Abstract

This thesis examines the choice of a tax base for federal sales taxation in Canada. The analysis is conducted using an open economy numerical general equilibrium model. Such a model permits consideration of the potential to export some of the burden of taxation to foreigners through terms of trade effects and changes in the net return paid to foreign owners of capital employed in Canada.

The thesis begins with a discussion of the issues involved in federal sales tax reform. Next, the analytical framework is described. Then alternative federal sales tax scenarios are simulated and the results discussed. Included here is the presentation of some of the results that are pertinent to the recently proposed federal goods and services tax. The results are compared with those from other studies of federal sales tax reform.

Overall, the results support the view that broad-based sales taxation promotes economic efficiency and improves welfare relative to the existing federal sales tax which is narrowly-based and highly discriminatory. The regressivity associated with moving to a broad-based federal sales tax, such as the proposed goods and services tax, appears to be