

BUDGET 2006

FOCUSING ON PRIORITIES



CANADA'S NEW GOVERNMENT

TURNING A NEW LEAF

Overview

May 2, 2006

INTRODUCTION

Budget 2006 is about focusing on priorities, delivering real results for people in a fiscally responsible way while laying a solid foundation for the future.

In Budget 2006, the Government is keeping its word to Canadians and implementing its five core commitments, building a better Canada through measures in the following areas:

- **Accountability**—Making the budget framework more transparent and limiting the growth of spending.
- **Opportunity**—Creating greater opportunity for Canadians by reducing the goods and services tax (GST) by 1 percentage point effective July 1, 2006, and reducing personal and business taxes.
- **Families and Communities**—Investing in our families and communities by introducing Canada's Universal Child Care Plan, tax relief for pensioners and investments in public infrastructure.
- **Security**—Protecting Canadians by hiring more Royal Canadian Mounted Police (RCMP) officers, securing safe and open borders, better preparing for emergencies, bolstering defence and strengthening Canada's role in the world.
- **Restoring Fiscal Balance in Canada**—Working to develop a Patient Wait Times Guarantee and addressing concerns about fiscal imbalance, based on fundamental principles all Canadians can support.

ECONOMIC OUTLOOK

The Canadian economy recorded solid growth in 2005, largely driven by healthy increases in domestic demand. Private sector forecasters project that the economy will grow by 3 per cent in 2006 and 2.7 per cent in 2007.

The risks to the Canadian economy remain largely external: uncertainty over commodity prices; the risk of a sudden correction in U.S. house prices; and the risk that the Canadian dollar may appreciate further in response to adjustments to global imbalances.

FISCAL PROSPECTS

For 2005–06 the federal surplus is estimated at \$8 billion. Starting with the current fiscal year, the Government is planning to reduce the debt by \$3 billion each year.

Budget 2006 reduces taxes across the board and proposes targeted cuts to address specific priorities. As a result, revenues as a share of gross domestic product (GDP) are projected to decline from 16.4 per cent in 2004–05 to 15.5 per cent in 2007–08.

The Government is committed to reducing growth in federal spending to a more sustainable level. Program expenses are expected to grow by 5.4 per cent in 2006–07 and 4.1 per cent in 2007–08, below the rate of growth of nominal GDP. Program expenses as a share of GDP are projected to decline from 13.7 per cent in 2004–05 to 13 per cent in 2007–08.

HOW CANADIANS WILL BENEFIT THROUGH BUDGET 2006

- A family purchasing a new \$200,000 home will save \$1,280 in GST.
- A family buying \$20,000 in new furnishings for that new home will save \$200 in GST.
- With the lower GST and broad-based personal income tax reductions, families with incomes ranging from \$30,000 to \$45,000 will save almost \$370 in 2006 on average and more than \$500 in 2007.
- Average overall savings for families in the \$45,000-to-\$60,000 income range will be about \$460 in 2006 and almost \$650 in 2007.
- These savings are in addition to the Universal Child Care Benefit, which will provide all families with \$100 per month for each child under age 6, effective July 1, 2006.

ACCOUNTABILITY

Budget 2006 builds on the reforms of the *Federal Accountability Action Plan* by providing a more transparent budget-planning framework and a firm commitment to reining in spending growth. Specifically:

- Budget plans and decisions will operate within a two-year timeframe.
- Budget 2006 is advancing by one year, to 2013–14, the goal of lowering the debt-to-GDP ratio to 25 per cent.

The Government is committed to restraining the rate of growth of spending through a new approach to expenditure management focused on results and value for money. The President of the Treasury Board will identify \$1 billion of savings in 2006–07 and 2007–08, and report in the fall.

OPPORTUNITY

Canadians pay too much tax. Budget 2006 delivers more tax relief to individuals than the last four federal budgets combined, and will remove 655,000 low-income Canadians from the tax rolls altogether.

By reducing the GST to 6 per cent effective July 1, 2006, the Government is fulfilling its commitment to lower the tax burden of Canadians. Other measures include:

- Lowering personal income taxes for all taxpayers, which, together with the GST reduction, provides almost \$20 billion in tax relief to individuals over the next two years. It will do this through:
 - A new Canada Employment Credit—a tax credit on employment income up to \$500 effective July 1, 2006. The credit amount will double to \$1,000, effective January 1, 2007.
 - A permanent reduction in the lowest tax rate to 15.5 per cent from 16 per cent as of July 1, 2006.
 - Increases in the basic personal amount—the amount all Canadians can earn without paying federal income tax—so that it grows each year and remains above currently legislated levels for 2005, 2006 and 2007.

- Creating an environment for jobs and growth, through a more competitive tax system, by:
 - Increasing the amount of small business income eligible for the 12-per-cent tax rate to \$400,000 from \$300,000 as of January 1, 2007.
 - Reducing this tax rate to 11.5 per cent in 2008 and to 11 per cent in 2009.
 - Reducing the general corporate income tax rate to 19 per cent from 21 per cent by January 1, 2010.
 - Eliminating the corporate surtax for all corporations as of January 1, 2008.
 - Eliminating the federal capital tax as of January 1, 2006, two years ahead of schedule.
- Supporting a more skilled and educated workforce through:
 - A new tax credit of up to \$2,000 for employers who hire and train apprentices.
 - A new \$1,000 grant for apprentices.
 - A new \$500 tax deduction for tradespeople for the cost of tools in excess of \$1,000 that they must acquire as a condition of their employment.
- Introducing a textbook tax credit worth about \$80 per year for a full-time student, benefiting roughly 1.9 million post-secondary students.
- Affirming the Government's strong commitment to agriculture by providing an additional \$2 billion to the agricultural sector.
- Investing \$400 million to encourage the long-term competitiveness of the forestry industry, to assist worker adjustment, and to address the pine beetle infestation.

