Budget in brief

March 31, 1977

Department of Finance Canada
Ministère des Finances Canada

From the Budget Speech
March 31, 1977

"Clearly, the economy needs stimulus. The budget seeks to provide it in the form and in the degree that will do the most good. Measures are proposed to increase the total demand for goods and services, expand direct job creation, encourage investment and risk-taking on a national basis, and strengthen regional growth.

"We have arrived at a stage in the evolution of our program when the temptation to seek quick and easy solutions will be great. . . . These temptations must be resisted if we are to restore the confidence of Canadians and others in the future of our economy and achieve our economic and social goals."

Donald S. Macdonald
Minister of Finance

Economic highlights

- It is clear that the underlying momentum of inflation in Canada is slowing, although we can expect some price increases this year that may set us back temporarily.

- Wage settlements have been coming down in line with anti-inflation guidelines. Unit labour costs – the key to our competitive position as a trading nation – are under better control.

- The real incomes of working Canadians are rising strongly.

- The most disturbing element in our economic performance has been higher unemployment. While the unemployment rate is under 5% for adult men, and is 7% for adult women, it is above 14% for young people. Both general and specific measures are needed to deal with this situation.

- Capital investment is weak. We need a stronger growth in business investment and continuing improvement in exports to boost Canada's economic recovery and lay the basis for sustained growth in future.

- The decline in the Canadian dollar can help our exports, but only if we keep our domestic costs and prices firmly in check.

- Canadians have to accept higher prices this year for food, energy and some other purchases. To try to offset them by demanding bigger pay cheques will regenerate the inflationary spiral and wipe out the progress we are making.

- This is a critical time for us to persist in maintaining the underlying trend to lower inflation, while we pursue steady growth in the economy.

Policy highlights

Energy

- The federal government will pursue its policy of developing energy supplies. But we must all adopt better conservation practices and face the prospect of higher prices.

- The best way for Canadian consumers to protect themselves against higher energy prices is to use less energy.

Controls

- Price and income controls have helped to bring down the rate of inflation, but their job is not yet done. If controls were suddenly removed, there is a danger that rates of price and cost increase would begin to escalate again.

- The government believes it would not be feasible or desirable to begin "decontrol" before the second anniversary of the anti-inflation program on October 14, 1977.

- But a recent business and labour initiative has raised the prospect of sufficient support for voluntary restraint as to warrant consideration of a somewhat earlier decontrol date. That could affect the question of timing. This prospect will be explored in a round of consultations to follow publication of a discussion paper on decontrol and the post-control environment.

- In the meantime, all parties are advised to proceed with wage and price determination in the expectation that controls will continue in effect for some time.

Job creation

- The government has launched a fast-acting employment strategy keyed to the job creating programs of Canada Works and Young Canada Works.
- The budget announces a $100 million expansion of these programs, bringing the total commitment in 1977-78 to $458 million. Overall, this is expected to create 600,000 man-months of employment and significantly reduce the number of unemployed people.

Expenditure control

- The policy of restraint in expenditures is bearing down on every department of government. Spending has been cut below the predicted level for the fiscal year just ending. Next year spending will increase significantly less than the expected growth of the economy generally.
- Many useful and desirable programs are having to be delayed or curtailed.

Monetary and fiscal policy

- Both monetary and fiscal policies are encouraging the economy to grow moderately and produce more jobs while winding down inflation. Wide swings in policy are being avoided.
- To attempt to cut the government's deficits too soon would threaten the recovery. Indeed, with present levels of unemployment, further stimulus to the economy is needed.
- However, it is essential to avoid placing too much pressure on capital markets when we are seeking to encourage new private investment.

Budget measures

The budget measures will create employment, encourage investment and foster regional growth. They will improve the equity market and improve the cash flow of business as sources of funds for expansion. They will give more help to small business and venture enterprises. They will help sustain consumer spending and provide further tax relief, particularly to Canadians with modest incomes. All of these measures will lead to more jobs.

To encourage investment and regional growth:

- The existing 5% investment tax credit, due to expire June 30, will be extended an additional three years.

- The credit will be extended to include capital and operating expenditures on scientific research and development.

- The credit will be increased in slower-growth regions designated under the Regional Development Incentives Act:

  to 7 1/2% in Saskatchewan, Manitoba, Northern Ontario and designated regions in Québec other than the Gaspé;

  to 10% in the Atlantic Provinces and the Gaspé region.

- Other measures: Tax incentives for frontier oil and gas exploration, and for improvements in rail transport facilities.

- As a partial offset to the distortion of business income from inflation, 3% of the opening value of inventories will be deductible in calculating business income each year.

To assist equity investment and business finance:

- The dividend tax credit will be increased to 50% from 33 1/3%. Starting January 1, 1978, dividends from taxable Canadian corporations will be grossed-up by one-half, as opposed to one-third currently, and taxpayers will claim against tax a credit equal to the higher amount.

  Under the old rule, a taxpayer with a marginal tax rate of 40% would pay net tax of $60 on a $300 dividend. Under the new rule he would pay $30. For taxpayers with lower marginal rates, the reduction in tax is even greater; for taxpayers with higher marginal rates, the increase in the value of the credit is proportionately less.

