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2017 Federal Budget Highlights

On March 22, 2017 Finance Minister Bill Morneau delivered the Liberal Government's second federal budget. The major focus of this year's budget was Skills and Development, Infrastructure, Tax Fairness and a Strong Canada.

This document provides highlights from the budget document, along with links to the budget documents as well links to more in depth analysis.

Budget Documents

- 2017 Federal Budget Home Page: https://goo.gl/S0zLsL
- Budget Plan: https://goo.gl/OS8DCK
- Budget in Brief: https://goo.gl/ZcgCSm
- New Release: https://goo.gl/OKvWFs
- Budget Speech: https://goo.gl/zlTGc6

Economy

The budget still doesn't include any plans to balance the books. The deficit projection for 2016-17 is $23-billion, rising to $28.5-billion by 2017-18 and down to $18.8-billion by 2021-22. But the budget shows the bottom line is sensitive to economic-growth projections.

Projected deficits in the coming years as follows:
- 2017-2018 of $28.5 billion
- 2018-2019 of $27.4 billion
- 2019-2020 of $23.4 billion
- 2020-2021 of $21.7 billion
- 2021-2022 of $18.8 billion

Debt-to-GDP Ratio: Federal debt as a percentage of GDP is forecast to remain fairly stable through to fiscal 2021-22. It is projected to be 31.5 per cent this year, shrinking slightly to 30.9 per cent in 2021-22.

Economic growth in Canada strengthened notably in the second half of last year, in part reflecting a rebound in oil production following the Fort McMurray wildfires. Stronger growth was fueled by solid consumer spending, and bolstered by an easing of cuts to investment in the oil and gas sector. Non-oil-related sectors have remained firm, growing by over 3 per cent since the end of 2014.

Employment has continued to rise overall since the end of 2015. Since December 2015, total employment in Canada has risen by an average of over 20,000 jobs per month—the strongest pace of job growth since 2012—and the unemployment rate has fallen from 7.1 per cent to 6.6 per cent. In the last seven months, the Canadian economy has created a quarter million new jobs.

Household spending continued to grow at a solid pace in 2016, supported by still-low interest rates and continued gains in disposable incomes.

Oil prices are expected to remain relatively low (for example, current futures contracts suggest prices could remain around US$50 over the next five years), reflecting persistently high U.S. crude oil inventories, the potential for increased output from U.S. shale oil producers, concerns over the durability of the Organization of the Petroleum Exporting Countries production cuts, and a weak overall global economic environment.

Overall, global financial conditions remain supportive of economic activity. Nonetheless, a number of uncertainties and risks could result in renewed financial market volatility, including high and rising debt levels in China, and the potential for sharp capital outflows from emerging markets.

For Canada, risks to the economic outlook are still highly contingent on the state of the world economy. Domestically, Canadian households' high debt levels still represent a key risk to housing and consumer spending, especially if the economy were to face slower income growth.

Budget 2017 announces that the Government will initiate three new expenditure management initiatives:

- In 2017–18, the Government will begin a comprehensive review of at least three federal departments, to be determined following Budget 2017, with the aim to eliminate poorly targeted and inefficient programs, wasteful spending, and ineffective and obsolete government initiatives.
- The Government will initiate a three-year horizontal review of federal fixed assets, staged by asset-type—e.g., engineering assets, science facilities, etc. A comprehensive review of government fixed assets has not been completed in decades. The Government spends roughly $10 billion annually to purchase, construct, renovate, repair, maintain and operate both owned and leased capital assets. This review will look to identify ways to enhance or generate greater value from government assets.
- The Government will initiate a horizontal review of all federal innovation and clean technology programs across all departments, as federal innovation programs are dispersed. Consistent with the principles of Canada's new Innovation and Skills Plan (discussed in Chapter 1), the horizontal review will look to simplify programming and better align resources to improve the effectiveness of innovation programs.

Skills Development

The Innovation and Skills Plan is an ambitious effort to make Canada a world-leading centre for innovation, to help create more good, well-paying jobs, and help strengthen and grow the middle class.

The Plan will target six key areas—advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences and clean resources—with a focus on expanding growth and creating jobs. The Plan will set clear and ambitious targets to:

- Grow Canada's goods and services exports—from resources, advanced manufacturing and others—by 30 per cent by 2025.
- Increase the clean technology sector's contribution to Canada's gross domestic product (GDP).
- Double the number of high-growth companies in Canada, particularly in the digital, clean technology and health technology sectors, from 14,000 to 28,000 by 2025.
- Expand the level of support for job training under the Labour Market Transfer Agreements, including expanding eligibility for programs and services under the Labour Market Development Agreements.

Budget 2017 proposes investments to help adult learners retrain or upgrade their skills to adapt to a changing labour market; to help young Canadians get the education, skills and work experience they need to start their careers; and to help women, older workers, Indigenous Peoples and underrepresented groups more fully participate in education and employment opportunities.

Budget 2017 proposes new funding to help Canadians prepare for the economy of tomorrow by promoting the development of science, technology, engineering and mathematics (STEM) skills and digital literacy, particularly for women, girls and underrepresented groups.

Notable investments include:

- $7 billion over 10 years to increase child-care spaces;
- $225 million over four years to establish a non-governmental organization designed to identify skills gaps, promote skills development and share information and analysis;
- $1.8 billion over six years to expand the Labour Market Development Agreements with the provinces and territories to support unemployed Canadians with employment assistance and training, with a special emphasis on underrepresented groups, including women;
- $59.8 million over four years to expand eligibility for Canada Student Grants and Canada Student Loans;
- $221 million over five years to provide 10,000 work-integrated learning placements for Canadian post-secondary students and graduates each year; and
- $50 million over two years to support teaching initiatives on coding and digital skills for young Canadians.

