

Intelligence MEMOS



From: William B. P. Robson
To: Bill Morneau, Minister of Finance
Date: March 20, 2020
Re: **GIVE BUSINESSES A LIFELINE: RELIEF ON GST/HST REMITTANCES**

The COVID-19 outbreak presents a unique threat to Canada's economy. The last major crisis, in 2008-09, had the financial system at its core and it responded well to injections of liquidity and support for credit markets.

The coronavirus is not like that. It has stopped the economy cold. People are staying home. Many service industries have shut their doors. Output and employment have plummeted.

Canadian governments have responded. The Bank of Canada has slashed the overnight rate and is supporting credit markets. The federal government is subsidizing wages, providing income support and supporting specific sectors through its various lending agencies. These are important measures and the experience of 2008-09 made them faster and more effective.

In 2008-09, however, people were not self-isolating. Hotels, restaurants and cultural facilities did not close. Airplanes still flew and factories still ran. This time is different, and because it is, different governments need to do more.

A critical problem for many businesses, large and small, is liquidity. Sales are down and customer payments will slow. The indirect benefits from lower interest rates and Bank of Canada support for credit markets will not help their cashflows for weeks or even months. Meanwhile, businesses will be forced to lay off staff and stop making payments themselves, which will only exacerbate the crisis. They need immediate help.

A tool well suited to this situation is tax deferrals. The federal and Quebec governments have already announced later deadlines for personal income tax filings. Cities across the country have announced a grace period for property taxes. As former federal finance officials David Dodge, Serge Dupont and Michael Horgan, now at Bennett Jones, have suggested, the next target – one that would help businesses of all sizes across the country – should be GST/HST remittances.

The federal government should let businesses defer net monthly and quarterly GST/HST remittances, starting with payments owed on or after March 31. No interest would accrue until the new due dates for the payments, whenever they might be. As things stand, businesses have to remit GST/HST when they invoice their customers. Even in good times, it's not unusual that they wait weeks for payment. Under current circumstances they may not receive payment for months. Relief on remittances would be a lifeline for many of them.

The immediate positive impact would be huge. Suppose the deferral lasted until the end of 2020, and that the economic impact of COVID-19 – mitigated by the deferrals – reduced the GST and federal portion of the HST by 10 percent year-over-year in the second quarter of 2020 and by 5 percent year-over-year in each of the third and fourth quarters. Total remittances might be some \$30 billion lower. That is cash that businesses would still have in hand to pay their employees and their bills. The government could even turbo-charge the measure by refunding remittances businesses made in the first quarter – a further \$10 billion.

Provinces would also forgo revenue in the short run – but for them, as for the feds, this measure has the critical feature of deferring taxes, not forgiving them. To be sure, some deferred taxes will turn out not to be collectible, as some businesses do fail – but any such shortfall will be negligible compared with the taxes that won't be collected in the event of a protracted depression. Governments are immortal – they can wait. Businesses without cashflow will die.

The economic boost from deferring GST/HST remittances would be big, widespread, and immediate. It would show as strongly as any measures taken to date that the federal government understands the gravity of the crisis and is stepping in to help businesses across the country. It should be a centrepiece of the federal government's next response to this unprecedented crisis.

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A [version](#) of this Memo first appeared in the National Post.