Assurances

[Untitled]
Une orientation nouvelle des impôts

Michael Wilson

Volume 54, Number 4, 1987

URI: https://id.erudit.org/iderudit/1104536ar
DOI: https://doi.org/10.7202/1104536ar

See table of contents

Publisher(s)

HEC Montréal

ISSN

0004-6027 (print)
2817-3465 (digital)

Explore this journal

Cite this document

Wilson, M. (1987). [Untitled]. *Assurances*, *54*(4), 634–637. https://doi.org/10.7202/1104536ar

Article abstract

Dans un discours prononcé aux États-Unis au cours d'une visite faite à l'*American Council for Capital Foundation, Consumption Tax Conference* à Washington, en septembre dernier, M. le Ministre des Finances, Michael Wilson, a exposé de façon extrêmement intéressante la base principale de la taxation au Canada et les mesures envisagées. Voici un extrait de ce qu'il aurait dit à propos de la taxe de vente et de quelques-unes des réformes qu'on a en vue. Il n'y a pas là un texte officiel, mais un aperçu d'ensemble de la politique fiscale du Canada, comme la voyait à l'époque le haut fonctionnaire de l'État. En ce moment, il est très difficile de savoir ce que les mois prochains apporteront de nouveau. Il nous a semblé intéressant, cependant, de noter ici les grandes lignes du discours prononcé par M. Wilson, il y a plusieurs mois. Si nous n'avons encore rien de précis pour l'avenir, ce qui suit nous permettra peut-être de mieux comprendre la discussion avant que le prochain budget n'aborde la question de façon précise. Nous publions ces notes avec toutes les restrictions voulues, sans aucune intention politique; simplement pour voir ce qui, à l'époque, présentait l'essentiel du raisonnement de M. Wilson, face à la politique fiscale de nos voisins.

Une orientation nouvelle des impôts

d'après

Michael Wilson

*Dans un discours prononcé aux États-Unis au cours d'une visite faite à l'*American Council for Capital Foundation, Consumption
634 Tax Conference *à Washington, en septembre dernier, M. le Ministre des Finances, Michael Wilson, a exposé de façon extrêmement intéressante la base principale de la taxation au Canada et les mesures envisagées. Voici un extrait de ce qu'il aurait dit à propos de la taxe de vente et de quelques-unes des réformes qu'on a en vue. Il n'y a pas là un texte officiel, mais un aperçu d'ensemble de la politique fiscale du Canada, comme la voyait à l'époque le haut fonctionnaire de l'État.*

En ce moment, il est très difficile de savoir ce que les mois prochains apporteront de nouveau. Il nous a semblé intéressant, cependant, de noter ici les grandes lignes du discours prononcé par M. Wilson, il y a plusieurs mois. Si nous n'avons encore rien de précis pour l'avenir, ce qui suit nous permettra peut-être de mieux comprendre la discussion avant que le prochain budget n'aborde la question de façon précise. Nous publions ces notes avec toutes les restrictions voulues, sans aucune intention politique ; simplement pour voir ce qui, à l'époque, présentait l'essentiel du raisonnement de M. Wilson, face à la politique fiscale de nos voisins.

And finally, we have commenced the important process of integrating our social transfer programs with our tax provisions, so that they result in resources being better targetted to those most in need.

These are five major developments. Further changes can be expected as we move forward with comprehensive tax reform. Our goal is to lower marginal rates as far as possible, consistent with Canadian social and economic needs.

And ironically, one of the keys to devising such a competitive personal income tax system is the reform of our sales tax regime.

Unlike the United States, Canada has relied for a significant proportion of its revenues on a manufacturers' sales tax for over sixty years. For decades, its deficiencies have been recognized by manufacturers and the tax community, and documented by numerous Government task forces and commissions. Yet, Canadian politicians have studiously ignored the problem, knowing that the general population hardly knew of its existence. But if it has been a less visible source of revenue for Governments, it has also been a silent killer of jobs, particularly with the gradual dismantling of tariff barriers since World War II. And it will become an evergrowing obstacle to economic growth and jobs should the current bilateral and multilateral trade negotiations bear fruit.

Since coming to office, we have been studying this tax to discover its true impact. Let me briefly describe our findings.

