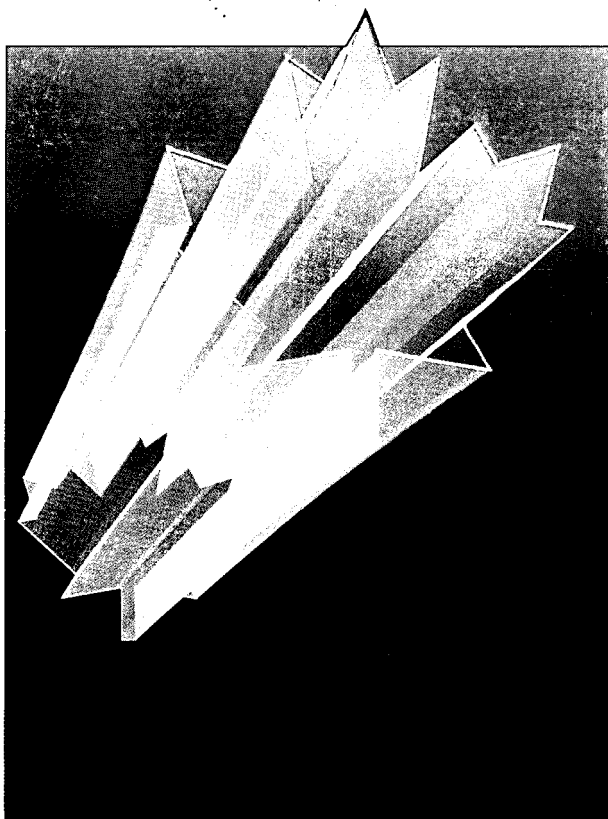


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conomic Renewal

# Budget in Brief

May 1985



Canada



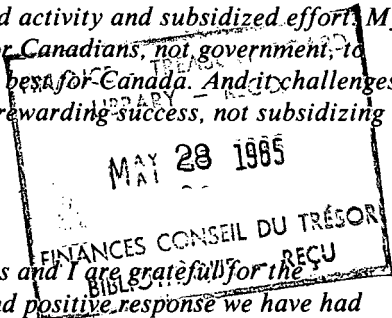
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## Budget in Brief

*"Today I am putting before this House and the Canadian people a budget of opportunity. A budget to encourage private initiative. A budget to build growth and lasting jobs for Canadians.*

*"This budget is designed to produce more efficient and more effective government. It contains the tough measures necessary to reduce the deficit.*

*"The actions I am proposing are realistic, effective and fair. They represent a fundamental break with the past. For too long, government decided what is best for Canadians. Government set priorities, directed activity and subsidized effort. My budget calls for Canadians, not government, to choose what is best for Canada. And it challenges Canadians by rewarding success, not subsidizing effort...*



*"My colleagues and I are grateful for the enthusiastic and positive response we have had from Canadians across the country. I have personally benefited from the most extensive round of pre-budget consultations ever held. These have had an important influence on this budget.*

*"Canadians recognize that, in this uncertain world, we must work together with patience and determination to secure economic renewal..."*

*"...we have consulted, we have listened and we have acted. Today, it is time to take further actions to secure our future."*

A handwritten signature in black ink, reading "Michael Wilson". The signature is written in a cursive style with a large, sweeping "M" and a long, horizontal tail on the "n".

The Honourable Michael H. Wilson  
Minister of Finance

## **Securing Economic Renewal**

*“The measures ... will encourage private initiative throughout our economy and provide new opportunities for Canadians to innovate, create and build. They will spur economic growth and increase employment...”*

*“A healthy and vibrant private sector must be supported by a government that is lean, efficient and effective. I will be proposing measures to streamline the operations of government, restrain its growth, rationalize a number of programs, increase fairness in the tax system and implement pension reform. I will also be proposing fundamental changes to the budget process.”*

*“The actions I am proposing ... are designed to deal with the two major problems facing Canada today: high unemployment and our spiralling national debt. High deficits constrain our ability to promote growth and create jobs. High unemployment in turn contributes to even higher deficits. This budget addresses the vicious circle of unemployment and debt with a range of measures carefully balanced to support economic renewal now and into the future.”*

## Encouraging Private Initiative

*"Our priority goal is jobs for Canadians.*

*"Maintaining the jobs we have and creating the jobs we seek requires a strong and healthy business sector. In particular we need to recognize that small and medium-sized businesses across the country are the most dynamic forces for growth and employment."*

### Capital Gains Tax Exemption

To encourage more Canadians to invest in small and large businesses, the budget proposes a **lifetime capital gains exemption of \$500,000** for every Canadian. All capital property will qualify. The exemption limit will be phased in over six years beginning this year with a \$20,000 exemption for total capital gains.

The full exemption will be available immediately for capital gains realized on the sale of **farm property**. This measure will provide effective assistance to this vital sector of the economy.

This measure will spur new job creation and help Canadian companies return to a healthy financial position. It will assist smaller businesses in raising capital.

