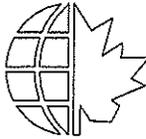


THE GST REFORM CHALLENGE

INTEGRATE, BROADEN, SIMPLIFY

A STATEMENT BY
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BEFORE THE HOUSE OF COMMONS
STANDING COMMITTEE ON FINANCE

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INTRODUCTION

Chairman, I welcome this opportunity to present before this Committee of the House the views of the Business Council on National Issues (BCNI) concerning the Goods and Services Tax. With me today from the BCNI Secretariat are George Skinner, Vice President of Policy and Research, and Sam Boutziouvis, Senior Associate.

As you may be aware, in the early 1980s, the Business Council repeatedly called for the replacement of the antiquated and inefficient Federal Sales Tax with a national, multi-stage, value-added tax. Our support for such a reform was based on sound, economic reasoning -- reasoning which has not changed in any substantive way a decade later. At the time, we argued that such a tax would:

- improve the domestic competitiveness of the Canadian private sector for those businesses competing with imports in the Canadian market;
- improve the international competitiveness of the Canadian private sector, particularly the manufacturing sector;
- contribute to better macroeconomic performance over the medium and longer term;
- result in a Canadian tax regime more closely aligned to those found in other industrial countries;
- result in greater transparency and fairness in the tax system; and,
- provide a more secure and predictable revenue base for the federal government.

THE GST HAS WORKED REASONABLY WELL

While we in the BCNI shared the deep disappointment of many, that the GST was introduced without the benefit of federal-provincial integration, the initiative was an enormously important step in the right direction.



A STATEMENT ON THE REFORM OF THE GOODS AND SERVICES TAX

At the time of the GST's passage into law, the consensus view from economists, experts on public finance and academics was that the new tax would contribute to an increase in exports, more business investment in machinery and equipment, faster productivity growth and, with time, a comparatively higher rate of output growth. The beneficial impact of the tax reform can be factored in when considering several economic performance indicators:

- exports are at an all-time high;
- private-sector investment over the past two years has been quite robust, and investment intentions indicate that this is likely to continue over the coming year;
- productivity levels are beginning to bounce back after a decade of stagnation; and,
- while economic growth is slower than in past recoveries, our economy is definitely beginning to pick up momentum.

In addition, the high visibility of the tax has helped to shape public opinion and attitudes not just toward the GST but to taxation more generally by all levels of government. While there is no doubt that the GST's transparency has highlighted public dissatisfaction and even anger about the tax, its very transparency has helped raise public awareness about many of the problems associated with the tax system. In part due to the GST, there are now increased demands for governments to be more accountable for the management of public sector finances, high deficits and debt. This increased public awareness and support for greater fiscal discipline are positive developments. In our view, the transparency of the GST has contributed to this, and should be maintained.

BUT LET'S GET ON WITH NEEDED REFORMS

Despite its beneficial contribution to tax policy, the GST agenda is unfinished. The tax needs improvement in several areas to alleviate the problems currently experienced by both Canadian consumers and businesses.



A STATEMENT ON THE REFORM
OF THE GOODS AND SERVICES TAX

The problems which I will summarize are now well known:

- Tax compliance and administrative costs for the private sector are significant. Canadian businesses of all sizes, after all, have invested heavily in time and equipment to collect and pay the GST. But the burden of this initial investment is compounded many times over by the fact that the private sector must comply with separate provincial retail sales taxes. In some cases, companies must administer GST collection and disbursements as well as up to nine different PSTs, not to mention corporate, payroll and property taxes.
- The current configuration of the GST includes several exemptions as well as special rules for certain sectors. The tax base is not as broad as it could be and, as such, has resulted in increased administrative costs, and complexity, and a higher than necessary rate of taxation.
- Tax revenues collected by all governments in Canada have reached an astounding 40 percent of Gross Domestic Product -- among the highest in the OECD. This is because both the federal and provincial governments have resorted primarily to tax increases rather than expenditure reductions, to reign in their deficits and debt. Tax increases over the past four years, coincident with the application of two taxes on most goods, have left Canadians tax-weary, irritable and defiant.
- As a result, tax avoidance and evasion have grown substantially. (This situation was made worse by the fact that public authorities failed to explain fully that the GST is a replacement tax, not a new tax). The growth in Canada's so-called "underground economy" has been quite dramatic and public treasuries continue to smart in the face of lower than expected revenues.



CONCLUSION AND RECOMMENDATIONS

Chairman, our conclusion and our advice to this Committee in the matter of the GST can be summed up in one sentence: **integrate it, broaden it, simplify it - but do not replace it.** We recommend that the basic structure of the GST -- a broadly-based, multi-stage tax on consumption -- should be retained and that several important modifications should be made to increase its efficiency. This is consistent with the majority opinion of the panel of experts that met with you late last week. In addition, we recommend the following:

1. **The GST should be amended -- to become an integrated national sales tax, encompassing both the federal and existing provincial retail sales taxes.**
2. **The revised tax should have a common base across Canada. As broad a base as possible should be negotiated between the federal government and those provinces that agree to a common tax.**
3. **The national sales tax should be transparent to consumers.**
4. **There should be a single administration for the integrated tax. This would reduce administrative costs and make tax compliance simpler for the private sector.**
5. **There should be increased emphasis on administrative compliance and audits in order to reduce the risk of tax avoidance and evasion.**

These modifications and actions will have very positive results. They will restore badly-needed confidence in the Canadian tax system. They will lead to less onerous and costly compliance -- compliance that today dampens incentives on the part of employers to invest and recruit workers. They will lead to greater efficiencies in the tax system and to improvements in the currently too complex and confrontational tax relationship between the federal government and the provinces. And most importantly, these reforms will be welcomed by millions of tax-weary Canadians who are fed up with high costs, inexcusable duplication, and unnecessary complexity.



A STATEMENT ON THE REFORM
OF THE GOODS AND SERVICES TAX

Chairman, and members of this Committee, we put to you the same challenge that we repeatedly have put to First Ministers since the day the GST was implemented -- make it one tax, make it simpler, make it work to the advantage of taxpayers.