

ers of federal sales and excise tax. This measure will offset the impact of transitional tax reform measures on revenues by guaranteeing a one-time increase in revenue of \$1.6 billion.

The main sources of additional revenue provided under the proposed legislation are as follows.

First, a 10 per cent tax on telecommunications services, such as telephone and telex services, with the exception of service charges for local residential telephone lines. The tax on telecommunication services was announced in the June 1987 White Paper as a transitional measure, pending phase two of the sales tax reform.

Second, an increase in the tax on cable and pay television services, from 8 per cent to 10 per cent.

Third, an increase in the sales tax on paint and wallpaper from 8 per cent to 12 per cent.

Fourth, extension of the federal sales tax to a limited range of snack foods that compete with similar products that are currently taxed.

Fifth, an increase in the federal sales tax on beer, spirits, wine and tobacco products, from 15 per cent to 18 per cent.

Sixth, a 4 per cent increase in excise tax on tobacco products. This was, of course, well before the two bills adopted by the House of Commons on third reading yesterday had materialized.

Seventh, an increase in the air transportation tax of \$4 per ticket, to recover a greater proportion of the cost of the air transport program.

Eighth, a one-cent per litre increase in the excise tax on gasoline and aviation fuel.

These budgetary measures are expected to raise annual revenues of over \$1.5 billion. They are needed in order to reduce personal income tax as announced in the documents on tax reform and to enable the government to continue its efforts to reduce the deficit. The increase in the sales tax on alcohol and tobacco announced last December is necessary to finance improvements in the tax reform program, especially the increases in child tax credits.

The bill also provides for a number of technical changes in the Excise Tax Act and the Excise Act.

The tax on motive fuels has been shifted to the manufacturer's level to resolve problems with administration and compliance.

The provisions on the refundable sales tax credit as it applies to certified institutions have been further refined to ensure that tax relief is restricted to non-profit organizations and to extend the exemption to goods purchased by organizations that provide administrative services solely to certified institutions.

A number of compliance provisions in the Excise Act have been revised to allow for the reduction in on-the-spot verification by excise officers of the manufacture of alcoholic beverages and tobacco products.

An important measure that I must draw to the Senate's attention is the proposed change to the fair pricing provisions of Section 34 of the Excise Tax Act. A recent decision of the

[Senator Flynn]

Federal Court has called into question the power of the Minister of National Revenue to determine the value of a product for the purposes of sales tax when the taxpayer is not dealing with his customer at arm's length. The result has been a significant drop in sales tax revenue, since taxpayers reorganize their affairs to take advantage of this decision. The suggested amendment will make the tax apply to a "reasonable selling price" in transactions where the parties are not dealing at arm's length.

This change as well as the measures related to marketing and distribution charges, which will be the subject of another bill, should deal effectively with the problem of value for the purposes of sales tax until implementation of the second phase of consumption tax reform.

Another related temporary measure is the shifting of the tax to the wholesale level for such products as candy and snack food, pet litter and pet food, and some electronic equipment. For most of these items, the tax will be applied at the manufacturer's level once the proposal to deduct marketing and distribution costs is implemented.

Honourable senators, there are some tax breaks, some bright sides to this Bill. It contains measures to ease the paperwork burden on small businesses; more specifically, the ceiling for periodic and seasonal tax payments has been doubled. This change will allow some 2,000 taxpayers to pay their taxes on a quarterly, half-yearly or seasonal basis, rather than every month.

In answer to the concerns raised by the cultural community, original prints have been exempted from the federal sales tax.

Although this bill provides for an increase in the excise tax on gasoline, the fuel tax refund now given to primary producers will be increased by an equivalent amount. Therefore, the financial assistance given to farmers, fishermen, forestry workers and mine operators for their fuel costs will be maintained.

Although manufacturers generally pass on the tax increase on fuel sold after April 1 to farmers and other primary producers, the Minister of National Revenue does not have the authority to refund this tax increase to primary producers when they apply for a tax refund or when a registered seller made the refund directly to the primary producer. Therefore, this bill must be considered and approved with the least delay so that these tax refund applications can be paid as soon as possible.

● (1550)

[English]

Honourable senators, I conclude by reiterating that this is an important bill. All these measures which it enforces were announced by the Minister of Finance in his budget or by way of the other decisions I have already mentioned. It raises substantial new revenues by broadening the base of the tax system to include telecommunication services and increasing the tax rates for a number of goods and services. It is an important facet of the government's commitment to reduce the deficit and to balance the system by cutting personal income