

IT IS A MAJOR PART OF THE ONGOING PROGRAM TO REDUCE THE DEFICIT.

A new Goods and Services Tax (GST) will replace the existing Federal Sales Tax. It will be charged at a uniform rate of 9 per cent on the vast majority of goods and services consumed in Canada. The existing federal sales tax rate is generally 13½% at the manufacturer's level.

The present federal sales tax system has been pushed beyond its limits and can no longer sustain the demands placed upon it. The structural weaknesses of the system have given some corporations the opportunity to reduce the amount of tax they would otherwise pay. For a tax system with 75,000 taxpaying corporations, there are 22,000 special arrangements and administrative interpretations required to keep the system in operation.

The present federal sales tax system is an increasingly unpredictable and unreliable source of revenue for the federal government. It must be replaced.

Our enormous debt has put pressure on the government's ability to meet other priorities. Canadians know the risks of not acting to bring the debt under control. The size of the debt has left us exposed to increases in interest rates, and vulnerable to international economic shocks. The reliability and stability of our sources of revenue are all the more important in such an environment. The new federal sales tax will secure year by year reductions in the deficit, while ensuring we can continue to provide Canadians with a standard of services that is among the best in the world.

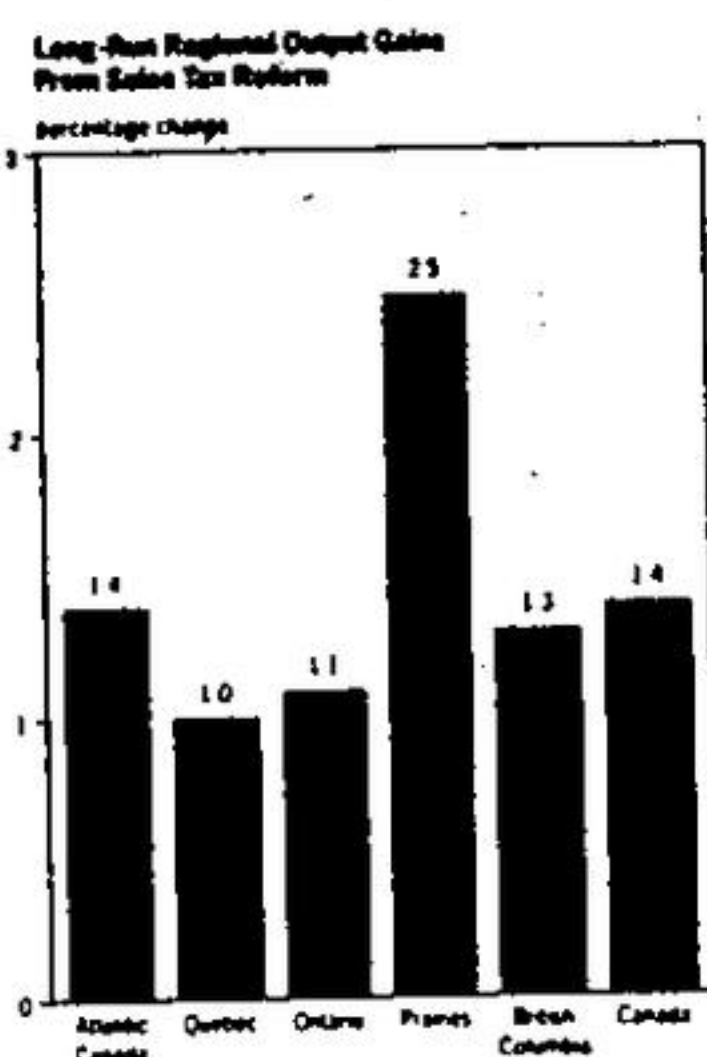
IT WILL STRENGTHEN OUR INTERNATIONAL COMPETITIVENESS AND CREATE JOBS IN CANADA.

Our current federal sales tax favours imports over Canadian made goods. We are the only country in the industrialized world that is putting itself at such a disadvantage. The existing system also makes Canada's exporters less competitive in the world economy. Our present federal sales tax makes our annual economic output about \$9 billion lower than it would be with the new GST in place.

Under the GST, we will be able to completely remove tax from our exports and make Canadian products more competitive abroad. And in Canada, Canadian-made products will be able to compete more effectively with imports.

The benefits to the Canadian economy from sales tax reform will extend across all regions and sectors of the economy. The Atlantic and Prairie regions for example, will benefit significantly because their economies are resource-based and export-oriented - two sectors that will benefit the most from sales tax reform.

The GST will lower the cost of the machines, supplies and equipment companies have to buy to produce their products. This will lead to higher levels of investment and expand our output. Higher output will lead to more jobs.



