

ACKNOWLEDGEMENT

The Finance Committee first became involved in value-added taxes when it became apparent that the government was considering such a tax proposal in the latter part of 1986 and in early 1987. On June 17, 1987 the government produced its White Paper on Tax Reform which was separated into two parts. The first part dealt with tax reform of the income tax system and the second part dealt with tax reform of the commodity tax system proposing a value-added tax.

It was the intention of the government to create a national sales tax on a value-added tax base and the White Paper report dealt with the possibilities and the base for such a tax.

The Finance Committee completed a study on Part I of the tax reform and made its report in the fall of 1987.

After completing this report the Finance Committee did preliminary work in connection with Part II of the suggested tax reform and, in the process, travelled to New Zealand and examined the Goods and Services Tax as it exists in that country.

The Finance Committee report on the goods and services tax was tabled with the House of Commons on March 16, 1988. In that reports the Finance Committee recommended the following:

1. That in their discussions on sales tax reform, federal and provincial governments give consideration to the New Zealand experience. This experience indicates that the most efficient form of a value-added national sales tax is one which has a comprehensive base with as few exemptions as possible. The Committee makes no recommendations with respect to taxing such necessities as food. The Committee recommends, however, that if necessities are taxed, it should be only on condition that low and lower-middle income groups are fully and immediately compensated for the incremental burden they bear, and that such compensation is fully indexed.
2. That in its discussions with the provinces about sales tax reform and about the taxation of government operations the government give the highest priority to minimizing compliance cost for Canadian businesses collecting sales taxes.
3. That the government, given that financial transactions should not be treated exactly like other transactions, take special care in developing simple, practical rules for the application of the tax to financial transactions and institutions.
4. That, if the government proceeds with the tax, it establish a private sector advisory committee to develop practical rules for the new tax and to publicise the details of the new tax and the relevant social policy transfers."