Budget Papers

Supplementary Information and
Notice of Ways and Means Motion
on the Budget

Tabled in the House of Commons
by the Honourable Allan J. MacEachen
Deputy Prime Minister and Minister of Finance

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Canada

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Department of Finance Canada   Ministère des Finances Canada

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1. The Economic Situation and Outlook

The economic forecast underlying last November's budget projected a pronounced slowing in economic activity and a gradual reduction in inflation in 1982. Real gross national expenditure (GNE) was expected to increase by 2.2 per cent, compared with an expected 3.6 per cent in 1981. The increase in the consumer price index (CPI) was expected to slow from 12.7 per cent in 1981 to 11.7 per cent in 1982.

Real GNE in fact increased by 3.1 per cent in 1981 and is currently expected to decline by 2 per cent this year. The CPI increased by 12.5 per cent in 1981 and is now expected to increase by just under 11 per cent this year.

Both international and domestic developments have led to the much greater weakness in output now expected, and to slightly more improvement in inflation. The current assessment is that international economic activity will likely remain at low levels and interest rates at high levels for the remainder of 1982. Output in the U.S. is expected to decline by roughly 1½ per cent for the year as a whole, after increasing by 2 per cent in 1981. Recovery is expected to begin in the second or third quarter. While some recovery is expected in Europe and further growth is anticipated in Japan, output in the major industrial countries of the OECD as a group is expected to show no growth in 1982 after increasing by only 1.2 per cent in 1981.

Financial Developments

The dominant factor of life in international financial markets continues to be high U.S. interest rates. Despite a reduction in interest rates from their peak levels, both short-term and long-term nominal interest rates have remained extraordinarily high relative to the rate of inflation and the cyclical position of the U.S. economy. These developments in the U.S. have been strongly felt in the exchange markets and the financial sectors of most OECD countries.

Short-term interest rates reached historically high levels in August 1981, and fell steadily through the remainder of the year in both the U.S. and Canada. U.S. rates have been rather volatile since the turn of the year. Canadian rates, after seven months of relative stability starting last November, have recently moved up sharply in response to rising U.S. rates in order to moderate the impact of the strong U.S. dollar on our exchange rate.

The revised approach to monetary policy in the U.S. since October 1979 has contributed to a significant reversal of the trends in the value of the U.S. dollar vis-à-vis its major trading partners that were evident during the 1970s. While there have been many ups and downs along the way, the U.S. dollar has on average appreciated against the currencies of its major trading partners over the last several years and this tendency has increased substantially in 1982.

Table 1.1

International Comparisons
(Forecast/latest observation)

	1966-73	1973-79	1980	1981	1982
Real growth (percentage change)					Forecast(1)
Canada	5.6	3.8	0.5	3.1	−2.0
U.S.	3.8	3.3	−0.2	2.0	−1.6
U.K.	3.1	2.2	−1.8	−1.9	1.1
Germany	4.3	2.8	1.8	−0.3	0.9
France	5.4	3.5	1.2	0.5	2.5
Italy	5.2	3.3	4.0	−0.3	1.0
Japan	9.8	4.5	4.2	2.9	2.4
Unemployment rate (per cent)					Latest month(2)
Canada	5.0	6.9	7.5	7.6	10.2
U.S.	4.5	6.3	7.1	7.5	9.5
U.K.	3.3	4.8	7.4	10.6	11.9
Germany	0.9	2.9	3.1	4.8	7.5
France	4.8	4.2	6.3	7.5	8.9
Italy	5.7	6.5	7.4	8.5	9.4
Japan	1.2	1.8	2.0	2.2	2.4
CPI (percentage change)					Latest month(3)
Canada	4.3	9.0	10.1	12.5	11.8
U.S.	4.4	8.2	13.5	10.3	6.7
U.K.	6.1	14.8	18.0	11.9	9.4
Germany	3.7	4.9	5.5	5.9	5.2
France	5.1	10.2	13.6	13.4	13.9
Italy	4.5	15.4	21.2	19.5	15.2
Japan	6.2	10.4	8.0	4.9	2.9

(1)Forecast by Department of Finance, drawing on OECD

(2)Observations are for May for Canada, the U.S., Germany, France and the U.K., April for Japan, and First Quarter 1982 for Italy

(3)Year-over-year percentage change. Observations are for May for Canada, the U.S., Germany and Italy and April for Japan, France and the U.K.

Over the last year the Canadian dollar has swung from a low of just over 80 cents U.S. last summer to a high of just under 85 cents by year-end, to recent lows well below 80 cents. Other OECD currencies have also been buffeted by the high levels of nominal and real interest rates in the U.S. Major currencies such as the Deutschemark, Swiss franc and Japanese yen have shown even wider swings against the dollar over the same period. For example, the Deutschemark rose almost 12 per cent between last summer and year-end, but has since declined by almost 9.5 per cent. Volatility in exchange rates has not been conducive to international investor confidence.

Table 1.2

Comparison of Exchange Rate Movements for Selected Currencies[1]

	1979	1980	1981	June 24 1982
Canadian dollar — U.S. dollar				
Period-end value	0.8561	0.8370	0.8432	0.7778
Percentage change		(−2.2)	(0.7)	(−7.8)
Deutschemark — U.S. dollar				
Period-end value	0.5794	0.5096	0.4467	0.4044
Percentage change		(−12.0)	(−12.4)	(−9.5)
British pound — U.S. dollar				
Period-end value	2.2190	2.3930	1.9160	1.7325
Percentage change		(7.8)	(−19.9)	(−9.6)
Japanese yen — U.S. dollar				
Period-end value	0.004167	0.004926	0.004553	0.003920
Percentage change		(18.2)	(−7.6)	(−13.9)
French franc — U.S. dollar				
Period-end value	0.2484	0.2213	0.1754	0.1461
Percentage change		(−10.9)	(−20.7)	(−16.7)
Swiss franc — U.S. dollar				
Period-end value	0.6265	0.5615	0.5602	0.4759
Percentage change		(−10.4)	(−0.2)	(−15.0)
Canada — G-10 (Trade-weighted index, 1971=100)				
Period-end value	82.4	80.2	83.6	79.2
Percentage change		(−2.7)	(4.2)	(−5.3)
Canada — G-10 excluding U.S. (Trade-weighted index, 1971=100)				
Period-end value	68.9	65.7	78.2	81.9
Percentage change		(−4.6)	(19.0)	(4.7)

[1]The countries presented in this international comparison comprise Belgium, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, the United Kingdom and the United States and are collectively referred to as the G-10.