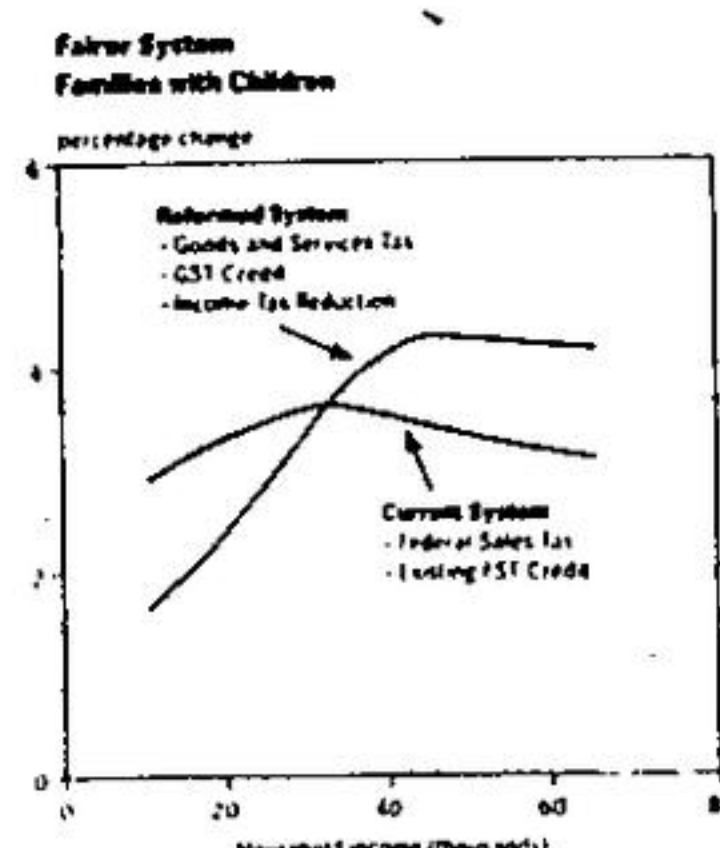
IT WILL HELP LOW INCOME CANADIANS.

Once the GST is in place, families earning less than \$30,000 a year will be better off. This will be achieved through a combination of income tax changes. First, low income Canadians will receive the new GST Credit. Second, the middle personal income tax rate will be reduced from 26 per cent to 25 per cent.

The GST Credit will be paid every three months and in advance of expenses. Eligible Canadian households will receive their first credit cheque in December 1990, before the January 1, 1991 GST start-up date. About 9 million Canadians will receive Credit cheques. The GST Credit will be calculated on the basis of income tax returns. Every income tax return will contain a one-page form showing Canadians how to apply for the GST Credit.

The amount of the Credit will depend on family size and income. The basic adult credit will be \$275. Most single adults will be able to get an additional credit of up to \$140, for a total of \$415. The child credit will be \$100. Single parents will receive an adult Credit of \$275 for one of their children. Canadian households with incomes up to about \$25,000 annually will be entitled to the full Credit.

A family of two adults and two children, eligible for the full Credit, will for example receive cheques of \$187.50, four times over the course of the year, for a total of \$750.



IT WILL ELIMINATE HIDDEN TAXES.

Right now, everywhere in this country every time Canadians buy a good or service made in Canada, they are paying federal sales tax. For example, a substantial amount of sales tax is presently buried in house prices. Under the existing system, it is clearly impossible for Canadians to know how much federal sales tax they are paying. There are four different rates on a variety of different products and the tax is buried throughout the production process.

It will be clear to Canadians when they are paying the 9 per cent GST. The broad base of the GST means it will apply to almost everything. The few exceptions will be widely known.

Some retailers in Canada will have cash registers that are capable of showing the GST separately at the check-out counter, while other retailers will not. The federal government will provide an incentive to retailers to assist them in acquiring the cash registers to show the GST separately.

In all cases, the federal government will provide retailers with signs for their stores that clearly indicate that the 9 per cent GST is being applied.

PROPOSED CHANGES.

- For consumers, the GST will be similar to a retail sales tax, at the rate of 9 per cent on the retail price of goods and services. The GST will replace the existing federal sales tax, which is hidden at the manufacturer's level.
- The GST will apply to virtually all goods and services sold in Canada; however, Canadians will not be charged tax when they buy the following **GOODS**: basic groceries; prescription drugs; medical appliances such as eye-glasses and wheel chairs; residential rents and existing houses.
- Canadians will not be charged tax when they buy the following **SERVICES**: loans, mortgages, securities and insurance policies; health and dental care; most education services; daycare services; legal aid; and municipal transit and passenger ferry services.
- Newly constructed houses will be taxed, however, most new home buyers will not see a significant increase in the price of a new house resulting from the GST, because there will be a \$900 million GST housing rebate. In many parts of the country price increases will be less than half a per cent. Indeed, many communities should see lower prices as a result of the GST rebate. The main exception will be Toronto, where extraordinarily high land prices may cause prices of new housing to increase by about 1.5%.
- Because the present federal sales tax will be removed, prices will not automatically rise by 9 per cent when the GST is introduced. The prices of some things will be lower, and others higher. The prices of many big-ticket items for example, that are taxed at 13.5 per cent under the present system, will be lower once the 9 per cent GST is in place. The price of other items that are not taxed under the present system will increase.

Finally, well before the GST is up and running, the government will be telling Canadians about the GST and informing them about the kinds of price changes they can expect for key goods and services when the GST replaces the existing federal sales tax.

For instance, here are a few examples of what consumers might expect:

ITEM	PRE-TAX REFORM(\$)	POST-TAX REFORM(\$)
Air Conditioner	780.00	770.00
Car	15,000.00	14,700.00
Snow Tires	200.00	203.00
Hotel Accommodation	90.00	95.00

For more information about the GST, please call:

1-800-267-6620
(English)

1-800-267-6640
(French)

1-800-267-6650
(Telecommunications device for the hearing impaired)