

Thus it can be very misleading to focus only on the reduction of marginal rates at the top end and to extrapolate from this the benefits that tax reform confers on the rich.

The Marginal Rate Profile

3.17 The final piece of evidence relating to the taxation of middle-income Canadians relates to the profile of marginal rates. Again, consider a family of four with one wage earner and, for simplicity, with no CPP/QPP or Unemployment Insurance tax credits. The family qualifies for two sorts of additional tax credits. The first is the refundable sales tax credit which equals \$210 for a family of two adults and two children. With a five percent tax-back rate, it takes \$4,200 of income to exhaust this credit. Given that the credit begins to be clawed back at \$16,000, it is exhausted at \$20,200. Second, the refundable child tax credit of \$524 per child is also clawed back at five percent beginning at \$24,020. Since it takes \$10,500 of income to exhaust each of these credits and since they are taxed back consecutively, the family would exhaust the credits at an income of \$45,020. Finally, under tax reform, families would pay no net tax below \$18,500.

3.18 After \$18,500, the federal marginal-tax-rate profile is as follows:

- 22 percent up to \$20,200, i.e. the statutory rate of 17, plus the five percent tax for the sales tax credit;
- 17 percent from \$20,200 to \$24,020;
- 22 percent from \$24,020 to \$27,500, reflecting the five percent tax on the refundable child tax credit;
- 31 percent from \$27,500 to \$45,020, i.e. 26 percent statutory rate plus the five percent tax until the child credit exhausts at \$45,020;
- 26 percent from \$45,020 to \$55,000; and
- 29 percent for income beyond \$55,000.

Note that if there were three children in the family the child tax credits would exhaust at \$55,520, that is the family would never face a 26 percent rate. Rather, the marginal rate profile would be altered as follows: 31 percent from \$27,500 to \$55,000; 34 percent from \$55,000 to \$55,520; and 29 percent thereafter.

3.19 To be sure, these anomalies also exist within the current system. Nonetheless, they are exacerbated under tax reform because of the very large rise in