Budget in brief

April 19, 1983

Canadä

A Recovery Budget

"My dominant concern in preparing this budget has been to help the more than one and a half million Canadians who want to work but cannot find jobs.

"Economic recovery is under way in Canada. The recession that has crippled us for over a year has bottomed out. Industrial production is up. Housing starts are up. Inflation is down and so are interest rates. Even more importantly, business and consumer confidence is on the upswing....

"I am proud to be associated with a government that has not, despite intense fiscal pressures, forsaken its compassion or its obligation to support those Canadians who most need help....

"I set out with two goals: to ensure that recovery firmly takes hold and that it be durable. To create the jobs Canadians need, I proposed actions that will go into effect immediately but that will also be geared to the medium term....

"I am relying primarily on the dynamism and creativity of the private sector to bring about durable recovery."

The Honourable Marc Lalonde
Minister of Finance

Special Recovery Program

A four-year Special Recovery Program will provide some $4.6 billion of investment support to accelerate the economic recovery and provide new capital facilities that will increase competitiveness and generate new jobs. This recovery plan involves seven key initiatives. The program will provide equal support for private and public investment, but all initiatives are designed ultimately to improve the financial position, growth prospects and job creation capacity of the private sector.

Special Recovery Capital Projects

Public capital projects totalling $2.2 billion will be put in place over the next four years – more than 100 projects involving all regions of the country. This is some $1.5 billion more than previously planned, mostly representing an acceleration of projects intended for later in the decade. More than half of total spending will occur in the next two years to provide early economic stimulus. Special steps are being taken to "fast-track" the new projects and ensure they are carried through on time and on budget. They include major investments in airports, highways and port facilities, R&D capability, assets needed for resource development, land and tourism development, and procurement of ships and high-tech communications equipment.

Another component of the Special Recovery Program is aimed at accelerating productive investment and job creation in the private sector. These Special Recovery Incentives for Private Investment will total $2.4 billion over the next four years.

Investment Tax Credit

Rules governing this credit are being liberalized to allow companies fuller use of this incentive for increased investment in productive plant and equipment. Some $1.3 billion of added tax support for post-budget investments will come from lifting existing limits on the amount of credit that can be deducted from tax payable, and from enhancing the ability to use credits earned but not claimed in a year to reduce taxes in other years. These are intended as permanent changes in the tax law.

Construction Equipment

The scope of investments qualifying for the 7-per-cent investment tax credit is being permanently broadened to cover new heavy construction equipment purchased after April 19, 1983. This will provide about $125 million of tax support over the next four years.

Special Recovery Refundable Investment Tax Credit

To accelerate private sector investment over the next three years, a portion of the investment tax credit earned on qualifying investments before May 1, 1986 will be refunded directly in cash to taxpayers who could not otherwise fully use the credit to reduce their federal tax. This temporary change will direct $400 million to increasing business cash flow and reducing immediate investment costs. For small business corporations and for farmers and other unincorporated businesses, 40 per cent of investment tax credits that cannot be used to offset taxes in the year they are earned will be refunded; for other corporations the refundable portion will be 20 per cent. The measure will be of particular importance to start-up firms in their early, crucial years.

Special Recovery Share-Purchase Tax Credit

This plan will provide some $240 million to reduce the cost of new equity issued before 1987 by firms undertaking investments after the budget. In effect, corporations will transfer tax credits earned on this investment to attract purchasers of new equity shares. The first purchaser of these shares will be able to use the tax credit to the extent of 25 per cent of the value of the shares, and the investment tax credit earned by the issuing corporation will be reduced by an equivalent amount. The measure will promote the financing of investment during the recovery.

Special Recovery Investment Fund

This $300 million fund will be used over the next two years to encourage the private sector to bring major investment projects on stream early in the recovery. The assistance will focus on projects of special national, regional or sectoral importance.

Special Recovery Export Financing Fund

This $180 million special recovery fund will provide extra resources to the Export Development Corporation to help Canadian firms win large export contracts. The added resources will enable the Crown corporation to seek out export opportunities more aggressively than it could under present funding constraints.

Special Recovery Tax

The new costs involved in implementing the Special Recovery Program will be met over time by a Special Recovery Tax – an additional one percentage point in the rates of the federal sales tax. To avoid impeding the pace of economic recovery, the extra levy will be delayed until October 1, 1984 and it will run until December 31, 1988.

Housing Measures

Two major changes are being made to the Registered Home Ownership Savings Plan (RHOSP) to provide short-term incentives for purchases of newly-built homes and major items of furnishings. Five existing housing programs are extended or expanded.

RHOSPs

Individuals eligible to contribute to a RHOSP who buy newly-constructed homes and associated furnishings before 1985 will be able to deduct from taxable income in a lump sum any amount needed to bring their total RHOSP contributions up to the $10,000 limit.

As an additional economic stimulus, individuals will be permitted a tax-free withdrawal of part or all of their accumulated savings now in RHOSPs for the purchase of new home furnishings and appliances between April 19 and December 31, 1983. Such withdrawals will not affect their eligibility to make future tax-deductible contributions to the plan.

