

6.98 25. We recommend that the proposal with respect to the application of the federal sales tax to related marketing companies not proceed.

- *Changes in Trade Level for Imposition of Federal Sales Tax*

6.99 In the White Paper, the Government proposes to shift the application of the existing federal sales tax to the wholesale level for: household chemicals; pet litter; games, toys and sporting goods and equipment; and records, audio and video tapes and discs and related accessories.

6.100 The Committee is aware that there may be some problems in levying this tax at the wholesale level. However, given the Government's revenue needs, the Committee supports the imposition of the federal sales tax at the wholesale level for the products specified in the White Paper.

- *Tax on Telecommunication Services*

6.101 The White Paper proposes that a ten percent sales tax be imposed on telecommunication services with the basic line charge for local residential telephone service exempted. Although the original proposal applied to the residential touch-tone feature, the Government has since announced that the tax will not apply to rural mileage charges or charges for touch-tone service and custom-calling features such as speed-dialing and call-forwarding.

6.102 It is also proposed that the rate of tax applied to cable and pay television services be increased from eight to ten percent.

6.103 The Committee notes that a major drawback of imposing the telecommunication services tax is that it will become embedded in the cost of business inputs. When other taxes, both federal and provincial, are applied to this tax base, the result will be tax cascading. This compounds the present sales tax system's distortions and biases against domestically produced goods compared with imports and also harms Canadian exports.

6.104 26. We recommend that the Government proceed with legislation to impose a tax on telecommunication services but that such legislation specify that the ten percent tax be withdrawn upon implementation of a multi-stage sales tax levied on a broad range of goods and services including telecommunication services.