THE SENATE OF CANADA LE SÉNAT DU CANADA

Bill C-62,

An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act

Thirteenth Report

Standing Senate Committee on Banking, Trade and Commerce

Honourable Sidney L. Buckwold
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MEMBERSHIP OF THE COMMITTEE

- • The Honourable Sidney L. Buckwold, *Chairman*
- • The Honourable Jean-Marie Poitras, *Deputy Chairman*

and

The Honourable Senators:

Cools, Anne C.
David, Paul
Hastings, Earl A.
Kelly, William M.
• Kirby, Michael
* MacEachen, Allan J., P.C.
(or Frith, Royce)
* Murray, Lowell, P.C.
(or Doody, C. William)
Nurgitz, Nathan
Olson, H.A. (Bud), P.C.
Perrault, Raymond J., P.C.
Simard, Jean-Maurice
Thériault, L. Norbert

* *ex officio* Members

• Members, Subcommittee on Agenda and Procedure

Note: The Honourable Senators Adams, Anderson, Austin, P.C., Balfour, Barootes, Beaudoin, Bolduc, Bonnell, Bosa, Cochrane, Corbin, De Bané, P.C., Doyle, Fairbairn, Flynn, P.C., Gigantes, Graham, Guay, P.C., Haidasz, P.C., Hays, Hébert, Kenny, Kolber, Leblanc (*Saurel*), Lefebvre, Lewis, Lucier, MacDonald (*Halifax*), MacQuarrie, Marsden, Ottenheimer, Phillips, Rizzuto, Robertson, Rossiter, Spivak, Steuart (*Prince Albert - Duck Lake*) and Stollery also served on the Committee at various stages during the course of this study.

Research Staff:

Mr. Marion Wrobel, Senior Analyst, Research Branch, Library of Parliament;
Mr. Anthony Chapman, Research Officer, Economics Division, Research Branch, Library of Parliament;
Ms. Margaret Smith, Research Officer, Law and Government Division, Research Branch, Library of Parliament.

Consultant:

Mr. Bruce C. Flexman, C.A., National Partner-In-Charge, Goods and Services Tax, Peat Marwick Thorne.

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From the Economics Division:

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Mr. Daniel Shaw
Mr. Kevin Kerr
Ms. Heather Plewes
Mr. Jean Caron

From the Law and Government Division:

Mr. Peter Niemczak
Ms. Connie Stanzian
Ms. Silvia Maciunas

Timothy Ross Wilson

Clerk of the Committee

ORDER OF REFERENCE

Extract from the *Minutes of the Proceedings of the Senate*, Thursday, May 3, 1990:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Kelly, seconded by the Honourable Senator Muir, for the second reading of the Bill C-62, An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act.

After debate, and--
The question being put on the motion, it was--
Resolved in the affirmative, on division.

The Bill was then read the second time, on division.

The Honourable Senator Kelly moved, seconded by the Honourable Senator David, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was--
Resolved in the affirmative."

Gordon L. Barnhart

Clerk of the Senate

Wednesday, September 26, 1990

REPORT OF THE COMMITTEE

The Standing Senate Committee on Banking, Trade and Commerce has the honour to present its

Thirteenth Report

Your Committee, to which was referred Bill C-62, An Act to amend the Excise Tax Act, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act, has, in obedience to the Order of Reference of May 3, 1990, examined the said Bill and considers that the Bill should not be proceeded with further in the Senate.

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FOREWORD

In November 1984, the Minister of Finance, the Honourable Michael H. Wilson, issued an economic and fiscal statement in the House of Commons. At that time he also tabled a document entitled "A New Direction For Canada -- An Agenda for Economic Renewal" which spoke of a consultative process with the private sector in order to resolve a number of economic problems. Tax reform was not explicitly mentioned in that document. It did, however discuss the need to encourage business investment, enhance exports and promote economic growth. All of these have subsequently been used as important arguments in favour of tax reform. The document did mention explicitly the need for tax simplification.

This was followed in October 1986 by the Minister's "Guidelines for Tax Reform in Canada". This document listed several features that were to characterize a reformed tax system, including: fairness, simplicity, balance of revenue sources, stability of revenues, etc.

In June 1987 the Minister of Finance tabled in the House of Commons a White Paper on Tax Reform, which included three possibilities for sales tax reform. The first, a National Sales Tax would integrate federal and provincial sales tax systems. If this option were not possible, two alternatives for a federal-only multi-stage sales tax were put forth.

The federal Goods and Services Tax option was viewed as a broadly-based tax with a uniform tax rate. Tax calculations would simply require that the rate be multiplied by the difference between taxable sales and taxable purchases. Separate tax calculations would not be required on each invoice.

The final alternative considered was a federal Value-Added Tax, similar to the systems in place in Europe. Under such a regime, the Government would have flexibility in exempting products and business operators. The calculation of tax liabilities would be based on invoices.

Stage I of tax reform was put in place in the summer of 1988. Stage II of reform is not yet in place. In August 1989, the Department of Finance issued a technical paper which outlined many of the details of the new Goods and Services Tax. The House of Commons Standing Committee on Finance studied this technical paper, issuing a Report in November 1989. The federal government responded on December 19, 1989 with revised proposals.

Bill C-62 was given first reading in the House of Commons on January 24, 1990. It was examined by the House of Commons Standing Committee on Finance which amended the Bill and reported to the House of Commons on March 30, 1990. The Bill was further amended in the House and passed on April 10, 1990.

The Bill was given first reading in the Senate of Canada on April 11, 1990. On May 3, 1990, it received second reading and was referred to this Committee. Three hundred and eighty presentations were made to the Committee in Ottawa and in all ten provinces and two territories during approximately 200 hours of public hearings. This Report represents the conclusions of the Standing Committee on Banking, Trade and Commerce on Bill C-62.

I. PRICE EFFECTS OF THE GST

A. Minimum Estimate

(1) The Government estimates that introduction of the GST would result in a one-time increase in the Consumer Price Index (CPI) of about 1.25%. While several economic "think-tanks" concur with this estimate, it has been criticized on at least two grounds. First, the Government's 1.25% estimate assumes that the savings from removing the current Federal Sales Tax would be fully passed along to consumers. Many groups believe that this assumption is unrealistic and fails to take into account a number of special circumstances including inadequate inventory rebates and regulated or uncompetitive markets.

(2) Second, the Government assumes that organized labour is either naive or is powerless to address a reduction in the purchasing power of its wages. According to the information received by this Committee, members of organized labour are well aware that the GST would reduce their real income and are extremely skeptical about the Government's price estimate. This is already being reflected in new labour contracts that contain GST protection in the form of cost of living allowance clauses and fixed wage increases. To the extent that labour is successful in obtaining further wage hikes because of the GST, this will feed into firms' cost structures and result in higher prices. In the real world, expectations are crucial but there is no indication that the Government has built a wage response into its price impact estimates.

(3) A realistic appraisal came from the Chief Economist of the Conference Board of Canada, Mr. J. G. Frank who told the Committee regarding the Board's own price impact estimate of 1.4% and the Government's 1.25% forecast, "I would say to you, again candidly, that is a lower bound estimate. That is the minumum you can expect, and it goes up from there based on how those two assumptions are at odds with reality."(45:43) These assumptions, full pass-through of FST savings, no wage-price inflationary spiral, are key to the Government's estimates of the price impact of the GST.

B. Removing the FST

(4) In estimating the impact of the GST on the overall price level, it is important to assess how the price of individual goods and services are likely to react. The application of the GST will affect relative prices by raising significantly the price of services and other items that currently bear no direct federal sales tax. The brief received from Informetrica Limited indicated that the GST would raise the price of recreational services by 8.0%, restaurant, hotel and tavern services by 7.4%, natural gas by 7.3%, electricity by 6.8%, women's and children's clothing by 5.9%, footwear by 4.8% and so on.

(5) In order to achieve a small overall price increase from introducing the GST, the prices of other goods currently subject to Federal Sales Tax must fall when that tax is removed. It has been suggested that the price of automobiles, furniture, and household durables that now contain the Federal Sales Tax will decline once this tax is removed. However, for this to happen, manufacturers, wholesalers and retailers will have to lower their prices

to reflect the elimination of this tax. Much of the debate about the price impact of the GST centers on whether firms will actually pass on to consumers the savings from the sales tax reduction or whether they will simply increase their price markups.

(6) The Government's assumption that 100% of the saving from eliminating the current Federal Sales Tax will be passed through to the consumer does not depend on the good graces of business, rather, it is believed that competition will force firms to pass on the cost savings. In competitive markets, firms that attempt to use such an opportunity to increase their profit margins are likely to be undercut in price by their competitors. Michael McCracken suggested to the Committee that there is a significant degree of competition in Canada which has been enhanced recently by the Free Trade Agreement and the appreciation of the Canadian dollar.

(7) However, Mr. McCracken and others also expressed concern that the regulated sectors of the economy including the telephone company, the electric power utilities, the transportation sector and the food sector regulated by marketing boards might not make the appropriate price adjustments immediately. As Mr. McCracken cautioned, "...the CRTC, the National Transportation Agency and the various marketing boards - need to be sensitized to this situation. They need to ensure that, on January 1, someone has done the necessary calculations and provided the information necessary to make the appropriate price adjustments. If they do not do it or if they do it six months after the fact, that could create a problem."(43:9)

(8) Professors Jack Mintz and Thomas Wilson expressed doubts about the extent and speed of the price reductions from removing the current sales tax. In their brief to the Committee they state, "Finance Canada has estimated that the GST will raise prices by about 1.25 percentage points, assuming that competition will force Canadian business to pass on the savings arising from the elimination of the FST. However, no allowance has been made for possible differential short run impacts of sales tax reform on prices in industries which are not highly competitive or which are subject to regulation." (Peter Dungan, Jack A. Mintz and Thomas A. Wilson, "Alternatives to the Goods and Services Tax", August 1990, p. 10)

(9) Other witnesses were skeptical of business passing on the savings from removing the current Federal Sales Tax. The Canadian Union of Public Employees (CUPE) has developed its own estimates of the price impact of the GST based on different assumptions about the degree of pass-through of savings. According to CUPE estimates, if 50% of the FST saving is passed on, the price impact of the GST would be about 2.8% while a 30% pass-through rate would raise prices about 3.4%. CUPE believes that even if organized labour does not attempt to protect their real wages through increased wage demands, "the cost of living impact of the GST can be expected to be in the neighbourhood of three percentage points -- far in excess of Mr. Wilson's estimate of 1.25 percent."

(10) Not only labour groups have expressed skepticism about the reduction in certain prices as the FST is removed. Representatives of the Canadian Home Builders' Association told the House of Commons Standing Committee on Consumer and Corporate Affairs and Government Operations that they expected about two-thirds of the

savings from the MST to be passed through to the consumer. While a number of companies provided that Committee with verbal assurances that they would pass along these savings, some firms indicated their intention to maintain the same absolute dollar markup on merchandise. Maintenance of the same dollar markup on a lower cost implies an increase in the percentage markup. In their report on the GST, the Consumer and Corporate Affairs Committee stated, "We believe that for the consumer to benefit fully from the elimination of the FST, business should not increase their percentage mark-ups after the GST has been implemented, given that operating costs have been reduced." (House of Commons, Consumer and Corporate Affairs and Government Operations, "Living with the GST", June 1990, P.10)

(11) An important consideration in whether firms are able promptly to pass along any savings from the elimination of the current Federal Sales Tax is that the sales tax embedded in inventories be removed. The Government has designed a rebate scheme to compensate firms for Federal Sales Tax paid on inventory purchased prior to the introduction of the GST on 1 January 1991.

(12) The rebate percentages are based on estimates by the Government of the average amount of tax paid by business on various categories of goods. The general rebate of 8.1% covers most types of inventories with the following rebates for particular goods: 11.1% for motor vehicles; 5.6% for building materials; 2.8% for mobile homes and modular building units; 2.5% for small grocery and convenience stores; 1.4% for propane; and a per litre amount for gasoline and diesel fuel to be made public in December.

(13) As the Government has designed these percentages to reflect the average sales tax component in inventories, the rebate provided to some firms will obviously exceed the amount which they actually paid while the compensation to other firms will be less than the tax paid. In general, the tax content in a merchant's inventory is likely to vary according to the trade level and the number of stages in the production chain.

(14) For instance, the sales tax in the inventory of a wholesaler that purchases directly from the manufacturer could amount to 11.9% (13.5/113.5). The proportion of a retailer's inventory accounted for by Federal Sales Tax would tend to be lower reflecting other price markups at the wholesale level. This will also tend to vary according to the price markup on a particular product and the number of trade levels between the manufacturer and the retailer. In addition, inventories held at great distance from the point of importation or manufacture will have a relatively low FST content because transportation costs to the retail market are not directly subject to FST.

(15) Complicating matters still further is the fact that some products are taxed at the wholesale level rather than at the manufacturer's level. While the Government has decided to increase to 11.1% the rebate provided to automobile dealers, this has not been extended to other industries, such as cosmetics, which are also taxed at the wholesale level. The Committee also heard from the Canadian Importers Association, autoparts dealers, building supplies dealers, pleasure craft dealers and a furniture retailer that the 8.1% rebate would fail to fully compensate for the tax content of their inventories.

(16) Only if firms receive a full rebate for the tax paid on their inventory, will they be in a position on January 1, 1991 to reduce their prices to completely reflect the removal of the Federal Sales Tax. Where the rebate is inadequate to compensate firms for the tax content in their existing inventories, they can hardly be expected to reduce their prices fully until the old inventory is sold. Thus, even where firms intend to pass along any savings it may be some time until the expected price reductions on certain goods materialize.

(17) At a cost of $19 million, the Government has established a GST Consumer Information Office (CIO) within the Department of Consumer and Corporate Affairs to monitor the implementation of the GST. Primarily, the CIO's purpose is to provide public information on price increases and decreases as the GST is introduced and the current Federal Sales Tax is removed. However, the CIO can also investigate consumer complaints about firms' pricing practices and inform the public of any irregularities.

(18) A body like the CIO, which has no formal powers to rollback prices, is likely to have little influence on the bahaviour of prices when the GST is introduced. Any power the CIO might have would stem from its ability to exercise moral suasion with companies and trade associations and to inform the public of irregular pricing practices. Even here, its ability to affect prices is limited. Publication of the names of businesses that are believed to be guilty of pricing abuses would leave the CIO open to the risk of legal action for defamation, according to testimony received by the Consumer and Corporate Affairs Committee.

(19) The Consumer and Corporate Affairs Committee also heard that in most cases the amount of FST embedded in the price of a product is virtually impossible to determine. Beyond that, the CIO will only be able to monitor a fraction of the huge number of products on the market. Finally, as already indicated, some firms simply will not be in a position to reduce their prices immediately due to inadequate rebates on existing inventories. Monitoring these firms, or attempting to persuade them to lower their prices, would be adding insult to injury.

C. Labour Demands

(20) The failure of firms to quickly pass through savings from removing the current FST could cause the initial price increase from the GST to exceed the Government's 1.25% estimate. GST-driven wage increases reached in anticipation of the tax could also affect the size of the initial price hike. Whether this "one time" increase escalates into a wage-price inflationary spiral will depend on the results of subsequent wage negotiations and the extent of provision for cost of living allowances. As indicated, organized labour is skeptical of the Government's price forecasts and expects substantially larger price hikes due to the introduction of the GST. These expectations are crucial because they form the basis of labour's wage demands in upcoming negotiations with management. If labour is convinced that the GST will raise prices by, say 3.0%, it will seek wage increases to offset that amount. The labour groups that the Committee heard from appeared to be taking an aggressive stance toward upcoming wage negotiations, not only as a result of the GST, but also because they perceive that past wage increases have not kept pace with inflation.

(21) To the extent that unions are successful in negotiating higher wage settlements in anticipation of the introduction of the GST, this will feed into firms' cost structures and affect the realized price change. However, it is important to distinguish between wage settlements that provide a fixed increase in anticipation of the GST and increases in the form of cost-of-living allowance (COLA) clauses that take effect with a lag. The first type of wage increase has an immediate impact on firms' cost structures. COLA clauses, on the other hand, affect wages with a lag since these calculate wage increases based on the previous period's inflation rate. In this way, the initial price effect of the GST could result in higher wages in subsequent periods that feed into further price increases.

(22) In a forthcoming article in the Canadian Tax Journal, "Alternatives to the Goods and Services Tax", which was presented to the Committee, Professors Peter Dungan, Jack Mintz and Thomas Wilson of the University of Toronto estimate the impact of the GST on a number of economic variables. Building a wage response into their model, the authors assess that the GST would raise the Consumer Price Index by 1.7% in 1991, 2.2% in 1992, and 2.5% in 1993.

(23) In the August 1989 Goods and Services Technical Paper, the Government acknowledged that increased wage demands could derail its own estimates of the GST's price impact. "The challenge that Canadians face is to realize these benefits as quickly and as smoothly as possible. This can be done if there is no inflationary response to the one time increase in the price level due to the introduction of the GST. Inflationary price and wage behaviour would, on the other hand, threaten sustained

economic growth and delay the achievement of the economic benefits that the GST makes possible." (P. 30)

(24) The Minister of Finance told the Committee that it is not surprising that the labour movement is trying to use the GST as a bargaining tool but that it must recognize what a company can afford to pay. The Minister stated, "If a company agrees to a wage settlement that is higher than it can afford to pay, if it accepts the argument that there ought to be a higher wage settlement as a result of introduction of the GST, that would be a mistake on its part, and I think most companies operating in the Canadian environment understand that. ... (35:15)

(25) Notwithstanding the Minister's comments, there is evidence to suggest that labour groups are having some success in incorporating GST protection in their wage contracts. For instance, the Canadian Auto Workers have obtained GST-linked COLA clauses for customer service workers at Air Canada and for workers at Boeing and DeHavilland Aircraft. It also has achieved increase cost of living protection in recent contract negotiations with Ford Motor Company. The Canadian Union of Public Employees is advising its members to go after a 9% wage increase to provide insulation from the GST. Other labour unions are also seeking protection from the GST either through fixed wage increases or by means of COLA clauses.

(26) A major concern is the reaction of monetary policy to any GST-generated price increase. The Governor of the Bank of Canada told the Committee that a one time price increase could be accomodated by monetary policy but that "what monetary policy must guard against is the risk that the initial price increase will trigger successive demands for compensating wage and price increases. Should

an inflation process take hold, it would greatly damage our economic prospects. Therefore monetary policy must be prepared to offer strong and early resistance to any such development." (48:28)

(27) These comments by the Governor indicate his resolve to take early action to prevent a one time price effect of the GST from escalating into a wage-price spiral. It is uncertain whether the Governor will consider recent wage settlements, including cost of living protection in labour contracts as indicative of increased inflationary pressures. However, it is clear that if higher wage demands raise the underlying rate of inflation, as opposed to a one-time price increase, the Governor is prepared to neutralize these with monetary policy.

(28) Other price pressures, such as the recent escalation in world oil prices, also threaten the Bank of Canada's zero inflation target at this time. Unfortunately, with the country on the brink of a recession and the prime interest rate currently about 12.5%, any attempt to wring inflation out of the system through tighter monetary policy would only heighten the threat to the Canadian economy.

II. GST CREDIT SYSTEM

A. Value of Credits and Burden of the GST

(29) The provisions of Bill C-62 introduce a refundable GST credit system with the following maximum annual amounts: $190 per adult; $100 per child; and a $100 special singles credit. This compares with the existing FST credit delivering maximum amounts of $140 per adult and $70 per child in 1990. The GST credit system also increases the turning point beyond which the credit is reduced to approximately $25,000 and allows single parents to claim an adult credit for one child. The benefit reduction rate is 5% of family income in excess of the threshold.

(30) This enhanced system of credits is the primary mechanism by which families earning less than $30,000 per year are to be made better off, according to the Government. In examining the distributional consequences of this tax reform, the federal government estimates always assume that the full amount of the FST will be removed from prices, with the full amount of the GST added on. Numerous witnesses, such as the Canadian Council on Social Development and the Social Action Commission (PEI), among others, challenged this assumption, both for goods eligible for the FST inventory rebate and goods produced and consumed under the new system.

(31) The credits are not intended to offset the entire amount of GST paid -- rather they are intended to offset the additional tax burden for lower and middle income families. Many witnesses before the Committee had views different from those of the Government regarding the additional impact of the GST on households' tax burdens,

primarily because of differing views as to the degree of FST savings passed on to consumers.

(32) Mr. Patrick Grady of Global Economics Ltd. viewed the matter from a different perspective. He testified that the GST would shift more tax from the corporate sector to the personal sector, and this would harm lower-income households disproportionately . To protect them, he suggested the following increases in maximum credits -- $60 per adult, $30 per child and $30 per working single.

(33) The federal government has claimed that households earning less than $30,000 will be better off with the GST. The question is whether the enhanced refundable tax credits offset the additional tax that lower and middle-income households face with the introduction of the GST? To answer this the Committee has examined the distributional consequences of the GST, using a variety of data sources including the published statistics of the Department of Finance and the Statistics Canada Social Policy Simulation Database and Model. This model is based on Revenue Canada's taxation statistics as well as Statistics Canada's surveys of consumer expenditures. The Statistics Canada input-output model is used to calculate effective sales tax rates on a variety of expenditure categories.

(34) When the Department of Finance presents its estimates of the changing tax burden of the GST versus the FST, three items determine the impact on lower income households: 1. the difference in gross tax paid; 2. the difference in refundable credits; and 3. the impact of indexation provisions on a variety of taxes and transfers. However, as Mr. Patrick Grady pointed out to the Committee, these indexation provisions operate with a lag. For 1991 there

is effectively no indexation benefit. In addition to these three items, one can consider the impact on households of a less than full pass through of FST savings.

(35) The following analysis looks at the distributional consequences of Stage II tax reform on a variety of household types to determine the adequacy of the enhanced refundable tax credits. Before looking at individual household types, however, it is instructive to see just how the enhanced credits work.

(36) In addition to increasing the maximum credit available for each member of the household, Bill C-62 raises the threshold, from $18,000 to $24,800, against which the credit reductions are determined. Household which benefit the most are those with incomes of just under $25,000. Under the old system they typically received no credits. Under the new system they receive the full amount of enhanced credits. For example, a two parent two child family would receive $70 under the old system. Under the GST system it would receive $570. The bulk of this increase is attributable to the change in the income threshold rather than the increase in the maximum value of the credits themselves. A similar pattern holds with respect to single individuals, single parents, etc.

- Impact in 1991

(37) In the first year of operation, the GST will restructure relative prices and increase the overal price level by at least 1.25%. Households will also be eligible for an enhanced system of credits. The following examines the impact on two household types: single parent families and two parent, two child families.

(38) Table 1 examines the impact of the GST on these two households in 1991. It shows the expected increase in sales taxes paid, the value of enhanced credits, the impact of tax and transfer indexation due to the effects of the GST and the price penalty that might be paid if not all of the FST savings are passed on to consumers in 1991.

(39) The final two columns calculate the impact on households of the new tax. Column D assumes that all savings due to the elimination of the FST are passed on to consumers in the form of lower prices. It does not, however attribute an indexation benefit to households on the grounds that these benefits will not actually apply to 1991 taxes and transfers. Column E also ignores the indexation benefits for 1991 and assumes that only 70% of FST savings in 1991 are passed on to consumers.

(40) The Department of Finance claims that families with incomes up to $30,000 would benefit from the GST. This conclusion is based on the assumption that all savings from the elimination of the FST are passed on to consumers. If this does not occur, many lower-income households will actually be worse off under the GST. Even families with incomes of $15,000 per year could lose under the GST.

(41) The Department also includes indexation benefits in its determination of winners and losers. The distributional tables presented in the technical papers apply to a mature 1991 GST. But such a system will not exist in 1991. It is inappropriate to discuss the distributional impact of a system which will not actually be in place. Thus Table 1 presented in this Report does not include any indexation benefits since they will not exist for the

system in place in 1991.

- Impact in 1996

(42) Table 2 looks at the impact of the GST on the same households in 1996. The calculations assume that inflation has been at least 3% p.a. in the interim. Indexation benefits are included in this calculation because the system will be mature in 1996. Even though Table 2 looks at the situation in 1996, all the figures are presented in constant 1991 dollars to facilitate comparison with 1991. Lower income families are still better off with the GST although their net gain has typically declined. It is also clear that the claim that the GST benefits families with incomes up to $30,000 is no longer valid, even if all the savings due to the elimination of the FST are passed on to consumers. After 5 years the cutoff level for these gains has dropped and it is more accurate to say that the GST guarantees that households with incomes up to $25,000 typically gain.

(43) If after 5 years, businesses have used the elimination of the FST to raise their markups and profits, it is possible that all households with incomes below $30,000 will generally be worse off under the GST. The most favourable developments with respect to product pricing must occur for the GST to be beneficial to lower-income families.

Table 1

An Evaluation of the Impact of the GST
on Lower Income Families
1991

Single Parent -- Two Children

INCOME ($000)	(A) GST-FST	(B) ENHANCED CREDIT	(C) PRICE PENALTY	(D) TOTAL BENEFIT 100% FST SAVING	(E) TOTAL BENEFIT 70% FST SAVING
15	155	300	164	145	- 19
20	205	400	186	195	9
25	270	570	220	300	80
30	295	320	243	25	-218

Column (D) is calculated as (B) - (A)
Column (E) is calculated as (B) - (A) - (C)

Two Parents -- Two Children -- One Earner

INCOME ($000)	(A) GST-FST	(B) ENHANCED CREDIT	(C) PRICE PENALTY	(D) TOTAL BENEFIT 100% FST SAVING	(E) TOTAL BENEFIT 70% FST SAVING
15	140	160	178	20	-158
20	150	260	206	110	- 96
25	180	500	227	320	93
30	215	320	247	105	-142

Column (D) is calculated as (B) - (A)
Column (E) is calculated as (B) - (A) - (C)

Table 2

An Evaluation of the Impact of the GST on the Lower Income Families
1996

Single Parent -- Two Children

INCOME ($000)	(A) GST-FST	(B) ENHANCED CREDIT LESS LOSS IN REAL VALUE	(C) INDEXING BENEFITS	(D) PRICE PENALTY	(E) TOTAL BENEFIT 100% FST SAVING	(F) TOTAL BENEFIT 70% FST SAVING
15	155	208	66	164	119	- 45
20	205	308	66	186	169	- 17
25	270	280	66	230	76	-144
30	295	30	94	243	-171	- 72

Column (E) is calculated as (B) + (C) - (A)
Column (F) is calculated as (B) + (C) - (A) - (D)

Two Parents -- Two Children -- One Earner

INCOME ($000)	(A) GST-FST	(B) ENHANCED CREDIT LESS LOSS IN REAL VALUE	(C) INDEXING BENEFITS	(D) PRICE PENALTY	(E) TOTAL BENEFIT 100% FST SAVING	(F) TOTAL BENEFIT 70% FST SAVING
15	140	68	66	178	-6	-184
20	150	168	66	206	84	-122
25	180	210	77	227	107	-120
30	215	30	142	247	-43	-290

Column (E) is calculated as (B) + (C) - (A)
Column (F) is calculated as (B) + (C) - (A) - (D)

(44) Unless 100% of FST savings are passed on to consumers, the GST will truly be a regressive tax and lower-income families could be worse off, immediately and in the near future.

(45) As with other refundable tax credits, the threshold for the GST credit is invariant with respect to family size. When the National Anto-Poverty Organization (NAPO) presented its brief to the Committee, this organization noted that large families whose income is below the poverty line will not receive the maximum amount of GST credit. For example, a family of three living in a large urban centre faces a poverty line of $25,728 in 1991, almost $1,000 above the anticipated threshold for maximum credit benefits. A family of seven or more, with an income at the poverty line, will lose $650 in GST credits because of the uniform threshold. On the other hand, single individuals and small families with incomes well above the poverty line can still receive full credit benefits.

(46) NAPO's preferred option "... is to establish a threshold that varies by household size, with the threshold set at least at the poverty line for such a household." (NAPO submission, P. 12) While the problem is clear, the solution is not. Poverty lines vary not only by family size but by location of residence as well. Therefore, one might conclude that a consistent application of the principles contained in the NAPO presentation would require numerous thresholds based on family size, and location. And if the poverty line is the relevant determinant of the threshold, one might question why the threshold for singles and small families is so much above the poverty line.

B. Indexation

(47) The system of GST credits is subject to the same indexation provisions that apply to the income tax system in general; that is, the credits and the threshold are indexed to the rate of inflation, measured by changes in the CPI, in excess of three per cent. Thus the real value of these credits will generally decline by 3% per year.

(48) Virtually all opponents of the tax cited this feature as a major flaw in Bill C-62. It is instructive to note that some proponents of the Bill also commented critically on this feature. In particular, Dr. Robert Clark of the University of British Columbia noted, as did the Economic Council of Canada and the Conference Board, that refundable tax credits are an efficient means of introducing progressivity into the GST. Since it is so important, Dr. Clark insisted that its real value must be protected. Another vocal supporter of the GST called convincingly for the full indexation of the credits and the turning point. Not to do so would, according to Mr. Wolfe Goodman, "...be grossly unfair to the poorest and most vulnerable people in our community."

(49) The credits, in addition to other elements of the tax reform package, are designed to make the GST package progressive at the lower to middle income levels. As the real value of these credits declines with inflation, this progressivity will diminish.

(50) The federal government's claim that the GST will make families with incomes below $30,000 better off is true in the first year of operation, according to Mr. Ken Battle of the National Council of Welfare. But in testimony

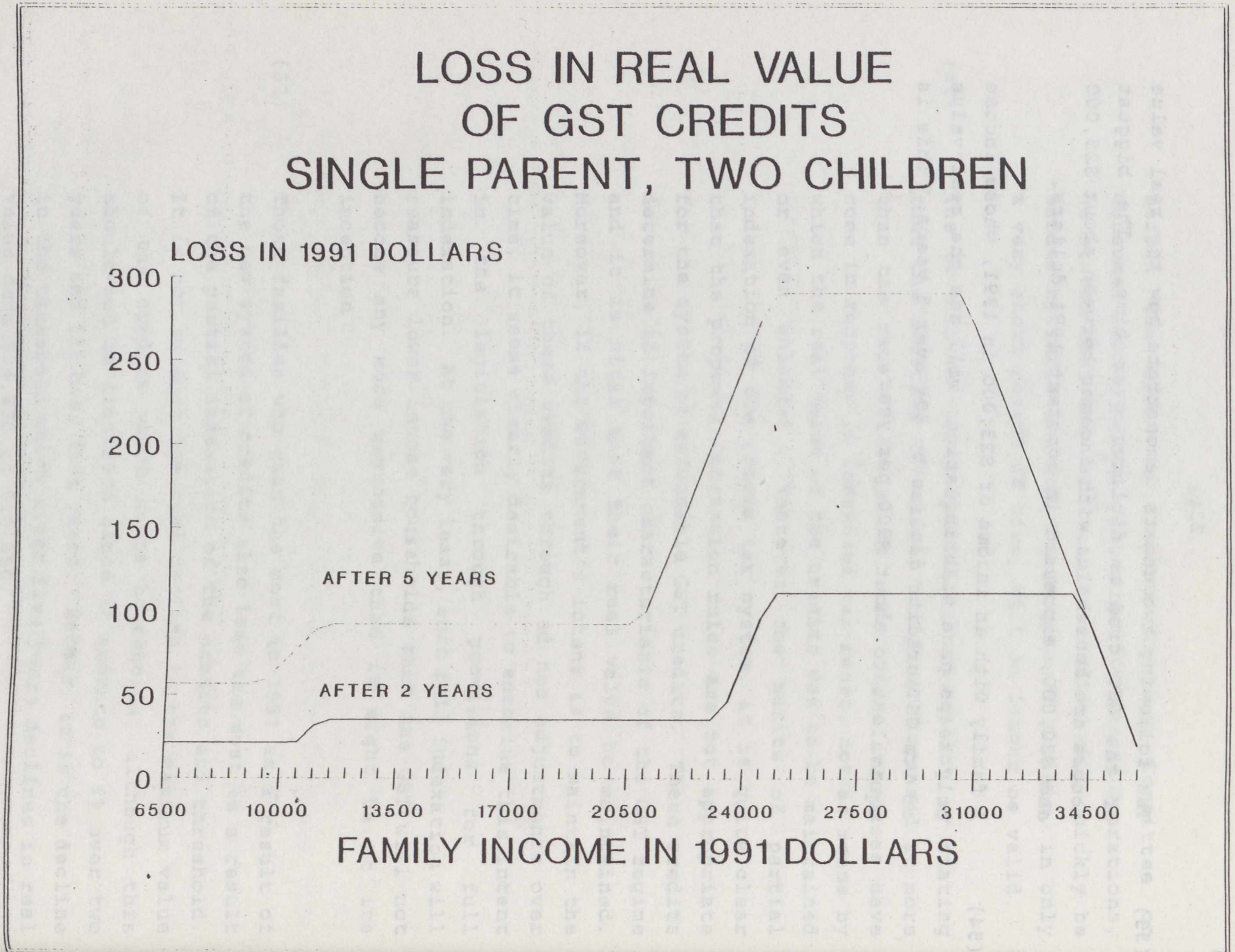
before the House of Commons Standing Committee on Consumer and Corporate Affairs and Government Operations, he stated that the value of the credits will quickly be eroded by inflation and the Government's claim, in only a very short period of time, will no longer be valid.

(51) The Government has responded to this point by stating that the existing FST credit has been increased at more than the rate of inflation. But these increases have come in response to increased tax rates, not as means by which the real value of the credits was to be maintained or even enhanced. Whatever the merits of partial indexation of the income tax system, it is quite clear that the proposed indexation rules are not appropriate for the system of refundable GST credits. These credits determine an important characteristic of the GST regime and it is vital that their real value be maintained. Moreover, if the Government's intent is to maintain the value of these credits through ad hoc adjustments over time, it seems clearly desirable to enshrine this intent in the legislation through provisions for full indexation. At the very least, such full indexation will reassure lower income households that the GST will not become any more regressive than it might be at its inception

(52) Those families who gain the most in 1991 as a result of the new system of credits also lose the most as a result of the partial indexation of the credits and threshold. It is not so much the real decline in the maximum value of the credits which hurts households, although this should not be dismissed since it amounts to 6% over two years and 16% over five years. Rather, it is the decline in the threshold which after five years declines in real value from $24,800 to $20,850.

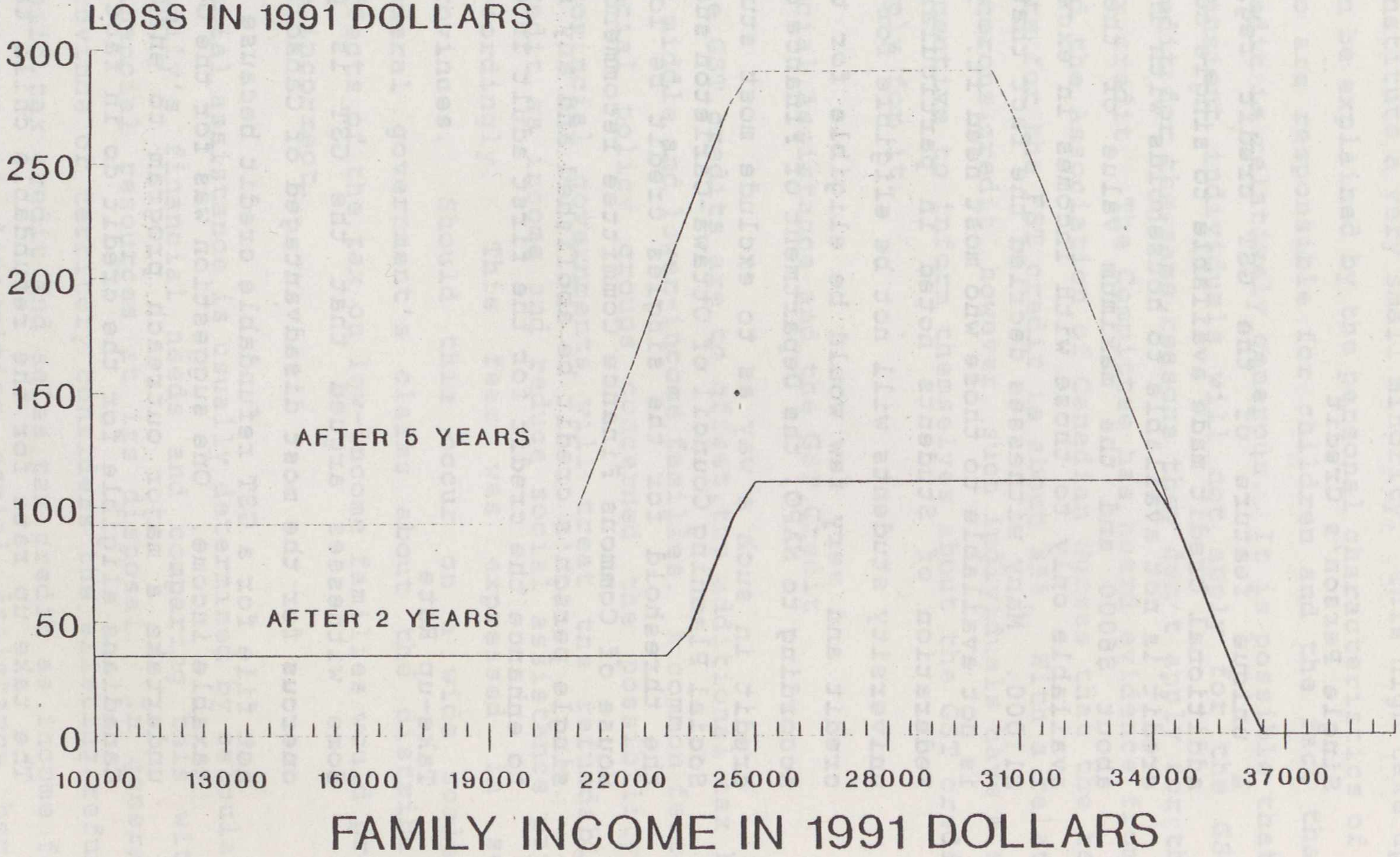
(53) The following two charts demonstrate how the real value of the GST credits declines over time. The biggest losers are households with incomes between about $25,000 and $30,000, expressed in constant 1991 dollars.

(54) A family with an income of $25,000 in 1991, whose income only keeps pace with inflation, will see the real value of its GST credits decline by 50% over 5 years. This is equivalent to about $300 per year.



