



PRE-BUDGET SUBMISSION

**From the
Direct Sellers Association of Canada
Association de ventes directes du Canada**

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INTRODUCTION

The Direct Sellers Association of Canada (DSA), founded in 1954, is the national association of Canadian direct selling companies and independent sales contractors (ISCs). The mission of the DSA is to further enhance trust, confidence and growth in the Canadian direct selling industry through self-regulation and ethical conduct.

The DSA and its 45 direct selling member companies are committed to operating in accordance with the comprehensive industry standards set out in the DSA's Codes of Ethics and Business Practices. The Codes govern the direct sale practices and procedures used by DSA members.

The direct selling companies and the ISCs market and distribute a wide variety of products and services directly to the consumer, usually but not exclusively in the consumer's home, rather than in traditional retail establishments. Generally, these products and services are sold by ISCs in the context of group presentations (party plan), or on a personal consultation basis.

The strength of direct selling lies in its tradition of independence, providing accessible business and career opportunities to people whose entry is not restricted by gender, age, education or previous experience. Direct selling increases access to retail markets in rural areas, generally underserved by traditional retail channels, with 26% of direct selling consumers living in rural areas across Canada.

During the past year, close to 1.3 million individual Canadian women and men were engaged as ISCs in operating their own direct selling businesses with more than \$1.96 billion of sales. In terms of the ISCs, it should be noted that 88% are women, 81% are married, and 56% have full-time jobs – using this business opportunity to earn extra income. Additionally 15% worked part-time and have no other occupation, while 11% were unemployed prior to entering the industry.

Direct selling contributes significantly to the Canadian economy. The industry's associated labour pool includes 3,900 permanent employees and 1.3 million ISCs. In 2007, the combined labour force earned an estimated \$966 million in income, through their association or employment with the direct selling industry. Total labour compensation, including \$194 million in wages paid to permanent employees and \$772 million of commissions and bonuses paid to ISCs, illustrates the very significant "direct" economic impact of the industry's activity in Canada.

In a recent **Socio Economic Impact Study of the Direct Selling Industry** conducted by Ernst & Young, using an income multiplier, it was estimated that an additional \$438 million in personal income was created, with the total personal income contribution of the direct selling industry to the Canadian economy being in excess of \$1.4 billion.

DSA RECOMMENDATION

For the 2008 pre-budget consultations, the House of Commons Standing Committee on Finance asked participants to provide a recommendation that reflects their most important federal program spending or taxation priority. To that end, the DSA is recommending an expansion of the GST/HST Direct Sellers Mechanism (DSM).

The DSA recommends that the 2008 federal budget contain technical amendments to expand the Direct Sellers Mechanism to apply not only to direct sellers and ISCs who operate on a buy-and-resell basis, but equally without discrimination to direct sellers and ISCs who operate on a sales agent basis .

BACKGROUND

Efficient and effective collection of taxes is a key contributor to economic health. Efficient collection mechanisms benefit both collector and remitter by ensuring maximum dollars collected with the least cost to both parties. The DSM is a classic example of Government and business working in partnership to develop a policy that has been beneficial to consumers, the Government, the direct selling industry and more than 1.3 million ISCs across the country.

The DSM is based on pre-collection of GST/HST by the direct selling companies on the suggested retail price. It removes much of the burden for both ISCs and the CRA in terms of otherwise requiring ISCs to be GST/HST registered and results in a cash-flow advantage to the Government with no “underground economy” with respect to GST/HST in the direct selling industry.

The DSA is recommending the government expand the DSM *so that it is available to all direct sellers and their independent sales contractors, including those who operate on a sales agent basis.* Currently, the DSM cannot be used by the 20 -25 % of the direct selling industry which operates on a sales agent, as opposed to buy-resale, basis.

In our view, only minimal technical amendments would be needed to expand the scope of the DSM to include all direct sellers.

As with the development of the DSM from its inception in 1990 through its various previous refinements, the DSA is willing to work constructively with the Department of Finance to arrive at an appropriate technical amendment.