- Many of the complex rules designed to prevent surplus stripping (i.e., the avoidance of tax on distribution of corporate surplus) will be abandoned or simplified. This will remove blocks to business reorganization and expansion.

- Capital losses a taxpayer can set off against other income in any year will be doubled to $2,000.

- Capital gains will be included in the present $1,000 exemption for interest and dividends.

- The current exemption from non-resident withholding tax for interest on government and long-term corporate bonds will be extended four years to the end of 1982.

- Stock dividends from public corporations will not be taxed until disposed of, and then only at capital gains rates.

Specific help for small business:

- Substantial benefits will flow to small business from the measures noted above.

- Stock option plans established for employees of Canadian-controlled private companies will be given special tax treatment.

- Ordinary taxpayers will be assured that they can have their gains on most Canadian securities taxed as capital gains rather than as ordinary income.

- After January 1, 1978, tax will be deferred on any capital gain from the sale of a business or farm to the extent that the proceeds are reinvested for the same purpose.

- Measures and programs will be introduced to ease costs of conversion to the metric system.

Income tax measures to help working Canadians of modest incomes:

- The existing credit against federal tax (9% of tax with a minimum of $200, maximum of $500) will be increased in 1977 for parents.

  Taxpayers will be allowed to claim an additional credit of up to $50 for each dependent child under 18 years of age resident in Canada.

  The existing $500 limit will be maintained so that most of the benefit will be reserved for taxpayers with larger families and modest incomes.

- The employment expense allowance (now 3% of wage and salary income with a maximum deduction of $150) will be increased to $250 effective for 1977 and subsequent years.

- The combined effect of these two measures will be to eliminate completely the federal tax on married taxpayers with two children and earnings of less than $7,360. The comparable income level for a family with four children is $8,295.

Child Credit and
Increased Expense Allowance:
Federal Tax Savings in 1977

Family with Two Children

Wage or Salary Income	Current Tax	Proposed Tax	Tax Saving
$	$	$	$
5,000	–	–	–
7,000	53	–	53
10,000	576	457	119
12,000	951	832	119
15,000	1,577	1,456	121
17,000	2,035	1,913	122
20,000	2,701	2,578	123
22,000	3,190	3,065	125
25,000	3,955	3,829	126
27,000	4,538	4,455	83
30,000	5,447	5,415	32
50,000	12,280	12,244	36

Family with Four Children

Wage or Salary Income	Current Tax	Proposed Tax	Tax Saving
$	$	$	$
5,000	–	–	–
7,000	4	–	4
10,000	521	302	219
12,000	897	678	219
15,000	1,517	1,296	221
17,000	1,970	1,747	223
20,000	2,636	2,413	223
22,000	3,117	2,898	219
25,000	3,882	3,738	144
27,000	4,454	4,363	91
30,000	5,355	5,323	32
50,000	12,177	12,141	36

Other measures:

- Rules for the Registered Home Ownership Savings Plan (RHOSP) will be tightened up. Contributions to a RHOSP will not be deductible if the spouse with whom the taxpayer is living owns a home. Home furnishings will be excluded from property eligible for RHOSP funds.

- Current tariff reductions on a wide range of consumer products will be extended for another year to June 30, 1978.

- Tariff concessions will be introduced for imports from developing countries, including processed coffee, orange juice concentrate and bananas.

Fiscal position and outlook:

- The budget measures reduce taxes of Canadian individuals and corporations by $1.17 billion in 1977-78.

- Government of Canada financial requirements excluding foreign exchange are forecast at $6.4 billion in 1977-78.

- For 1977 as a whole, the gross national product is likely to be about 4% or more higher in volume and 11% higher in value than in 1976.

Government of Canada
Summary Statement of Transactions
Public Accounts Presentation

	1976-77 Estimate[1]	1977-78 Forecast[1]
	($ millions)	
Budgetary Transactions		
Revenues	32,595	34,740
Expenditure[2]	-39,200	-41,900
Surplus or Deficit (-)	-6,605	-7,160
Non-Budgetary Transactions		
Loans, Investments and Advances[2]	-2,200	-2,550
Annuity, Insurance and Pension Accounts	2,310	1,850
Other Transactions	1,145	1,460
Net Source or Requirement (-)	1,255	760
Financial Requirements		
(Excluding Foreign Exchange Transactions) . .	-5,350	-6,400
Foreign Exchange Transactions	610[3]	
Total Financial Requirements	-4,740	

(1) Numbers in these columns should be interpreted as mid-points of ranges of estimates. No forecast is made of the cash requirements of the Exchange Fund Account.

(2) Total outlays are composed of budgetary expenditures plus loans, investments and advances.

(3) This figure reflects transactions to the end of February.

Government of Canada
Budgetary Revenues
Public Accounts

	1976-77 Estimate(1)	1977-78 Forecast(1)
	($ millions)	
Personal Income Tax	14,885	15,620
Corporation Income Tax ...	5,210	5,760
Non-Resident Tax	450	500
Customs Duties	2,045	2,350
Sales Tax	3,975	4,440
Other Duties and Taxes	2,620	2,460
Total Tax Revenues	29,185	31,130
Non-Tax Revenues	3,410	3,610
Total Budgetary Revenues .	32,595	34,740

(1) Numbers in these columns should be interpreted as mid-points of ranges of estimates.

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