LOSS IN REAL VALUE
OF GST CREDITS
SINGLE PARENT, TWO CHILDREN
LOSS IN 1991 DOLLARS
300
250
200
150
100
50
0
AFTER 5 YEARS
AFTER 2 YEARS
6500
10000
13500
17000
20500
24000
27500
31000
34500
FAMILY INCOME IN 1991 DOLLARS

LOSS IN REAL VALUE OF GST CREDITS
2 ADULTS, 2 CHILDREN



C. Single Person's Credit

(55) A unique feature of the GST credit regime is the additional credit made available to single adults. This credit is not available to households with incomes below about $6000 and the maximum value of the credit is available only to those with incomes in excess of about $11000. Many witnesses decried the fact that the credit is not available to those who most need it. The Canadian Federation of Students noted in particular that many university students will not be eligible for the singles credit and very few would be eligible for the maximum. According to NAPO, the Department of Finance designed the credit in such a way as to exclude most students. The Social Planning Council of Ottawa-Carleton suggested that the threshold for the singles credit be lowered. The House of Commons Finance Committee recommended that the single person's credit be abolished and any savings used to enhance the credit for the first adult in each family.

D. Take-up Rate

(56) Some witnesses argued that the GST is particularly onerous for the most disadvantaged of Canadians who will not file for a GST refundable credit because they have no taxable income. One suggestion was for the Government to undertake a major outreach program to ensure that all Canadians eligible for the credit do in fact receive it.

(57) The take up rate for the refundable child tax credit is very high, about 96% of those registered to receive family allowance payments. As the Canadian Council on Social Development pointed out, not all eligible families receive the family allowance but those who don't

constitute a very small minority. This high take up rate can be explained by the personal characteristics of those who are responsible for children and the fact that the credit is relatively generous. It is possible that some transient individuals will not apply for the GST tax credit for the same reasons they don't apply for the FST tax credit. The Committee has heard evidence from NAPO and the Association of Canadian Nurses that the take up rate for the FST credit is about 85%. With a relatively generous credit, however, such individuals have a strong incentive to inform themselves about the GST credit and apply for it.

E. Social Assistance and the GST Credit

(58) The GST credits are to offset the additional tax burden on middle and lower-income families. A common fear among social policy groups concerned the possibility that provincial governments will treat the refundable GST credit as income and reduce social assistance payments accordingly. This fear was expressed in several provinces. Should this occur on a wide scale, the federal government's claims about the distributional effects of the tax on low-income families would prove to be incorrect.

(59) Social assistance is usually determined by calculating a family's financial needs and comparing this with the financial resources at its disposal. In general, no province or territory considers the existing refundable child tax credit and sales tax credit as income for the purposes of determining social assistance benefits, although the Committee has been informed by the National Anti-Poverty Association (NAPO) that the province of Quebec now treats the FST credit as income for these

purposes. Additionally, the province of Saskatchewan is somewhat of an exception since that government has for some time treated family allowance receipts as income for social assistance purposes. Thus the Saskatchewan Action Committee on the Status of Women was particularly concerned that no guarantees had yet been given that provinces would not consider the GST credit as income.

(60) Although the determination of social assistance benefits is nominally a provincial matter, the federal government does have some authority in this regard under the auspices of the Canada Assistance Plan. Mr. Terrence Hunsley of the Canadian Council on Social Development recommended to the Committee that the federal government enforce the provisions of CAP to ensure that these credits are passed on to welfare recipients.

III. FST INVENTORY REBATE

(61) When the GST comes into force on 1 January 1991, a very broad range of goods and services will be subject to this new tax. Some goods sold in that year will come from inventory acquired earlier, upon which the FST applied. To avoid a double taxation of sales from this inventory, the federal government is offering a transitional provision in the form of a rebate of the FST on existing inventory at the end of the year. These inventory rebate rates are not included in Bill C-62 -- they are determined by regulation.

(62) The average FST content in a retailer's inventory would generally be lower than the FST content of the inventory of say a wholesaler or importer. Yet, these rebates do not vary according to trade level. The average FST content in a retailer's inventory would generally be lower than the FST content of the inventory of say a wholesaler or importer.

(63) The general rebate rate is 8.1% of the value of inventory. An exception is made for automobile dealers who get an inventory rebate of 11.1% because the FST for automobiles is applied at the wholesale level. The rebate for building materials is only 5.6% since those products are subject to a lower rate of tax.

(64) The nature of the FST makes it difficult to determine exactly how much tax is embedded in inventories. Rebate formulae, an acceptable compromise for practical reasons, are potentially arbitrary in application. The Committee has heard some evidence of apparent inequities in the effects of these rules. Automobile dealers are not the only taxpayers whose inventories contain a tax far higher

than the 8.1% level, nor are they the only ones who can easily calculate and identify the amount of tax in inventories. The Committee has heard from associations of cosmetics and toiletries firms, pleasure craft dealers and importers, all of whom claim that the rebate percentage penalizes them significantly and who also believe that they can identify accurately the amount of tax in their inventory.

(65) The Association québécoise de l'industrie du nautisme, for example, explained to the Committee that "... most Canadian boat manufacturers sell directly to retailers. Retailers thus carry inventories that include the federal sales tax at a real rate of nearly 13.5%" (55:96)

(66) Broadly based rebate rules will penalize some while overly compensating others. If the Government provides the higher rebate to the groups listed above, there is still an equity problem, although not as easily identified, among the remaining taxpayers.

A. Competitive Equity and Price Effects

(67) The federal government has been adamant that cost savings due to the elimination of the FST will be passed on to consumers. It has also argued that the new tax is fairer than the FST because it taxes a wider range of goods and services at more equal rates. This assessment is now in doubt because of the transition rules and the prescribed FST rebate rates.

(68) The Committee has heard evidence from a number of groups that they will be burdened with a GST applied to some inventory upon which only part of the existing FST has been removed. The rebate shortfall is expected to range

from 1.5% of inventory for automobile parts dealers (Automotive Industries Association of Canada), to 3.3% of inventory for retailers of imported furniture (New Look Interiors Ltd.). The Atlantic Building Supply Dealers and the Canadian Cosmetic, Toiletry and Fragrance Association also cited examples whereby they would be hurt by inadequate FST rebates.

(69) The business community has been admonished to pass on the savings of the FST's elimination. Should they be expected to pass on savings which do not exist? And if in 1991, firms are selling inventory on which both the GST and some FST apply, it is entirely likely that price rises will be higher than the 1.25% increase predicted by the Government. Indeed, the Committee has heard nothing from the Government to suggest that these rebates will return all FST embedded in inventories at the end of the year. And with the prescribed rate of rebates penalizing some firms and being overly generous to others, the notion of fairness so important to the Government is also likely not to be achieved.

(70) In addition to the general problems listed above, three examples of inadequate transitional relief have been presented to the Committee. In the testimony of the Associated Canadian Car Rental Operators (ACCRO) the Committee was informed that used car dealers would receive a rebate for the FST embedded in their inventory as of the new year. Car rental agencies hold a large stock of cars which will be sold as used cars in the new year. No FST inventory rebate is granted for these cars because they are considered to be capital property. When these cars are eventually sold in the used car market, they will have borne a total tax equal to 20.2% according to the witness. This double taxation goes against the

stated principles guiding the transition to the new tax regime.

(71) The Committee also heard that no FST rebate is to be offered on inventories of alcohol, soft drinks and paper products held by restaurants while inventories of such products held by retailers will be eligible for the rebate. The Newfoundland Restaurant and Food Services Association stated that its members carry particularly large inventories over the holiday season and will be unfairly and adversely affected by this arbitrary decision. There is no obvious rationale for excluding restaurants from this rebate.

(72) Finally, the FST inventory rebate applying to the housing sector contains a sunset clause not applicable to other industries. The normal cycle of housing sales over the year, combined with the deteriorating situation for new home sales can subject a large part of homebuilders' inventory to double taxation in the new year. This is a serious problem for the construction industry and will be discussed more fully in section VI below.

IV. GST AND THE TAXATION OF FOOD

(73) The Government has decided not to apply the GST to basic groceries. It is however taxing a wide range of food products, those that are consumed outside of the home and those that do not meet the definition of basic groceries.

(74) The Committee has been informed by the Newfoundland Restaurant and Food Services Association that approximately 40% of the food dollar is spent in restaurants or take-out establishments. Statistics Canada gives such spending a weight of only 29% for purposes of calculating the Consumer Price Index. Adding to these proportions the amount of food expenditures in grocery stores on non-basic groceries will increase even further the percentage of food spending fully subject to the GST.

(75) Drawing the line between basic groceries and other, taxable forms of food is bound to be arbitrary to some degree and can lead to tax inequities among competing products. To quote from the August 1989 technical paper of the Department of Finance, "No matter how the lines are drawn, the great variety of food products makes it virtually impossible to remove every possible anomaly." (p. 78)

(76) The Committee heard evidence of just such effects. For example, the Bill originally provided for the taxation of all cookies. It was amended in the House of Commons to treat as basic groceries all cookies sold in packages of six or more. Chocolate bars are sold increasingly in family-sized packages which compete directly with chocolate covered baked goods: they have the same ingredients and appeal to the same market. Yet the tax

treatment of the two differs in Bill C-62. This imposes an unfair competetive burden on manufacturers of chocolate bars.

(77) Soft drinks also compete with tax-free beverages such as mineral water, coffee and tea. Again these competing products are treated differently.

A. GST Status and Consumer Preference

(78) Part III of Schedule VI defines a basic grocery product. It does so essentially by listing products which are <u>not</u> basic groceries. In some cases a product can fall under either definition according to its packaging or the quantity in which it is purchased. For example yoghurt, when purchased in larger containers or packages of multiple single servings, is free of tax. The National Dairy Council of Canada informed the Committee that consumers prefer to purchase individual single servings of yoghurt so that several flavours can be bought. This preference for variety will subject consumers to the GST even though they are purchasing a product that the Government is willing to consider free of tax in other circumstances.

B. GST and the Price of Basic Groceries

(79) The Government has suggested that the price of basic foodstuffs should fall as a result of the GST. Food, although exempt from the FST, contains about 1% of tax embedded in prices as a consequence of the taxation of some business inputs. Under the GST, basic groceries are zero rated, meaning that no tax is charged on sales while input tax credits are available for all taxes paid on any inputs going into the production and distribution of

these products.

(80) It is possible, however, that the costs of producing basic groceries could rise as a result of the GST. The P.E.I. Potato Board indicated that there are cash flow costs to farmers associated with the new tax because of the time lag between the payment of tax on inputs and the receipt of tax credits. There are no cash-flow benefits to supplies of zero-rated products. There are also costs of compliance to farmers and fishermen. If these are widespread, then the cost of producing basic groceries will be increased and likely passed on to consumers. To reduce the possibility of such cost increases, the Western Canadian Wheat Growers Association recommended to the Committee that a wide range of purchases by farmers be zero rated at point of sale, a range which is much more extensive than the preliminary list drawn up by the Government. It is also instructive to note that the National Farmers Union presented the Committee with a list of products exempt from the FST under existing rules. That list is more comprehensive than the currently suggested list of products eligible for zero rating at point of sale.

C. Taxable and Tax-free Food

(81) The Government has recently broadened the FST tax base by including certain snack foods. This principle has now been applied to the GST, creating two categories of food. Witnesses from the industry objected to the notion that there is good food (non-taxable) and bad, although tasty, food (taxable) even those the two might have essentially the same ingredients and nutritional value. Thus, according to the provisions of the Bill, salted nuts are taxable while unsalted nuts are not. Croissants

are tax free, unless of course they are covered in chocolate. Granola products are taxable, unless sold as a breakfast cereal, etc.

(82) Such distinctions are annoying to consumers who do not understand the rules or rationale governing the application of the GST to food. They are costly to producers whose products might suffer a competitive penalty and they are costly to retailers who must administer the tax, especially when a provincial sales tax (PST) is also involved. Mr. Michel Decary of the Canadian Federation of Independent Business (CFIB) provided the Committee with an example of just such complexity. The GST will tax a drink if it contains less than 25% real fruit juice. The Quebec retail sales tax applies if the juice content is less than 12%. The retailer must decide if the drink is subject to no tax, to the GST only or to both taxes. While this particular example is no longer relevant with the decision by the Quebec government to integrate its PST with the GST, similar problems undoubtedly exist in other provinces with respect to a wide range of food products.

D. *de minimis* Rules

(83) Unlike provincial sales taxes, the GST does not use a de minimis rule in its application: all purchases, no matter how small, are subject to tax. Allan Candy Ltd., a manufacturer of penny candies, recommended that confectionary with a retail valûe of less than $0.25 should be free of tax since the nature of these products is such that prices are difficult to adjust in response to the tax and the administrative cost of imposing the tax outweighs tax receipts from these products.

E. Taxing All Food

(84) Taxing basic groceries would generate sufficient tax revenue to lower the general GST rate by at least one percentage point. The Fraser Institute thinks the general rate could actually drop to 5% by taxing all food. All of the competitive problems associated with a two-tiered system would be eliminated if all food were to be taxed equally. And many of the compliance costs faced by retailers would vanish with the complete taxation of all food. Food retailers who are faced with the list of non-basic groceries must spend considerable resources in determining which of their products are taxable and which are not. This function represents a very large proportion of total compliance costs which could be eliminated with the taxation of all food products. The European experience also indicates that the use of differential tax rates is an inefficient means of altering the distributional consequences of a GST or VAT. A system of tax credits is more effective.

(85) The Committee has examined the direct impact of a 5% GST on all household expenditures, with the exception of finance, insurance and real estate. In this experiment, all basic groceries would be taxed, with the tax content of food and non-alcoholic beverages increasing by a factor of 3.4 times. The services of charities and non-profit organizations would also be fully subject to tax. Despite this broadening of the base total revenues would decline by 13%, or approximately $2.4 billion in 1991.

(86) If the lost revenues were recovered via a tax alternative which does not burden lower income households, e.g. a selective income tax surtax, the Government's stated objective of improving the financial position of

households with incomes under $30,000 could still be achieved. It seems clear though, that taxing basic groceries is not sufficient, by itself, to lower the GST rate by two percentage points. This does not, however, negate the advantages of a broader tax base. Both the compliance costs of business and the administrative costs of government should decline with a broader tax base.

V. AGRICULTURE, FISHERIES AND TAX FREE STATUS

A. Agriculture and Fisheries

(87) Under the GST, food is zero-rated throughout the production chain. For fishermen and farmers this means that they are entitled to claim input tax credits and obtain a refund of tax paid on their production inputs. At the same time, there is no tax assessed on their output so that farm and fishery production remains completely tax free.

(88) The special issue that arises for such tax free production stems from cash flow considerations. Farmers and fishermen must pay out an extra 7% on their purchases and then file with the Department of Revenue to claim a refund of the input tax credits. Although registrants selling taxable goods are in a similar position in respect to having to wait for a refund of their input tax credits, they nevertheless have the cash flow benefit of using the GST which they collect on their sales. This is a benefit that farmers and fishermen do not enjoy since their own sales are non-taxable.

(89) The amount of time which farmers and fishermen must carry the extra 7% on their input costs before obtaining a refund will depend on how often they file a return. GST registrants making taxable and zero-rated supplies of $500,000 or less may file annually, quarterly or monthly. Registrants making taxable and zero-rated supplies of $500,001 to $6 million may file quarterly or monthly, while those with sales over $6 million are required to file monthly. Thus, if farmers and fishermen choose the quarterly filing option, they could wait up to three months between the time they purchase an item and the

time they file for a refund. Furthermore, the Government will not begin paying interest on the refund amount until 21 days after the registrant's return is received by Revenue Canada.

(90) The Government proposes to deal with this cash flow problem by zero-rating at the point of sale a number of types of purchases made exclusively by farmers and fishermen. This will include combines, large tractors, fishing boats and commercial fishing nets. Representatives of fishermen and farmers told the Committee that the list of tax free items designated by the Government was inadequate and would not relieve their cash flow problems.

(91) For instance, calculations provided to the Committee by the Western Canadian Wheat Growers Association estimated that, based on the preliminary list of tax free items, the average farmer in Saskatchewan would have to carry an extra $3,057 in costs because of the GST, in Manitoba this would amount to $4,530 and in Alberta there would be an additional $4,210 to carry. While farmers would receive a refund for the GST paid, the additional cash flow burden could be serious for those farmers operating close to the margin.

(92) In Newfoundland, representatives of the Fishermen, Food and Allied Workers told the Committee that the best solution to the problem would be a system of GST-exempt identification cards for fishermen that would apply to a whole range of fishing-related purchases made by fishermen. In Regina, the Western Canadian Wheat Growers suggested that the problem be dealt with either by not collecting tax on any business related purchases by farmers or, at a minimum, extending the list of items

designated as non-taxable at the point of sale. Both farmers and fishermen also pointed out that the GST system of paying tax on inputs and claiming these back later placed a significant compliance burden on them.

(93) Extension by the Government of the list of items that are non-taxable at the point of sale can be made by regulation and does not require legislative amendment.

B. Horses

(94) The GST treats the sale of horses as a taxable supply. In Toronto, the Ontario Racing and Breeding Council argued that including horses in the GST was discriminatory since it is the only form of livestock that is taxed. They noted that horsemeat is Canada's second largest red meat export to Europe. The Council also argued that the extra paperwork burden would end export sales to the U.S. and would lure breeders to the U.S. in order to avoid the "hassle of GST registrations, credits and waits for reimbursements". Horse breeders are asking that sales of horses be zero-rated along with sales of other forms of livestock.

(95) Although there is obviously some benefit to horse breeders of having domestic horse sales zero-rated, it is uncertain what the proposed changes would do for export sales of horses since under the GST all exports are zero-rated anyway.

C. Plant and Tree Nurseries

(96) The Canadian Nursery Association argued that plants and trees should be zero-rated under the GST since these help to control pollution. The witness claimed that planting

of trees is one of the surest and least expensive ways of halting or even reversing the build-up of carbon dioxide in the air. It was also pointed out that the nursery industry is a "typical part of agriculture, although a non-food industry, in that it provides protection to farm foods by means such as wind shields in the trees we grow, protection of soil from wind and water erosion, water retention through trees and ground cover, and energy conservation, heating and air conditioning through strategic planting of trees..." (57:148)

VI. GST AND HOUSING

(97) Under the provisions of Bill C-62, the GST is to apply to the sale of all new or substantially renovated housing. The sale of existing housing units is not subject to tax and long-term residential rents are exempt from the GST. The provisions of the Bill affecting housing are designed so as to have little adverse impact on housing affordability, yet numerous witnesses before the Committee challenged this claim of the Government.

A. Housing Rebates

(98) Purchasers of new residential units will be eligible for a rebate under most circumstances. Those purchasing a unit valued at $350,000 or less will enjoy a rebate of 36% of the GST paid, reducing the effective GST rate to 4.5%. Those purchasing a home valued above $450,000 will receive no rebate and for homes valued between $350,000 and $450,000 the rebate declines from $8750 to zero as the price of the house increases. These rebates are also available to purchasers of condominium units.

(99) The Department of Finance estimates that the average new house now contains an FST of slightly more than 4%. Thus on average the GST should increase new home prices by 0.5% if the full rebate is obtained. This is a fairly minor increase. It should be recognized, however, that an increase in new home prices will also raise used home prices since the two are close substitutes. This presents existing home owners with a capital gain while it makes home ownership slightly more expensive for first time homebuyers.

(100) No equivalent rebate is made available for newly-constructed rental units. Witnesses have suggested that the GST makes home ownership relatively more attractive than rental accommodation since new owner-occupied housing, which is similar to new tenant-occupied housing, will pay a lower effective tax rate.

B. GST and High-cost Housing -- Taxing Land

(101) Several witnesses have suggested that land should not be taxed. Some supporters of the GST, notably Professors Clark and Kesselman and Mr. Wolfe Goodman, argued on philosophical grounds that land should not be taxed because it is not consumed. Others have argued that taxing land discriminates against those who face high housing costs in southern Ontario and Vancouver.

(102) Land is a long-lived asset -- it rarely depreciates. It has been suggested therefore, that land not be taxed because it is not "consumed". Land does, however, produce a stream of benefits which are consumed and the taxation of land could be seen as a simple and convenient way of taxing this stream of benefits. In this way, the application of the GST to land does not deviate from the principles of the tax.

(103) Markets with high housing costs are associated with high land prices. Applying the GST consistently across all markets will cause homebuyers in Toronto to pay more GST, but it will not distort relative prices compared to other markets -- they would all bear the same percentage GST. It will, however raise prices by a greater amount in Toronto because the effective FST embedded in housing prices is lower. The Toronto Home Builders' Association estimated that the average FST in a new Toronto home is

only 2.4%. Even with a full rebate, Toronto house prices could rise by 2% due to the GST.

(104) A very real distortion does arise because the thresholds for the rebate are applied universally across Canada. A $400,000 home in Toronto might resemble a $300,000 home in Ottawa in all respects except location. The Ottawa home would receive the full GST rebate while the Toronto home receives only a partial rebate. This Toronto home might also be occupied by a family with income similar to that of the family occupying the Ottawa home. (Homeowners in high-cost markets typically spend a larger proportion of their income on housing.) Thus, the principles of horizontal equity can be violated because the nominal amount of the housing rebate thresholds is the same in all parts of the country. While the intent of the rebate formula is to deny tax relief to upper income families on the grounds that they buy more expensive housing, it can also have the effect of denying relief to those living in high-cost housing markets.

(105) The combination low of the effective FST embedded in new Toronto homes and the use of thresholds for the GST housing rebate, which are inappropriate to the Toronto market conditions, will raise new housing costs in that area by about 3%, or $10,000 in nominal terms. For families already struggling to save for a home, this increase makes home ownership even less affordable.

(106) Current economic conditions have severely depressed the housing market in Canada. This is particularly evident in southern Ontario where boom conditions characterized the market just two years ago. New house sales this year should be less than one-quarter of sales two years ago, according to the THBA, which characterized this as a

"collapse of the new home market". Removing the GST from the land component of house prices could offset some of the negative effects of high interest rates.

(107) Several suggestions have been made to the Committee to reduce the adverse effect of the GST on housing in high-cost markets. The rebate rate could be increased in select markets so that the effective GST approximates the effective FST. The Toronto Home Builders' Association recommended a 4.5% rebate on new homes. The same result could be achieved by excluding the price of land from the GST tax base. To remove the tax on land, however, requires more than simply zero rating land. It would require that the GST be applied to the price of a house, excluding land. This raises questions about administrative complexity and enforcement since land prices vary by a large amount, even within the same communities.

C. GST and Soft Costs

(108) All services associated with the sale of a home will be subject to the tax. Real estate brokers have suggested that their services should be exempt since they are equivalent to the services of a stock broker --i.e. they sell an investment good to homeowners. For many homeowners, their principal dwelling represents the bulk, if not all, of their savings. When they buy or sell a house, they are dealing in an investment vehicle as much as a means of shelter. According to the realtors, this transaction should be treated like other investment transactions.

(109) Soft costs such as realtors' fees, legal fees, survey costs, etc., can amount to 5% to 8% of the purchase price

of a house. Even if the house itself is not subject to the GST, the application of the tax to these ancillary services can add up to 0.5% to the purchase price of a home.

D. Transitional Rules

(110) An FST inventory rebate is offered for most goods purchased prior to 1991 but sold in the new year. This is to prevent the double taxation of such goods. For new homes, the FST rebate is limited to homes sold before 1 April 1991. No equivalent restriction applies to other goods which receive the FST rebate. The existing provision does not create much of a double taxation problem in a robust housing market. This is not the case in 1990 in most major markets. Worse, according to the Urban Development Institute, "... even during strong markets, the peak closing periods are not January, February or March; rather they are usually in June or early autumn." Builders' inventories, which are growing dramatically, are likely then to be subject to double taxation. The witness recommended therefore, that the cutoff date for the FST rebate be extended to November 1991.

(111) One specific example of this transition problem concerns the tax treatment of model homes used by builders. According to Reids Heritage Homes Ltd., a southern Ontario Home Builder, it is not uncommon for model homes built in 1988 and 1989 to be used for model purposes well into 1991 and 1992. The eventual sale of such homes will attract GST even though the construction was subject to FST. This double taxation makes such homes difficult to sell compared to new homes which are subject only to the GST. Even worse, according to this witness, consumers

view such homes as used, not new. To remove this competitive inequity, the witness suggested that such sales be exempt from tax.

(112) These transition rules also create problems for apartment buildings constructed in 1990 but not leased until 1991 when GST must be self-assessed on fair market value. The same witness recommended to the Committee that no GST apply in such cases where the FST has not been rebated.

(113) The historical record shows that the introduction of a VAT-type tax can alter the timing of economic activity. For example, the purchase of capital goods is likely to be delayed into the new year in order to generate an input tax credit. It is likely that these transitional problems will cause builders to try to run down their inventories. At the same time, economic conditions are leading to increasing inventories, which can only be curtailed by significantly reducing production. Thus the GST could provide a double blow to an already suffering housing market in 1990.

E. Renovations

(114) According to the Toronto Home Builders' Association, "...preserving and upgrading the existing housing stock is just as important as increasing the supply of new housing." Yet according to that same group, the introduction of the GST could quadruple the tax burden now facing the industry. Renovators tend to be small businessmen who find the accounting burden of the GST onerous. They deal with small subcontractors who might not be registered traders, eliminating the possibility of GST input tax credits. The industry is highly labour intensive so it currently faces a low FST burden. These

features of the industry, combined with a possible failure of materials manufacturers to pass on all savings due to the elimination of the FST, could lead to an increase in renovation costs of more than 7%, according to the THBA.

F. Rental Housing

(115) The fact that long-term residential rents are exempt from tax does not mean that the GST will have no impact on this sector. New rental housing is subject to the full 7% tax and many of the ancillary services which go into the provision of rental accomodation are also subject to tax. According to the Fair Rental Policy Organization of Ontario, tenants in new buildings could see their rents increasing by $50 per month. On average, rents in Ontario should increase by about 2% according to this witness.

(116) This assessment for Ontario is not unique. The Committee heard from VLC Properties in Vancouver that the GST could raise monthly rentals by $27 to $56, depending upon the assessment base upon which the GST is applied to new buildings. And in Montreal, the Canadian Real Estate Association testified that the GST could raise rents by $30 to $50 per month for capital costs and an additional $11 per month for operating expenses.

(117) In a tight rental market, such increased costs do much to harm the affordability of rental accomodation. In Ontario, almost half of tenants with incomes below $25,000 already pay 30% of their income in rent.

(118) It is fair to say that the cost of housing should rise as a consequence of the GST and that there are a number of

avenues by which these higher costs will affect households. Homeowners must pay more for a purchased home whether new or used. The ancillary services such as realtors and legal fees could add 0.5% to the cost, in addition to the direct effects on the price of a home. Tenants will pay more as a result of the 7% GST on newly-constructed apartment buildings. And the costs of running a household, whether owned or rented, will increase. Using Statistics Canada Social Policy Simulation Database and Model, we note that the tax content in electricity, natural gas, and other fuels would increase by factors of 2.9, 3.9, and 2.2 respectively. The tax content of other household services would also increase by a factor of 2.9. Tenants might pay for these added costs through higher rents or higher direct charges. Homeowners will face these costs directly as they purchase the relevant goods and services.

VII. GST AND REMOTE REGIONS

(119) Goods and services in the more remote regions of Canada cost more than they do in central Canada, largely due to the added transportation costs involved in shipping materials to these regions but also due to the lesser degree of competition and higher markups. The FST is imposed at a trade level prior to these transportation charges and local markups. The GST is imposed on the retail value of sales.

(120) As a consequence of stage II of tax reform, residents of remote regions will pay more consumption tax than residents of central Canada for the same goods and services. These residents will also pay more tax under the GST than they did under the FST. Stage II of tax reform means that residents of remote regions will pay more consumption tax than residents of central Canada for the same goods and services. It also means that these residents will pay more tax under the GST than they did under the FST. Numerous witnesses in Atlantic Canada and the northern territories took this position in testimony before the Committee.

A. GST Credits

(121) The GST credits are a part of a package designed to ensure that families with incomes below $30,000 benefit from tax reform. But a $24,000 income in Yellowknife or Iqualuit does not imply the same standard of living as in Edmonton or Ottawa. Thus a family in central Canada with this income is entitled to full GST credits, but a family in the north with the same standard of living would not receive full benefits because its nominal income has to be higher to offset the higher cost of living. This

violates the principle of horizontal equity. An indication of these higher nominal incomes is contained in the 1986 census which showed that 60.4% of northern families had an income in excess of $30,000 while only 48.6% of southern Canadian families had such an income.

(122) The Committee was informed by the Government of the Northwest Territories that the cost of living in Yellowknife is 33% higher than in southern Canada. When housing is taken into account, the difference increases to 40%. And Yellowknife has a low cost of living compared to other NWT communities. Similarly, the Yukon Government informed the Committee that Whitehorse is the least expensive place to live in the Yukon. Most other communities have a cost of living which is about 10% higher, but in some areas it could be as much as 60% higher.

(123) Higher prices mean more GST paid. In fact, the average Whitehorse family is expected to pay $400 more GST than the average Canadian family. The system of credits does not take this into account. The Government of the NWT therefore recommended to the Committee that the credits and the threshold be increased by 50% in the north.

B. GST and Transportation Costs

(124) Transportation costs add significantly to the cost of goods in remote regions. These charges are taxed only indirectly under the FST. An example provided by the Yukon government showed that whereas this tax reform might reduce the price of a good sold in the south, the same reform could increase the price in the north. This result is due to the full application of the GST on transportation services. Many witnesses referred to the

application of the GST to transportation services as a feature harmful to residents of remote regions.

(125) Zero rating transportation from the GST will not provide general benefits to residents of remote regions. When they directly consume services such as airline flights to other parts of Canada, zero rating will reduce the cost of such services. But, when transportation costs are an input into a final product purchased by consumers, zero rating provides no benefit. This is because the GST is applied to the full retail price, which includes transportation charges.

(126) To remove the GST from the transportation component of goods, it must be applied to the retail price of goods, exclusive of transportation costs. This is administratively complex.

C. Northern Allowance

(127) It was suggested to the Committee that the northern deduction for income tax purposes be increased by at least 40%. It has the benefit of not requiring an amendment to this Bill. Such a suggestion would benefit those with taxable income but not the lowest income households who would benefit more from a revision of the tax credits.

D. Tax-free Status

(128) One approach to relieving northerners of the added burden of the GST is to make all retail purchases in the north tax free. This would more than compensate them for any added burden of the GST. It might also create enforcement and leakage problems; nearby communities,

which do not benefit from tax free status, might have purchases routed through northern communities, genuinely or on paper only, to benefit from this tax advantage. There is little international experience with such geographically-differentiated rates. Where it has been used it has resulted in uncertain tax revenues by creating the potential for substantial evasion.

VIII. CHARITIES AND NON-PROFIT ORGANIZATIONS

(129) The GST legislation provides that most activities undertaken by charities and non-profit organizations will be exempt from the tax. However, sales of a type generally made by commercial businesses will be taxable. Where supplies made by charities and NPOs are exempt, the tax paid on the inputs used in these supplies would not be eligible for input tax credits. To offset the extra tax that these organizations will incur as a result of the GST, the Government proposes to provide a rebate of 50% of the tax paid on inputs used to produce exempt supplies by charities and eligible non-profit organizations. To qualify for the rebate, non-profit organizations must receive at least 40% of their funding from government grants.

(130) As noted, sales by non-profit organizations that compete with commercial organizations are not eligible for exemption. The Committee heard from several non-profit organizations about problems with regard to their taxable status under the GST. S.A.W. Industries Inc. in Prince Edward Island explained to the Committee that while their woodworking business, P.C. Industries, which employs mentally handicapped persons, is exempt from the current Federal Sales Tax, its sales will be taxable under the GST. The change in tax status will place P.C. Industries' operation at a disadvantage in relation to its competitors that do not employ mentally handicapped individuals.

(131) In support of the recommendation that P.C. Industries be granted exempt status under the GST the witness stated, "We also believe that the Department of Finance should recognize the contribution that organizations like ours

make to economic development on behalf of persons with mental handicaps and that they should continue to support our objectives by allowing us this exemption." (50:21) The Committee has forwarded a letter to the Minister of Finance to bring this matter to his attention.

(132) In St. John's, the Newfoundland and Labrador Command of the Royal Canadian Legion raised the possibility that poppies and wreaths could be subject to the GST. The poppies and wreaths are manufactured by Vetcraft, a shelter workshop operated by Veterans Affairs, which sells them to the Royal Canadian Legion Dominion Command. From there, they are sold to Provincial Commands of the Legion, which in turn, sell them to the local branches for a nominal profit. According to the testimony from the Legion, the local branches may be subject to GST on their purchases of poppies and wreaths.

(133) On inspection of the legislation, it appears that poppies would not be taxable since it can be argued that they are not sold but are exchanged for a charitable donation. Furthermore, the consideration involved is usually less than $5 and Section 4, Part VI of Schedule V of the legislation provides that fundraising sales by volunteers of goods costing no more than $5 will be exempt from the GST. Wreaths, on the other hand, are sold for more than $5 and may not qualify for an exemption.

(134) The witness from the Legion stated, "..the funds realized from the sale of wreaths and poppies are given to veterans who need money and other assistance. Believe me, there are many veterans around who need assistance." (52:103) The Committee has also sent a letter to the Minister of Finance drawing this matter to his attention.

IX. AMATEUR SPORTS COMMUNITY

(135) Goods and services provided through the private, for profit sector are generally subject to the GST. This includes all recreation and sports activities. In Canada, many such activities are provided by quasi-public bodies, designated as charities, registered amateur athletic associations and non-profit organizations (NPOs). They will also have to charge GST on their services unless the activities are aimed primarily at children under the age of 14 years or are for the benefit of mentally or physically disadvantaged persons.

(136) Whether or not these organizations charge GST on the services they provide, they must pay the tax on the inputs they buy. The Bill offers a rebate of 50% of GST paid by charities and 50% of the GST paid by NPOs who are dependent on government for at least 40% of their funding. (The threshold for NPOs was 50% in the original technical paper.) This rebate applies to the tax on inputs used to provide tax exempt services.

A. GST on Fees

(137) The technical paper proposed that GST apply to fees charged to those over the age of 14 years whereas the Bill now proposes to tax on the basis of the age group for which a program is designed. It still uses 14 years as a threshold age. Virtually all representatives thought the age limit was too low. Teenagers are not adults. If the worthiness to society of such programs is a major factor in determining exemption from tax, an age limit of 18 years makes more sense, according to witnesses. Mr. John McGrath of Sport Newfoundland and Labrador referred to the advantages of amateur sport in

offsetting undesirable peer pressure and in teaching social values. These functions are particularly important for youth aged 15 to 18 years and consequently the witness suggested that the age limit be raised. Such was the recommendation of the House of Commons Finance Committee report.

B. The 50% Rebate

(138) Bill C-62 creates two classes of volunteer sports and recreation associations: those eligible for a 50% rebate of GST paid on inputs and those ineligible for such rebates. Registered charities, including Canadian amateur athletic associations, are automatically eligible for the rebate. Non-profit organizations must receive more than 40% of their funding from governments to qualify. The federal government has been encouraging sporting organizations to become less dependent upon government and they have taken this encouragement to heart. Since 1986, the aggregate level of government funding for national sports organizations has declined from 78% to about 56%. At the same time, the Government is penalizing them for doing so through the application of the GST.

(139) Not only is this GST treatment of sport organizations inconsistent with the sport policies of the federal government, it is inconsistent with the policies of some provincial governments. The Government of Quebec has required members of Sport Quebec to achieve at least 50% self financing before any government funding is made available. Organizations which successfully comply with that requirement could place their GST rebates in jeopardy.

(140) The House of Commons Finance Committee recommended that the threshold level be lowered to 25% government funding. Some witnesses suggested that provincial governing bodies be treated the same way as national governing bodies; i.e. automatically eligible for the rebate. Others went even further, suggesting that all sports organizations be eligible for this rebate and that the rebate be 100%.

(141) The charitable status of an organization can be altered by an amendment to the Income Tax Act, which would affect more than its GST status, or an organization can be deemed, for the purposes of the GST only, to be a charity. This latter approach would require an amendment to the Bill.

C. Administration Costs

(142) The rebate for charities and some NPOs is applied to the GST paid on inputs used to produce tax exempt services. These organizations must not only keep track of GST paid and charged, they must be able to apportion input taxes. This is a task faced by all producers of exempt goods and services, but charities and non-profit organizations might find such accounting tasks to be particularly daunting. This is especially true when administration is carried out by volunteers. For example, Sport P.E.I. has only four paid employees, with all other tasks performed by volunteers.

(143) The difficulty that these organizations face in complying with the tax has led them to recommend a delay in the introduction of the GST.

D. Registration Fees and Insurance

(144) Registration fees for sporting activities often contain, as a significant component, an insurance premium. Insurance is tax exempt, yet when it is embedded within a taxable registration fee, it is effectively taxed. This is a typical problem with exempt goods and services. If these organizations could segregate insurance from other elements of the taxable fee, it would continue to be exempt. Such a solution might be more costly to administer than it is worth.

E. Television Rights

(145) The Sports Federation of Canada appeared before the Committee and cited a particular concern they have with the application of the GST to the sale of television rights. On the surface it would appear that this should not cause their member organizations any harm -- sales to Canadian television networks would be eligible for an input tax credit while sales to foreign networks should be treated as an export and be zero rated. The organization has sought a ruling from Revenue Canada.

X. SMALL BUSINESS COMPLIANCE COSTS

(146) A value added tax can, in many instances, be a relatively inexpensive tax to comply with. Such a tax can also be designed so as to be very difficult to administer and comply with. Some of the VATs in Europe have such a complex design. With a greater number of tax rates and more exempt products, the compliance costs associated with a tax regime can increase dramatically.

(147) The Canadian Federation of Independent Business (CFIB) is particularly concerned with this issue, specifically as it affects the small business community. The CFIB has also been a vocal critic of the provisions of Bill C-62. In testimony before the Committee, Mr. John Bulloch, the CFIB's president described the tax as "...the absolute worst retail sales tax system in the world. It is the worst system that man could possibly devise." (49:10)

(148) This assessment of the tax was based on the lack of federal provincial harmonization as well as the use of a European-type invoice method GST. These features raise overall compliance costs of the tax. Moreover, there is a great deal of evidence to suggest that compliance costs weigh more heavily on small businesses than they do on larger firms.

