

Better finances,
better lives



The
Budget
in Brief
2000

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

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Department of Finance
Canada

Ministère des Finances
Canada

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Budget 2000

Canada is now in an era of budget surpluses.

When the Government first took office in 1993, it set out a plan to restore the nation's finances, build a stronger, more innovative economy and improve the quality of life for all Canadians. The plan is working.

The deficit is eliminated, the debt burden is falling, our unemployment rate is at its lowest level in more than 20 years and disposable income is rising.

With a growing economy and our nation's finances in order, this budget charts a course to greater prosperity for all Canadians in the 21st century. Today's better finances will be used to help build better lives for all Canadians, now and for future generations.

Crucial to a higher quality of life is ensuring that we continue to increase resources for post-secondary education and improve our system of universal health care.

A key component of the Government's plan is to cut taxes. This will mean more money in the pockets of Canadians, stronger economic growth and enhanced job creation.

Canadians know that much of our future success hinges on building a stronger, more innovative economy. Developing the know-how, products, skills and services to keep the economy growing is essential to improving our quality of life.

That is why this budget:

- announces a \$2.5-billion supplement in the Canada Health and Social Transfer (CHST) – the fourth consecutive federal enrichment of the CHST – to help provinces and territories meet what Canadians have clearly identified as their highest priorities: health and education;
- puts forward a five-year plan to reduce taxes by at least \$58 billion, immediately restores full indexation of the personal income tax system to protect taxpayers against inflation and cuts tax rates for the first time in 12 years;
- proposes initiatives to promote leading-edge research and innovation in universities, research hospitals and the private sector; develop new environmental technologies and improve environmental practices; and strengthen provincial and municipal infrastructure; and
- increases significantly the income support available to parents by increasing the Canada Child Tax Benefit and enhancing parental benefits.

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Better finances, better lives

This budget sets out the federal government's plan for Canada in the 21st century. The economy of today is global, increasingly knowledge-intensive and built on instant communication. The federal government's plan is designed to make Canada a leader in this new economy in order to increase the standard of living and the quality of life of all Canadians.

The plan is based on maintaining sound financial management, providing tax relief, building an innovative economy and investing in skills and knowledge to ensure Canadians have the tools they need for better jobs now and in the future. It strengthens post-secondary education and health care and helps children get the best possible start in life.

This budget provides:

- a \$2.5-billion increase in the Canada Health and Social Transfer to help the provinces and territories fund post-secondary education and health care – the highest priorities of Canadians;
- a five-year tax reduction plan that will restore full indexation to the personal income tax system, cut core tax rates for the first time in 12 years, and reduce personal income taxes on an annual basis by an average of 15 per cent by 2004-05. The Plan will reduce taxes by a cumulative amount of at least \$58 billion over the next five years; and

- a series of initiatives, totalling \$4.1 billion between 1999-2000 and 2002-03, to promote innovation and leading-edge research, develop environmental technologies and practices, and strengthen federal, provincial and municipal infrastructure.

The actions set out in this budget to improve the quality of life of Canadians and their children are part of an overall four-part plan:

Maintaining Sound Financial Management

The Government is committed to low inflation, balanced or surplus budgets and a declining public debt burden. These are fundamental conditions for sustained economic growth and job creation, which in turn enable the Government to make investments in key priorities and provide substantial tax relief.

Providing Tax Relief

The Government believes that tax reduction is essential to improving living standards. It increases productivity, creates jobs and leaves more money in the pockets of Canadians.

Making Canada's Economy More Innovative

In the modern global economy, the nations that thrive will be those that excel at innovation. That is why the Government is increasing its support for the kind of groundbreaking research that will provide new ideas, products and services and generate continued economic growth in Canada.

Investing in Skills and Knowledge

Skills and knowledge are the best guarantees of higher incomes, greater job security and expanding opportunity for all Canadians. The Government is increasing its support of university research and providing further tax assistance to students on scholarships.

Maintaining Sound Financial Management

The Government's commitment to sound financial management – maintaining low inflation, keeping the budget in balance or surplus and reducing the debt burden – has allowed the Canadian economy to expand at a healthy pace and exceed the expectations of virtually all forecasters.

Economic Outlook Is for Continued Strong Growth

The economy grew strongly in 1999, with real GDP growth estimated to have averaged 3.8 per cent.

Private sector forecasters expect continued robust economic growth in 2000 and 2001.

