

The Budget in Brief 2008

Responsible Leadership

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Minister of Finance

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Department of Finance
Canada

Ministère des Finances
Canada

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Budget 2008—Responsible Leadership

Introduction

The Canadian economy has been expanding for 16 consecutive years and our economic fundamentals are strong. Canada has the strongest fiscal position of any Group of Seven (G7) country. The Government is providing leadership by implementing an economic plan, *Advantage Canada*, to enhance our long-term prosperity.

The Government took important steps on this plan in its October 2007 Economic Statement by providing broad-based tax relief to individuals and businesses amounting to \$60 billion over this and the next five years.

Budget 2008 builds on this by:

- **Maintaining strong fiscal management** and continuing to reduce debt. Planned debt reduction for 2007–08 is \$10.2 billion, and a total of \$13.8 billion over the budget-planning period (2007–08 to 2009–10).
- **Carefully managing spending** to ensure programs and services are efficient, effective, aligned with the priorities of Canadians, and affordable over the long term.
- **Strengthening Canada’s Tax Advantage** with a new Tax Free Savings Account to promote savings and extend further support to the manufacturing sector.
- **Investing in the future** by enhancing financial support for students and increasing support for research in science and technology.
- **Supporting communities** that are vulnerable to economic adjustments in global markets.
- **Providing leadership at home** by supporting the vulnerable, protecting the health and safety of Canadians, strengthening partnerships with Aboriginal Canadians, protecting Canada’s sovereignty in the Arctic, ensuring a cleaner, healthier environment, and tackling crime and bolstering security.
- **Providing leadership abroad** by providing the Canadian Forces with stable and predictable funding to permit long-term planning, delivering on our promises for international assistance (including our commitment to rebuild a free and democratic Afghanistan), promoting Canada’s trade and investment interests around the world, and improving the security and efficiency of our borders.



From a position of economic strength, Canada is well prepared to successfully respond to the current period of economic uncertainty arising from the slowdown of the U.S. economy and the ongoing global financial market turbulence.

Actions taken by the Government since 2006 will provide \$21 billion in incremental tax relief—equivalent to 1.4 per cent of Canada’s economy—to Canadians and Canadian businesses this year.

In total, actions taken in Budget 2008 and the October 2007 Economic Statement will total \$29.4 billion over the current and next two fiscal years. Of this amount, \$23.9 billion, or over 80 per cent, is dedicated to tax relief.

Table 1
**Measures in Budget 2008 and
 October 2007 Economic Statement**
 (billions of dollars)

	Projection			Total
	2007-08	2008-09	2009-10	
Spending	2.7	1.3	1.4	5.4
Tax reductions	4.8	9.6	9.5	23.9
Total	7.6	10.9	10.9	29.4
Planned debt reduction	10.2	2.3	1.3	13.8

Note: Totals may not add due to rounding.

Collectively, these initiatives mark significant progress in implementing *Advantage Canada*, the Government’s long-term economic plan to improve our country’s prosperity both today and in the future.



Highlights

Recent Economic Developments and Prospects

- ✓ The Canadian economy has been expanding for 16 consecutive years and our economic fundamentals are strong:
 - The unemployment rate is at its lowest level in 33 years, with over 400,000 new jobs created since the end of 2006.
 - Business and household finances are strong by historical and international standards.
 - Federal and provincial-territorial governments remain in a strong fiscal position.
 - Inflation remains low, stable and predictable.
- ✓ From this position of strength, the Government took decisive and timely action in the October 2007 Economic Statement to support the economy by providing permanent and sustainable broad-based tax relief to individuals and businesses, including to manufacturers.
- ✓ The actions taken in the Economic Statement provide more than \$12 billion in incremental tax relief this year. Combined with actions taken by the Government since 2006, \$21 billion in incremental tax relief—or 1.4 per cent of Canada’s economy—is being provided to Canadians and Canadian businesses this year.
- ✓ These actions will not only help bolster our economy in these uncertain times, they advance *Advantage Canada*, the Government’s economic plan to improve Canada’s longer-term competitiveness and secure the future of Canadians.
- ✓ As a result of weaker U.S. growth and ongoing financial market turbulence, private sector forecasters have revised down their outlook for the Canadian economy since the Economic Statement. Private sector forecasters expect real gross domestic product (GDP) growth of 1.7 per cent in 2008 and 2.4 per cent in 2009, down from 2.4 per cent and 2.7 per cent, respectively, at the time of the Economic Statement.



