Budget

. . . in brief

June 23, 1975

Finance Finances

From the budget speech
June 23, 1975

"Inflation, recession and energy are three issues facing Canadians. No single approach can solve all three.

"Nevertheless, I believe this budget strikes the right balance of policy.

"Throughout, I have had a central aim. This aim is to prepare the Canadian economy for a resumption of economic growth without inflation.

"I believe the key to achieving this aim is to reduce the increase of costs and prices now.

"The government is not prepared to do this by deliberately putting people out of work. Nor is the government prepared to put at risk the supply of energy for the future by adopting a short-sighted pricing policy today.

"Our broad thrust is to allow the forces of expansion already at work in the economy to have their full effect and, as an example to others, to exercise restraint as a government in our own claims on the economy."

John N. Turner
Minister of Finance

THE ECONOMIC BACKGROUND TO THE BUDGET

The decline of economic activity around the world has been more severe and prolonged than expected. This has put a brake on the Canadian economy and projections for its growth this year have been scaled down.

The international monetary system has coped more smoothly than expected with massive balance of payments problems created by the quadrupling of world oil prices. But large imbalances continue, and the overall deficit of the less-developed countries which consume oil will get worse this year, requiring continued financial help from wealthier countries.

Canada is participating actively in seeking ways to improve the longer-term growth and development of Third World countries. Canada has also supported a renewed pledge by industrial countries to abstain from raising new barriers to trade, and is playing an active part in far-reaching multilateral trade negotiations underway in Geneva. Efforts are underway on several fronts to strengthen bilateral economic relations with major trading partners.

Government policies and other factors have helped Canada to escape the full impact of the U.S. decline. U.S. real output is down more than 7 1/2% since 1973; in Canada the decline since the peak early in 1974 has been 2%. The U.S. unemployment rate is now more than two percentage points higher than ours.

However, Canada is now encountering a large current account deficit. Contracting demand in the U.S. has hurt the automotive and forest industries. Residential construction has fallen. Business capital investment remains strong, but it is jeopardized by the current economic slowdown, sharply rising costs and falling profits.

Recent easing of consumer prices masks a buildup of serious cost increases which threaten to erode the competitive position of our industries in both domestic and foreign markets.

Cost increases are most serious in relation to the U.S., our major trading partner, whose wage and salary increases are much lower than ours, and whose productivity is likely to improve more quickly as it emerges from its present deep recession.

POLICY OPTIONS BEFORE THE GOVERNMENT

Today the task of job creation has been made immeasurably more difficult by the disrupting and undermining effects of inflation.

Among policy options for dealing with inflation and unemployment, the government has rejected categorically the imposition of severe measures of fiscal and monetary restraint. Such action would deliberately increase unemployment to whatever level was required to bring inflation to a halt. It would create fear and anxiety, reduce output and lower our standards of living.

Efforts were made to secure a consensus on price and income restraints during the recent series of consultations with business and labour leaders, provincial governments and other groups. The discussions were valuable and these channels of communication should be kept open to permit continuing exchanges of views on economic developments.

Statutory control over prices and incomes—the most direct response to our present difficulties—was considered. However, we can resort to direct controls only when there is a public conviction of the need for such action. That point has not been reached.

The possibility of taxing away excessive increases in income was considered but rejected as inequitable and ineffective.

The government has chosen to create the climate and set the example to meet the problems before the country. It has concluded that it must set a $1 billion target of budget economies to provide a lead in the exercise of restraint. It is taking measures to establish strict control over its current activities and programs and to reduce their growth over the longer run. Selective measures will also be taken to create jobs, assist housing and sustain business investment, but without increasing the over-all expansionary thrust of government policies.

THE CONTROL OF GOVERNMENT EXPENDITURES

Non-statutory Programs and Loans, Investments and Advances

Reductions and postponements will be applied to almost all government departments and to many agencies:

$100 million in capital expenditures of the Transport, Defence, Public Works, Environment and other departments.

$250 million in the grants and contributions of External Affairs, Industry, Trade and Commerce, Secretary of State and other departments.

$350 million affecting Petro-Canada, the Federal Business Development Bank, the Federal Mortgage Exchange Corporation, the Farm Credit Corporation and others.

$130 million in the planned program expenditures of other departments and agencies.

General limitations in consultants' fees and travel by public servants.

Growth of the Public Service

A restriction on salary budgets will reduce the rate of increase in public service man-years to 3.1 per cent from 4.1 per cent this year. The restraint will specifically not apply to the office of the Auditor General.

Comparability of pay and benefits with the private sector will be adhered to strictly. But the government will not be prepared to grant increases unwarranted by any reasonable standard. This may lead to legal work stoppages. But resulting inconvenience to the public will have to be accepted. Every legal remedy will be used to deal with unlawful deprivation of service to the public.

