

Budget in brief

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Partnership for Growth

"My budget today is dedicated to building a strong and growing economy – an economy that will generate lasting, meaningful jobs for all Canadians who want to work, an economy that will provide the economic opportunity and security all Canadians seek.

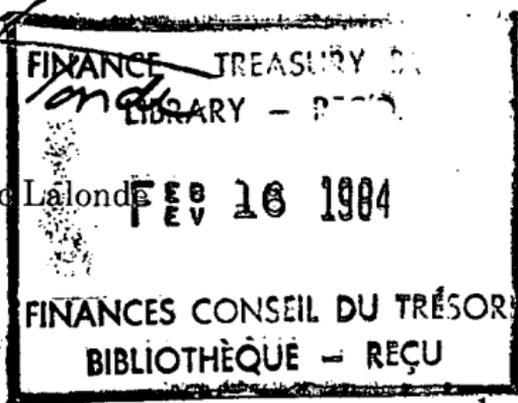
"My budget is aimed at creating jobs through partnership. The private sector must be the main creator of jobs. But the government can help – by providing assistance where desirable, by lightening the burden of administration where feasible and by leading directly where necessary.

"My objective as Minister of Finance has been and remains straightforward: to keep the economy growing, so that Canadians who want to work can find productive and meaningful jobs.

"In the coming fiscal year, the government's commitment to Special Recovery Capital Projects and to direct employment support will exceed \$3.5 billion. This is about \$525 million more than in the current fiscal year.

"Securing growth and jobs depends on our success in four basic areas: reducing and controlling inflation; increasing investment; reducing the government's deficit and increasing our competitiveness and productivity."

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The Honourable Marc Lalonde
Minister of Finance



Expansion of Youth Opportunity Fund

“Creating jobs for Canada’s youth is a priority. The strength and vitality of our nation’s future depends on our young people.”

Strong economic recovery has led to a substantial increase in the number of Canadians at work. Nevertheless, the government believes that direct action to assist Canada’s young people remains essential.

\$150 million will be added to the \$1 billion *Youth Opportunity Fund* announced in the Speech from the Throne. The Fund will assist young people, including students, to acquire new skills and find jobs in the private, voluntary and public sectors.

Continued Wage and Price Restraint

“Canadians can be proud of their collective achievement in bringing inflation down from almost 12 per cent in June 1982 to 4.5 per cent at the end of last year.”

The 6&5 Program contributed to this achievement. Canadians supported the federal government’s leadership in their own wage and price decisions.

The federal government is firmly committed to continued wage and price restraint.

- The existing policy of limiting increases in the prices that the federal government sets and regulates will be continued for another year. The guideline will be reduced from 5 per cent to 4 per cent for this period.

- Mandatory wage controls in the public sector will not be extended.
- Collective bargaining will be resumed. No catch-up will be allowed. The government will bargain according to four principles:
 - settlements should contribute to reducing inflation and be fiscally responsible
 - compensation should be comparable to the private sector, on the basis of total working conditions and benefits, not just wages
 - compensation should not exceed that in the private sector
 - settlements should encourage increased productivity and improved performance and recognize relative job responsibilities.
- Parliament will be asked to legislate wage settlements in specific cases, should this be necessary.
- The collective bargaining framework will be reviewed, in consultation with labour, to modernize it.

Partnership for Competitive-ness and Productivity

“To secure the jobs we need, we must become more efficient, more productive, and more aggressive in world trade.”

1. Employee Profit-Participation Plans

“The key to our success is productivity...‘putting it all together’, and putting it all together comes down to individual Canadians co-operating in the workplace to make a better product at lower cost.”

Co-operation between workers and managers is fundamental to economic growth. The budget proposes tax assistance for new ***Employee Profit-Participation Plans***.

The Plan will provide a tax credit of 10 per cent of profits shared: 60 per cent of the tax credit goes to the individual workers, 40 per cent to the employer. The Plan is meant to complement the collective bargaining process, not replace it.