Economic Leadership

Maintaining Strong Fiscal Management

Creating a Fiscal Advantage for Canada is a cornerstone of the Government's long-term economic plan, *Advantage Canada*. By carefully managing spending and continuing to reduce debt, the Government will ensure that its programs provide value for money, are sustainable and keep the tax burden to a minimum. Budget 2008 builds on the Government's record of strong fiscal management by:

- ✓ Reducing debt by \$10.2 billion in 2007–08, and a total of \$13.8 billion by 2009–10. By 2012–13, total debt reduction by the Government since coming into office will be more than \$50 billion.
- ✓ Delivering on the Tax Back Guarantee by dedicating \$2.0 billion in annual interest savings by 2009–10 to ongoing personal income tax reductions. This accounts for nearly 40 per cent of the personal income tax relief provided since Budget 2006.
- ✓ Continuing to implement the new Expenditure Management System by reviewing all departmental spending over a four-year cycle. The first round of these reviews included 17 federal organizations with spending of \$13.6 billion. The savings realized are being used to fund new initiatives in these organizations and other priorities in this budget.
- ✓ Keeping spending focused and disciplined, with spending in 2007–08 and 2008–09 below the track set out in Budget 2007 in relation to the overall size of the economy.
- ✓ Focusing on core federal responsibilities while working with provinces, territories and other stakeholders to build a better future for Canada.
- ✓ Improving the management and governance of the Employment Insurance (EI) program through the creation of the Canada Employment Insurance Financing Board, an independent Crown corporation with a legislated structure which provides that EI premiums are dedicated exclusively to the EI program.



Strengthening Canada's Tax Advantage

The Government took decisive and timely action in the October 2007 Economic Statement to boost confidence and investment by announcing a bold package of tax reductions for individuals, families and businesses of \$60 billion over this and the next five years. Combined with previous tax relief introduced by the Government, total tax relief over the same period approaches \$200 billion.

Budget 2008 builds on these actions by:

- ✓ Helping Canadians save with a new Tax-Free Savings Account, a flexible savings vehicle that allows Canadians to contribute up to \$5,000 a year to the account. Investment income, including capital gains, earned within the account will not be taxed and withdrawals will be tax-free.
- ✓ Providing further assistance for Canada's manufacturing and processing sector by extending accelerated capital cost allowance (CCA) treatment for investment in machinery and equipment for three years. Specifically, the 50-per-cent straight-line accelerated CCA treatment will apply for one additional year, and the accelerated treatment will then be provided on a declining basis over a two-year period.
- ✓ Supporting small and medium-sized businesses by improving the scientific research and experimental development tax incentive program and easing the tax compliance burden by reducing the record-keeping requirements for automobile expense deductions and taxable benefits.
- ✓ Enhancing the cross-border business and investment environment by streamlining cross-border tax-withholding and return-filing rules.



Investing in the Future

The world we live in today is changing rapidly. Canadian businesses compete in global markets that are increasingly integrated and driven by innovative new technologies. As outlined in *Advantage Canada*, investments in people, knowledge, modern infrastructure and a sound and efficient financial sector provide the foundation for global success.

