**6.1 The Committee consequently recommends that fuel rebates should be maintained at a level to cover all increases in federal sales and excise taxes.**

**6.2 The Committee further believes that these rebates should be extended beyond December 1987 until economic conditions in the farm sector improve.**

Some farmers have been hurt by a tax measure relating to the fuel rebates introduced in the February 1987 budget. The budget withdrew the provision which entitled wholesalers to hold tax-free inventories and to pay the tax on their sales at the end of the month following that in which the sale was made. As of March 1, 1987 the wholesale distributors must pay the tax at the time of purchase if from a domestic supplier or, in the case of imported fuel, when the product enters Canada. The immediate impact of the budget measure was to convert distributors' inventories to a tax-paid status and to require that future product purchases by distributors be made on a tax-paid basis. This squeezes the cashflow of the wholesalers and increases their credit needs. The major oil companies, who as refiners maintain their tax collection licences, gain a competitive advantage versus the independents.

Those distributors selling to farmers are issued registered vendor permits to permit them to extend the fuel tax rebate to those purchasers. Formerly, wholesalers submitted an audited statement once a month for sales to farmers who were entitled to a rebate. Wholesalers who elect to continue to make tax-exempt sales to farmers with bulk permits will now have to apply for a refund of tax already paid on such sales. This does not appear to change the procedures for farmers with bulk permits since they will continue to enjoy tax-exempt sales. Other farmers who customarily buy their fuel without permits designating them as farm purchasers will continue to apply for the rebate in the same manner as before.

Revenue Canada stated on May 25, 1987 before the House of Commons Standing Committee on Finance and Economic Affairs that it now takes about 11 days to process an application for a rebate. This is down from the previous average of 20 days, but the wait still represents a squeeze on cashflow for the independent fuel distributors.

The budget change revoking the tax collection licences of all independent distributors was made to curb the growing problem of motor fuel tax evasion. Revenue Canada claimed that alternatives such as special bonding arrangements were studied, but rejected as too complicated and less effective than revoking all licences. Evidence before the Finance and Economic Affairs Committee, however, suggests that the budget measure was too broad: it hurt all the honest distributors while trying to stop the activities of the few engaged in tax evasion. It also may harm the average consumer of motor fuel by leading to higher prices. What is perhaps most unsettling is that the broad measure does not get at many types of tax evasion; even with no licences for distributors, it is possible for a tanker of gasoline to be misrepresented at the border as solvent or heating fuel and evade taxes on motor fuel.

Independent distributors, who represent about 15% of the market for motor fuel, play an important role in keeping the gasoline market competitive and prices low for farmers. Serious cashflow difficulties could discourage these independents from importing product, thereby reducing competition facing the Canadian majors. The Committee believes the impact of the new tax measure on wholesalers should be monitored as should Revenue Canada's performance in making rebates.

**6.3 The Committee therefore recommends that Revenue Canada work to continue improving its performance in remitting fuel rebates.**