A. Some International Evidence

(149) A recent study of the U.K. VAT shows that overall compliance costs have fallen by about 25% from fiscal year 1977-78 to 1986-87 demonstrating that experience with a taxation system can reduce the costs of compliance. This same study also showed that the costs for the smallest of firms rose over the same period.

These very high costs can be offset by making use of the small traders exemption. Nevertheless, small registered traders still face tax related costs (0.78% of taxable sales) which are many times higher than those faced by large traders.

(150) A study of American retail sales taxes shows that average compliance costs differ between states by a factor of almost 2, attributable mostly to differences in the tax base. It is the determination of the tax status of individual items which accounts for the bulk of compliance costs. As a consequence, food and drug retailers face the highest costs. Similarly, compliance costs increase as the taxation base in a state becomes narrower.

(151) These characteristics are consistent with those found in a number of other countries employing consumption taxes.

B. BTT Alternative

(152) At one point, the federal government gave serious consideration to a VAT alternative referred to as the Business Transfer Tax, or BTT. Under such a variant, traders would essentially calculate the difference between sales and purchases, and remit a tax which equals some proportion of that difference. Virtually all sales would be taxed at the same rate. The BTT alternative reduces private sector compliance costs enormously, but it also reduces the flexibility the Government has in establishing different tax rates for different products.

C. Zero-rating All Sales Between Businesses

(153) In the agricultural sector, a wide variety of transactions are zero rated. Thus traders do not have to collect taxes on sales and apply for credits on purchases. They must keep appropriate records to ensure that required taxes are paid. It has also been suggested that such a rule apply to all non-retail sales between businesses. Mr. Wolfe Goodman was a strong supporter of such a technique.

(154) Such a mechanism would not reduce paper burden for registered traders since they must still keep track of tax liabilities and credits. It would assist those who suffer a cash flow penalty under the GST, but most firms should experience a cash flow benefit. although it would benefit those who suffer a cash flow penalty under the GST. It would also not reduce the number of traders who must collect and remit taxes, since virtually all firms make some sales at the retail level.

D. Quick Method

(155) The federal government has responded to some small business concerns by offering a quick method of determining the amount of tax these firms must remit to the Government, expressed as a percentage of sales for various classes of business. Approximately 800,000 firms should be eligible to use this reporting method.

(156) Firms which stray from the value added norm for their class can benefit, or be disadvantaged by this quick method of accounting. It has also been suggested to the Committee that such accounting rules have not worked successfully in other countries.

E. Dual Tax Regimes

(157) With the GST, Canada would be unique amongst VAT nations by levying two distinct consumption taxes at the retail level. All of the compliance problems which may plague a VAT or the GST are amplified when combined with the existing provincial retail sales taxes.

(158) Business compliance costs would be increased dramatically under such a dual tax regime. The two most costly aspects of complying with a sales tax are the determination of an item's tax status and the determination of the appropriate tax. Each of these tasks must be performed twice under the system which is to be in place in 1991.

(159) The federal government has to date failed in its attempts to integrate its GST with provincial sales taxes. The Government of Quebec has recently announced its intention to integrate that province's sales tax with the GST in stages. It will tax the same product base as the GST in 1991 and extend this taxation to services in 1992.

(160) The CFIB has suggested a delay in implementing the GST until such time as three or four large provinces are ready to jointly implement a sales tax with the federal government. At the very least, Ontario and Quebec must co-operate prior to the introduction of the GST. While the decision of the Quebec government has gone part way to meeting the objections of the CFIB, reports that the governments of Alberta and British Columbia are considering a court challenge to the GST indicate that widespread harmonization is unlikely.

XI. TAX TREATMENT OF INDIANS

(161) Bill C-62 does not deal explicitly with the issue of taxation of Indians. However, section 87 of the Indian Act provides a tax exemption to Indians and Indian bands in regard to : 1) their personal property situated on the reserve; 2) any interest they may have in reserve lands or surrendered lands.

(162) According to the Government's interpretation of this section, the GST will not apply to purchases made by Indians on the reserve or to purchases off the reserve that are delivered to the reserve. A number of Indian groups believe that the Government's interpretation of section 87 is too narrow. They argue that exemption from all forms of taxation is an aboriginal right and that was the underlying rationale for section 87 of the Indian Act.

(163) Many Indian groups told the Committee that they should be exempt from federal taxation with respect to purchases made both on and off the reserve. This position is based not only on their interpretation of section 87 of the Indian Act but also on section 35 of the Constitution Act, 1982, and of individual treaties made with the Indians.

(164) The Assembly of First Nations contend that section 35 of the Constitution Act, 1982 exempts Indians from the GST. (Section 35 of the Constitution Act, 1982 "affirms and recognizes" the "existing aboriginal and treaty rights" of the aboriginal people of Canada.) Although the texts of the treaties do not refer directly to taxation, it has been suggested that the Indians understood when they signed the documents that they would not be subject to

taxation and in some cases had raised this with the Treaty Commissioners.

(165) The Yorkton District Chiefs Council brief to the Committee states that one of the promises made at the time of signing Treaty No. 4 was that the Indian people would not be subject to any form of taxation. The brief by Cowessess Indian Reservation #73 makes the same claim about Treaty No. 4.

(166) Other issues were also raised by the Indians including the take-up rate by Indians of the GST refundable credit which, according to testimony, is likely to be low given that a large proportion of Indians do not participate in the tax system.

(167) On behalf of the natives, the Committee has written to the Minister of Finance requesting that he meet with them.

XII. PUBLIC SECTOR ORGANIZATIONS

Background

(168) Under the GST most services offered by selected public sector organizations - municipalities, universities, schools, hospitals, colleges and libraries - the so-called MUSH sector, will be exempt from the tax and these organizations will receive a rebate for GST paid on their purchases. The amount of rebate provided to these groups has been determined through negotiations between the federal government and is designed to ensure that these organizations pay no more federal sales tax than prior to the imposition of the GST. The Committee heard evidence from representatives of several of these organizations about problems which they face with the implementation of the GST.

A. Municipalities

(169) The Federation of Canadian Municipalities has agreed with the federal government on a rebate of 57.14% of GST paid by municipalities, which translates into an effective tax rate of 3%. While this rebate formula ensures that municipalities overall will pay no more federal sales tax than prior to the GST, it provides only rough justice. The rebate percentage is calculated on the average federal sales tax paid by municipalities so that any particular municipality may pay more federal sales tax than previously, depending on the type of goods and services purchased. According to the Federation of Canadian Municipalities' brief, "...one-half of municipalities will have a greater tax burden after the implementation of the GST than before."

(170) The GST will also impose an administrative burden on public sector organizations which will be required to account for taxable and non-taxable services, input tax credits and rebates. While the compliance cost for larger municipalities may not be significant, smaller towns may find the system onerous. As the Federation of Prince Edward Island Municipalities explained to the Committee, "The constant process of determining the nature of a supply in order to determine which type of rebate or credit is applicable, and the claiming of rebates simply cannot be handled by small municipalities. Small municipalities simply do not have the capacity to act as the federal government's agents for the purposes of collecting and remitting federal tax."(50:114)

(171) The Federation of Canadian Municipalities agrees and noted that municipal operations are intrinsically complex and there is concern about the ability of small municipalities to comply with the GST. Consequently, FCM urges that provision be made for a streamlined accounting system for municipalities.

(172) The Federation of Prince Edward Island Municipalities also raised cash flow considerations about the tax. "Small municipalities, of which P.E.I. is made up, do not have a lot of 'spare' money to tie up, particularly in taxes waiting for rebate cheques to arrive. This cash flow problem should be a major concern to the federal government, which is familar with the pleas of municipalities." (50:114)

(173) Concerns about the GST are not exclusive to small municipalities. In Toronto, the Committee was told by a representative of that city's government that labour costs are likely to escalate due to the GST. The city is

in the last year of a two year labour contract with its workers and must enter negotiations in 1991 when it expects the price impact of the GST to reach a maximum. According to the testimony, it is likely that wage settlements will be two percentage points higher as a result of the GST thereby pushing up municipal taxes. As Councillor Jack Layton put it, "What will happen is that people will be circulating some additional money through the municipality to the federal governnment as a result of the GST, and no doubt the municipal politicians will pay the price for that, even though we have opposed the tax in the first place." (57:22)

(174) In Regina, the Saskatchewan Urban Municipalities Association (SUMA) identified a number of ongoing concerns it has with the GST. First, despite the 57% rebate, increases in the GST rate above 7% will increase the amount of tax paid by municipalities. Second, the inflationary impact of the GST will affect municipal costs and raise taxes. Third, the rebate system does not take into account the pyramiding of provincial sales tax on top of the GST.

(175) The fourth concern mentioned both by SUMA and The Federation of Canadian Municipalities (FCM) is the ambiguity in the definition of municipality in Bill C-62. The legislation permits the Minister of National Revenue to designate any local authority to be a municipality for purposes of the GST. However, it is unclear whether para-municipal organizations, such as non-profit housing corporations, would be designated as municipalities for purposes of receiving the 57% rebate. Further, since many municipal corporations do not receive at least 40% of their funding from government, they would not be eligible to receive the 50% GST rebate given qualifying

non-profit organizations. The Federation of Canadian Municipalities recommended that any para-municipal body owned or controlled by a local government qualify as a municipality.

(176) A further problem relates to an apparent bias in tax treatment of municipalities according to their structure. Some cities are organized along the "uni-city" model and perform all municipal services within their boundaries, while others have created regional governments that stretch across local municipal boundaries. The FCM notes that the supply of many goods and services between regional governments and municipalities will be taxable under the GST. The FCM recommends that supplies of goods and services between the members of a related municipal group should be tax exempt.

(177) The City of Edmonton strongly believes that electrical power, telephone and airport services, which it operates as municipal services, should not be taxable. The utilities provide about 15% of the city's revenues and are a valuable alternative to higher property taxes as a source of funds. The City of Edmonton maintains that taxing this source of revenue amounts to double taxation and runs counter to the commitment by the Minister of Finance that municipalities would not pay more GST than is imposed by the current FST.

(178) The City of Edmonton also expressed concerns about: taxing other basic municipal services including recreational services; the impact of the GST on rental housing especially low-income rentals; whether prices will reflect the removal of the current Federal Sales Tax; municipal administration costs of the GST; and the impact on para-municipal organizations. Representatives

from the City of Edmonton also confirmed earlier statements by officials from the City of Toronto that GST protection for wages is a major negotiating item for municipal unions.

(179) The Committee notes that both the City of Edmonton and the City of Toronto have suggested that the implementation date of the GST be delayed while the Saskatchewan Urban Municipalities Association expressed some concern over the short time before the 1 January 1991 implementation date.

(180) Finally, the Federation of Canadian Municipalities is concerned that, as currently worded, the legislation may not exempt municipal services such as garbage collection where these are supplied on behalf of the municipality, rather than by the municipality itself.

B. Universities and Colleges

(181) As with municipalities, the 67% rebate offered to universities and colleges is designed so that this sector does not pay any more federal sales tax under the GST than it pays under the current system. However, since the rebate is based on the average tax paid by the entire sector, some institutions would pay more federal sales tax than before while others will pay less. The brief by the Canadian Association of University Teachers notes that while larger institutions may be able to avoid an increase in sales tax by self-supplying some goods and services, this option may not be open to smaller institutions.

(182) Evidence from the Canadian Federation of Students suggests that universities and colleges offering courses

requiring equipment that is currently non-taxable would be most affected by the GST. These include schools of Medicine, Dentistry, Engineering, Veterinary Science and research oriented universities.

(183) CAUT also notes that a fixed rebate percentage is only revenue neutral with respect to the educational sector if the GST rate is maintained at 7%. Once the GST rate increases, either the rebate percentage must increase or the sector's total tax bill will rise. CAUT suggests that a 100% rebate system be available to public sector institutions or that universities and colleges be accorded tax-free status.

C. Hospitals

(184) Although currently Canadian hospitals do not pay Federal Sales Tax on major purchases, it has been estimated that they still pay about $60 million annually in FST. As a result of the committment not to impose a greater sales tax burden on the hospitals than under the current system, the federal government and the hospitals agreed to a rebate percentage of 83%. This was a second best option for the hospitals who would have preferred a zero-rating for all non-profit health care facilities.

(185) The Canadian Hospital Association explained to the Committee that it is still concerned with several aspects of the GST including the administrative complexity of the tax and its impact on cash flow for the sector. The administrative systems to calculate the input tax credits and GST rebates have to be developed and staff must be trained in its operation. The Association informed the Committee that it will be impossible to have the new system operational by the proposed implementation date of

1 January 1991 and recommended that it be delayed for 8 to 10 months.

(186) Cash flow is another important consideration for hospitals. Although the MUSH rebate system should not raise the tax load of the sector, it will have a detrimental effect on cash flow. Previously, major hospital purchases were exempt from federal sales tax at the point of purchase. Under the new system, institutions must pay the GST on purchases then later apply for a rebate of 83% of the tax paid. An early estimate by the Canadian Hospital Association, based on a rebate of 80% and a three-month delay between the time of purchase and receipt of a rebate, found that the GST could reduce cash flow in Canada's public general hospitals by $95 million.

XIII. CO-OPERATIVES

(187) The Committee heard from co-operatives about serious problems that the GST would generate for their organizations. The first issue relates to the taxation of share capital. Unlike purchases of shares in corporations, which are exempt from GST, share purchases in co-operatives are subject to the tax. The reason for this is that the Government considers the purchase of shares in a co-operative to include membership that carries with it additional benefits in the form of reduced prices that are not available to non-members. In effect, the Government is treating the purchase of co-op shares in a similar fashion to buying a golf club membership.

(188) The co-ops contend that taxing the issue of their share capital places them at a disadvantage in raising capital in relation to competitors which are not structured as co-ops and consequently do not charge tax on their share capital. As Mr. Pobihushchy from Co-op Atlantic put it, "The GST, as it is now designed, will require the payment of a 7% tax on co-operative capital. That kind of tax will not be required on the shares in Loblaws or McCain's or a host of other firms with whom co-ops have to compete. This, we estimate, will cost the co-op system a minimum of $400,000 per year." (53:94)

(189) The brief received in Regina from Federated Co-operatives Limited states their case succinctly. "We strongly disagree with this proposal. First of all, financial services are exempt of GST. 'Financial services' are defined as including the issue, allotment, or repayment of a 'financial instrument'. A 'financial instrument' is defined as among other things an 'equity security'."

(190) "Co-operative shares have consistently been regarded as equity. First for income tax purposes, co-operative capital is treated like other corporate capital. Second, in accounting practice, co-operative capital is indistinguishable from the captial of other business in the equity section of the balance sheet. Third, a statute of Canada, the Canada Co-operative Associations Act, defines a co-op share in the manner of a financial instrument. Therefore, from an accounting and income tax perspective co-operative shares are an 'equity security'."

(191) A second problem with the GST concerns the taxation of fees which some co-ops, called direct charge co-operatives, levy on their members to recover a portion of cost overhead. The direct charge co-operative, which is the fastest growing form of retail co-op in Atlantic Canada, charges this weekly fee in lieu of a higher shelf markup on each item sold. In contrast, a normal store recovers 100% of its cost overhead and profit through price markups. Under the GST, the total price of most goods, including the markup, would be subject to tax but some items, such as food and prescription drugs, are non-taxable. To the extent that a direct charge co-op recovers its fixed costs through the taxable, direct charge method rather than by marking up non-taxable items such as food, its rate of taxation under the GST will be higher.

(192) Thus, direct charge co-ops selling groceries will be at a competitive disadvantage vis a vis the large grocery chains. Again, to quote Co-op Atlantic, "We find that is not fair or equitable. This tax will cost these co-operatives and those owners of those businesses something in the order of $275,000 in the first year of the

GST." (53:93)

(193) A third problem with the GST stems from the way in which co-operatives are structured. Under the Co-op structure, the central co-op buys the goods and, with the exception of some items such as food, would pay GST on these. It then sells the goods to the local co-ops, which would pay any GST on the products and sell them to the individual members. Both the central and the locals would also have to account for their input tax credits. In effect, the structure of the co-ops means that there is one additional accounting step in comparison to supermarket chains which have only to account once for any GST payable and only need to charge the tax a single time. Co-op Atlantic calculated that the extra administration burden will cost their system an additional $400,000.

XIV. TOURISM

(194) The tourism sector employs 1.2 million Canadians and generates $24 billion in revenues. The industry is comprised mainly of small to medium sized businesses and creates more new jobs than any other sector. It is Canada's second largest export activity.

(195) The Tourism Industry Association of Canada (TIAC) testified before the Committee and painted a bleak picture for tourism in Canada, one that will only get worse with the GST. Foreign visits to Canada are declining while Canadian trips abroad are increasing. Canada's share of the world tourism market is declining.

(196) Most tourism trade is between Canada and the United States and residents of both sides of the border are aware of higher Canadian prices on a wide variety of items, most notably alcoholic beverages and gasoline. To the extent that the GST further heightens these price differentials, it will lead to an increasing deterioration in our tourism balance. This will put at risk 28,000 jobs and $500 million in spending in Niagara Falls, 48,000 jobs and $2,750 million in Vancouver, etc.

(197) The effect of the GST on tourism services can be seen by examining some of the goods and services that are consumed by tourists and contrasting the amount of GST paid with the amount of FST paid. The Statistics Canada Social Policy Simulation Database and Model provides an opportunity to compare the effective FST and GST content in a variety of expenditure categories. The tax content of expenditures in hotels and restaurants will increase by almost six times, from 0.9% under the FST to 6.04% under the GST. For recreational services the tax content

would increase from 1.4% to 5.4%. The tax content in local and inter-city transportation would double under the GST, from 3% to 6.4%. These products are consumed intensively by tourists and the GST will significantly raise the cost, to both non-residents and residents, of tourism in Canada. Canadians will not be eligible for a tourism rebate. Foreigners will be eligible for a rebate on a select package of goods and services only.

(198) The provisions of Bill C-62 attempt to address some of the problems that the GST poses for foreigners coming to Canada, but it still leaves the problem of discouraging Canadians from travelling in Canada. In particular, this tax will apply to Canadians who travel domestically for recreational purposes but not when they travel abroad, although air travel to the United States will be taxed. Any existing price advantage to vacationing in the United States will be enhanced with the GST. The recommendation by TIAC to reduce the tax rate to 5% and tax all goods and services, addresses this problem to a partial extent, but the GST, by its very nature, makes domestic tourism spending by Canadian households less attractive than foreign tourism spending.

(199) The federal government is attempting to alleviate some of the adverse consequences of the GST on foreign tourists in Canada. Under the provisions of Bill C-62, the Government is offering a rebate to foreign tourists to Canada of the GST paid on accomodation in Canada and goods taken outside of the country. The minimum rebate will be $20 and can be claimed four times per year. The Government has not yet decided the exact mechanism for the rebate's delivery. One possibility is to offer it at exit points such as duty free shops. Tourists would also be free to apply for the rebate after leaving Canada.

(200) This rebate mechanism is a means of treating tourist expenditures in Canada in a manner which is consistent with the treatment of exports. Goods exported from Canada are zero rated and there is no reason why effective exports by foreign tourists should be treated differently. Although foreign tourist spending in Canada can be viewed as an exported service, not all of these expenditures qualify for the tourist rebate. TIAC takes the position that any service which generates foreign exchange is an export and should be free of tax, not just spending on accommodation and goods taken out of the country. Outfitters and guides argued before the Committee that packages sold to foreigners should be treated in their entirety as an export and zero rated.

(201) On logical grounds, all spending by foreigners in Canada should be free of tax. The issues to consider in eliminating the taxation of tourism are the extent to which there will be a tourist rebate leakage, benefitting domestic tourists as well as foreigners; the extent to which compliance costs are increased if the rebate is to be offered at the point of sale; the possibility of offering the tourist rebate in such a way as to encourage the funds to be spent in Canada; and the possible deleterious effect the provisions of Bill C-62 might have on tourism in Canada.

(202) Numerous groups have suggested recommendations which they claim can be put into place with little administrative cost. For example, point of sale rebates can be granted for hotel accomodation on the basis of identification provided by guests. And if a rebate is to be granted at point of sale, no need for a minimum rebate exists. Consequently, the $20 minimum should be eliminated as was suggested by Tourism Vancouver and the Vancouver Hotel

Association.

(203) In keeping with the principle that spending in Canada by foreigners constitutes an export and should be free of tax, the Guide Outfitters Association of British Columbia recommended that packages sold to non-residents should be entirely free of tax. Similar recommendations have been made with respect to tour packages sold to foreigners and conventions and conferences attended primarily by non residents. One the surface such extensions of tax-free status could cost the Government some tax revenue but all interested witnesses before the Committee noted the strong price sensitivity of tourism spending. The Government might actually be engaging in false economy by trying to tax tourist spending.

(204) The impression already exists in the United States that the GST will make Canada an undesirable tourist destination. To quote the U.S. based National Tour Association, (NTA) "..the GST promises to make Canada too expensive for many NTA members to market effectively...with the establishment of the 7 per cent tax, NTA is extremely concerned about the implications it will have on our tour company members who operate tours into Canada. The increases brought on by the tax will force an escalation in the price of Canadian packages, and Canada could no longer be a marketable destination."

(205) This same concern is found in the presentation of the Guide Outfitters Association of British Columbia. Their product is very high value, price sensitive and caters predominantly to non-residents. As that brief states, "The British Columbia destination has to compete not just with other destinations in North America ... but also with more exotic alternate destinations, such as Russia,

Mongolia and Africa..." Since the guide product today contains very little FST, prices will rise by 7% with the introduction of the GST.

(206) While such exotic vacations may suffer from the imposition of the GST, its greatest impact is likely to be on the more common type of foreign visits, the weekend trips and short vacations which characterize most American visits. Americans are by far the most frequent visitors to Canada. One appeal of Canada is the fact that it is similar to the United States and Americans therefore feel comfortable here. The GST is a tax which is completely alien to Americans and is likely to make our country a less attractive destination. It will also add to the cost of vacationing here, a cost which Americans already realize is higher than that back home.

XV. GST AND HEALTH CARE

A. Institutional Health Care

(207) The approach taken to health care services by the GST is to exempt these when provided as part of institutional health care within a health care facility. Otherwise, to qualify as exempt, health care services must be offered by one of the "practioners" recognized in the legislation. Under Bill C-62, institutional health care services are tax exempt when provided within a health care facility such as a hospital, institution for the mentally disordered, nursing home, or a facility offering similar services for children. The exemption covers charges for accomodation, meals and health and personal care services including supplies of medical equipment.

• Long-term Care Facilities

(208) Under the GST, long term care facilities are treated differently according to their ownership and funding. For instance, public sector facilities such as chronic care hospitals and municipal homes for the aged are exempt from the GST and are eligible to receive the 83% rebate of GST paid on inputs offered to the hospital sector. Non-profit nursing homes are also exempt from the GST and are defined as charities under subclause 259(1) of Bill C-62 for purposes of obtaining the 50% rebate that is available to charities. Private sector nursing homes operated for profit are exempt from the GST but are not eligible to receive any rebate for the GST they pay on their inputs.

(209) Organizations such as the Ontario Nursing Home Association and the Canadian Long Term Care Association

called for equitable treatment of private sector nursing homes so that their tax burden does not increase. It was pointed out that the increased costs imposed by the GST will have to be made up by the beneficiaries of the care or by provincial governments that fund care on a per patient basis in private sector facilities.

B. Health Care Practitioners

• Physicians

(210) Since their services are tax exempt under the GST, physicians would neither charge GST for their care nor would they be able to claim input credits for tax paid on their purchases. Although medical doctors already pay some Federal Sales Tax on their purchases, the substitution of the GST is likely to raise the total sales tax bill of physicians. The Canadian Medical Association told the Committee that the tax paid on doctors' purchases would increase by an estimated $1,596 for a general practioner operating a solo medical practice in Ontario and by $2,748 for an opthalmologist.

(211) Other self-employed practioners such as dentists are expected to raise their fees to allow for the increased tax paid on purchases. However, medical fees are set by provincial health authorities who have indicated that they will not increase the fee schedule to accomodate the GST, according to evidence received from the Canadian Medical Association.

(212) Further, extra-billing outside the fee schedule is prohibited by provincial and federal legislation. In effect, physicians' services will be tax-free to the patient with the GST being borne by doctors in the form

of lower incomes.

(213) The Canadian Medical Association recommended that the increased tax burden imposed by the GST be alleviated either by providing doctors with an annual rebate similar to that given to hospitals or through a special income tax deduction reflecting the amount of GST borne by doctors.

(214) It is uncertain whether the GST would apply to membership fees in the Canadian Medical Protective Association (CMPA), an organization which provides professional liability insurance to physicians. However, the primary service being provided by CMA is insurance and financial services are exempt under the GST. This implies that membership fees in the CMPA should be accorded similar treatment. If the Government decides otherwise, the tax paid on membership dues would amount to over $800 for some medical professions such as orthopaedics, obstetrics and gynaecology, according to the CMA.

(215) The CMA brief to the Committee recommended that the Government of Canada grant tax-exempt status to the "supplies" by the CMPA as a non-profit association or in a manner consistent with analogous financial services by explicitly including membership in CMPA as a supply within the terms of section 1 of Part VII of Schedule V, "a supply of a financial service that is not included in Part IX of Schedule VI."

(216) The CMA also argued that the schedule of tax-free medical devices in Bill C-62 should be expanded to include certain expensive medical equipment since some medical specialists, such as pathologists and radiologists, who require extensive equipment will be relatively more

affected by the GST than other practioners. The capital intensive medical practices offering radiology and X-ray services in private clinics will also be disadvantaged vis-à-vis hospitals that provide comparable services yet receive a rebate of 83% of the GST paid.

• Psychoanalytic Psychotherapists for Children

(217) The Canadian Association of Psychoanalytic Psychotherapists for Children (CAPPC) represents 18 individuals who work with disturbed children to try to restructure their personalities. Although Bill C-62 provides an exemption for practioners who supply psychoanalytic services, this is limited to those groups with at least 300 members of which two-thirds are medical practioners. CAPPC members would not qualify under this section since they are only 18 in number and are not required to be medical practioners.

(218) The President of CAPPC, Ms. Rhoda Wolpert, suggested that the Bill be amended to provide an exemption for their services. The witness cautioned that taxation of their services could raise the price beyond the ability of some families to pay with the consequence that some children might not receive treatment. She stated, "We think that psychotherapy is not a luxury. When a child is in emotional trouble and needs the service, the family and the child should not be penalized by having to pay an additional tax." (47:47)

• Massage Therapists

(219) The August 1989 GST Technical Paper notes that all health care services in the list proposed for exemption from the GST are funded in whole or in part, by health insurance

plans in two or more provinces. The brief received from the Ontario Massage Therapists Association notes that, although the test of at least partial coverage by medical insurance in two provinces, British Columbia and Ontario, had been met, their services are considered taxable under the GST. An exception would be made when the patient is referred by a physician or other recognized health care practitioner. The Association stated that massage therapists treat a wide variety of medical conditions including auto-related injuries and post-surgical rehabilitation in various settings including hospitals and nursing homes. The Ontario Massage Therapists Association requested that Bill C-62 be amended to include massage therapy services in the list of exempt health care services.

• Dietitians

(220) The Canadian Dietetic Association, representing 4,500 dietitian-nutritionists in this country, told the Committee that, although their services are integral to the health care system and would be exempt when provided within a health care institution, these services would be taxable when provided in other circumstances. As the dietitians' brief states, "Taxation of community based services suggests that there is a difference in value placed on services provided by dietitians in institutions and those provided by dietitians in private practice."

(221) This inequity was underscored by the Consulting Dietitians of Canada, an organization representing dietitians operating entirely in private practice. Consulting dietitians offer their services to a variety of clients including individuals requiring nutrition counselling or home care in addition to hospitals and

other health care institutions. However, since they are not employed directly by these institutions, the consulting dietitians believe that their services will be taxable under the GST even when supplied to hospitals. The dietitians are seeking an amendment to Bill C-62 to include dietitians among the health care practitioners whose services may be offered exempt from GST.

- Social Workers

(222) Social workers are another group which provides health care-related services both inside and outside health care facilities. According to the Canadian Association of Social Workers, Health and Welfare Canada recognizes the contribution of social workers, along with psychiatrists, psychologists, nurses and others, to the development of Canada's mental health services. Yet, Bill C-62 fails to treat social workers in the same fashion as these other health care professionals and exempt their services from the GST.

(223) The Canadian Association of Social Workers suggests that until the Government and the Association are able to arrive at an acceptable definition of exempt social work services, Bill C-62 should be amended to permit, at a later date, the inclusion of other health care paractioners by means of regulation.

- Home Care Services

(224) A number of groups told the Committee of an apparent bias in Bill C-62 towards institutional health care and away from home-based care. Although some types of health care, such as nursing services or other professional health services, will be exempt from the GST when provided at

home, others, such as homemaker services, will not be exempt unless provided by a government or municipality or by a non-profit organization funded by a government or municipality. Homemaker services provided for profit would constitute a taxable supply. This could discourage some individuals from moving from a hospital, or other institution, to their home.

• Veterinarians

(225) The Canadian Veterinary Medical Association requested two amendments to Bill C-62. First, they suggested that the veterinarian profession be designated a health care profession because in dealing with the treatment of animals intended for human consumption it is protecting humans against contagious diseases. They also emphasized their involvement in the inspection of foods for human consumption. Second, the veterinarians requested that veterinary medicines be zero-rated.

(226) It should be recognized that an exemption for veterinary services means that the tax paid by the vets on their inputs would be passed along to farmers in the form of higher prices but without permitting farmers to claim an input tax credit. Thus, food would no longer be completely tax free.

• Christian Scientists

(227) The Christian Scientists are also seeking equal treatment under Bill C-62 for their health care providers. The Committee was told that Christian Scientists, who practice healing through prayer and spiritual means, would be required to charge GST on the services provided by their practioners, nurses and sanatoria. According to

the evidence, Revenue Canada already recognizes payments to Christian Science practioners and nurses as eligible medical expense deductions under the Income Tax Act. In that case, it would seem inconsistent and unfair of the Government to apply a sales tax to payments for healing by prayer while also providing an income tax deduction for the same service.

(228) Health care services provided by specific health care practitioners would also be exempt from the GST without limiting the location of their delivery to health care facilities. This includes the following health care services: physicians' services, nursing services, dental services, optometric services, chiropractic services, physiotherapy services, chiropodic services, podiatric services, osteopathic services, audiological services, speech-therapy services, occupational therapy services, and psychological services.

C. Other Health Care Issues

• Prescription Drugs

(229) The Canadian Medical Association believes that the GST, as proposed, is likely to increase the incentive for individuals to obtain over-the-counter drugs by prescription. Drugs, such as acetylsalicylic acid (aspirin), can be obtained either over-the-counter or by means of a prescription. When purchased over-the-counter, the price is lower but purchasers must pay with their own funds. When purchased by prescription these drugs are free or heavily subsidized by voluntary drug insurance plans or by drug plans for those over 65 years of age. Prescription drugs are cheaper to the recipient but more expensive for the health care system, which pays

the cost of the drugs including the extra prescribing and dispensing fee. Application of the GST to over-the-counter drugs would further raise the cost of these relative to subsidized precription drugs.

XVI. GST AND PREPAID FUNERALS

(230) The Funeral Service Association of Canada appeared before the Committee in Halifax and identified funeral services as an essential service that should not be taxable. The Association stated, "We believe that every Canadian has a right to a burial or a cremation according to the rites and practices of his or her religion and cultural heritage, and that Canadians find it offensive for the Government to tax those services." (53:29)

(231) Aside from its overall objection to being taxed, the Association raised an issue about the taxation of prepaid funerals. Under a prepaid funeral arrangement, a price of a funeral is set and money is paid into a trust account prior to the death of the person. This money, and any accrued interest, cannot be obtained by the funeral director until the time of the person's death. Revenue Canada apparently acknowledges that while these funds remain in trust, for income tax purposes, they do not represent income to the funeral home. However, according to the Association, Revenue Canada is taking the view that "where a client prepays for funeral services the client is providing consideration to the funeral home and the GST will be payable." The Funeral Service Association believes that since no funeral has been supplied and no money has been recieved by the funeral director, there should not be any GST payable.

(232) The Committee also heard from the Ontario Funeral Service Association that it has been given a number of conflicting opinions from Revenue Canada on when the tax is to be collected and when it is to be remitted. Some of the questions left unanswered include:

1) Should the tax be collected at the time of the

prearrangement or when the funeral service is provided?

2) Should the tax be remitted at the time of the prearrangement or when the funeral service is provided?

3) Should the amount of tax collected be based on the original deposit or on the amount in the trust account at the time of death, which includes accumulated interest?

(233) As of 29 August 1990, three days before they were due to begin collecting the GST on prepaid funerals, representatives from the Ontario Funeral Services Association stated that they were confused about how to apply the GST. At that time, they were still being given conflicting advice from Revenue Canada on the matter.

(234) A representative from the Funeral Service Association suggested that no input tax credits would accrue to a prepaid funeral entered into prior to September 1, 1990 since payments for these do not attract GST. Specifically, subclause 344(2) of Bill C-62 provides that the GST will not be payable for prepaid funeral services after 1990 where the arrangement for the funeral services is entered into before September 1990 and the money paid under the prepayment contract is held by a trustee who is responsible for obtaining the funeral services. In addition, the money paid pursuant to a contract entered into before September 1990 is not subject to GST.

(235) However, the Goods and Services Technical Paper states that, "There will be no requirement to match purchase and sales records prior to claiming an input tax credit on a particular purchase." Furthermore, on inspection, Bill C-62 would not appear to disallow claiming input tax

credits for expenses incurred on funerals that, because of the early prepayment date, were not subject to GST. The Committee has sent a letter to the Minister of Finance asking for a clarification on the matter of claiming input tax credits on expenses incurred on prepaid funerals that did not attract GST.

XVII. GST AND EDUCATION

(236) Most witnesses from the educational sector expressed outright opposition to the GST in principle. Beyond that, they identified a number of specific areas of concern with the tax, which could affect negatively the educational system in this country.

(237) Bill C-62 would exempt from GST payment for credit courses toward a diploma or degree, or courses in English or French or occupational training but would tax non-credit courses or courses that are not part of a recognized job training program. Witnesses from the educational sector, such as the Canadian Association of University Teachers (CAUT), the Alberta Association for Continuing Education (AACE) and the Canadian Federation of Students (CFS) found this unacceptable. The AACE noted that non-credit learning courses are no longer offered purely as hobbies but are "intended to satisfy objectives related to employment opportunities, career plans or personal, family and/or community development." Furthermore, a distinction should not be made since, according to the Canadian Federation of Students, "Education is inherently beneficial to society regardless of a course's credit or non-credit designation."

(238) The Canadian Federation of Students also decried the taxation of textbooks and other educational materials that must be purchased separately by students. The Federation emphasized that students could be adversely affected by the GST since many would not qualify for the full refundable credit provided to single persons. They told the Committee that only 22.3% of post-secondary students earn incomes in excess of $10,000 whereas, under the GST, an individual's income must be at least $11,169

to qualify for the full $100 singles credit.

(239) The Alberta Association of Continuing Education also recognized that the GST will involve a significant degree of administrative complexity for universities and schools. Since credit courses are exempt while non-credit courses are taxable, two financial administration systems will have to be set up so that input tax credits can be allocated and claimed against taxable courses. With respect to capital goods and real property acquired by schools and universities, if these are for use "primarily" in a commercial activity (non-credit courses) the acquisition is eligible for a full input tax credit otherwise no part of these qualify for an input tax credit. Other taxable expenses such as heating and lighting will have to be apportioned between taxable non-credit courses and non-taxable credit courses in order to claim the relevant input tax credits.

(240) The Canadian Association of University Teachers raised the possibility that research grants provided to universities might be subject to GST. If this were true it could have a serious effect on research and development in this country. As CAUT told the Committee,

(241) "The ministers, particularly the Minister of State for Science and Technology and others as well, have repeatedly urged the university sector to develop, expand and adapt research so that we can be more competitive with the United States, Japan and the European common market."

(242) "Therefore, you would think that if this is as high a priority as the Government tells us it is, it would spell out what the tax position is going to be for research in

the legislation, yet that has not happened. There is a deafening silence as to how this is going to work out, which produces a great deal of uncertainty for universities and for our members."(47:105)

(243) The Committee is awaiting a response to a letter which it sent to the Minister of Finance seeking a clarification with respect to the GST - status of research grants.

XVIII. GST AND INTERNATIONAL TRADE

A. Customs Brokers

(244) Customs brokers define their own role as, "to arrange for the release and entry of imported goods by preparing and presenting import documentation and by paying the applicable duties and taxes owing on the goods on behalf of the importers." (44:6) They told the Committee that the GST would greatly increase the financial exposure of customs brokers since the amount of duty and taxes they collect would increase dramatically. In 1989, customs brokers collected $6 billion in duty and taxes; under the GST this is expected to increase by 125% to an estimated $13.5 billion.

(245) The customs brokers argue that the GST is especially burdensome for them. While the sales tax liability for many registrants is increasing by up to 7%, they are eligible to claim input tax credits. Customs brokers would not be permitted to claim input tax credits for GST paid on behalf of clients despite a 125% increase in liability to the Government. Furthermore, while domestic vendors can offset any GST remitted to the Government on bad debts, customs brokers believe that they are not permitted the same bad debt protection. For instance, if a customs broker undertakes on behalf of a client to pay the GST owing on a shipment and the client subsequently refuses to pay the broker, the customs broker is still liable to the Government for the full amount of the GST.

(246) Both the Canadian Association of Customs Brokers and the Canadian Importers Association told the Committee that customs brokers have less GST bad debt protection than do other registered taxpayers. They suggested that customs

brokers should be able to claim an input tax credit for the full amount owing the Government if their client does not reimburse them for the GST which the customs brokers undertook to pay on behalf of the client at the time of importation.

(247) In response to a set of questions provided by the Committee, the Minister of Revenue stated that Customs Brokers have "exactly the same protection as other registered taxpayers with respect to bad debts." He noted that customs brokers could claim an input tax credit for any tax already remitted on the customs service fee in the same proportion as the bad debt in respect to the fee. However, the Minister stated that where a customs broker has undertaken to pay the GST on behalf of a client, "it would not be appropriate for the Government to underwrite these financial arrangements simply because they are in respect to a tax."

B. Exporters

(248) The Canadian Exporters' Association raised a point with respect to the payment of GST on imports, which are subsequently incorporated in other products and re-exported. Under the current system, these imports are exempt from the Manufacturers' Sales Tax but under the GST they will be subject to tax at the time of importation with subsequent recovery by claiming the input tax credits. The problem is essentially one of cash flow with the input tax credit claimable at the end of the month following importation with a further 21 days delay before the Department of Revenue is liable for interest on the amount due. The Canadian Exporters' Association stated that settling the problem would require an amendment to the legislation.

