

*Statements by Ministers*

The present tax is fundamentally flawed. It is a hidden, arbitrary and capricious tax.

Many Canadians are unaware of this tax because it is normally applied when a product is manufactured and is hidden in the price of goods which are eventually sold to consumers. By the time it reaches the consumer, a dollar of tax paid by a manufacturer can raise the price to the consumer by a lot more than a dollar. And the purchaser does not know by how much.

The existing sales tax hurts our economy. It puts more tax on Canadian-made goods than it does on competing imported goods. It puts a hidden tax on our exports that makes them less competitive. That does not make much sense for a country that trades as much as we do in tough, competitive, world markets. That extra tax penalty is costing us jobs and creating them in other countries.

[English]

These problems with the sales tax are not new. They have been known for 40 years. They have been growing worse. What has been lacking has been the political will to fix them. It is time to get on with the job.

The existing sales tax will be replaced by a new sales tax that will apply to a much broader base. The result will be a lower tax rate and a fairer system.

Sales tax reform will eliminate the hidden tax in the prices consumers pay. It will remove the tax burden on exports and will treat our domestic producers on the same basis as their foreign competitors. It will make us more competitive in world markets and will enhance our trade initiatives.

The new sales tax will be fairer for low- and middle-income Canadians. It will be accompanied by important changes in the personal income tax system to achieve this goal. The most important of these will be to substantially increase the refundable sales tax credit introduced by the government in 1986 and to extend this credit to many more Canadians.

The new sales tax credit will be paid regularly and in advance.

The level of the credit and the income threshold for eligibility will be established to more than offset the impact of the new sales tax on low-income Canadians. In addition to the credit, when the new sales tax is introduced, the personal and corporate income surtaxes will be removed and there will be further income tax cuts for middle-income taxpayers. These measures will make the combined personal income and sales tax systems, after tax reform, more progressive than they now are.

Compensation will be provided to small businesses to help offset the cost of complying with the new system.

The Government is considering three alternative forms for the new sales tax. One is a National Sales Tax which would replace both the present federal sales tax and provincial retail sales taxes with one national system. Two federal-only sales

taxes are also being considered: a Goods and Services Tax and a Value-Added Tax.

The discussion about which of these forms to implement will have a direct bearing on three important decisions that remain to be made: the level of the tax rate, the scope of the tax base and the design of the sales tax credit.

The new sales tax must raise enough revenue to replace the existing sales tax and provide for additional income tax cuts and the enriched credit.

Decisions about the tax rate and the design of the tax credit will depend on how broad the tax base is. The decisions are closely linked. A broader tax base would result in a lower tax rate for everyone and require a bigger tax credit for those who need it. With a narrower tax base, involving exemptions for such things as food and clothing, the tax rate would be higher on the remaining items and the tax credit could be smaller.

The Government is committed to sales tax reform. It will proceed after consultation with provincial governments and other interested Canadians.

## FISCAL RESPONSIBILITY

Responsible tax reform must be fiscally responsible. Our progress in reducing the deficit is essential to our success in reducing interest rates, increasing growth and lowering unemployment.

Sales tax reform will follow the reforms to our personal and corporate tax systems. In the interim, we must make the existing sales tax more reliable. We must deal with its worst competitive distortions. And we must raise more revenue, in conjunction with corporate income tax increases, to help fund the personal income tax cuts.

I am proposing a number of changes to the existing sales tax, effective January 1, 1988.

To reduce competitive distortions and protect against avoidance, the tax will be applied to marketing companies which do not operate at arm's-length with a manufacturer. It will also be moved to the wholesale level for a limited range of products.

To raise revenue, the tax will be extended to most telecommunications services at a rate of 10 per cent. The charges for basic residential telephone service will be exempt from tax.

To further protect lower-income Canadians from the impact of these changes, the existing refundable sales tax credit will be increased from \$50 to \$70 for adults, and from \$25 to \$35 for children.

● (2040)

Finally, in order to improve cash management and to offset some of the transitional revenue effects of tax reform, I am proposing to accelerate the payment of sales and excise taxes, effective April, 1988. The remittance of personal income taxes deducted at source will be further accelerated, effective January, 1990.