*Excise Tax Act*

materials has been extended to apply to insulation materials, heat pumps and solar furnaces.

The sales tax is normally levied on the manufacturer's sale price in the case of domestically produced goods and on the duty paid value of imported goods. However, in the case of certain domestically produced construction goods, special provisions allowed manufacturers to pay taxes on the costs of raw materials used in producing the goods rather than on the sale prices. These provisions were introduced in 1963, more than 20 years ago, following the imposition of sales tax on construction materials. The measure was initially intended to address a disparity affecting concrete basements but was later expanded to cover certain metal and wooden structural products and precast concrete shapes. It also applied to ready-mix concrete.

Recent reviews of the relative burdens upon concrete, steel and wooden prefabricated products indicate, however, that the provisions available for these classes of goods actually cause competing products to bear significantly different tax burdens. Furthermore, there were disparities between those goods and other manufactured building products such as windows, doors, shingles, et cetera.

Extensive research into the issue concluded that the only fair way to tax construction goods was to impose the tax on all building components calculated on their sale price at the time of shipment by the manufacturer to the job site. The federal sales tax does not apply to the sale price of erected buildings but rather applies only to the components which are delivered to the job site for erection or incorporation into the structure.

Second, the Bill implements an element of the Government's deficit reduction strategy by increasing the rate of federal sales tax. The rate of federal sales tax will be increased by 1 percentage point effective January 1, 1986. The new rates will be 7 per cent on construction materials and cable and pay-television services, 14 per cent on alcoholic beverages and tobacco products and 11 per cent on other taxable goods.

The excise tax on gasoline and aviation fuels will be increased by 2 cents per litre and a new excise tax of 2 cents per litre has been imposed on diesel fuel and aviation fuel effective Septembre 3, 1985. These excise taxes will be increased by an additional 1 per cent per litre effective January 1, 1987. It is important to note that the latter relates to the indexation of pensions for senior residents.

Offset against these increases are the tax cuts which flow from the elimination of the Canadian Ownership Special Charge and the Oil Import Charge. The first of these substantially offsets the fiscal impact of the motive funds taxe increase while the latter is a reflection of oil price de-control.

Third, the Bill implements the campaign promise to end the automatic indexation of alcohol and tobacco taxation. In past years, these levies have been increased automatically each year on September 1. Initially the rate changes were made according to changes in the alcoholic and tobacco products subcomponents of the Consumer Price Index but following complaints from the industry and following a joint government-industry

study, the indexing system was adjusted to track the full Consumer Price Index. This Government believes that automatically increasing the levies on alcohol and tobacco products in accordance with a rigid formula is not appropriate. Rather, such changes in tax rates should be considered and approved by Parliament. Thus, this Bill will eliminate the provisions in the Excise Tax Act and the Excise Act which automatically index these levies.

● (1620)

In place of the past system of automatic indexing, this Bill will implement modest increases in the excise levies on alcoholic beverages and a substantial increase in the levies on tobacco products. Effective May 24, the excise taxes on wines and the excise duties on beer and distilled spirits will be increased by 2 per cent. This is approximately half the size of the increase which would otherwise have occurred in the levies on these products under the automatic indexing system.

The taxes on cigarettes are being increased by 25 cents per package of 25 effective May 23, 1985. This is a substantial increase, but the serious health hazards associated with these products, the costs to society in general of smoking, and the need to raise significant amounts of new revenues, led to the conclusion that such an increase is approximate at this time.

The Bill also repeals—and I am delighted the Hon. Member for Ottawa Centre (Mr. Cassidy) is present—the constraints on persons who make home-brewed beer for non-commercial use for themselves and their friends. I believe the Hon. Member for Ottawa Centre has raised this question in the House previously.

**Mr. Cassidy:** It's the one enlightening thing this Government has done.

**Mr. Tupper:** Home-brewers of beer will now be treated in a similar way to persons who produce wine for personal consumption.

Finally, the Bill introduces a comprehensive system of assessments, objections and appeals into the Excise Tax Act. This system is similar to the current system under the Income Tax Act and incorporates the recent improvements to that statute in the areas of search and seizure and the "presumption of innocence" which defers collection action until the taxpayer has had an opportunity to resolve any disputes arising with respect to his tax liability.

While addressing the inequities in the tax system is always an important objective, I want to emphasize the twin goals of the Budget again, namely to bring the deficit under control and to achieve economic renewal. With revenues covering less than two thirds of our outlays last year, with a national debt approaching $200 billion and growing rapidly, and with annual interest charges of $25.5 billion, it is essential to get our financial affairs in order.

This Bill contains, as the Minister noted last Thursday, many tough measures, including the repeal of certain sales tax exemptions and increases in the rates of tax, in addition to the