Both the International Monetary Fund and the Organisation for Economic Co-operation and Development expect Canada to post the second fastest economic growth among the Group of Seven (G-7) major industrial countries in 2000 and to lead in job creation.

Unemployment Rate at Its Lowest Level in 24 Years

Last year marked the third consecutive year of strong job growth, with 427,000 jobs created during the year and almost 1.3 million jobs created since the end of 1996.

By the end of 1999, the unemployment rate was down to 6.8 per cent, its lowest level in almost 24 years.

Increase in Disposable Income

The strong job market performance has contributed to solid personal income growth. Real after-tax income improved for the third consecutive year in 1999. It has risen about 3 per cent in per capita terms since 1996, and private sector forecasters project that it will continue to increase significantly in the years ahead.

Sustained Low Inflation

Inflation has picked up somewhat in recent months, mainly reflecting higher fuel prices due to a strong increase in world oil prices. In December 1999, the year-over-year consumer price index inflation rate was 2.6 per cent while the inflation rate (which excludes the impact of food and energy) was 1.6 per cent. Inflation is expected to return to the mid-point of the 1-to-3 per cent target band set jointly by the Government and the Bank of Canada.

Strong Consumer and Business Confidence

Domestic demand has been buoyed by strong employment and income growth, which, together with low interest rates, have boosted consumer confidence. Business confidence has bounced back sharply since the end of 1998 and is now equal to the record high reached in mid-1997.

Budget 2000 Delivers:

Balanced Budgets or Better

- A balanced budget or better is expected for 1999-2000. The Government is committing to balanced budgets or better in 2000-01 and 2001-02. This would be the first time in 50 years that the budget has been in surplus or balance for five consecutive years. In fact, since Confederation there have been only two other occasions when the Government of Canada recorded balanced budgets or better at least five years in a row.

Continued Prudent Approach to Budget Planning

- The Government will continue to follow its prudent and transparent approach to budget planning. In accordance with the Debt Repayment Plan, it will continue to use the Contingency Reserve to reduce public debt in those years when it is not required.

Debt Burden

- The Debt Repayment Plan and sustained economic growth will ensure that the debt-to-GDP ratio – the level of the debt in relation to the country's annual income – remains on a permanent downward track. From a post-World War II peak of 71.2 per cent in 1995-96, it is expected to fall to about 55 per cent by 2001-02 and to below 50 per cent by 2004-05.

Controlling Spending

- From 1997-98, when the budget was first balanced, to 2001-02, the growth in program spending will be held to roughly the growth in population and inflation. As a percentage of GDP, it is projected to fall to 11.6 per cent in 2001-02 from 12.4 per cent in 1997-98 – the lowest ratio in half a century. Total program spending in the coming year will be \$4 billion below the 1993-94 level.
- Since the federal budget was balanced, fully two-thirds of all new spending has been directed towards health, access to knowledge and skills, and innovation.

International Perspective

- By the accounting standards used in most other G-7 countries, the federal government will post a financial surplus for the fourth consecutive year in 1999-2000 – the only G-7 country to do so.
- Canada recorded the largest improvement in its financial balance of all G-7 countries from 1992 to 1999.

Five-Year Tax Reduction Plan

In the fall of 1999, the Government promised Canadians in both the Speech from the Throne and *The Economic and Fiscal Update* that it would set out a multi-year plan for further tax reductions. With significant planning surpluses now available, this budget delivers on that commitment by making the most important structural changes to the Canadian federal tax system in more than a decade, with a special emphasis on the needs of families with children.

Five-Year Tax Reduction Plan Delivers:

Personal Income Taxes

Full Protection Against Inflation in the Tax System

- In a fundamental break with the past, the Five-Year Tax Reduction Plan immediately restores full indexation of the personal income tax system to protect taxpayers against inflation – this will benefit every Canadian.
- Full indexation will stop the automatic tax increases and benefit erosion that have occurred under Canada's tax system since the mid-1980s. For example, the real value of benefits such as the Canada Child Tax Benefit and the goods and services tax credit will no longer be eroded by inflation.

Reduction in Personal Income Tax Rates

- For the first time in 12 years, a federal income tax rate – the middle tax rate – will be lowered. The Plan reduces the middle tax rate to 23 per cent from 26 per cent, starting with a two-point reduction to 24 per cent in July 2000. This will cut taxes for 9 million Canadians.

