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Budget

... in brief

November 18, 1974



Finance

Finances



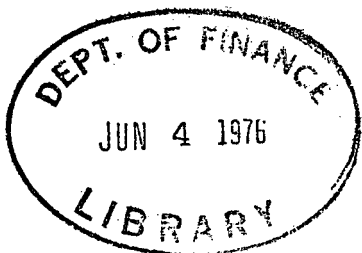
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From the budget speech
November 18, 1974

“ We in this country are confronted by two major economic challenges — dealing with persistent, deep-seated inflation and at the same time maintaining a good level of production and employment. This will require us to steer a narrow course if we are to avoid more inflation on the one hand and the risk of a recession on the other. And in doing so, we must also do everything we reasonably can to protect Canadians who are least able to protect themselves from the ravages of both. That is what this budget is all about.”

John N. Turner
Minister of Finance



THE POLICY THRUST OF THIS BUDGET

Government economic policy must steer a prudent course in order to deal simultaneously with inflation and slower growth. In these circumstances:

Action should be taken to sustain demand by means of tax reductions rather than through the expenditure route. Tax cuts will reduce prices and costs directly or indirectly and increase the take-home pay of Canadians.

Growth in government expenditures should be restrained.

Selective help should be given to weak points in the economy.

Measures are required to sustain private capital investment since this sector is expected to be a main driving force in the economy in the period ahead. This will also contribute to improving the supply position so central to dealing with inflation.

Continued attention should be given to helping those in our society most vulnerable to inflation.

With the problem now centered on the push of costs, and structural changes in the price of food and energy rather than excessive demand, we require a new co-operative effort to achieve a national consensus to slow down increases in prices and incomes.

THE ECONOMIC SETTING

The Canadian economy has firm underpinnings in consumer buying and capital investment. The real incomes of Canadians continue to improve and employment continues to rise. Unemployment now is lower than a year ago.

However, signs of slowing down have appeared in the economy since early summer. Weakening economies abroad have affected our exports, housing construction has declined and work stoppages have caused a serious loss of production. Disappointing harvests in many countries, high commodity prices, and cost escalation at home, have combined to postpone expected relief from high rates of inflation.

The principal threat to the growth of our production and employment comes to us from abroad. Massive balance of payments deficits and surpluses resulting from a fourfold increase of world oil prices are imposing serious strains on the entire world system.

For many developing countries the shortages and high cost of food and fertilizers and the drastically increased prices of energy have raised the spectre of disaster.

Solutions to these problems depend heavily on international co-operation; by action, good counsel and leadership where opportunities are given us, Canada will do what it can to help resolve them.

With the benefit of measures in this budget, and with no unforeseen deterioration of the economic environment abroad or

unforeseen shocks at home, the Canadian economy is expected to grow at a rate of about 4 per cent in 1975.

It is projected that about a quarter of a million new jobs will be created in 1975, on top of some 870,000 jobs created in Canada in the past two years.

A determined effort will be required by all sectors of our society to get inflation down over the next few years. We are striving to get the rate below the two-digit level next year.

THE FISCAL POSITION OF THE GOVERNMENT

Total financial requirements excluding foreign exchange transactions will amount to \$1 billion in fiscal 1974-75, a 50-per-cent reduction from the May forecast, reflecting the impact of inflation on both revenues and expenditures.

To meet the risks of a weaker economy and world uncertainties, the fiscal thrust will build up steadily to a \$3 billion net cash requirement in fiscal 1975-76.

Total government outlays — that is, budgetary expenditures, payments under OAS and GIS, and loans, investments and advances — will increase in 1975-76 by 15 per cent compared with 25 per cent in 1974-75.

Current estimates imply a National Accounts surplus of \$250 million in 1974-75 and a deficit of \$1.5 billion in 1975-76. There is therefore a turnaround of \$1.75 billion and this should contribute impressively to maintaining a healthy economy.

BUDGET MEASURES

The measures of the May 6 budget are substantially reintroduced, but they are also supplemented and extended because of the changes since then in economic conditions at home and abroad. Resource taxation proposals are moderated.

To Amend Resource Taxation Proposals

"... I believe that this modified series of measures represents fair and reasonable federal taxation of these natural resource industries. . . . we want to see their financial position sufficiently strong to enable them to develop and to deliver the supplies needed in the years ahead."

