income tax alternatives are straightforward. The manufacturers' sales tax would be abolished and most of the lost revenue would be collected through the income tax by increasing the income tax rates. This increase in federal income tax rates would be done simply by increasing the federal surtax rate in order to leave provincial income tax revenues unaffected.

If the MST were abolished and no consumption tax substituted for it, approximately $10.5 billion would have to be raised through the income tax. A calculation by which this amount is obtained is illustrated in Table 4. Tables cannot be described in text. I advise honourable senators to obtain a copy of this document. They will find it enlightening.

In 1991, the manufacturers' sales tax would raise $18.5 billion in revenues. However, if it is abolished, provincial revenues would also decline by about $0.8 billion. Provinces levy their retail sales taxes on the price of goods which includes the MST. If the MST is abolished, the price of goods will drop and thus provincial sales tax revenues will decline. Thus, for the change to revenue neutral to all levels of government $19.3 billion of revenue must be found.

About $2.3 billion of the MST falls on goods purchased by the government sector. If the MST were abolished and the reduced taxes reflected in prices, the government sector would need $2.3 billion less in revenue to finance its purchases.

About $2.3 billion of MST falls on alcoholic beverages, tobacco products and gasoline. There is little reason for reducing the tax burden on these products. Therefore, the relevant excise taxes would be increased to recover this revenue.

● (1630)

If the MST were abolished, refundable sales tax credit could be repealed, saving $0.9 billion. If the MST were abolished and all tax cost reduction passed on directly through prices, the consumer price index would decline by slightly more than two percentage points. This would save the government $1 billion in transfer payments to individuals and the provinces. It would also result in additional income tax collections of $0.2 billion because of reduced tax indexing effects.

Finally, if the MST were abolished, there would be a substantial windfall to corporations. In 1991 over $1.5 billion of the MST would be levied on exports. Since Canadian corporations are price takers in world markets, corporate profits would presumably increase by this amount. Moreover, some large percentage of the MST levied on corporate fixed capital investment likely falls on corporate profits. Therefore, if the MST were abolished, it seems fair to raise the revenue collected through the corporate income tax by $2 billion. This additional revenue from corporations would easily be collected without raising the basic corporate tax rate. The low tax rate for manufacturing and processing credits could be abolished. One of its justifications has always been the additional burden the MST imposes on corporations engaged in manufacturing and processing. So it could be abolished. Other corporate tax incentives might be abolished through loopholes closed. Measures might be taken to increase corporate tax compliance. The large-corporation tax might be increased or a minimum corporate tax might be enacted.

He has a table where he shows all this, Table 4. It is difficult to be precise. Here is an honest economist. The minute he says it is difficult to be precise, my trust in him increases, not like the Department of Finance figures.

Senator Marsden: Neil Brooks is not an economist. He is a tax lawyer.

Senator Gigantès: I am sorry, but he does seem to know his economics. Neil Brooks is a tax lawyer, not an economist. I suspect he has had economics somewhere.

Senator Frith: It is a good thing you are quoting him on a tax matter then.

Senator Gigantès: I am quoting him on a tax matter but he still seems to understand economics pretty well. It is difficult to be precise about the income tax rate schedule that a typical Canadian might face. If an additional $10.5 billion was collected through the income tax, since basic provincial income tax rates vary enormously and since there is now an array of federal and provincial surtaxes on top of the basic tax rates, in our alternative scenario we make the simple assumption that the 3 per cent additional surtax for high income individuals is eliminated and that the over-all surtax is increased from its 1991 legislative value of 5 per cent to 31 per cent, this change is sufficient to raise the required $10.5 billion additional revenue. This would increase the bottom federal income tax rate by 2.7 percentage points, the middle rate by 4.2 percentage points and the top rate by 4.6 percentage points. Those individuals subject to the high income surtax would have their rate increased by less than 4.6 percentage points because of the elimination of the 3 per cent additional surtax on high income individuals. In 1989 the basic provincial rates expressed as a percentage of federal tax were as follows: Alberta, 46.5 per cent; British Columbia, 51.5 per cent; Manitoba, 52 per cent; New Brunswick, 60 per cent; Newfoundland, 61 per cent; Nova Scotia, 56.5 per cent; Ontario, 52 per cent; Prince Edward Island, 57 per cent; Saskatchewan, 50 per cent; Quebec administers its own income tax. On the assumption that the basic provincial rate is 55 per cent and ignoring special federal and provincial surtaxes, Table 5 sets out the federal and combined federal-provincial rates, both under the present system, and the income tax alternative.

On an income of $0 to $27,500, the 1991 legislated 5 per cent federal surtax, the tax combined would be 27.7 per cent. The income tax alternative puts that up to 13.4 per cent. That is combined federal-provincial. On an income from $27,500 to $55,500, the combined federal-provincial bite would be 42.3 per cent with GST on the side and 46.5 per cent through the income tax alternative. For $55,000 and over the combined provincial-federal tax take would be 57.2 per cent and it would be 52 per cent in the income tax alternative which would replace the GST.

The changes in the income tax rates that would be needed to replace the manufacturers' sales tax are more modest. To make this point a number of things might be noted about the