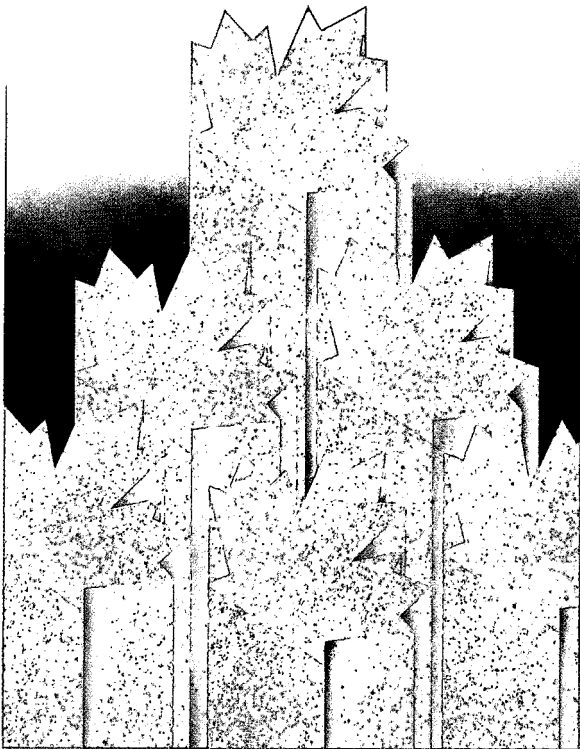


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Budget in Brief

February 18, 1987



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Budget in Brief

From the Budget Speech

February 18, 1987

The Honourable Michael H. Wilson

“If I had to choose just one message for Canadians, it would be this: Our economic renewal program is working. It is delivering more growth, more jobs and more opportunities now. It is building new confidence at home. By changing our image abroad, it is helping to attract the investment that Canada needs.”

“The benefits of our strong economic performance have not been evenly shared across the country. Some regions are hurting. We have helped provide support over the past year and we are working with provincial governments and industry to find ways of developing a sound base for improved, sustained growth in all regions.”

“Better economic performance is the key to providing more help for disadvantaged

Canadians wherever they live. As a result of this better performance, the government has been able to direct more resources in a variety of ways to individuals most in need of assistance. We have improved social benefits. We will continue to work to increase assistance to those in need.

“We intend to ensure that our program of economic renewal works for all Canadians. It is the key to future prosperity.”

A handwritten signature in black ink, reading "Michael Wilson". The signature is written in a cursive style with a large initial "M" and a long, sweeping underline.

The Honourable Michael H. Wilson
Minister of Finance

Progress on our Agenda

“Canadians have good reason to be encouraged by the nation’s economic progress during the past year. Despite some difficult problems, our economy performed well in a challenging world environment.”

“Last year, our rates of economic growth and job creation exceeded those of all the major industrial countries.”

“Steadily and consistently, we have acted to make government more efficient; to restore prudent financial management; and to provide an economic environment that encourages private initiative and risk-taking and that rewards success.”

“In this budget I am presenting our economic prospects and fiscal plan for 1987-88. The budget consolidates and extends the fiscal progress we have made.”

“We reduced the deficit to \$34.4 billion in our first full year in office. This year we will further reduce the deficit to \$32.0 billion. We will hold our program spending to \$89.4 billion, the target I set out in my budget one year ago.”

“I am also announcing today that, in our third year, we will get the deficit down to \$29.3 billion.”

“This progress has not come easily. It has required tough decisions and it has required firm, disciplined management. These actions have been taken as part of our comprehensive program to achieve our central objective of improving Canada’s international competitiveness. For it is improved competitiveness that will create sustained growth and permanent jobs.”

Our program also includes action:

- to deregulate key sectors of the economy;
- to support science and technology;
- to assist small business;
- to privatize Crown corporations that can perform better in the private sector;
- to modernize financial services regulation;
- to pursue trade policy initiatives to secure markets for Canada into the next century.

“I am tabling with this budget a report of the substantial progress that we have made in implementing many of the elements of our Agenda for Economic Renewal. I commend this report to the attention of Honourable Members and all Canadians. It sets out what

we have achieved together and the principles that will guide us as we continue to implement that agenda.”