Infrastructure

Phase 1 of the Government's infrastructure plan included $11.9 billion to be invested over five years, starting in 2016:

- $3.4 billion over three years to upgrade and improve public transit systems across Canada.
- $5.0 billion over five years for investments in water, wastewater and green infrastructure projects across Canada.
- $3.4 billion over five years for social infrastructure, including affordable housing, early learning and child care, cultural and recreational infrastructure, and community health care facilities on-reserve.

Budget 2017 expands on the commitments made in Budget 2016 and the Fall Economic Statement. To strengthen and grow the middle class, the Government proposes to:

- Build stronger, better-connected communities through better public transit.
- Encourage Canada's transition to a clean growth economy through investments in green infrastructure.
- Improve the quality of life in Indigenous communities.
- Support families through better access to more affordable early learning and child care.
- Build a better future for rural and northern communities.
- Build an inclusive National Housing Strategy.
- Prioritize critical home care infrastructure.
- Strengthen cultural and recreational infrastructure.
- Deliver better transportation infrastructure to help support trade.
- Launch a Smart Cities Challenge.
- Establish the Canada Infrastructure Bank.

The Framework includes a pan-Canadian approach to pricing carbon pollution, with the aim of having carbon pricing in place in all provinces and territories by 2018. Provinces and territories have the flexibility to choose between two systems: a direct price on carbon pollution or a cap-and-trade system. The Government will introduce a backstop pricing system that will apply in provinces and territories that do not meet the federal carbon pricing benchmark.

In the coming months, the Government will release a consultation paper containing the technical details of the proposed federal carbon pricing backstop mechanism.

Tax Fairness

The Government of Canada is cracking down on tax cheats and will invest an additional $523.9 million—over five years—to prevent tax evasion and improve tax compliance.

Financial stability and security are part of the Government of Canada's plan to strengthen the middle class and grow the economy for the long term. A strong and trusted financial sector provides the confidence businesses need to thrive, grow and invest. It also helps Canada attract new businesses and international investments that help create well-paying, middle class jobs.

Budget 2017 takes important steps to further enhance fairness in the tax system and to improve its efficiency and effectiveness. Specifically, Budget 2017 takes action to:

- Close tax loopholes that result in unfair tax advantages for some at the expense of others.
- Crack down on tax evasion and combat tax avoidance.
- Make existing tax relief for individuals and families more effective and accessible.
- Eliminate ineffective and inefficient tax measures.

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- Provide greater consistency in the tax treatment of similar types of income and with other government priorities and current economic conditions.

A Strong Canada

The Government is building on its existing use of gender-based analysis to ensure that: its decisions deliver results that are more equitable and fair; there is a continuing conversation around the need for more equal wages and a more diverse workforce; there is greater representation of women in positions of leadership in both the public and private sectors; and there is a reduced risk and occurrence of gender-based violence.

In 2017–18, the Government will provide over $37.1 billion to the provinces and territories, under the Canada Health Transfer. This year's funding—an increase of approximately $1.1 billion from last year—will provide long-term, predictable and growing funding to our provincial and territorial partners. Over the next five years, the Canada Health Transfer amounts provided to provinces and territories are expected to total approximately $200 billion to support the health and well-being of Canadians.

Other Highlights

- No change to capital gains
- The government is raising the excise duty rate on cigarettes to $21.56 per carton from $21.03. Alcohol tax rates will go up two per cent, effective Thursday. Both will be automatically adjusted annually on April 1 to the Consumer Price Index starting next year.
- Taxpayers in certain designated professions (i.e., accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) may elect to exclude the value of work in progress in computing their income. Billed-basis accounting enables taxpayers to defer tax by permitting the costs associated with work in progress to be expensed without the matching inclusion of the associated revenues. Budget 2017 proposes to eliminate the ability for designated professionals to elect to use billed-basis accounting.
- Budget 2017 proposes to simplify the existing system of tax measures for caregivers by replacing the existing caregiver credit, infirm dependant credit and family caregiver tax credit with a new Canada Caregiver Credit.

  Budget 2017 proposes that the new Canada Caregiver Credit amount will be:
    - $6,883 in respect of infirm dependants who are parents/grandparents, brothers/sisters, aunts/uncles, nieces/nephews, adult children of the claimant or of the claimant's spouse or common law partner.
    - $2,150 in respect of an infirm dependent spouse or common-law partner in respect of whom the individual claims the spouse or common-law partner amount, an infirm dependant for whom the individual claims an eligible dependant credit, or an infirm child who is under the age of 18 years at the end of the tax year.
- In order to reduce compliance costs and increase efficiencies for employers, as well as increase convenience for many employees, Budget 2017 proposes to allow employers to distribute T4

(Statement of Remuneration Paid) information slips electronically to current active employees without having to obtain express consent from those employees in advance.

- Budget 2017 proposes that the public transit tax credit be eliminated, effective as of July 1, 2017. Specifically, the cost of public transit passes and electronic fare cards attributable to public transit use that occurs after June 2017 will no longer be eligible for the credit
- Commercial ride-sharing services from Web applications will be subject to the same taxes as taxis. All taxi operators are required to register for GST/HST and charge tax on their fares.

Analysis

- A Briefing document from COCA Associate member Sherrard Kuzz LLP has been circulated to the COCA membership.
- Daily Commercial News: https://goo.gl/iVOvE4
- Grant Thornton: https://goo.gl/njP5li
- Globe and Mail Budget Highlights: https://goo.gl/zXYF3N
- The Financial Post: https://goo.gl/ClKotT
- KPMG Budget Highlights: https://goo.gl/DQZu1k