

1.11 The broadest possible multi-stage or value-added tax, exempting only non-commercial items such as medical insurance payments, would generate roughly \$3 billion of revenues for each point of the tax. For illustrative purposes, Finance uses an eight percent rate which would generate revenues of roughly \$24 billion. With these revenues, the second stage proposes to accomplish four objectives:

- to replace the revenues now obtained from the MST;
- to remove the existing three percent personal and corporate tax surcharges;
- to provide significantly enriched refundable tax credits that would ensure a greater degree of tax fairness for low-income Canadians; and
- to fund further income tax reductions for middle-income Canadians.

Thus, Stage Two represents a considerable shift away from taxing income and toward taxing consumption. For example, the existing surtaxes on federal personal and corporate taxation amount to just under \$2 billion of revenue. However, there is no specific timetable set out for the inauguration of the second phase.

1.12 While this brief summary has touched upon only selected highlights of the reform proposals, it is sufficient to provide the needed background information for the analysis that follows.