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April 10, 1978

Department of Finance Canada

Ministère des Finances Canada

From the Budget speech
April 10, 1978

"The purpose of my budget tonight is to take positive and responsible action to deal with the problems which face the Canadian economy in a very troubled world . . . . Many of the suggestions made to me for this budget would be popular politically but unwise economically. I will not follow such suggestions . . . .

"There is only one way to get out of our difficulties and that is for all Canadians to apply themselves diligently to build a better future for our children and our grandchildren. It is through hard work, imagination, determination and discipline that we will succeed."

Jean Chrétien
Minister of Finance

Economic Highlights

- Canada's economy has been recovering steadily, though slowly, since the world-wide inflationary shock of the early 1970s brought on global recession.

- It is clear now how the economic boom of the 1960s and early '70s tempted all of us — workers, management and governments — to live beyond our means and demand more than the economy could sustain. By 1974-75 this pushed inflation to critical levels, pricing us out of world markets and bringing on the surge of unemployment that still besets us.

- Strong remedial action has been under way since the autumn of 1975 when the anti-inflation program was launched.

- Growth of spending by governments at all levels has been brought down. Wage and other income increases have returned to more realistic levels. Underlying inflation is declining.

- A lower exchange rate for the dollar, although pushing up import prices, is restoring our competitive position in vital world markets. The trade deficit of $500 million in 1975 has been turned around to a $3 billion surplus in 1977.

- Total employment has risen by 3 per cent over the past year, reaching an all-time high. However, an even more rapid growth in the labour force has resulted in a higher unemployment rate.

- More needs to be done to speed recovery, much of it by co-operative federal and provincial action. The impending phaseout of controls must not be followed by the spiral of prices and incomes that brought on current problems.

- Adequate growth without inflation will require important changes in the structure, policy framework and institutional relationships of the country as discussed in February at the federal-provincial Conference of First Ministers on medium-term economic strategy.

Industrial Growth Incentives

Tax incentives are being enriched in three key areas, implementing the industrial strategy discussed at the federal-provincial Conference.

These measures will stimulate industrial research, the development of energy supplies and the modernization of the railway system. And they will have both an immediate and a long term impact on investment, productivity and employment.

R&D

- An adequate level of research and development is essential to achieve gains in productivity and strengthen Canada's position in an increasingly competitive world.

- Firms are already allowed an immediate tax write-off and an investment tax credit for R&D expenditures. To these incentives will be added a new provision for the deduction from income of 50 per cent of the costs of increased R&D activities. This will raise the total immediate write-off to 150 per cent of actual expenditure. The after-tax cost of R&D increases will now be as little as 20 cents on the dollar.

Energy

- National energy policy continues to have high priority in government planning, particularly in increasing our self-reliance in oil and gas supplies and reducing dependence on imports.

- Enhanced recovery systems can give us great increases in production from existing oil deposits. To encourage this technological development, investment in these systems will now be allowed to earn depletion allowances at the rate of $1 for each $2 spent, instead of $1 for each $3.

- The annual limit to which earned depletion can be used to reduce tax liability is raised for non-conventional oil projects including new bituminous sands mining projects. Limit will be 50 per cent of all of a company's profit, rather than the existing 25 per cent of profit from mineral resource work.

- The tax position of oil upgrading plants is also being clarified by a ruling that they qualify for the treatment accorded to manufacturing firms.

Railways

- Major investments are needed in the railway transportation system to improve efficiency in all regions and ensure that our commodities get to markets economically.

- More modern equipment is needed in many areas of rail operation—maintenance of track, signalling, motive power and rolling stock.

- As an incentive to these investments, increased capital cost allowances are being provided for all depreciable equipment purchased by railways between now and 1983.

- The new investment brought about by this measure will lead to higher employment in plants supplying locomotives, rail-cars and equipment.

Tariff Policy

The Budget speech:
"The multilateral negotiations . . . . have longer-range potential for the productive sectors of our economy. We are to seek reductions in both tariff and non-tariff barriers to give us better access for our exports, especially highly-processed resources and manufactured goods. We will also be prepared to reduce Canadian tariffs but only in return for concessions of real value."

- Tariff cuts introduced in 1973 on a wide range of consumer goods and due to expire June 30, 1978 are being kept in effect for another year with minor exceptions. This will avoid consumer price increases on these goods that would otherwise have taken place this year.

- Other minor tariff changes are also being introduced.

Social Measures

Important social measures are introduced in the budget:

- Retirement income options are being expanded for Registered Retirement Savings Plan owners.

- Existing tax-free transfer provisions for family farms are widened to include incorporated family farms.

- Board and lodging benefits become tax-free for single persons employed at remote work sites, a provision formerly limited to those with married or equivalent status.

- Income Tax Act revisions will facilitate the introduction of new provincial family reform laws.