As a federal contribution to resolution of resource-taxation issues, May 6 proposals will be modified to:

Increase the special abatement for petroleum profits after 1974 so that the federal rate of tax will be 30 per cent in 1974, 28 per cent in 1975 and 25 per cent in 1976 and subsequent years.

Restore the 100-per-cent write-off for exploration expenditures, in place of the proposed rate of 30 per cent.

The budget reintroduces the other May 6 proposals with respect to resources, including:

A basic 50-per-cent national tax rate to which will be applied abatements and incentives.

A 15-point resource-profit abatement for mineral production profits, bringing total abatements to 25 points.

Earned depletion, at a rate of 25 per cent of production profits rather than 33 1/3 per cent.

Non-deductibility of royalties, taxes and like payments to governments in computing income tax.

Reduction of the write-off for development expenditures to 30 per cent.

To Adjust the Equalization System

"I believe in the principle of equalization and I want to preserve the viability and credibility of that system."

Changes are proposed in this program of federal payments to the provinces in order to protect the basic formula, to ensure that provincial needs are met, and to ensure that the Canadian taxpayer is not overburdened by potential extra costs of \$2 billion annually.

- the program would continue to include all provincial oil and gas revenues related to the situation before the world oil crisis;
- the formula would be changed to equalize one-third of the additional oil and gas revenues related to the tax and price changes which followed the crisis.

To Stimulate Housing Construction

Major new steps are proposed in the housing field, in addition to the May budget measures and previously announced initiatives.

To summarize these housing initiatives:

The sales tax on \$7 billion of annual sales of building and construction materials is reduced to 5 per cent, effective immediately.

- The reduction on building materials covers, for example, bricks and similar materials, lumber, tiles, wallboards, doors, windows, glass for buildings, electrical wiring, heating and plumbing equipment, and the materials a homeowner would normally require for carpentry, repair or finishing.
- It is estimated that at current rates about \$1,100 in sales tax is paid on the building materials that go into an average home. The reduction of the tax therefore represents an average saving of about \$650 per house.

Capital cost allowance on new, multiple-unit residential buildings for rent, begun after budget day and before Dec. 31, 1975, may be claimed against any source of income by building owners.

To bring more land onto the market more quickly, carrying costs on land awaiting development will not be chargeable against other income.

The sales tax on construction equipment and on materials used in municipal water distribution systems will be eliminated, effective immediately.

To encourage savings for home purchase, a Registered Home Ownership Savings Plan is introduced permitting deductible contributions of \$1,000 a year to a lifetime maximum of \$10,000; payment out of a plan is free of tax if applied toward the purchase of a home and to furnishings such as essential major appliances and furniture.

The government has already announced that \$500 grants will be made to those purchasing new moderately-priced homes during the next year.

These measures supplement existing CMHC programs, which will continue to be adapted flexibly to housing conditions.

"I am confident that the combination of measures which I have announced tonight and those originally proposed last May will provide the impetus necessary to increase the housing stock in this country at a healthy pace and fulfill our commitment to place decent accommodation within the reach of every Canadian."

Sustaining Capital Investment

To relieve cost pressures on the vital transportation industry and to reinforce the manufacturing and processing incentives which have boosted investment, productivity and supply:

The 12-per-cent federal sales tax on \$1 billion of annual sales of transportation equipment, including railway locomotives and railway cars, large trucks and buses and commercial aircraft, is removed immediately.

The two-year write-off of new machinery and equipment for manufacturing and processing, due to expire at the end of 1974, is extended without a termination date.

Substantial Reductions in Personal Income Tax

“. . . to sustain the growth of purchasing power . . . to protect Canadians as much as possible from what is happening to their own family budgets because of inflation.”

The tax cut proposed by the May budget for 1974 is reintroduced and a further major cut is proposed for 1975.

For 1974, the 5-per-cent tax reduction introduced in 1973 is continued and the minimum cut is increased to \$150 from \$100.

For 1975:

- the basic reduction is increased to 8 per cent from 5 per cent;
- the minimum cut is increased to \$200;
- the maximum cut is increased to \$750 from \$500.