(249) The Council of Canadian Trading Houses told the Committee that commissions earned by trading houses in acting for exporting manufacturers would be subject to GST. These commissions are not currently subject to sales tax.

(250) The Council of Trading Houses also called for zero-rating of supplies made to exporters who are acting on a merchant basis and cannot, for commercial reasons, disclose the export destination to the supplier. Under the GST, the supplier, not the exporter, is required to provide evidence of export. Thus, the supplier will have to complete a sale to the exporter and charge GST in order that the exporter may qualify to provide evidence of export. Although the exporter will be entitled to claim an input tax credit, this will add to financing costs.

C. Periodicals

(251) The Periodical Marketers of Canada raised the cash flow consideration that they would have to pay GST on periodicals at the time of import notwithstanding the fact that some 50% of periodicals and books are returned due to non-sale. The Periodical Marketers called for an exemption from GST at the time of importation.

(252) In response to a request for clarification on this matter, the Minister of Revenue noted that the Periodical Marketers would be eligible for an input tax credit at the time of importation and would not have to wait for the items to be sold to claim the credit.

(253) The Minister's response ignores the fact that input tax credits, although nominally claimable at the time of

import, are actually eligible to be filed no sooner than the end of the month of importation. Furthermore, Revenue Canada does not begin to pay interest on the claim until a further 21 days after the claim is received by the Department.

(254) The Periodical Marketers also raised the possibility that Revenue Canada regard their distribution practices as ineligible for the consignment provisions of the GST legislation. For goods on consignment, title does not transfer until the goods are resold by the consignee. Therefore, liability for the GST also would not arise until that time. However, where the consignee supplies these to another person and an invoice is still not issued by the original consignor the general override rule prevails. This states that liability arises on the month following the month in which the supply is made.

(255) The Minister's response to the periodical marketers allegation indicates that the GST liability arises at the end of the month following the month in which the publisher consigns the periodicals to the distributors where the distributors have re-consigned them to other trade levels such as wholesalers or retailers. Apparently, reconsignment of the periodicals to further trade levels constitutes completion of the supply by the consignee that reestablishes the general GST timing rules (including the override clause) with respect to payment of the GST. (Under a "true consignment" arrangement the GST liability would not arise until the goods on consignment were sold.)

D. Non-registrant Foreign Telecommunications Carriers

(256) Unitel Communications Inc. raised the possibility that under the GST foreign telecommunications carriers and resellers might have an advantage over domestic carriers in leasing and reselling dedicated telecommunications lines within Canada. Dedicated telecommunications lines extend between two locations and are rented to large users of telecommunications services at a fixed monthly rate rather than on a per call basis. When supplied by one Canadian business to another Canadian business, rental of such dedicated lines would be a taxable service under the GST.

(257) However, under section 7(a) of Part V of Schedule VI (zero-rated supplies) Bill C-62 states that telecommunications services which are provided to non-residents are considered zero-rated when the non-resident is not a registrant under the GST and carries on the supply of a telecommunication service. According to evidence received from Unitel, this means that a non-resident may lease a line in Canada without paying GST and where that non-resident is also a non-registrant may resell that line to a user in Canada without charging GST on the sale. Unitel believes that, although the foreign firm is making a sale within Canada, it would not be required to be registered because it does not have a permanent establishment in Canada. If true, this would place Canadian telecommunication companies at a distinct disadvantage vis-à-vis foreign firms.

(258) Unitel suggests that a similar advantage for foreign firms exists in respect to the leasing and reselling of dedicated international telecommunication lines. The witness recommended two amendments to ensure that non-

resident businesses which carry on the business of leasing and reselling dedicated telecommunication lines or facilities in Canada are subject to the GST.

XIX. FLOWER WIRE SERVICES

(259) The sale of flowers via a wire service involves three separate agents: the sending florist; the wire service; and the receiving florist. As the industry understands the GST to work, each agent will have to collect and remit the tax, being eligible for the appropriate input tax credit. This creates excessive compliance burden on the floral industry and poses a problem for incoming wire services because a sending florist in another country is under no obligation to collect and remit GST. The receiving florist in Canada might be liable for the GST that the sending florist failed to collect.

(260) The Canadian provinces with sales taxes all tax outgoing orders but not incoming orders.

(261) Flowers Canada recommends that the GST be applied to the full value of all outgoing orders, even those which are exported. No GST should be applied to incoming orders, even those from other countries. These recommendations are designed to reduce the administrative and compliance burden associated with the GST. They are expected to be revenue neutral.

XX. GST AND GENERAL INSURANCE

(262) The property and casualty insurance industry supports the GST. Its product is exempt from the tax.

(263) The Committee has heard evidence from the Insurance Bureau of Canada and several general insurance companies regarding the impact of the GST on that industry. They argue that general insurance is not a financial service and therefore should not be exempt. Exempting this service will have the effect of taxing capital and reserves to the amount of about $350 million. Removing this much money out of reserves and capital would seriously limit the ability of these companies to grow and expand. Making general insurance subject to the GST will allow insurance companies to claim an input tax credit, while exempt status does not grant this.

(264) The industry is seeking relief in two areas. Retroactive taxation occurs when a claim is incurred prior to 1 January 1991, yet some GST is effectively levied on the claim because it is not fully settled before 1991. Such claims will be subject to tax, yet the industry had no opportunity to provide for such an eventuality by charging higher premiums in the past. Thus reserves for such eventualities are inadequate and the industry wants relief from this tax.

(265) There is also a transitional problem. Current premiums are used to fund future claims which will be subject to the GST. These premiums have not been adjusted for the GST. Thus revenue is not increased while it is fairly certain that expenses will rise due to the new tax. Making insurance premiums subject to the tax would enable these companies to obtain an input tax credit on any GST

on claims.

(266) These reductions in reserves will likely take about 5 years to be fully effective, with 60% of the reduction occurring in 1991 and 1992. While the industry total is dramatic, it is only at the company level that its significance is evident. The impact of the GST could cost Laurentian Pacific Insurance Company a total of $1.571 million in 1991 and 1992. This compares to total profits in 1988 and 1989 of only $1.095 million. The total penalty to Royal Insurance Canada is estimated to be $25 million, equal to 3.6% of shareholders equity while Zurich Canada could lose $19 million in reserves.

(267) While several suggested solutions were presented to the Committee, the most notable came from Laurentian Pacific's brief which stated that "The easiest form of relief and the most beneficial to the country would be for the Government <u>to make general insurance premiums subject to the Goods and Services Tax</u>." (emphasis in original)

XXI. EXPORT OF ADVISORY SERVICES

(268) Bill C-62 provides that the export of goods and services be free of the GST. In testimony before the Committee, it was claimed that some forms of export will be subject to tax.

(269) Part V of Schedule VI of the Bill lists the exported supplies which are to be zero rated. It includes specifically under paragraph 7(a) advisory and consulting services to non-residents. It excludes specifically under paragraph 7(d) the services of acting as an agent for a non-resident.

(270) The matter is further confused by paragraph 5(a), referring to supplies made to non-residents consisting of services of acting as an agent which are to be zero rated.

(271) AMI Asset Management International Inc. provides investment advisory services to non-residents and has the authority to act as agents for its foreign clients. In testimony before the Committee, this firm noted the intent of the legislation to free exports of the GST. According to the witness, officials of the Department of Finance concur that such advisory services to non-residents should be free of the tax, whether provided through an agent or not.

(272) The witness provided the Committee with possible amendments to the Bill to clarify the tax status of such services.

(273) A similar point was raised by the Patent and Trademark Institute of Canada. That witness also made reference to

paragraph 7(d), stating that the reference is ".. unnecessarily broad and would catch lawyers, patent agents and others who are providing a professional service to their non-resident clients but are also acting as agents for the principals."

XXII. DUAL TAX SYSTEMS: THE CASE FOR INTEGRATION

(274) A unique feature of the proposed Canadian tax system as of 1991 is the fact that two distinct forms of consumption tax would apply at the retail level in most of the country. These taxes would have separate bases and different rates of tax. Retailers would have to determine the tax status of each item under the GST and impose the appropriate tax rate. They would then have to perform a similar determination with respect to the provincial tax. For small businesses in particular, this could entail high compliance costs.

(275) Numerous witnesses pointed out the unneccessarily high compliance costs of a dual tax system. The St. John's Board of Trade referred to this lack of integration as "the most serious shortcoming of the GST" and indicated that "small businesses will be faced with an administrative nightmare." (52:76) The Canadian Federation of Independent Business was equally harsh in its condemnation of a dual tax system. The CFIB brief to the Committee stated that "The most serious problem with the proposed GST from the perspective of small firms is that the tax is not harmonized with provincial systems... Some of the worst situations will be faced by retailers dealing with goods that are treated differently under their provinces' retail sales tax compared to their treatment under the GST. Small grocery stores, combination food stores and restaurants face some of the worst nightmares as the absurdly complex rules applying to food and the way in which it is sold will render compliance extremely difficult if not impossible."

(276) Another point raised by the CFIB concerns the consumer confusion that will result from a dual tax system that

individuals do not understand. Most provinces will apply their sales tax on the GST inclusive price. A typical cash register can show the pre-tax subtotal, the GST payable, the PST payable and the total. These cash registers cannot show the intermediate subtotal which consists of the GST-inclusive price and which is in most cases the base upon which the PST is to be applied. To put it simply, most cash register receipts can easily be interpreted by consumers as charging an excessively high PST rate. This might lead to confrontations between retailers and customers and unfair accusations of fraud.

(277) Thus from the point of view of compliance costs, there is a very clear reason for integrating federal and provincial consumption taxes. The case for integration is also strong on economic grounds. The federal government has argued that this stage of tax reform could generate additional output equal to 1.4% of GDP. This gain is due to the elimination of the FST from exports, the removal of the tax from business inputs, elimination of the preferential treatment accorded to imports and an end to the price distortions arising from a tax which imposes significantly different tax rates on different products. Most of these problems also plague the provincial retail sales taxes, which in total raised $14,300 million in 1987.

(278) Retail sales taxes do not extend preferential treatment to imported goods. But every other criticism of the FST applies equally to existing retail sales taxes. They tax business inputs and consequentially result in significant amounts of tax cascading. A large portion of provincial retail sales taxes is invisible and therefore cannot be removed entirely from exports. Tax cascading results in different effective tax rates being applied to different

products, even though the statutory tax rates are the same.

(279) The Committee heard testimony from the government of the province of British Columbia that integration of the provincial sales tax with the GST would require an increase in the provincial tax rate of one-half percentage point just to maintain revenues at previous levels. On the surface this is surprising given the broader tax base of the GST compared to all provincial counterparts. This result can be explained by the fact that the GST eliminates all tax cascading.

(280) Taxing business inputs, and the resulting tax cascading, is in fact a significant source of provincial tax revenue. In Ontario, for example, every percentage point of tax raised revenues equal to 1.54% of retail sales in 1987. Since the tax base is only a fraction of the retail sales base, close to one-half of tax revenues comes from a hidden tax on business inputs.

(281) The province of Ontario relied most heavily on such a hidden tax in 1987. Four other provinces engaged in substantial taxation of business inputs. These were Manitoba, British Columbia, Newfoundland and Saskatchewan. On average, each percentage point of tax produced revenues equal to 1.38% of retail sales.

(282) Provincial sales taxes are not the visible taxes we think them to be. A substantial component consists of hidden taxes on business inputs, resulting in a wide variety of economic costs which are similar to those caused by the FST. Thus there is also a great need for reform of these provincial taxes.

(283) Failure to integrate provincial taxes into the federal GST harms the economy in two important respects. In the first place, it generates a substantial amount of excess compliance and administration costs. Secondly it limits the output gains available to the economy. Full integration of the two tax regimes could add another $4,500 million in output gain to the $9,000 million resulting from the reform of the federal tax system.

XXIII. REVENUE NEUTRALITY, DEFICIT CONTROL AND THE SIZE OF GOVERNMENT

(284) The FST was projected to earn the federal government about $18.5 billion in 1991. Its removal and the introduction of the GST have been described by the federal government as being alternatively "revenue neutral" or "deficit neutral". The Government has also described the GST as an important weapon in the fight against the deficit.

(285) It is possible that the Government has underestimated the yield from the GST. The New Zealand experience indicates that substantially more taxpayers registered than was originally thought to be the case and that revenues per point of tax exceeded original expectations. Whether the original estimates of the Department of Finance in Canada are more accurate than those of the New Zealand government remains to be seen.

(286) Nevertheless, a common concern expressed by witnesses dealt with the "inevitable" increase in the GST rate, consistent with the efficient use of this "cash cow". New Zealand, which only recently introduced its own variant of a VAT, has already increased the rate by 25%. The Canadian Federation of Independent Business stated that the cost of administering the tax is efficient only when the rate reaches 15%. Indeed, the historical evidence shows numerous examples of increases in the VAT rates over time. Some examples of increases since the VAT's introduction in major industrialized nations are: 8% to 20% in Austria; 10% to 22% in Denmark; 13.6% to 18.6% in France; 10% to 14% in Germany; 12% to 18% in Italy; 12% to 20% in the Netherlands and 11.1% to 23.46% in Sweden. Not only is the increasing reliance on the

VAT remarkable as witnessed by the jump in rates, but it is also revealing to note that the original rates in these examples all exceed the proposed GST rate for Canada. Is it then inevitable for the GST rate to climb substantially in Canada?

(287) The Fraser Institute in Vancouver has been a vocal critic of government spending and its growing involvement in the operations of the economy. It has tracked the increasing average tax burden of families since 1961. In a submission to the Committee, the Executive Director of the institute, Mr. Michael A. Walker argued for some kind of tax limitation clause to be attached to the GST. Although the institute supports the principle of a GST, it is concerned about the potential of the tax for raising substantial additional taxes. The National Tax Limitation Committee, a division of the Fraser Institute, believes that "... unless there is constant and unremitting attention focused on the GST, the rate will inexorably creep up and with it the size of government."

(288) This view was particularly prevalent in western Canada. For example, in Regina the Association of Saskatchewan Taxpayers told the Committee that "The GST will not solve the problems of unrestrained government spending -- more money available to spendthrifts will encourage them to spend more.. Replacement of the Manufacturers Sales Tax (MST) by the GST is not the reform that Canada needs -- elimination of the MST, along with a general tax reduction is what we need." That brief went on to say that "The problems that Canada faces are run-away spending, run-away debt, and run-away taxation...The solution is obvious. Less. Less government, less taxation, less spending, less regulation and no more debt."

(289) This same position was presented to the Committee in Edmonton by the Canadian Federation of National and Provincial Taxpayers, and in Vancouver by the Greater Vancouver Libertarian Association who stated that "Even if the new tax was to reduce the deficit or the debt we would be opposed to it because the logical first way to alleviate this sorry state is to reduce government spending, not to soak the taxpayer more."

(290) These witnesses and others who presented similar concerns viewed the GST as leading inevitably to higher taxes. What might initially be a tax reform would ultimately become an increasing tax grab. Indeed, the Minister of Finance has always maintained that the rate might go up in the future if circumstances warrant.

(291) These views are best expressed in an article deposited with the Committee by Mr. Walker in Vancouver, entitled "The GST: A Wolf in Sheep's Clothing." According to the authors, Jean-Luc Migue and Pierre Simard of the University of Quebec, nine out of ten Canadian economists favour the tax because it is a more efficient revenue raising tool than the FST but the vast majority of Canadians don't like it. While the orthodox economist believes that governments raise tax revenues to pay for needed public spending, the authors believe that governments spend to curry favour with the electorate. The more tax revenue available, the more they will spend. Thus the GST offers "... the assurance of ever rising rates in the coming years of permanent federal deficits." It is possible, therefore, that circumstances will always warrant rate increases. The features of the GST which supporters view favourably, i.e. the fact that it is efficient and a stable source of revenue, prove to be not a virtue but a vice.

(292) Every tax imposes an economic penalty on the economy, although some are worse than others. The FST is a case in point. According to the Department of Finance, the removal of an $18.5 billion FST and the introduction of the GST will generate $9 billion in efficiency gains. This is almost 50 cents on the dollar. Since the GST imposes efficiency costs of about 10 cents on the dollar, the average cost of the FST at existing rates is almost 60 cents on the dollar. At the margin, a one percentage point increase in the FST imposes an economic penalty far higher than 60 cents per dollar of tax revenue.

(293) If the GST rate does climb significantly over time, the advantages of this tax reform will tend to be eroded.

XXIV. OTHER ISSUES

A. Interline Settlement of GST Among Airlines

(294) The Alliance of Canadian Travel Associations (ACTA) raised the issue of interline settlement of airline GST liabilities. Currently, the airlines use a system called the bank settlement plan (BSP) to process all airline tickets and compute amounts due to airlines and travel agents. The system is operated under IATA and owned by the airlines. ACTA proposed to the House of Commons Finance Committee that the BSP be used to compute the GST liability for airlines and agents. According to ACTA, Bill C-62 does not provide for interlining of the GST liability on airline tickets and would need to be modified to permit this.

B. Product and Excise Taxes

• Beer

(295) Maintaining revenues at current levels on alcohol and tobacco products was one of the objectives advocated by the Government in the December 1989 paper on the GST. For alcoholic beverages, this requires that the excise duty be increased in order to compensate for the shortfall created when the current 19% Federal Sales Tax is replaced by the 7% GST. For example, the excise duty on 24 bottles of beer will rise from \$1.58 to \$2.29 in order to maintain the price of a case of beer at an average of \$21.45 and federal revenues at \$3.60.

(296) Evidence from the Brewers Association of Canada indicated that the Government's position that taxation of alcoholic beverages will not increase is accurate only when

considering the product purchased in a store. Even then, the calculation is based on a weighted national average; the price of beer would increase in 8 provinces and only beer drinkers in Ontario and Quebec would benefit from a price reduction. Furthermore, according to the Brewers Association, about 25% of beer is served in taverns or restaurants and the GST will increase prices in these establishments by about 5% while boosting federal government revenues on 24 bottles of beer by 76% from $3.60 under the current system to $6.33 with the GST. The Brewers believe that this will provide the federal government with an additional $226 million from beer drinkers.

(297) The brewers also believe that increasing the excise duty on beer when the GST is implemented will compound a competitive distortion that domestic brewers already face with imported beer. Since an excise duty is actually a levy on production rather than a tax on the sale of a product, Canadian brewers must pay the excise duty at the end of their production process and finance the cost until the product is sold. Imported beer, on the other hand, is inventoried under bond so that the excise duty is not paid until the product is shipped to the retail store. This competitive inequity appears particularly inappropriate at a time when Canada is under increased international pressure to open its beer market to imports. Furthermore, the GST was intended to remove competitive distortions between imports and domestic production, not to exacerbate them.

• Jewellery

(298) The Canadian Jewellers Association told the Committee that the continuation of the 10% excise tax on jewellery

is unfair and discriminates against dommestic production compared with imports. The excise tax is unfair because jewellery is one of the few luxury items that is still penalized with this tax. Over the years, the excise tax has been removed on other luxury items such as expensive imported automobiles, yachts, first-class air travel, expensive furs and cosmetics. The excise tax is discriminatory because, like the Manufacturers' Sales Tax, the imported value on which it applies does not include overhead and selling costs. For domestic production, these costs do form part of the tax base.

(299) The Canadian Jewellers Association believes that since the GST would be imposed on the final selling price rather than at the manufacturing level, it could raise a similar amount of revenue to the existing combination of Manufacturers' Sales Tax and Excise Tax. The Committee believes that the jewellers' case has merit and that the Government should review the decision to continue to apply the excise tax to jewellery. If the Government is serious about removing the preferential treatment of imports, removal of the 10% Excise Tax on jewellery would seem to be a logical step.

C. Coin-operated Machines

(300) A unique problem exists with respect to the collection of GST on sales through coin operated machines. Under the GST, the tax on sales from coin operated machines will be deemed to have been collected when the money is removed from the machine. However, operators will have to alter the coin acceptors on their machines to ensure that consumers pay the GST on their sales. In this regard, the Committee heard from a representative of the Coinamatic group of companies, one of the largest retail vendors

using coin-operated equipment. The company has over 70,000 units of laundry equipment, which it will have to alter by December 31, 1990, requiring some 17,500 man hours to complete. In order to complete the task, the company must begin in September 1990 to change the machine mechanisms to accept an additional 25 cent piece. The witness suggested that the GST should contain a transitional provision allowing up to one year to complete the change to coin acceptors and that GST should become payable as these changes are made.

(301) The witness also pointed out that the price increase associated with a "wash and dry" was likely to increase by substantially more than 7% as the 25 cent piece is the only coin that the machines will accept. He noted that use of the company's average machine would increase in price by 12.5% and calculated that the average price increase across Canada would range from 10.0% to 16.7%, depending on the current price. It is worth remembering that those who use coin operated laundry facilities are often of low income and can least afford this scale of price increase.

XXV. ALTERNATIVES

- Higher Personal Income Taxes

(302) Raising personal income tax rates is one alternative that has captured a great deal of attention. The best known proposal in this regard is contained in the paper "Searching for an Alternative to the GST", by Professor Neil Brooks of Osgoode Law School. Professor Brooks proposed that the current Federal Sales Tax be eliminated and the revenue from this source be replaced by a combination of higher personal income surtaxes, increased corporate income taxes and some increases in excise taxes to maintain federal revenue from alcohol, tobacco and gasoline.

(303) The Brooks proposal would raise $10.5 billion by increasing the personal income surtaxes effectively raising the bottom federal income tax rate by 2.7 percentage points, the middle rate by 4.2 percentage points, and the top rate by 4.6 percentage points. This has been criticized on the basis that it overestimates by about 15% the amount of revenue that would be raised. (Brooks may also have overestimated the amount of savings to the federal government of eliminating the sales tax paid on government purchases.)

(304) While the Brooks proposal may be technically flawed, the principle is sound. To replace the revenue from the FST and to make the system more progressive, income tax rates may have to increase beyond those estimated by Brooks and low income credits could be provided.

Advantages

(305) The primary attraction to raising income taxes is that these can be made progressive over the entire range of incomes. Sales taxes, it is often argued, are inherently regressive taxes and can only be made more progressive at the lower range of incomes by providing refundable sales tax credits to those who are less well off.

(306) Furthermore, sales taxes it is argued, are an inefficient means of raising taxes compared with the personal and corporate income tax systems. To administer the GST, the Government estimates that almost 4,000 extra employees must be hired at a cost of $200 million or more. In addition, the compliance burden of a sales tax is particularly onerous for small business, creating efficency loses for the economy.

Disadvantages

(307) One problem with increasing personal income tax rates is that these might encourage higher income individuals to emigrate to jurisdictions such as the U.S., which tax less heavily. However, as Professors Jack Mintz and Thomas Wilson argue in their brief to the Committee, if taxpayers care about their total bill for income and commodity taxes, rather than just their marginal income tax rates, it may not matter whether the Government replaces the current FST with another sales tax or with higher income taxes. The costs imposed by higher taxes must also be weighed against the benefits that accrue to Canadians from public goods, such as Medicare.

(308) A more potent argument against relying solely on income taxes is that this would intensify the discriminatory treatment of savings. In the absence of consumption taxes, after-tax income can escape further taxation when spent on consumption but will be taxed over again if saved. Consumption taxes have the advantage of avoiding this double taxation of savings, which distorts capital markets and may impose a cost in terms of long run economic welfare.

(309) Higher marginal income tax rates may also reduce the reward derived from labour activities compared with leisure activities. This can cause individuals to substitute leisure for work activities by reducing overtime, taking longer vacations, retiring earlier, or foregoing a risky business venture because the after-tax return does not warrant the effort.

- Higher Corporate Income Taxes

(310) Another proposal to raise income taxes was presented to the Committee by Mel Hurtig along with some very interesting data on the amount of taxes paid by the corporate sector. Mr. Hurtig's brief suggested that the GST should be rejected in favour of higher corporate income taxes, an increase in the progressivity of the personal income tax system, more corporate audits by Revenue Canada, introduction of inheritance taxes, luxury taxes, increased taxation of capital gains, and a minimum personal and corporate income tax.

(311) Among the surprising data presented in Mr. Hurtig's brief were those showing that the metal mining industry made profits of $2.355 billion in 1986 and 1987 and paid provincial and federal income taxes at an average rate of

only 7.7%. Other numbers showed that the petroleum and coal products industry paid 9.5% tax on profits of $6.216 billion over 1986-87, while the financial sector paid federal and provincial income taxes at the rate of 11.2% on profits of $54.818 billion.

(312) It is important to recognize, however, that Mr. Hurtig's percentage tax rates are based on "book profits" rather than "taxable income".

(313) When the tax rates are recalculated using taxable income as the tax base, the average percentage tax rates for the years 1986-87 become 27.8% for the metal mining industry, 29.3% for the petroleum and coal industry, and 41.1% for the financial sector.

Advantages

(314) An increase in corporate income taxes can be achieved through the existing income tax system, which is efficient and well established. Therefore, the administration costs connected to a corporate income tax increase may be significantly lower than to establish a new sales tax system.

(315) If corporate taxes are borne by shareholders in the form of lower returns, an increase in corporate income tax rates would tend to shift some of the taxation burden from wage earners to owners of capital. This may redistribute the tax burden in a progressive manner.

Disadvantages

(316) If corporate income taxes are fully shifted forward to consumers in the form of higher prices, there may no

difference to consumers whether corporate income tax rates are raised or a sales tax is introduced.

(317) If corporate income taxes are shifted back on to labour in the form of lower wages, it may not be progressive to raise corporate income taxes.

- Vacating the Sales Tax Field

(318) Under the Established Programs Financing, the federal government transfers large sums of revenue to the provinces in the form of cash or tax points. For instance, in the fiscal year 1990-91, total federal cash transfers to other levels of government are expected to total $24 billion, while the sum of both cash and tax point transfers is equivalent to $36 billion in revenue.

(319) There are several options open to the federal government. It could eliminate the existing FST, reduce its payments to the provinces by a similar amount ($18.5 billion) and inform the provinces that the sales tax field is theirs exclusively. Alternatively, the federal government could eliminate the FST, increase federal income tax rates and have the provinces reduce their own income tax rates. Under this option, the combined federal-provincial income taxes would remain constant with the sales tax field ceded to the provinces.

(320) In 1966, the Carter Commission made a similar proposal, suggesting that the federal government first reform the existing Manufacturers' Sales Tax with a single stage tax at the retail level and then try to negotiate an exchange of more direct tax room for the federal government in return for more sales tax room for the provinces.

Advantages

(321) The existing FST would be eliminated in either option which the Government might choose and in either case, there would be only one broadly based sales tax.

Disadvantages

(322) Provincial sales taxes suffer from some of the same problems that plague the FST -- a significant amount of tax cascading occurs and some capital goods are taxed. Therefore, raising provincial sales taxes may perpetuate the economic inefficiencies of the FST.

(323) Currently, the province of Alberta and the Northwest Territories do not have retail sales taxes. This alternative might force these governments to institute taxes which they consider undesirable.

(324) If the federal government reduced its transfers to the provinces, its ability to redistribute economic resources from one region to another would be impaired.

- Moving the FST to the Wholesale Level

(325) The existing Federal Sales Tax is currently levied at the manufacturers level, with some exceptions such as automobiles, cosmetics and laundry detergent which are taxed at the wholesale level. This alternative would simply move the point of tax to the wholesale level for all commodities. The tax would be imposed on the sale to the retailer, whether such a sale was made by a wholesaler, a manufacturer or an importer.

Advantages

(326) One advantage of this proposal is that the preferential treatment of imports over domestic goods under the existing FST would be considerably reduced. Much of the expense associated with the distribution and promotion of imports, which currently escapes taxation under the current system, would be included in the tax base when taxing the sale to the retailer.

(327) Also, there would be less incentive to hive off marketing and distribution operations from other activities. At present, manufacturers who integrate their manufacturing, distribution and marketing functions suffer a tax penalty as these functions increase the value on which the tax is calculated. Competing manufacturers can, through the use of related marketing companies and independent or related distribution networks, reduce the cost basis for tax.

(328) By stopping short of the retail level, the tax would avoid entering the same tax field as the provinces with all of the attendant compliance problems of a two tier sales tax system.

(329) The Carter Commission believed that the administration of the tax would probably be no more costly to operate than the existing FST system. Although the number of taxfilers would increase, there would likely be fewer valuation problems than under the FST where a minority of goods pass through independent wholesalers.

Disadvantages

(330) Some retailers buy directly from manufacturers, whether domestic or foreign. Marketing and distribution costs

are then borne by the retailer and these costs do not constitute part of the taxable base. Thus, goods sold through large retail chains may bear a lower rate of tax than those distributed by independent stores.

(331) The major disadvantage of the wholesale tax is the fact that it does not solve the problem of taxing business inputs, especially capital. Tax cascading and the excessive taxation of capital have become major factors in promoting the GST, yet these did not appear to be major concerns when the wholesale tax was given serious consideration by the federal government.

(332) Although valuation problems might be reduced by moving the FST to the wholesale level, there would still be some difficulties. Where a wholesaler made sales directly to private consumers but none to independent retailers, notional values would be necessary to determine the approximate tax base.

• Retail Sales Tax

(333) A retail sales tax is a single stage tax imposed at the point of final sale to the end user. If the aim is to tax only the final consumer, business purchases must be exempted from the tax and sales to the consumer at other trade levels must be included in the tax base.

Advantages

(334) The tax avoids the production neutrality problems of the existing FST with respect to corporate structure. For instance, it does not make any difference at which production stage marketing and distribution costs are incurred because all costs are included in the final

price of the good.

(335) Nine of ten provinces currently operate retail sales taxes, consequently, businesses have considerable experience in using them. If the provincial sales taxes were integrated with a federal retail sales tax, the compliance costs would also tend to be fairly low. Because a single stage sales tax does not require tracking both purchases and sales, there is less record keeping than under the GST.

(336) While the number of businesses required to comply would be higher than under the existing FST, it would still be less than under a multi-stage tax. Thus, the administration costs would likely be less than with the GST.

Disadvantages

(337) The retail sales tax suffers from tax cascading where purchases are made at the retail level without an exemption and are used for production of other taxable goods or services. Similarly, tax may become embedded in the final price of goods or services that are not taxed directly. Because of the cascading of taxes on business inputs, exports are not totally tax-free under a retail sales tax system.

(338) It has been argued that the retail sales tax may be more susceptible to tax evasion than the GST because a multi-stage sales tax leaves a better audit trail. With a multi-stage sales tax, firms have an interest in purchasing from registered traders and obtaining the proper invoices in order to claim their input tax credits. This documentation can also be used to provide

an audit check on the seller. However, where a business sells only to final consumers, the incentive to issue proper invoices is probably no higher than under a single stage retail sales tax.

(339) A retail sales tax may not be as useful in taxing services because of the mixed use to which services are put. Businesses selling services do not need to determine whether the use is business or consumer-related under a multi-stage sales tax; they need only issue the invoice. Furthermore, an exemption from the retail sales tax for supplies such as financial services means that no tax is paid on the end use. Exemption from a VAT-type tax only exempts value-added at the final production stage while the tax paid on the inputs to the product remain. Because a multi-stage sales tax is more efficient at taxing the service sector, its revenue generating capacity may be greater than a retail sales tax.

- Personal Expenditure Tax

(340) The amount spent on consumption can be calculated either by summing the expenditures on each purchase or by subtracting total savings from total income. Similarly, consumption can be taxed either by taxing each single purchase or by taxing the residual from total income after total savings are deducted. Under the latter form of consumption tax, called a personal expenditure tax (PET), the individual's tax liability can be calculated and tax paid directly through the income tax system.

(341) The existing income tax system, which deducts some forms of savings, such as funds contributed to registered savings plans, constitutes a partial expenditure tax. A full-fledged expenditure tax would effectively register

all income, savings and borrowings and would tax the sum of borrowing and income, less the amount of savings.

(342) The Committee received a similar proposal for a consumption tax, called a Simplified Consumption Tax (SCT), from Professors Jack Mintz and Thomas Wilson. They calculated that a 6% SCT rate would yield approximately the same revenue as the existing FST.

Advantages

(343) In contrast to the GST, the tax could be made progressive throughout the full income range simply by raising the rate on taxable consumption above a certain threshold.

(344) The proposal completely eliminates any compliance cost for business since the tax would not be applied on sales. In this respect, the proposal is superior to any indirect consumption tax such as a single stage retail sales tax, multi-stage sales tax, wholesale sales tax or other variant.

(345) The administration cost of this tax would be considerably less than that of retail sales taxes. Since the tax would operate directly through the income tax system, it should not require a substantial number of additional employees to administer.

(346) The PET would enjoy all of the advantages of eliminating the existing FST, such as removing the differential effects on prices, tax cascading, taxes on capital, and so on.

(347) The additional compliance cost for individuals would be minimal since a personal expenditure tax would simply

modify the personal income tax, a system with which taxpayers are familiar.

(348) The personal expenditure tax would not have an unfavourable impact on the tourism balance of payments. Canadians could not avoid the tax by travelling abroad, as under the GST. Also, the tax would not discourage foreigners from travelling in Canada since only Canadians would pay the tax.

Disadvantages

(349) This tax variant is frequently found in the economics literature but there is little international experience with a personal expenditure tax. This suggests that the tax may not be as easy to administer as it might appear. In particular, all borrowings and savings must be effectively registered as must purchases of durable goods if these are to be included in the tax base.

(350) The compliance burden, although removed from most businesses, is placed upon individuals and financial institutions which must register savings for tax purposes.

(351) There may be technical difficulties in integrating the personal income tax system with the PET.

- Turnover or Cascade Tax

(352) A turnover tax is a multi-stage sales tax similar to a VAT except that there is no credit provided for purchased inputs. In pure form, the turnover tax would apply on sales at every stage of production and distribution of goods and services. Essentially, tax is compounded on tax

at each stage of the production/distribution chain. Historically, some countries either exempted certain essential goods, such as food, or taxed these at lower rates.

Advantages

(353) A turnover tax would be relatively easy for business to operate since firms do not have to keep track of their input tax credits. For the same reason, a turnover tax may also be less costly to administer.

Disdavantages

(354) The amount of tax contained in a product will vary according to the number of transactions in the production/distribution chain, which in turn depends on the organizational structure of the firm. Thus, non-integrated firms would incur greater tax than integrated operations. This implies that for non-integrated firms the price charged to consumers may not fully reflect the tax paid on business inputs.

(355) In general, integrated firms enjoy an advantage over non-integrated firms because the number of taxable outside transactions is reduced if operations can be performed in-house.

(356) Because the rate of tax on similar goods can vary according to the organizational structure of production and distribution, the amount of rebate given on exports is based on an industry average, which in some cases does not fully compensate for taxes paid at earlier stages of production. On the other hand, some exports may, in effect, receive a subsidy because the amount of rebate

given exceeds the actual tax paid. Similarly, imports are taxed at an industry average which means that some domestic production would have a higher effective tax rate than imported goods.

- Business Transfer Tax

(357) In contrast to the GST, the BTT would not require separate invoicing of the tax. The total tax owed could be calculated from information already contained in company accounts. At the end of the period, the firm would calculate its tax base by totalling its gross receipts from taxable sales and subtracting its allowable purchases. The appropriate tax rate would then be applied to the calculated tax base.

Advantages

(358) The BTT would not require separate invoicing of taxable sales and purchases. Firms would be able to extract from existing company accounts the information necessary to calculate the tax, making it easier and less costly for firms to comply with than the GST.

(359) The BTT may also be easier to comply with than the GST, because the BTT would apply on a comprehensive base with few exemptions.

(360) Since the tax would be applied on an aggregate basis, firms would likely include the BTT in their prices and apply the provincial sales tax at the point of sale. Firms pricing in this manner would not show the tax separately on the sales invoice and thus would not require changes to cash registers.

(361) If the tax were applied at a single rate on a comprehensive base, it would achieve all of the benefits from removing the existing FST, such as eliminating tax cascading and removing the tax on business inputs and exports as well as the preferential treatment of imports.

Disadvantages

(362) Because the BTT does not employ separate tax invoicing, the audit trail may be less reliable than the GST. This could make the BTT subject to more tax evasion and avoidance.

(363) If the lack of a separate invoicing requirement for the BTT encouraged firms to price on a tax-inclusive basis, the BTT would be less visible.

(364) The greatest drawback to the BTT for governments designing a consumption tax is the requirement for a single rate and no exemptions. Once products or suppliers are exempted, it becomes more difficult to calculate the tax owed using only existing company books of account. The effect of exemptions and zero-rating would increase record keeping on the part of firms moving the BTT system closer to that of a VAT.

- "Single Tax"

(365) The "Single Tax" proposal presented by Dennis Mill, M.P. would see a flat rate tax imposed upon personal incomes at a 25% marginal rate. Progressivity of the personal income system would be maintained or enhanced via large personal exemptions as well as tax credits for families with children. The tax base would be broadened somewhat by including 100% of capital gains (except

those arising from the sale of a principle residence) in taxable income and eliminating the dividend tax credit. Integration would be achieved by allowing corporations to deduct, from income otherwise taxable, any dividends paid to Canadian residents. Other major changes to the corporate income tax system include a shift to something approximating book profits as the tax base and the removal of the investment tax credit and virtually all other tax incentives.

Advantages

(366) The principal advantages of the "Single Tax" approach are found in its overall simplicity and all-encompassing nature - a single tax rate applied on all forms of income, with only a few, well-defined exemptions.

(367) To the extent that marginal tax rates are lowered for many taxpayers, an increase in compliance and, conceivably, work effort would be expected - empirical evidence exists suggesting that there are supply-side gains resulting from such marginal tax rate decreases.

(368) Being levied on incomes rather than consumption expenditures, the "Single Tax" escapes the charge of regressivity which is regularly directed toward the GST.

(369) To the extent that tax and incentive induced distortions in resource allocation would be reduced, economic efficiency would be improved, resulting in long term improvements in real income for both individuals and governments.

Disadvantages

(370) It is claimed that compliance would increase under the new regime (a "surfacing" of the underground economy), but the marginal rate reduction is not particularly large, so this could not be counted upon as a significant source of federal revenues.

(371) Other weaknesses also relate to the potential revenue yield of the "Single Tax". If there is to be no large recovery from the underground economy, reliance must be placed upon economic growth; i.e. an increase in the tax base - of perhaps 10-15% of GDP over and above the present growth trajectory, in order for federal consumption taxes to be otherwise recovered. This is an unreasonably high growth rate to be expected to be achieved from allocative efficiency gains garnered via tax reform.