In this environment it is important to avoid putting excessive emphasis on very short-run movements in the value of currencies that may relate to a multitude of rapidly changing temporary factors. For example, in analyzing the Canadian exchange rate, it is important to bear in mind that the dollar's average for 1981 was about 83½ cents U.S. and that it has averaged over 81½ cents to date this year. At these exchange rate levels the fundamentals of the Canadian balance of payments position have appeared to be relatively strong. While Canada has historically run a deficit on its current account, financed by long-term capital inflows, there has recently been a strong improvement in the balance of trade. Indeed, in the first quarter of 1982 Canada registered a surplus of $288 million on its current account. While the balance of payments registered a capital outflow of over $10 billion in direct investment in 1981, well over half of this represented the repatriation of Canadian assets. It is anticipated that there will be a very substantial slowdown in such repatriations, and that the overall direct investment account will be much closer to balance in 1982 and future years.

Growth and Employment

After increasing at an annual rate of 6 per cent in the first half of 1981, the Canadian economy has been in a recession since the third quarter of last year. Real GNE declined an additional 2 per cent in the first quarter of 1982, mainly reflecting a significant slowing of business investment and substantial inventory liquidation. As in other countries, the recession and high interest rates have led to a sharp decline in corporate profits. In the first quarter of 1982, the ratio of before-tax profits to gross national product (GNP) fell to 6.7 per cent, which compares with 9.9 per cent in 1981 and an average of over 10 per cent for the last ten years. The first quarter 1982 ratio was the lowest since quarterly statistics were developed in 1947.

Real GNE is now expected to decline 1½ to 2 per cent this year, although on a quarterly basis growth should resume by the third quarter. The annual decline will be spread over all categories of final demand with the exception of the foreign trade balance. Weak domestic demand for imports of end products will lead to a sharper fall in imports than in exports. Inventory liquidation and reduced capital formation are likely. The number of new housing starts has declined since the beginning of the year, but is expected to increase in response to federal and provincial measures of stimulus.

In 1981 employment growth matched labour force growth to keep the unemployment rate virtually unchanged at 7½ per cent. Until last September, the employment rate was at the lowest level experienced over the past five years. As the world economy weakened last fall, employment declined and the unemployment rate rose sharply. By May of this year employment had declined 3 per cent from the level a year earlier, and the unemployment rate stood at 10.2 per cent of the labour force. The unemployment rate is not expected to shift dramatically for 1982 as a whole. It is for this reason that the urgent job creation measures announced in this budget are being undertaken.

While the length of a recession varies from cycle to cycle, there are developments in all recessions which signal the process of economic recovery. The most important of these signals is a period of sharp liquidation of inventories such as took place in the first quarter of this year. As consumer demand strengthens the increase in sales is reflected in increased production, increased employment and eventually in inventory accumulation. The recent rise in the savings rate and the decline in consumer credit outstanding as a share of disposable income suggest a basis for increased consumer spending.

Inflation

The rate of inflation as measured by the CPI peaked in July 1981 at 13 per cent before beginning an irregular downward trend. The average increase in the first five months of this year is 11.5 per cent. Both food and energy prices have increased at a slower pace than in 1981. Non-food non-energy prices, however, have increased more rapidly, mainly reflecting higher labour costs.The rate of increase in food prices in 1982 is now expected to be less than previously forecast, with the result that the overall rate of inflation in 1982 is expected to be 11 per cent or possibly lower. Further reductions in inflation will require that the rate of increase in labour costs, which account for upwards of two-thirds of total costs, also moderates. While there has been some slowing in new wage settlements, from over 14 per cent in the second half of last year to 12¾ per cent in the first quarter of this year, increases in the 12- to 13-per-cent range are incompatible with a sustained reduction in the rate of inflation from current levels. Thus this budget provides determined leadership to ensure that moderation occurs.

The fiscal projections presented in the following section are based on the economic assumptions noted above and on a projected increase in GNP in current dollars of 8¼ per cent in 1982.

2. Fiscal Projections for 1982-83

Changes in the economic situation and outlook since last fall, together with certain tax and expenditure policy measures taken subsequent to the November 12, 1981 budget, including measures in this budget, have resulted in major revisions to the outlook for the government's fiscal position for 1982-83. This section sets out the revised fiscal forecast for 1982-83; the future years of the fiscal plan will be reviewed in the next budget.

The Overall Fiscal Position

Table 2.1 provides the current projections for the government's fiscal position in 1982-83 and compares them with the forecasts made in the November 1981 budget. With a major downward revision in budgetary revenues, and some increase in expenditures, the budgetary deficit is now expected to be $19.6 billion, up $9.1 billion from the deficit projected for 1982-83 last November, and up $6.6 billion from the estimated 1981-82 level. The net funds provided by non-budgetary transactions have been revised downward, and financial requirements (excluding foreign exchange transactions) are currently forecast to be $17.1 billion, $10.5 billion higher than in the November budget.

The budgetary deficit and financial requirements are now projected to be equivalent, respectively, to 5.4 per cent and 4.8 per cent of GNP. These ratios are comparable to the previous peak levels reached in 1978-79, when the budgetary deficit was 5.3 per cent of GNP and financial requirements excluding foreign exchange transactions were 4.8 per cent of GNP. In the November 1981 budget, these ratios were projected to be 2.8 per cent and 1.7 per cent respectively. The substantial increase in the forecast of relative deficit levels since then reflects primarily the automatic response of revenues, the unemployment insurance program and public debt charges to greater cyclical weakness. The increase in the deficit which results helps sustain income and employment when the economy is in recession.

The remainder of this section is organized into four parts. The first of these will review the projections for budgetary revenues and compare them with the forecasts presented in the November 1981 budget. The second and third parts will do the same for total outlays and non-budgetary transactions. The last part will briefly summarize the 1982-83 fiscal projections on a national accounts basis.

Budgetary Revenues

The new projections for budgetary revenues, recorded in Table 2.2, reflect economic assumptions substantially different from those in the November 12, 1981 budget as well as the effects of a number of new tax measures. Total budgetary

Table 2.1

Government of Canada
Summary Statement of Transactions[1]

		November 1981 Budget		June 1982 Budget	
	1980-81	1981-82	1982-83	1981-82[2]	1982-83
	(millions of dollars)				
Budgetary transactions					
Revenues	45,398	54,310	64,960	53,765	58,550
Expenditures	–58,066	–67,650	–75,450	–66,700	–78,100
Surplus or deficit (–)	–12,668	–13,340	–10,490	–12,935	–19,550
Non-budgetary transactions					
Loans, investments and advances	–523	–650	–850	–1,335	–700
Specified purpose accounts	2,781	3,720	3,550	3,285	1,065
Other transactions	293	495	1,205	2,645	2,085
Net source or requirement (–)	2,551	3,565	3,905	4,595	2,450
Financial requirements (excluding foreign exchange transactions)	–10,117	–9,775	–6,585	–8,340	–17,100
Total outlays[3]	58,589	68,300	76,300	68,035	78,800
Percentage growth	13.0	16.6	11.7	16.1	15.8
Percentage of GNP	20.1	20.6	20.2	20.5	22.0
Program outlays[4]	47,902	53,605	59,535	52,965	60,900
Percentage growth	10.6	11.9	11.1	10.6	15.0
Percentage of GNP	16.4	16.2	15.7	16.0	17.0
Budgetary revenue					
Percentage growth	16.6	19.6	19.6	18.4	8.9
Percentage of GNP	15.6	16.4	17.2	16.2	16.3
Budgetary deficit					
Percentage of GNP	–4.3	–4.0	–2.8	–3.9	–5.4
Financial requirements (excluding foreign exchange transactions) as percentage of GNP	–3.5	–3.0	–1.7	–2.5	–4.8
GNP (billions of dollars)	291.9	330.8	378.5	331.3	358.9

[1] For comparability, budgetary revenues and expenditures for 1980-81 and 1981-82 are adjusted to treat Canada Post revenues and expenditures as if the corporation were under Crown corporation status throughout the period. The budgetary deficit and financial requirements are unaffected as a result of these adjustments.