## **Other Measures for Growth and Jobs**

In addition, there are measures to encourage greater **investment in smaller business**. Provisions will be made to allow pension funds and RRSPs to invest in smaller Canadian corporations. These measures will encourage the financing of the small business sector to enable it to expand and to create more jobs. The budget also proposes the introduction of a tax credit to individuals who invest in the Fonds de solidarité du Québec or in any similar labour-sponsored venture capital fund that receives provincial tax assistance.

To promote investment in **research and development** and to ensure that Canada keeps pace with technological change, the budget proposes to assist small companies by refunding all of the tax credit which they earn on their first \$2 million of qualifying R&D each year. This will be of most use to start-up companies. In addition, changes will also be made to the definition of qualifying R&D expenditures. These changes respond directly to the needs and requests of the R&D community.

## **Labour Market Initiatives**

The government has undertaken a fundamental reform of its policies for **training and direct employment**. The new approach is based on greater private sector and local participation. This approach has received support from provincial governments, the private sector and community groups across the country. This year, \$900 million is allocated to these programs. The budget announces that an additional \$900 million will be allocated to these programs in 1986-87.

To improve and simplify the unemployment insurance program, the budget announces a major review of the UI program. The government's objective is to make the system fairer and ensure that it promotes flexible adjustment in the labour market. Pending the completion of this review by the end of March 1986, the budget announces that the government intends to maintain the current entrance requirements and to prevent any increase in unemployment insurance premium rates for 1986. Holding the rates to their current level will avoid imposing a heavy tax on lower-income employees and labour-intensive businesses, particularly in the small business sector.

## **Corporate Income Tax System**

Tabled with this budget is a discussion paper aimed at making the corporate income tax system fairer and more effective in supporting economic growth.

## **Improving Government Effectiveness**

*"Canadians have been telling us for years that there is too much waste, too much inefficiency and too much overlap of programs in Ottawa. They know that a healthy and vibrant private sector must be supported by a government that is lean, efficient and effective."*

## **Better Government Management**

The Ministerial Task Force on Program Review which is chaired by the Deputy Prime Minister, in co-operation with business and labour leaders, is continuing its study of all federal programs and services on behalf of the government. The purpose of the review is to eliminate unnecessary activities and duplication of programs and to improve service to the public. The budget presents the first report of the Task Force. Many of the recommendations of the report are included in the budget measures.

The budget also announces the government's intention to sell **Crown corporations** with a commercial value but no ongoing public policy purpose. The government has announced an agreement in principle to sell the Northern Transportation Company Limited. The sale is expected to be completed by the end of June. In the near future, the government expects to sell Teleglobe Canada, Canadian Arsenals Limited and its interest in the Canada Development Corporation. Crown corporations with no commercial value and no effective public policy purpose will be dissolved; others, where appropriate, will be absorbed within existing departments. As a first step, up to 13 corporations in these categories have been identified.

The government intends to reduce the size of the public service by 15,000 in the next six years, beginning next year. Operating and capital costs will also be restrained.



## **More Effective Government Programs**

The government has been examining its programs to cut waste, remove obstacles to growth, improve effectiveness and make better use of limited resources. The budget announces program changes to meet these objectives.

- **Transportation** subsidies will be reduced and **VIA Rail's** operations will be rationalized.
- **Industrial and agricultural subsidies** and expenditures on nuclear power systems research will be reduced.
- The **heavy water plants in Cape Breton** will be closed. They cost the taxpayers of the country more than \$100 million per year to produce a product for which there is no demand. Workers at these plants will be provided with generous assistance in seeking alternative employment. New measures are also proposed to attract viable and productive industrial development to Cape Breton.

## **More Effective Social and Cultural Programs**

The budget adjusts social programs so that the benefits are targetted to those most in need. The government is taking action to ensure that Canada's social benefit programs are more progressive.

Benefits provided to families with children are among the most important direct social benefits provided by the government. The budget announces that the **child tax credit**, which benefits lower-income families, will be significantly

increased. At the same time, the **child tax exemption**, which is of greater benefit to upper-income families, will be reduced. In addition, the family income level at which the child tax credit begins to be phased out will be lowered. These changes will ensure that Canadian families that have the greatest need receive the greatest benefit.

The budget also proposes the implementation of a major **reform to Canada's private pension system**. The reforms will be of particular benefit to women.

Changes will be made to the federal *Pension Benefits Standards Act* to:

- give more workers the opportunity to join pension plans and to participate in the management of pension funds;
- provide workers with rights to their pension benefits after two years of plan membership;
- protect workers who change jobs against the loss of pension benefits;
- provide equal pensions for women and men retiring under identical circumstances;
- provide survivor benefits for spouses; and,
- provide for the splitting of pensions between spouses upon marriage breakdown.

In addition, the system of **tax assistance for contributions to private pension plans** will be reformed. These measures will restore equity between individuals who save for retirement primarily through RRSPs and those who are members of pension plans.

These new measures will strengthen self-reliance and significantly improve opportunities to build decent retirement incomes for the growing number of Canadians in small business, farming and the professions.

The budget also announces the government's intention to broaden the definition of **disability** for income tax purposes. 120,000 individuals are expected to benefit from this change.

The budget announces the establishment of a Task Force to propose initiatives to encourage the private sector to increase its support of the arts.

