

COMPREHENSIVE TAX REFORM  
THE BECKONING OPPORTUNITY

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A Statement  
of the  
Business Council on National Issues  
to the  
Senate Standing Committee on  
Banking, Trade and Commerce

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Ottawa  
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BUSINESS COUNCIL ON NATIONAL ISSUES  
NOVEMBER 17, 1987  
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A bold and effective reform of Canada's taxation system is essential to strengthening the country's competitiveness and to enhancing our economic prospects. It was this conviction that compelled the business leaders who make up the Business Council on National Issues (BCNI) to call for comprehensive tax reform in 1984, and to launch a two-year assessment leading to a report and recommendations in 1986.

**THE BUSINESS COUNCIL'S TAX REFORM GOALS**

The Council's mission was to produce a framework for reform that would coalesce support within the Canadian economic community around a number of fundamental principles. Underscoring these fundamentals was the Council's insistence that any tax reform initiative be a comprehensive and integrated one, and that reform result in a taxation system that is competitive with those of our major trading partners.

Canada's heavy dependence on export trade and the need to significantly improve the country's productivity performance led us to stress the competitiveness issue in the tax reform debate. The Council's long-standing concern about persistent deficits in our federal and provincial finances and the soaring national debt led us to the conclusion that taxation cannot and must not be a substitute for responsible fiscal management.

**THE BUSINESS COUNCIL'S CONCERNS**

Following a careful assessment of the federal government's tax initiative, an initiative which respects some of the fundamental principles recommended by the BCNI, the members of the Business Council remain concerned in a number of important respects.

**Uncertainty of the form and timing of sales tax reform**

The dominant concern is that the tax proposals leave unanswered questions as to the form and timing of the sales tax reform. The Business Council, with considerable reluctance, chose to support the proposed two-stage approach for one major reason. We believe that it would be in the best interests of the economic community and the country as a whole to implement one national sales tax based on federal-provincial agreement.

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Accordingly, we have recommended that the Finance Ministers of the federal government and the provinces work to achieve an agreement in principle on sales tax reform by January 1988. Having achieved an agreement in principle by that date, we have recommended that legislation be introduced in the first quarter of 1988 and that a federal-provincial, multi-stage sales tax be adopted by January 1989. We recognize that this is an ambitious schedule. Nevertheless, we believe that a combination of political will and administrative efficiency can overcome the obstacles that stand in the way. Failure to act swiftly may bear heavy consequences — among them the disintegration of business support for the federal tax initiative in its present form.

**The shortcomings of the corporate income tax proposals**

The Business Council insists that a key goal of tax reform must be the enhancement of Canada's competitiveness. We are concerned that a combination of measures in the tax reform package may in fact erode the competitive position of our enterprises. The measures that concern us most are: the sharp reduction in capital cost allowances for manufacturing equipment, including the put-in-use rule; the proposed reduction in incentives for research and development; the telecommunications tax, which will be borne primarily by business; and the proposed changes which will increase capital gains taxes. These changes would result in a net increase in the tax burden borne by the corporate sector, which in turn has negative implications for investment, production and job creation.

To build upon the positive aspects of the proposed federal reforms, corporate income tax rate reductions at the provincial level would be desirable to help bring combined federal-provincial tax rates down towards the goal of 35 percent.

**The shortcomings of the personal income tax proposals**

The federal government's proposals for reform of the personal income tax are encouraging. In our view, however, the proposed reductions in personal tax rates do not go far enough. Further rate cuts are desirable, at both the federal and provincial levels, and these should be financed by a shift towards expenditure taxation.

TAX REFORM AND THE NATIONAL AGENDA

We expect that some of our recommendations will be resisted by the federal authorities on the grounds that they would disrupt the revenue balance contained in the tax proposals. In anticipation of encountering this resistance, we offer two suggestions -- suggestions that conclude our statement.

First, we readily acknowledge that tax reform must achieve greater fairness and simplicity. But tax reform also must result in enterprises that are more efficient and competitive. Upon the attainment of this goal depend investment, job creation and economic prosperity. The balance being sought by the government among the personal, corporate and sales tax reforms must recognize the importance of this goal.

Secondly, accommodation of our concerns should not result in an even higher deficit. Heavier taxation or a higher deficit have never been accepted by the Council as the only ways to meet the government's spending requirements.

Indeed, taxes have risen very considerably in recent years and deficits still remain unacceptably high. The answer to this conundrum lies, in part, in further expenditure reduction and in the avoidance of new spending, other than for absolute essentials. Tax reform will never be successful if the critical link between sound fiscal management and taxation is not fully appreciated and acted upon.