ADDITIONAL CONSIDERATIONS

INCOME AVERAGING

The question of income averaging was addressed by a number of witnesses. This issue is relevant for all taxpayers who have fluctuating incomes but artists and writers as a group have particular needs. Several suggestions were made to the Sub-Committee including the reintroduction of income averaging annuity contracts for artistic and literary income and block averaging over a set period as is now available for farmers and fishermen. The Sub-Committee agrees that something should be done.

The Sub-Committee acknowledges that the current system of forward averaging largely benefits taxpayers already paying the top marginal rate. The system permits taxpayers to exclude their extraordinary or increased income from the current year and to prepay tax at the highest marginal rate. In a subsequent year when the taxpayers' income drops and marginal rate falls, they may bring some or all of that amount back into income and claim a rebate based on the difference between the lower rate and the prepaid rate. Where the extra income would have been taxed at the highest rate in any case[11], the taxpayers benefit from the arrangement and pay no extra cash in the initial year. In all other cases, however, taxpayers will pay increased cash in that year.

The Sub-Committee is sympathetic to the complaints of taxpayers including artists and writers of modest means who have concluded that the present forward averaging system offers them little or no practical tax relief when their income fluctuates. Too often, these taxpayers need to keep their cash, even when the fluctuation is upward. The Sub-Committee is reluctant to become involved in the technical details of an appropriate averaging system, but it has concluded that some additional mechanism should be developed to benefit lower-income taxpayers whose income varies from year to year.

RECOMMENDATION

26. That the government develop an averaging system for taxpayers with fluctuating incomes that will be available for those whose marginal rate