would narrow slightly the differences between families with and without children compared to their pre-reform position.

3.14 Finally, the child tax credits begin to be taxed back at a "net income" level of about $24,000. However, the definition of "net income" pre- and post-reform is such that, for the same total income, net income is higher under the White Paper. This occurs because the $500 employment expense deduction has been eliminated and the CPP/QPP and Unemployment Insurance deductions have been converted into credits. Under the existing system these were deducted prior to determining "net income". Wrobel estimates that this increases net income under tax reform by about $1,600, so that for families in the 26 percent bracket, this could amount to a loss of $80 in refundable tax credits since the tax credit is taxed back at a lower total income post-reform than pre-reform (i.e. $80 is 5 percent of $1,600). Were one to redefine the tax-back threshold for the refundable child tax credit to coincide with that under the existing system, this would have the impact of shifting the two lower lines in Figure 2 upwards by $80 after the $27,500 peaks. For a family of three children, this would ensure that the gains from tax reform remained positive throughout the middle-income range. Note that this would not represent a permanent increase for high-income families with children, since the refundable child tax credit would eventually be fully taxed back.

3.15 The impact of these influences will be to narrow somewhat the differences between families with and without children. They do not affect the curve for childless families – phrased differently, what is driving this overall gains profile for the middle-income earners is the fact that marginal rates have increased, post-reform.

3.16 This discussion of Figure 2 assumed that all the income arose in the form of wage income. If one recognizes that persons and families in the middle-income bracket are likely to earn some of their income from self-employment or from investments, then it is quite easy to generate scenarios where all families, regardless of whether they have children, are worse off after tax reform. This arises because of the manner in which the White Paper proposals approaches the taxation of investment and self-employment income. Such an exercise would also reveal a further feature of the reforms. Although high-income Canadians whose source of income is wages will clearly benefit from tax reform, the benefits accruing to high-income Canadians for whom tax "loopholes" and investment income played an important role, pre-reform, will be considerably less and can even become negative.