It also announces other changes to assist Canadian visual **artists and charities**.

## **Improving Tax Fairness**

The budget includes a number of actions that will ensure greater fairness in the tax system. These include:

- a **minimum income tax** imposed on high-income Canadians, effective for the 1986 taxation year;
- amendments which prevent taxpayers from avoiding tax by splitting income through the use of loans to spouses and children; and,
- **elimination of tax shelters** involving property such as yachts, recreational vehicles and hotels.

In addition, measures are proposed to achieve **fairer tax administration** in a way that is consistent with the Canadian Charter of Rights and Freedoms.

## **Controlling the National Debt**

*"The actions I have taken will revitalize the private sector and make the federal government a more effective partner in pursuing economic renewal. For this partnership to truly flourish, however, we must restore order to our financial position..."*

*"When I began to plan the budget for this year, I was looking at estimated deficits that would have continued to rise, even with continued growth in the economy and even after the actions I took in November. This was quite clearly unacceptable."*

*"There is a built-in structural imbalance that contributes to an ever-widening gap between revenues and expenditures. With each passing year, government policies that tend to widen this gap have become less and less sustainable."*

*"Most Canadians agree that we must restore fiscal order. But they rightly feel that this process must start by eliminating waste and inefficiency in government, and that any further actions that are necessary must be balanced and fair."*

In response to the concerns expressed by Canadians about the government's own fiscal situation, this budget announces immediate action to reduce the deficit and to put in place measures that will grow over time to ensure an increasing and significant reduction of the deficit in the years ahead.

### **Expenditure Reductions**

In addition to significant savings in government management and programs, the government has

acted to address transfer payments, the largest category of expenditures.

The government has decided to limit the indexation of family allowances and old age security payments to annual increases in the consumer price index (CPI) which exceed 3 per cent. The **guaranteed income supplement and payments to veterans** will continue to be fully indexed to increases in the CPI. This decision ensures protection for Canadians should inflation ever return to the levels of the late 1970s and early 1980s.

To spread the burden fairly, adjustments will also be made in transfers to provinces in coming years.

## **Revenue Increases**

The restructuring of the government's programs and activities is substantial. But it is not sufficient to make a meaningful start on restoring a healthy fiscal balance. The budget, therefore, introduces tax increases. **The income tax changes are the following:**

- beginning in 1986, the annual indexation factor applied to personal exemptions and tax brackets will reflect only those increases in the consumer price index above 3 per cent;
- the \$50 federal personal tax reduction will be eliminated starting in 1986;
- a temporary deficit reduction surtax will be imposed on higher-income individuals and large corporations;

- a two-year tax will be imposed on the capital of large chartered banks and trust companies, effective in 1986; and,
- effective May 23, 1985, contributions to a registered home ownership savings plan (RHOSP) will no longer qualify for preferential tax treatment. Individuals with RHOSPs will be able to withdraw the accumulated funds for any purpose with no tax liability.

**Other revenue-raising measures include:**

- the removal of the federal sales tax exemption on certain products;
- a 1-per-cent increase in the federal sales tax beginning in 1986;
- a 25-cent increase in the excise levy on a large package of cigarettes;
- a 2-per-cent increase in the federal excise levy on alcoholic beverages; and,
- a 2-cent-per-litre increase in the excise tax on gasoline and other transportation fuels, effective September 3, 1985.

**Balance and Impacts**

The measures in the budget have been carefully balanced so that costs and benefits will be fairly shared. In acting to reduce the deficit, the government's first priority was better, more efficient management; then, a rationalization of assets and programs; and, as a last resort, tax increases. Over all, the government has acted to ensure that an appropriate balance between expenditure and revenue measures is maintained.

As a result of this program of expenditure reductions and revenue increases, the estimated deficit this year will be reduced by \$4.4 billion, to a level of \$33.8 billion. Next year, the forecast deficit will be reduced by \$8.3 billion to \$32.7 billion. The measures announced by the government in the November 1984 economic statement and in this budget will ensure that by the end of the decade the annual deficit is \$20 billion lower than it would otherwise have been. About 80 per cent of that reduction will be on the expenditure side. **These measures will also cut the projected debt by \$75 billion over the same period.**

## Conclusion

*"If I have a preoccupation with any one economic target, it is with the good, satisfying and durable jobs that Canadians, and particularly young Canadians, want and need. This budget is about jobs..."*

*"This budget is realistic. It is fair. It tackles our problems as they exist..."*

*"We promised to act, but first we promised to consult fully and openly with Canadians in reaching the decisions that I have presented to you today."*

*"We received good advice from Canadians on a great many issues and that advice is reflected in this budget."*

*"We have acted to control and reduce deficits in a balanced and careful way ... But we have acted with firmness and determination because without control of our accumulating debt, our economy would be unable to produce the satisfying jobs we need."*

*"We have carefully balanced the measures in this budget so that costs and benefits will be shared fairly..."*

*"The actions in this budget reflect our faith in people, in the ingenuity and the drive of individual Canadians to seize opportunities and to invest in their own future..."*

*"People working together provide the enduring strength of this nation. This budget builds on that strength."*



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