

*The Budget—Hon. Michael Wilson*

To further address this concern, I am moving the point at which sales tax is applied on a number of specific commodities from the manufacturer's level to the wholesale level. The goods affected include microwave ovens, televisions, video recorders, snack foods, candy and confectionery, and pet foods. These changes will ensure a fairer application of the sales tax to both domestic and foreign products and thus reduce the bias favouring imports under the current system.

• (1710)

These actions are in line with our commitment to bring greater equity to the federal tax system.

## TAX REFORM

Comprehensive tax reform presents one of the most promising opportunities we have to strengthen our economy and improve the quality of our society.

A fairer and more effective tax system will complement and reinforce economic opportunities for individual Canadians. Tax reform will inaugurate a new era of tax fairness, permitting us to rely less on personal income taxes and provide improved benefits for low-income Canadians. It will play a crucial role in stimulating investment, encouraging dynamic business activity, job creation and economic growth. It will give Canadians greater assurance that revenue goals will be met, and met fairly.

Last October I set out the Government's guidelines for reforming the tax system. I am developing an integrated proposal for tax reform in all three areas of our tax system: personal, corporate and federal sales tax. I have benefited greatly from the views I have received from individuals and corporations, from labour unions and business associations, from women's groups, from the voluntary sector, from provincial governments and Members of Parliament.

[*Translation*]

The central objective of tax reform is to reduce tax rates. There can be no better incentive for growth, investment, savings and job creation. Lower income tax rates will allow all Canadians to keep more of each additional dollar they earn to spend, save or invest as they choose.

[*English*]

To get tax rates down, we must reduce tax preferences and broaden the tax base. A wide range of specific tax preferences, of primary benefit to corporations and upper-income earners, would be eliminated, reduced or modified right across the system.

What tax reform would mean for taxpayers is that those who have been making extensive use of tax preferences will pay more tax. Those who have been making little use of preferences will pay less tax. The large majority of individual taxpayers will pay less tax in total.

[*Translation*]

## PERSONAL INCOME TAX

I aim to achieve substantially lower personal income tax rates and significantly fewer tax brackets.

[*English*]

I am also considering the conversion of personal exemptions and some deductions to tax credits. Exemptions favour those in higher income brackets. A tax credit, on the other hand, provides the same dollar benefit to taxpayers regardless of their income level. With a system of tax credits, lower-income taxpayers would receive greater benefit than they do now, while those at higher income levels would receive less.

In my last Budget, I announced the Government's intention to propose further measures to reform our system of social transfers and related tax provisions. Converting exemptions into appropriate credits would represent a major step toward fulfilling this commitment. It would also reduce the number of low-income individuals who now pay personal income tax.

I am also examining ways in which I can build on the existing refundable sales tax credit that I introduced in my last Budget. By increasing the credit and paying it more frequently we can make our personal tax system more progressive.

[*Translation*]

## CORPORATE INCOME TAX

Our fundamental strategy in reviewing the corporate income tax is to ensure that profitable corporations pay their fair share.

[*English*]

I have been seriously concerned about tax loss trading. It has made our corporate tax revenues uncertain. It has led to profitable corporations not paying tax. To preserve respect for the tax system, we must further reduce the source of the problem by cutting back special corporate tax write-offs. This is the direction I set out in May 1985 and acted on last February.

Cutting back corporate preferences would balance the reduction of corporate tax rates to levels competitive with those in other countries, while providing increased and more stable corporate tax revenues.

## FEDERAL SALES TAX

The federal sales tax is unfair and inefficient. It is a silent killer of jobs. It levies a higher tax on average, one-third higher on domestic manufacturers than on competing imports. This leads to plant closures and lost Canadian jobs. The base is narrow and similar goods can have very different burdens of tax. The sales tax is coming under increasing pressure and reform is increasingly urgent.

We will aim to broaden the base and lower the rates, and ensure equal treatment of imports and domestic goods. Building on the existing sales tax credit would improve the fairness of our system.