

## GST/HST and Excise Taxes on Junk Food

The GST/HST tax is not meant to be punitive - ie sin tax - but rather is meant to provide another broad-based tax that will with little distortion (though this is debatable and economic argument go both ways) raise government revenue on the basis of consumption. It is a value added tax, meaning that only the portion of the sale price that represents the additional value of added by the person who sells the good or provides the service is taxed in their hands (ie the ITCs). A broad based sales tax is justified on a number of reasons, many of which are incompatible with the underlying justifications for a broad based personal income tax.

An excise tax is a different creature. An excise tax is meant to apply only to those items that, due to their nature, fail to account for the entire social/true cost they impose. For example, taxes on tobacco and gasoline are excise taxes in that they aim to capture the additional cost on health, productivity, environmental degradation, etc that those goods have, but are not accounted for completely in the market price for them. It again is not meant to be punitive, but merely corrective of a market failure - ie price not reflecting true costs.

The problem (from an equity perspective) with sales taxes is that they are inherently regressive - meaning that those with lower incomes spend a greater proportion of their incomes on such taxes (mainly because a greater portion of their income has to go towards consumption of basic goods). The distinction between "basic groceries" and "junk food" is based on the same reasoning as the basic exemption (and is equally a failure in that regard) in that it is meant to save from taxation those items that are basic necessities for a "decent living" (H Simons), and therefore not unduly burden those with low incomes.

The real problem is that "junk food" is more readily available, is cheaper, and is less time consuming than "basic groceries". It is these characteristics that make "junk food" the food of choice for those at the lower income strata who have less money, who cannot search widely for food, and whose time is devoted to working (on average 2 full time job equivalents) to survive. Thus, despite the rhetoric, the tax on "junk food" is regressive and taxes those with lower incomes, and the failure to tax "basic groceries" grants a break to those with higher incomes. Also, a refund is not useful to a person who (1) doesn't file an income tax return because they have no/low income, or (2) need the money today not months from now to survive.

Taxation is sometimes an easy solution (like giving to charity) that avoids the hard and dirty work required to make meaningful change. The focus should be on changing food availability or content requirements, or on providing a meaningful way for people with low incomes (shamefully low for many in Canada) to meet basic needs. I recommend the writings of Guy Standing (eg "The Precariat") for potential solutions including a basic income (works great in a number of countries and also in Alaska).

Taxation, especially personal income taxation that captures in a meaningful manner as income a person's relative economic power over resources, does have a central role in producing a more egalitarian society that is both more free and more productive.

The problem with such a tax is, in the words of a great tax lawyer - Louis Eisenstein, " our taxes reflect a continuing struggle among contending interests for the privilege of paying the least [because income] tax legislation commonly derives from private pressures exerted for selfish needs [- so that] those who feel the burdens of taxation are naturally prone to relieve themselves [and] and to throw the burden off its shoulders [until] it finally falls upon those who will not, or cannot, make a successful effort for relief. [... this struggle] is a one-sided affair, in which the rich only engage, and the poor always got to the wall.

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