Increases in Income Thresholds at Which Personal Income Tax Rates Apply

- Canadians will be able to earn more income tax-free and more of their income will be taxed at lower rates.
- The Plan increases the amount of income Canadians can receive tax-free to at least \$8,000 and the income amounts where middle and upper tax rates begin to apply to at least \$35,000 and \$70,000 respectively.

Enrichment of Canada Child Tax Benefit

- The Plan enriches the Canada Child Tax Benefit so that by 2004 an additional \$2.5 billion annually will be provided to low- and middle-income families with children. This will bring total benefits to more than \$9 billion annually. Maximum benefits will rise to \$2,400 for a first child and \$2,200 for a second child.

Elimination of the Deficit Reduction Surtax

- The Plan eliminates, as of July 1, 2000, the 5-per-cent deficit reduction surtax on middle-income Canadians with incomes up to about \$85,000, and completely eliminates it by 2004.

Investments in RPPs and RRSPs

- The Plan raises to 25 per cent for 2000 and to 30 per cent for 2001 the permissible foreign content of investments in registered pension plans and registered retirement savings plans.

Encouraging Innovation and Investment

The Five-Year Tax Reduction Plan will also help Canada become more competitive internationally by making the tax system more conducive to investment and innovation.

Reduce Corporate Income Tax Rates

- The Plan reduces corporate tax rates to 21 per cent from 28 per cent for businesses in the highest taxed sectors, such as high-technology services, to make these businesses more internationally competitive. The reduction starts with a one-point cut effective January 1, 2001.

Reduce Small Business Tax

- The Plan will reduce the general corporate tax rate to 21 per cent from 28 per cent on small business income between \$200,000 and \$300,000 effective January 1, 2001.

Enhance Tax Treatment of Capital Gains

- To stimulate risk-taking and greater access to financing for small businesses, the Plan:
 - reduces the capital gains inclusion rate from three-quarters to two-thirds;
 - postpones the taxation of gains on qualifying stock options to when the shares are sold rather than when the options are exercised; and
 - allows a tax-free rollover of capital gains on qualified investments from one small business to another.

Tax Plan Impacts

The Plan will reduce taxes by a cumulative amount of at least \$58 billion over the next five years.

On an annual basis, the Plan will reduce personal income taxes by an average of 15 per cent by 2004-05.

- For low- and middle-income Canadians, the Plan will reduce net personal income taxes by an average of 18 per cent.
- For families with children, the Plan will reduce net personal income taxes by an average of 21 per cent.
- A typical one-earner family of four with about \$35,000 of income will pay no net federal personal income tax.
- A typical one-earner family of four with income of \$40,000 will have its net federal personal income taxes reduced by \$1,623 a year by 2004 – a reduction of 48 per cent.
- A typical two-earner family of four with income of \$60,000 will have its net federal personal income taxes reduced by \$1,546 a year by 2004 – a reduction of 27 per cent.

Making Canada's Economy More Innovative

This budget proposes initiatives totalling \$4.1 billion between 1999-2000 and 2002-03 to promote leading-edge research and innovation in universities, research hospitals and the private sector; to develop new environmental technologies and improve environmental practices; and to strengthen federal, provincial and municipal infrastructure.

Investing in Innovation, Knowledge and Skills

The budget builds on the Canadian Opportunities Strategy introduced in the 1998 budget and expanded in the 1999 budget. It:

- provides \$900 million over five years to establish and sustain 2,000 new university research chairs across Canada;
- provides a further \$900 million to the Canada Foundation for Innovation, bringing the Government's total investment in the Foundation to \$1.9 billion;
- invests \$160 million in Genome Canada to advance the study of genes and biotechnology, especially their application to priority areas like health;
- invests \$90 million over three years for federal departments and agencies that regulate biotechnology products and processes; and
- increases the tax exemption for income from scholarships, fellowships and bursaries to \$3,000 from \$500.

Promoting Environmental Technologies and Practices

- The Government will allocate \$700 million between 1999-2000 and 2002-03 to develop new environmental technologies and improved practices in co-operation with provinces, municipalities, the private sector and non-governmental organizations.
- The budget proposals include a renewed Climate Change Action Fund, the Sustainable Development Technology Fund, a new Canadian Foundation for Climate and Atmospheric Sciences, new municipal-based initiatives for clean air and water, a National Strategy on Species at Risk and the Great Lakes Action Plan.

