



OPINION

THE CANADIAN CHAMPION

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Beware Ottawa's stealth tax bomb

SOMETHING DOESN'T ADD UP: Finance Minister Paul Martin keeps saying he hasn't raised our taxes. Yet, every year, our wallets seem to be getting a little lighter.

Yes, it's true. The federal government is taking more from our wallets. And it's all thanks to a little known tax increase mechanism in the Canada Income Tax Act.

Tax accountants call it 'bracket creep'. It stems from the Mulroney government's decision back in 1985 to stop full indexing of the income tax system to inflation.

Federal income tax brackets, personal credits and items such as the threshold amount for the Old Age Security clawback, are only adjusted if the inflation rate is above 3 per cent.

For example, if the inflation rate is 4 per cent, the income tax brackets and personal credit amounts only get bumped up by 1 per cent. If it is less than 3 per cent — as it is currently — the threshold value of each tax bracket remains unchanged. The result of this stealth tax is that you pay a greater percentage of your income in taxes every year. Annually, inflation slowly erodes the value of your tax exemptions and pushes you into a higher tax bracket.

Even if your income increases with the cost of living, it only allows you to purchase the same basket of goods and services. However, if your personal credits (which are used to reduce your tax bill) don't change proportionately, then the government ends up taking more of your income. And that leaves you with less disposable cash, despite the fact that your pre-tax income is higher.

Because of recent low inflation rates, the basic personal tax credit has not been adjusted in five years. According to the accounting firm KPMG, the 1997 basic personal tax credit will be

Let's
Talk
Taxes



with PAUL PAGNUELO

\$6,456. Had the credit been fully indexed, it would be \$7,847. In other words, because of Ottawa's decision not to allow your personal tax credit to keep pace with inflation, you're now paying tax on \$1,391 more of your income.

If your 1988 income was \$26,500, you were required to pay \$3,485 or 13.15 per cent in federal income taxes. Assuming luck was on your side and your income increased with inflation, today you'd be earning \$35,400. But your federal tax payable would be \$5,443 or 15.37 per cent of your income. However, if full indexing of the personal tax credit had been in effect, your tax owing would only be \$4,707 or 735 less than under the 'bracket creep' system. Without realizing it, you've quietly been hit with a 21 per cent 'stealth' tax increase.

'Bracket creep' doesn't just tax you more, it also taxes you harder. As your income rises with inflation, your income is slowly pushed into higher tax brackets, meaning higher tax rates.

KPMG's figures show that the upper limit of the middle tax bracket in 1988 was \$55,000. In 1997, it will be \$59,180. But without 'bracket creep', it would be \$71,883. Thanks to the stealth tax, \$12,703 of your income is now being taxed at the top marginal rate, rather than at the middle tax rate.

Okay — I've got 11 months to get disorganized

ARE YOU READY FOR CHRISTMAS?" I put that question in the irritating category, along with "Are we there yet?" and "How many weeks do you have to go?" (in a pregnancy).

Christmas for me has ceased to be the event of the year, although with the frantic hype surrounding us, it is easy to get caught up in the whirlwind, mentally if not physically. If I had my way, I'd tone the festive season down and get back to the contemplative aspects of the original celebration, but who am I to fight city hall?

Much of my stress stems from the fact that the Christmas season means we have to pack up for a stay at the cottage. As usual, it takes hubby two seconds to throw gear into his car and head off to the bush. Two days later, I can't transplant myself to the cottage with just a couple of changes of clothes. I have to collect my office junk, those 30 letters I owe again, the reading I want to catch up on, and always with the determination that I'll complete 100 projects.

My daughter and I hoped to leave by noon on Sunday. Wishful thinking. Our 9 a.m. rising that morning proved a problem for the teen, who curled into a tighter ball under her blankets.



On the
Homefront

with ESTHER CALDWELL

Eventually, she crawled out of bed only to discover that she had misplaced her wallet. Major crisis. Forget about the bills in her wallet. It was those inconvenient-to-replace cards, student I.D., health card, bank card, that concerned us.

We began a mental journey back to the last time she recalled having her wallet — our shopping expedition the previous Friday evening when she had passed it to me to carry in an already overloaded purse. So, in effect, I appeared the culprit in the piece since the missing item was no longer in my purse and I had no recollection of removing it.

Looking Back ...



There was no chance at all to run to first base with Silver the old pro ball-playing donkey. He had yet to take a player to first without bucking him off, as this runner found out. He and his other donkey friends were participating at the donkey baseball game at Kilbride park in August, 1969.

I predict many stupid predictions

Repent, the end is near.

An asteroid is going to explode into Nevada and obliterate much of the western United States shortly after millions are killed during a series of massive earthquakes in California.

Climatic change will become increasingly dramatic, flooding coastal cities and causing famine, pestilence and death. Then the poles will shift, which they have done many times before, perhaps triggering another ice age.

Terrorists will explode a nuclear device, in a major city in the next few years. Troubles in the Middle East, or between India and Pakistan, or any number of other spots, will erupt into Armageddon, the final battle between good and evil. Millions will be killed in war and far more will die from the resulting chaos.

The prophecies are coming with increasing speed.

History shows us that the end of every century inspires prophecies of doom and destruction often, but not always, religious in nature. This time we are not only approaching a new century but also a new millennium. Expect the phenom-



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enon to reach unequalled heights.

Scientific investigation suggests that many things prophesied are possible. This only fuels the fear and hysteria. And while the causes of war and greenhouse gases can be controlled, any changes will not occur soon enough to have an effect on events in the next three years. God's wrath is largely out of your control.

Some of these prophecies will come to pass. For example, I guarantee a terrible earthquake in California in the future. Will it come before 2000? Maybe. However, this is no more prophesy than is predicting eclipses.

Some modern seers take a little Nostradamus, add some Edgar Cayce and season with a little history and science to produce a convincing canvas of doom. Others use religious apparitions, and unexplained phenomena to bolster their claims.

In the end any prophet making money from his or her predictions has no credibility.

History tells us the same prophets of doom came to the fore as the year 1000 approached. Then 1001 came and then 1002, and lo and behold so did 1003. Sixty-three years later the Normans figured they were safe enough to bother conquering England. A lot of evil things have occurred since. If a vengeful God was sick of it all the end likely would have come long ago.

The bottom line is if God decides it all over, then it is: Reap what you sow. Yet I doubt somehow that God uses the same calendar we do. In any event, get set for a flurry of prophecies and be prepared for a little real hysteria.

Regarding the calendar, I just want to set the record straight. There was no year zero. The 21st century begins one second after midnight of December 31, 2000 which is the first moment of January 1, 2001. However I have no doubt the big celebration will come December 31, 1999 when the calendar makes its four digit shift. Happy New Year.