Retirement Income Savings

- Almost two million Canadians are owners of Registered Retirement Savings Plans, intended to provide for retirement income and consequently accorded generous tax treatment on annual contributions.

- The law now requires that an RRSP be wound up prior to age 71 and the proceeds used either to buy a life annuity or taken into income as a taxable lump sum.

- There have been many complaints about these limitations. As a result, the government is introducing two additional options.

- An RRSP holder will now be able to purchase a fixed-term annuity to age 90 or use an entirely new investment vehicle to be called the Registered Retirement Income Fund. This RRIF would also provide income to age 90.

- The new RRIF option would work this way: A holder buying it at age 70 would be guaranteed 20 years of benefits and be required to withdraw a specific fraction of the fund each year. In the first year he would take out 1/20th, the next year 1/19th, then 1/18th and so on until the final year drawing would exhaust the fund.

- The new options will be available after the tax laws are passed. But a special provision will be made to permit RRSP owners who reach age 71 after the April 10, 1978 budget to take advantage of the new options.

Payments Under a Registered Retirement Income Fund for Each $1,000 Investment by a Taxpayer at Age 70

Taxpayer's age on Jan. 1	Fraction of plan assets to be paid	8% Interest	
		Balance at start of year	Payments during the year
70	1/20	$1,000.00	$50.00
71	1/19	1,026.00	54.00
72	1/18	1,049.76	58.32
73	1/17	1,070.76	62.99
74	1/16	1,088.39	68.02
75	1/15	1,102.00	73.47
76	1/14	1,110.81	79.34
77	1/13	1,113.99	85.69
78	1/12	1,110.56	92.55
79	1/11	1,099.45	99.95
80	1/10	1,079.46	107.95
81	1/9	1,049.24	116.58
82	1/8	1,007.27	125.91
83	1/7	951.87	135.98
84	1/6	881.16	146.86
85	1/5	793.04	158.61
86	1/4	685.19	171.30
87	1/3	555.00	185.00
88	1/2	399.60	199.80
89	1	215.79	215.79

Note: It is assumed that the required withdrawals from the Fund are made at the beginning of the year, that simple interest is credited at year end, and that no change occurs in the market value of the investments.

Support for Consumers

- The Budget speech:

". . . . we are going through a difficult period of adjustment . . . . But the recovery is proceeding. Employment is rising . . . . The question now is whether the gradual recovery that has been established should be given an added push from policy. I have decided that it should."

Retail Sales Tax Cuts

- The policy thrust of the budget is to quicken the pace of recovery and provide fresh stimulus for industrial growth.

- One of its main measures will spur consumer spending, a crucial element in a plan for faster recovery.

- The best method of achieving this is by cutting taxes — and thus prices — at the buying counter.

- The government is therefore offering the provinces tax-transfer compensation to bring about a temporary reduction in provincial retail sales tax rates.

- For the four Atlantic Provinces, the government is offering to pay the full cost of a three-point cut in retail sales tax rates lasting six months.

Proposed Retail Sales Tax Cuts

	Present rate	With 6-month cut	With 9-month cut	Saving
	%	%	%	($ m)
Nfld.	11	8		24
P.E.I.	8	5		5
N.S.	8	5		28
N.B.	8	5		27
Que.	8	5	or 6	340
Ont.	7	4	or 5	433
Man.	5	2	or 3	62
Sask.	5	2	or 3	53
B.C.	7	4	or 5	176
Total				1,147

Note: Total may not add due to rounding.
*9-month alternative is open to provinces sharing cost.

- Other provinces are offered compensation equal to the revenue loss that would result from a cut of two points in retail sales tax rates for six months. The provinces would be required to cut another point from the rates at their own expense but would have the option of applying their contribution after the initial six-month period.

- This does not affect Alberta or the Yukon and Northwest Territories which do not have retail sales taxes.

- Acceptance by all provinces would chop $1.1 billion from consumer prices during the period of the cut. About one-third would be paid for by the stronger provinces, about one-third by new federal financing and one-third by a reduction in federal spending in the 1978-79 fiscal year.

- Cuts in prices will not only benefit ordinary consumers, but will help businesses which are themselves consumers of a wide range of retail supply items.

- More buying brings on a demand for more goods which in turn leads to more jobs to provide them.

Fiscal Position and Outlook

- Total financial requirements of the government in the 1978-79 fiscal year will be about $11.5 billion, exclusive of foreign exchange transactions.
- Budgetary spending and non-budgetary loans are projected at $48,450 million, a reduction of $350 million from the main spending estimates for the year, tabled in February. The reduction reflects a decision by the government to reduce the ceiling on expenditures by that amount.
- Budgetary revenues after the measures are forecast at $36 billion. This is based on an increase in the gross national product of 11 per cent in current dollar terms. About 6 per cent of this would be due to price changes and close to 5 per cent to real growth.

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