Hospital and Medical Care Insurance

Costs of both the hospital insurance and medicare programs have escalated rapidly to a level of $6 billion a year. Cost of the federal half went up last year by almost 20 per cent.

Intensive discussions are going forward to achieve a more flexible and efficient system of hospital insurance to provide better services at a lower cost. In anticipation of a successful conclusion of these discussions, the government will give the five years' notice required of its formal intention to amend legislation and cost-sharing agreements.

Legislation will be introduced to place a ceiling on the per capita rate of growth of federal contributions under the Medical Care Act. The ceiling will be 13% in 1976-77, 10-1/2% in 1977-78 and 8 1/2% in 1978-79 and subsequent years. This ceiling will provide adequately for the servicing of a growing population.

Unemployment Insurance

Legislation will be introduced to strengthen the flexibility and fairness of the Unemployment Insurance Act and to deal with undesirable efforts on work incentives and recent changes in the structure of the labour market. Amendments will deal with benefit features and adjust financing by government, employers and employees.

MEASURES TO CREATE JOBS

Through Business Investment

New and broader government initiatives are needed under current circumstances to guard against any slowdown in capital investment.

The government proposes a 5-per-cent tax credit for investment in a wide range of new productive facilities. It will apply until July, 1977 to new buildings, machinery and equipment for use in Canada primarily in a manufacturing or processing business, production of petroleum or minerals, logging, farming or fishing. The credit is claimable up to $15,000 of federal tax liability in the year and one-half of any excess, with a five-year carry forward of any unclaimed balance. Estimated cost this fiscal year is $200 million.

Through Housing Investment

More must be done by government to bring housing starts to the rate needed in the long run to meet the housing needs of Canadians.

The existing $1 billion housing commitment of the Central Mortgage and Housing Authority this year will be increased by $200 million to permit increased lending to limited dividend rental projects, new-home buyers under the Assisted Home Ownership Program and provincial and other non-profit housing agencies.

Grants for housing financed by the private sector will be increased temporarily; until December 31, 1975, maximum annual grants for new owner-occupied housing units will be increased to $1,200 from $600; until March 31, 1976, maximum annual grants for new rental accommodation will be increased to $900 from $600.

Through Direct Employment

The government will commit $450 million over the next two years to an employment program enabling governments, industry and private groups to co-ordinate their efforts to improve work skills and create useful jobs.

$70 million will be added to training in industry and in educational institutions.

$285 million will be devoted to a new local initiatives program operating from November to June in each of 1975-76 and 1976-77. Emphasis will be placed on municipal works and projects.

$60 million will be set aside for the 1976 program of student summer employment.

$25 million is proposed to finance labour-intensive federal projects, particularly in regions where unemployment is most severe.

$10 million more will be devoted to existing job placement and mobility programs.

INCOME TAX CHANGE

The 8-per-cent reduction of federal taxes currently in effect will be changed effective for 1975 and subsequent years in order to increase taxes for higher-income taxpayers. The maximum reduction of $750 will be cut to $500, thereby affecting wage and salary earners above the $25,000-$27,000 income range.

Single Taxpayer

Wage and Salary Income	1975 Increase in Tax
$25,000	0
27,000	46
30,000	130
35,000	250
40,000	250
50,000	250

Married Taxpayer — Two Children Under Age 16

Wage and Salary Income	1975 Increase in Tax
$25,000	0
27,000	0
30,000	79
35,000	228
40,000	250
50,000	250

TARIFF, SALES AND EXCISE TAX CHANGES

The 5-per-cent sales tax on insulation materials is removed, affecting all purchases of insulating materials such as double-pane glass, storm windows and storm doors.

The excise imposed last fall on wine is reduced to its previous level.

Effective August 1, the existing air transportation tax is increased to 8 per cent from 5 per cent on Canada-U.S. flights and to $10 from $5 on flights to other countries.

The budget proposes to reduce tariffs or tariff-free entry for a number of products.

GOVERNMENT OF CANADA ANNUITIES

Legislation will be introduced to increase the rate of return on existing Government of Canada annuities, which are held by more than 270,000 Canadians. This will bring the rate of return closer in line with private sector plans and increase benefit payments.

The budget also announces that the sale of Government of Canada annuities will be discontinued.

OIL AND GAS PRICING AND CONSERVATION

The policy of a single national price for crude oil well below international prices has saved Canada from a harsh, one-step adjustment to the forces of the world market. But a phased adjustment toward world prices is necessary to provide for our future supplies and to conserve the use of this scarce resource.

The budget announces that the price of crude oil and its equivalents will rise by $1.50 to $8 per barrel on July 1, 1975. The industry is asked to refrain from increasing product prices for an additional 45 days while inventories held at the existing crude oil price are used up.

On November 1, 1975, the price of natural gas in Alberta will be established on the basis of an increase at the Toronto city gate from the current price of approximately 82 cents to $1.25 per 1000 cubic feet.

