

*Excise Tax*

[Translation]

**Madam Speaker:** The questions enumerated by the parliamentary secretary have been answered. Shall the remaining questions stand?

**Some hon. Members:** Agreed.

**GOVERNMENT ORDERS**

[English]

**EXCISE TAX ACT AND EXCISE ACT**

## MEASURE TO AMEND

**Hon. Allan J. MacEachen (Deputy Prime Minister and Minister of Finance)** moved that Bill C-57, to amend the Excise Tax Act and Excise Act and to provide for a revenue tax in respect of petroleum and gas, be read the second time and referred to the Standing Committee on Finance, Trade and Economic Affairs.

He said: Mr. Speaker, the bill which we are considering this afternoon is an important one which seeks to implement two major parts of the energy program of the government and a number of changes in federal sales and excise tax measures.

The bill consists of five parts. Part I introduces amendments in the federal sales tax system, such as the application of tax to marginal manufacturing activities and to advertising inserts in newspapers.

Part II contains provisions for the new tax on natural gas and gas liquids. Part III deals with changes in the taxation of alcoholic beverages and technical provisions of the Excise Tax Act. Part IV establishes an 8 per cent tax on petroleum and gas revenues under a separate act; and Part V prescribes the commencement date for the various provisions in the first four parts of the bill.

Without going into the details of the different provisions at this time, I would like to take some minutes to elaborate on some of the more significant provisions of Bill C-57. Perhaps the most important amendment in Part I is the reduction in the federal sales tax from 12 per cent to 9 per cent as originally proposed by the Minister of Justice (Mr. Chrétien) in his budget of November, 1978.

● (1220)

This measure, which has had a substantial stimulative effect on the Canadian economy, has been continued in force since November, 1978, by way of a remission order under the Financial Administration Act. Other tax changes, including a few increases in federal sales and excise taxes, have also been administered since that time on the basis of the ways and means motions in accordance with our traditional practice. This bill covers these outstanding proposals, extending back to 1978.

Bill C-57 also contains a number of important amendments relating to the structure of the federal sales tax, which I announced in my October budget speech. As many tax practitioners and taxpayers are aware, the current federal sales tax system contains serious inequities and anomalies. These include the taxing of goods at different trade levels, and thus different prices, the lack of a comprehensive appeal system, the avoidance of tax by shifting some manufacturing operations beyond the taxing point and the bias favouring imported goods over domestic products.

These inequities are well documented. Numerous reports, including the Carter Royal Commission Report, the 1975 discussion paper and a report of the commodity tax review group, have all highlighted them and proposed potential solutions. Unfortunately, there appears to be little public appreciation of the seriousness of these inequities. However, I do not believe that the existing inequities can continue. For this reason, I announced in my October budget an amendment to correct one of the most serious deficiencies of the existing act—the shifting of otherwise taxable activities, sometimes referred to as marginal manufacturing activities, beyond the tax point.

I have received certain representations from the business community on this proposal. While they are generally sympathetic to the need for this change, they would have preferred a comprehensive reform of the sales tax system. I find the emphasis placed on the need for comprehensive reform encouraging. The inclusion of marginal manufacturing in the tax base is an important step in this regard. But I wish to emphasize that this is only a first step and that other inequities and structural deficiencies in the act will have to be dealt with in the near future.

Let me briefly explain what the problem of marginal manufacturing is. Put very simply the value of any operations performed by a manufacturer prior to the sale of the goods, are included in the manufacturer's sale price and hence form part of the base for the federal sales tax purposes. This includes such operations as assembling and packaging. When these operations are performed beyond the tax point, however, by a person who is not the licensed manufacturer of the goods, the value added through these functions escapes the tax. This is clearly inequitable, as one person is required to pay tax on a series of specific operations as part of a manufacturing process while no tax liability is imposed on another person who performs essentially the same operations.

A second less obvious but perhaps more important fact is that the incidence of tax avoidance through marginal manufacturing is most prevalent in the case of imported goods. In fact, from the information and submissions which I have received, it would appear to be confined almost exclusively to imported goods. Importers frequently import goods in unassembled and unpackaged form, pay tax on them at the point of importation on relatively low values, and escape tax on packaging and assembling operations subsequently performed in Canada.