

Will Changing The Way Gas is Taxed Have an Impact at the Pump: An examination of the proposal by Conservative Leader Stephen Harper.

Conservative Party of Canada Leader Stephen Harper vowed that if he were elected, his government would lower gasoline prices through two measures: Eliminating the so called "tax on tax" where the 7% GST is charged on top of provincial and federal excise taxes, and eliminating the GST on any portion of gas prices above 85 cents per litre.

([PRWEB](#)) May 28, 2004 -- With the price of gasoline rapidly rising all over the world, it doesn't take an expert to realize that politicians are going to try to capitalize on the issue. Canada is no exception, where a federal election is causing politicians of all stripes to make sudden policy announcements. The Winnipeg Sun reported that Conservative Party of Canada Leader Stephen Harper vowed that if he were elected, his government would lower gasoline prices through two measures: Eliminating the so called "tax on tax" where the 7% GST is charged on top of provincial and federal excise taxes, and eliminating the GST on any portion of gas prices above 85 cents per litre. To see how these changes will impact consumers, we first need to investigate the tax structure on gasoline in Canada. Consider, a car driver in Ontario, who is subjected to the following taxes when filling her car:

1. A 10 cents a litre federal excise tax
2. A 14.7 cents a litre provincial excise tax
3. The 7% Goods and Services Tax (GST)

The provincial taxes in other Canadian provinces range from 9 cents to 17 cents a litre, so the experiences of the Ontarian consumer are similar to those experienced by drivers in other provinces. Recall that the GST is charged on top of the two taxes, such that consumers are taxed on the tax they pay. Not only does that Ontarian consumer have to pay 24.7 cents a litre in excise taxes, she also has to pay an additional 1.73 cents a litre in GST for the privilege of paying those excise taxes. This is the so called "tax on tax" that Mr. Harper plans on eliminating, so this measure saves the consumer 1.73 cents a litre, or about 87 cents on a 50 litre fill-up. That answers our question on how much the first measure will benefit consumers, but how about the second measure? If gas prices are under 85 cents a litre, consumers see no savings. Even if prices are above 85 cents a litre, consumer should expect to see almost no benefit from Mr. Harper's plan:

1. If gas prices are at 90 cents a litre, the consumer saves a mere 17.5 cents on a 50-litre \$45 fill-up
2. If gas prices are at 95 cents a litre, the consumer saves 35 cents on a 50-litre \$47.50 fill-up
3. If gas prices are at \$1.00 a litre, the consumer saves 52.5 cents on a 50-litre, \$50.00 fill-up

We see that the savings under the Conservatives' plan is minimal at best. With a typical price of 90 cents a litre for gas, consumers will pay \$1.04 less in taxes for a 45 dollar, 50-litre fill-up, 87 cents from the eliminating the "tax-on-tax" and 17.5 cents from eliminating the GST on the portion of gas above 85 cents a litre. Will consumers be satisfied with a \$1.04 savings on a \$45.00 purchase? There's also no guarantee that all the savings will make it into the pocket of consumers. Depending on a number of factors such as the competitiveness of the



local market and the consumers sensitivity to price changes (known to economists as their price elasticity of demand), the amount of the \$1.04 that will go into the driver's pocket will vary.

While the tax changes announced by Mr. Harper and his Conservative Party may sound impressive, they will not translate into substantial savings for the average driver.

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