(372) It appears that there are also specific structural flaws to be found within the "Single Tax" system. No allowance seems to have been made for the existence of unincorporated businesses, since all personal income is required to take the form of wages, salaries, pensions, dividends or capital gains, and only the corporate tax return provides opportunity for the deduction of business expenses.

(373) • Finally, what is of paramount importance to some commentators on tax policy is that there are desired policy goals being achieved by the present income tax system. The "Single Tax" would eliminate from both the personal and corporate tax regimes most tools used to attain those goals, replacing them with direct funding where necessary.

• United States Alternative Minimum Tax

(374) Numerous witnesses suggested a variety of alternatives to the GST, one of which included the implementation of a minimum corporate tax, equivalent to the one in use in the United States. It has been claimed that such a tax could raise as much as $2 billion a year in Canada.

(375) Corporations in the United States must pay corporate income tax in the normal manner. In addition, they must calculate a tentative minimum tax which is levied at the rate of 20% of alternative minimum taxable income. If the tentative minimum tax exceeds the regular tax, the difference between the two is the alternative minimum tax. The alternative tax limits a range of tax preferences that corporations use to reduce permanently, or defer temporarily, their tax liabilities. It was designed to ensure that corporations with economic income do not avoid paying any tax in those years.

(376) The amount of minimum tax paid is allowed as a credit against the usual income tax in other years if that alternative minimum tax is due to restrictions on preferences which defer tax liabilities. In many respects, then it changes the timing of income taxes paid, but not the total amount of taxes paid. It does, however, limit the ability of corporations to permanently reduce their tax liabilities due to the use of tax preferences.

XXVI. SUMMARY OF RECOMMENDATIONS FOR CHANGES TO BILL C-62

(377) The Committee has heard a great deal of evidence about the impact of the GST on Canadian households. The following details the major problems raised by witnesses during the course of the Committee's investigation and their recommendations for change. We present these recommendations without editorial comment as to their merits.

1. Veterinary Services and Medicines

(378) Unlike doctors and dentists, whose services are tax exempt under Bill C-62, the services of veterinarians are taxable. Veterinary medicine would also be taxable.

(379) Under proposed section 165 of the Excise Tax Act (the "Act"), a recipient of a taxable supply is to pay a tax equal to 7% of the value of the consideration for the supply. The tax is not payable on the exempt supplies set out in Schedule V. The exemptions dealing with health care services are contained in Part II of that Schedule. In this part, medical practitioners are defined as persons entitled under the laws of a province to practice the profession of medicine or dentistry. Veterinarians have not been included in the definition. Under Part II, section 5, the supply by a medical practitioner of a consultative, diagnostic, treatment or other health care service rendered to an individual is included as an exempt supply. Clearly, this definition does not cover the supply of services to animals.

(380) Part II, section 9, provides that the supply of a service will be exempt to the extent that it is reimbursable under a provincial health care plan to provide for health

care services for all insured persons of the province. Although the treatment of large animals is insured by a number of provinces, such programs are not health care plans within the definition established under section 9.

(381) Schedule VI, Part I, establishes the drugs that are to be zero-rated. Drugs labelled or supplied for veterinary or agricultural use are specifically excluded. The Canadian Veterinary Medical Association (CVMA) has argued for tax-exempt status for veterinary services and that veterinary medicines be zero-rated. In support of its position, the CMVA contends that veterinarians play an important role in maintaining the quality of food and the health of animals in Canada and in the protection of humans against the risk of disease from animals and animal food products.

(382) In requesting that veterinary medication be zero-rated, the Association notes that veterinary medication has the same status as any other medication that is subject to the Food and Drugs Act.

2. Air Transportation Tax

(383) Part II of the Excise Tax Act provides for the imposition of an air transportation tax (ATT) on persons who use certain commercial air services in Canada. Under Bill C-62, the ATT will continue, but in a modified form. The current per ticket rate of 10% of the air fare plus $4.00 to a maximum of $50.00 for domestic flights will be reduced to 7% of the air fare, plus $10.00 to a maximum of $40.00. The GST will then apply on the ticket price plus ATT. The existing ATT flat rate of $19.00 on tickets to overseas destinations will be increased to $40.00. The $19.00 rate will continue to apply to tickets

purchased outside of Canada for travel to Canada.

(384) The Air Transport Association of Canada (ATAC) recommends that the ATT be abolished. The Association was concerned that two forms of taxes would apply to air travel -- the ATT and the GST. Because the GST will be charged on the ticket price plus ATT, cascading will occur.

(385) The Association also recommends that if the ATT is to remain, the flat tax of $19.00 on tickets purchased in Canada for overseas destinations be maintained.

(386) The Bill provides that international air travel, other than flights from Canada to the United States and St. Pierre and Miquelon, are to be zero-rated. In the latter case the GST will apply.

(387) The ATAC recommends that flights to the United States and St. Pierre and Miquelon be zero-rated as are all other international flights.

(388) The ATAC also recommends that all excise taxes on fuel be abolished or, alternatively, that businesses be allowed to claim an input tax credit or rebate on fuel purchased for use in a commercial activity.

(389) The ATAC expressed concern about the time that it will take to recover the large amounts of taxes that its members will pay when aircraft are imported. In its view, these items should be excluded from the tax or tax refunds for such purchases should be subject to a rapid refund mechanism with a maximum 7-day delay on receipt of input tax credits.

3. Financial Institutions -- *de minimis* Test

(390) Pursuant to proposed subsections 123(1) and 149(1) of the Act, a person with revenues from financial activities exceeding a de minimis threshold (10% of the previous year's total revenues or $10 million in the preceding tax year for the purposes of the Income Tax Act) is defined as a financial institution. Income in the form of interest, dividends and fees or charges for financial services is considered to be income for the purposes of the definition.

(391) Input tax credits are permitted for supplies made in the course of commercial activities. Those who provide exempt supplies, however, are restricted when it comes to claiming input tax credits and financial institutions are subject to unique rules for determining these credits. Two tests for determining the availability of input tax credits -- the exclusive use test and the primary use test -- are modified for financial institutions. In general, an input is deemed to be used exclusively in a particular activity if all or substantially all of its use (90% or more) can be attributed to that activity. For financial institutions, a use is deemed to be exclusive only if it is 100%. This allows financial institutions to claim a partial credit for GST for items that are used less than 10% in commercial activities.

(392) In addition, the primary use test for input tax credits relating to capital personal property (a credit is available only if the property is to be used primarily in commercial activities) does not apply to financial institutions.

(393) The ATAC believes that the financial services rules should apply only to businesses that are primarily engaged in the provision of financial services. It therefore recommends that the de minimis test be modified to use only a percentage amount to determine its application. In making the calculation for the purposes of the test, the ATAC suggest that companies be permitted to net interest income from cash surpluses against interest expenses where funds are borrowed to acquire capital property.

4. Native Peoples

(394) Under the <u>Indian Act</u>, the taxation of personal property of an Indian or band on a reserve is prohibited. Bill C-62 is silent on the application of the GST to native peoples.

(395) The Assembly of First Nations (AFN) believes that Bill C-62 is a serious infringement of aboriginal rights as guaranteed under section 35 of the Consititution Act, 1982.

(396) A number of questions remain about the application of the GST to goods and services purchased by Indians. Will it apply to goods purchased off a reserve? Will the tax apply to goods imported by Indians?

(397) The Six Nations Council, Ohsweken, recommended that all goods and services purchased by Indians, whether living on or off a reserve, be tax free.

(398) The AFN recommends the Bill be sent back to the House of Commons with a recommendation that outstanding taxation issues relevant to natives be settled.

5. GST Credit

(399) Clause 48 of the Bill provides for a refundable GST Credit the details of which are as follows:

-- the basic amount of the credit will be $190 per adult and $100 per child.

-- single individuals and single parents who maintain their own household will be eligible for an additional credit equal to 2% of their net income above $6,169, to a maximum of $100.

-- single parents can claim the adult credit of $190 for one child under 19 years of age instead of the $100 credit. The credit benefits will be reduced by $5.00 for every $100 of income in excess of $24,800. The credit will be indexed to increases in the Consumer Price Index in excess of 3% (Clause 46).

(400) Several witnesses expressed concern that the GST credit would not adequately offset the impact of the GST on low income Canadians. Others felt that inflation would quickly erode its value. Statistics show that approximately 85% of those currently entitled to the federal sales tax credit receive it and there is some concern that the so-called 'take-up" rate for the GST credit will not be any higher.

(401) The National Anti-Poverty Organization recommended that:

(a) the GST credit be increased to ensure that families earning under $30,000 per year are better off under the GST system;

(b) the GST credit be fully indexed to increases in the Consumer Price Index;

(c) the credit be given to all persons with incomes below the poverty line;

(d) the single-person household credit be available in its full value to all low-income single persons;

(e) single persons who are entitled to and/or who receive alimony or child support payments should be eligible for the credit;

(f) the federal government ensure that provincial governments will not deduct the GST credit from provincial social assistance payments;

(g) the Department of National Health and Welfare monitor "special needs" spending by the provinces to ensure that recipients of the credit are not required to use the credit to pay for items that would normally be covered by special needs spending; and

(h) the Government undertake programs to ensure that all persons entitled to receive the GST Credit do so.

(402) When the Committee travelled to the northern territories, it was pointed out that the cost of living there is substantially higher than it is in the south. Households require a substantially higher income to maintain the same standard of living as their southern counterparts. Consequently, they will pay more GST and the system of refundable credits is insufficient to meet their needs.

(403) It was recommended to the Committee that a separate category of refundable credits be established for those households residing in the north. The criteria for eligibility should be the same as it is for the northern tax deduction. The maximum credits and the income threshold should be 150% of the levels that apply in the rest of Canada.

6. Education, Books and Periodical Literature

(404) Bill C-62 (Schedule V, Part III) exempts the provision of most educational services from the GST. However, the tax applies to a wide range of educational supplies such as books, learning materials, computer software and hardware. The Canadian Teachers' Federation felt that the imposition of the GST on educational materials and supplies would erode equal access to education for lower income Canadians.

(405) The Federation also expressed concern about the proposed taxation of workshops, seminars and conference fees for professional development activities. This would make these activities less accessible to teachers and ultimately affect their professional skills.

(406) It recommended that books, educational materials and educational supplies be exempt from the GST and that consultative services used in professional development programs for teachers be deemed an educational service and therefore exempt from the tax.

(407) Pursuant to proposed subsection 259(4) of the Act, universities will be entitled to a rebate for GST paid on taxable purchases. The Canadian Association of University Teachers (CAUT) recommends that the rebate level for universities be set at 100%. Alternatively, because of the complexity associated with the administration of a rebate scheme, CAUT recommends that educational services provided by universities be zero-rated. Another witness suggested that all educational services be zero-rated. The CAUT also suggests that, to avoid the administrative complexity associated with the need to apportion the taxes paid between taxable and tax-

exempt services, an input tax credit could be allowed for all goods and services tax paid by universities and colleges.

(408) The CAUT expressed concern that funding for research carried on by universities might be considered a taxable sale and requested that this be clarified and accorded tax-free status. Memberships in organizations for the purpose of maintaining a professional status required by statute are tax exempt (Schedule V, Part VI, section 18). A membership in other public sector organizations is taxable unless it falls under the rubric of section 17 of Part VI. The CAUT recommends that the tax exemption for non-profit organizations be extended to include any professional organization which is not primarily or substantially engaged in providing taxable goods and services.

(409) Schedule V, Part III, section 7, exempts from the GST courses for which credit may be obtained toward a diploma or a degree when offered by universities, public colleges or schools. A number of witnesses felt that all courses whether or not they are part of a degree or diploma program should be exempt. Moreover, they argued that the tax status of courses taken for occupational or professional training should be consistent.

(410) The taxation of books and periodical literature, whether for recreational reading or for use by students in schools and universities, was a major concern for several witnesses. Many felt that a tax on books and periodicals would impose a significant hardship and recommended that all books and periodicals be zero-rated. Alternatively, the CAUT recommended that a point of sale exemption or a specific refundable income tax credit could be

established for books, equipment and other supplies required by students for the purposes of their studies.

7. Rebate Levels

(411) Proposed section 120 of the Act provides for the payment of a rebate of the FST previously paid on goods held in inventory on January 1, 1991. A general rebate level of 8.1% has been announced, while the level for automobiles has been set at 11.1%.

(412) The Canadian Cosmetic, Toiletry and Fragrance Association is of the view that the proposed rebate factor of 8.1% on the inventory of cosmetic, fragrance and toiletry products held by retailers will not be sufficient to allow for full recovery of the FST component of that inventory. Since the FST is levied at the wholesale level for cosmetics, that group recommended that the rebate factor of 11.1% be extended to these products.

(413) Retailers of pleasure boats tend to buy their products directly from the factory. Consequently the FST content of their inventories is very high, at least as high as it is for automobiles, and can be easily calculated. The general rebate level will not compensate these dealers for the tax they have paid and they request a higher level of rebate.

(414) Car rental operators tend to keep their cars for a short period of time and then sell them in the used car market. When they sell in the used car market, GST will apply to the sale, even though the car bears the full amount of FST paid originally. This is due to the fact that the inventories of car rental operators are viewed as capital goods therefore not eligible for the FST

inventory rebate. The industry asked that they be eligible for these rebates.

8. Customs Brokers

(415) Customs brokers facilitate the importation of goods into Canada by arranging for the release and entry of imported goods, by preparing and presenting import documentation and by paying the relevant duties and taxes owing on the goods on behalf of importers. After the duty has been paid, the broker invoices the importer for payment.

(416) Upon implementation of the GST, customs brokers will be required to collect and remit the tax. Whereas they now collect some $6 billion annually in duties and taxes, with the GST they will collect approximately $13.5 billion. This will have serious implications for the business operations of customs brokers as they will require increased lines of credit to finance tax remittance pending reimbursement by their customers.

(417) In the case of bad debts, Bill C-62 (proposed section 231) provides domestic vendors with a measure of protection in relation to the GST. If the vendor is unable to collect the GST from a creditor, he may claim an input tax credit for the unpaid amount. Because customs brokers are considered to be acting as agents for importers, they are not entitled to claim a credit for GST that they have paid but are unable to collect from importers.

(418) The customs brokers recommended that section 231 be amended to allow them to claim a credit for the tax that they have been unable to collect from importers. This credit would typically not be claimed until 180 days had

elapsed from the time that the GST had been remitted to the Government.

(419) Currently, customs brokers obtain the release of goods to the importer by posting security for the outstanding accounts. Within five days, the outstanding taxes and duties must be remitted to the Government. The importer is then billed for these amounts plus the broker's fee. In its brief to the Committee, the Canadian Association of Customs Brokers requested that an additional five days be given before they would have to remit duties and taxes to the Government. This would give them more time to collect the money from importers and improve their cash flow.

(420) The Association recommended that the Accounting for Imported Goods and Payment Regulations under the Customs Act be amended to provide for an additional period of five days within which outstanding duties and taxes are to be remitted to the Crown.

9. Land and Real Estate

(421) Under Bill C-62, the sale of land will be taxed (except in connection with the sale of used residential housing and personal use property). Some witnesses recommended that land should not be subject to the GST since it generally cannot be consumed and is not a newly produced good. Moreover, if the price of land was excluded from the calculation of the GST, regional differences in housing prices would, for the most part, disappear and the application of the tax would be fairer.

(422) The Urban Development Institute of Canada commented on the time period during which a purchaser or builder may

claim a rebate of federal sales tax. It felt that the claim period should be increased to ten months from three. The Institute also recommended that the tax rate applicable to the portion of the purchase price of a house which exceeds $450,000 should be lower than 7%.

(423) With regard to the principle of taxing real estate, the Institute was of the view that all residential property, whether new or used should be taxed and that the tax should be calculated on the basis of additional consumption.

(424) The Canadian Real Estate Association (CREA) suggested that real estate fees and commissions associated with the sale of used housing be considered as exempt supplies.

(425) CREA was also concerned about the application of the GST to real estate transactions that straddle January 1, 1991. Bill C-62 provides that the taxation of services will be pro-rated if invoiced or paid prior to May 1991. The Association recommended that, during the transitional period, the GST should not apply to a transaction where a binding contract of purchase and sale is signed on or before December 31, 1990 and the transaction closes before May 1, 1991.

10. Food and Food Services

(426) Schedule VI, Part III, zero rates the supply of food and beverages for human consumption (basic groceries) and goes on to exclude certain foods and beverages from this category. Some witnesses suggested that an enriched tax credit, rather than making food tax-free, would be a better method of protecting lower income Canadians from the burden of the GST. Having fewer exemptions from the

tax would also reduce administrative complexity. One of the items excluded, and therefore taxable, is chocolate confectionery bars. Effem Foods Ltd., a chocolate confectionery manufacturer, noted that its products, when sold in family size packages, are in direct competition with cookies and other sweetened baked goods. In addition, there is little difference in appearance or constituent ingredients between chocolate confectionery and many cookies. Because cookies, if sold in packages containing six or more, are zero-rated they will have a distinct competitive advantage over chocolate confectionery sold in similar sized packages. It is recommended that chocolate confectionery sold in packages of six or more be zero-rated.

(427) Another confectionery manufacturer suggested that confectionery with a retail value of $0.25 or less or that is sold in sizes of 150 grams or less be zero-rated.

(428) Yet another item excluded from the products that are zero-rated is yoghurt when sold in single serving sizes. The National Dairy Council of Canada told the Committee that yoghurt has significant nutritional value and is sold most often in single serving containers to facilitate consumer choice. The Council called for the zero-rating of single serving sizes of yoghurt.

(429) Non-alcoholic beverages can either be zero-rated or subject to the full 7% GST rate depending upon the type of beverage. For example, milk is zero-rated while carbonated beverages and non-carbonated fruit juice or fruit-flavoured beverages (containing less than 25% by volume of natural fruit juices), are taxable (Schedule VI, Part III). The Canadian Soft Drink Association opposes different tax rates for non-alcoholic beverages.

It recommends that a separate tax category with a uniform rate be created for non-alcoholic beverages. The Canadian Restaurant and Foodservices Association (CRFA) believes that zero-rating food makes the application of the tax in the grocery and restaurant industries very complex. The Association recommends that a more workable definition of taxable and tax-free food be created.

(430) Bill C-62 requires that differing amounts of information be provided on receipts for the purpose of claiming input tax credits. Invoices exceeding $150 require the most information. Because of limitations of most point-of-sale equipment and the current accepted practice for income tax purposes of accepting credit card receipts, the CRFA recommends that credit card receipts, with a statement that the GST has been paid, should constitute a proper receipt for meal expenses for the purposes of obtaining an input tax credit.

(431) The CRFA advised the Committee that the Quick Method of accounting will not be available to restaurants with sales of $200,000 or more including the GST and that "Streamlined Accounting" will not be available to the restaurant industry at all. Few restaurants will qualify for the Quick Method. The CRFA recommends that a $500,000 ceiling for use of the Quick Method be extended to the foodservice industry.

(432) The CRFA pointed out that the 8.1% FST inventory rebate will not apply to alcoholic beverages, soft drinks and food containers essential for the sale of food and beverages. The Association contends that Revenue Canada's decision to deny the rebate to these products cannot be supported by proposed section 120 of the Act. The Association therefore recommends that Revenue Canada

provide the FST rebate on the following goods for resale: alcohol, soft drinks, and those packaging items essential to food safety in restaurants.

11. Simplification of Tax Procedures

(433) Subject to certain exceptions, the GST is to be collected and remitted at each stage of the production and distribution chain. One witness suggested that administration of the tax would be made much simpler if most sales of goods and services between registered businesses were zero-rated. Accounting for the tax would then become more akin to provincial sales tax accounting. Because zero-rating will be used for the sale of certain farm equipment in order to alleviate cash flow problems for farmers and in connection with supplies among companies in a corporate group, the extension of the principle to other types of supplies would not violate the basis of a multi-stage tax.

12. Anti-avoidance Rule

(434) Bill C-62 contains a general anti-avoidance provision (proposed section 274) similar to that found in the Income Tax Act. This provision is intended to prohibit blatant tax avoidance transactions.

(435) Mr. Wolfe Goodman, Q.C., called for the elimination of section 274. In his view, the structure of the GST mitigates against tax avoidance measures and eliminates the need for a general anti-avoidance rule.

13. National Sales Tax

(436) Many witnesses were of the view that the federal

government must continue to work toward establishing a national sales tax. A number of them, even those who were generally supportive of the GST, expressed concern about the administrative complexity associated with two separate taxes at the retail level.

(437) Recently, the Province of Quebec announced that it would be participating in the GST by collecting it on goods on January 1, 1991 and on services by January 1, 1992. The tax will be collected and administered at the provincial level.

(438) Numerous witnesses argued that provincial participation in a national sales tax program will eliminate many of the complexities associated with a two-tier tax arrangement and encouraged the federal government to continue negotiations with the remaining provinces toward achieving a truly national sales tax scheme.

14. Antiques

(439) The GST will apply to the sale of antiques and used goods. Antique dealers believe that the tax will have an adverse effect on their businesses. They object to the imposition of the tax on goods on which the federal tax has already been paid. Moreover, they contend that the application of the GST to antiques will encourage their export. They recommend that used goods and antiques be exempt from the GST.

15. Amateur Sports Organizations

(440) Under Bill C-62, charities and non-profit organizations (NPOs) that receive at least 40% of their funding from government are eligible for a rebate of 50% of the GST

paid. NPOs receiving less that 40% of their funding from government will not be entitled to a rebate.

(441) Many national sports organizations are classified as charities because they are registered Canadian amateur athletic associations. Their provincial affiliates, however, are non-profit organizations.

(442) During the latter part of the 1980s, many sports organizations were successful at reducing their dependence on government funding to the extent that government funding has fallen below 40%. Achieving this measure of financial independence, however, will disqualify these organizations from receiving a rebate for GST paid.

(443) Sports organizations recommend that provincial sports organizations and provincial sports federations be granted charitable status in order to ensure consistent treatment with their national counterparts and to ensure eligibility for the GST rebate.

(444) The sports community believes that its programs and services make an important contribution to Canadian society. They therefore recommend that charities and non-profit organizations be entitled to claim a rebate equal to 100% of the GST paid.

16. Recreational Services

(445) Recreational programs supplied by a public sector body are exempt from the GST (Schedule V, Part VI, section 12) if they are provided primarily for children aged 14 and under or underprivileged or mentally or physically disabled individuals. Some witnesses believe that the

age threshold for these programs is too low and recommend that registration and participation fees for persons aged 18 and under be exempt from the imposition of the GST.

17. Television Rights for Amateur Sports Events

(446) Many amateur sports organizations are now able to generate income from the sale of television rights to sporting events. The application of the GST to these rights may be a deterrent to the selection of Canada as a host venue for international sporting events. They recommended that television rights owned by charitable and non-profit sporting organizations be exempt from the GST.

18. Implementation of the Tax

(447) Preparation for implementing the GST is causing considerable strain on charitable and non-profit organizations. One of these organizations recommended that, in recognition of the limited financial and human resources of charitable and non-profit organizations, the government make additional resources available to assist them in implementing the GST.

19. Electricity

(448) The GST will apply to the supply of electricity whether at the commercial or residential level. Some witnesses have argued that, like food and shelter, electricity is a necessity and should not be subject to the tax.

20. Agriculture

(449) Under Schedule VI, Part IV, the supply of agricultural

products, farm livestock, fresh-caught fish and other seafood products is zero-rated. In order to reduce cash flow problems for farmers and fishermen, the Government will zero-rate certain agricultural and fishing equipment.

(450) The Canadian Federation of Agriculture made a number of proposals to the Committee concerning the zero-rating of other items. In particular, the Federation called for the zero-rating of: (a) fees for marketing services related to the marketing of agricultural products by marketing organizations; (b) fees for farm organizations; (c) all farm production inputs including pregnant mares' urine operations and the fees, levies and services relating to the production of zero-rated commodities; and (d) sales of quota for agricultural products.

21. Municipalities

(451) Proposed section 123 of the Act C-62 contains the following definition of municipality:

> (a) an incorporated city, town, village, metropolitan authority, township, district, county or rural municipality or other incorporated municipal body and (b) such other local authority as the Minister may determine to be a municipality.

(452) The Federation of Canadian Municipalities (FCM) expressed concern about the designation of para-municipal bodies such as boards, commissions and authorities that have been established by municipalities to carry out a variety of services. The Federation wishes to ensure that these bodies are treated in the same manner as municipalities for the purpose of obtaining a rebate for GST paid. It

suggests that a para-municipal body would qualify as a municipality where it is accountable to a local government and is owned and controlled by that government.

(453) In many provinces a wide range of services can be provided between regional and local governments. Under proposed section 155 of the Act, non-arm's length supplies will be deemed to be made at fair market value and the GST will be paid on this value. The FCM believes that this provision will have an adverse effect on supplies between regional and local governments. To eliminate this adversity, it recommends that the Bill be changed to allow a "related municipal group" to apply to have supplies made between them be tax-exempt.

(454) The FCM also pointed out that section 21 of Part VI of Schedule V provides that the supply of a municipal service made by or on behalf of a government or a municipality to owners or occupants of real property is tax-exempt where the owners or occupants have no option but to receive the service. Paragraph 20(h), however, when referring to the tax-exempt supply of garbage collection services, refers to such services when supplied by the government or municipality. Thus, it would appear that garbage services that are provided to a municipality under contract rather than by the municipality itself will not be tax-exempt. Recognizing that municipalities often choose to provide garbage collection services through third parties, the FCM recommended that supplies of garbage collection services by third parties on behalf of municipalities be exempt from the GST.

(455) The Canadian Construction Association expressed concern that the tax-exempt status of the municipal sector would encourage local governments to use their own work forces rather than independent contractors to undertake construction projects. A significant movement away from hiring independent contractors would have an adverse effect on the construction industry. To alleviate this problem, the Association recommended that municipalities receive a full rebate of the amount of GST paid.

22. Insurance Industry

(456) The Insurance Bureau of Canada, which represents private general insurance companies, is concerned about the lack of transitional relief provided to the industry for claims that are settled after 1990 in respect of policies that were written before 1991. The Bureau is proposing that Bill C-62 provide transitional relief to property and casualty insurers for claims settled after 1990 for which premiums were established prior to that date.

23. Psychoanalytic Services

(457) Section 12, Part II, of Schedule V exempts the supply of certain psychoanalytic services from the GST. Members of the Canadian Association of Psychoanalytic Psychotherapists for Children, a small organization which presently consists of about 50 members, provide psychoanalytic services to children. Services provided by this group are not specifically recognized under Bill C-62 as a tax-exempt service. They recommend that the supply of services by members of this professional organization be an exempt supply.

24. Inventory Rebate

(458) One witness was of the view that businesses that are able to verify the actual amount of FST paid on inventory on hand at the end of 1990 should have the option of claiming a full rebate for the FST or using the prescribed flat rate.

25. Automobile Parts

(459) GST will be charged on the "core" components of rebuilt automobile parts such as alternators, starters, and engines. According to the Automotive Industries Association of Canada, this is not fair to the consumer who is exchanging a used core and receives credit for it from the retailer. They recommend that the consumer receive a credit for the GST paid on the "core" component of the purchased automobile part where a used core is exchanged for the rebuilt product.

26. Tourism and Travel

(460) In its brief, the Alliance of Canadian Travel Associations (ACTA) indicated that the GST would impose higher costs on tour operators who arrange tours of Canada for foreign tourists. This could result in routing passengers to U.S. destinations or even to opening U.S. offices to avoid the GST. The ACTA recommended that consideration be given to zero-rating the inbound travel sector.

(461) Under Bill C-62, most surface travel within Canada is fully taxable. Foreign tourists will also be required to pay the GST for all domestic intercity transportation. However, these expenditures will not be eligible for a

rebate. The Tourism Industry Association of Canada (TIAC) recommends that all intercity transportation purchased by foreign tourists be free of tax.

(462) The TIAC also recommends that the excise tax on motive fuels and alcoholic beverages be adjusted or eliminated when the GST is implemented to ensure that the total government revenues from these items, including the GST, are no greater than before the introduction of the GST.

(463) On the question of GST rebates for tourists, tourism industry associations were of the view that every effort be made by the Government to provide rebates instantaneously and as close to the source as possible. They also suggested that the claim threshold be reduced to zero. Representatives of the tourism industry noted that international conventions and conferences can contribute a significant amount of money to the Canadian economy. They also indicated that the international convention market is extremely price sensitive. To ensure that Canada will remain competitive in this market, the TIAC recommends that all costs associated with international conventions and conferences be tax free where more than 50% of the delegates are from outside Canada.

(464) Another witness suggested that services provided to non-resident tourists be considered the same as any export; non-resident tourists should be relieved of the burden of paying the tax and later applying for a rebate.

(465) Bill C-62 does not provide for a rebate for FST paid on capital equipment. The TIAC felt that rebates should be provided for FST paid on purchases of capital equipment made in the twelve-month period prior to commencement of

the tax.

27. Canadian Floriculture Industry

(466) Flowers Canada, a national trade association representing companies engaged in the Canadian floriculture industry, advised the Committee of their concerns about the administration of the GST in connection with the sending of flowers by wire.

(467) Sending flowers by wire involves three organizations: the sending florist, the wire service and the receiving florist. According to the Association, Bill C-62 treats the sending of flowers by wire as three transactions rather than one. At every stage of the transaction, the tax will have to be accounted for. The association pointed out a number of problems relating to the application of the GST to incoming international orders. A sending florist from another country will be under no obligation to collect the tax, yet the receiving florist would be hard pressed to collect the tax from the Canadian receiving the flowers as a gift.

(468) For the purpose of wire orders, Flowers Canada believes that the person sending the flowers is the end user. It therefore recommends that: all incoming international wire orders be zero-rated; all outgoing international wire orders be subject to the GST; and a wire order be treated as one transaction with the tax levied at the point of sale.

28. Bad Debts

(469) One witness suggested that proposed subsection 231(1) of the Act should ensure that businesses can write off the

GST associated with bad debts in the same period as the bad debt occurs, irrespective of the reporting period.

29. Exports

(470) The Canadian Export Association requested that supplies of goods and services by a supplier to exporters who are acting on a merchant basis and who cannot disclose the destination of the goods to the supplier should be zero-rated upon the exporter certifying that the goods are for export. In addition, commissions and retainers paid to Canadian-based export trading firms by Canadian suppliers should be tax-free.

30. Limitations on the GST Rate

(471) Many witnesses expressed concern about the fact that the 7% GST rate could be increased to extract more revenue for the Government. The Fraser Institute suggests that Bill C-62 should be amended to include a clause which would limit the GST rate to 7% and provide that a rate increase could only occur after resubmitting the GST legislation to Parliament for reconsideration. Consideration should also be given to limiting the amount of revenue generated from the GST to the current amount of revenue generated from the FST.

31. Application to Clothing

(472) The GST will apply to the sale of clothing. Witnesses argued that, like food and shelter, clothing is an essential good and should be accorded a tax status similar to those goods. It was recommended that supplies of clothing be either exempt from the GST or zero-rated.

32\. Co-operatives

(473) The Canadian Co-operative Association (CCA) raised a concern about the treatment of investments in the share capital of co-operatives. It would appear that, because purchasing a share in a co-operative entitles the purchaser to certain benefits of membership in the co-operative that are not available to non-members, the issuing of co-operative shares would constitute the sale of a membership within the definition of membership found in proposed section 140 of the Act and would therefore be taxable. The sale of shares of other types of businesses, however, are exempt from the GST. Since co-operative shares are generally regarded as financial instruments for other purposes, the CCA recommended that the issuance of shares in a co-operative be exempt from the GST.

(474) A number of co-operatives are structured as direct charge organizations which sell goods to members at cost but cover overhead by a weekly or monthly service fee. The CCA pointed out that an inequitable situation arises where the co-op sells basic groceries, which are tax free. In conventional stores where overhead costs are included in the price of the groceries, no GST will be levied, but in a direct charge co-operative, GST will be charged on the service fee. The CCA recommended that the service fee charged by direct charge co-operatives be taxable only to the extent of the ratio of the co-op's. taxable sales to total sales.

(475) Proposed section 156 of the Act allows closely-related corporations to elect to treat supplies made between them as if they were tax free. This simplifies accounting procedures and alleviates cash flow problems

consequential on the tax. The Bill's concept of closely related group does not include a co-operative structure where local co-ops own a central supplier. To allow a co-operative group to take advantage of the simplified procedures for closely related groups, the CCA recommends that section 156 include groups of co-operatives that own a central supplier. The CCA advised the Committee that Co-operators Data Services Limited (CDSL), a supplier of data processing services to financial co-operatives such as insurance companies, trust companies and credit unions will not be deemed to be a closely related corporation, and therefore cannot provide GST-free services to insurance companies and trust companies. (According to the CCA, CDSL will be considered to be closely related for the purpose of providing services to credit unions.) Recognizing the importance of the service provided by CDSL, the CCA recommends that CDSL be considered a closely related corporation to all financial co-operatives to which it provides services.

(476) Another co-operative central agency, Co-operative Trust Company of Canada provides RRSP and RRIF administrative services to credit unions. It is also recommended that this company be determined to be a closely related corporation under proposed section 128 of the Act.

(477) Co-op Atlantic suggested that paragraph 128(1)(a)(vi) be amended by removing therefrom the requirement that there be not more than five shareholders for the purpose of determining ownership of closely related corporations.

33. Health Care

(478) The Canadian Dietetic Association (CDA) called for the inclusion of the services of dietitians in the list of

tax-exempt health care services under Schedule V. The CDA is of the view that dietitians' services are integral to the health care system and that dietitians have long been recognized as health care professionals. The Association believes that there is no reason to exclude dietitians' services from Schedule V when dental and psychologists services are recognized as tax-exempt.

(479) A number of health care associations commented on the GST status of institutional and non-institutional health care. Many felt that the GST is biased in favour of institutional rather than community-based or home-based care and called for the removal from the Bill of all disincentives to home-based care.

(480) Others suggested that all non-profit health care facilities should be zero-rated or at least eligible for a rebate equal to that set for public hospitals. With regard to nursing homes, it was suggested that both private and non-profit nursing homes that receive substantial government funding should be eligible for the same GST rebate.

(481) The Canadian Hospital Association (CHA) advised the Committee that non-profit health care facilities and agencies are not eligible to use the simplified accounting method. It contended that this method would benefit health care facilities in managing the allocation of costs attributable to taxable and non-taxable activities. The CHA recommends that non-profit health facilities and agencies be eligible for this procedure.

(482) The CHA pointed out that many hospitals use central laundry facilities. Under Bill C-62, the services offered by these facilities would be taxed. Centralized

food commissariats are also used. Meals produced by these facilities are tax-exempt if served to patients and residents (Schedule V, Part II, section 11) but taxable if served in a hospital cafeteria. The CHA recommends that centralized laundry facilities and all meals supplied by central commissariats to health care facilities be tax-exempt.

(483) Schedule VI, Part II, section 31 provides that the supply of a "prescribed property or service" associated with medical or health care will be zero-rated. The Schedule also contains a list of specific devices that are tax-free. A number of health care associations expressed a desire that the list of zero-rated medical devices and supplies be expanded to include medical and surgical equipment. In addition, items such as incontinence pads, dressings and bandages, all essential to health care, also should be zero-rated. They recommended that the list of prescribed medical devices be expanded and that the Department of Finance consult with health care practitioners to ensure that the list reflects items that are essential to health care needs.

(484) A brief submitted to the Committee recommended that condoms be listed as a zero-rated medical device. Condoms are an effective and cost-efficient means of preventing sexually-transmitted diseases. Prescription drugs which treat these diseases are zero rated and it is felt that condoms enhance the health care system and their use should not be penalized by the GST.

(485) Part I of Schedule VI zero-rates prescription drugs for human use. Over-the-counter (OTC) drugs, however, will be taxable. The Canadian Medical Association (CMA), among others, called for the zero-rating of OTC drugs.

In its view, the application of different tax rates to drugs will encourage patients to seek prescriptions for over-the-counter drugs and further increase health care costs.

(486) According to a study conducted for the CMA, doctors costs will increase substantially because they are not permitted to claim an input tax credit for purchases. Moreover, most practitioners do not believe that these increased costs can be recovered through fee arrangements made with the provincial governments. The CMA, therefore called for a rebate for medical practitioners that would ensure that the GST would have no greater impact than the FST on their costs of practising. Alternatively, a special income tax deduction for medical practitioners could be created to reflect the amount of GST paid.

(487) Professional dues necessary to maintain a professional status recognized by statute are exempt from the GST (Schedule V, Part VI, section 18). Many physicians are members of the Canadian Medical Protective Association (CMPA), a non-profit medical mutual protective association which provides professional liability insurance to over 90% of the doctors in Canada. According to the CMA, medical malpractice insurance is a de facto requirement to the practice of medicine. The CMA, therefore recommends that the supplies of the CMPA be accorded tax-exempt status.

(488) The CMA also called for tax-exempt status for fees for continuing medical education courses.

(489) Representatives of the Christian Scientists of Canada appeared before the Committee to request that Christian science practitioners, nurses, and sanatoria be accorded

the same treatment under Bill C-62 as doctors. nurses and hospitals. This would require the inclusion of these practitioners and institutions in the list of exempt health care services under Schedule V, Part II.

34. Non-taxable Importations

(490) Paragraph 7 of Schedule VII provides that goods (other than certain prescribed goods) valued at $40.00 or less and that are sent from outside Canada to a person in Canada by mail or courier are to be tax-free. At present, imported goods valued at $40.00 or under and attracting less than $5.00 in duties and federal sales taxes are permitted to enter Canada by post or courier tax-free.

(491) The exception found in paragraph 7 does not refer to the $5.00 duty and tax limitation. A witness called for the restoration of the $5.00 limitation in Bill C-62. He noted that under the current regime the exemption results in losses of substantial amounts of government revenue, a situation that would be exacerbated if enshrined in legislation.

(492) The GST is to be paid on the border duty inclusive value of imports. If these goods are subsequently re-exported, they will be zero rated. In the interim, payment of the GST on imports might cause some cash flow problems for importing firms. Under the present system, no FST is paid on such goods since they are used in the manufacture of other products. They are also free of duty. The Canadian Exporters Association asked that such imports be zero rated.