Investing in People

Improving Canada's competitive position means developing the best-educated, most-skilled and most flexible workforce in the world. That is why Budget 2008 is:

- ✓ Supporting Canadian students with a \$350-million investment in 2009–10, rising to \$430 million by 2012–13, in a new, consolidated Canada Student Grant Program that will reach 245,000 college and undergraduate students per year when it takes effect in the fall of 2009.
- ✓ Committing \$123 million over four years starting in 2009–10 to streamline and modernize the Canada Student Loans Program.
- ✓ Enhancing the flexibility of Registered Education Savings Plans by increasing the time they may remain open to 35 years from 25 years, and by extending the maximum contribution period by 10 years.
- ✓ Providing \$25 million over two years to establish a new Canada Graduate Scholarship award for top Canadian and international doctoral students.
- ✓ Providing \$3 million over two years to establish a new international study stipend for Canada Graduate Scholarship recipients who wish to study at international institutions.
- ✓ Strengthening the ability of Canadian universities to attract and retain top science leaders with \$21 million over two years to establish up to 20 Canada Global Excellence Research Chairs.
- ✓ Recognizing exceptional achievement in health research by providing additional resources for the creation of the Canada Gairdner International Awards.



- ✓ Modernizing the immigration system with a \$22-million investment over two years, growing to \$37 million per year, including legislation to speed up the processing of permanent resident applications, ensuring shorter wait times and making Canada's immigration system more competitive.
- ✓ Removing disincentives to work for seniors by raising the current Guaranteed Income Supplement earned income exemption to \$3,500 from its current maximum exemption level of \$500.

Investing in Knowledge

Investing in the future means investing in knowledge, science and innovation. Science and technology play important roles in almost every aspect of our lives. That is why Budget 2008 is:

- ✓ Investing in knowledge by providing an additional \$80 million per year to Canada's three university granting councils for research in support of industrial innovation, health priorities, and social and economic development in the North.
- ✓ Providing an additional \$15 million per year to the Indirect Costs of Research program.
- ✓ Building on Canada's knowledge and people advantage in genomics with an additional \$140 million for Genome Canada.
- ✓ Providing an additional \$10 million over two years to strengthen the operations of the Canadian Light Source research synchrotron in Saskatoon.
- ✓ Providing \$250 million over five years to support strategic, large-scale research and development projects in the automotive sector in developing innovative, greener and more fuel-efficient vehicles.
- ✓ Enhancing Export Development Canada's guarantee programs to support the automotive and manufacturing sectors.



Supporting Communities and Traditional Industries

While Canada's economic fundamentals are solid, some workers and communities face challenges in adjusting to changes in the international economy. In January 2008, the Government announced up to \$1 billion for the Community Development Trust to support those experiencing hardship due to international economic volatility. Budget 2008 builds on this initiative by:

- ✓ Providing an additional \$90 million to extend to 2012 the Targeted Initiative for Older Workers to help older workers stay in the workforce.
- ✓ Providing \$10 million over two years to Natural Resources Canada to promote Canada's forestry sector in international markets as a model of environmental innovation and sustainability.
- ✓ Allocating \$72 million over two years to farm programs and to improve access to \$3.3 billion in potential cash advances to Canadian farmers.
- ✓ Providing \$22 million over two years for innovation and to provide greater regulatory certainty in the aquaculture industry.

Investing in Infrastructure

Modern, high-quality infrastructure is vital to Canada's long-term prosperity. That is why Budget 2008 is:

- ✓ Making the Gas Tax Fund, which will be worth \$2 billion in 2009–10, a permanent measure, allowing municipalities to better plan and finance their long-term infrastructure needs.
- ✓ Setting aside up to \$500 million in support of capital investments to improve public transit.
- ✓ Announcing the establishment of a Crown corporation, PPP Canada Inc., to work with the public and private sectors to support public-private partnerships.
- ✓ Providing \$10 million over two years to enable repairs and environmental cleanup to permit the transfer of more small craft harbours across Canada from the federal government to interested parties.



A Sound and Efficient Financial Sector

Global and domestic financial sector developments of the past year, including turbulence in global financial markets, have demonstrated more than ever the importance of well-functioning capital markets and a sound and efficient financial sector. This is why Budget 2008 is:

- ✓ Advancing the Capital Markets Plan for Canada, including the recent launch of an Expert Panel on Securities Regulation.
- ✓ Modernizing the authorities of the Bank of Canada to support the stability of the financial system.
- ✓ Updating treasury risk guidelines to ensure that federal entities continue to adhere to leading practices in financial risk management.

