

tion? I would suggest that this is a requirement that the Banking, Trade and Commerce Committee might well enquire about, and give special consideration to, when they are considering this bill.

By clause 7 of the bill, which amends section 27 of the act, it is proposed to change the current 12 per cent ad-valorem sales tax levy on gasoline and diesel fuel to a specific levy per gallon which varies from 4.618 cents per gallon for diesel fuel to a high of 5.507 cents per gallon for grade one gasoline. The specific levies imposed by this amendment are identical to the levies imposed by Revenue Canada as a result of the new authorized values for tax which became effective March 2, 1977.

The Excise Tax Act currently imposes sales tax as a percentage of the sale price without reference to the trade level at which goods are sold. Refiners of petroleum products regularly sell products to each other at nominal values representing little more than bare manufacturing costs to utilize production capacity and minimize distribution costs.

Under the law as it is presently written, these inter-company sales could constitute the tax point for the exchanged product, and all of the subsequent marketing and distribution value added would escape the tax. Thus, for the refiners' own product sold directly to retailers, the tax would be on the price charged to the retailer while for the jobbed product a much lower value for tax would apply.

To eliminate this anomaly, Revenue Canada has made an agreement with most of the oil companies to accept tax on an average price, although this average tended to be favourable to the industry to obtain their agreement. Simply stated, these values are weighted averages of the volumes of the product sold to four classes of customers which are: First, service stations which sell the company's name brands and which may be company-operated or independently operated; secondly, independent resellers who sell private brands; thirdly, large commercial or industrial users such as transportation companies; and fourthly, other refiners. As prices increase—for example, when the price of oil is adjusted—Revenue Canada conducts a survey and, based on their findings, amends the industry values.

A further complexity arises from the fact that markets must be found for excess production. In times of excess supply, the oil companies regularly dispose of excess products to private brand operators at depressed prices which are lower than those charged to their own franchised outlets. Before the average price arrangement referred to above was introduced, the complaint was made that the private brander had an advantage over the franchised retailer because he enjoyed a better price, and a further advantage because that preferred price attracted a smaller amount of tax per gallon. Thus, one of the pluses credited to the average price arrangement was that it caused a gallon of product to bear a specific amount of tax irrespective of the value at which it was sold to retailers.

However, at the time the average price arrangement was introduced, there was a reluctance to formally amend the law

to provide for a specific tax, on the premise that a specific levy would not be automatically responsive to inflation.

The present system has certain flaws which are:

(1) in practice it is a pseudo-specific tax albeit based loosely upon a weighted historical average of sale prices at several different trade levels;

(2) its periodic revisions are viewed by the public as tax increases rather than adjustments to reflect price increases notwithstanding the government's previous reluctance to formalize it that way in the law;

(3) it has no basis in law and continues to operate only with the acquiescence of the industry; and

(4) one oil company has voiced its mounting objection to the arrangement and there is concern on the part of Revenue Canada that the current agreement with the industry may break down at any time. If this did happen, and the industry commenced accounting for tax on inter-refinery transfer values, a revenue loss of \$40 million to \$50 million would occur.

The main advantage to the taxpayer in the proposed amendment is that the tax on gasoline and diesel fuel will not be increased upwards proportionately every time there is an increase in the price of these fuels. This tax is, in effect, frozen at the proposed level per gallon, and will not be increased by government arrangements with the oil industry every six months or so when fuel prices are increased. The only way this specific tax per gallon will be increased is through the budgetary process with the approval of Parliament.

By clause 8 of the bill, which amends section 29 of the act, sales tax relief is provided for the retail industry and, in particular, small retailers who, as a result of metric conversion, have to purchase new metric scales. The effect of the amendment is that the rate of tax on these scales is 6 per cent. The 100 kilogram limit was selected as it was felt that this was sufficiently high for most scales normally used in retail operations to qualify for the relief. The relief is extended only to the retailers because, for them, the long-term benefits of metric conversion are not expected to exceed the short-term costs. The relief will apply until July 1, 1981. It is expected that by the end of this period, conversion to the metric system of measure will be complete.

By clauses 9 and 10 of the bill, which amend subsections 31(2) and 40(2) of the act, the requirement is removed that in order to qualify for the small manufacturer provision a person must sell his goods exclusively by retail—that is, to the ultimate users.

This amendment is complementary to the announcement by the Minister of National Revenue that the regulation prescribing "small manufacturers" under the Excise Tax Act will be amended to increase the annual sales value to \$10,000 from the present \$3,000. Persons who manufacture goods, for sale or for their own use, valued at \$10,000 or less annually, will no longer have to be licensed, or have to account for sales and excise tax. Furthermore, the Minister of National Revenue has also announced that certain Canadian craftsmen will be classi-