35. Residential Rents

(493) Schedule V, Part I exempts most residential rents from the GST. The exemption for residential rents covers both furnished and unfurnished apartments. If a tenant rents furniture for an apartment, he will pay GST on the furniture rental costs, but if an already furnished apartment is rented, no GST will be payable directly by the tenant on the portion of the rent attributable to the cost of the furniture. One witness, an owner of a furniture leasing company, felt that this exemption discriminates against those who rent furniture separately from a residential unit and will contribute to the conversion of unfurnished apartments to furnished units in order to charge higher rents. He recommended that the exemption for residential rents be modified to ensure that the portion of a rental charge attributable to furniture rentals is taxable.

(494) Proposed section 191 of the Act establishes rules for the taxation of self-supplies of residential units. Owner-developers are to pay tax on the fair market value of newly-constructed residential complexes when the first unit is rented. Builders made representation to the Committee that they should be liable for tax on the basis of construction costs, not fair market value which will increase the adverse impact of the GST on residential rents.

36. Services Provided by Agents

(495) The Patent and Trademark Institute of Canada believes that Bill C-62 is not clear in zero-rating the services that Canadian patent and trademark agents supply to non-residents. Services rendered by lawyers and accountants

to non-residents, however, are clearly tax-free. The presence of the term "agent" in paragraph 7(d) of Part V of Schedule VI, in the opinion of the Institute, can be construed to cover professionals who are providing professional services to non-resident clients but are acting as agents for them. This paragraph should be clear as to its intent to exclude professionals such as patent and trademark agents who must be classified as agents to act in that capacity.

(496) AMI Asset Management International Inc. provides investment advisory services to non-residents, but also acts as agents for them. This witness feels that services to non-residents should be zero rated and this should be clearly specified in the Bill.

37. Coin-operated Machines

(497) The Committee heard testimomy from the Coinamatic Group, one of the largest concessionaire operators in Canada. Coinamatic owns and operates coin-activated laundry machines in many apartment buildings and housing complexes. Bill C-62 requires all money be cleared from coin-operated equipment on December 31 and that the price of using the equipment be increased to reflect the imposition of the GST. Because most laundry machines will accept only $0.25 coins, the cost of using the machines will increase by more than just the amount of the tax.

(498) Coinamatic has 70,000 pieces of laundry equipment currently in operation. All of these machines will have to be converted before December 31, 1990 to recover the GST. The company notes that this will take large numbers of staff and considerable time. To meet the GST

deadline, conversion will begin in September, 1990. Coinamatic recommends the inclusion of specific transitional provisions in the Bill which would allow up to one year after the tax is implemented to alter coin acceptors to collect the GST. The tax would then become payable as the machines are converted to accept additional coins.

(499) Coinamatic told the Committee that it is the only company in Canada to have developed a Coin Cycle Control system which enables cash receipts to be verified and audited for income tax purposes. The Government has declared that effective December 19, 1989, the FST will not apply to certain electronic point-of-sale equipment. This exemption recognizes that most retail businesses will have to upgrade cash registers to accommodate that tax. Coinamatic requests that this exemption be extended to cover "any device that provides auditable revenue reporting in a cash-oriented (service) business" as well as "new coin acceptance devices" required to accommodate the GST.

38. Non-resident Foreign Telecommunications Carriers

(500) Proposed paragraph 143(1)(a) provides that a supply of property or a service made in Canada by a non-resident is deemed to be made outside of Canada unless the supply is made in the course of a business carried on in Canada. According to proposed subsection 240(1), a non-resident person who does not carry on any business in Canada is not required to register for the purpose of the tax. Moreover, Schedule VI, Part V, section 7, zero-rates supplies of telecommunications services to non-residents who are not registrants.

(501) Unitel Communications Inc. advised the Committee that it believes that foreign telecommunication carriers and resellers who lease dedicated telecommunication facilities from Canadian carriers and resell these facilities to customers in Canada may not be considered to be carrying on business in Canada and thus would not be required to register for the purpose of the tax. Consequently, foreign telecommunications companies could purchase services from Canadian carriers and resell them back to Canadians free of the GST, while the same service purchased by the Canadian end-user directly from a Canadian supplier would attract the tax. Unitel believes that this will give foreign suppliers a distinct advantage over Canadian suppliers.

(502) Unitel recommends that: (a) registration be mandatory for non-resident businesses who carry on the business of leasing dedicated telecommunication lines, channels or other such facilities located in Canada and of reselling such facilities; (b) proposed subsection 240(1) be amended to provide that a non-resident person who leases dedicated telecommunication lines, channels or other such facilities in Canada and who resells these facilities to at least one other person shall be deemed to carry on business in Canada; and (c) section 7(a) of Part V of Schedule VI be amended to refer to supplies of services in respect of a telecommunication service that is not a dedicated telecommunication line, channel or other such facility provided within Canada.

39. Visibility

(503) The FST is a hidden tax. Until the proposals for the GST were put forward, few Canadians realized that the tax existed or that they were paying it. Proponents of the

GST contend that one of its advantages is its visibility at the consumer level.

(504) To ensure that consumers would be fully aware of the GST, the Government, in the GST technical paper, suggested that a model presentation of the tax would include the inclusion of the tax in the price of the goods or services and the provision of cash register receipts that itemize the price of the item and the applicable GST.

(505) Bill C-62 does not mandate a particular method of displaying the GST at the point of sale. Recognizing that many of the cash registers currently in use cannot accommodate both a federal and a provincial tax, the Bill allows receipts to indicate the amount of tax payable or to show a price that is GST inclusive (proposed section 223 of the Act).

(506) A number of witnesses felt that the absence of a uniform method of presenting the tax would create a considerable amount of confusion among consumers. Because many small businesses do not have sophisticated cash registers, they will have to include the GST in the price of their goods. A number of large businesses, including most of the major department stores, have announced their intentions to exclude the GST from their prices.

(507) Representatives of small business have argued that small businesses, who, because of limited cash and less technologically-advanced cash registers, must include the GST in their prices, will be at a competitive disadvantage to larger stores that are able to show the tax separately. The Consumers Association of Canada expects that there will be a considerable amount of confusion among consumers about the pricing policies of

various businesses; comparison shopping will be difficult. It was recommended by the Consumers' Association of Canada that businesses display the prices of all goods and services exclusive of the GST.

(508) The advertising of goods and services could also be a problem. Will merchants indicate in their advertisements whether a price is GST-inclusive or exclusive? It was suggested that all advertisements should clearly identify whether an advertised price includes or excludes the GST.

40. Funeral Services

(509) The Ontario Funeral Service Association expressed its opposition to the taxation of funeral services. It argued that, like medicine and food, funeral services are a necessity. Although it would prefer to see the entire cost of a funeral service zero-rated, the Association believes that the zero-rating of the services portion of the cost of a funeral would be an appropriate compromise. The GST would only be levied on the goods used in connection with a funeral, such as a casket.

41. Transportation Services

(510) The Public Service Alliance of Canada argued that the high cost of transportation in the North has a great impact on the price of goods and services. In its view, the GST will compound this situation. It recommended that all freight transportation services, including inbound and outbound services, north of the 60th parallel be zero-rated.

42. Jewellery

(511) The Canadian Jewellers Association advised the Committee that excise tax will continue to apply to jewellery after the imposition of the GST. Excise tax is levied on the duty-paid value of imports or Canadian manufacturer's selling price of jewellery. This tax will form part of the base on which the GST is to apply. The Association noted that jewellery is one of the few remaining items subject to excise tax. It believes that the removal of this tax would reduce the incentive for black market sales and boost the competitive position and export potential of the Canadian industry. It therefore recommended that the excise tax on jewellery be repealed.

43. Remembrance Day Poppies and Wreaths

(512) One of the major concerns of the Royal Canadian Legion is that poppies and wreaths distributed in connection with Remembrance Day will be subject to the GST. Poppies and wreaths are manufactured by Vetcraft, a sheltered workshop employing veterans and dependents and operated by Veterans Affairs. All of Vetcraft's products are sold to the Legion.. The Legion wants all Vetcraft Industries' products that are purchased by the Royal Canadian Legion to be exempt from the GST.

(513) The Legion's operations are funded largely from membership fees and other fund-raising activities. According to the brief presented by the Legion, all net revenue of a Legion branch is used for charitable and community support. The Legion therefore recommends that the Dominion Command and the local branches of the Legion be exempt from the GST or alternatively, that they be classified as a charitable or non-profit organization for

the purpose of obtaining a GST rebate.

XXVII. REJECTION OF THE GST

(514) When the Government introduced its Tax Reform White Paper in 1987, it promised taxes which would be fair and equitable, visible and supportive of the economy. The GST has been touted as a tax which meets all of these criteria, but from the evidence the Committee has heard and the analysis we have undertaken, it fails to pass the test.

(515) It must be acknowledged that the current FST is flawed. Most of the 370 witnesses heard during the Committee's cross-country meetings agreed with this assessment. But only 32 expressed unqualified support for Bill C-62, while another 30 were prepared to support the Bill with changes. On the other hand, 209 witnesses expressed outright opposition to the GST. And an indication of the great number of technical problems with the proposed GST was that 156 witnesses asked for changes in the proposal. The Committee has no difficulty in agreeing with the Government that the FST is a bad tax in need of reform. We, and the majority of Canadians, do not agree that the GST is the answer.

(516) Although this Committee was aware that a majority of Canadians oppose the GST, it was startled at the breadth and depth of this opposition. In every city across Canada where the Committee held hearings, groups, organizations, labour unions, and concerned citizens appeared and expressed their fierce opposition to the GST. An indication of the depth of opposition to the GST, was the fact that 130 witnesses asked the Senate to overrule the House of Commons and reject Bill C-62 completely.

(517) The GST cannot be defended by simply stating that the FST

is flawed. The GST must garner support on its own merits. This has not been done.

WHY IS BILL C-62 UNACCEPTABLE?

A. The Tax Is Flawed

(518) One reason to reject a Bill is because it is replete with technical flaws. The body of the Report outlines a number of issues that were raised during the testimony and according to the witnesses, this piece of legislation is fraught with inequities and technical problems. A detailed listing of recommendations for change is included in chapter XXVI of the Report. The large number of recommendations for change indicates the extent of inequities and technical problems that the drafters of the Bill and the various Department of Finance technical papers failed to address adequately. The following is a small sample of the more noticeable flaws in the Bill.

1. Basic Groceries

(519) The Committee has been presented with numerous examples of food and beverage products which face differential GST treatment even though they are competing products. Soft drinks are taxed while mineral water and coffee are not. Chocolate bars are taxed while chocolate covered cookies are not, and so on. The GST was supposed to eliminate relative price distortions yet, in the area of food products, it introduces a new set of distortions. The tax therefore fails to meet one of the main requirements that the Government has set out for it.

2. GST and the Non-Profit Sector

(520) Bill C-62 adversely affects the non-profit sector in many ways. Some examples stand out. The Committee learned that a non-profit woodworking business in Prince Edward Island employing handicapped individuals would be subject to the GST on its sales. It also heard from the Royal Canadian Legion about the possible taxation of Remembrance Day wreaths. Both of these are instances of socially-desirable activities which could be harmed by the GST.

(521) The amateur sports community has a number of very serious concerns with the GST. First, many amateur sports associations would not qualify for the 50% rebate of GST paid on inputs either because they are not national organizations, or because they do not receive at least 40% of their funding from government. The Committee believes that it is totally unfair to penalize some sports organizations purely because their mandate is not national in scope. Further, it is inconsistent of the Government simultaneously to urge non-profit organizations to reduce their reliance on government funding, then to penalize these bodies by disqualifying them for the 50% GST rebate because their private funding levels are too high.

(522) Another question about this tax is its application to fees paid on sports programs directed towards children over the age of 14 years. What is the rationale here? Are programs aimed at youths in the crucial 15-18 years age bracket less important than those designated for youngsters?

(523) While all taxpaying firms and organizations will face an increased administrative burden as a result of the GST, charities and non-profit organizations are especially vulnerable. Many produce both tax-exempt and taxable goods for sale. They need to apportion their costs and sales between the two types of activities in order to claim the 50% rebate and input tax credits. They must also collect and remit the taxes. This would represent a formidable task for business, but for those charities and non-profit organizations that must rely on volunteers, it is oppressive.

3. MUSH Sector

(524) The municipalities, universities, schools and hospitals (MUSH) sector have a number of problems with the GST. First, the tax rebate percentages offered are based on the average amount of sales tax currently paid by each of these sectors. At best, this provides only rough justice since some organizations pay more sales tax than the average while others pay less. Furthermore, on a cash flow basis the new system imposes a heavy cost on the MUSH sector. Organizations must finance the extra GST liability between the time it is paid and the time their rebate is received. The Canadian Hospital Association calculated that the effect on cash flow could amount to $95 million per year for that sector.

(525) Organizations in the MUSH sector are also extremely concerned about the administrative complexity of this tax. The Federation of Prince Edward Island Municipalities told the Committee that small municipalities simply cannot cope with the GST. We were informed by representatives from the Canadian Hospital Association that they could not be ready for a January

1991 implementation date because of the time necessary to introduce a new administrative system. Municipalities also suggested that the January 1991 implementation date was too soon.

(526) Municipalities are facing increased labour costs due to the GST. Representatives from the City of Toronto and the City of Edmonton testified that GST protection is a major negotiating item with their unions. Municipalities have questions about the taxability of para-municipal organizations such as non-profit housing corporations.

(527) Moreover, the City of Edmonton operates a number of commercial enterprises such as telephone and power companies which would be subject to tax. These services would be subject to GST although there is really no competing private sector counterparts. Alderman Ron Hayter of the City of Edmonton told the Committee that the Government's assertion that the tax bill of municipalities would not rise because of the GST was false. Mr. Hayter stated, "However, in Edmonton's case the commitment of Mr. Wilson will not be honoured. In fact, unless the terms of reference are altered the impact on the City of Edmonton will be significant, adding more than $20 million in additional tax per year to the backs of citizens of our city." (63:15)

(528) The GST would also have a damaging effect on companies carrying on business with municipalities because services provided in-house would not be taxable while contracting out would be subject to the GST. As Mr. John Halliwell, President of the Canadian Construction Association warned, "Our members are greatly concerned that this will increase the amount of work done in-house, and consequently that work will be lost to the construction

industry." (42:41)

4. Co-Operatives

(529) The GST would penalize the co-operatives for three reasons. First, it would levy GST on their share capital since the issue of shares in co-operatives is considered a taxable membership fee. Second, the GST would penalize those co-ops that recoup their costs through taxable direct charges to their customers, rather than by marking up non-taxable items such as food. Third, because of the layered structure of the co-ops, these businesses would have to account for GST at several levels of their organization. This places an unnecessary and unfair administrative burden on co-ops compared with their competitors.

(530) The Committee believes that this application of the GST to co-operatives is unacceptable. These organizations provide a valuable service in this country and should be encouraged rather than discriminated against.

5. Health Care

(531) Health care provided in health care facilities or by recognized health care practioners would be exempt from the GST. However, Bill C-62 would discriminate among health care institutions and between practioners. For example, long-term care facilities operated by the public sector would receive the same 83% rebate that the hospitals receive while others operated on a non-profit basis would receive the same 50% rebate that is given to charities. Those long term care facilities operated for profit would not be eligible for any rebate on the tax paid on their purchases.

(532) The Committee heard that a number of important health care practioners' services would be taxable under the GST. The list includes: the Psychoanalytic Psychotherapists for Children, Massage Therapists, Dieticians, Social Workers, Veterinarians and Christian Scientists. Exclusion of these practioners from the list of exempt health care services contradicts the Government's assertion that health care is not taxed by the GST.

(533) As physicians are exempt under the GST, they would have to pay tax on their own purchases but would not be permitted to charge tax on their sales. According to evidence from the Canadian Medical Association (CMA), the provinces have indicated that they will not permit doctors to raise fees to compensate for their increase in costs. In effect, physicians are being asked to bear the cost of the GST and accept lower incomes.

(534) It is important to recognize that exemption of health care services from the GST does not mean that these services would not bear tax. The purchases made by health care providers are taxable and their costs would rise accordingly, with the exception of some health care facilities, which receive a rebate fully compensating them for the added tax.

6. Funeral Services

(535) The Funeral Service Association of Canada told the Committee, "We believe that every Canadian has a right to a burial or a cremation according to the rites and practices of his or her religion and cultural heritage, and that Canadians find it offensive for the Government to tax those services." (53:29) The Committee agrees

that the direct application of a sales tax to funerals is unwarranted and offensive.

(536) Three days before they were due to begin collecting the GST the Ontario Funeral Service Association indicated that they were still unclear on the rules affecting the taxation of prepaid funerals. The fact that this organization was unable to obtain a consistent answer from Revenue Canada is indicative of the confusion faced by business when the Government has not made the necessary preparations.

7. Education

(537) While witnesses from the educational sector were opposed in principle to the GST, they also made a number of specific criticisms of the tax. A recurring comment was made on the unfairness of taxing some courses simply because these do not count towards a diploma or degree. The Canadian Federation of Students noted that textbooks and other educational materials purchased separately by students would be taxable. The GST would also pose a major administrative problem for educational institutions, which would need to apportion their costs according to taxable and non-taxable courses. We heard from the Canadian Association of University Teachers that the GST might be applied to research grants provided to universities.

(538) The evidence heard by this Committee indicates that, contrary to the impression being given by the Government, educational studies would be subject to the GST. Tuition fees for most non-credit courses and payments for textbooks and other necessary learning materials purchased by students would be taxable. The Alberta

Association for Continuing Education, in particular, strongly disagreed with the Government's view that education would not be taxed: " We have seen one advertisement that has been running which suggests that the GST will have no impact whatsoever on education. That is a blatantly false statement from our perspective. We would certainly appreciate it if the advertising in support of the GST being purchased by the federal government was more accurate." (64:108)

8. Insurance

(539) The property and casualty insurance industry would have significant problems with the GST. The industry would be required to settle claims after 1 January 1991 on which companies would have to pay GST but which are funded by lower premiums collected prior to the GST implementation date. Since the industry is an exempt financial service, these extra costs cannot be recovered by claiming input tax credits. The GST would reduce capital and reserves in this industry by $350 million but the inequity can only be appreciated by focusing upon single companies. For instance, the GST would cost the Laurentian Pacific Insurance Company a total of $1.571 million, more than the company earned in 1988 and 1989 combined.

9. Taxation of Reading Materials

(540) The Committee believes that the taxation of books and reading material is a step backwards in promoting literacy and would place an unnecessary burden on students who must purchase their own textbooks. First-year students at the University of Toronto, for example, must budget $700 for textbooks. Evidence received from a representative of the University of Toronto Press was

that professors would respond to the GST by reducing the number of textbooks on required reading lists. This is further evidence that education would be taxed under the GST. Finally, it is worth noting that taxing reading runs counter to the Carter Commission report, which recommended that newspapers, magazines and books should not be subject to a retail sales tax.

10. Used Goods and Works of Art

(541) A number of witnesses have appeared before the Committee expressing concern about the way in which Bill C-62 applies the GST to used goods and works of art. Works of art, antiques and numismatic items will now be subject to a 7% tax. Many people purchase these as investment goods, in the same way they might purchase stocks or bonds. The application of the tax on these items makes them less attractive as investment vehicles.

(542) But there are also important cultural aspects to these items. By zero rating exports, Canada might lose a large part of its Canadian works of art to foreigners whose purchases will be free of tax while purchases by Canadians will be subject to tax.

11. Other Problems

(543) Representatives from the Canadian Association of Customs Brokers told the Committee that they would not enjoy the same degree of bad debt protection as other taxpayers. Other significant technical problems raised in the report concerned exporters, periodical marketers, telecommunication carriers, flower wire services, brewers, jewellers and investment advisory services.

12. Underground Economy

(544) The GST has been promoted by the Government as a means of drawing business participants out of the underground economy. This would occur because businesses would want to claim an input tax credit. In fact, the GST will do little to reduce the size of the underground economy.

(545) A firm operating in the underground economy can be thought of as an illegitimately exempt firm. Whether the Government bestows this exemption, as in the case of small firms, doctors, residential landlords, or a firm grants its own exemption by participating in the black market, the advantages or disadvantages of exempt status are the same. A business would rather be exempt when selling to households while a firm would rather be non-exempt when selling to other non-exempt businesses. A taxable business must raise its prices by 7%, despite the fact that it receives input tax credits whereas an exempt business raises prices by less than 7% because the value added of the business is not subject to tax. Moreover, an exempt firm, legitimate or otherwise, bears no compliance costs. Although businesses selling to other non-exempt businesses are worse off if operating in the black market, businesses selling to households are better off financially by operating in the black market.

(546) It is true that black market firms will have no advantage when selling to registered business, but this is not their traditional market. They sell primarily to households and no incentive is provided to encourage them to register. But the actions of the Government have actually increased the scope for profitable underground participation. Smaller firms have been offered a quick method of accounting. If they take this choice, they

need not apply for input tax credits except for major capital purchases. Thus, they lose nothing by purchasing services from a participant in the underground economy. Not only can households receive lower cost services when dealing with a participant in the underground economy, so can small businesses.

13. GST and Native People

(547) Bill C-62 is silent on the issue of taxation of Indians. However, the Government is interpreting section 87 of the Indian Act to mean that the GST will not apply to purchases made by Indians on the reserve or to purchases made off the reserve that are delivered to the reserve. Other purchases would be subject to the tax. Native representatives that apppeared before the Committee disagreed with this interpretation of section 87 and argued that no purchases made by Indians should be taxable. This fundamental disagreement between the Government and Indian peoples must be resolved.

14. Visibility of the GST

(548) The Government is rejecting the FST because it is an invisible tax. The GST, on the other hand, is supposed to be a visible tax. But the Government has had to soften its original claims of visibility.

(549) Most provinces intend to apply the provincial sales tax on top of the GST rather than in parallel. If the GST is to be visible, cash registers must be equipped to separate out the GST component from the subtotal before the provincial sales tax is applied. Unfortunately, most cash registers simply cannot handle the job and consumers would see a single compound rate consisting of both the

GST and the provincial sales tax. This is especially ironic considering that visibility was supposed to be one of the major benefits of the GST over the existing FST. It now appears that visibility has been sacrificed and the best the Government can do in that regard is to require vendors to hang a sign stating that the price is GST-included.

(550) Some retailers such as Sears have stated publicly that they will show GST exclusive prices and add the tax at the cash, while Woolworths and others have stated that they will include the GST in their posted prices. As a result, consumers will now find it difficult to do comparison shopping. Not only must they make sure that different retailers are selling goods of similar quality and size, but they must now ensure that retailers are quoting prices on the same basis.

(551) Visibility is also diminished when the GST exempts certain products from the tax. Exemption does not remove the tax, it only hides it. Thus tenants will not know how much tax is embedded in their monthly rent. Households won't know how much tax they pay on daycare services or dental services. A student paying tuition for a degree granting course or purchasing a meal plan will pay some GST but will not know the amount because of the exempt status.

(552) In summary, exempt status and institutional pricing policies under the GST will subject products to the same visibility problems that now plague the FST.

B. The Tax Is Unfair

(553) Even more important than the technical flaws in the Bill is the matter of fairness. Any tax that is going to raise $18.5 billion per year and constitute a major part of the federal tax arsenal must meet some basic elements of fairness. The GST, and other VAT-type taxes, is not generally viewed as meeting those basic requirements. It is a regressive tax: lower income individuals spend a greater share of income on consumption and are therefore obliged to pay a greater proportion of their income in sales tax. To make it more acceptable, the federal government is including a system of enhanced refundable tax credits as part of the GST package.

(554) If the basic structure of the tax is going to be determined by the tax credits, they must continue to be effective. Instead, the provisions of the Bill ensure that, only temporarily, would they do the job which they are meant to do.

(555) The credits, and the income threshold after which they decline, are only indexed to take account of inflation in excess of 3%. Thus, the real value of the credits would decline over time and an increasing number of individuals and families would have their benefits reduced. Eventually, even the very poor would not be protected from the extra cost imposed by the GST. Indeed, after only five years, some families could lose up to $300 of the real value of their credits, which amounts to one-half the maximum value of credits for which they are eligible.

(556) In the past, the Government has made statements about adjusting these sales tax credits and income thresholds over time. However, this Committee is not in a position to evaluate the Government's intentions. The Committee can only judge the GST on the basis of the legislation which is before it and clearly, Bill C-62 does not provide for full indexation of the refundable sales tax credits and income thresholds.

(557) This is not the only problem with the GST credits. The $100 single adult credit is not fully obtainable unless the individual's income exceeds $11,169. We are told that this credit is designed to reach the working poor but must it also deny the very poor who are in the most dire need of assistance? Also, if Quebec continues to treat the refundable sales tax credit as income for purposes of determining social assistance, the GST tax credits would merely offset social assistance benefits to the poor in that province.

(558) The GST credits completely fail to take into account the high cost of living in Canada's remote regions. The GST would apply on the final price of goods and services inclusive of transportation costs, which are a significant component in the price of goods and services offered in the north. Although the average Whitehorse family would pay about $400 more GST than the average Canadian family, this is not reflected in the value of the credits. The Committee was also told that the cost of living in Yellowknife is 40% higher than in southern Canada with outlying settlements even more expensive. Thus, not only are the credits too small but the income threshold of $24,800 at which the GST credits start to be reduced will not reflect the same standard of living in the north as in southern Canada.

(559) The system of credits is not the only means by which the Government has promised the people that the adverse consequences of the GST would be mitigated. Some products are to be zero rated while others are to be tax exempt. The Government, for example, has made much of the fact that residential rents are tax exempt. This exemption serves to conceal the GST paid on inputs but it certainly does not eliminate the tax. This is particularly ironic because the FST is being discarded because of its invisibility. The price of exempt items such as residential rents would go up in price as a result of the GST. In the case of new rental accomodation, the increase can be substantial.

(560) Many Canadians find it difficult to purchase their own home. The Government has reassured Canadians that the affordability of housing will not be much affected by the GST. The evidence received by the Committee is quite the contrary. Land will now be taxed for the first time under the GST. It constitutes a large part of the price of housing in high-cost housing markets. In the cities of Toronto and Vancouver and in the golden horseshoe area of southern Ontario, new home prices could increase by 3%, substantially higher than the figures cited by the federal government. In Toronto, this amounts to a $10,000 increase.

(561) Even though the sale of used housing is free of tax, that market should also see price increases as a result of the GST. Since used housing is a substitute for new housing, an increase in the price of the latter should drive up the price of the former. More directly, soft costs -- realtors' fees and legal fees -- will now be subject to the GST. A 7% tax on these costs could increase the price of a home by 0.5%.

(562) Although there would be a GST rebate of 2.5% on purchases of newly constructed houses valued up to $350,000, declining at prices above that level, there is no similar rebate offered on new rental accommodation. The Committee heard that the cost of new rental accommodation will increase substantially. On average, the GST would raise residential rents by 2% in Ontario as even older buildings will be subject to the tax on many inputs. Similarly, the Committee was told that the GST could raise the price of monthly rentals by $27 to $56 in Vancouver. Low income individuals can ill afford such rent hikes particularly in tight rental markets such as Ontario where almost one half of tenants with incomes below $25,000 already pay 30% of their income in rent.

(563) The Committee is very concerned that the Government has chosen to discriminate against rental accomodation by not providing rebates on newly constructed rental units. This policy appears to favour those who can afford to purchase a new house over those with mostly modest incomes who must rent their accomodation.

(564) Although the GST does not tax basic groceries, it is misleading to say that it does not tax food. The Committee has been told by several organizations, most notably the Canadian Restaurant and Food Association, that 40% of the household food dollar is spent in eating establishments. When food items which are not basic groceries, either by the nature of the items or by the size of the packaging are added, the notion that food is not taxed proves to be totally incorrect.

(565) It seems extraordinary to this Committee that in introducing Bill C-62 the Government could fail to address adequately a problem as fundamental to a sales

tax as the issue of regressivity. In summary, the Government has proposed a tax which does not meet the test of fairness. This tax is unfair to lower income families and it is unfair to those living in high-cost parts of the country.

C. The Tax Is Too Complex

(566) The GST is not only unfair, it is extremely complex. A multi-stage sales tax, such as the GST, is regressive with respect to compliance by business. A British study found that the cost of complying with VAT is 40 times higher for small business as a proportion of sales than for large firms. Businesses making only taxable sales must account for tax paid on purchases and tax owed on sales. However, the complexity increases as the number of zero-rated and tax exempt items are added to the system.

(567) The evidence from a forthcoming book by Professor John Whalley and Deborah Fretz indicates that, "the particular form of VAT that Canada proposes to introduce is, by international standards, surprisingly complex. It also has a relatively narrow base and, if European experience is anything to go by, further complications may yet develop, including multiple rates." (John Whalley and Deborah Fretz, The Economics of the GST, Canadian Tax Foundation, forthcoming)

(568) The complexity of the tax is most evident for small retailers selling food products. The definition of basic groceries is replete with anomalies and it will be up to the retailer to ensure that the tax is applied correctly. Large retailers who have computerized checkout scanners can program their computers to distinguish between

taxable and tax-free products. For smaller retailers, these distinctions must be made by the cashier.

(569) Suppliers of exempt and non-exempt goods and services must apportion their inputs in order to claim input tax credits on purchases used to produce taxable supplies. This poses particular administrative difficulties for those who supply both types of goods, such as financial institutions, educational institutions, charities and non-profit organizations, and landlords whose complexes include both long-term residential and commercial supplies.

(570) Under any VAT-style tax, the compliance cost for small business is already substantial but the Government has magnified this beyond tolerance by proposing to introduce the GST without folding it and the provincial sales taxes into a single national regime. The Canadian Federation of Independent Business (CFIB) has said that the two-tiered approach is unworkable and has been adamant that the GST not proceed without the cooperation of the provinces. As the CFIB told the Committee, "What this Government is proposing is the absolute worst sales tax in the world. It is the worst system that man could possibly devise." (49:10) The Saint John Board of Trade indicated that, "small business would face an administrative nightmare." Yet, the federal government has decided to proceed with the tax anyway.

(571) The recent agreement by Quebec to harmonize its provincial sales tax with the GST, although a step in the right direction, is considerably short of a national consensus. Even then, the agreement was reached at the cost of the resignation of Quebec's Minister of Revenue. The premiers of the other nine provinces stated in a

joint communique released at the premiers' conference on August 13-14 that they find the GST unacceptable and believe that it should not proceed. The recently-elected premier of Ontario, Bob Rae, has vowed publicly to fight the GST. It has been reported that both Alberta and British Columbia are considering the possibility of a court challenge to Bill C-62.

(572) The Organisation for Economic Co-operation and Development has recently commented upon the proposed GST. That organization has concluded that the lack of federal-provincial harmonization is the most serious shortcoming of the new tax, leading to needlessly higher administration and compliance costs. These costs are also raised by failure to tax basic groceries.

(573) Complexity of compliance is harmful to the economy. Resources must be spent in an activity which adds nothing to the goods and services people wish to consume. This complexity is also reflected in the higher administration costs to the Government, which must hire an additional 4000 people and spend an extra $200 million to raise the same amount of money that it now collects. This makes no sense.

D. The GST Harms the Economy

(574) Of all the tax alternatives presented to the Committee, none is as damaging to the Canadian tourist industry as the GST. It would encourage Canadians to vacation abroad and discourage foreigners from coming here. This industry generates about $24 billion per year in revenues and employs 1.2 million persons. Tourism has the potential to be a major growth industry in Canada, yet the evidence received by this Committee indicates that

the tourism industry is already suffering from a declining number of foreign visitors and the GST would only exacerbate the problem. Bill C-62 would provide some relief in the form of rebates to foreign travellers for tax paid on accomodation and goods purchased and taken out of the country. However, the Committee heard that this would not alleviate the problem because of the minumum $20 rebate amount and because a large proportion of tourist expenditures are made on services and other items that would not qualify for the rebate.

(575) Also, the tourist rebates would do nothing to encourage Canadians to remain at home rather than travel abroad. With the United States border within several hours drive for the vast majority of Canadians, the GST is one more reason to vacation south of the border. The problem of cross-border shopping in the U.S. has already reached serious proportions for some Canadian border communities. The GST can only increase the relative attractiveness of U.S. shopping. When surveyed, 47% of Canadians indicated that they will vacation in the United States rather than Canada. According to the Conference Board of Canada's Tourism Research Institute, "The number of Canadians taking their holidays within Canada has been consistently declining for the last decade, with the U.S. being the prime beneficiary of that. This sort of economic environment -- the perception of a high Canadian dollar and the fact that travel will become more expensive after the goods and services tax comes in 1991 -- will only further encourage that trend."

(576) Foreign travel receipts represent a valuable Canadian export worth approximately $7.2 billion to the Canadian economy in 1989. The Committee believes that taxing exports is simply the wrong route to take. Furthermore,

it runs contrary to one of the Government's stated reasons for introducing the GST, which is to relieve the cost burden on Canadian exports.

(577) A major pre-occupation of economic policy concerns the control of inflation. We are paying a high price for this policy in terms of higher interest rates and their effects on the economy. Yet the federal government is intent on introducing a tax which would, in all likelihood, increase the rate of inflation. The Minister of Finance in British Columbia, the Honourable Mel Couvelier, made the following comment on the inflation effect of the GST: "It will represent a significant price shock to the economy at a time when high interest rates and an artificially high dollar are already choking off economic growth." (66:15)

(578) The first reason it would raise prices is that provision has not been made to remove the existing FST from all products. Representatives from groups across the country told the Committee this. For example, the Government's 8.1 % rebate for FST paid on existing inventories is completely inadequate. In this regard, the Committee heard from automotive parts dealers, building supply dealers, importers and manufacturers of toiletries, cosmetics and fragrances. Firms are expected to pass along the supposed savings from removing the FST but this is impossible where the old tax remains embedded in inventories.

(579) It is also ironic that the GST is touted as a tax which removes relative price distortions in the economy. Yet the FST inventory rebate is applied in a haphazard manner, giving too little rebate to some and possibly too much to others. During the transition, this is probably

the most important source of distortions many sectors can expect to face. Contrary to the intent of the GST, relative price distortions will not be corrected.

(580) The Government is spending $19 million on a Consumer Information Office (CIO) to monitor price changes as a result of the GST. The House of Commons Committee, which studied the organization, heard that in most cases it is impossible to determine the amount of FST embedded in the price of a product. The CIO recently released its first publication on the expected price changes from the GST. However, the Retail Council of Canada believes that the booklet could mislead the public because it sets up benchmarks that "aren't part of the real world in which retailers operate."

(581) The Government has announced that the introduction of the GST would result in a one time price increase of 1.25%. Aside from the dubious belief that all the FST savings will be passed along to consumers, the Government's price estimate assumes that workers would not respond to any price increases brought about by the introduction of the GST. This is definitely not the story that we heard coast to coast from union representatives. The unions told this Committee that their wage demands will reflect the expected price increase from the GST, which is substantially above that presented by the Government.

(582) Thus, the Government wants to introduce a tax which would lead to higher wage demands, unemployment and possibly, labour strife. Signs of labour unrest include strikes by 16,000 steelworkers at Stelco and Algoma and workers in various forest industry companies. Even the Bank of Canada is not immune. Clerical and manual workers at the Bank of Canada's office in Montreal were threatening to

strike unless they obtained wage increases in 1991 to compensate for the impact of the GST.

(583) The information received by this Committee indicates that the Government's price estimates are simply not tenable. On balance, we believe it much more likely that the inital price impact would be higher than 1.25% and that wage demands are likely to extend this into subsequent periods and boost the underlying inflation rate. This does not bode well for monetary policy. The Governor of the Bank of Canada has told the Committee that the Bank's monetary policy will respond to any increase in inflation. The Committee is deeply concerned that the Bank of Canada's response to the GST could raise interest rates, or halt the recent declining trend, and help push this country into a serious recession.

(584) When the Government was first considering the introduction of a new sales tax, economic prospects looked very rosy and the economy has generally performed well since then. But unforseen events have adversely affected the economy. Interest rates are far higher than expected back in 1987 and the Bank of Canada has remained steadfast in its fight against inflation via a tight monetary policy. The resulting high interest rates have had the effect of slowing down the economy and it has started to weaken in early 1990. The rise in oil prices due to the crisis in the Middle East might be just the catalyst to bring on a recession.

(585) Introducing the GST at this time, when interest rates are still high and the economy is likely heading towards a recession, brings with it a set of adverse economic effects that a more opportune introductory date would avoid. The change in tax regimes imposes adjustment

costs on the economy reflected in a jump in prices, lower growth and higher unemployment. These costs are temporary in nature and will be imposed on the economy no matter when the GST is introduced. But it appears to be particularly counterproductive to impose these costs on the economy at a time when we might be heading into recession. Exacerbating an economic downturn is not usually considered good economic policy.

(586) Although the New Zealand GST has been presented as a model for Canada to follow, the economic evidence is not so reassuring. The introduction of that country's GST does not appear to have gone particularly smoothly. The rate of price increase jumped dramatically in the year of introduction and economic growth stagnated in that year and the two following years. Significantly, tax and transfer measures designed to protect lower income families were not indexed to inflation. They were also not adjusted when the GST rate increased by 2.5 percentage points. (J.W. Warnock, "Adding up the damage from New Zealand's model tax", Globe and Mail, October 10, 1989.)

E. Tax Grab Instead of Tax Reform

(587) While the Government has argued that the GST is a replacement tax, this is clearly not the case. According to evidence from the Chief Statistician of Canada, 60% of personal expenditures are spent on services. Even when expenditures on exempt services, such as rent, are excluded from the tax base, a substantial portion of consumer expenditures would be directly burdened by a sales tax for the first time.

(588) Significantly, the Canadian Advertising Foundation agreed that the GST is not simply a replacement tax for the existing FST. The standards division of the Foundation ruled that government radio advertising stating that the GST is not an additional tax was "deceptive" because the GST is applied on a much broader base than the FST, including such services as restaurant meals and haircuts. The Better Business Bureaus of Vancouver and Toronto labelled the government GST advertising as "offensive and misleading".

(589) If left in place, the FST could generate $18.5 billion in 1991. The Government is proposing to generate approximately the same amount of money in 1991 via the GST. But in addition to this revenue, it would impose at least an additional $200 million in administrative costs. This money must come from somewhere and it will come from taxpayers. It will impose a higher burden of compliance on business, especially small business. These costs must be paid somehow, and they are likely to be paid by consumers.

(590) In the first few years, the GST will cause economic dislocation. Sectors such as services, hit with a sales tax for the first time, will suffer while the overall reduction in consumer purchasing power will slow the economy down and cause unemployment.