Leadership at Home and Abroad

Leadership at Home

The Government is inspired by our past as it invests in our future. Budget 2008 invests in the highest priorities of Canadians, including health, opportunity, security and well-being for all citizens, no matter where they live and work.

Supporting the Vulnerable

With Budget 2008, the Government is committed to helping those who need the care and support of their fellow Canadians by:

- ✓ Providing \$110 million to the Mental Health Commission of Canada to support innovative demonstration projects to develop best practices to help Canadians facing mental health and homelessness challenges.
- ✓ Dedicating \$282 million over this and the next two years to expand the Veterans Independence Program to support the survivors of veterans.
- ✓ Delivering \$3 million for the *No Child Without* program, which provides free MedicAlert bracelets to children with serious medical conditions.



Protecting the Health and Safety of Canadians

Budget 2008 sets aside funds for important initiatives to protect the health and safety of Canadians.

- ✓ Supporting Canada's Food and Consumer Safety Action Plan with \$113 million over two years.
- ✓ Providing \$33 million over two years to ensure greater safety of natural health products.
- ✓ Enhancing safety with \$9 million over two years to improve the safety of laboratories dealing with viruses and bacteria.
- ✓ Providing \$25 million over two years to provide Canadians with better information on the links between environmental contaminants and illness.
- ✓ Reducing the availability of contraband tobacco products through new tax compliance and enforcement measures.
- ✓ Expanding the list of eligible expenses under the Medical Expense Tax Credit.
- ✓ Exempting training to help individuals cope with disabilities or disorders, such as autism, from the Goods and Services Tax/Harmonized Sales Tax (GST/HST) and expanding the list of GST/HST-free medical and assistive devices to include service dogs, for instance.

Strengthening Partnerships With Aboriginal Canadians

The Government has made significant progress in supporting Aboriginal Canadians over the past two years with a new practical approach that is paying off. *Advantage Canada* recognized the most effective way to close the gap in socio-economic conditions faced by Aboriginal Canadians is to increase their workforce participation. Budget 2008 takes action toward this goal by:

- ✓ Dedicating \$70 million over two years for measures within a new Aboriginal economic development framework.
- ✓ Dedicating \$70 million over two years to improve First Nations education outcomes through enhanced accountability and by encouraging integration with provincial systems.



- ✓ Committing \$147 million over two years to stabilize current First Nations and Inuit health programs and promote closer integration with provincial systems in order to achieve better health outcomes.
- ✓ Committing \$43 million over two years for prevention-based models of child and family services on reserve.
- ✓ Investing over \$330 million over two years to improve access to safe drinking water in First Nations.

A Vision for a New North

Budget 2008 implements the Government's vision for a new North with new measures that will protect and secure Canada's sovereignty and create more economic opportunities in the North. These include:

- ✓ Increasing the residency component of the Northern Residents Deduction by 10 per cent to further assist in drawing skilled labour to northern and isolated communities.
- ✓ Providing \$34 million over two years for geological mapping to support economic development.
- ✓ Extending the Mineral Exploration Tax Credit for an additional year.
- ✓ Providing \$8 million over two years for a commercial harbour in Pangnirtung, Nunavut.

Ensuring a Cleaner, Healthier Environment

Budget 2008 includes new measures to strengthen and ensure the effective implementation of Canada's ecoACTION plan by:

- ✓ Providing \$66 million over two years to set up the regulatory framework for industrial air emissions.
- ✓ Providing \$250 million for a full-scale commercial demonstration of carbon capture and storage in the coal-fired electricity sector, research on the potential for carbon storage in Nova Scotia and economic and technological issues.



- ✓ Increasing the capital cost allowance rate for carbon dioxide pipelines, a component of carbon capture and storage systems.
- ✓ Providing \$10 million over two years for scientific research and analysis on biofuels emissions.
- ✓ Investing \$300 million to support nuclear energy, including the development of the Advanced CANDU Reactor and maintaining the safe, reliable operations of the Chalk River Laboratories.
- ✓ Expanding the accelerated capital cost allowance for clean-energy generation equipment to additional applications involving ground-source heat pump and waste-to-energy systems.
- ✓ Extending GST/HST relief to land leased to situate wind- or solar-power equipment for the production of electricity.
- ✓ Providing \$21 million over two years to make environmental law enforcement more effective.
- ✓ Providing \$12 million over two years to enhance law enforcement within Canada's National Parks.