Incredibly, our manufacturers' sales tax appears to be the only tax in the world that discriminates against its own producers in favour of foreign competitors. Due to the different tax base on domestic and foreign goods, the effective rate of tax is, on average, one-third higher on Canadian products. In several cases, the effective tax rate is as much as 70% to 80% higher than on competing imports.

This fact alone is reason enough for reform. But the situation is worse.

Not only does the tax discriminate between imports and domestic products, it discriminates against similar products made by different manufacturers in a particular industry.

We have discovered that the effective tax rate for a class of products can vary by as much as three to four times, depending on the channels of trade. In fact, it appears that there are probably as many effective tax rates under the present system for any given product as there are companies which produce it.

Approximately one-half of the total sales tax collected is derived from tax on business inputs such as transportation equipment, office equipment and building materials. The tax on these inputs can then result in cascading, as these inputs may be used to produce goods which are subsequently taxed again.

The result is not only an increase in the cost of investment in Canada, but an indirect charge on exported goods, estimated at approximately 1% of the sales value of exports. That, of course, is a very substantial part of the already narrow profit margins in today's competitive international marketplace.

Our federal sales tax also is too narrowly based. Only about one-third of Canadian consumption is subject to tax. Four products – tobacco, alcohol, automobiles and parts and motor fuels – account for 42% of the revenue, though they represent only about 15% of all
636 consumer expenditures.

This narrow base, which is being continually eroded by ingenious court challenges, has forced tax rates to rise for fiscal purposes. And this combination of a narrow base and high rates has distorted the natural and efficient operations of the economy.

Faced with these facts, my colleagues and I have decided that it is simply irresponsible to let sleeping dogs lie. We have a public duty to fix up this mess.

One way would be to eliminate federal sales tax altogether. But that would mean erecting uncompetitive personal and corporate tax structures – a form of economic suicide.

That leaves us with a second option – to design a better system. And that is what we plan to do – to broaden the sales tax base and apply one lower rate through a comprehensive sales tax.

We have reviewed the value-added taxes introduced in other countries and have been examining a business transfer tax. This tax, based on total domestic sales less purchases over a specified period, would be applied at each state in the production-marketing chain. It would be a relatively straightforward calculation for both tax payable and for refunds. It would have limited exemptions to preserve simplicity and efficiency. It would avoid cascading. It would treat domestic products and imports equally. It would remove the indirect, hidden tax on exports ; and it would be based on books of account already kept by businesses.

But a business transfer tax would be more than just a vast improvement over our current sales tax, we believe it will help meet the broader social and economic needs of Canada in a number of ways.

It will provide the necessary foundation to enable us to achieve competitive personal and corporate tax structures with lower marginal tax rates in the context of comprehensive reform.

It will allow us the flexibility to offset the inherent regressive nature of consumption taxes with a refundable lower-income tax credit geared to family status, and to integrate this credit into progressive social tax reform I mentioned earlier.

It will encourage the level of savings necessary to finance future private and public investment.

It will give us much more flexibility in managing the Canadian economy and achieving balanced regional impacts.

It will help our industries to better compete in domestic and foreign markets.

And perhaps most importantly, it will help us maintain and enhance such distinctive Canadian institutions and values as accessible health care, affordable higher education, regional equality, public broadcasting and income support for those in need.

So, that is tax reform – Canadian style ; our reasons for pursuing it ; and the role of a modern sales tax in that process.

It is a role based on Canadian needs – factors which may or may not be relevant to the American experience. That is for the American Government and its people to decide.

But, whether or not your country ever adopts a national sales tax, we in Canada are going forward.

Two years ago, my colleagues and I were elected on a mandate of change. We were given a mandate to solve the problems of the past, and to lay a foundation for future growth and jobs. And we have made great progress. Our current manufacturers' sales tax is another of these old problems that requires change. Its replacement by a new, modern system in the context of comprehensive tax reform is a step that must be taken, if we are to truly fulfill that mandate.

And I can assure you, we are determined to do just that[1].

---

[1] Il sera intéressant de voir ce que le fisc canadien réalisera dans un avenir plus ou moins rapproché. Le texte est de septembre 1986.