(591) Why go through all of this if the tax is to be revenue neutral? The answer that it generates $9 billion in added output is not sufficient in light of the major economic dislocations involved. Furthermore, it is the elimination of the FST which would generate the output gain, not the introduction of the GST.

(592) More than likely, according to witnesses, the Government is going through this exercise to introduce a tax which could significantly boost future revenues. By taxing services for the first time, it is taxing the fastest growing component of GDP.

(593) As the B.C. Minister of Finance, the Honourable Mel Couvelier, told the Committee, "It is no secret that the federal government sees the GST as a solution to stem the red ink and slow the growth of the mountain of debt. ... I am frustrated by the federal mindset that sees a tax grab as the only solution to our fiscal dilemma." (66:15)

(594) The international experience in this regard is not reassuring. VAT rates in the rest of the world have not only been introduced at higher levels than in Canada, they have grown substantially. With about one-half of the Canadian GDP already going through one form of government or another, it is not comforting to be presented with a new tax that can only be referred to as a "cash cow".

(595) As the above discussion has pointed out, the Committee does not think the GST is fair. Also, it is not clear that it is efficient. Our tax structure must be competitive with that of our major trading partner, the United States. The U.S. does not have this kind of tax and has deliberately rejected it in the past. Moreover, Americans do not face the same high level of taxation that Canadians face. If the GST promises ever higher taxation, our competitiveness will further erode.

(596) Nine out ten provincial governments oppose the move by the Government into retail sales taxes. In New Brunswick, the provincial Minister of Finance told the Committee,

"The goods and services tax represents a massive federal invasion of the sales tax field, which until recently was exclusively a provincial domain. If the federal government decides to use the goods and services tax to reduce its deficit, it will do so on the backs of the provinces by raising its initial 7 per cent rate and crowding the provinces out of this very important revenue source. This could result in a reduced ability to deliver provincial services or increased reliance on other taxes, such as higher personal and corporate income taxes." (51:65).

(597) Also, the Minister of Finance for British Columbia stated, "The provinces are being put in vice. We are being squeezed on the revenue side by the GST's intrusion into our tax field and on the expenditure side by the offloading of program costs." (66:17)

(598) The Committee agrees that the introduction of a federal sales tax extending to the retail level, although within the constitutional authority of the federal government, represents an unwarranted intrusion into what has traditionally been a tax field occupied by the provinces. This is likely to have long term implications for the ability of the provinces to raise revenues by this means.

F. Increased Reliance on Sales Tax -- the Best Alternative?

(599) The Committee believes that this tax represents a fundamental change in direction for taxation in this country. Aside from the issue of whether the GST is revenue neutral or budget neutral at the outset, in virtually every other country introduction of a VAT-style tax has resulted in greater reliance on sales tax as a revenue source. Some examples of VAT rate increases in

other countries after introduction include: 8% to 20% in Austria; 10% to 22% in Denmark; 13.6% to 18.6% in France; 10% to 14% in Germany; 12% to 18% in Italy; 12% to 20% in the Netherlands and 11.1% to 23.46% in Sweden. There is no reason to believe that the experience in Canada will unfold differently.

(600) Witness after witness told the Committee that on equity grounds increased reliance on sales taxes was the wrong direction for Canadian tax policy to take. Anti-poverty organizations, seniors groups, unions and concerned individuals all recommended that the Government abandon the GST proposal and address its budget requirements through other tax and expenditure measures.

(601) The Committee was particularly impressed with the testimony of Professor Robin Boadway who argued that the GST would increase the reliance on sales taxes leading inevitiably to further erosion of the federal government's position in the income tax field. In 1970, the personal and corporate income tax revenue collected by the federal government was 2.5 times the amount collected by the provinces; by 1987 this ratio had slipped to 1.75 times.

(602) Professor Boadway believes that there are powerful reasons for the federal government to maintain its dominant position in the income tax field. He notes that the harmonization of the Canadian income tax system across provinces, which achieves a high degree of equity and efficiency, is coming under increasing strain as special provisions, such as flat rate taxes in the western provinces, erode the principles of harmonization.

(603) Also, the income tax system may be the only means by which the federal government may address, on a national basis, issues of redistributive equity. The provinces control many of the redistributive levers on the expenditure side including health, education and welfare. Professor Boadway argues that since the end of inheritance taxation, the only instrument left to the federal government to address redistributive equity is the personal income tax.

(604) Although raising corporate and personal income tax rates is obviously one option for replacing the existing FST, the Committee does not necessarily endorse this or any of the other numerous suggestions that were presented. Neither does the Committee have the resources necessary to provide a complete evaluation of the various alternatives received.

(605) Fundamental questions about the GST remain. For instance, does the federal government really need to levy its own sales tax? Could the federal government vacate the sales tax field and raise income taxes instead? If some form of national consumption tax is desireable, must it take the form of a European-style credit-invoice VAT with the associated paperwork burden that requires tracking every transaction in the economy? The Government has completely bypassed any public debate on these questions in its haste to introduce the GST.

(606) So far, the Government's strategy in promoting the GST has relied solely on comparing it with the FST. However, no matter how damaging the FST, this does not lead inevitably to the conclusion that the GST is the best alternative. Only a rigorous comparison between the GST and the other alternatives can determine that.

Unfortunately, the Government has failed to produce any studies which show conclusively, or otherwise, that the GST is the best alternative to the FST.

(607) This Committee acknowledges that the current FST is flawed and should be replaced but it does not believe that introducing a new sales tax as rife with problems as the GST is the correct way to proceed. Furthermore, until such time as a thorough comparison can be made between the GST and the alternatives, it would be precipitous, even rash, to proceed with such a major change in tax legislation.

CONCLUDING RECOMMENDATION

(608) It is for all these reasons that the Standing Senate Committee on Banking, Trade and Commerce considers that Bill C-62, An Act to amend the Excise Tax, the Criminal Code, the Customs Act, the Customs Tariff, the Excise Act, the Income Tax Act, the Statistics Act and the Tax Court of Canada Act, should not be proceeded with further in the Senate.

DISSENTING OPINION

(609) The members of the Committee who support the Government are not in agreement with this recommendation and urge that the Senate adopt Bill C-62 without amendment.

(603) Also, the income tax system may be the only means by which the federal government may address, on a national basis, issues of redistributive equity. The provinces control many of the redistributive levers on the expenditure side including health, education and welfare. Professor Boadway argues that since the end of inheritance taxation, the only instrument left to the federal government to address redistributive equity is the personal income tax.

(604) Although raising corporate and personal income tax rates is obviously one option for replacing the existing FST, the Committee does not necessarily endorse this or any of the other numerous suggestions that were presented. Neither does the Committee have the resources necessary to provide a complete evaluation of the various alternatives received.

(605) Fundamental questions about the GST remain. For instance, does the federal government really need to levy its own sales tax? Could the federal government vacate the sales tax field and raise income taxes instead? If some form of national consumption tax is desirable, must it take the form of a European-style credit-invoice VAT with the associated paperwork burden that requires tracking every transaction in the economy? The Government has completely bypassed any public debate on these questions in its haste to introduce the GST.

(606) So far, the Government's strategy in promoting the GST has relied solely on comparing it with the FST. However, no matter how damaging the FST, this does not lead inevitably to the conclusion that the GST is the best alternative. Only a rigorous comparison between the GST and the other alternatives can determine their

APPENDIX A

Witness

(1) Air Transport Association of Canada
Air travel to the U.S. should not be taxed. The GST results in tax cascading because it is applied on top of the air transportation tax and because the excise tax on fuel has not been repealed.

(2) Alberta Association of Continuing Education
They recommend all learning activities be tax exempt regardless of their status as credit or non-credit.

(3) Alberta Canola Producers Commission
All farm inputs should be zero-rated.

(4) Alberta Council on Aging
The Council opposes the GST because it hurts seniors on fixed incomes and it is an invasion of provincial jurisdiction.

(5) Alberta Federation of Labour
They want the GST blocked because it is inflationary and regressive. A more progressive personal income tax system and a 20% minimum corporate tax on profitable corporations are needed.

(6) Alberta Liberal Party
The party opposes the GST and wants it blocked because it is regressive, inflationary and unfair to Alberta.

(7) Alberta Motor Association
The legislation should be amended to permit property and casualty insurers to obtain transitional relief for the GST applicable to claims which occurred in 1990 and prior years but which were settled after 1990.

(8) Alberta NDP Official Opposition
The GST is regressive and the tax credits are not indexed. We need to lower interest rates, improve corporate income tax and establish a Royal Commission on taxation.

(9) Alberta Soccer Association
All provincial affiliates of registered Canadian Amateur Athletic Associations should be treated as charities and thus be eligible for the 50% rebate.

(10) Alberta Union of Provincial Employees, U. of A. Hospital
The GST legislation should be blocked because it is regressive and the credits are ineffective.

(11) Alliance of Canadian Cinema, TV and Radio Artists
They want the GST rejected and the Neil Brooks proposal considered.

(12) Alliance of Canadian Travel Associations
The GST should be delayed until July 1991. Flights to the U.S. should be zero-rated and the departure tax should be eliminated. Inbound travel should be treated like an export i.e. exempt. If not, then transportation in Canada should be treated as a rebate item. The minimum claim threshold of $20 should be reduced to zero.

(13) Amalgamated Clothing and Textile Workers Union
There are many reforms and alternatives to the MST and the proposed GST. Abolish general federal sales taxes, and replace the lost net revenues with a combination of selective sales taxes, wealth taxes, and progressive reforms to the personal and corporate income tax. Senate should reject GST.

(14) American Federation of Musicians
They recommend amending the legislation so musicians are exempt.

(15) AMI Asset Management International
Part V of the Schedule VI should be amended to say that advisory services rendered to non-residents be zero-rated providing the non-resident remains outside Canada through-out the performance of the service.

(16) Professor Kell Antoft
The GST does not take account of property price variations and will have a negative effect on the housing market. A Gross Revenue Tax based on total business revenue generated is an alternative.

(17) Assembly of First Nations
Indians should not pay tax as it is an infringement on their rights under s.35 of the Constitution Act, 1982.

(18) Assembly of Manitoba Chiefs
Registered Indians should be exempt from paying tax on all purchases. Incorporated businesses on First Nations communities should also be zero-rated.

(19) Association of Canadian Car Rental Operators
The witness recommends that the transitional rules be amended to enable owners to recover an estimate of FST contained in certain capital vehicles on January 1, 1991.

(20) Association of Saskatchewan Taxpayers
The Association oppose the GST and want it blocked.

(21) Association québécoise de l'industrie du nautisme
The association supports the GST but wants to make changes to it. The definition of temporary accommodation should be expanded to include dockage and mooring expenses incurred by a foreign boat owner staying in Canada. The FST rebate should be granted in all cases on the basis of the FST paid rather than on the basis of an estimate when the FST can be identified.

(22) Atlantic Building Supply Dealers Association
They support the GST but say the provincial and federal governments should co-operate on the issue of taxation. There should be a credit to allow businesses to write-off part of the capital cost of acquiring technology to administer the tax. All exemptions should be eliminated and the rate should be lowered to 5%.

(23) Automotive Industries Association of Canada
The small traders threshold for the 5% tax should be increased to $500,000. The GST rate should be reduced to 5%. The designated rate to remove existing FST from inventory should be higher and the federal and provincial taxes should be combined.

(24) Hon. Michael Ballantyne, Minister of Finance, GNWT
The Minister is opposed to the GST in its present form and believes measures must be taken to compensate northern residents for the increased cost of utilities.

(25) B.C. Automobile Association
The Association opposes the implementation of the GST as a retroactive tax and claims relief should be provided so that GST does not apply to any portion of the cost of any general insurance claim that has occurred or will occur before the implementation of the GST.

(26) B.C. Dietitians and Nutritionists Association
Dieticians' services should be exempt.

(27) B.C. Federation of Labour
The GST should be blocked, it is inflationary. We need a more progressive income tax system and corporations should be paying their share of taxes.

(28) B.C. Liberal Party, Office of the Leader
The witness recommends the Senate stall the Bill and not pass it until an election has been held.

(29) B.C. Provincial Council of Carpenters
The GST must be blocked because it is regressive and inflationary and has a negative impact on the housing industry. Corporations should be made to pay their share and military spending should be reduced.

(30) B.C. Psychological Association
Psychologists should be included within the health care practitioners component of the GST.

(31) B.C. Teachers Federation
The Federation opposes the GST because it is regressive and poses practical problems for schools and teachers. They recommend sending it back to the House of Commons with a request for a fair tax system.

(32) B.C. Trucking Association
They oppose the GST because it is inflationary and puts their members at a competitive disadvantage.

(33) Professor Robin Boadway
GST is not a good tax for Canada for 2 reasons: federal government should maintain a dominant position in the direct tax field; and it is a very difficult tax to administer on a multi-jurisdictional basis.

(34) Ross Bragg, Finance Critic, Liberal Party, N.S.
The GST is inflationary and hard on small business. It will deter foreigners and Canadians from visiting the Maritimes.

(35) Brewers Association of Canada
The witness supports the replacement of the FST in principle but suggests changing the time of payment for excise duty to the same time as the GST.

(36) Brooks & McQuaig
Instead of the GST, the government should eliminate the MST, maintain current excise taxes and recover lost revenue through the corporate and personal income tax system.

(37) Business Council of B.C.
They support the GST but believe it should be amended so as to satisfy the public.

(38) Business Council on National Issues
GST will go a long way toward achieving the key objectives of state two of tax reform outlined in 1987. Urges the Senate to pass Bill C-62.

(39) CAW-Canada
Calling on the Senate to block the implementation of this tax so that a wider consultation and investigation can be made of equitable and workable alternatives to the GST.

(40) C.D. Howe
They generally support the GST but it must be visible and northerners should have a credit. It has an overall favourable impact because it removes tax on business inputs.

(41) C.W.F. Bunting
A more equitable tax system is needed. Instead of the GST, a single percentage income tax should be established. The FST should be maintained.

(42) Cameco - A Canadian Mining and Energy Corporation
They want uranium products zero-rated.

(43) Canadian Actors' Equity Association
They oppose the GST and want it blocked. A more progressive income tax system is suggested, otherwise exemptions must be made for those who derive their livelihood from the artistic and cultural sector.

(44) Canadian Association of Customs Brokers
They recommend that, in the case of bad debts, brokers should be allowed to claim an input tax credit on the amount owing once it has been written off a broker's books. Also, the Accounting for imported Goods and Payment of Duties Regulations should be amended to increase the time period for remitting accounts owed to government.

(45) Canadian Association of National and Provincial Taxpayers
The association wants a law stating that all future increases in total federal revenue must be exceeded by reductions in overall expenditures until the budget is balanced.

(46) Canadian Association of Occupational Therapists
The GST adversely affects health care services for many Canadians in low income groups and the list of medical devices to be tax-free is incomplete. Simpler alternatives to the tax credit system must be considered.

(47) Canadian Association of Social Workers
The Act should be amended so that social workers are exempt.

(48) Canadian Association of University Teachers
Day care services should be zero-rated. The Association does not agree with the decision to limit exempt status in the area of education to credit courses, courses for entry into regulated professions and second language training.

(49) Canadian Association of Wholesale Sales Representatives
Clothing should be exempt.

(50) Canadian Construction Association
Although the non-residential construction industry feels they will benefit under the GST, they are opposed to the difference in the tax treatment of work performed in the MUSH sector by in-house work forces. This distortion should be eliminated.

(51) Canadian Co-operative Association
Recommends that the concept of closely related groups be expanded to include situations where groups of co-operatives own a central wholesaler.

(52) Canadian Cosmetics, Toiletry and Fragrance Association
They want the same effective rebate on inventory as that being extended to the automobile industry.

(53) Canadian Council of Social Development
The Council opposes the GST because it is regressive. We should lower the rate and increase personal income tax to meet the administration costs.

(54) Canadian Dietetics Association
Dietitians should be tax-exempt.

(55) Canadian Exporters Association
They support the Bill but are concerned about goods which will be imported for re-export, currently, such items are exempt.

(56) Canadian Federation of Independent Business
The witness opposes the GST and wants it delayed for up to a year so a more harmonized tax system may be agreed upon. The Bank of Canada could then curtail inflationary pressures and reduce interest rates.

(57) Canadian Federation of Students
They oppose the GST because the credit is inadequate and post secondary institutions which specialize in courses requiring above average purchases of equipment will be hard hit.

(58) Canadian Furniture Leasing
Accepts GST if, and only if, companies price their goods and services fairly and that the GST be equal to all sectors of the economy without providing loopholes.

(59) Canadian Hospital Association
GST will cause administrative burden, compromised cashflow and inequitable treatment of different types and levels of health care facilities. Recommends adoption of a uniform GST approach for all non-profit facilities and agencies at zero-rating.

(60) Canadian Importers Association Inc.
The Association wants the following changes made: restore the rate of inventory rebate to equal the rate of FST paid by importers; provisions must be made to extend the terms of payment of GST by importers to 30 days from the date of importation; customs brokers should be accorded protection under Section 237 similar to the bad debt protection provided to a vendor.

(61) Canadian Institute of Chartered Accountants
They advocate a multi-stage sales tax.

(62) Canadian Jewellers Association
Concerned with the Minister of Finance's proposal to replace the existing MST with the GST while leaving the manufacturer's excise tax on jewellery. That will create administrative problems and higher costs for the jewellery industry. Supports anyway the proposal to replace the existing MST with GST.

(63) Canadian Labour Congress
They oppose the GST and want it rejected. It is regressive and the tax credits offer no protection. Instead we should increase income tax on high and very high income earners.

(64) Canadian Long-Term Care Association
The long-term care sector should be free of the GST, if not, then the rebate for long term care facilities should be set at a level which does not increase their federal sales tax burden. The list of tax-free goods should be re-examined.

(65) Canadian Manufacturers' Association
The current federal sales tax is badly flawed, antiquated and economically damaging on manufacturers, and indirect sales tax costs are buried in prices. Fully support the implementation of the GST in order to maintain Canada's current high standard of living.

(66) Canadian Medical Association
Concerned about the increased administration and related costs of the GST for hospitals. Basic fairness should cause the government to quantify an annual rebate available to medical practitioners that would leave doctors in the same position under the GST as the existing MST system.

(67) Canadian Nurses Association
Anything which negatively influences the health of the people will detract from the country's economic well being. The GST will have a negative impact on health care.

(68) Canadian Paraplegic Association
They want changes to be made to the legislation. The credits should be fully indexed and it should be guaranteed that the GST will not hurt disabled people, i.e. labour for home modifications should be exempt, labour for repairs to wheelchairs should be exempt, etc.

(69) Canadian Pensioners Concerned - Alberta Division
They oppose the GST because it will be hard on seniors on fixed incomes.

(70) Canadian Real Estate Association
The GST will create obstacles for many people wanting to own a home. Real estate agents should be exempt.

(71) Canadian Research Committee on Taxation
The MST and corporate income tax should be replaced by a broadly based income tax, Business Earnings Tax, to be levied on the factor cost of sales statements as reflected in the cost of sales statements of all businesses in Canada.

(72) Canadian Restaurant and Foodservices Association
Does not oppose the GST, but does oppose the complex and discriminatory manner in which the tax has been imposed. The tax rate is too high, and it is not equitable.

(73) Canadian Soft Drink Association (CSDA)
The CSDA recommends that a tax category called "non-alcoholic beverages" be created and that a single tax regime be imposed on that category.

(74) Canadian Teachers Federation
The GST is regressive, invisible and will fuel inflation. The credit is not fully indexed and will therefore not compensate lower income earners. Books and educational materials and professional development for teachers should be exempt.

(75). Canadian Union of Public Employees, B.C.
The GST should be blocked and a fair, progressive income tax system established. Interest rates should be lowered and special business tax loopholes eliminated.

(76) Canadian Veterinarian Medical Association
Veterinary medical services and drugs should be exempt.

(77) Allan Candy
Confectionary with a retail value of $0.25 or less should be zero-rated. Confectionary sold in sizes of 150g or more and confectionary sold in packages of single servings of more than 5 items should also be zero-rated.

(78) Carpenters Union
The GST is regressive, the credits are only partially indexed and it will devastate the housing industry.

(79) Catholic Diocese of Victoria
They oppose the GST and want the Senate to reject it. It is regressive and places a great burden on women.

(80) Centrale des Syndicats Démocratiques
They support the replacement of the FST but not the GST in particular.

(81) Century Customs Brokers
They suggest changes in order that the customs broker does not have to pay GST. GST payment should be the responsibility of the actual importer.

(82) Ace Cetinski
The witness is opposed because of the damage it will do the small business sector.

(83) Christian Science Federal Representative for Canada
Proposes amendments to Bill C-62. Asking for equal treatment under the law and Bill C-62 for CS practitioners, nurses and sanatoria as enjoyed over the years from Government to that given to medical doctors, nurses, hospitals and other health professions.

(84) Christmas Tree Council of Nova Scotia
The GST will bring high administrative costs and a decrease in sales. It will be especially hard on the Maritimes due to the tax on transportation.

(85) City of Edmonton
Local governments should be granted tax-free status and all municipal services should be exempt from GST. Implementation should be delayed by 6 months to allow for preparations.

(86) Coalition Against "Free" Trade
The witness opposes the tax and wants it blocked. It is regressive, what we need is a more progressive personal income tax system.

(87) Coinamatic Group
Bill C-62 contains unreasonable demands on vendors using coin-operated equipment, and silence on problems related to taxation of the Concessionnaire industry and operating leases.

(88) Conference Board of Canada
They support the GST and believe it has long term economic benefits.

(89) Co-op Atlantic
Section 128(1)(a)(vi) could be amended by removing the phrase "not exceeding 5" to recognize the unique characteristic of co-operative ownership and reduce the impact of administering the GST.

(90) Co-op Retailing System in Western Canada
The legislation should be amended so the tax is visible on all invoices. Transitional credits should be available to all businesses regardless of size and tax should be removed from all food. Implementation should be delayed until April 1991 to allow for preparations.

(91) Consulting Dietitians of Canada
Dietitians practising in the private sector should be classified as tax exempt.

(92) Consumers' Association of Canada
Fundamentally opposed to consumption-based taxes. The government should consider delaying the January 1, 1991 GST implementation date until agreements have been reached with all the provinces which collect sales taxes.

(93) Council of Quebec Employers
They support the GST but believe it must be visible and assistance must be given to small businesses to overcome the administrative burden. The federal and provincial governments should agree on a single sales tax.

(94) Council on Tourism Association
The Council recommends businesses be provided with tax numbers for their own acquisitions so they are not required to pay GST and collect it back again. The GST should be combined with provincial sales tax systems in order to eliminate bureaucracy. The GST should also be reduced to 3%.

(95) Hon. Mel Couvelier, Minister of Finance, B.C.
Mr. Couvelier opposes the GST because it is inflationary and proposes more discussion and involvement of the provinces.

(96) Cowessess Indian Reservation Number 73
Indians should not be paying any taxes whatsoever.

(97) Crisis Centre Working Committee, PEI
They support it and want the bill passed without delay.

(98) Don't Tax Reading Coalition
Reading should be zero-rated.

(99) Murray Dorin, M.P.
Mr. Dorin supports the Bill because it will be good for the Canadian economy, adding $9 billion to national output. He argued that the Senate should not delay the passage of Bill C-62.

(100) Peter Dungan, Jack Mintz and Thomas Wilson, U. of Toronto
The GST is complex, not compatible with provincial sales tax systems, not progressive for families earning $30,000 a year and more, and lacks harmonization with the US.

(101) Economic Council of Canada
They support it but recommend a national tax system to alleviate the administrative burden.

(102) Edmonton and District Labour Council
The GST is regressive and inflationary and will hit the tourism and manufacturing sectors hardest. We need to make progressive tax reforms to the existing personal income tax system.

(103) Edmonton Inner-City Church Committee
They oppose the tax and want a progressive income tax system and want the loopholes presently available to corporations to be closed.

(104) Edmonton SE PC Committee on the GST
The witness is concerned that the GST revenue will not be used to reduce the deficit and recommends a Royal Commission on Taxation.

(105) Effem Foods Ltd.
The Bill should be amended so that chocolate confectionaries are excluded from the definition of products that are not basic groceries.

(106) End Legislated Poverty
They oppose the GST because it will increase poverty. We should make corporations pay their fair share of taxes by restoring corporate taxes to the 1984 level.

(107) Episcopal Commission for Social Affairs
Federal Government has a moral responsibility to promote economic justice by reducing the gap that exists between rich and poor. GST should be rejected as an unfair tax and be replaced by an alternative set of progressive tax measures.

(108) FMACQ - Consommateurs du Québec
Cesser les études, les négociations et le travail administratif entrepris dans l'application du projet de TPS. La TPS est régressive. L'introduction de la TPS aura un impact inflationniste.

(109) Fair Rental Policy Organization of Ontario
The witness believes the GST will have a negative impact on apartment owners and tenants.

(110) Federal Superannuates National Association
They oppose the GST, it is unfair to senior citizens and the rebates should be fully indexed.

(111) Federation of Canadian Municipalities
Doubts whether administrative machinery will be fully in place by January 1, 1991 to ensure that implementation is achieved easily and without undue stress. It is suggested that postponement of implementation may be appropriate.

(112) Federation of PEI Municipalities
The federation wants the multi-stage tax system to be eliminated, thus removing the various stages of taxes and rebates and one tax to be applied at the point of consumption.

(113) Fishermen, Food and Allied Workers
Fishermen with sales of $30,000 will incur extra costs in administering the GST.

(114) Flowers Canada/Fleurs Canada
The witness wants the compliance burden on retail florists reduced and says wire orders should be taxed only at the point of sale.

(115) Fraser Institute
Food should be taxed and the rate dropped to 5%. The tax should also be visible and a Tax Limitation Clause should be included to ensure the rate won't be increased without the legislation being submitted in its entirety to the House.

(116) Funeral Service Association of Canada
Prepaid funeral arrangements should not be subject to GST at the time the arrangement is made. Cremation and burials should be tax free.

(117) Galerie Walter Klinkhoff
Since many investment vehicles and heritages are being zero-rated for GST, original fine art should be too.

(118) Professor Gillespie
The GST will aid in the fight against the deficit.

(119) Global Economics
GST will weaken the economy by raising interest rates and lowering consumer spending. GST is regressive. The sales tax credit should be elevated, the income threshold levels should be fully adjusted to inflation, the GST rate should be reduced to 5% and a corporate surtax should be levied.

(120) Goodman & Carr
The government should make supplies to all registrants free of tax. Food should be taxed. GST should not be imposed on land. Federal and provincial governments should co-operate in the administration of the tax.

(121) Governor, Bank of Canada
The GST is expected to exert a one-time increase in the price level. The Bank will be watching prices closely, if they rise, it will move to address these increases.

(122) Greater Summerside Chamber of Commerce
They support the GST and urge quick passage of the bill.

(123) Green Forest Lumber Ltd.
Not opposed to the application of GST on its canadian purchases which are sold in the canadian market; but opposed to paying GST on its canadian purchases which are exported.

(124) Guide Outfitters Association of B.C.
Services of guide outfitters, when consumed by non-Canadians, should be recognized as an export service and zero-rated accordingly.

(125) Heather's Heritage Haven Ltd.
Antiques and used goods should be exempt from GST.

(126) Hills Health and Guest Ranch
They recommend a lower rate of taxation and issuing number to businesses who are eligible for rebates, in order to simplify administration.

(127) Terry Hlady, Alberta
We should increase the FST to 18% and lower interest rates to 3%.

(128) Mel Hurtig
The Senate should block the GST, the major problem facing Canada right now is high interest rates.

(129) Infometrica
The witness supports the GST.

(130) Insurance Bureau of Canada
The insurance industry requests transitional relief from the GST on unsettled claims.

(131) International Association of Machinists and Aerospace Workers
Opposes the GST because it is unfair, and it will be economically destructive in every part of Canada. The Senate should heed the voice of the vast majority of Canadians and refuse to pass Bill C-62.

(132) Irate Citizens of Peterborough
The GST is regressive, inflationary and will not reduce the deficit. It could be blocked by the Senate. If implemented, the legislation should be amended to include a graduated scale of credits and they should be indexed.

(133) Julius Schmid, Ortho Pharmaceuticals
Condoms should be zero-rated.

(134) Professor Kesselman
Professor Kesselman recommends passing the Bill and making changes later i.e. tax all groceries and adjust the credits to fully compensate low-income earners.

(135) L.A. Fowler and Associates Inc.
They oppose the GST because it is detrimental to the recruiting industry. Clients will be more inclined to take temporary employees directly onto their payroll.

(136) Lee Valley Tools Ltd.
The GST will cause a substantial loss of revenue, jobs and foreign exchange. it will increase the inflow of tax-exempt product. Bill C-62 carries with it the seeds of destruction of much of the Canadian retail sector.

(137) Libertarian Party
They oppose the GST because it is inflationary.

(138) Loewen Windows
Loewen Windows support the Bill and recommend that it be passed. They do recommend amalgamating the provincial and federal sales tax to reduce administrative costs.

(139) Lumber Transfer Yard Association
Purchases of product delivered to canadian border reloads be zero-rated. GST would be paid at the time of purchase on products known to be sold domestically or remanufactured. Not opposed to GST.

(140) MacLeod Group
The GST does not appear to present any negative effect to residents of long-term care facilities and the Bill should be passed without delay.

(141) Manitoba Chamber of Commerce
The rate should be 6%, fully visible and there should be a common federal/provincial collection system.

(142) Manitoba Federation of Labour
The GST is regressive and inflationary. We need a more progressive personal income tax system and corporations should pay their fair share.

(143) Manitoba Society of Seniors
They oppose the GST because it is regressive and impacts heavily on seniors.

(144) Manitoba Sports Federation and Members
The MSF supports the tax if all non-profit amateur athletic associations are treated equal to registered Canadian Amateur Athletic Associations and thus receive the 50% rebate. Registration fees for sporting events should be exempt from GST for persons 18 years of age and under.

(145) Alan Martin Associates
The implementation date of January 1, 1991 may be unreasonable. It is an extremely complex tax measure and one that remains untried in any country where other levels of retail sales tax are already in place.

(146) Mayor John Murphy, St. John's Newfoundland
The mayor supports the GST but wants an integrated federal and provincial tax. The Bill should remain as it is in terms of exemptions.

(147) Mennonite Conference of Eastern Canada
The GST is regressive and instead we should reduce military spending and establish a Royal Commission on Taxation.

(148) Municipal Electric Association
Electricity should be exempt.

(149) NWT Chamber of Commerce
They recommend there be a reprieve on the tax on northern transportation and that grants of up to $3,000/business be distributed to offset the cost of start-up and on-going administration of the tax.

(150) NWT Federation of Labour
Special provisions must be made for NWT residents to offset the costs of utilities and transportation in the NWT. Tax rebates to NWT municipalities, schools and hospitals must be increased to levels consistent with territorial prices.

(151) NWT Teachers Association
The GST will have a negative impact on the education system and it is recommended that the government impose a moratorium on the application of the GST in the NWT. Failing this, air travel and transportation to, from and within the NWT should be exempt.

(152) National Anti-Poverty Organization
Do not believe that decreasing the progressivity of the income tax system and relying more heavily on regressive sales tax is the way to achieve a fairer and simpler tax system.

(153) National Dairy Council of Canada
The majority of yogourt is purchased in single serving sizes, usually in multiples, chosen individually and therefore as defined in Bill C-62 will be taxed. They recommend removing yogourt from paragraph (n) Part III of Bill C-62 in order that it not be taxed.

(154) National Farmers Union
They recommend exemption cards which would enable a business to record the farmers' exemption number for the benefit of the tax department.

(155) National Federation of Nurses Union
Canada does not need the GST, it is regressive and will create unemployment in the service sector. Prices will rise and so will nurses' wage demands.

(156) National Pensioners and Senior Citizens Federation
They want the GST rejected and the taxation system reformed.

(157) National Union of Provincial Government Employees
It is too tempting for the government to raise the rate of the GST once it is in place. It is regressive, inflationary and an administrative nightmare. Tax corporations instead.

(158) New Brunswick Federation of Labour
The Federation opposes the GST because it shifts the tax burden on the individual, erodes services, increases prices and creates unemployment.

(159) New Democrats: B.C. Council of Federal Ridings
They are opposed because it is regressive. Instead, we should increase the rate of income tax on annual incomes over $100,000 and make corporations pay their share.

(160) Newfoundland and Labrador Amateur Sport Community
Provincial sports organizations should be granted charitable status in order to ensure consistent treatment with their national counterparts. Charities and non-profit organizations should be able to claim 100% of the GST. Registration fees for recreation and sporting events should be exempt from GST.

(161) Newfoundland and Labrador Community Royal Canadian Legion
The legislation should be changed so as to include the Royal Canadian Legion in the charitable/NPO provision.

(162) Newfoundland and Labrador Federation of Labour
The GST will hit Newfoundland harder than most regions because they have a high poverty level.

(163) Newfoundland and Labrador Parks & Recreation Association
Recreation programs should not be taxed. Corporate sponsorship agreements with non-profit organizations should not be regarded as a provision of service and should be exempt of GST.

(164) Newfoundland Restaurant and Foodservices Association
They are concerned the provincial sales tax will be applied to the GST.

(165) New Look Interiors
The FST rebate is not sufficient to cover the cost of the FST that has been paid on inventory.

(166) Niagara Falls, Canada, Visitor and Convention Bureau
They oppose the GST because it will have an adverse effect on tourism and will be difficult to administer.

(167) Nova Scotia Federation of Labour
The GST is regressive and the credits are inadequate.

(168) Nova Scotia Products Association Incorporated
The tax should be administered and collected by the federal government, then the provincial share could be rebated to the provinces. All primary forest products should be zero-rated until the product reaches the point of processing for manufacture into a finished product.

(169) Office of Yorkton District Chiefs
The GST is a breech of Treaty Four which guaranteed Indians will not be subjected to any form of taxation.

(170) One Voice, the Canadian Senior
Despite credits, the GST is regressive and the progressive income tax system should be used to generate revenue.

(171) Ontario Coalition for Social Justice
The GST is regressive and will have an unfair impact on the non-profit sector. Corporations should be made to pay their share of taxes.

(172) Ontario Federation of Labour
They oppose the GST because it is regressive, inflationary and will deepen the recession.

(173) Ontario Federation of Students
Non-Profit Organization, with GST, will have to pay a 7% increase in their rent. They should be exempted.

(174) Ontario Funeral Service Association
Funeral services should not be taxed. Partial tax freedom is acceptable, provided that sales tax is charged on caskets only.

(175) Ontario Nursing Home Association
The ONHA recommends zero-rating all long-term care services. If not, then the rebate available to chronic care hospitals and non-profit homes should be extended to private homes.

(176) Ontario Racing and Breeding Council
Horses should be tax-free. The GST on horses will end export sales to the USA.

(177) Ontario Secondary School Teachers' Federation
The GST legislation should be blocked because it is regressive. As an alternative, progressive income tax rates should be established. If it is passed, books, magazines and learning materials should be exempt.

(178) Ontario Veterinary Medical Association
Veterinary services should be tax-exempt and veterinary medicine, equipment and devices should be tax-free.

(179) Patent and Trademark Institute of Canada
The witness wants verification that fees charged by Canadian patent agents to Canadian clients in connection with obtaining foreign patent rights are subject to GST. They recommend that when patent services are provided to a non-resident client, the services should be zero-rated.

(180) PEI Advisory Council of the Status of Women
They want the Bill rejected because it will have a negative effect on women. A more progressive income tax system is proposed instead.

(181) PEI Council of the Canadian Federation of Labour
The Council is opposed to the GST and believe it is a regressive tax.

(182) PEI Federation of Labour
The GST is regressive and shifts the burden onto middle and lower income Canadians.

(183) PEI New Democrats
The GST is regressive and will bring inflation, unemployment and emigration. Compliance costs to farmers in particular are excessive. As an alternative, corporations should be made to pay their share.

(184) PEI Potato Board
Freight transportation services should be zero-rated. Farmers should be provided with a tax-free number to be quoted at the time of purchase of goods. Materials used to package potatoes should also be tax free.

(185) PEI Real Estate Association
Housing prices will rise and real estate agent services will be taxable, thus contributing to the rise.

(186) PEI Women's Network
The GST should be rejected and a progressive income tax system should be developed.

(187) Periodical Marketers for Canada
Reading matter should be zero-rated.

(188) Professional Art Dealers Association
Since a work of art maintains its existence and may be sold many times, and at the same time appreciate in value, the GST will mean a tax on top of a tax on a given work of art.

(189) Provincial Building Trades Council of Ontario
They want the GST blocked and more progressive tax reform introduced. Interest rates should be lowered and if the GST is passed, construction workers should be allowed special rebates.

(190) Public Service Alliance of Canada
The increased reliance on consumption taxation proposed in the GST is too much for working Canadians to endure. As a result, proposes alternatives to the GST to generate the same amount of revenue as the GST.

(191) Quebec Federation of Sports Organizations
The GST discriminates against organizations which do not qualify as Canadian amateur sport associations but carry out similar mandates.

(192) Quebec Federation of Teachers
The GST should be delayed to allow for discussion with the provinces. Higher personal taxes are an alternative. It should be mandatory for receipts to show GST and the provincial and federal tax systems should be integrated.

(193) Reid's Heritage Homes Ltd.
Double taxation on housing will result and GST costs will substantially increase the cost of low priced housing in Canada.

(194) D.D. Rennick, C.A.
The witness is opposed to the GST because it is regressive, inflationary and hurts tourism. A 10% cut in all government spending is recommended.

(195) Réseau Pro-Canada Network
They oppose the Bill because it is regressive and inflationary and will increase unemployment. Instead, we need a more progressive tax system. The Senate should reject Bill C-62.

(196) Retail Council of Canada
The Council supports the shift to a comprehensive GST more or less of the type proposed, but it is important that it be implemented expeditiously, without change, and in integration with the provincial sales taxes.

(197) Ridgewood Farmers
Food should be taxed and the rate should be reduced to 2%.

(198) Mary Ellen Rieman
Mrs. Rieman opposes the GST and urges the Senate to reject it.

(199) Rose-Lee Fashion Uniforms
The witness opposes the GST and urges the Senate to reject it because it will raise the prices of the clothing and footwear industry.

(200) Royal Canadian Legion
It is requested that Legions be exempted from the GST on the purchase and the supply of all goods and services. Failing that, it is considered that the RCL should be granted the same 50% rebate as charitable and non-profit organizations which are substantially government-funded.