SUMMARY OF RECOMMENDATION / BENEFITS

The DSA recommends that extending the existing DSM to all direct selling companies and their independent sales contractors (“ISCs”) would significantly increase the benefits of the DSM through:

- (i) providing consistent application of the GST/HST rules throughout the entire direct selling industry with *virtually no impact on Government*

revenues;

- (ii) *reducing the administrative costs and compliance burden of the GST on the ISCs who operate their small direct selling businesses as sales agents, and their direct selling companies;*
- (iii) *reducing the CRA's administrative costs by reducing the number of ISC sales agents who are required to become GST registered simply to trigger an input tax credit entitlement to recover the GST/HST they pay on their key "sales aids" business purchases; and*
- (iv) *reducing the Government's credit exposure for non-remittance of GST trust monies, since GST would no longer be collected for remittance by ISC sales agents on bonus payments and commissions (which, in any event, are fully recovered by the direct selling companies as input tax credits).*

As indicated above, this recommendation to expand the DSM to all direct sellers can be achieved with only minimal legislative changes.

EXPANDING THE DSM WILL INCREASE BENEFITS TO THE GOVERNMENT AND THE DIRECT SELLING INDUSTRY

While the DSM is operating in a positive fashion at present, it only applies to those direct selling companies whose ISCs are distributors operating on a buy-and-resell basis. The 20-25% of the direct selling industry which operates through sales agents, who earn commissions for arranging the sales of the products involved, are *currently excluded* from using the DSM (see APENDIX ONE attached).

These companies and their ISCs have indicated that they feel *discriminated against* by not having the DSM equally available to them particularly, in terms of (i) their ISCs having to pay GST on Starter Kits and other sales aids (which currently can only be recovered by forcing the ISCs to become GST registered), and (ii) the constant "non-revenue" administrative burdens they face in determining the GST status of their commission and bonus payments and whether they must collect and remit GST (which, in any event, is fully recovered as input tax credits by their direct selling companies).

Reduce Number of GST Registrants by Making "Sales Aids" Non-Taxable to All ISCs

Since the DSM is not currently available to direct sellers who use sales representatives, these direct sellers must charge GST on "sales aids" sold to their ISCs whereas direct sellers who operate on a buy-resell basis do not. ISC's who operate as sales agents, prefer to make their key business purchase GST-free – as do the majority of ISCs in the direct selling industry

This has resulted in a *competitive disadvantage* to direct sellers who operate on a sales agent basis, as a number of ISCs have changed their direct selling companies because of this discriminatory treatment.

Furthermore, ISCs who are sales agents are compelled to become GST registered in order to claim input tax credits to overcome this situation. This results in needless administrative costs to both the ISC and the CRA.

Expanding the DSM provisions to include all direct sellers will result in all “sales aids” being GST-free throughout the industry and decrease the number of ISCs who are GST registered, thereby resulting in (1) more tax “bang” for every administrative “buck” while maintaining the same level of GST/HST revenues, and (2) decreasing the cost to the ISCs in operating their small businesses.

Sales Aids are GST Free

This is in full accord with the primary purpose of the DSM; namely, to significantly reduce the number of ISCs who would need to become GST registered simply to claim input tax credits on their key business purchases – resulting in administrative cost savings to *BOTH* the ISCs in term of the costs of operating their own small business and to the CRA in terms of administering the GST system, while increasing the security of the GST revenues from the direct selling industry (see APPENDIX TWO attached).

Current Unnecessary Administrative “Paper” Burden

The requirement to determine whether GST applies to the commission and bonus payment made to ISCs who operate as sales agents is an enormous administrative burden to the direct selling company and to the ISCs.

The direct selling companies are required to monitor the GST status of each and every ISC and determine whether it should pay GST on any bonus and commission payments. The ISCs, in turn, are responsible for determining their own GST registration status and, where applicable, collecting and remitting GST by filing returns. This effort has no revenue impact given that all direct sellers can recover the GST payable through an input tax credits.

The DSM was drafted in the early 1990’s to treat all bonus and commission payments as non-taxable consideration, in recognition of these “non revenue” administrative difficulties. By expanding the DSM to apply to ISCs who operate as sales agents, this administrative burden will also be removed as their commission and bonus payments will be accorded the *same treatment* as payment to ISCs who operate on a buy-sell basis.

Expanding the DSM to make these payments non-taxable will also reduce the Government’s credit exposure, since less GST will be collected by ISCs, in trust, for subsequent remittance (see APPENDIX THREE attached).

Submitted on behalf of the Direct Sellers Association,

Ross P. Creber, President