

that this is neither equitable nor efficient. As we have already indicated, one major source of tax-sheltering – holdings of tax-exempt securities – is being phased out. The White Paper proposals to restrict tax avoidance and deferrals, most of which we support, will have the effect of further increasing the taxes paid by financial institutions. Our own proposal concerning the tax treatment of doubtful debts, which would virtually eliminate deductions for anticipated losses, would also increase the tax liabilities of financial firms. We believe that all these measures, taken together, will bring about a situation in which the effective tax rates on financial institutions are not materially different from those of other business sectors. Should this turn out not to be so, alternative means of bringing this about, including the implementation of a minimum corporate tax, should be considered.

Changes to Sales and Excise Taxes

6.87 The numerous faults in the current federal sales tax, commonly known as the manufacturers' sales tax, have been well documented and are acknowledged by the Government in the White Paper. These flaws include: application to a too narrow base; distortion of production and distribution decisions; widely different effective tax rates producing a varying effect on prices of commodities; inclusion of the tax on business inputs disadvantaging exports; preferential treatment to imports which are not taxed on distribution and marketing costs; the regressivity of the tax; the complexity of the tax imposing high compliance and administrative costs; and the instability of the tax base due to increasing court challenges by taxpayers.

6.88 To correct for these deficiencies, the Government proposes to introduce a form of broadly-based multi-stage sales tax in Stage Two of tax reform. In the meantime, the Government is proposing to make the following alterations to the present federal sales and excise tax systems:

1. The federal sales tax will apply to sales by marketing companies related to a manufacturer or to a foreign exporter.
2. For a range of products, the federal sales tax will be shifted from the manufacturers' level to the wholesale level.
3. Sales tax at a rate of ten percent will apply to telecommunication services, such as telephone and telex services, but will not include charges for local residential telephone lines. The sales tax on cable and pay television