The Department has now reached the point in its organization where a complete control can be maintained on all accounts. Any out-of-line or delinquent vendors are automatically segregated out, such accounts being dealt with by our field staff almost immediately when they appear at variance with other vendors in their trades.

During the first year of operation, the majority of our field work was of an educational and inspectional nature, but after a year's operation our audit section was organized and we are now undertaking a full scale audit programme. The Department retains a complete history of every audit and is carrying out an analysis of its audits which is similar to the studies which are made of the vendors' returns each month. In the past it has been found that this information was of interest not only to the administrators of retail sales taxes in other States and Provinces, but was also of interest to the legislatures of the areas concerned. We have already found these audit statistics are useful not only in determining how much our audit programme costs, the recovery per hour, etc., but most helpful when used in conjunction with our analysis of monthly returns in the setting up of standards which are used in our audit selection programme. To complete the collection section of the Department, a legal division has been established which handles the accounts of delinquent vendors who have failed to respond to notices sent out by the Department. The departmental solicitor also assists in the drafting of any new regulations which might be required as a result of problems which arise concerning the application of the tax.

There have been very few prosecutions under the Act, it having only been necessary to file charges against one vendor who was found guilty of the charge laid against him. It is the opinion of the department that by maintaining a well-trained group of inspectors and auditors in the field, who are able to deal with delinquents and out-of-line accounts immediately they occur, that prosecutions can be kept to an absolute minimum. Possibly our success in this field has, for a large part, been due to the fact that we are

at the present enjoying an era of unparalleled prosperity in British Columbia, and should a recession occur, undoubtedly the Department will experience more difficulty in collecting many of its vendors' accounts.

For the first year of operation the cost incurred in the administration of the Act amounted to 1.2% of the tax received by the Department. This percentage, of course, excludes the 3% Vendor's commission, but does include the initial cost of setting up the Department, and covers such items as furniture, cars, cash registers, advertising, booklets and printed matter, etc. During the first five months of the present fiscal year, from April 1st to August 31st, this percentage dropped to nine-tenths of 1%, and it is hoped that this figure can be maintained in the future. At the present time eighty persons are engaged in the Department, including the audit and inspectional staff in the field.

Questions concerning the application of the Act are bound to occur from time to time because of the fact that it has been found that approximately twenty-five per cent, of the registered businesses under the Act change hands every year. However, all of the problems which occurred during the first few months of operation have been clarified and, at the present time, no major queries exist concerning this new tax legislation with the exception of the routine inquiries referred to above. It is felt that many of the administrative problems which arise from the imposition of a direct tax at the retail level can, for the most part, be overcome by the use of modern machine methods of accounting, and the proper application of statistical analytical methods.

We in British Columbia have much to learn in the application of this type of tax, but because of the co-operation and assistance which has been extended to us by the various States and Provinces who are already using this revenue measure, we have been able to enter this field with sufficient knowledge to anticipate and overcome many of the problems which accompany a tax measure of this nature.

The Institute of Public Administration is an organization where the problems of the various Provinces of the Dominion may be presented and discussed, thereby enabling a greater understanding to be obtained of the specific problems of every type of Government and mutual benefit to all concerned.

MR. GEORGE ILIFFE: Thank you very much, Mr. Detwiller.

If, at a meeting of Dominion and Provincial financial officials, the name of George Shink was mentioned, everybody present would know precisely and exactly to whom reference was being made. Mr. Shink accompanied the representatives of his province to the Dominion-Provincial negotiations relative to vacating tax fields; in discussions at the administrative level he won the esteem of all of those who participated with him for his ability and thorough knowledge of all of the subjects under discussion. Mr. Shink served with distinction in the Canadian Artillery during the first Great War and now holds the rank of colonel in that branch of the Reserve forces. He was appointed Comptroller of Provincial Revenue for the Province of Quebec in 1936. I understand that, including Sales Tax, he actively administers some 35, perhaps 40, tax statutes. Because of my personal acquaintance with Mr. Shink I am well satisfied that when he speaks upon Sales Tax, he speaks with authority. Gentlemen, Mr. Shink.