The Economic Record

Since September 1984:

- the real growth of Canada's economy has averaged about 3 1/2 per cent per year, second only to Japan and much stronger than the United States;
- consumer confidence has risen to a very high level;
- the improving Canadian economy has created 675,000 new jobs;
- employment growth in Canada has been stronger than in any other major industrial country;
- short-term interest rates are at their lowest levels in nearly a decade;
- five-year mortgage rates have fallen by more than 3 percentage points, equivalent to a reduction in interest costs of \$1,360 a year on a \$50,000 mortgage;
- housing starts are at an eight-year high.

Continuing Fiscal Progress

“Continued progress in improving our economic outlook, next year and beyond, depends on keeping to a fiscally responsible course. . . . Dealing positively with deficits and the debt is, ultimately, about improving the well-being of Canadians. That is why we have made it clear from the beginning of our mandate that we are committed to fiscal responsibility.”

The government is acting to fulfill its commitment to four fundamental fiscal principles.

- **Reducing the growth of the national debt.** The growth rate of the public debt has been cut from more than 23 per cent on an annual basis to 11 per cent in 1987-88.
- **Achieving sizeable, year-over-year reductions in the deficit.** By the end of 1987-88, in just three years, the deficit will have been reduced by almost 24 per cent from \$38.3 billion to \$29.3 billion.
- **Ensuring substantial, year-over-year reductions in the government's financial requirements.** Financial requirements will have been cut by 28.5 per cent in three years from \$29.8 billion to \$21.3 billion.
- **Ensuring progress through expenditure restraint and disciplined management.** Spending on all government programs has

grown on average by only 2.8 per cent a year, well below the rate of inflation. About 63 per cent of the decline in the deficit relative to the size of the economy will have been achieved by reductions in spending.

Maintaining Fiscal Flexibility

“Last September, in recognition of the difficulties facing hard-hit regions and sectors of the economy, I set out a revised deficit target of \$32 billion for 1986-87.

“This decision to accept a slower decline in the deficit was taken consciously and positively to cushion the blow that lower world oil and grain prices have dealt to some parts of Canada. Even with this decision, the revised deficit target still represents a sizeable decline from the previous year, and is consistent with our fiscal principles.”

To keep on course and to maintain an acceptable rate of progress toward its medium-term goals, the government is proposing a combination of management initiatives and revenue increases.

Management Initiatives

The government is actively pursuing areas where further cash management improvements can be made. One of these is the regularity with which employers remit to the government deductions that they make for their employees on account of personal income taxes, and contributions to the Unemployment Insurance Fund and the Canada Pension Plan. These deductions are now remitted monthly. The government proposes to **accelerate the remittance of these source deductions** to twice monthly. This will not increase taxes paid by individuals. Smaller businesses, those with average monthly remittances of less than \$15,000, will be excluded from this requirement.

To help meet its fiscal objectives in the coming year, the government will **defer \$200 million from 1987-88 defence spending levels** and restore this amount in 1988-89. This action will not affect the rebuilding of defence capability that is now under way. The government will release this year a White Paper which will provide Canadians with its view of the appropriate direction for defence policy to the end of the century.

The government is committed to achieving the objective of 0.5 per cent of GNP for **official development assistance**. Through adjustments in

cash management and in international reporting practices, it will be able to meet this commitment while contributing to fiscal restraint. This will result in cash savings of \$150 million in 1987-88.

The **air transportation tax** recovers part of the cost of providing air transport facilities and services. To recover a greater proportion of these costs from those who benefit from the services and to help provide enhanced levels of security at airports, the government proposes to increase this tax by \$4 per ticket effective May 1, 1987 for tickets purchased in Canada, and August 1, 1987 for tickets purchased abroad. The existing \$50 ceiling on the tax will continue to apply.

Revenue Measures

The government is announcing a limited number of tax increases.

- The **excise tax on motor gasoline and diesel fuel** will be increased by **one cent per litre** effective February 19, 1987. The rebate to farm producers will be increased accordingly.
- The federal sales and excise tax burden on **leaded and unleaded gasoline** will be

equalized. This action will support the government's program to eliminate lead emissions from gasoline by the end of 1992.