Investing in Culture and Sports

In 2010, Vancouver and Whistler will host the Olympic and Paralympic Winter Games. To support these celebrations and help our summer athletes prepare for future Olympics, Budget 2008 is:

- ✓ Providing \$25 million to help make the 2010 Olympic and Paralympic Torch Relays a symbol of community and national pride.
- ✓ Providing \$24 million over two years and \$24 million per year ongoing to support the *Road to Excellence* for summer Olympic athletes.

In addition, to sustain our cultural institutions, the budget is allocating:

- ✓ \$9 million over two years to address operating and infrastructure pressures in Canada's National Museums.



Tackling Crime and Bolstering Security

The Speech from the Throne identified tackling crime and strengthening the security of Canadians as a priority. Budget 2008 provides funding to enhance protection for Canadian families and communities, including:

- ✓ Setting aside \$400 million for a Police Officers Recruitment Fund to encourage provinces and territories to recruit 2,500 new front-line police officers.
- ✓ Committing \$122 million over two years to ensure that the federal corrections system is on track to implement a new vision to achieve better public safety results.
- ✓ Providing \$32 million over two years to enhance the work of the Public Prosecution Service of Canada.
- ✓ Providing \$30 million per year to the National Crime Prevention Strategy.
- ✓ Facilitating compliance by waiving fees for firearms licence renewal until May 2009.

Leadership Abroad

Throughout its history, Canada has served as a shining example of what is possible. The Government is resolved to uphold this heritage by protecting our sovereignty at home and projecting our values abroad. By focusing our efforts and acting decisively, the Government is restoring Canada's influence in world affairs.

Canada First Defence Strategy

Protecting Canadians and Canada is a fundamental responsibility of government. With the Canada First Defence Strategy, clear priorities will be in place to guide future actions. This is why Budget 2008 is:

- ✓ Providing the Canadian Forces with stable and predictable funding to permit long-term planning.



Communications Security

- ✓ Providing \$43 million over the next two years to the Communications Security Establishment to make the necessary investments to keep pace with rapid advancements in information and communications technologies.

International Assistance

Canadians are a compassionate and generous people. Budget 2008 provides the resources and direction required to enable Canada to reassert its influence in global affairs by:

- ✓ Delivering on our promise to double international assistance to \$5 billion by 2010–11.
- ✓ Meeting the commitment to double aid to Africa by 2008–09, and being the first Group of Eight (G8) country to deliver on this promise.
- ✓ Providing \$450 million over the next three years to the Global Fund to Fight AIDS, Tuberculosis and Malaria.
- ✓ Providing an additional \$100 million for the reconstruction and development of Afghanistan, bringing Canada's total projected Afghan aid program to \$280 million in 2008–09.
- ✓ Dedicating an initial \$50 million over the next two years to a new Development Innovation Fund, to create breakthrough discoveries with the potential to significantly improve the lives of millions in the developing world.

Canada's Representation Abroad

The Government is providing leadership in global efforts to assist developing countries. It will also provide leadership closer to home in the Americas and in global affairs more generally.

These efforts include:

- ✓ Reinvesting \$89 million over two years to improve services for Canadians travelling, living and investing abroad by strengthening Canada's overseas network.



Improving Canada's Borders

Our borders have to facilitate trade, travel and commerce while protecting us from external threats. This is why Budget 2008 is investing in borders by:

- ✓ Committing \$75 million over two years to ensure the Canada Border Services Agency has the resources it needs to effectively manage the border.
- ✓ Introducing a higher-security electronic passport by 2011.
- ✓ Doubling the validity period of Canadian passports to 10 years when this electronic passport is launched.
- ✓ Providing \$14 million over two years to expand the joint Canada-United States NEXUS program for low-risk frequent travellers across the border.
- ✓ Providing \$6 million over two years for federal activities to support provinces and territories planning to introduce enhanced driver's licences.
- ✓ Allocating \$26 million over two years to introduce the use of biometric data into visas issued to foreign nationals entering Canada.
- ✓ Providing \$15 million over two years to establish a permanent facility to enhance the security of the Great Lakes/St. Lawrence Seaway region.
- ✓ Allocating \$29 million over two years to meet priorities under the Security and Prosperity Partnership of North America.