All taxpayers benefit from these changes. Federal taxes will be reduced by a total of \$615 million in 1975-76, of which two-thirds will be enjoyed by people earning less than \$12,000. Take-home pay next January will reflect not only this cut and the 1974 cut, but also a statutory reduction of tax on the first \$500 of taxable income, and the indexing of exemptions and tax brackets. The change in annual take-home pay from 1974 to 1975:

Single Taxpayer

Wage or Salary Income	Increase in Take-Home Pay
\$ 6,000	\$183
8,000	196
10,000	211
12,000	226
15,000	288
20,000	435
25,000	488
30,000	651

Married Taxpayers Two Children under 16

Wage or Salary Income	Increase in Take-Home Pay
\$ 6,000	\$214
8,000	229
10,000	250
12,000	271
15,000	291
20,000	459
25,000	540
30,000	622

Changes provided for in these tables are the reduction in the rate on the first \$500, indexing, and the increase in the federal tax cut from that provided in the 1974 source deduction tables.

Unemployment Insurance and Canada Pension Plan contributions are calculated at present rates. Take-home pay is after federal and provincial taxes but before any contributions to fringe benefit arrangements. Provincial tax used is the lowest provincial rate.

To Protect Savings

Further steps to help Canadians most vulnerable to inflation and to protect savings from erosion.

The May 6 proposal exempting the first \$1,000 of interest income from tax is reintroduced for 1974 and expanded in 1975 to include Canadian dividend income.

- Eligible interest is basically income from bank and trust company deposits, mortgages, Canada Savings Bonds and other bonds.
- Eligible dividends are generally taxable dividends from resident Canadian corporations other than corporations controlled by the taxpayer.

A new exemption will extend, effective January 1, 1975, to private pensions. The first \$1,000 of pension income, other than universal pensions paid by government, will be exempt from tax.

The existing age exemption to persons 65 years and older will be made transferable between spouses to the extent one spouse is unable to make use of it. Measure takes effect in 1975, when the exemption will be \$1,174.

Recipients of cash bonuses on Canada Savings Bonds will be permitted to treat the bonuses as interest or as capital gains.

OTHER MEASURES OF THE MAY 6 BUDGET

This budget reintroduces the remaining proposals of the May 6 budget, some in amended form. The main proposals:

A 10-per-cent surtax on corporate profits earned from May 1, 1974 to April 30, 1975.

Advancement of the final payment of a corporation's tax to the second month, rather than the third month, after the corporation's fiscal period.

Reduction of tax-free reserves of large financial institutions from 1 1/2 per cent to 1 per cent on eligible assets over \$2 billion, effective for 1974.

Special excise taxes on high energy consuming vehicles effective immediately at higher rates than provided in May:

- for motor cars, the rate over a base weight of 4,500 pounds is \$20 for the first 100 pounds, \$25 for the next 100 pounds and \$30 for each subsequent 100 pounds.
- for all but small motor-driven pleasure craft and for all privately-owned aircraft, the rate is 10 per cent.
- for heavy motorcycles, the rate is 5 per cent.

Legislative confirmation of the elimination of the sales tax on clothing and footwear; the tax was removed last July under the Financial Administration Act.

Immediate increases in excise levies on liquor equivalent to 24 cents per bottle, on wine 6.5 cents per bottle, on cigarettes 2 cents per pack of 20, on tobacco 15 cents per one-pound tin and on cigars less than 3 per cent of the selling price.

Other sales tax reductions for municipal transit vehicles and equipment, bicycles, purchases by day-care centres and clinics, certain aids for the handicapped.

Enriched incentives for incorporated small business, increasing the annual limit on profits taxed at the 25-per-cent special rate to \$100,000 from \$50,000 and the cumulative limit to \$500,000 from \$400,000.

Taxpayer allowed to contribute to a spouse's Registered Retirement Savings Plan as well as his own, up to his contribution limit.

New rules for corporate reorganizations, foreign income, partnerships and other areas as part of the continuing process of tax reform.

To Reduce Tariffs

Temporary tariff deductions on \$1 billion annually of consumer goods will be extended for two additional years to June 30, 1976.

The exemptions for tourists returning to Canada are increased substantially. The main changes are a doubling to \$50 from \$25 of the quarterly exemption available after a 48-hour absence, and an increase to \$150 from \$100 in the annual exemption, with the minimum absence shortened to 7 days from 12 days.

**For further information on the budget:
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