

*Excise Tax Act*

if one has loads of paper work to deal with a few dollars of remittance to the Government on some sales tax item. It was a necessary part of the job, it did not make sense, and I am glad to see that there is some sensitivity on this issue from the Government.

We also see a little sensitivity from the Government regarding the fine arts. As a relieving measure in this Bill there is an exemption for original prints from the application of federal sales tax.

Let us look at the Government's philosophy in terms of tax. Bill C-117 is a Bill to amend the Excise Tax Act and the Excise Act. It is legislation coming out of the February 10, 1988 Budget. In light of tax reform, the Minister of Finance has missed the opportunity to introduce real tax reform. I think that my colleague, the chairman of the finance committee, will say a hearty "hear, hear" when I make this statement. We all recognize that, in essence, the Minister has flubbed when it comes to tax reform.

In other jurisdictions that have implemented tax reform it has been done as one complete package coming into effect on one day. When there was an increase in the sales tax and people saw the price of goods and services increasing, on the same day they also saw a reduction in their income tax, and low income people saw an increase in family benefits. All of this was done in one day in one complete package with most of the middle and lower income people benefiting from such measures. Certainly, we do not see this today in Bill C-117 and the Government's attempt at tax reform. It has reduced marginal rates. But what it has given with one hand it has taken back tenfold with the other hand. There is an increase in taxes of \$22 billion and a rebate to the average taxpayer of \$2.2 billion. That is a clumsy way of playing a shell game, something that I do not think average Canadians will be fooled by.

Since most of the tax reform proposals dealing with sales and excise taxes are proposed in stage two of tax reform, what is not in the Bill is more interesting than what is in it. It is obvious, by delaying stage two of tax reform, which is not expected until after an election, the Minister and the Conservative Government are content in sustaining a deeply flawed, unfair, and inequitable system of federal sales tax and excise tax.

Since the 1984 election the Conservative sales and excise tax revenues have escalated dramatically. It is clear that the Government is increasingly relying on the regressive sales and excise taxes to finance federal expenditures. The more the Government does this, the more difficult it will be to revise it.

The theory and implementation of federal sales tax is quite straightforward. The underlying principle of the tax is that it should apply only once in the distribution of the goods from producer to the consumer. Manufacturers are given licences which allow them to buy goods tax free. When the manufactured products are sold to non-licensed firms such as wholesalers they then become subject to tax. This method of

licensing manufacturers is designed to avoid the problem of multiple taxation.

Canada is the only remaining major industrial country with a sales tax at the manufacturers' level. Canada now collects more revenue from those goods and service taxes, 35 per cent of our total revenues, than most OECD countries where the average is 29 per cent.

In the six decades since its inception, a wide array of variable rates and exemptions have been developed to reduce the inherent regressivity of such a tax. The system is so skewed that in 1981, six commodities accounted for 61 per cent of total federal sales tax revenue, three of which, motive fuels, alcohol, and tobacco were also subject to excise taxes.

Excise taxes which are levied under the Excise Tax Act are usually *ad valorem* taxes levied as a percentage of the manufacturers' selling prices, similar to the federal sales tax. They were originally designed to apply to luxury or non-essential goods. Excise taxes now are levied on goods such as alcohol, tobacco, jewellery, matches, lighters, coin-operated games or amusement devices, motive fuels, air travel, playing cards, radio and television programming services, automobiles, et cetera. Excise taxes apply to both domestically produced goods and imports. The excise duties are usually applied at a fixed rate for a given quantity of goods. Excise duties are only levied on alcohol and tobacco products. These sumptuary taxes are designed specifically to reduce consumption of what are considered to be harmful products, like the working man's beer.

The degree to which the Conservatives have decided to emphasize these regressive, hidden commodity taxes in their deficit reduction plans has become one of the hallmarks of this administration. Amid the controversies surrounding the capital gains tax exemption, the partial deindexing of marginal tax brackets, pensions, and family allowances, those commodity tax increases have gone forward virtually unnoticed.

There are some major problems with the current system. First, there is the difference in sales tax burden. The federal sales tax is levied on the manufacturer's selling price. However, the selling price may vary for the same product depending upon whether the manufacturer sells it to a wholesaler or to a retailer. Selling to a retailer brings with it a higher relative tax burden. When the manufacturer sells his or her products to a retail outlet, a higher cost will be incurred than if the product is sold to the retailer directly.

In 1977 it was estimated that fully 44 per cent of taxable manufacturers' sales went directly to retailers. To reduce this discrimination there is now an extensive list of what are called notional values, which are used to discount the price at which a manufacturer sells a product to a retailer to the price that would have been paid by a wholesaler. We can see the arbitrariness of the sales tax system.

Another problem is the taxation of production goods. When purchasing intermediate goods to be used in the production