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Finance Finances

Release Communiqué

Budget Highlights

May 8, 1972

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A budget "to buttress the Canadian economy - to provide incentives for Canadian industry to grow and compete and provide jobs."

". . . to render justice to those people in our community who have been hurt by the rise in the cost of living and who have no way of fighting back."

GENERAL MEASURES

Permanent incentives to strengthen the competitive position of our manufacturing and processing industries:

* General corporate tax rate reduced to 40 per cent on Canadian manufacturing and processing income only, effective January 1, 1973.

* Tax rate reduced to 20 per cent from 25 per cent on manufacturing and processing income eligible for small business incentive, effective January 1, 1973.

* Two-year write-off introduced for machinery and equipment acquired after today for manufacturing or processing in Canada.

* "Earned depletion" incentive broadened to cover all expenditures for equipment to process mineral ore to the prime metal stage in Canada, including custom processing.

<u>Measures designed to provide greater social justice by relieving the financial burden borne by particular groups or individuals:</u>

* Basic Old Age Security pension, veterans' pensions and allowances escalated fully in step with cost-of-living changes, effective January 1, 1972.

* Maximum payments under combined Old Age Security-Guaranteed Income Supplement increased by $15 a month for single people and $30 a month for married couples, effective January 1, 1972, and fully escalated against cost of living thereafter.

* Special tax exemption for persons 65 and over increased to $1,000 from $650, effective January 1, 1972. Increase also applies to exemption for blind taxpayers and taxpayers confined to bed or wheelchair.

* Special tax exemption of $50 per month introduced for fulltime trainees and students attending prescribed courses at vocational and training schools and a broad range of post-secondary institutions, effective January 1, 1972.

* Medical expenses for tax purposes broadened effective January 1, 1972 to cover additional home care and travel costs for medical treatment.

<u>Other Measures</u>

* Two-year write-off for pollution control plants and equipment broadened in application and extended additional year.

* Legislation to be introduced implementing General Preferential Tariff for developing countries.

* Scientific research equipment purchased by manufacturers for use in testing or developing new products to be exempt from sales tax.

CHANGES RELATED TO TAX REFORM

* Introduction of rules for taxing "passive income" deferred from 1973 to 1975 to permit further examination of their impact.

* Rules eased for the taxation of accrued gains of persons leaving Canada; an exemption will apply for certain property of individuals who reside only temporarily in Canada.

* Tax treatment eased on non-cash gifts to charities where a charity can use the property in its activities.

* Persons relieved of obligation to pay federal tax in quarterly instalments if their federal taxes in the preceding year were less than $400.

* Calculation of tax instalments simplified for both individuals and corporations.

* Income from damage awards in cases of bodily harm or injury no longer taxable until person reaches age 21.

* The payment of taxes due on deemed realization at death of capital property may be extended evenly over a period of six years.

ECONOMIC AND FISCAL BACKGROUND

* The year 1971 brought substantial increases in personal incomes and personal spending, in government spending, in housing starts, and in both exports and imports. Productivity increased and there was some inventory buildup, but the growth of demand has not yet induced a major expansion of business investment.

* Twice as many new jobs were created in Canada last year as in 1970, but because of rapid labour force growth the decline in unemployment began only in the latter part of the year.

* There is growing confidence in Canada's economic prospects, assisted by the government's expansionary measures and by last December's settlement of international monetary issues.

* Government measures have helped to ease unemployment and to provide jobs for the extraordinary numbers of students joining the labour market during the summer.

* From a longer perspective, Canada's service and resource industries are strong and growing. But the output of our manufacturing industries has not kept pace with the growth of the economy as a whole. They are our largest single source of employment but are vulnerable and hard-pressed by a new international situation.

* In the 1971-72 fiscal year ended March 31, 1972, budgetary revenues are estimated at $14,145 million and expenditures at $14,745 million, for a $600 million deficit. Total cash requirements were $2,088 million, including $485 million required to finance foreign exchange transactions.

* In 1972-73, revenues are expected to be $15,670 million, expenditures $16,120 million and the deficit $450 million. Net non-budgetary requirements are expected to be $1,550 million. Total cash requirements will be $2,000 million apart from any increase or reduction arising from exchange transactions.

THE ECONOMIC OUTLOOK

* Strong consumer spending, an active housing picture and a buildup in business inventories will mark the year 1972. Having in mind the stimulus in the budget, there will be more capital investment by business -- especially in machinery and equipment -- than indicated in recent surveys.

* A large increase in employment is expected and although month-to-month fluctuations will likely continue, unemployment is expected to fall throughout the year.

* The outlook for prices is mixed, but it is not expected that the rise in prices will be significantly greater this year than last.

* The rate of real growth in 1972 is expected to be in the order of 6-6½ per cent.