Other Housing Programs

- An additional $120 million is being provided to extend the Canada Home Renovation Plan to March 31, 1984. This plan provides grants of up to $3,000 to cover 30 per cent of renovation costs for low- and middle-income families.

- An additional $40 million over two years is being provided for the Residential Rehabilitation Assistance Program to upgrade substandard housing in designated urban and rural areas.

- An additional 2,500 social housing units for low-income households will be financed in 1983-84, maintaining the total annual allocation at 25,000 units.

- A further $40 million is allocated for new housing and home renovations on Indian reserves.

- A further $30 million allocation to the Canadian Home Ownership Stimulation Plan should allow the program to continue close to the end of May. It provides $3,000 home purchase grants to eligible individuals.

Direct Support for Employment

An additional $710 million, including $280 million specifically allocated to youth programs, is being provided over two years for new and expanded programs of direct support for employment, of which $440 million will be spent in 1983-84. Total spending by the federal government for direct support for employment, in 1983-84, is $1,484 million.

- The New Employment Expansion and Development (NEED) program, begun last October to create jobs for those unemployed for long periods, will be expanded by $280 million – $180 million of this is new funds.
- An additional $150 million goes to the Special Employment Initiatives Program for increased spending on employment-intensive projects under existing construction programs.
- An increase of $100 million is approved for expenditures on the job creation program under the Unemployment Insurance Act, which allows laid-off workers to continue to receive U.I. benefits while doing voluntary work on community projects.

Youth Programs

- An additional $70 million has been allocated for the Summer Canada program of career-related summer jobs for students with non-profit organizations and government departments.
- A new $95 million allocation will go to a new Youth Internship program of wage

subsidies for employers who hire young people, and to expand the Youth Job Corps which provides special training for young people having particular difficulties in entering the labour market.

- The Department of National Defence will enroll some 5,000 young people for about a year of military and technical trades training, at a cost of $75 million in the next two fiscal years.
- Katimavik, a national development program for young people operated by a private non-profit corporation, will receive an increase of $40 million in federal funding, adding a further 4,000 participants over two years.

Technology, Research and Development

In consultation with business and labour, the government is proposing the establishment of a national centre for productivity and employment growth.

The accelerated funding under the Special Recovery Capital Projects program will include $290 million for research and training facilities and $180 million will be spent on high-technology procurement.

A two-year commitment of $100 million will fund priority work in areas of new technology that are vital to Canada's competitive strength and productivity.

An additional $155 million in federal funding over the next two years will go into training and human resource programs aimed at developing the skilled workers needed for future economic growth.

R&D Tax Incentives

A budget document, put forward for consultation, sets out two proposals to enhance the ability to claim R&D tax incentives, to make them more effective and simpler, and to aid in the financing of R&D companies, particularly smaller companies. The two proposals are: an additional tax credit of 10 percentage points for all R&D expenditure, in place of the current 50-per-cent tax deduction for increased R&D, and a measure to allow R&D companies to transfer the value of R&D tax incentives to outside investors in the form of a 50-per-cent tax credit so as to attract additional capital to finance their growth.

Federal Business Development Bank

The FBDB's mandate will be expanded to provide broader support for small businesses, including a new investment banking capability to help meet the capital needs of promising small companies.

Farm Finance

The budget contains general tax incentives of assistance to farmers and fishermen and some special tax incentives specifically addressed to these groups. In addition, a further $100 million in loans will be extended over the next year to farmers in financial distress through a special program administered by the Farm Credit Corporation. Eligible recipients benefit from interest rate reductions of 4 percentage points for the first two years of their loans.

Indexed Security Investment Plan (ISIP)

The budget sets out proposals for a new plan to exempt from tax the inflationary portion of capital gains on publicly-traded common shares in Canadian companies. It will go into effect October 1, 1983 following private sector consultation on its details.

ISIP is designed to offset the distorting impact of inflation on the tax liabilities of individual investors. When fully matured, the plan will mean estimated savings to individuals of $300 million a year in federal taxes. It will also assist the economic recovery by encouraging Canadians to invest more of their savings in common shares of Canadian companies. This should facilitate public share issues and thus help reduce the excessive debt load on corporate balance sheets.

Tax Treatment of Losses

New tax measures will give businesses and investors more scope to carry over losses incurred in one year to reduce taxes in other years. The changes will provide increased cash flow to businesses in the early phase of the recovery, and over the longer term will allow firms and investors to claim tax deductions more effectively for tax losses that they sustain.

- Business losses will be allowed to be carried back three years, instead of one, and carried forward for seven years instead of five. The full three-year carryback will take effect immediately for small business corporations and unincorporated businesses. It will be phased in for other corporations.

- Farming and fishing losses will be allowed a three-year carryback and 10-year carryforward.

- Taxpayers will be allowed to carry back three years, instead of one, the deductibility of capital losses against capital gains. This change will be phased in.

Child Benefit System

The budget proposes several changes to the system of child benefits to better target the benefits to families needing them most.

