INDEXING For the 1983 and 1984 taxation years (not 1982) the indexing of personal exemptions and tax brackets will be limited to 6% and 5% respectively. If inflation continues at its present levels, this will effectively mean a significant hidden increase in the level of personal income tax, both Federal and (in the agreeing provinces) provincial.

FORWARD AVERAGING General averaging will be replaced for 1982 and subsequent years by a system of forward averaging. This new system will be elective, not automatic. The procedures for this system will be as follows:

1) Adjust one's net income for each of the previous three years while resident in Canada for inflation (as determined by the indexing provisions) and determine the average.

2) If the current year's income exceeds 110% of this average, choose whether or not to elect to defer all or some of the excess to a future year.

3) Pay a refundable tax on the deferred income at the top marginal rate (34% plus the applicable provincial tax).

4) Index both the deferred income and the refundable tax each year during the deferral period.

5) Select a year in which to bring any or all of the indexed deferred amount back into income, calculate one's tax liability in the normal manner and claim a credit for tax on that year's tax return equal to the top marginal rate (34%) on the deferred amount included in income. Provincial tax is calculated after deducting the above credit.

In steps 1) and 4) above, the indexing apparently will be based on the Consumer Price Index in 1983 and 1984 rather than on the 6% and 5% indexing factors.

Extension of Original Proposals New forward averaging provisions were presented in the June Budget for net capital gains, and for artists, entertainers and athletes, and for the final return of deceased taxpayers. Those with gains, and artists, entertainers and athletes can defer the greater of their current year's income from these sources or the amount of their total income for the year less 110% of the average income of the three previous years. For deceased taxpayers, the accumulated deferred income at death is included in the deceased taxpayer's return, taxed at a three-year average rate and a tax credit on the accumulated deferred income is claimed at the top marginal rate.

Time Limits There appears to be no time limit, other than death, when the deferred income is required to be included in income. Therefore, any individual who is paying tax at the top marginal rate and has income in excess of 110% of the three-year average, should elect to defer income to some future year when he might have a lower income. For example, the new forward averaging rules should be considered in the following circumstances:

- in the year of retirement when large lump sums (such as retirement allowances) are received;
- when an investor with other income experiences large capital gains;
- when a salesman earns unusually high commissions that he does not expect the following year.