

## **Computers Could Be Cheaper**

*Duty and taxes on computer hardware are handicapping  
Canada's adoption of new technology*

A microprocessor revolution is changing the face of industry and commerce. Microcomputers are proliferating even in the smallest firms. New ways to use computers to raise productivity are being found every day in all sectors of the economy. In the years ahead this will have profound implications for bolstering productivity growth.

The source of this powerful technology is the United States. Firms in the Silicon Valley in California and along Route 128 outside Boston are the microelectronic pioneers.

Canada is in a unique position among industrialized countries to benefit from the new technology. We are close to its source and we share a common language and culture with its originators. Canadians are even similarly addicted to Pac Man and Space Invaders. Most of the United States companies which are leaders in the field have Canadian subsidiaries. They act as a transmission belt for innovations.

Are we doing all that we can to encourage the importation of the new technology? Unfortunately not. Computer hardware has been subject to a customs duty of 5.1 percent on fair market value, plus the 9 percent manufacturers' sales tax.

The cumulative effect of these taxes is that the cost of computers to Canadian retailers has been 14.6 percent higher than in the United States. This will now change a little, because the customs duty declined in January to 3.9 percent. The cumulative effect of the taxes will remain, at 13.3 percent, a considerable cost.

This extra cost is marked up and passed on to Canadian purchasers of computer hardware. The mark-up on computers is higher in Canada than in the United States because of lower sales volumes and higher costs. The customary mark-up for microcomputers is around 35 percent in Canada compared with about 25 percent in the United States.

Taking into account the manufacturers' sales tax, customs duties and the higher Canadian mark-up, the price of a microcomputer in Canada has been and will remain 20 to 25 percent more than in the United States. A price differential of this magnitude must inevitably slow the adoption of computer technology, and put Canadian firms at a competitive disadvantage. It places Canada outside the mainstream of technological advance in the microprocessor field.

For computer software the situation is much better. No duty is levied and the manufacturers' sales tax is only collected on the value of the diskette, which is but a small part of the total cost. Federal taxes on software are just a nuisance, not a real burden. Provincial retail

sales tax constitutes a heavier load.

If the federal government really wants to remove all barriers to the spread of microcomputers, it should eliminate the duty on computer hardware.

The only argument in favour of maintaining the duty on computers is that it would help to support the development of a domestic computer industry. While this is true, a much better way to provide the support would be through a grant program or through special tax treatment such as an enhanced investment tax credit or accelerated depreciation. This would give the fledgling Canadian computer industry a hand without handicapping the rest of the economy.

The real productivity increases from the new technology will come from its widespread adoption across manufacturing, wholesale and retail trade, and other service industries and not from the growth of a narrowly based Canadian microcomputer industry. The Persona and Hyperion are bold ventures. They may even achieve commercial success. But they are not the answer to lagging productivity growth.

The government should also exempt computer hardware from the manufacturers' sales tax. This would benefit the domestic computer industry as well as lower the cost of computers to Canadian purchasers. Given its key role in technological progress, computer hardware is every bit as deserving of such treatment as any of the items in the current lengthy list of exemptions which includes: foodstuffs; electricity and fuels; thermal insulation materials; energy conservation equipment; drugs; clothing and footwear; bicycles; materials incorporated into manufactured goods; production, farming and mining machinery; pollution control machinery and equipment; commercial transportation equipment; and construction equipment. Of the items on the list, computers come closest to production machinery.

Provincial governments also tax computers. For instance, in Ontario the provincial government imposes a 7 percent retail sales tax on the purchase of microcomputers. This tax is levied even if the machine is purchased for business use.

In fairness it should be said that at the retail level this tax treatment is broadly comparable to that of computers in many states and cities of the USA. But in Canada it comes on top of a different base.

Taxes on computers do not make any sense for an economy that aspires to be at the forefront in the adoption of the new technology. If we really want to do something to facilitate its transmission, we should try to get rid of some of the taxes that make microcomputers so much more expensive in Canada than in the United States.