[2] Estimates.

[3] Budgetary expenditures plus loans, investments and advances.

[4] Total outlays excluding public debt charges.

revenues are forecast to be $53.8 billion in 1981-82 and $58.6 billion in 1982-83, down $0.5 billion and $6.4 billion in the two years respectively from the projection contained in the November budget. The $0.5 billion revision to the 1981-82 revenue forecast reflects the tax collections experience since the November budget. Total budgetary revenues appear to have been less than anticipated, largely because of the weakening in the economy and its impact on corporate profits and thus corporate income tax collections. The $6.4 billion revenue decline in the revenue forecast for 1982-83 encompasses decreases of $0.6 billion for personal income tax, $2.8 billion for corporate income tax, $1.5 billion for energy-related taxes, $0.8 billion for sales tax and $0.7 billion for other tax revenues.

By far the largest factor accounting for these revenue forecast revisions, which reduce the projected growth in 1982-83 budgetary revenue to 8.9 per cent from the 19.6 per cent stated in the November budget, is the change in the economic situation and outlook. The forecast growth in the main tax bases — personal income, corporation profits, general sales of goods, imports and energy products — is greatly reduced from what was expected last fall. This of course reflects the world and Canadian recession and the decline in international oil prices.

Changes to the tax system itself have also been a significant factor in the slowdown in revenue growth. The adjustments to the November budget measures which were announced on December 18, 1981 implied revenue reductions of $105 million in 1981-82 and $145 million in 1982-83. The replacement of the transportation fuel compensation recovery charge on aviation fuel by an income tax mechanism, and the refunds of amounts previously collected under the charge, reduce estimated revenues by a further $115 million this year. The tax relief measures for the petroleum and gas industry recently announced by the Minister of Energy, Mines and Resources involve a net revenue loss to the federal government of about $500 million this year. Finally, the other adjustments to the November budget tax measures announced subsequent to December 18, 1981, and in this budget, together imply an additional revenue loss of $190 million this year. Included in this figure is an allowance for a $150 million revenue reduction corresponding to the change in timing for refunds on tax-paid inventories resulting from delay in the implementation date of the shift in the federal sales tax from the manufacturer to the wholesale level to January 1, 1983. For this particular tax change the revenue loss this year will be fully offset by an identical revenue gain in 1983-84.

As a result of the limitation on indexation of the personal income tax system, personal income tax revenues are expected to be $160 million higher this fiscal year and $1,140 million higher next year. The $50 increase to the Child Tax Credit, however, is expected to decrease these revenues by $100 million this fiscal year and $150 million in 1983-84.

Total budgetary revenues are now projected to be equivalent to 16.2 per cent of GNP in 1981-82 and 16.3 per cent in 1982-83. In the November budget they had been forecast to rise from 16.4 per cent in 1981-82 to 17.2 per cent in 1982-83. The decrease in this ratio since the November budget reflects the great sensitivity of federal revenues to cyclical movements in the economy as well as the various changes to the tax system discussed above.

Total Outlays

The November budget projection recorded total outlays of $68,300 million in 1981-82, an increase of 16.6 per cent over the 1980-81 figure of $58,589 million. Program outlays (that is to say, total outlays excluding public debt charges) were projected to rise 11.9 per cent in the November budget while public debt charges were forecast to increase 37.5 per cent. The official preliminary figures for fiscal year 1981-82 are not expected to be available until August. However, based on information available to date, it is estimated that total outlays were $68,035 million in 1981-82, representing an annual increase of 16.1 per cent over 1980-81. Program outlays are presently estimated to have increased 10.6 per cent in 1981-82 while public debt charges rose 41.0 per cent. The drop in estimated program outlays in 1981-82 relative to the projections published last November is the net result of a number of factors, the most important of which are a $1.1 billion deferral of certain energy-related expenditure items from 1981-82 to 1982-83[(1)], partially offset by an aggregate expenditure lapse which appears to have been somewhat smaller than had been expected earlier.

For 1982-83, total outlays are now targetted to be $78,800 million, a $2.5 billion increase from $76,300 million figure in the November budget. The main elements of the $2.5 billion increase are $1.1 billion in higher public debt charges and the already-noted $1.1 billion of energy-related expenditure items that were carried forward from 1981-82 to 1982-83. The remaining 10 per cent of the $2.5 billion increase is the net result of several factors. First, the total outlays target was increased by about $300 million earlier this year to accommodate a number of employment-related initiatives and by another $160 million to allow for the impacts on fiscal transfers to the provinces resulting from changes to the equalization program formula relative to the proposals in the November budget. These and some other minor upward adjustments to the outlays target were partially offset by reductions of $280 million in planned spending within the Energy envelope that were decided upon in order to help balance the fiscal impact of the tax reductions in the National Energy Program Update recently presented by the Minister of Energy, Mines and Resources.

Total outlays, then, are projected to rise 15.8 per cent this year. This substantial rate of increase does not result from new spending initiatives in this budget, since the new expenditure measures have been substantially offset by equivalent savings measures in 1982-83. The chief factors in the rate of increase, as mentioned, are escalating public debt charges due to high interest rates and the large deficit, and the $1.1 billion carry-forward of energy-related expenditures from 1981-82 to 1982-83. If public debt charges are excluded from total outlays and the energy-related expenditure items are allocated back to 1981-82, the resulting "corrected" expenditure growth rate in 1982-83 is only 10.7 per cent.

[(1)]In the November budget it was assumed that the Energy Security Act would receive parliamentary approval before the end of the 1981-82 fiscal year, and that about $1 billion in payments under the Petroleum Incentives Program would be made before April 1, 1982. The delay in parliamentary approval for the energy legislation meant that outlays were lower by this amount in 1981-82 and will be correspondingly higher in 1982-83.

