

every taxpayer can apply for the allowance and keep the whole amount he receives. Let me repeat that every taxpayer, next year, no matter what the amount of his income, can apply for the family allowance and keep the whole amount he receives. He does not include it with his income in making up his income tax, nor is it subject to a recovery under which part or all must be repaid as under the present system. If he does not apply for the allowance it is his own loss.

In addition to the family allowance payment, however, every taxpayer will be given a deduction from his income of \$100 for the same child. For example, if he is a taxpayer with two children of family allowance age he will receive his family allowance payment in full, which at the present average of \$72 a child would amount to \$144, and, in addition, he will be given exemption from tax on \$200 of his income in respect of the same two children.

The allowance under the income tax for a dependent for whom family allowances are not paid, that is for children over sixteen, and for other dependents qualifying under the law such as dependent brothers, sisters, parents, and so on, will be in the form of a deduction of \$300 from income in respect of each such dependent. There has been some argument that this \$300 deduction should be allowed to a taxpayer with children of family allowance age if he chose to have his children recognized in this manner rather than through the receipt of family allowances. I wish to point out to the house first in regard to this proposal that for the majority of taxpayers the measure proposed in the budget speech carries a greater benefit than a \$300 deduction from income. In the lower income groups this excess of benefit is substantial, and is of significant amounts on all incomes up to \$7,500. Take, for example, a married man with two children and an income of \$5,000. Under the budget proposal this married man would pay a tax of \$911, against which would be offset family allowances of on the average \$144, making a net liability of \$767. If the same married man were to take instead for his two children a deduction from income of \$300 apiece, or \$600, he would pay a tax of \$897, or \$130 more than his net liability under the budget proposal.

Another aspect of the income tax changes which has not been fully understood is that affecting husband and wife where each have separate incomes. The nature of the change might be best explained by reviewing the background of the proposal. Prior to 1942 the law was that when husband and wife each had an income in excess of the exemption limits for

[Mr. Mayhew.]

a single person each was subject to tax as a single person on their own separate incomes. If the wife's income was under the exemption limit, however, the husband was allowed to retain the married allowance. In order to encourage married women to take employment during the war, the law was amended in 1942 to allow the husband to continue to pay tax as a married man even though his wife's income exceeded the exempt limit, which modified the previous rule that both would be taxable as single persons when the wife's income exceeded the exemption.

The change proposed for 1947 might be best explained as falling into two parts. The first part relates to husband and wife both having incomes in excess of \$750. In this case we propose to return to the pre-1942 position; that is, each will be taxed as single persons on their own income. The second part of the change applies where the wife has an income of her own but less than \$750. Under the pre-1942 law in this circumstance the husband would have been allowed to retain the married exemption, and in effect he and his wife had a combined income exempt from tax of \$1,500 in the hands of the husband and up to \$750 in the hands of the wife, making a combined total exemption of \$2,250. This compares with an exemption granted two single persons having the same income of \$750 apiece, or only \$1,500 in total. We propose in large measure to remove the advantage enjoyed by a married couple under this rule by providing that if the wife has an income in excess of \$250 then the husband's exemption of \$1,500 must be reduced by the amount by which the wife's income exceeds \$250. The amount of \$250 of the wife's income will be disregarded because of the very large number of cases where the wife has incidental earnings of so small an amount as to be negligible, but the husband's exemption will be reduced by any excess income his wife has over \$250.

An illustration will serve to show the effect of this change. Assume the case of a married man with a \$5,000 a year income. If his wife has no income he will get the full \$1,500 exemption and his tax in 1947 will be \$973. If, however, his wife has an income of, say, \$600, then his \$1,500 exemption will be reduced by the excess of \$600 over \$250, or \$350, leaving an exemption of \$1,150 in place of \$1,500. His tax with the reduced exemption will then be \$1,081, or \$108 higher than it would be if his wife did not have the income of \$600.

The changes I have discussed apply to the year 1947. It would appear that in some quarters they are regarded as "postponed"