Action is required to close the gap between the payments required to hold down the cost of imported oil for eastern consumers and the revenues from the charge on oil exports to the U.S.

To deal with this financial problem and to encourage immediate conservation, the budget proposes a special excise tax of 10 cents a gallon on gasoline for personal use. The tax will be imposed on producers and importers of gasoline, and refunded on gasoline used for farming, fishing, construction, mining and most commercial transportation. Refunds of the tax to such users will be provided on the basis of certificates submitted to Revenue Canada.

The increase in the price of crude oil is equivalent to about 5 cents per gallon in the wholesale price across the range of products. This will be reflected in the retail price at the pump together with the excise tax of 10 cents.

CHANGES IN RESOURCE TAXATION

Changes are proposed in taxation arrangements for the petroleum and mineral industries to better recognize provincial resource levies in the tax system and to offer more incentive to those who explore and develop in Canada.

Effective January 1, 1976, the 50-per-cent rate of corporate tax on production profits and the extra 15-point abatement of federal taxes will be replaced by the 46-per-cent rate generally applicable to corporations. At the same time, in recognition of provincial resource levies, a resource allowance of 25 per cent will be deductible from production income, calculated after operating expenses and capital cost allowances but before interest expense, exploration and development and earned depletion. Corporations which increase their exploration budgets will find their tax is reduced under the new system. Those who do not explore and develop will face an increase in taxation.

Summary of Government of Canada Financial Requirements

1975-76 Forecast (Millions of Dollars)

Budgetary Revenues	$ 25,725
Budgetary Expenditures	–28,900
Deficit	– 3,175
Net Non-Budgetary Transactions	– 2,125
Total Financial Requirements Excluding Foreign Exchange Transactions	– 5,300
Foreign Exchange Requirements to May	332
Total Financial Requirements	$– 4,968

DISCUSSION PAPERS

Two Discussion Papers tabled with the budget invite public discussion and submissions on areas of further reform in the tax system.

One of the papers formally initiates a review of commodity taxation. It evaluates alternatives to the present system and suggests that the federal sales tax be moved from the manufacturer's level to the wholesale level.

The other paper reviews the role and activities of charities in modern society and their treatment under the Income Tax Act. It proposes changes with regard to fund raising, public disclosure of operations, the distribution of funds, and the classification of charities for tax purposes.

Both papers stress that the government is not committed to the proposed changes and that it welcomes comments and opinions on all aspects of taxation in the two areas.

Submissions on commodity taxes are invited by December 31, 1975 to:

Commodity Tax Review Group,
Department of Finance,
160 Elgin Street,
Ottawa, Ontario.
K1A 0G5

Submissions on charities are invited by September 30, 1975 to:

Charities Study Group,
Department of Finance,
160 Elgin Street,
Ottawa, Ontario.
K1A 0G5

EFFECTIVE DATES OF BUDGET ANNOUNCEMENTS

Taxation year: For 1975 and subsequent taxation years, maximum amount of existing 8% tax credit reduced from $750 to $500; results in tax increase of up to $250 for taxpayers with income over $25,000 – $27,000.

June 24, 1975: 5% investment tax credit introduced on a wide range of new buildings, machinery and equipment. Terminates July 1, 1977.

June 24, 1975: Interest on long-term corporate bonds, debentures and other corporate debt securities becomes exempt from non-resident withholding tax. Applies to securities issued after June 23, 1975 and before December 31, 1978.

June 24, 1975: Eligible applications for new units under moderate-cost rental housing program qualify for increase to $900 from $600 in maximum annual subsidies. Increase terminates December 31, 1975.

June 24, 1975: Eligible applications for new units under privately-financed Assisted Home Ownership Program entitle home-buyer to increase in maximum annual subsidies to $1,200 from $600. Increase terminates March 31, 1976.

June 24, 1975: 5% sales tax on insulation materials removed.

June 24, 1975: Various tariff proposals, including increase in duty and tax-exempt value for gifts to Canadian residents, extension of the duty-free entry for aircraft, aircraft engines, petroleum products.

June 24, 1975: Excise taxes on wine reduced to level existing prior to November 18, 1974 budget.

July 1, 1975: National crude oil price at wellhead increases to $8 per barrel from $6.50. Companies asked to refrain from reflecting increase in product prices for 45 days.

August 1, 1975: Increases in Air Transportation Tax; to 8% from 5% on Canada-U.S. flights, to $10 from $5 on flights to other countries.

November 1, 1975: Natural gas price established at well-head on the basis of an increase at Toronto city gate to $1.25 per mcf from about 82 cents.

January 1, 1976: Resource profits taxed at 46 per cent, 15-point resource tax abatement withdrawn, and 25-per-cent extra deduction from income introduced.

For further information on the budget:
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