Table 2.2

Government of Canada Budgetary Revenues Public Accounts Basis[1]

	1980-81	1981-82	1982-83
	(millions of dollars)		
Personal income tax	19,837	24,110	26,775
Corporate income tax	8,106	8,150	8,320
Petroleum and gas revenue tax	27	835	2,580
Incremental oil revenue tax	0	30	290
Non-resident tax	867	1,020	1,030
Sales tax	5,429	6,185	6,310
Customs import duties	3,188	3,440	3,045
Excise duties	1,042	1,175	1,295
Other excise taxes	573	565	625
Gasoline excise tax	453	435	420
Oil export charge	842	515	380
Natural gas and gas liquids tax	187	1,000	1,260
Net petroleum compensation revenue	0	70	0
Miscellaneous tax	99	120	130
Total tax revenues	40,650	47,650	52,460
Non-tax revenues	4,748	6,115	6,090
Total budgetary revenues	45,398	53,765	58,550
	(percentage change)		
Personal income tax	18.0	21.5	11.1
Corporate income tax	16.6	0.5	2.1
Petroleum and gas revenue tax	—	—	209.0
Incremental oil revenue tax	—	—	866.7
Non-resident tax	10.2	17.6	1.0
Sales tax	15.6	13.9	2.0
Customs import duties	6.3	7.9	−11.5
Excise duties	16.4	12.8	10.2
Other excise taxes	14.1	−1.4	10.6
Gasoline excise tax	7.6	−4.0	−3.4
Oil export charge	12.3	−38.8	−26.2
Natural gas and gas liquids tax	—	434.8	26.0
Net petroleum compensation revenues	—	—	−100.0
Miscellaneous tax	3.1	21.2	8.3
Total tax revenues	16.4	17.2	10.1
Non-tax revenues	17.9	28.8	−0.4
Total budgetary revenues	16.6	18.4	8.9

[1]The year 1980-81 has been adjusted to exclude postal revenues, to be consistent with the two following years.

Total outlays are forecast to be at a level equivalent to 22.0 per cent of GNP this year, up from 20.5 per cent last year. This ratio for 1982-83 had been projected at 20.2 per cent in the November budget and the substantial increase reflects both the 5.2-per-cent downward adjustment to the forecast of nominal GNP growth and the 3.3-per-cent upward adjustment to the total outlays target already discussed. The government has stated its intention to limit the trend rate of increase in its outlays to the trend rate of increase in GNP. With GNP growth projected to be below its long-term trend in 1982, the total-outlays-to-GNP ratio has seen an increase.

Budgetary Reallocations

The new expenditure and tax measures announced in this budget have been more than balanced by a package of expenditure-saving and revenue-raising measures, in order to avoid increasing the deficit over the next two years (see Table 2.3). The new expenditures add up to about $700 million this year and a similar amount next year. They include additional spending on job creation through direct employment programs and through investment incentives to the private sector under economic development programs, the initiatives in the housing construction and renovation areas, and the interest rate assistance measures being provided for homeowners, farmers and small businesses. As shown in Table 2.3, allowance is also made for the revenues forgone as a result of the tax measures contained in the budget. These new expenditure items and revenue-reducing measures are offset by expenditure savings totalling about $622 million this year and $1,120 million next year. The savings result from the Compensation Restraint Program, downward adjustments to the allocations to Official Development Assistance, military pay savings and defence spending reprofiling, partial deferrals of spending in the native and western economic development area, reductions in government advertising and publishing budgets, and the limitations imposed on indexation for Family Allowances and pensions. Table 2.3 also shows how the limitation on indexation in the personal income tax system will provide a further offset to the cost of the initiatives in this budget.

Non-Budgetary Transactions

The government's financial requirements are equal to the sum of the budgetary deficit, its non-budgetary transactions, and its foreign exchange transactions. Because of the potential effects they could produce in exchange markets, the government does not provide forecasts of its foreign exchange transactions. However, a detailed forecast is provided for non-budgetary transactions which comprise for the most part loans, investments and advances, the specified purpose accounts, interest and debt accounts and year-end accounts. Loans, investments and advances are a sub-component of total outlays, which were discussed above.

The specified purpose accounts are now projected to provide only $1.1 billion in 1982-83, or $2.5 billion less than had been projected in the November 12, 1981 budget and $2.2 billion less than was the case in 1981-82. This much smaller

Table 2.3

Government of Canada Budgetary Reallocations

	1982-83	1983-84	Both Years
	(millions of dollars)		
Funds reallocated to:			
Revenue-decreasing measures			
Child Tax Credit increase	100	150	250
Adjustments to November budget measures	40	285	325
Allowance for investment income tax proposals	0	350	350
Total	140	785	925
New expenditure measures			
Direct employment measures	100	100	200
Economic development measures	100	200	300
Home renovation plan	20	10	30
Mortgage renewal assistance	30	25	55
New construction/homeownership grants	200	100	300
Cooperative housing	1	5	6
Interest rate assistance to farmers	50	50	100
Small business investment grants	200	200	400
Total	701	690	1,391
Total funds reallocated	841	1,475	2,316
Funds made available for reallocation from:			
Revenue-raising measures			
Limitations on the degree of indexation of the personal income tax system	160	1,140	1,300
Total	160	1,140	1,300
Expenditure-saving measures			
Compensation restraint program	250	550	800
Official Development Assistance reductions	75	100	175
Military pay and defence reprofiling	100	100	200
Native economic development program deferral	45	40	85
Western economic development funding deferral	92	0	92
Reduced departmental publishing and advertising	15	15	30
Limitations on the degree of indexation for Family Allowances	25	130	155
Limitations on the degree of indexation for Old Age Security	5	100	105
Limitations on the degree of indexation for public service pensions	15	85	100
Total	622	1,120	1,742
Total funds available for reallocation	782	2,260	3,042
Balance after reallocations	–59	785	726

net provision of funds is almost entirely due to an increase in the projected deficit in the Unemployment Insurance account to $2.2 billion for 1982-83. Revenues to the account are largely determined by the employer/employee contribution rate set at the beginning of each calendar year. The employer/employee rate was set at $2.31/$1.65 per $100 of insurable earnings on January 1, 1982. Disbursements from the account are subject to the impact of fluctuations in unemployment. The unemployment forecast for 1982 is now considerably higher than was the case in the November budget with the result that the deficit in the account is now expected to be much higher in 1982-83. The other major specified purpose accounts are the public sector superannuation accounts, which are now projected to provide $3.4 billion in 1982-83, roughly the same as projected in November.

Other non-budgetary transactions are now estimated to have provided $2.2 billion more in 1981-82 and are projected to provide $0.9 billion more in 1982-83 than was forecast in the November budget. This is largely due to the impact of the 1981 Canada Savings Bond campaign on the debt and interest accounts. The larger than expected sales of Canada Savings Bonds have allowed the government to reduce substantially its borrowing through other instruments. In the case of Canada Savings Bonds, considerable amounts of interest are accrued as liabilities, rather than paid in advance as is the case for Treasury bills. As a result, a portion of public debt charges as recorded in budgetary expenditures is not actually paid out in the year they accrue. This increased source of funds is recorded in the debt and interest accounts of the other non-budgetary category of the government's summary statement of transactions. In relation to the November budget this source of funds has increased by $1.2 billion in 1981-82 and $0.8 billion in 1982-83. The remaining increased source of funds for 1981-82 over the November budget is largely due to an increase to cash in transit and to cheques issued by the government at year's end but not yet cashed.

