

before the House of Commons Standing Committee on Consumer and Corporate Affairs and Government Operations, he stated that the value of the credits will quickly be eroded by inflation and the Government's claim, in only a very short period of time, will no longer be valid.

- (51) The Government has responded to this point by stating that the existing FST credit has been increased at more than the rate of inflation. But these increases have come in response to increased tax rates, not as means by which the real value of the credits was to be maintained or even enhanced. Whatever the merits of partial indexation of the income tax system, it is quite clear that the proposed indexation rules are not appropriate for the system of refundable GST credits. These credits determine an important characteristic of the GST regime and it is vital that their real value be maintained. Moreover, if the Government's intent is to maintain the value of these credits through ad hoc adjustments over time, it seems clearly desirable to enshrine this intent in the legislation through provisions for full indexation. At the very least, such full indexation will reassure lower income households that the GST will not become any more regressive than it might be at its inception

- (52) Those families who gain the most in 1991 as a result of the new system of credits also lose the most as a result of the partial indexation of the credits and threshold. It is not so much the real decline in the maximum value of the credits which hurts households, although this should not be dismissed since it amounts to 6% over two years and 16% over five years. Rather, it is the decline in the threshold which after five years declines in real value from \$24,800 to \$20,850.