markedly from the pattern of relative costs of the different items that ought to guide consumer choices.

An additional complication with the present FST system arises from the fact that the economy is not neatly divided into manufacturing, wholesale and retail sectors, with goods flowing smoothly through each sector before reaching final users. A large portion of manufactured goods today is sold directly by manufacturers to retailers or end users. In this light, a strict application of the requirement that the tax be imposed on the "selling price" of the manufacturer would create serious inequities: sales made directly to retailers or final consumers would be taxed on a much higher base than sales of the same product to wholesalers. To prevent this from happening, Revenue Canada allows manufacturers to establish discount "notional values" on which the FST is levied. While these arrangements have helped to make the system fairer, they are far from a fully satisfactory solution to the inequities inherent in a manufacturers' form of tax. The notional values are largely arbitrary and difficult to monitor. In addition, they lack legal sanction and, hence, are not subject to judicial review. They are the result of private, confidential arrangements, so that a manufacturer may be taxed at a different rate from his competitors and not even be aware of it.

Also, as the 1975 Green Paper on sales and excise taxation pointed out, since "notional values" always involve discounts from actual selling prices, "they are ineffective when removal of competitive distortions would require an increase in the taxable value of certain goods."(1)

This is often the case with imports, because marketing, warranty, and distribution costs, which are normally included in the taxable value of domestically produced goods, are usually not included in the duty-paid value on which the FST on imports is levied. As a result, the effective tax on imports is lower than on domestic products. The difference is considerable. According to the 1984 survey already cited, on average the effective tax rate on domestic products is one-third higher than on competing imports.

C) Taxation of Business Inputs

Approximately one-half of total revenues from the FST is derived from business inputs. Since these business inputs are used in the production of both taxable and tax exempt commodities, the latter also bear the tax. According to estimates by the Department of Finance, food, though statutorily tax-exempt, is in fact taxed at an effective rate of 1.6% owing to the FST embedded in commodities used in food production. More generally, goods produced by taxed inputs may be taxed again, resulting in tax cascading, or compounding of tax on tax. The resulting tax burden on finished consumer products is consequently both arbitrary and unknown.

As well, the tax on business inputs amounts to a serious handicap for Canadian exporters. Although GATT regulations do permit remission of indirect taxes paid on goods that are exported, full offset of the FST is difficult because of the difficulty of accurately calculating the FST content in the price of exports. On average, the FST content in exports is