- The excise tax on **cigarettes and other tobacco products** will be increased by 4 per cent, effective February 19, 1987.
- The **federal sales tax** is being extended to a limited range of snack foods, effective July 1, 1987. These snack foods compete with similar products that are currently taxed.
- The current rules affecting the **taxation of accrued interest on investments**, which are very complex, are being reviewed. As an interim step, eligibility for **prescribed annuities** is being expanded to permit individuals of all ages to purchase such annuities. A further change is proposed to provide relief for the 1987 tax year for holders of **pre-1982 compound interest bonds**, including over one million holders of Canada Savings Bonds.

Other Income and Sales Tax Changes

- Consultations will be undertaken with the securities industry before amendments are proposed to allow **investment dealers** to offer **self-administered RRSPs** directly to their clients.

- The **Indian Remission Order** will be extended for 1987. The government will consult further with Indian representatives and other interested parties on proposals being developed to rationalize the treatment of employment income of Indians on reserves.

Trade and Tariffs

- In response to the imposition in June of 1986 by the United States of a 35-per-cent tariff on Canadian exports of red cedar shakes and shingles, the government increased tariff rates on a number of goods imported principally from the U.S., and tightened export controls on cedar logs and bolts. Export controls have protected the competitive position of the Canadian industry. The tariff increases are no longer necessary and are being removed, effective February 19, 1987. This will reinstate duty-free entry for books, computer parts and Christmas trees. The export restrictions on cedar logs and bolts will remain in place as long as necessary.
- To help the Canadian steel industry, which is facing a world-wide excess in steel-making capacity, the government has decided to withdraw, effective February 19, 1987, the General Preferential Tariff on imports of most specialty and carbon steel mill products.

Tax Avoidance

To curb abusive tax-avoidance transactions, the government intends to propose improved general anti-avoidance rules as part of tax reform.

To address the possibility of substantial erosion of the sales tax base, the government is moving the point at which sales tax is applied on a number of specific commodities from the manufacturer's level to the wholesale level. These changes will also reduce the bias favouring imports under the current system.

Tax Reform

“Last October I set out the government’s guidelines for reforming the tax system. I am developing an integrated proposal for tax reform in all three areas of our tax system – personal, corporate and federal sales tax.”

“Comprehensive tax reform presents one of the most promising opportunities we have to strengthen our economy and improve the quality of our society.”

“The central objective of tax reform is to reduce tax rates. There can be no better

incentive for growth, investment, savings and job creation.”

“To get tax rates down, we must reduce tax preferences and broaden the tax base. . . . What tax reform would mean for taxpayers is that those who have been making extensive use of tax preferences will pay more tax. Those who have been making little use of preferences will pay less tax. **The large majority of individual taxpayers will pay less tax in total.**”

“I aim to achieve substantially lower **personal income tax** rates and significantly fewer tax brackets. I am also considering the conversion of personal exemptions and some deductions to tax credits.”

“In my last budget, I announced the government’s intention to propose further measures to reform our system of social transfers and related tax provisions. Converting exemptions into appropriate credits would represent a major step toward fulfilling this commitment.”

“I am also examining ways in which I can build on the existing refundable sales tax credit that I introduced in my last budget.”

“Our fundamental strategy in reviewing the **corporate income tax** is to ensure that profitable corporations pay their fair share. . . . Cutting back corporate tax preferences would balance

the reduction of corporate tax rates to levels competitive with those in other countries, while providing increased and more stable corporate tax revenues.”

“We will aim to broaden the **federal sales tax** base and lower the rates, and ensure equal treatment of imports and domestic goods.”

“Over all, our proposal for tax reform will make our tax system more fair, less complex and more understandable. It will reflect our commitment to economic progress and social justice.”

Conclusion

“This government has acted on initiatives of fundamental importance to the Canadian economy. . . . We will continue moving forward with our program for economic renewal in a carefully managed, consistent way.

“From the standpoint of new initiatives, this budget represents a breathing space prior to the presentation of major proposals for tax reform. But I have also made clear in this budget that while great progress has been made on the nation’s deficit problems, there can be no holiday from fiscal responsibility.

“The challenge is to maintain sound, steady management of both the fiscal and economic

situation. We are meeting that challenge. We will continue to do so.”

“The results tell the story. We are on the right track. Our program of economic renewal is working. And we have only begun to see the results that we as a nation can achieve if we stay the course. We must continue to build a stronger, more dynamic and more flexible economy that works for the benefit of all Canadians.”

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