

CHAPTER 2

The Individual and Family

2.4 PERSONAL EXEMPTIONS

White Paper Proposal

Increased by \$400 to \$1,400 for single, and by \$800 to \$2,800 for married taxpayers. These exemptions, plus the \$100 standard deduction, would mean that the income of a single person would not be reduced by income tax below \$1,500 or that of a married couple below \$2,900.

Comments

As indicated in the introduction to this report, your Committee found quite general acceptance of the proposal to reduce some of the burden of the present income tax for lower-income taxpayers. There was considerable debate about whether this relief should be provided through the medium of increased personal exemptions or tax credits. It was pointed out in submissions to the Committee in line with the Report of the Royal Commission on Taxation that tax credits provided a less costly method for giving such relief at the bottom of the income scale. The government's proposal to increase tax exemptions however was combined with a restructuring of the rate schedule. It was pointed out in the supplementary paper filed with the Committee by the Minister of Finance that when exemptions are increased and at the same time the rate schedule is changed it is possible to prevent the adverse effect of an exemption increase, which is to give higher-income taxpayers a greater tax saving.

We believe this to be a case where the result is more important than the method; and while the tax credit approach has a great deal to commend it in terms of being adjustable from time to time without a restructuring of the rate schedule, the exemption procedure does have the advantage of retaining a method to which individual taxpayers are now accustomed.

It will be recalled that the White Paper suggests that following the implementation of the basic reforms proposed the question of a family unit basis for individual taxation would be considered. We urge that this be given high priority, and that when this reconsideration takes place the question of credits versus exemptions be again reviewed with the object of determining at that time which approach provides the best mechanism over the long term for the adjustment of taxes at the lower end of the income scale.