The Fiscal Projections on a National Accounts Basis

Table 2.4 shows the federal government's revenues and expenditures as recorded on a national accounts basis and Tables 2.5, 2.6 and 2.7 compare the main aggregates on this basis with the comparable public accounts estimates. While the accounting procedures are somewhat different for the federal government in the national accounts as compared to the public accounts[2], the same points explaining the slowdown in revenue growth on a public accounts basis in Table 2.2 apply to the federal revenues as defined in Table 2.4. National accounts expenditures are expected to grow 20.2 per cent in 1982-83. The rapid growth of transfer payments to persons is the most important component in this substantial increase, and reflects the large cyclical increase in unemployment insurance payments in 1982-83. (In the public accounts these payments

[2]For the most part, the national accounts are compiled on an accruals basis, while the public accounts are on a cash basis to provide Parliament with the information necessary to direct the government's financial activities. In addition, the public accounts show several programs such as petroleum compensation, unemployment insurance, and public service pensions on a "revenue net of expenditure" basis (or vice versa) while the national accounts show both the gross revenues and the gross expenditures of these programs. As a result, the national accounts revenues and expenditures are larger than their public accounts counterparts.

Table 2.4

Government of Canada Revenues and Expenditures National Accounts Basis

	1980-81	1981-82	1982-83
	(millions of dollars)		
Revenues			
Direct taxes, persons	24,547	30,473	33,825
Direct taxes, corporations	8,715	7,793	9,839
Direct taxes, non-residents	932	1,163	1,130
Indirect taxes	13,339	19,150	18,233
Other current transfers from persons	16	24	24
Investment income	4,906	5,575	6,677
Capital consumption allowances	831	956	1,073
Total	53,286	65,134	70,800
Expenditures			
Current goods and services	14,431	16,862	18,680
Transfer payments to persons	17,132	19,891	25,236
Subsidies	5,697	6,386	6,526
Capital assistance	656	826	4,041
Current transfers to non-residents	779	939	975
Public debt interest	10,500	14,619	17,705
Transfers to other levels of government	12,877	14,521	15,747
Gross capital formation	789	1,334	1,690
Total	62,861	75,378	90,600
Surplus or deficit (–)	–9,575	–10,244	–19,800

are subtracted from unemployment insurance contributions, and the net difference is recorded as a source or use of funds in the specified purpose accounts.) Excluding this automatic stabilizing expenditure item, total national accounts expenditures increase by 17.5 per cent in 1982-83. Spending on goods and services is projected to grow 10.8 per cent in 1982-83. Subsidies growth declines to 2.2 per cent in 1982-83 because of the impact of lower international oil prices on the petroleum compensation program.(3) The sharp increase in capital assistance payments mainly results from the start-up of several large programs including Western Development Fund activities and the Petroleum Incentives Program. Almost half of the $4.0 billion in this category is attributable to doubled-up Petroleum Incentives Payments, as a result of the delay in parliamentary

(3) In the national accounts, receipts from the petroleum compensation charge are reported as a revenue item and petroleum compensation payments are recorded as an expenditure item. In the public accounts these two flows are reported on a net basis. As stated, a similar comment applies to the premium receipts and benefit payments under the unemployment insurance program.

approval for the energy-related legislation. Current transfers to non-residents will increase in line with Canada's commitment to reach a level of foreign aid of 0.5 per cent of GNP by mid-decade. Public debt interest is projected to continue to grow rapidly in 1982-83, at 21.1 per cent, reflecting high interest rates and the large deficit. Transfers to other levels of government are projected to grow by 8.4 per cent in 1982-83, reflecting the new fiscal arrangements legislation approved by Parliament in April.

Table 2.5

Government of Canada Revenues and Expenditures National Accounts and Public Accounts Comparison

	1980-81	1981-82	1982-83
	(millions of dollars)		
Revenues			
Public accounts — budgetary revenues	45,398	54,765	58,550
(percentage change)	16.6	18.4	8.9
National accounts — total revenues	53,286	65,134	70,800
(percentage change)	17.5	22.2	8.7
Expenditures			
Public accounts — total outlays	58,589	68,035	78,800
(percentage change)	13.0	16.1	15.8
National accounts — total expenditures	62,861	75,378	90,600
(percentage change)	15.0	19.9	20.2
National accounts — expenditures excluding unemployment insurance benefits	58,368	69,942	82,190
(percentage change)	15.2	19.8	17.5
Net position			
Public accounts — financial requirements excluding foreign exchange transactions	−10,117	−8,340	−17,100
National accounts — balance	−9,575	−10,244	−19,800

Table 2.6

Government of Canada Expenditures
Public Accounts and National Accounts Reconciliation

	1980-81	1981-82	1982-83
	(millions of dollars)		
Budgetary expenditures — public accounts	58,066	66,700	78,100
Adjustments			
Transfers to funds and agencies[1]	−2,278	−2,680	−3,348
Deficits of government business enterprises[2]	−1,044	−1,309	−1,105
Expenditures of funds and agencies	1,300	1,581	1,874
Government pensions and social security disbursements[3]	5,852	7,391	10,967
Capital consumption allowances	831	956	1,073
Petroleum compensation program[4]	1,236	4,390	3,687
Miscellaneous adjustments[5]	−1,102	−1,651	−648
Total expenditures — national accounts	62,861	75,378	90,600

(1) In the national accounts, budgetary appropriations to various funds and agencies are replaced by the expenditures actually made by the funds and agencies. These figures do not include payments from the petroleum compensation revolving fund which are included in the "petroleum compensation program" line.

(2) In the public accounts, deficits of government business enterprises are a charge to budgetary expenditures, whereas in the national accounts these deficits are deducted from remitted profits of other government business enterprises.

(3) In the public accounts, these government pension and social security disbursements are treated as non-budgetary transactions, whereas in the national accounts these transactions are included in government expenditure.

(4) These figures represent the difference between gross payments recorded on a national accounts basis and net payments recorded on a public accounts basis.

(5) As in the case of revenues, the miscellaneous adjustments arise as a result of conceptual differences between the two forms of presentation. These items represent, for example, reserves and write-offs which include provisions for valuation; purchase of existing capital assets; budgetary revenue items offset against budgetary expenditure; expenditures of reserve accounts; imputed items; and an adjustment for the treatment of expenditures in the supplementary period.

