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FEDERAL BUDGET OF CANADA - 2003

John Manley brought down his first Federal Budget today, maintaining the “steady hand on the tiller” approach, honed to perfection by his predecessor Paul Martin. There has been wide speculation regarding the measures that would be contained in this year’s Federal Budget, ranging from an increase in Registered Retirement Savings Plan contribution limits (N.B. Currently 18% of annual income, up to \$13,500) to a new billion dollar national day care and family leave initiative¹. Conspicuously absent from the speculation leading up to this year’s Federal Budget, were any substantive measures aimed at tax relief.

¹ Further speculation included increased international aid, increased infrastructure spending, funding to help industry come close to meeting our Kyoto goals and funding for defence. Other trial balloons have included government cash for a high-speed rail link between Montreal and Toronto, and a number of other, smaller initiatives including assistance to create new national parks, aboriginal issues, support youth employment, science, immigration, affordable housing, bilingualism and healthy living.

The speculation that surrounded these initiatives takes place, in a national fiscal environment, the characteristics of which are not completely encouraging. In the first eight months of the current fiscal year (N.B. which ends March 31, 2003), Ottawa tallied an \$8.2-billion surplus. While impressive, it is actually down \$5-billion from the same period last year, which finished with a surplus of just shy of \$9-billion. In other words, the government ran a deficit of over \$4-billion in the final four months of the last fiscal year. A repeat performance would generate a final surplus of roughly \$4-billion this year, bang on what Mr. Manley was expecting as of the October Fiscal Update.

So, what measures does this year’s Budget contain. Notwithstanding Mr. Manley’s repeated statements regarding the 6th consecutive balanced budget tabled by the Liberals and how there will be no further budget deficits, the real message is in the detail. In this regard, the fiscal 2003 Federal Budget contained the following significant measures, aimed at continuing national economic growth, while at the same time “building the society Canadians

value, by building the economy Canadians need, and by building the accountability Canadians deserve”. Rhetoric aside, the 2003 Federal Budget contained the following measures.

NEW FEDERAL SPENDING

- ❖ Federal support to health care will increase by \$17.3 billion over the next three years and by \$34.8 billion over the next five years;
- ❖ A \$965-million-per-year increase in the National Child Benefit supplement of the Canada Child Tax Benefit (CCTB) by 2007, to bring the maximum annual benefit for a first child provided through the CCTB to \$3,243. This will bring the estimated annual support delivered through the CCTB to over \$10 billion in 2007, an increase of over 100 per cent since 1996;
- ❖ \$935 million over the next five years to assist provinces and territories and First Nations in increasing access to quality child care and early learning opportunities, especially for low-income and single-parent families;
- ❖ \$320 million over the next five years to enhance existing affordable housing agreements with the provinces and territories, bringing the total federal investment to \$1 billion by the end of 2007–08;
- ❖ \$256 million over the next two years to extend the Government’s housing renovation programs to

help preserve the existing stock of affordable housing;

- ❖ \$270 million over the next two years to continue to fight homelessness;
- ❖ \$172.5 million over eleven years to support Aboriginal languages and culture, of which \$18 million will be invested in the next two years;
- ❖ \$42 million over the next two years to renew and expand the First Nations Policing Program;
- ❖ \$150 million over two years for the Canadian Television Fund to help the production of quality Canadian programming;
- ❖ \$114.5 million in the next two years to launch a five-year action plan on official languages;
- ❖ \$41 million to better attract and facilitate the integration of skilled immigrants into the Canadian labour market and society;
- ❖ \$60 million over two years to improve the Canada Student Loans Program;
- ❖ \$100 million for the creation of the proposed Canadian Learning Institute;
- ❖ \$72 million to improve educational outcomes for Aboriginal people and ensure they are provided with training and employment opportunities on major projects across Canada;
- ❖ \$2 billion over five years in measures to help implement the Climate Change Plan for Canada through: increased government support for Sustainable Development Technology Canada and the Canadian Foundation for Climate and Atmospheric Sciences and other environmental agenda objectives;
- ❖ An investment of \$340 million over two years to address federal

contaminated sites, improve air quality, better assess and manage toxic substances, further protect Canada's species at risk, and support implementation of Canada's commitments at the World Summit on Sustainable Development;

- ❖ \$600 million over five years to upgrade, maintain and monitor water and waste water systems on reserves;
- ❖ \$74 million over two years as an initial investment for the establishment of 10 new national parks and 5 new national marine conservation areas and to restore the ecological health of existing parks; and
- ❖ Increases to Canada's International Assistance Envelope by 8 per cent annually through 2004-05 toward the objective of doubling the assistance budget by 2010. This translates into an increase of \$1.4 billion this fiscal year and the next two fiscal years.

TAX MEASURES AND RELIEF

- ❖ Encourage savings by Canadians by increasing the registered retirement savings plan annual contribution limit to \$18,000 by 2006 and making corresponding increases for employer-sponsored registered pension plans;
- ❖ Promote entrepreneurship and small business through a number of tax changes, including an increase in the small business deduction limit to \$300,000 over four years;
- ❖ Strengthen the Canadian advantage for investment by legislating the elimination of the federal capital tax over five years, eliminating it for medium-sized corporations as early as 2004;
- ❖ Improve the taxation of resource income in Canada by reducing the corporate tax rate of the sector to

21 per cent over the next five years; and

- ❖ Reduction of the Employment Insurance employee contribution rate for 2004 to \$1.98 per \$100 of insurable earnings.

OTHER MEASURES

- ❖ Beginning with this budget, the Government will implement its commitment to present its financial statements on a full accrual accounting basis;
- ❖ The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. This, in combination with clarifying the policy principles underlying the use of foundations, will ensure their continued effective use; and
- ❖ A continued commitment to following through on the tax relief set out in prior years budgets.

CONCLUSION

Although this is Mr. Manley's first Budget, he has deftly doled out Federal largess, keeping every identifiable interest group more or less happy. A truly "something for everyone" Budget, designed in part to assist Mr. Manley in furthering his ambitions of secession to the Prime Minister's Office. In short, heavy on spending, light on substantive tax relief.

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