(201) Sask Sport Inc.
They recommend provincial sports federations and sports governing bodies be granted charitable status in recognition of their role in the delivery of sport from the national to the local level. They also suggest that charities and NPO's be entitled to claim 100% of GST incurred on purchases.

(202) Saskatchewan Action Committee on the Status of Women
They recommend rejecting the GST because it will aggravate women's economic difficulties since it impact heavily on the service sector. The credits are inadequate and we should establish a more progressive income tax system.

(203) Saskatchewan Chamber of Commerce
The Chamber supports the GST but recommends changes be made to the legislation. The GST should be integrated with provincial taxes and the number of zero-rated and exempt services should be reduced. There should be an ongoing compliance allowance for businesses and it must be visible.

(204) Saskatchewan Federation of Labour
They are opposed to the GST because it is inflationary. We should put a minimum tax on corporations to ensure they pay their fair share of taxes.

(205) Saskatchewan Government Employees Union
They are opposed to the GST because it is regressive and inflationary. Progressivity must be restored to the income tax system.

(206) Saskatchewan Outfitters Association
The Association is opposed to the GST and wants the legislation blocked because under the GST, customers will go to outfitters in the U.S. to avoid taxation.

(207) Saskatchewan Urban Municipalities Association
The witness wants some changes made to the legislation, for example, they are concerned that the rebate mechanism, in contrast to an exemption/certificate system, could result in excess provincial tax payments unless an offsetting provincial rebate is implemented.

(208) Saskatoon and District Labour Council
The GST proposal should be rejected and instead, corporations should be made to pay their share. The GST will create unemployment and raise prices because workers will demand higher wages.

(209) Six Nations Council, Ohsweken, Ontario
Indians must receive tax-free status and transfer payments must be fully indexed.

(210) Social Action Commission PEI
The GST will fuel inflation, and have a heavy impact upon low income earners because the credits are not fully indexed. More progressive income taxes should be introduced instead.

(211) Social Action Commission R.C. Archdiocese of St. John's Nfld.
The GST will make home ownership more difficult and have a negative impact on tourism. Tax credits will be inadequate. As an alternative, corporations should pay their fair share.

(212) Social Planning Council of Ottawa-Carleton
The household income threshold at which individuals become eligible for sales tax credit should be raised. All GST paid by charities and NPO's should be fully rebated.

(213) Sport B.C.
The definition of Canadian Amateur Athletic Associations should be amended so that provincial sport governing bodies will be granted charitable status and thus will be eligible for the 50% GST rebate.

(214) Sport PEI
They recommend the definition of Canadian Amateur Athletic Association in the Income Tax Act be amended so that provincial sport federations and governing bodies can be recognized as charitable organizations.

(215) Sports Federation of Canada
Registration and participation fees for sporting and recreational events should be exempt. The GST should be delayed until April 1, 1991. The definition of Canadian Amateur Athletic Associations should be changed in the Income Tax Act.

(216) St. Eleanors P.E.I. (F. Miles)
Supports GST.

(217) St. John's Board of Trade, Office of the President
The GST should be visible and it should be administered in co-operation with the provinces. It is unfair to areas outside Central Canada because of the tax on transportation and it should be re-evaluated in terms of its impact on tourism.

(218) THBA Renovation and Redevelopment Council
They oppose the GST and say it is a bad tax for the renovation industry because it requires renovators to bear the cost of becoming tax collectors.

(219) TechNovation Consultants
The GST should be blocked because it is a regressive tax. We need a Royal Commission to follow up on the recommendations of the 1962 Carter Commission.

(220) Toronto Homebuilders Association
The GST legislation should be delayed in order that amendments be made. The housing rebate should be adjusted to 2.5% for Toronto homes, if not, then the rebate should be kept at 4.5% but the price of land should be excluded from the GST base. In addition, if the second option is chosen, then the GST should be deferred for new housing for 2 years.

(221) Tourism Industry Association of Alberta
They oppose the GST because it will diminish the ability of Alberta's tourism industry to compete in a competitive national and international market.

(222) Tourism Industry Association of Canada
The rate should be lowed to 5%. When the tax is introduced, the excise tax on alcoholic beverages and motor fuels should be adjusted or eliminated. The GST should be delayed until a joint collection system with the provinces can be negotiated. There should be an instant rebate on accommodation sold to foreign customers and the minimum foreign tourism rebate of $20 should be reduced to zero.

(223) Tourism Vancouver and the Vancouver Hotel Association
The witness recommends eliminating the $20 minimum rebate threshold and allowing non-residents at desk registrations to be eligible for point-of-sale GST accommodation rebate. Tour wholesalers should be provided with a group GST accommodation rebate for non-resident purchases of tour packages.

(224) Union of Northern Workers
The witness claims a fully indexed GST credit for northerners should be adjusted upwards and recommends all freight services north of the 60th parallel be zero-rated.

(225) United Church of Canada, B.C. Conference
The GST must be rejected because it is regressive. We need progressive income tax rates.

(226) United Electrical, Radio & Machine Workers of Canada
Canada needs a fair and more progressive income tax system instead of a GST. It should be rejected by the Senate.

(227) United Food and Commercial Workers International Union
They want the GST rejected because it is inflationary and poses and administrative burden.

(228) United Nurses of Alberta
Additional costs will be incurred at various links in the health care chain. Want the Senate to deny this legislation.

(229) United Senior Citizens of Ontario
The current GST proposal should be rejected and the taxation system reformed.

(230) United Steelworkers of America
They oppose it and maintain it discriminates against exporters. As an alternative, we should redesign our income tax system to enhance it progressivity.

(231) Unitel Communications
Pleased with the Government's initiative to correct the deficiencies in the current MST. But it is critical in making such a change that new inequities are not created. Propose amendments.

(232) Urban Development Institute Canada
The witness suggests the following amendments: the time period during which a purchaser or builder may be eligible to claim a rebate of federal sales tax should be extended; should tax all property including existing residential property; the tax imposed on the excess amount over $450,000 should be at a lower rate than 7% regardless of house price.

(233) VLC Properties Ltd.
The GST must be amended to provide, in the case of rental housing, a 50% rebate or deferral of the GST on market value until the property is sold by its original owner.

(234) Vancouver and District Labour Council
The witness recommends that the Senate block the Bill because it is regressive.

(235) Wawanesa Mutual Insurance Company
They support the GST but suggest that property and casualty insurers be able to obtain transitional relief in respect of claims settled after 1990 for which the premiums were set before that date.

(236) Western Canadian Wheatgrowers Association
The Association wants to zero-rate items such as: all machinery and equipment used in the primary production of food products, all on-farm grain storage system and all land lease payments.

(237) Whitehorse Chamber of Commerce
The witness opposes the GST because it will have a negative impact on the Yukon and tourism will decline.

(238) Winnipeg Chamber of Commerce
The Senate should delay the application of the GST relating to taxable employee benefits for 1 year to allow employers to deal first with the implementation of tax reform for pensions.

(239) Winnipeg Labour Council
The witness opposes the tax but if it is passed, they want an effective rebate system.

(240) Wyman Webb and Martin McKinnon
All supplies of real property should be taxed at a single rate of 5% with no rebates for new housing. Educational services should be a zero-rated supply. Some universities will be penalized by only having a partial rebate on their inputs. Services provided to non-resident tourists should be considered the same as any export.

(241) Yukon Government Department of Economic Development
The witness believes that, in general, the GST will have a beneficial national impact but remains concerned about the administration burden for small businesses. There will also be a negative effect on tourism in the Yukon and housing prices in the region will rise.

(242) Yukon Status of Women Council
They oppose the GST and say it will hit women in the north especially hard. Instead, we should reduce interest rates and invest in a full employment policy.

APPENDIX B

(242) Yukon Status of Women Council
They oppose the GST and say it will hit women in the north especially hard. Instead, we should reduce interest rates and invest in a full employment policy.

Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
22/05	Ottawa	Dept. of Finance & Minister	Yes*				
23/05	Ottawa	Dept. of National Revenue	Yes*				
30/05	Ottawa	Economic Council of Canada	(1)				
30/05	Ottawa	Global Economics Ltd.		Yes			Yes
30/05	Ottawa	Cdn. Veterinary Medical Assoc.					Yes
31/05	Ottawa	Air Transport Assoc. of Canada		Yes			Yes
31/05	Ottawa	Federal Superannuates National Assoc.			Yes*		Yes
05/06	Ottawa	Wolfe Goodman - Goodman & Carr		Yes			Yes
05/06	Ottawa	Automotive Industries Assoc.		(2)*			Yes
06/06	Ottawa	Prof. Neil Brooks - IRPP			(3)		
06/06	Ottawa	Assembly of First Nations					Yes
06/06	Ottawa	Cdn. Construction Assoc.		(4)			Yes
07/06	Ottawa	Informetrica Ltd.					
07/06	Ottawa	Canadian Teachers Federation			Yes*		Yes
12/06	Ottawa	Cdn. Assoc. of Customs Brokers					Yes
12/06	Ottawa	Cdn. Cosmetic, Toiletry & Fragrance Ass.					Yes
12/06	Ottawa	Carpenters' Union			Yes*		
13/06	Ottawa	Conference Board of Canada	(5)				
13/06	Ottawa	Professor W. Gillespie	Yes				
13/06	Ottawa	One Voice - The Cdn. Seniors Network			Yes*		
14/06	Ottawa	Minister of National Revenue	Yes*				
14/06	Ottawa	C.D. Howe Institute	Yes(6)				
14/06	Ottawa	Insurance Bureau of Canada		Yes			Yes
26/06	Ottawa	Canadian Federation of Students			Yes		Yes
26/06	Ottawa	Tourism Industry Assoc. of Canada				Yes	Yes
26/06	Ottawa	Effem Foods Ltd.					Yes
26/06	Ottawa	Cdn. Assoc. of Psychoanalytic Psychotherapists for Children					Yes
26/06	Ottawa	Sports Federation of Canada				Yes	Yes
26/06	Ottawa	Heather's Heritage Haven Ltd.			Yes		Yes
26/06	Ottawa	Alliance of Cdn. Travel Associations				Yes	Yes
26/06	Ottawa	Cdn. Assoc. of University Teachers			Yes		Yes
27/06	Ottawa	Municipal Electric Association					Yes
27/06	Ottawa	National Federation of Nurses' Union			Yes*		
27/06	Ottawa	John Crow - Governor, Bank of Canada					
28/06	Ottawa	Cdn. Federation of Independent Business				Yes	Yes
28/06	Ottawa	Cdn. Exporters' Association		Yes(7)			Yes
28/06	Ottawa	Canadian Labour Congress			Yes*		
28/06	Ottawa	Canadian Council on Social Development			Yes		Yes
28/06	Ottawa	Canadian Union of Public Employees			Yes*		
28/06	Ottawa	Canadian Federation of Agriculture					Yes
28/06	Ottawa	Professor A.M. Maslove	Yes				
28/06	Ottawa	Ted Carmichael	Yes*				
28/06	Ottawa	J. Hutchison - IBM	Yes*				
09/07	Charlottetown	NDP of PEI			Yes		
09/07	Charlottetown	S.A.W. Industries Inc.					Yes
09/07	Charlottetown	P.E.I. Real Estate Association			Yes		
09/07	Charlottetown	Social Action Commission - Diocese of Charlottetown			Yes*		
09/07	Charlottetown	P.E.I. Council, Cdn. Fed. of Labour			Yes*		
09/07	Charlottetown	P.E.I. Federation of Labour			Yes*		
09/07	Charlottetown	Women's Network Inc.			Yes		
09/07	Charlottetown	Canadian Paraplegic Association					Yes
09/07	Charlottetown	Basil L. Stewart - Mayor of Summerside	Yes*				
09/07	Charlottetown	Greater Summerside Chamber of Commerce	Yes*				
09/07	Charlottetown	Summerside Community Crisis Center Working Committee	Yes*				
09/07	Charlottetown	Community of St. Eleanors	Yes				

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* - In the "Oppose" column means that the witness asked the Senate to defeat Bill C-62

See footnotes at conclusion

Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
09/07	Charlottetown	Sport PEI				Yes	Yes
09/07	Charlottetown	Canadian Union of Public Employees, PEI			Yes*		
09/07	Charlottetown	PEI Pro Canada Network			Yes*		
09/07	Charlottetown	Federation of PEI Municipalities					Yes
09/07	Charlottetown	PEI Advisory Council on the Status of Women			Yes		
09/07	Charlottetown	Nelson Hagerman, C.A.	Yes				
09/07	Charlottetown	Anna Duffy	Yes*				
10/07	Moncton	Campbelltown-Dalhousie District Labour Council			Yes*		
10/07	Moncton	Moncton & District Labour Council			Yes*		
10/07	Moncton	Bathurst & District Labour Council			Yes*		
10/07	Moncton	New Brunswick Federation of Labour			Yes*		
10/07	Moncton	Atlantic Building Supply Dealers' Assoc.					Yes
10/07	Moncton	New Brunswick Senior Citizens Fed.			Yes*		
10/07	Moncton	Gov't. of New Brunswick				Yes	Yes
11/07	St. John's	John J. Murphy - Mayor of St. John's	Yes*				
11/07	St. John's	Peter Grainger - "Some Good" Magazine			Yes		
11/07	St. John's	Social Action Comm. of the Roman Catholic Diocese			Yes*		
11/07	St. John's	National Union of Provincial Gov't Employees			Yes*		
11/07	St. John's	Fishermen, Food and Allied Workers' Union			Yes		Yes
11/07	St. John's	Newfoundland & Labrador Federation of Labour			Yes*		
11/07	St. John's	Grand Falls & District Labour Council			Yes*		
11/07	St. John's	St. John's Board of Trade			(8)	Yes	Yes
11/07	St. John's	Sport Newfoundland & Labrador				Yes	Yes
11/07	St. John's	Walter Noel - Mem., Nfld. Hs. of Assem.			Yes		
11/07	St. John's	Royal Canadian Legion -Nfld. & Lab.					Yes
11/07	St. John's	Nfld. & Labrador Parks & Recreation Ass.					Yes
11/07	St. John's	Nfld. Restaurant & Food services Assoc.					Yes
11/07	St. John's	Douglas Winsor			Yes		
12/07	Halifax	John MacDonell - MacLeod Group	Yes*				
12/07	Halifax	South Shore Labour Council			Yes*		
12/07	Halifax	Funeral Services Assoc. of Canada					Yes
12/07	Halifax	Canadian Long Term Care Assoc.				Yes	Yes
12/07	Halifax	Nova Scotia Restaurant & Food Services Assoc.			Yes*		Yes
12/07	Halifax	Brewery & Soft Drink Workers			Yes*		
12/07	Halifax	Strait Area & District Labour Council			Yes		
12/07	Halifax	Nova Scotia Federation of Labour			Yes*		
12/07	Halifax	Professor Kell Antoft			(9)		
12/07	Halifax	Sydney Tremayne	(10)				
12/07	Halifax	Co-op Atlantic			Yes*		Yes
12/07	Halifax	Nova Scotia Division of CUPE			Yes*		
12/07	Halifax	Christmas Tree Council of Nova Scotia			Yes		
12/07	Halifax	Lawrence Pitaro			Yes*		
12/07	Halifax	Linda Randolf - Cdn. Congress for Learning Opportunities			Yes		Yes
12/07	Halifax	Shirley Marryat			Yes*		
13/07	Halifax	Alexa McDonough -MLA Leader NDP			Yes*		
13/07	Halifax	Sandra Jolley - Member of Legislative Assembly			Yes*		
13/07	Halifax	Martin MacKinnon - Wyman Webb				Yes	Yes
13/07	Halifax	Truro and District Labour Council			Yes		
13/07	Halifax	Taxpayers' Council on National Issues			Yes*		
13/07	Halifax	Canadian Pensioners Concerned			Yes		

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Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
16/07	Montreal	Philip Edmonston, M.P.			Yes		Yes
16/07	Montreal	Canadian Assoc. of Social Workers			(11)		Yes
16/07	Montreal	Canadian Real Estate Association			Yes		Yes
16/07	Montreal	Centrale de l'enseignement du Québec			Yes*		Yes
16/07	Montreal	Conseil du Patronat du Québec		Yes			Yes
16/07	Montreal	Regroupement Loisirs Québec et Corporation Sports Québec			Yes*		
16/07	Montreal	Canadian Research Committee on Taxation					Yes
16/07	Montreal	Grand Council of the Crees					Yes
16/07	Montreal	Association Québecoise de l'industrie du nautisme		Yes			Yes
16/07	Montreal	Réseau d'action et d'information pour les femmes					Yes
16/07	Montreal	Fédération des ACEF du Québec			Yes		
16/07	Montreal	Comité Canadien d'action sur le statut de la femme			Yes*		
16/07	Montreal	Confédération des syndicats nationaux			Yes		
16/07	Montreal	Mr. Zaheed Iftekhar			Yes*		
17/07	Montreal	(AMI) Asset Management International Inc.					Yes
17/07	Montreal	Centrale des syndicats démocratiques (CSD)	Yes(12)				
17/07	Montreal	Pierre Fortin, Prof. Sc. économique	Yes*				
17/07	Montreal	Coalition québecoise contre la TPS			Yes*		
17/07	Montreal	Coalition solidarité régionale, Québec			Yes*		
17/07	Montreal	Coalition des aînés du Québec			Yes		
17/07	Montreal	Fédération nationale des consommateurs du Québec			Yes*		
17/07	Montreal	Conseil canadien d'insolvabilité			Yes		
17/07	Montreal	Diététistes consultantes du Canada		Yes			Yes
18/07	Toronto	Jack Layton - City of Toronto			(13)*	Yes	
18/07	Toronto	Toronto Home Builders' Association		Yes		Yes	Yes
18/07	Toronto	Urban Development Institute		Yes			Yes
18/07	Toronto	Dennis Mills M.P.			Yes(14)		
18/07	Toronto	Canadian Assoc. of Wholesale Sales Representatives			(15)*		
18/07	Toronto	United Steelworkers			Yes		Yes
18/07	Toronto	Hamilton & District Labour Council			Yes*		
18/07	Toronto	Labour Council of Metro Toronto and York Region			Yes*		
18/07	Toronto	Ontario Federation of Labour			Yes*		
18/07	Toronto	Ontario Secondary School Teachers' Federation			Yes*		Yes
18/07	Toronto	Niagara Falls Visitor & Convention Bureau			Yes		
18/07	Toronto	Periodical Marketers of Canada			Yes*		Yes
18/07	Toronto	Bernard Betel Centre for Creative Living			Yes*		
18/07	Toronto	Canadian Assoc. of Occupational Therapists			Yes*		Yes
18/07	Toronto	Canadian Importers Association		Yes			Yes
18/07	Toronto	Canadian Nursery Trade Association		Yes*			Yes
18/07	Toronto	Ontario Coalition for Better Child Care			Yes		
18/07	Toronto	Edward Ryan	Yes				
18/07	Toronto	William Krehm					Yes
18/07	Toronto	John O'Neil			Yes		
18/07	Toronto	Peg Holloway			Yes*		
18/07	Toronto	Mr. A. Gerol					
18/07	Toronto	Erwin Joseph Gordon			Yes*		
19/07	Toronto	Ontario Racing and Breeding Council					Yes

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Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
19/07	Toronto	Fair Rental Policy Org. of Ontario			Yes*	Yes	
19/07	Toronto	Cdn. Institute of Chartered Accountants	Yes*				
19/07	Toronto	Ontario Massage Therapists					Yes
19/07	Toronto	Toronto Real Estate Board				Yes	Yes
19/07	Toronto	Don't Tax Reading Coalition					Yes
19/07	Toronto	Associated Cdn. Car Rental Operators					Yes
19/07	Toronto	Canadian Dietetic Association					Yes
19/07	Toronto	Reid's Heritage Homes Inc.					Yes
19/07	Toronto	Ontario March of Dimes					Yes
19/07	Toronto	Ontario Veterinarian Medical Assoc.			(16)*		Yes
19/07	Toronto	Ontario Federation of Students			Yes*		
19/07	Toronto	Dress-Up Incorporated				Yes	Yes
19/07	Toronto	John MacMillan	Yes				
19/07	Toronto	Charlene E. Black			Yes*		
19/07	Toronto	R.S.W. Campbell			Yes		
19/07	Toronto	Mississauga Citizens Against the GST			Yes*		
19/07	Toronto	Stewart Young			Yes		
19/07	Toronto	Kevin Egan					
19/07	Toronto	Coalition for Honest & Open Politics			Yes*		
19/07	Toronto	Irate Citizens of Peterborough			Yes*		
20/07	Toronto	National Pensioners & Senior Citizens Federation			Yes*		
20/07	Toronto	Alliance of Cdn. Cinema, Television and Radio Artists			Yes*		
20/07	Toronto	Canadian Actors' Equity Association			Yes		Yes
20/07	Toronto	Confectionery Manufacturers Assoc.					Yes
20/07	Toronto	Canadian Soft Drink Association				Yes	Yes
20/07	Toronto	Six Nations of the Grand River Council					Yes
20/07	Toronto	Ont. Provincial Building Trades Council			Yes*		
20/07	Toronto	United Food & Commercial Workers Int'l Union			Yes*		
20/07	Toronto	United Electrical, Radio & Machine Workers of Canada			Yes*		
20/07	Toronto	Flowers Canada					Yes
20/07	Toronto	Allan Candy Ltd.		Yes			Yes
20/07	Toronto	Sinan Tania			Yes*		
23/07	Winnipeg	Loewen Windows	Yes*				
23/07	Winnipeg	Reg Alcock, MLA			Yes*		
23/07	Winnipeg	Manitoba Sports Federation		Yes(17)			Yes
23/07	Winnipeg	Rose-Lee Fashion Uniforms/Manitoba Society of Seniors			Yes*		
23/07	Winnipeg	Manitoba Health Organization					Yes
23/07	Winnipeg	Winnipeg Chamber of Commerce				Yes(18)	Yes
23/07	Winnipeg	Manitoba Federation of Labour			Yes*		
23/07	Winnipeg	Wawanesa Mutual Insurance Company		Yes(19)			Yes
23/07	Winnipeg	Manitoba Chamber of Commerce			Yes(20)	Yes	Yes
23/07	Winnipeg	Revenue West; Ted Reid			Yes*		
23/07	Winnipeg	Mr. Clearwater			Yes		
23/07	Winnipeg	Janet Paxton			Yes		
24/07	Winnipeg	Winnipeg Labour Council			Yes		Yes(21)
24/07	Winnipeg	Kenneth Emberley			Yes		
24/07	Winnipeg	Sylvia Perez			Yes		
24/07	Winnipeg	Social Assistance Coalition of Manitoba			Yes		
24/07	Winnipeg	Tom Barker			Yes		
24/07	Winnipeg	Mr. G. Sandell			Yes*		
24/07	Winnipeg	Margaret Brewis			Yes		
24/07	Winnipeg	Dr. E. Agnew, D.D.S.			Yes*		
24/07	Winnipeg	Assembly of Manitoba Chiefs					Yes
24/07	Winnipeg	Mr. Maloway, MLA, NDP			Yes*		
24/07	Winnipeg	Manitoba Veterinary Medical Ass'n.			Yes*(22)		Yes

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Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
24/07	Winnipeg	Mr. de Jardin			Yes*		
25/07	Regina	Sask. Urban Municipalities Ass'n.					Yes
25/07	Regina	Saskatchewan Sport Inc.					Yes
25/07	Regina	Association of Saskatchewan Taxpayers			Yes		
25/07	Regina	Western Cdn. Wheat Growers Ass'n.					Yes
25/07	Regina	Margaret Durant			Yes		
25/07	Regina	Don McGregor		Yes			Yes
25/07	Regina	IPSCO	Yes*				
25/07	Regina	Federation of Sask. Indian Nations				Yes	Yes
25/07	Regina	Citizens Concerned About Free Trade			Yes		
25/07	Regina	Federated Co-operatives Limited			Yes*(23)	Yes	Yes
25/07	Regina	Sask. Gov't. Employees' Union			Yes		
25/07	Regina	Aiyanas Ormond			Yes*		
25/07	Regina	National Farmers' Union			Yes*		
25/07	Regina	Sask. Action Comm. on Status of Women			Yes*		
25/07	Regina	Saskatchewan Chamber of Commerce		Yes*			Yes
25/07	Regina	United Church, Sask. Conference			Yes*	Yes	
25/07	Regina	Core Community Group			Yes*		
25/07	Regina	Meadow Lake Tribal Council			Yes	Yes	Yes
25/07	Regina	Yorkton District Chiefs Council				Yes	Yes
25/07	Regina	Cowessess First Nation No. 73				Yes	Yes
25/07	Regina	Sask. Federation of Labour			Yes		
25/07	Regina	Saskatoon & District Labour Council			Yes*		
25/07	Regina	World Canadian Legion				Yes	
25/07	Regina	Saskatchewan Outfitters' Ass'n.			Yes		Yes
25/07	Regina	R. M. Carr					Yes
25/07	Regina	Cameco					Yes
25/07	Regina	Mary Love			Yes		
26/07	Edmonton	City of Edmonton			Yes		Yes
26/07	Edmonton	George Deveau				Yes	
26/07	Edmonton	Mel Hurtig Publishers Ltd.			Yes*(24)		
26/07	Edmonton	Edmonton & District Labour Council			Yes		
26/07	Edmonton	Cdn. Fed. of Nat'l & Prov'l. Taxpayers			Yes*		
26/07	Edmonton	Alta. Soccer Association				Yes	
26/07	Edmonton	Mary Ellen Reiman			Yes		
26/07	Edmonton	Bob Hawkesworth, MLA, NDP			Yes*		
26/07	Edmonton	Alta. Council on Aging			Yes*		
26/07	Edmonton	Alta. Medical Association		Yes(25)			Yes
26/07	Edmonton	Alta. Canola Producers Comm		Yes(26)			Yes
26/07	Edmonton	Ontario Nursing Home Ass'n.			Yes(27)		Yes
26/07	Edmonton	Edmonton Southeast P.C. Assoc.			Yes	Yes	Yes
26/07	Edmonton	Whitefish Lake Band	Yes(28)				
26/07	Edmonton	Vernon D. Poole			(29)		
26/07	Edmonton	Edmonton Inner-City Church Comm. for Fair Taxes			Yes*		
26/07	Edmonton	Edmonton Social Planning Comm.			Yes*		
26/07	Edmonton	Mr. R. Stoddard			Yes*		
26/07	Edmonton	Canadians for Greater Gov't Accountability			Yes*		
26/07	Edmonton	Mrs. B. Baxter			Yes*		
26/07	Edmonton	Mr. C. A. Jenkins			Yes*		
26/07	Edmonton	Roppelt Hannah Mrs.			Yes		
26/07	Edmonton	Mr. R. Patterson			Yes		
27/07	Edmonton	Ridgewood Community Group			Yes		Yes
27/07	Edmonton	Murray Dorin, M.P.	Yes*				
27/07	Edmonton	Alberta Union of Prov'l Employees Local 54			Yes*		
27/07	Edmonton	Alberta Federation of Labour			Yes*		
27/07	Edmonton	Pro Canada Network			Yes*		

* - In the "Support" or "Support with Changes" column means that the witness asked the Senate to pass Bill C-62

* - In the "Oppose" column means that the witness asked the Senate to defeat Bill C-62

See footnotes at conclusion

Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
27/07	Edmonton	Tourism Industry Assoc. of Alberta			Yes*		
27/07	Edmonton	Ace Catinski, CA			Yes*		
27/07	Edmonton	Terry Hlady			Yes		
27/07	Edmonton	Alberta Motor Association					Yes
27/07	Edmonton	Mr. L. Decore, M.L.A.			Yes*		
27/07	Edmonton	Cdn. Standard Bred Horseman's Assoc.			Yes		
27/07	Edmonton	Lawrence Alexander			Yes		
27/07	Edmonton	Alberta Assoc. for Continuing Education					Yes
27/07	Edmonton	Mr. B. Daly, Cdn. Pensioners Concerned, Alberta			Yes*		
27/07	Edmonton	Victor Leonhardt			Yes		
27/07	Edmonton	Terence Cheesman					Yes
27/07	Edmonton	Ormand E. Bamford			Yes		
30/07	Yellowknife	Northwest Territories Federation of Labour			Yes*		
30/07	Yellowknife	Northwest Territories Chamber of Commerce			Yes		
30/07	Yellowknife	Union of Northern Workers			Yes*		Yes
30/07	Yellowknife	Patrick Malone	Yes				
30/07	Yellowknife	Tess Carrilo					
30/07	Yellowknife	Myna Maniapik			Yes		Yes
30/07	Yellowknife	Northwest Territories Teachers Assoc.					Yes
01/08	Vancouver	Min. of Finance, B.C.			Yes		
01/08	Vancouver	Tourism Vancouver					Yes
01/08	Vancouver	Scrap-It Community Organization			Yes*		
01/08	Vancouver	End Legislated Poverty			Yes*		
01/08	Vancouver	Prof. Robert Clark		Yes			Yes
01/08	Vancouver	BC Council of Federal Ridings of NDP			Yes*		
01/08	Vancouver	VLC Properties					Yes
01/08	Vancouver	Tech Novation Consultants			Yes*		
01/08	Vancouver	BC Automobile Association			Yes		Yes
01/08	Vancouver	BC Federation of Labour			Yes*		
01/08	Vancouver	Kamloops Citizens' Committee			Yes*		
01/08	Vanvouver	B.C. Teachers Federation			Yes*		
01/08	Vancouver	New Look Interiors Ltd.					Yes
01/08	Vancouver	Canadian Union of Public Employees, B.C.			Yes*		
01/08	Vancouver	Massage Therapists Assoc. of B.C.					Yes
01/08	Vancouver	Vancouver & District Labour Council			Yes*		
01/08	Vancouver	Guide Outfitters of B.C.			Yes*(30)		Yes
01/08	Vancouver	Libertarian Party of Canada			Yes*		
01/08	Vancouver	Astar Business Technology Inc.					Yes
01/08	Vancouver	Prisoners' Rights Group			Yes		
01/08	Vancouver	Concerned Conservatives for New Leadership and No GST			Yes		
01/08	Vancouver	Mr. D. C. Allen			Yes*		
01/08	Vancouver	B.C. Dieticians & Nutritionists' Assoc.					Yes
02/08	Vancouver	The Fraser Institute,					Yes
02/08	Vancouver	Coalition Against Free Trade			Yes*		
02/08	Vancouver	Royal Insurance Company		Yes			Yes
02/08	Vancouver	Laurentian Pacific Insurance Co.					Yes
02/08	Vancouver	Zurich Insurance Company			Yes*(31)		Yes
02/08	Vancouver	Hills Health & Guest Ranch			Yes		
02/08	Vancouver	Council of Reg'l Tourist Assocs. of BC			Yes*		Yes
02/08	Vancouver	Sport BC					Yes
02/08	Vancouver	Professor J. Kesselman		Yes*			Yes
02/08	Vancouver	BC Prov'l Council of Carpenters			Yes*		
02/08	Vancouver	BC Liberal Party, Mr. G. Wilson			Yes*		
02/08	Vancouver	Business Council of BC		Yes			Yes
02/08	Vancouver	Hospital Employees' Union			Yes*		
02/08	Vancouver	Catholic Diocese of Victoria			Yes*		
02/08	Vancouver	BC Trucking Association			Yes		

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See footnotes at conclusion

Date	Location	Name of Witness or Group	Unqualified Support	Support W/Changes	Oppose	Delay	Total Requests for Changes
02/08	Vancouver	United Church of Canada, BC Conf.			Yes*		
02/08	Vancouver	Russell Hunter			Yes		
02/08	Vancouver	Brian Calder			Yes*		
02/08	Vancouver	Keith Steeves					Yes
03/08	Whitehorse	Ray Hays, Dept. of Fin. Yukon Govt.			Yes*		Yes(32)
03/08	Whitehorse	Whitehorse Chamber of Commerce					Yes
03/08	Whitehorse	Yukon Federation of Labour			Yes*		
03/08	Whitehorse	Yukon Outfitters					Yes
03/08	Whitehorse	Yukon Status of Women Council			Yes*		
03/08	Whitehorse	Yukon Liberal Party				Yes	Yes
03/08	Whitehorse	Wilson & Collet Business Consults.			Yes		
28/08	Ottawa	Fed. of Canadian Municipalities				Yes	Yes
28/08	Ottawa	Retail Council of Canada	Yes*				
28/08	Ottawa	Cdn. Home Builders Assoc.		Yes			Yes
28/08	Ottawa	Cdn. Medical Assoc.					Yes
28/08	Ottawa	Cdn. Hospital Assoc.				Yes	Yes
28/08	Ottawa	Cdn. Manufacturers' Assoc.	Yes*				
28/08	Ottawa	Social Planning Council of O.C.			Yes*		Yes
28/08	Ottawa	Patent and Trademark Inst.					Yes
28/08	Ottawa	Royal Canadian Legion					Yes
28/08	Ottawa	Cdn. Restaurant & Foodservices Assoc.					Yes
28/08	Ottawa	Public Service Alliance of Canada			Yes*		
28/08	Ottawa	Int'l Assoc. of Machinists & Aerosp.			Yes*		
28/08	Ottawa	Brewers Assoc. of Canada					Yes
28/08	Ottawa	National Dairy Council					Yes
28/08	Ottawa	Lee Valley Tools Ltd.					Yes
29/08	Ottawa	Canadian Furniture Leasing		Yes			
29/08	Ottawa	Coinamatic Group				Yes	Yes
29/08	Ottawa	Consumers Assoc. of Canada			Yes	Yes	Yes
29/08	Ottawa	American Federation of Musicians					Yes
29/08	Ottawa	Amalg. Clothing & Textile Workers			Yes*		
29/08	Ottawa	Canadian Auto Workers			Yes*		
29/08	Ottawa	Christian Science Fed. Reps.					Yes
29/08	Ottawa	Canadian Jewellers Assoc.		Yes			
29/08	Ottawa	Profs. Jack Mintz & Thomas Wilson					Yes
29/08	Ottawa	Ont. Funeral Service Assoc.					Yes
29/08	Ottawa	Cdn. Conference of Catholic Bishops			Yes*		
29/08	Ottawa	Lumber Transfer Yard		Yes			
29/08	Ottawa	Alan Martin Associates				Yes	
29/08	Ottawa	Pro-Canada Network			Yes*		
29/08	Ottawa	Professional Art Dealers					Yes
30/08	Ottawa	Business Council on Nat'l Issues	Yes*				
30/08	Ottawa	Canadian Nurses Assoc.				Yes	Yes
30/08	Ottawa	Statistics Canada					
30/08	Ottawa	United Nurses of Alberta			Yes*		Yes
30/08	Ottawa	Prof. Robin Boadway			Yes		
30/08	Ottawa	National Anti-Poverty Org.			Yes		Yes
30/08	Ottawa	Unitel Communications Inc.		Yes			Yes
30/08	Ottawa	Canadian Co-Operative Assoc.					Yes

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See footnotes at conclusion

NOTES ON POSITIONS OF WITNESSES .

(1) The Council believes that the GST will have a favourable economic impact.

(2) The AIAC is neither for nor against the GST but urges quick passage to reduce uncertainty.

(3) Suggests alternative to GST.

(4) CCA does not oppose the GST.

(5) Forecasts long-term benefits for the economy.

(6) Concern about delaying implementation.

(7) Concern about delaying implementation.

(8) Do not support tax in its present form.

(9) Suggests a Gross Revenue Tax as an alternative.

(10) Favours some form of consumption tax.

(11) The Association does not support the bill in its present form and wants social workers to be included in the list of health care services exempt from GST.

(12) Centrale des Syndicats supports the principle of a consumption tax but not the proposed GST.

(13) Jack Layton - if decision is not to defer, would ask that tax not be implemented.

(14) Dennis Mills - suggests the single tax as an alternative.

(15) CAWS - if the bill is not amended, Senate should reject it.

(16) If unable to obtain their suggested amendments, Senate should reject it.

(17) MSF only supports the GST if charitable and non-profit organizations are treated equally.

(18) Implementation of the GST as it relates to taxable employee benefits should be delayed.

(19) Wawanesa is concerned about transition problems.

(20) Manitoba Chamber of Commerce's support is conditional upon the rate being reduced to 6%. If their recommendations cannot be met, they would want it delayed. They do not support it in its present form.

(21) If it must be passed, WLC wants an effective rebate system.

(22) The Manitoba Veterinary Medical Association wants the Bill rejected if veterinary services and pharmaceuticals are not exempt.

(23) If changes cannot be made, then it should be rejected.

(24) Mr. Hurtig recommends a progressive income tax system, wealth tax, inheritance tax and lower interest rates as alternatives.

(25) AMA recommends physicians be classified as "zero-rated" so they may claim GST paid on inputs.
(26) ACPA recommends zero-rating of farm inputs such as all machinery, equipment etc.

(27) ONHA recommends zero-rating all long-term care services. If not, then the rebate available to chronic care hospitals and non-profit homes should be extended to private homes.

(28) As an individual, Chief Houle opposes GST but as a manufacturer he supports it. His biggest concern is the administration of it.

(29) Mr. Poole suggests a deficit reduction tax and a gross revenue tax.

(30) If the proposal is not amended, it should be rejected.

(31) If the proposal is not amended, it should be rejected.

(32) Mr. Hays would like the GST stopped but if not, then some changes should be made i.e. a lower rate for the North.

Respectfully submitted,

Sidney L. Buckwold
Chairman

NOTES ON POSITIONS OF WITNESSES

(1) The Council believes that the GST will have a favourable economic impact.

(2) The AIAC is neither [illegible] GST but urges quick passage to reduce uncertainty.

(3) Suggests alternative to GST.

(4) CCA does not oppose [illegible]

(5) [illegible]

(6) [illegible]

(7) Concern about delaying implementation.

(8) [illegible]

(9) Suggests a Gross Revenue Tax as an alternative.

(10) Favours some form of [illegible]

(11) The [illegible] for and wants social workers to be included in the list of health care services exempt from GST.

(12) Centrale des syndicats [illegible] the proposed GST.

(13) Jack Layton — if decision is not [illegible] tax not be implemented.

(14) Dennis Mills – suggests the single tax as an alternative.

(15) CAWS – if the bill is not amended, Senate should reject it.

(16) If unable to obtain their suggested amendment, Senate should reject it.

(17) MST only supports the GST if charitable and non-profit organizations are treated equally.

(18) Implementation of the GST as it relates to taxable employee benefits should be delayed.

(19) Kawaneza is concerned about transition problems.

(20) Manitoba Chamber of Commerce's support is conditional upon the rate being reduced to 6%. If their recommendations cannot be met, they would want it delayed. They do not support it in its present form.

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