Strengthening Federal, Provincial and Municipal Infrastructure

- The federal government will renew its own infrastructure and work with other orders of government and the private sector to reach an agreement by the end of 2000 on a multi-year plan to improve provincial highways and municipal infrastructure in cities and rural communities across Canada.

Improving the Quality of Life of Canadians and Their Children

Increased Support for Post-Secondary Education and Health Care

- Canada Health and Social Transfer (CHST) payments will be increased by \$2.5 billion to help the provinces and territories fund post-secondary education and health care.
- This is the fourth consecutive federal enhancement to the CHST. They can draw upon this new funding to meet the most pressing needs in universities and hospitals, or at any time over the next four years, as they see fit.
- Starting in 2000-01, CHST cash will reach \$15.5 billion – a 25-per-cent increase over the last two years.
- Total CHST (cash and tax transfers combined) will reach an all-time high of almost \$31 billion in 2000-01.

Support for Families With Children

- The Canada Child Tax Benefit will be increased by \$2.5 billion a year by 2004, bringing to more than \$9 billion its annual support for low- and middle-income families with children. This will mean a maximum benefit of \$2,400 for a family's first child and \$2,200 for a second child.
- The duration of employment insurance maternity and parental leave will double to 12 months, giving new parents the opportunity to spend more time with their newborn or newly adopted children.
- The federal government reiterates its invitation from last fall's Speech from the Throne to provincial and territorial governments to reach an agreement by December 2000 on an action plan to support early childhood development.

Assistance for Canadians With Disabilities

- Building on previous budget measures, the federal government will extend support and implement additional tax initiatives to expand opportunities for persons with disabilities and help them deal with medical and care-related costs.

Summary of Spending and Tax Actions

Table 1 presents the fiscal outlook to 2001-02, taking into account all of the spending and tax measures announced since the 1999 budget.

Table 2 presents the fiscal impact of the spending and tax initiatives announced in this budget, Table 3 presents the fiscal impact of the measures announced before the budget while Table 4 shows the total fiscal impact of the spending and tax measures proposed since the 1999 budget. The cost of these proposed spending and tax actions amounts to \$6.2 billion in 1999-2000, \$7.7 billion in 2000-01, \$12.0 billion in 2001-02 and \$14.6 billion in 2002-03.

During the four years from 1999-2000 to 2002-03, the cost of the spending and tax actions proposed since the 1999 budget will amount to \$40.4 billion (Table 4).

Of this amount, \$16.8 billion is for spending initiatives. This includes \$2.5 billion for the CHST; \$4.1 billion for research, innovation, environmental initiatives and infrastructure; and \$1.7 billion for economic adjustments, primarily further farm assistance.

The tax relief measures legislated through this budget, including the assumed reductions in employment insurance premiums, amount to \$23.6 billion over this fiscal year and the following three years.

Table 1
Summary Statement of Transactions:
The Two-Year Planning Horizon

	1997- 1998	1998- 1999	1999- 2000	2000- 2001	2001- 2002
	(billions of dollars)				
Budgetary transactions					
Budgetary revenues	153.2	155.7	160.0	162.0	168.0
Program spending	108.8	111.4	115.5	116.0	121.5
Operating balance	44.4	44.3	44.5	46.0	46.5
Public debt charges	40.9	41.4	41.5	42.0	41.5
Underlying budgetary balance	3.5	2.9	3.0	4.0	5.0
Prudence					
Economic prudence				1.0	2.0
Contingency Reserve			3.0	3.0	3.0
Total			3.0	4.0	5.0
Budgetary balance	3.5	2.9	0.0	0.0	0.0
Net public debt	579.7	576.8	576.8	576.8	576.8
Non-budgetary transactions	9.3	8.6	8.0	-5.0	0.0
Financial requirements/ surplus	12.7	11.5	8.0	-5.0	0.0
Percentage of GDP					
Budgetary revenues	17.5	17.4	16.9	16.2	16.1
Program spending	12.4	12.4	12.2	11.6	11.6
Public debt charges	4.7	4.6	4.4	4.2	4.0
Total expenditures	17.1	17.1	16.6	15.8	15.6
Budgetary balance	0.4	0.3	0.0	0.0	0.0
Net public debt	66.3	64.4	61.1	57.8	55.2
Financial requirements/ surplus	1.5	1.3	0.8	-0.5	0.0

Note: Numbers may not add due to rounding.