Table 2.7

Government of Canada Revenues
Detailed Public Accounts and National Accounts Reconciliation

	1980-81	1981-82	1982-83
	(millions of dollars)		
Budgetary revenue — public accounts	45,398	53,765	58,550
Adjustments			
Deficit of government business enterprises[1]	−1,044	−1,309	−1,105
Sale of capital assets	−96	−104	−300
Budgetary revenue offsets	−441	−480	−532
Corporate income tax (incl. PGRT and IORT)[2]	610	−1,177	−1,315
Oil export charge[3]	21	362	260
Withholding tax[4]	−29	23	−30
Employer-employee contribution to government pensions	1,234	1,496	1,444
Employer-employee contribution to unemployment insurance[5]	3,400	4,879	5,611
Western Grain Stabilization contributions[5]	51	46	51
Interest on public-held funds[5]	1,915	2,341	2,917
Capital consumption allowances	831	956	1,073
Canadian ownership charge	0	872	677
Excess of national accounts petroleum compensation revenue over petroleum compensation account surplus[6]	1,459	4,257	3,640
Airport tax	153	174	204
Imputed banking services	60	77	70
National accounts investment income adjustment[7]	−156	−608	−477
Other non-tax revenue adjustment[8]	−17	−357	106
Other adjustments and rounding	−63	−79	−44
Total revenue — national accounts	53,286	65,134	70,800

[1]In the public accounts deficits of government business enterprises are a charge to budgetary expenditures, whereas in the national accounts these deficits are deducted from remitted profits of other government business enterprises.

[2]This adjustment represents the excess of accruals over collections for corporate income tax, the petroleum and gas revenue tax and the incremental oil revenue tax.

[3]Included in the oil export charge adjustments are: the excess of accruals over collections for the oil export charge and the TFCRC and the transfer to the provinces for crude oil export rebates.

[4]The withholding tax is recorded on a different basis in the public and national accounts. The difference shown is the national accounts tax on non-residents minus the sum of the public accounts non-resident tax and other tax revenue (withholding tax on life insurance companies).

[5]In the public accounts these government pension and social security receipts are treated as non-budgetary transactions, whereas in the national accounts these transactions are included in government revenue.

[6]In the public accounts the petroleum compensation charge is netted against petroleum compensation payments. Gross revenues and payments are recorded in the national accounts. Revenues are recorded on an accruals basis in the national accounts.

[7]This adjustment reflects the excess of remitted profits (prior to deduction of deficits) and interest on loans and advances over public accounts return on investments.

[8]This adjustment is the difference between the national accounts categories of budgetary revenue offsets, sales of capital assets, other current transfers from persons and miscellaneous indirect taxes and public accounts other non-tax revenue.

3. New Housing Measures

One of the areas of the economy selected for immediate assistance and stimulus is the housing sector — a sector which is severely affected by high interest rates. The government is concerned with the difficulties faced by many Canadians wishing to purchase a house, with the hardship experienced by many homeowners having to renew mortgages, with the availability of rental accommodation and the number of residential housing starts, and with the high unemployment rate in the construction industry.

Recent Measures

In the November 1981 budget, the government announced a program to assist Canadians facing hardship when renewing their mortgage. The Canada Mortgage Renewal Plan met the government's commitment in the Throne Speech to assist those who need help the most. Under this plan, homeowners who have to devote more than 30 per cent of their gross income to the payment of principal, interest and taxes when renewing mortgages are eligible for a government guarantee of interest deferred, up to a maximum of $3,000. If the homeowner's equity in the house is less than 5 per cent of the value of the house after interest deferral, the government provides a grant of up to $3,000 to write off all or part of the interest deferred. This program was made retroactive to September 1, 1981, and it will expire on November 12, 1982. The program has provided a floor, a safety net, for the most pressing cases.

The November budget also announced an incentive program for the construction of new rental units. The Canada Rental Supply Plan provides an interest-free loan of up to $7,500 per unit for 15,000 units allocated to tight rental market areas across the country. In March, the Minister responsible for Canada Mortgage and Housing Corporation announced that another 15,000 units would be assisted under this plan as part of a series of employment creation initiatives. It is estimated that this program will generate 54,000 jobs over two years. The Minister responsible for CMHC will soon be announcing project commitments and these will increase construction activity and contribute to the availability of rental accommodation.

The Canada Home Renovation Plan was announced last March. This program will enable about 15,000 homeowners in areas of high unemployment to improve their homes. The program leverages private funds and is expected to create some 10,000 jobs. Response to the $30 million allocated to the program has been good.

The federal government is pleased that a number of provinces have introduced programs generally for the purpose of stimulating new construction activity and facilitating access to homeownership. In this connection the Minister of National Revenue indicated recently that the mortgage interest rate subsidy introduced by the Government of Saskatchewan would not be taxable.

New Initiatives

Recognizing that the current level of interest rates is having a serious effect on the housing sector, the federal government has developed a five-point housing package designed to create new jobs in the construction industry, to improve access to homeownership, to assist further those homeowners facing serious mortgage renewal difficulties, and to ensure the availability of rental accommodation. These new initiatives are outlined below and the Minister responsible for CMHC will be announcing the details shortly.

a) New Home Construction and First-Time Buyers Plan

In recent months there has been a significant slowdown in housing starts. This has been particularly pronounced in non-rental housing. The unemployment rate for construction workers is high and construction companies and related businesses are facing increasing difficulties. Recognizing that construction activity has a strong impact on job creation, the government is announcing, effective immediately, a new program under which all purchasers of new houses on which construction starts before December 31, 1982 will be eligible for a $3,000 cash grant to assist in reducing their mortgage loan. First-time buyers who purchase an existing house between now and December 31, 1982 will also be eligible for this grant. In order to ensure that eligible home buyers have sufficient equity in their house, a minimum down payment of 10 per cent of the value of the house will be required, exclusive of the grant. The grant will not be taxable. House price ceilings will be established by CMHC on the basis of regional market conditions.

It is intended that homeowners should be able to benefit from both the federal plan and the programs offered by provincial governments. Maximum stimulus will thus be provided.

It is estimated that 100,000 purchasers will be eligible for this grant for a total cost of $300 million. It should result in the creation of more than 50,000 new jobs in 1982 and 1983.

This measure will also serve to stimulate construction before the new mortgage instruments described in the discussion paper on Inflation and the Taxation of Personal Investment Income become available. If they do, purchasers of new houses who receive the federal grant and are eligible for these new instruments will not be precluded from obtaining such a mortgage in the future.

b) Existing Homeowners — Home Renovation Plan

The initial $30 million allocation to the Home Renovation Plan will be doubled to $60 million, thus generating another 10,000 jobs.

c) Existing Homeowners — Canada Mortgage Renewal Plan

Given current circumstances, the government has decided to provide added assistance to Canadians who face serious hardship as a result of mortgage renewal. The following changes to the Canada Mortgage Renewal Plan will be made:

(1) the plan will be extended from November 12, 1982 to December 31, 1983; and

(2) homeowners having to spend more than 30 per cent of their gross income on mortgage costs as a result of renewals taking place after June 28 will be eligible for a non-taxable cash grant of up to $3,000. This means that it will no longer be necessary to defer interest before becoming eligible for a grant.

