1. THE NEED FOR SALES TAX REFORM

On August 8, 1989, the Minister of Finance issued the "Goods and Services Tax Technical Paper" (the "Technical Paper") setting forth the government's proposal for replacement of the existing federal sales tax ("FST") with a goods and services tax ("GST"). On October 13, 1989, the Minister issued a document "Goods and Services Tax Draft Legislation" ("Draft Legislation") to be read in conjunction with the Technical Paper.

Attempts at sales tax reform in Canada have a history that is even longer than attempts at constitutional reform. We've had a manufacturer's sales tax at the federal level since 1924. Calls to abandon that tax came almost immediately following its introduction - and not from self-interested parties only. The Rowell-Sirois report in 1940, the Carter Commission on Taxation in 1966, the Macdonald Royal Commission in 1985, and various task forces and study groups in-between, unanimously condemned the manufacturers sales tax as a poor tax that ought to go.

Even groups that oppose the proposed Goods and Services Tax recognize that the manufacturers sales tax is inimical to Canada's interests. As stated by the United Steelworkers of America in their submission to the Committee:

> In a country whose manufacturing economy is under constant pressure, it makes no sense to have a tax system that biases the internal economy in favour of service providers. And in an economy as heavily dependent on trade as Canada's, it makes no sense to impose what amounts to a tax on exports of manufactured goods.

The present federal sales tax applies to all goods sold by manufacturers in Canada and to finished goods imported into Canada, except those that are specifically exempted. The range of exemptions is wide: it includes food, clothing, footwear, pharmaceuticals, and equipment used in commercial transportation, construction, agriculture and manufacturing. Most services are also exempt. The one exception is the 11% telecommunication services tax introduced in 1987.

The tax is generally levied on the manufacturer's selling price of domestically produced goods and on the duty paid value of imports. For some products, including cosmetics, vehicles, gasoline, microwave ovens, televisions and video recorders and players, the tax is levied at the wholesale level. The general rate at which most goods are taxed is 13.5%. Alcohol and tobacco are taxed at 19% and building materials at 8% (9% effective January 1, 1990).

As already noted, the FST has been studied extensively and its many shortcomings are well-known. A brief review of the problems associated with this tax may nevertheless be