

TABLE OF CONTENTS

Acknowledgement ..... iii

List of Resolutions and Recommendations ..... 1

**PART A -- APPROACHES TO SALES TAX REFORM**

1. The Need for Sales Tax Reform ..... 15

    A) Narrow Base ..... 16

    B) Wide Variation in Effective Tax Rates ..... 16

    C) Taxation of Business Income ..... 17

    D) Unreliable Source ..... 18

2. Alternatives to the Existing Federal Sales Tax ..... 19

    A) Income vs. Consumption Taxes ..... 19

    B) RST vs. VAT ..... 22

3. Administrative Issues ..... 25

    A) A National Sales Tax ..... 25

    B) A Joint Agency to Collect Sales Tax ..... 29

    C) The "Tax on Tax" Issue ..... 30

**The Standing Committee on Finance**

has the honour to present its

**SECOND REPORT**

In accordance with its mandate under Standing Order 108(2), your Committee has examined the Technical Paper on the Goods and Services Tax issued by the Minister of Finance on Tuesday, August 8, 1989 and agreed to report the following:

1. Policy Objectives ..... 33

    A) Broadening the Tax Base ..... 33

    B) Simplifying the Tax System ..... 34

    C) Improving the Administration of the Tax ..... 34

2. Alternative GST Options ..... 45

    A) Full Rate ..... 45

    B) Partially Exempt ..... 49

    C) Exempt with Input Tax Credit ..... 58

3. GST Credits ..... 59

    A) The Input Tax Credit ..... 59

    B) Input Tax Credits ..... 64

    C) Exemption ..... 67

    D) Credit Method ..... 68

**PART C -- THE DESIGN OF THE GST**

1. Overview of the GST ..... 69

2. Basic Operation ..... 71

    A) General ..... 71