

Budget

Highlights

Monday, May 6, 1974



Finance Finances



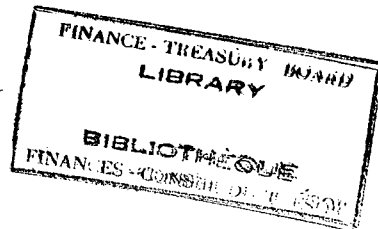
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This budget is designed to:

- * Reinforce the attack on inflation by encouraging increased supplies of goods and services.
- * Act directly against high prices where practical.
- * Alleviate further the adverse impact of rising prices on all Canadians, and particularly low-income Canadians.

Total demand in the economy is expanding in line with productive capacity. Neither additional stimulus nor severe contraction of demand is indicated.

In choosing measures to extend specific policy thrusts against inflation, it has been necessary to find additional revenues to pay for the costs of new initiatives.

Proposals to raise new revenues totalling approximately \$900 million are therefore in balance with the cost of the budget's program to increase supply, attack specific prices, ease burdens and protect savings.

REVENUE-RAISING MEASURES

It is proposed to find revenues in ways that hurt least, to apply them to help people most in need of help, and to do so without contributing to price increases on essential goods or impeding the expansion of supply.

* A new corporate tax regime is proposed for mining and petroleum corporations:

- The basic rate of tax on production profits is to be increased to 50 per cent.
- Provincial government royalties, mining taxes and payments with similar effects will no longer be deductible in computing income.
- A new abatement from federal income tax in addition to the present 10-point provincial abatement will reduce the federal rate on petroleum profits to 30 per cent and on mineral profits to 25 per cent.
- Depletion and other incentives will be cut back.

- * The tax-free reserves of financial institutions will be reduced, with the effect of increasing taxes on the larger institutions.

- * A 10-per-cent surtax on federal corporate income tax is proposed for a one-year period, with exemptions for small business corporations, manufacturing and processing profits, and production profits of mining and petroleum corporations which will bear higher taxes as a result of other budget proposals.

- * Excise taxes are increased for big cars and other high energy-consuming vehicles, liquor and tobacco.

THE PROGRAM AGAINST INFLATION

Measures to Hold Down Particular Prices

- * The 12-per-cent federal sales tax is removed immediately on all clothing and footwear subject to the tax. This measure affects \$5 billion in retail sales per year.

- * The sales tax is removed from buses and other municipal transit equipment.

- * The sales tax is removed from bicycles.

- * Tariff reductions are extended to year-end on \$1.6 billion of annual imports of consumer goods.

- * New initiatives in the housing field:
 - Increase taxes on undeveloped land to encourage its release for housing.

 - Remove the sales tax from \$460 million of construction equipment and from municipal water distribution equipment.

- Introduce a Registered Home Ownership Savings Plan 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 and initial furnishing of a home.

- Will require higher down payments for the very expensive homes. Financial and other resources should be more readily available for medium and lower-priced homes.

Increasing Disposable Income and Protecting Savings
of Average and Lower-income Canadians

- * A \$50 tax cut is proposed for lower-income taxpayers, removing 300,000 from the tax rolls this year. This is achieved by increasing the minimum amount of last year's 5-per-cent cut to \$150 from \$100.

- * Cash bonuses will be payable to holders of all outstanding Canada Savings Bonds to bring the interest earned to 9 per cent.

- * A taxpayer will be allowed to contribute to a Registered Retirement Savings Plan for the benefit of his or her spouse up to his deduction limit.

- * War veterans and civilian war allowances are to be increased and escalated quarterly; orphans' benefits increased and escalated annually; new allowance paid to dependent children of needy veterans.

- * More medical expenses will be deductible and the \$1,000 exemption for disabled persons broadened.

Small Business Incentive

- * Annual income eligible for the corporate small business tax rate is increased from \$50,000 to \$100,000 a year and the over-all limit raised from \$400,000 to \$500,000.

Other Changes

- * Many changes are proposed in the continuing process of tax reform, including rules for corporate reorganizations, foreign income and partnerships.
- * Duty-free goods for returning tourists are increased substantially.

ECONOMIC AND FINANCIAL HIGHLIGHTS

- * The challenge facing the country is to break the inflationary spiral in ways that will not erode our prosperity or damage our growth.

- * Inflation is a world-wide phenomenon, traceable to an enormous buildup in international liquidity and marked by a recent explosion of commodity and food prices. Staggering increases have occurred in the price of oil. The world community is threatened by fragmentation and protectionism as nations react to balance of payments problems.

- * It is a time for renewed co-operation and strenuous efforts to rebuild a viable international trade and payments system. Canada is playing a full role in pursuit of this objective.

- * Canada has been shielded from the harshest effects of international events. Output, employment and income continue to increase. The recent oil agreement has kept the increase in price of this important commodity within bounds to Canadian consumers. Employment has increased at record rates, especially in manufacturing. Despite a 5½-per-cent unemployment rate, the labour market is generally tight across the country.

- * Real output in 1974 is forecast to increase by at least 5 per cent, as much as we are physically able to accomplish this year. Business investment is the most dynamic element of demand. New capacity is coming on stream to relieve shortages and to create new jobs; employment is forecast to increase by more than 300,000 this year.

- * Severe measures of fiscal and monetary restraint, or a general system of price and wage controls, are rejected as approaches to deal with inflation.

- * Canada's anti-inflationary strategy is to augment the supply of goods and services, reduce strains on prices where this is practical, and help Canadians least able to protect themselves from inflation.

- * In terms of demand policy required to keep the supply of goods flowing at capacity rates, we are on the right course now. Monetary policy should be moderated to the pace just sufficient to sustain continuing growth at the levels of our physical capacity.

- * Fiscal policy should hold the government's cash requirements to much the same effective level as last year, implying a reduction in the budgetary deficit and national accounts deficit. Budgetary measures therefore strike an approximate balance in raising new revenues and taking new initiatives to deal with inflation.

- * Cash requirements for 1974-75, excluding foreign exchange transactions, will be of the order of \$2 billion. The budgetary deficit for 1974-75 is forecast at \$450 million compared with \$1 billion in 1973-74. The national accounts deficit is forecast at \$160 million, compared with \$500 million in 1973-74.