Tax assistance to ***Employee Stock Option Plans*** will also be broadened to help companies provide employees with incentives to increase the productivity, the competitiveness and the growth of their corporation.

2. Aid-Trade Fund

"The developing countries offer many export opportunities for our private sector."

Public support can enhance the role our private sector plays in international development.

In order to meet the government's aid commitments and to help Canadian firms take advantage of opportunities in developing countries, the government will establish the ***Aid-Trade Fund***. By 1990, as much as \$1.3 billion could be allocated to the fund. It will provide financing for projects in developing countries for which Canadian firms are competitive and for which development assistance financing is required.

The government will develop guidelines for the use of the fund in consultation with the business community.

3. Simplifying Taxes for Small Business

“An important part of the government’s responsibility to the private sector is to keep the rules of the game simple and clear... I have devoted considerable effort to simplifying the tax system.”

The budget proposes a major simplification of the income tax system for small businesses. The most important change proposed is the elimination of the *cumulative deduction account*. The original purpose of the cumulative deduction account was to limit the low tax rate for small business to companies having less than \$1 million of cumulative business income. However, it meant that all small business corporations had to keep track of this account regardless of their size. The cumulative deduction account is a prime source of legislative and administrative headaches. Its elimination will reduce paperwork and record-keeping for almost 300,000 small Canadian companies.

The proposals will:

- cut small business tax legislation by two-thirds,
- shorten and simplify the tax form,
- reduce the costs of tax compliance, and
- increase tax savings for growing small businesses.

In the new system’s first full year of operation, Canadian-controlled private corporations will find their federal taxes reduced by \$150 million.

4. Sales Tax Changes

A number of changes to the federal sales tax are proposed. These changes will deal with specific inadequacies of the existing system.

In order to eliminate the unwarranted advantage the present sales tax system gives foreign cars sold in Canada, the budget proposes to shift the *manufacturer's sales tax on motor vehicles* to the wholesale level, effective March 1, 1984. At present, the tax on a Japanese or European car can be \$100 to \$200 lower than on a comparable car made in Canada or the United States. This change will ensure a uniform application of tax to all makes of vehicle. This will support growth and employment in the Canadian auto industry.

5. Improving the Fairness of Tax Administration

"Canada's tax system is based on the principles of self-assessment and voluntary compliance. Because of the complexity of our tax laws, however, taxpayers often experience difficulties in completing their returns."

The Minister of National Revenue has appointed an independent expert to examine Revenue Canada's operations and suggest improvements in its services to the public.

The budget proposes a number of immediate measures to relieve the administrative burden on taxpayers and improve the fairness of the tax system.

- Individuals and corporations with federal taxes of \$1,000 or less will no longer have to make *quarterly tax instalments*. In addition, interest on late tax instalments of less than \$25 will not be assessed. About 350,000 *senior citizens* and over 50,000 *small business and family farm corporations* will be exempted from the burden of making instalment payments.
- The period within which taxpayers may formally object to tax assessments will be doubled from 90 days to 180.

- Interest will be paid on overdue sales tax refunds.
- Tax paid on sales that become bad debts will be refunded.
- A full and proper system of assessment, objection and appeal will be introduced into the Excise Tax Act.
- The Tax Court of Canada will be allowed to order Revenue Canada to pay up to \$1,000 of the costs of a taxpayer's successful appeal.
- Taxpayers will be given the right to provide security rather than pay taxes in dispute.
- Revenue Canada will be required to refund any overpayment of income taxes to a Canadian resident resulting from a successful appeal to the Tax Court of Canada or the Federal Court even if the Minister decides to appeal that decision.

Partnership for Economic Security

"In preparing this budget, one of my overriding concerns has been to improve the economic security of individual Canadians.