It is estimated that this new approach to assisting homeowners facing serious problems in holding on to their homes will cost between $25 and $50 million depending on the number of those householders facing hardship who choose to avail themselves of the program.

The Minister responsible for housing will introduce legislation to give effect to these changes.

d) Renters — Canada Rental Supply Plan

The Canada Rental Supply Plan has gained momentum. As stated earlier, the Minister responsible for CMHC will be announcing shortly commitments under the program. The government is committed to the production of 30,000 rental units over the next 18 months and this will provide a substantial contribution to rental housing starts this year and next, to job creation in the construction industry and to the availability of rental accommodation. Some builders have suggested that the $7,500 interest-free loan may not be sufficient in some markets across the country. The government is prepared to show some flexibility on this. The Minister responsible for housing will continue to pursue a competitive process to ensure that public funds are used to best advantage.

e) Low-Income Households — Cooperative and Non-Profit Housing

The government recognizes that the housing needs of low-income Canadians deserve special attention in these difficult circumstances. Thus the annual allocation for non-profit and cooperative housing will be increased from 25,000 units to 27,500 in 1982. This should generate an additional 4,500 jobs, largely in 1983. The cost of this measure will reach an annual level of $10 million in 1984-85.

4. Small Business Investment Grant

The federal government is allocating $400 million in order to reduce interest costs by up to 4 percentage points for two years on borrowings by small businesses to finance new investment and research and development.

The program will provide significant and immediate benefits to small business (including farmers and fishermen). This temporary program is being introduced pending a decision on the proposals set out in the discussion paper on Inflation and the Taxation of Personal Investment Income. Businesses that may qualify, under the discussion paper proposal, but that invest now, will not be precluded from participating under that program should they find it more attractive to do so, subject to normal commercial lending criteria. Eligibility for the benefits of the temporary assistance program will generally parallel the rules for the recent Small Business Development Bond tax program.

Loans to small businesses by financial institutions will qualify for the new assistance program if they are used for the following purposes:

- Financing purchases after June 28, 1982 and before March 31, 1983 of new depreciable property to be used in an active business in Canada. This will include government guaranteed loans to small businesses under the Small Business Loans Act.
- Financing expenditures on scientific research after June 28, 1982 and before March 31, 1983.

Loans to finance purchases of land, automobiles or property for lease will not qualify.

Both small business corporations and unincorporated enterprises that carry on an active business in Canada can qualify under the program. Small business corporations are Canadian-controlled private corporations eligible for the low small business tax rate, that is, those with annual income below $200,000 and with cumulative income below $1,000,000.

To benefit from the program, an eligible small business borrower negotiates a loan for eligible purposes with a financial institution, subject to normal commercial lending practices. Certification by the borrower that the loan qualifies under the program will be required. The federal government will then pay up to 4 percentage points of interest on the outstanding loan on behalf of the borrower to the financial institution. Assistance will be payable on a loan in instalments for two years from its date of issue. The borrower will thus be liable for the interest on the loan less the amount of the assistance, and only the net amount of interest paid will be deductible by him for income tax purposes. The Minister of Industry, Trade and Commerce and the Minister of State for Small Business and Tourism will shortly be making available further details of the program.

The total amount of eligible loans to a business or related group of businesses will be limited to $500,000, and to qualify loans must be for at least $10,000.

The 4-percentage-point grant will be reduced in cases where the grant and any other assistance available would reduce interest on the loan to less than 12 per cent.

The previous Small Business Development Bond tax program exempted financial institutions from tax on interest on loans for both new investment and financial difficulty. To target the available tax benefits to those small businesses most in need of assistance, the November 1981 budget confined the tax exemption to loans for those in financial difficulty. The new assistance program announced in this budget is a direct expenditure program. Hence, it should not reduce the tax benefits available to finance the Small Business Bond program, and will not be constrained by the tax position of lenders.

5. Special Farm Financial Assistance Program

The government is introducing a new assistance program for farmers to be delivered through the Farm Credit Corporation.

Over the next two years loans totalling $200 million will be made under the program to farmers in financial distress. The loans will be made at the regular FCC interest rate (currently 16½ per cent) but a rebate of 4 percentage points will be provided for the first two years of the loan. The government is allocating $100 million to the program ($84 million as a special contribution to the FCC for lending to farmers and $16 million to pay for the interest rebates) and the FCC will divert $116 million to the program from its regular lending fund.

Lending under the program is to commence immediately. Subject to the availability of funds, a loan will be available to any farmer in financial distress who in the longer term can be expected to have sufficient income to meet his commitments as they fall due. The FCC's customary lending arrangements will apply — for example, the loan ceiling of $300,000 for individuals and $500,000 for partnerships — but loans will not be restricted only to the FCC's normal clientele, i.e. the young, small or beginning farmer.

A farmer will be classified as being in financial distress if he requires the loan and associated interest rebate to survive in the short run. Farmers able to obtain Small Business Bond financing will not normally be considered for a loan. Loans will normally be for debt consolidations but there may be cases where a portion of the loan is for investment purposes (e.g. the completion of a farm building) necessary to ensure financial recovery.

Loan recipients will be required to put into effect a recovery plan acceptable to the FCC, to accept FCC counselling for at least two years, and to provide whatever information the FCC may require to monitor their progress.

6. Measures to Limit Indexation and to Increase the Child Tax Credit

The government proposes to limit the indexation of federal social security transfer payments and of personal income tax, in line with the limitations being proposed on increases in federal public service wages and pension benefits.

Implementation Dates:

- on January 1, 1983 indexation limited to 6 per cent (on an annual basis)
- on January 1, 1984 indexation limited to 5 per cent (on an annual basis)
- on January 1, 1985 full indexing to the CPI resumes

Transfer Payments

The indexation of benefits from the Old Age Security (OAS) and Family Allowance programs will be limited to 6 per cent per annum for 1983 and 5 per cent per annum for 1984. Full indexation of these programs will resume on January 1, 1985. However, for low-income families with children and low-income elderly persons, the resulting reduction in the value of benefits will be fully offset by a special increase in the Child Tax Credit and the Guaranteed Income Supplement (GIS), over and above the full indexing which will continue to apply to these two programs.

The Guaranteed Income Supplement will be increased quarterly over and above regular indexation by the difference between the OAS level resulting from the limit on the indexation factor and the OAS level that would have occurred if full indexation had been applied. For example, the quarterly increase in OAS on January 1, 1983 will be approximately $3.75 per month under the proposal, compared to approximately $6.25 per month had there been no limit on indexation. The OAS payments will, therefore, be some $2.50 per month lower than otherwise. The GIS payments will be increased by this difference ($2.50 per month) on January 1, 1983, over and above any changes resulting from regular indexation of this program. The limit on the indexation of Family Allowances will be accompanied by a one-year temporary increase of $50 in the Child Tax Credit for the 1982 taxation year. The value of the credit will thus be increased from $293 to $343 per child for 1982. Low- and middle-income families will receive the benefits of this increase in early 1983 when they file their income tax returns for 1982. The family income threshold up to which full Child Tax Credit benefits are payable is $26,330 for 1982 and will remain unaffected by the change proposed. Family Allowances are $323 per child for 1982. Under the 6-per-cent limitation on indexation they will rise to $342 in 1983. They would otherwise have been expected to be about $359 in 1983 had full indexation applied. The $50 increase in the Child Tax Credit will more than compensate for the loss in Family Allowance benefits for low- and middle-income families.

