

Comments and Recommendations

The Committee approves in principle the proposal to give all taxpayers an option to average income over a period of years where the income of one year is unusually high in comparison with the others in the period. This appears to be equitable in any tax system, and to be essential in a system which taxes capital gains. However, a great many objections to the proposal as it stands have been raised by taxpayers appearing before the Committee, the consensus being that it is meagre. The Committee notes, however, that the cost of the proposal is estimated by the government at \$50 million by the fifth year—a not inconsiderable amount.

It has been frequently pointed out that the proposal would not benefit anyone with an average income over \$18,000 in the period. This is the result of the combination of the average income plus the one-third “threshold amount” and the cutting in of the maximum rate of 50% proposed in the White Paper at \$24,000 of taxable income. Averaging no longer applies after that figure is reached. The break-in points would of course be different if the adjustments we propose in the rate schedule are accepted. The Committee feels that the “threshold” is too high and should be lowered, but we hesitate to recommend a precise figure for the lower threshold since we understand that lowering it to one-quarter would double the cost to the revenue.

The Committee agrees with the White Paper that the averaging provision should not be extended to what are simply growing incomes; it is intended as a relief to fluctuating and irregular incomes.

Another frequently voiced objection is that the provision does not cover years in which income decreases; it has been pointed out that taxpayers in such circumstances actually need the relief of averaging more than those whose income has increased. To provide for averaging in years of decreasing income would, of course, mean that taxpayers would receive refunds of some of the tax paid in previous years. This would be desirable in principle but the cost would be prohibitive.

We have been impressed by the efforts of the government to make the averaging proposal simple for taxpayers. It has imperfections, but is at least a good start in the application of a necessary and important principle. **We therefore recommend its adoption.**

2. and 3. Approved.

4. We have so far dealt with the general proposal for averaging. Coupled with it would be the elimination of special treatment, other than at death, for the averaging now permitted under sections 35 and 36 of the *Income Tax Act*. We are concerned about people who have participated in plans for which this special treatment was available, and we feel there should be alleviation of the retroactive effect which the White Paper proposals would have. The Committee feels that past contributions to and earnings of such