"Through the recession and into the recovery, this government has maintained its commitment to a wide range of programs and policies that provide an essential level of economic support for Canadians: income support programs, health care programs, economic opportunity programs. These programs help build an environment in which economic growth can be better achieved and maintained."

1. Improving Pensions for Canadians

"Pensions are the principal life-line Canadians have to economic security in their retirement years. There are ways we can strengthen that life-line."

The budget proposes an **Action Plan** for pension reform to raise the minimum standards of private pension plans and to strengthen public pensions. Together with proposals for a fairer and more flexible system of tax assistance for retirement savings, these measures will ensure that Canadians are guaranteed a reasonable income upon retirement.

- To ensure that elderly Canadians receive pensions that are sufficient to allow them to live in comfort and dignity, the government will increase the **Guaranteed Income Supplement (GIS)** by \$50 a month this year: \$25 on July 1, another \$25 a month on December 1. When combined with the universal old age pension, single pensioners will be assured of a monthly minimum income of \$600. About 750,000 pensioners will benefit, three-quarters of whom are single, elderly women.
- Changes will also be made to ensure that persons receiving partial old age pensions, most of whom are immigrant Canadians, have GIS benefits sufficient to give them the same minimum income as other pensioners.
- Changes will be introduced to **improve minimum standards for private pension plans**. The changes will take effect no later than January 1, 1987. Amendments will provide for:
 - **Inflation Protection** for future pension earnings
 - **Acquired Rights** to the pension benefits arising from an employer's contribution after two years in the plan

- **Portability** of acquired benefit rights, so that employees who change jobs will not be penalized
 - **Survivor Benefits** for spouses, with assurance that these benefits will not be terminated upon remarriage
 - **Splitting** of pensions between spouses in the case of marriage breakdown
 - **Increased Pension Coverage** for full-time and part-time workers.
- The *Canada Pension Plan* will also be amended to strengthen it and improve its benefits to women. The changes will provide for:
 - **Mandatory Credit Splitting** on marriage breakdown or when the younger spouse reaches 65
 - **Continuing Survivor Benefits** on remarriage
 - **Pensionable Earnings** equal to the average industrial wage by January 1, 1987.
 - *Tax Assistance for Retirement Saving* will be improved to provide for:
 - **Fair and equivalent access to tax assistance** regardless of the type of retirement-saving vehicle used
 - **More generous tax deductions for contributions:** the new maximum limit will be 18 per cent of earnings up to a maximum of \$10,000 in 1985 rising to \$15,500 in 1988
 - **Ability to carry forward unused deduction entitlements:** Canadians will be able to save for pensions as their means permit
 - **Inflation protection for pension deduction and benefit entitlements:** limits will be indexed to reflect changes in the average industrial wage

- **Portability of pension benefits.** A new *Registered Pension Account* will assist the mobile worker.

2. Increasing Security for Homeowners

"Lower and stable interest rates, together with growing incomes and government incentive programs, have restored some of the confidence of Canadian homebuyers. In the past few years, however, thousands of homeowners were dealt a serious blow by mortgage interest rates that rose to unprecedented levels."

The budget puts forward proposals to increase the security of homeownership and create a fairer, more flexible mortgage market. Proposed are:

- the introduction of a ***Mortgage Rate Protection Plan*** whereby homeowners, upon payment of a fee, would be protected against substantial increases in monthly payments caused by extraordinary increases in mortgage rates;
- new rules to ensure that borrowers have complete disclosure of all terms and conditions regarding their mortgages;
- legislation to give borrowers the right to prepay their mortgages at any time and establish a prepayment principle that is fair to both borrowers and lenders.

The budget also proposes that action be taken to create the conditions necessary for the private sector to develop a *mortgage-backed securities market*. This would assist the reintroduction of mortgages with terms longer than five years.

Other Tax and Tariff Measures

The budget proposes a number of other tax changes. These include:

- **Personal Tax Changes**

- *Moving expenses* will be deductible to persons who are unemployed and move to a new location to take up employment or start a business.
- The Income Tax Act will be amended to provide a number of relieving changes to spouses making support payments after a marriage breakdown.