Table 6.1

Expenditure Reduction

Fiscal Year	Family Allowance	Old Age Security	Total
		(millions of dollars)	
1982-83	25	5	30
1983-84	130	100	230
Total	155	105	260

Personal Income Tax Indexing

For the 1983 and 1984 taxation years the indexing adjustment for personal exemptions and tax brackets will also be limited to 6 per cent and 5 per cent respectively. This limitation will not apply to the Child Tax Credit which will be increased each year by the full inflation indexing factor.

The limitation in the indexing adjustment is estimated to result in revenue savings of $160 million in 1982-83 and $1,140 million in 1983-84. Revenues of the provinces under the tax collection agreements will be increased by $30 million and $400 million respectively in the two years, as a result of the capping of tax indexing.

Table 6.2 provides a comparison of disposable income in 1983 for typical families and individuals resulting from the changes in indexing of Family Allowances, of income taxes and the increase in the Child Tax Credit. The full indexing factor for 1983 is estimated at 11.2 per cent.

Table 6.2

Change in Disposable Income in 1983 as a result of Capping Indexing at 6 per cent and Increasing the Child Tax Credit by $50

	1983 Disposable income			
Earned income	Before changes	After changes	Change in disposable income	
	(dollars)			(per cent)
Single individual — no dependants				
7,500	6,942	6,885	−57	−0.8
10,000	8,767	8,702	−65	−0.7
15,000	12,317	12,246	−71	−0.6
20,000	15,842	15,758	−84	−0.5
25,000	19,259	19,131	−128	−0.7
30,000	22,491	22,327	−164	−0.7
50,000	34,388	34,091	−297	−0.9
100,000	60,249	59,777	−472	−0.8
Married individual — two dependants under age 18				
7,500	8,574	8,640	66	0.8
10,000	10,957	10,998	41	0.4
15,000	14,977	14,930	−47	−0.3
20,000	18,561	18,504	−57	−0.3
25,000	22,117	22,045	−72	−0.3
30,000	25,334	25,211	−123	−0.5
50,000	37,168	36,755	−413	−1.1
100,000	63,278	62,678	−600	−0.9

Note: The change in disposable income in 1983 includes the 6-per-cent limitation on indexing of the income tax and Family Allowances, as well as the $50 increase in the Child Tax Credit per child, as applicable. The increase in the Child Tax Credit is for the 1982 taxation year but will be reflected in additional credits to families early in 1983 when 1982 tax returns are filed. Taxpayers are assumed to be under age 65, to receive earned income and to claim the standard exemptions and deductions. The provincial tax is calculated at the average provincial rate of 47 per cent of federal basic tax. No provision is made in the calculations for any provincial tax credits or surcharges.

7. Job Creation and Economic Development Initiatives

The government has already announced a number of initiatives this year to stimulate regional and economic development and to ease the problem of unemployment. In addition, $150 million was allocated to implement localized construction-related projects within existing government programs over the next 18 months. These measures will be reinforced. In a further measure to support job creation on an urgent basis, the government is expanding the funding of both direct job creation under existing programs — primarily the Canada Community Development Program ($200 million) — and programs in the economic development area which create private sector jobs primarily through levered investment incentives ($300 million).

Direct Job Creation

An additional allocation of $200 million will be made for direct job creation programs. These funds will offer new employment opportunities in projects which provide needed services supporting national and regional priorities. They will also provide employment opportunities for young people. These measures are also intended to assist regions of highest unemployment. The funds will be made available through existing federal programs and the Minister of Employment and Immigration will announce the details shortly.

This additional allocation will supplement the $84 million remaining in existing expenditure plans for the Canada Community Development Program in 1982-83 and 1983-84. It is also in addition to the $150 million planned for labour-intensive construction-related projects. Along with minor reallocation from other existing programs, this is expected to lead to direct job creation expenditures in excess of $450 million.

Economic Development Initiatives

Private sector employment, as well as industrial innovation and adjustment, will be provided through the additional $300 million to be allocated over the next two years to investment incentives under economic development programs. The programs to be expanded are expected to include the Enterprise Development Program (EDP) and Defence Industries Productivity Program (DIPP) of the Department of Regional Industrial Expansion, the Regional Fund, and the Industrial and Labour Adjustment Program (ILAP).

Notice of Ways and Means Motion to Amend the Income Tax Act

Notice of Ways and Means Motion to Amend the Income Tax Act

That it is expedient to amend the Income Tax Act and to provide among other things:

Indexing

(1) That for the 1983 and 1984 taxation years, the annual adjustment of deductions and other amounts provided in section 117.1 of the Act (other than the amounts of $200 and $18,000 relating to the child tax credit) not exceed the amount that would be the adjustment if the increase in the Consumer Price Index were 6% for the 12-month period ending on September 30, 1982 and 5% for the 12-month period ending on September 30, 1983.

Child Tax Credit

(2) That for the 1982 taxation year, the amount of the child tax credit be increased by $50 from $293 per child to $343 per child.

Non-Resident Withholding Tax on Interest

(3) That the exemption from the non-resident withholding tax in respect of interest on government and long-term corporate indebtedness be extended to apply to interest on such indebtedness issued before 1986.

Avis de motion des voies et moyens visant à modifier la Loi de l'impôt sur le revenu

Qu'il y a lieu de modifier la Loi de l'impôt sur le revenu et de prévoir entre autres choses:

Indexation

(1) Que, pour les années d'imposition 1983 et 1984, le rajustement annuel, prévu à l'article 117.1 de la Loi, de certaines déductions et autres sommes (à l'exclusion des sommes de $200 et de $18,000 relatives au crédit d'impôt pour enfants) ne dépasse pas celui qui serait obtenu si la hausse de l'indice des prix à la consommation pour la période de 12 mois se terminant le 30 septembre 1982 était de 6% et si celle pour la période de 12 mois se terminant le 30 septembre 1983 était de 5%.

Crédit d'impôt pour enfants

(2) Que, pour l'année d'imposition 1982, le montant du crédit d'impôt pour enfants soit augmenté de $50, passant de $293 à $343 par enfant.

Retenue de l'impôt de non-résidents sur les intérêts

(3) Que l'exonération de la retenue d'impôt de non-résidents à l'égard des intérêts sur une obligation du gouvernement ou sur une obligation à long terme d'une corporation soit étendue aux intérêts sur une telle obligation émise avant 1986.