A MORE PRODUCTIVE, COMPETITIVE ECONOMY

Canada's economic performance in recent years has been strong, but future success cannot be taken for granted.

Budget 2006 proposes several measures to make the economy more productive and competitive for the benefit of all Canadians, especially in areas such as the taxation of individuals and businesses, infrastructure, education and training, research and development, and immigration. It also sets the stage for action in future budgets for a results-focused agenda to promote even greater competitiveness and productivity, including through the strengthening of Canada's economic union.

FAMILIES AND COMMUNITIES

Budget 2006 invests in Canadian families and communities, making communities better places to work, play and grow.

Child Care

The Government will help Canadian families balance work and family life through the Universal Child Care Benefit, which will provide all families with \$100 per month for each child under age 6, effective July 1, 2006. This benefit will not reduce federal income-tested benefits.

This budget sets aside \$250 million per year, beginning in 2007-08, to support the creation of new, real child care spaces.

Children's Fitness Tax Credit

Budget 2006 proposes to introduce a tax credit to promote physical fitness among children, effective January 1, 2007. The credit will be provided on up to \$500 in eligible fees for programs of physical activity for each child under age 16.

The Government will consult with a small group of experts in health and physical fitness to determine which programs should be eligible for the credit.

Enhanced Assistance for Persons With Disabilities

The Government will increase the maximum annual Child Disability Benefit to \$2,300 from \$2,044, effective July 1, 2006, and will make it available to middle- and higher-income families. It will also boost the maximum amount of the refundable medical expense supplement to \$1,000 from \$767 for the 2006 tax year.

Canadian Strategy for Cancer Control

An investment of \$52 million per year will allow the Public Health Agency of Canada and Health Canada to work with partners to implement the Canadian Strategy for Cancer Control.

Pensions—Tax Relief to Pensioners

The maximum amount of eligible pension income that can be claimed under the pension income credit will be increased to \$2,000, effective for the 2006 and subsequent taxation years. This increase, the first since 1975, will benefit nearly 2.7 million taxpayers receiving qualifying pension income and remove 85,000 pensioners from the tax rolls.

Pensions—Private Defined Benefit Plans

The Government will strengthen private defined benefit pension plans by proposing four temporary measures to help re-establish full funding of federally regulated defined benefit pension plans in an orderly fashion, with safeguards for promised pension benefits.

Aboriginal Communities

In addition to setting aside \$2.2 billion to address the legacy of residential schools, investments in Canada's Aboriginal communities include:

- \$450 million for improving education outcomes, socio-economic conditions for Aboriginal women, children and families, and water supply and housing on reserve.
- Up to \$300 million to provinces to address immediate pressures in off-reserve Aboriginal housing.
- Up to \$300 million to territories for affordable housing in the North.

Helping Immigrants Get Started

Budget 2006 delivers on the Government's commitment to reduce the Right of Permanent Residence Fee to \$490 from \$975, effective immediately. Over the next two years it will also provide \$307 million to enhance immigration settlement programs and services, and take steps to create a Canadian agency for assessment and recognition of foreign credentials.

Public Transit for a Cleaner, Healthier Environment

The Government will provide up to \$1.3 billion in support of public transit infrastructure and will encourage public transit usage by providing a tax credit on the purchase of monthly transit passes.

Investments in Infrastructure

\$5.5 billion over four years will go towards a new Highways and Border Infrastructure Fund, Canada's Pacific Gateway Initiative, the Canada Strategic Infrastructure Fund, the Municipal Rural Infrastructure Fund and a Public Transit Capital Trust.

Donations to Charities

To encourage charitable giving, Budget 2006 exempts donations of publicly listed securities to public charities from capital gains tax, effective immediately.

SECURITY

Budget 2006 acts to protect Canadians on their streets and in their communities, at their national borders and throughout the world. It will do this by:

- Providing investments to hire and train 1,000 more RCMP officers, help victims and prevent youth crime.
- Securing safe and open borders by allocating \$101 million over the next two years to begin arming border officers and eliminating "work-alone" posts.
- Committing \$303 million over the next two years to implement a border strategy to promote the movement of low-risk trade and travellers within North America, while protecting Canadians from security threats.
- \$460 million (\$1 billion over five years) to further improve Canada's pandemic preparedness.
- Strengthening Canada's role in the world by investing \$5.3 billion over the next five years to strengthen the Canadian Forces' capacity to defend our nation's sovereignty and security.
- Committing up to \$320 million to fight polio, tuberculosis, malaria and HIV/AIDS around the world and help low-income countries cope with natural disasters or sharp rises in commodity prices.

RESTORING FISCAL BALANCE

In Budget 2006, the Government is committing to restore fiscal balance by building a stronger, more cooperative federation through a new, more open federalism.

Budget 2006 sets out immediate action the Government is taking to address concerns about fiscal imbalance, with:

- A commitment to work with provincial and territorial governments to develop a Patient Wait Times Guarantee for medically necessary services.
- One-time adjustments of \$255 million as part of providing greater certainty with respect to 2006-07 Equalization and Territorial Formula Financing payments.
- Up to \$3.3 billion in additional funding support to provinces and territories to help address short-term pressures in post-secondary education, affordable housing and public transit.
- A commitment to a principle-based framework for fiscal relations, outlined in the companion document *Restoring Fiscal Balance in Canada*.

How Can I Get More Information on Budget 2006?

Information is available on the Internet at www.fin.gc.ca or by phoning:

1 800 O-Canada (1 800 622-6232)
1 800 926-9105 (TTY for the speech and hearing impaired/deaf)

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