Memorandum

From: **Mr. Paul Barbeau**

Date: **February 28, 2000**

Re: **Federal Budget 2000 Highlights**

Introduction

Canadian Minister of Finance, Paul Martin, delivered the 2000 federal budget speech in the House of Commons this afternoon. While there has been divergent debate recently in the national media regarding the increasing division in the Liberal Party between the tax and spend crowd on the one hand and those more concerned with the economic realities presented by inordinately high levels of taxation and the resulting "brain drain" on the other, Mr. Martin has come down firmly in the middle. That is to say, a combination of tax cuts and substantial social program spending.

As an example of this divergent perspective, one only has to look to the pre-budget commentary in the Canadian national newspapers. The National Post recently stated, in relation to Budget 2000, that;

> "It has become a demand that transcends ideology, language, generation and income levels. It has already been deemed the most important issue of the next federal election, expected in 2001. It is tax cuts."

A more somber approach was taken by The Globe & Mail, where it was recently suggested that substantive tax cuts were not a top priority:

> "…despite the steady drumbeat for tax cuts from Bay Street and the Hollinger press (i.e. The National Post), pollsters agree that the public demand for lower taxes is relatively muted. Tax relief is well down on the list of the average Canadian's priorities right now..."

Given these somewhat conflicting views on national tax and spending policy, lets examine what Finance Minister Paul Martin presented to the House of Commons in today's federal budget.

Highlights: Tax Cuts

a) $58 billion in tax cuts over five years;

b) Full indexation of marginal tax rates, effective January 1st, 2000. This will protect taxpayers against automatic tax increases caused by inflation, and return Canadians to a situation that prevailed until 15 years ago when full indexation was eliminated in the 1985 federal budget;

c) Middle income tax rates will be reduced from 26% to 24%, with effective from July 2000. A further decrease in middle income tax rates to 23% will occur later;

d) The basic exemption, or threshold at which Canadians start to pay tax, will increase to $8,000;

e) Elimination, as of July 1st, 2000, of the 5% deficit reduction surtax on middle income Canadians with income up to $85,000, and complete elimination of the 5% deficit reduction surtax by the year 2004;

f) Reduction in corporate tax rates from 28% to 21% to be phased in over 5 years and to be targeted towards certain industries and qualifying small businesses;

g) Increase in the threshold at which the highest marginal tax rate applies from the current level of $60,000 to $70,000;

h) Reduction in effective capital gains rate by reducing the amount of capital gains included in income for tax purposes from seventy-five percent (75%) to sixty-six percent (66%); and

i) Increase to twenty-five percent (25%) for the foreign content limit on RRSPs, effective for the 2000 tax year, and a further increase to thirty-five percent (35%) for the foreign content limit for the 2001 tax year.

Highlights: Spending / Revenue Commitments

a) $16.8 billion in increased spending programs;

b) Increase in the health care budget by $2.5 billion and further increases for post-secondary education;

c) $4 billion increase in research and innovation spending, with priority given to a new national gene research facility; and

d) $2 billion increase in infrastructure spending.

Conclusion

For a more complete copy of the Budget Speech and related documents, please follow this link http://www.fin.gc.ca/budget00/toce/2000/bud2000e.htm, to the Canadian Department of Finance Budget 2000 web site.

For further analysis on the implications of today's federal budget for you and your business, please contact Paul Barbeau at:

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