

fluctuating income (such as artists, commission salespeople and new entrants to the work force) face significant tax penalties compared to those with stable incomes.

6.15 5. We recommend that a general averaging provision similar to that in place from 1972 to 1981 be re-instated. We also recommend the retention of block averaging for farmers and fishermen.

6.16 We would end this discussion with a few additional observations. The new credit system is far from perfect and judgements have been made which we are prepared to accept without necessarily endorsing them. For example, the need for a self-employed person to claim both a deduction and a credit for Canada Pension Plan contributions seems a little complex. The decision to allow medical expenses as a credit at 17 percent no matter what tax-bracket the taxpayer is in, seems somewhat harsh considering that higher-income taxpayers get less tax relief than lower-income taxpayers because of the three percent *de minimis* rule which applies to medical expenses.

6.17 We received conflicting testimony on the effect that the two-tiered charity credit might have on fund-raising, though this issue was also linked with the impact reduced tax rates and the capping of the capital gains exemption might have on potential donors. We feel, however, that there is no compelling evidence to suggest at this time that the proposals be changed. However, we would suggest that the impact of the new rules on charitable donations be closely monitored over the next few years with a view to modifying the rules if it turns out that there is any significant decrease in charitable donations generally, or to particular sectors of the charitable community.

6.18 Despite these reservations, we feel that with the addition of the recommendations we have put forward, the personal tax system will be generally fairer in 1988 than in 1987. There will still be perceived inequities and the system will remain extremely complex. We trust that when the revenues anticipated from reform of the sales tax regime in Canada have been identified, the Government will again examine the personal tax system with a view to making further appropriate modifications.

Investment

6.19 The Committee has gone on record earlier as saying that it is extremely concerned about the thrust of the White Paper proposals insofar as Canadian