Fiscal Outlook

The Government's fiscal position remains strong. The strength in the economy in 2007 means that fiscal results for 2007–08 are expected to be somewhat better than at the time of the October 2007 Economic Statement. Over the next two years, the Government is planning on continued surpluses, despite downward revisions to private sector forecasts for economic growth.

- ✓ Budget 2008 continues to focus on a two-year horizon, where uncertainties are fewer and the Government can reasonably be held to account for its fiscal plan.
- ✓ Planned debt reduction is \$10.2 billion in 2007–08, \$2.3 billion in 2008–09 and \$1.3 billion in 2009–10.
- ✓ In light of global economic uncertainty, it is appropriate to update the five-year fiscal projections presented in the Economic Statement.
- ✓ Surpluses are expected to rise from \$3.1 billion in 2010–11 to \$5.3 billion in 2012–13, allowing for debt reduction of at least \$3 billion per year in those years. This means that total debt reduction by the Government since coming into office will be more than \$50 billion by 2012–13.
- ✓ After taking into account planned debt reduction, remaining surpluses are \$0.1 billion in 2010–11, rising to \$2.3 billion in 2012–13.
- ✓ The federal tax burden, measured by total revenues as a share of the economy, is projected to decline from 16.3 per cent in 2006–07 to 15.3 per cent in 2009–10—the lowest level in nearly 50 years.
- ✓ Spending as a share of gross domestic product (GDP) is below the track set out in Budget 2007.



Table 2

Summary Statement of Transactions (Including Budget 2008 Measures)

(billions of dollars)

	Actual	Projection		
	2006-07	2007-08	2008-09	2009-10
Budgetary revenues	236.0	244.5	241.9	252.0
Program expenses	188.3	201.2	208.1	218.3
Public debt charges	33.9	33.1	31.5	32.4
Total expenses	222.2	234.3	239.6	250.7
Planned debt reduction¹	14.2	10.2	2.3	1.3
Federal debt	467.3	457.1	454.8	453.5
Per cent of GDP				
Budgetary revenues	16.3	16.0	15.3	15.3
Program expenses	13.0	13.2	13.1	13.2
Public debt charges	2.3	2.2	2.0	2.0
Total expenses	15.4	15.3	15.1	15.2
Federal debt	32.3	29.9	28.7	27.5

Note: Totals may not add due to rounding.

¹ Actual debt reduction in 2006-07 (includes other comprehensive income of \$479 million).



Table 3

Budget 2008 Initiatives

(millions of dollars)

	2007-08	2008-09	2009-10	Total
Economic Leadership				
Strengthening Canada's Tax Advantage		20	265	285
Investing in the Future				
Investing in People	20	85	501	606
Investing in Knowledge	140	150	150	440
Supporting Communities and Traditional Industries	1,050	50	58	1,158
Investing in Infrastructure	500	159	15	674
A Sound and Efficient Financial Sector		3	6	10
Subtotal—Economic Leadership	1,710	468	995	3,173
Leadership at Home				
Supporting the Vulnerable	369	20	17	406
Protecting the Health and Safety of Canadians		82	127	209
Strengthening Partnerships With Aboriginal Canadians		337	323	660
A Vision for a New North		175	28	203
Ensuring a Cleaner, Healthier Environment	250	358	61	669
Culture and Sports		8	41	49
Tackling Crime and Bolstering Security	400	70	159	630
Less: existing sources of funds		-202	-188	-390
Subtotal—Leadership at Home	1,019	848	567	2,434
Leadership Abroad		167	121	288
Additional Tax Measures	15	15	-10	20
Total New Budget 2008 Initiatives	2,744	1,497	1,674	5,916

Note: Totals may not add due to rounding.