

marginal rates at the \$27,500 threshold – nine federal tax points and roughly 14 combined federal-provincial points. The Committee believes that this middle-income tax rate is too high.

3.20 So, apparently, does the Government since, as noted in Chapter 1 of the White Paper, one of the main goals of the second stage is to reduce taxes for the middle-income group. While the White Paper does not elaborate on how the middle-income groups would benefit, several options are possible. One is to alter the middle-income tax bracket so as to accomplish the dual objective of reducing the tax burden on the middle class and ensuring that, even with the five percent claw-backs of the tax credits, no one in the middle bracket would face a federal marginal rate above the top federal rate. A second approach would be to raise the income threshold where the 26 percent rate begins to apply.

3.21 The Committee is very concerned about the tax treatment of middle-income Canadians. Why should the first stage embody a rate and bracket structure that is recognized by the White Paper as being inappropriate? Admittedly, if any of the various alternatives suggested above were introduced in the first stage, this would result in Stage One no longer being “fiscally neutral”. However, if the second stage is to be legislated shortly, then there is no long-term fiscal issue. If there is a “transitional” fiscal problem, then it would seem appropriate to implement the “appropriate” longer term rate and bracket structure and to finance this by a “transitional surcharge” on all income levels. If the second stage is likely to be delayed, or perhaps never legislated, then the argument for first stage, middle-income relief is much stronger. Why lock in place a marginal rate structure that even the White Paper recognizes as inappropriate?

3.22 The Committee makes no recommendations at this point (although we will make specific recommendations later), preferring simply to highlight the fact that this is one of the two general areas where the White Paper needs rethinking. The other is the treatment of investment income, to which we now turn.