

clime. Given the emphasis that Canada places on the role of knowledge-intensive industries as the cutting edge of comparative advantage in the 1990s and beyond, it is questionable whether we ought to implement a tax system that may result in human capital being one of our principal exports.

3.6 Nonetheless, focusing only on marginal rates is only part of the story. After all, the new marginal rate structure is such that it exceeds the current rate for some portion of the lower-income class as well. This is offset by the fact that tax reform ensures that these higher statutory marginal rates are largely irrelevant for these lower-income groups since a large number of previously taxpaying Canadians will, under tax reform, no longer be paying tax.

### Average Tax Rates

3.7 Not surprisingly, perhaps, the White Paper proposals did not focus on marginal tax rates. Rather, pre- and post-reform comparisons were directed to average tax rates or "take-home-pay" comparisons. Figure 2 presents a comparison of average tax rates or, more precisely, the gains by income level as a result of reform. Again, the assumption is that all income is wage income.

3.8 At the low end of the income scale, where there are no taxes paid pre- or post-reform, the small benefits from the White Paper proposals arise because the refundable sales tax credits have been increased slightly under the stage one reform. Since the credit applies to children as well as adults, the families with children benefit more than those without children.

3.9 Once family income is sufficient to place families in a taxable position, the net benefits from reform increase dramatically. At this point, families will benefit particularly from the conversion of exemptions and deductions to credits. Because these credits are not refundable, families with a low level of taxable income cannot make full use of these credits, because their tax liability may be lower than the credits available. Over a certain income range, then, the dollar value of the net gain to families will increase with income. At \$12,500 annual income, tax reform offers a net gain to families of three percent to over 3.5 percent of total income, depending upon family size. The dollar value of benefits continues to rise with income until about \$27,500, where the 26 percent tax rate begins.