- **Tax Assistance to Farmers**

Farmers will now be able to invest up to \$120,000 of taxable capital gains from the sale of a farm in an RRSP. The amount eligible will be \$10,000 for every year they have farmed the land from 1972 to 1983. This will assist farmers build better pensions for retirement.

Measures will also be introduced to facilitate the transfer of family farms from one generation to another.

Farm losses are not in any way restricted for those farmers whose principal occupation is farming. This includes farmers who have taken jobs to provide an extra source of income, as many farmers do in order to support their farm operation.

Concern has been expressed that changing the loss rules to benefit persons who are part-time or so-called hobby farmers could have an adverse impact on farm prices and provide an inappropriate incentive for speculation in farm land. A consultative working group will be

established to assess the impact that such changes might have on the agricultural sector before any specific action is taken.

- **Energy and Resource Taxes**

The *Incremental Oil Revenue Tax* will be deferred for an additional year, to June 1, 1985.

Partners in Budget Making

Extensive consultations have now become a permanent feature of budget making in Canada and a number of major proposals have benefited considerably from the expertise and knowledge that was brought to bear on them in consultation and comment.

This budget continues the move to a more open and consultative process.

Economic Outlook

Canada will have achieved about 3 per cent real growth in 1983, rather than the 2.3 per cent predicted last April. Employment also grew more rapidly than expected. About 400,000 jobs were created in 1983.

Real growth is expected to be about 5 per cent in 1984. Over the medium term, it should average almost 4 per cent a year from 1985 to 1988.

Continued strong employment growth, of about 3.5 per cent, will increase the total personal income of Canadians in 1984. Employment increases will continue to be strong through the 1980s. More than

1.5 million jobs will be created over the 1984 to 1988 period. At the same time, however, the labour force will grow significantly. For this reason, the decline in the unemployment rate in 1984 may not be dramatic. It should fall to about 7.5 per cent by 1988.

Public investment, particularly by the federal government, will give the recovery a strong boost over the coming year. Stable interest rates and rising consumer demand should encourage business to replace and expand its stock of machinery and equipment. Plant construction should also begin to grow again later this year. Total *business investment* is projected to increase in 1984 and be a major source of economic growth over the medium term.

For 1984 as a whole, *inflation* is expected to average about 5 per cent, compared with 5.8 per cent in 1983. Further reductions are expected through the mid-1980s.

The Fiscal Plan

The deficit for fiscal year 1983-84 will be \$31.5 billion. Government financial requirements will total about \$27 billion.

The government remains committed to bringing the federal deficit down in a way that does not damage our economic prospects. The fiscal strategy set out in the April 1983 budget has proved itself to be the right course and will be pursued.

The deficit is expected to fall by almost \$2 billion to \$29.6 billion in the coming fiscal year. The government's financial requirements will be \$25.6 billion.

In the medium term, the deficit will continue to fall, consistent with the strategy set out last April, from

over 8 per cent of gross national product this year to about 4.7 per cent by 1987-88. Financial requirements will fall even faster. They will drop from 6.9 per cent of GNP this year to 3.4 per cent by 1987-88.

Conclusion

“If Canadians are to meet the challenges of the future, we cannot be satisfied with past performance and past habits. These will not sustain us in a fiercely competitive international marketplace. We must become better than the competition – better at producing and marketing goods and services, better at working together for the shared economic interests of all Canadians.”

“If we measure up to that future, then we shall create new opportunities for Canadians to find good, satisfying, permanent jobs. We shall create opportunities for more Canadians to buy a home, to start or expand a small business, and to invest with confidence in our future. In short, we shall create the opportunities for Canadians to build better, more fulfilling lives on a foundation of economic strength.”

“That is the goal of the program of action I have presented today to lead Canada from recovery to expansion.”

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