
BRIEFING NOTE: Update on Federal Announcement of 100% GST Rebate

Issue/Background:

On February 2nd, 2004 the Federal Government announced in the Throne Speech that municipalities would no longer be required to pay the Federal Goods and Services Tax (GST). On March 19th, the Minister of Finance tabled the Notice of Ways and Means motion in the House of Commons. The effective date of the change is February 1st 2004.

The government intends to increase the current municipal GST rebate of 57.14% to 100%. Therefore municipalities will continue to be charged for GST by their suppliers but the entire amount of the tax will be rebated by the government. Currently, the City claims its GST rebate on a monthly basis. With the rebate being increased to 100%, the City will save an average of 3% on most goods and services. This saving is estimated to be approximately \$48.8 million for the 11 months of 2004 (based on 2003 actuals), as outlined below:

Estimated February 1 – December 31			
Operating		Capital	
Tax	WWW	Tax	WWW
26.0	2.8	18.1	4.8

Note: WWW is Water and Wastewater

The above estimates include City Departments, Toronto Police Service, Toronto Transit Commission, Toronto Library Board and the Toronto Community Housing Corporation.

Federal Intent – New Deal

The additional rebate was announced under the “Great Places to Live – A New Deal for Communities” section of the Throne Speech. While the speech and subsequent communications from CCRA make no mention of any conditions on how the additional rebate is to be used by municipalities, the throne speech does offer up a number of statements describing the federal government’s intent.

Specifically the speech mentions:

- The government's desire for communities that provide affordable housing, good transit, quality health care, excellent schools, safe neighbourhoods and abundant green spaces
- A "new deal" with municipalities
- A "new deal" that targets infrastructure
- A "new deal" that helps communities become more dynamic, more culturally rich, more cohesive and partners in strengthening Canada's social foundation
- A "new deal" that delivers predictable long-term funding

It would appear from the above statements, that the intent of the government is to immediately provide broad based relief to municipalities and that there are no strings attached. This would be consistent with the fact that it would not be very practical from an administrative standpoint for the government to direct the use of these funds.

However, the speech goes on to say that the additional rebate is a down payment that will be augmented by a portion of the gas tax or other fiscal mechanisms to achieve the same goals. It also mentions the acceleration of committing existing infrastructure funds. This section raps up with the statement "Together (*i.e. the GST rebate, the gas tax sharing and the infrastructure program*) these are real and ongoing investments in urban transit, affordable housing, clean water and good roads". This last sentence appears to summarize the government's intent to fund capital infrastructure which mirrors what the City of Toronto and other municipalities have been asking for.

A recent bulletin dated March 22, 2004 from the Federation of Canadian Municipalities confirms the "no strings" attached nature of the additional funding but goes on to say that the federal government's expectation is that the funds will be used for infrastructure.

Budget Strategy

Given the extreme budget pressures the City is facing, staff are proposing that for 2004, the GST savings of \$26.0 million related to operating expenditure savings in the tax supported budget be captured corporately and applied to the operating budget shortfall to preserve current service levels. The savings on the tax supported capital expenditures estimated to be \$15.2 million (exclusive of Social Housing) in 2004 will be used to reduce the City's debenture requirements for the 2004 capital program.

The expected savings in the Water and Wastewater programs will be captured by a corresponding increase in the 2004 contribution to the Water and Wastewater reserve that could be applied to future capital use.

Date: March 31, 2004