

important impact on the tax treatment of investment income: the \$500,000 lifetime capital gains exemption will be capped at \$100,000; the proportion of capital gains (above the \$100,000 threshold) to be brought into income will increase from the present 50 percent to 66 $\frac{2}{3}$  percent for 1988 and 1989 and then to 75 percent thereafter; the dividend tax credit, already reduced for the 1987 tax year from 50 percent to 33 $\frac{1}{3}$  percent, will be further reduced to 25 percent; and the \$1,000 interest and dividend deduction will be eliminated. Accompanying this base-broadening and lowering of marginal rates is the conversion of most of the existing tax exemptions into tax credits, generally but not uniformly at the 17 percent rate.

**Table 1**  
**Combined Federal/Provincial Tax Rates Post-Reform**

	Provincial Tax Rates as a proportion of federal basic tax	Combined Federal-Provincial Marginal Rates		
		Low	Middle	High
⇐(Percentage)⇒				
Newfoundland	60.0	27.2	41.6	46.4
Prince Edward Island	55.0	26.4	40.3	45.0
Nova Scotia	56.5	26.4	40.7	45.4
New Brunswick	58.0	26.9	41.1	45.9
Quebec	-	-	-	-
Ontario	50.0	25.5	39.0	43.5
Manitoba	54.0	26.2	40.0	44.7
Saskatchewan	50.0	25.5	39.0	43.5
Alberta	46.5	24.9	38.1	42.5
British Columbia	51.4	25.8	39.4	43.9

*Note:* These rates do not include the three percent federal surtax on federal rates.