Table 2
Spending and Tax Initiatives Announced in the 2000 Budget

	1999- 2000	2000- 2001	2001- 2002	2002- 2003	Cumu- lative total
(millions of dollars)					
Spending initiatives announced in this budget					
Improving the quality of life for Canadians and their children					
Post-secondary education and health care ¹	2,500				2,500
Support for families with children			607	965	1,572
Opportunities for Canadians with disabilities		33	37	32	102
Total	2,500	33	643	997	4,173
Making Canada's economy more innovative					
Investing in research and innovation	1,095	208	278	268	1,849
Promoting environmental technologies and practices	235	148	143	159	685
Strengthening federal, provincial and municipal infrastructure		300	550	750	1,600
Total	1,330	656	971	1,177	4,134
Maintaining essential public services					
Defence	350	400	550	600	1900
Furthering international co-operation	175	110	155	200	640
Operating and capital	118	795	834	760	2,506
Total	643	1,305	1,539	1,560	5,046
Total spending initiatives	4,473	1,994	3,153	3,733	13,353
Tax initiatives announced in this budget					
Personal tax relief		2,835	4,600	5,830	13,265
Canada Child Tax Benefit		475	1,020	1,350	2,845
Corporate income tax		5	390	545	940
Reduction in employment insurance premiums ²		235	1,010	1,805	3,050
Tax fairness measures		15	40	45	100
Total		3,565	7,060	9,575	20,199
Total spending and tax initiatives announced in this budget	4,473	5,559	10,213	13,308	33,552

¹ CHST supplement in 1999-2000 will be paid to a third-party trust in 2000-01, on passage of authorizing legislation. Expected drawdown by provinces and territories is described in the booklet *Improving the Quality of Life of Canadians and Their Children*.

² For planning purposes, employee EI premium rates are assumed to decline by 10 cents in 2001, 2002 and 2003. Actual rates are set each year by the Employment Insurance Commission.

Note: Numbers may not add due to rounding.

Table 3
Spending and Tax Initiatives Announced Before the 2000 Budget

	1999- 2000	2000- 2001	2001- 2002	2002- 2003	Cumu- lative total
	(millions of dollars)				
Spending initiatives announced before the budget					
Improving the quality of life for Canadians and their children					
Assisting the homeless	63	235	220	220	738
Maintaining essential public services					
Defence	284	146			429
Economic adjustment	661	511	500		1,672
Operating and capital	387	205			592
Total	1,331	862	500		2,693
Total spending initiatives	1,394	1,097	720	220	3,430
Tax initiatives announced before the budget					
Reduction in EI premium rates	345	1,157	1,165	1,175	3,841
Tobacco taxes	-25	-140	-140	-140	-445
Total	320	1,017	1,025	1,035	3,396
Total spending and tax initiatives announced before this budget	1,713	2,114	1,745	1,255	6,826

Note: Numbers may not add due to rounding.

Table 4

Summary: Spending and Tax Initiatives Since the 1999 Budget

	1999- 2000	2000- 2001	2001- 2002	2002- 2003	Cumu- lative total
(millions of dollars)					
Spending initiatives					
Improving the quality of life for Canadians and their children					
Post-secondary education and health care	2,500				2,500
Support for families with children			607	965	1,572
Opportunities for Canadians with disabilities		33	37	32	102
Assisting the homeless	63	235	220	220	738
Total	2,563	268	863	1,217	4,911
Making Canada's economy more innovative					
Investing in research and innovation	1,095	208	278	268	1,849
Promoting environmental technologies and practices	235	148	143	159	685
Strengthening federal, provincial and municipal infrastructure		300	550	750	1,600
Total	1,330	656	971	1,177	4,134
Providing essential public services					
Defence	634	546	550	600	2,329
Furthering international co-operation	175	110	155	200	640
Economic adjustment	661	511	500		1,672
Operating and capital	505	1,000	834	760	3,098
Total	1,974	2,167	2,039	1,560	7,739
Total spending initiatives	5,867	3,091	3,873	3,953	16,783
Tax initiatives					
Personal tax relief		2,835	4,600	5,830	13,265
Canada Child Tax Benefit		475	1,020	1,350	2,845
Corporate income tax		-65	320	475	730
Reduction in EI premiums	345	1,392	2,174	2,980	6,890
Tax fairness measures	-25	-55	-30	-25	-135
Total	320	4,582	8,084	10,610	23,595
Total spending and tax initiatives	6,186	7,672	11,957	14,563	40,378

Note: Numbers may not add due to rounding.

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