- The limit on child care expenses that can be deducted from taxable income is doubled, effective for 1983. Deductions will now be allowed up to $2,000 per child, to a maximum $8,000 for a family. A change will ensure that the deduction does not discriminate between men and women.

- The child tax credit will be extended for the 1983 taxation year to $343, rather than the $326 set by existing law. Future indexation will be applied starting from the $343 base. The threshold of family income, above which the child tax credit is phased out, will be held at its 1982 level of $26,330 for the current and subsequent taxation years.

- The tax exemption for children and other dependants under 18 years of age will be held at the current $710 level for 1984 and subsequent taxation years.

Other Personal Tax Changes

Starting in 1983, the employment expense deduction will be increased from 3 to 20 per cent of employment income, with a maximum deduction of $500. This will reduce taxes for persons with employment incomes of less than $16,667.

The $200 federal tax reduction will be reduced to $100 in 1985 and $50 for 1986 and subsequent years. For higher income individuals, starting in 1984 the reduction will be phased out as basic federal tax increases above $6,000.

The standard deduction of $100 that may be claimed in lieu of itemized deductions for charitable donations and medical expenses will be removed in 1984. Taxpayers will still be able to deduct actual receipted donations and medical expenses as under the existing rules.

For Canadians working abroad on specified activities, the current deduction for overseas employment income will be replaced by a tax credit of 80 per cent of the Canadian tax payable on up to $100,000 of such overseas income.

Energy and Resource Taxes

The incremental oil revenue tax (IORT) on conventional oil, which was due to be reinstated after a one-year suspension, will be suspended for a further year to May 31, 1984.

To encourage enhanced oil recovery projects, the petroleum and gas revenue tax (PGRT) will not become payable in respect of such projects until eligible capital costs have been recovered. This will apply to eligible expenditures after December 31, 1982.

In view of the narrowing spread between world and domestic oil prices, the extra income tax relating to aviation turbine fuel used on international flights and the special levy on exported marine bunker fuel will be ended effective May 1, 1983.

It is the government's intention to maintain the Canadian Ownership Special Charge at its current level and use the revenues in support of the objective of oil self-sufficiency through raising Canadian ownership of oil and gas resources by increasing exploration and development of new reserves.

The one-third depletion allowance for mine exploration expenditures will be deductible against up to 25 per cent of any income source of the taxpayer, rather than from resource profits only. This will apply to eligible expenditures after April 19, 1983. This will particularly help financing of junior mining companies.

Radio-TV Programming Services

Effective July 1, 1983, a 6-per-cent sales tax will apply to commercial charges for radio, television and other programming services that are provided by telecommunication. This will include charges for TV cable rental, pay TV and movies shown on hotel TV sets.

Tourist Exemption

Limits for the tourist exemption – the value of goods that can be brought back to Canada free of duty and tax by returning Canadians – are being doubled. Effective April 20, 1983, the quarterly exemption is raised to $100 and the annual exemption to $300.

Tariff Rates

Lower rates of customs duty on some $10 million in annual imports from developing countries, under the General Preferential Tariff, are being implemented as recommended by the Tariff Board.

Economic Outlook

"The measures I have announced will help create more jobs for Canadians this year and in years to come. They will do so primarily by supporting growth in the private sector ... These jobs must come from a strong and dynamic private sector."

Real gross national product (GNP) this year is forecast to grow, on average, 2.3 per cent above the 1982 average output, though the downswing last year means that real GNP at the end of 1983 should be about 6.5 per cent higher than it was at the end of 1982. Strong growth is forecast in 1984, averaging 5.2 per cent.

Inflation is expected to average 6.3 per cent this year and 5 per cent in 1984.

Employment should grow fairly strongly this year and even more strongly in 1984. Over 600,000 more Canadians are expected to be working at the end of 1984 than at the end of 1982. However, unemployed workers returning to the labour force will maintain upward pressure on the unemployment rate, which is forecast to average 12.4 per cent this year. Although the average level may only fall to 11.4 per cent in 1984, unemployment will be on a clear downward trend through the coming years.

The Fiscal Plan

The deficit for 1982-83 is estimated at $25.3 billion, some $2 billion less than forecast in February.

The 1983-84 budgetary deficit is forecast to rise to $31.2 billion, with $1.8 billion of the increase caused by measures in the budget. The moderate rate of economic growth this year, continuing high unemployment and declines in oil prices will also contribute to the higher deficit.

As the economy gains strength over the medium term, the government's fiscal plan is to bring the deficit down as quickly as economic conditions permit. Restraint on expenditure growth will hold federal government outlays to a steadily declining share of GNP from now to 1986-87.

Over the medium term, the net impact of the budget measures is to increase the federal deficit by $1.8 billion in the current year and by $600 million next year, but reduce it by $1.8 billion and $2.6 billion in the following two years, as the economy improves.

"The pain and the hardship of recent years have clearly shown that a new national partnership amongst labour, business and governments is urgently needed in Canada. This new partnership for recovery is essential if we are to meet the tough competitive challenge of the 80s and provide the jobs Canadians need."

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