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The Budget in Brief

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

February 22, 1994

Canada

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THE BUDGET IN BRIEF

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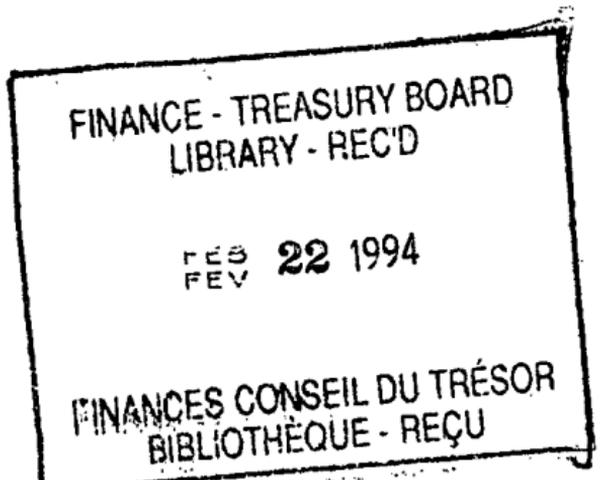
PREFACE

"Canadians want their government to have a game plan and pursue it – a strategy for jobs, for growth.

"Our goal is a Canada where every Canadian able to work can find a meaningful job. A Canada with a system of training that lets our workers lead the economy, rather than being left behind. A Canada that leads in technology, rather than leaning on the technology of others. A Canada where government facilitates change rather than blocking it. A Canada where our public finances are in order, not ruin."



The Honourable Paul Martin P.C., M.P.
Minister of Finance
February 22, 1994



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KEEPING OUR COMMITMENT TO CANADIANS: CREATING OPPORTUNITY

The 1994 budget is a budget about jobs: it takes action to support job creation now, and to help build the foundation for durable growth and good, lasting jobs in the future.

The budget focuses on three central goals:

- To build a framework for economic renewal – to help Canadian business succeed and to make innovation a more effective engine of economic growth.
- To ensure a responsible social security system that is fair, compassionate and affordable.
- To restore fiscal responsibility to government so that it can devote its full energy to helping Canadians adjust to a world of challenge and change.

Restoring Fiscal Responsibility

“For years, governments have been promising more than they can deliver, and delivering more than they can afford. That has to end. We are ending it.”

- The actions taken in this budget reduce the deficit from \$45.7 billion in 1993-94 to \$39.7 billion next year and \$32.7 billion in 1995-96.

Table 1*February 1994 budget deficit – summary*

	1993-94	1994-95	1995-96
	(billions of dollars)		
A. Deficit with unchanged policy	45.0	41.2	40.6
B. Initiatives to support economic growth and create jobs			
<i>Creating Opportunity</i>		1.0	1.7
New approaches to social security and adjustment programs		0.5	0.8
Space Plan funding			0.1
UI premium-rate reduction		0.1	0.5
Tax reductions		0.1	0.1
Total new funding		1.7	3.1
C. Action plan against tobacco smuggling		0.5	0.2
D. Deficit for planning purposes	45.0	43.5	44.0
E. Impact of actions to reduce deficit	0.7	-3.7	-11.3
F. February 1994 budget deficit	45.7	39.7	32.7

*Notes:***For 1996-97, budget actions plus growth should bring deficit to 3 per cent of GDP:**

To achieve a deficit of 3 per cent of GDP by 1996-97, the deficit would have to be reduced to about \$25 billion – a reduction of \$7.7 billion from the 1995-96 deficit of \$32.7 billion.

The measures in the budget will generate an additional \$2.9 billion in savings between 1995-96 and 1996-97 (an increase from \$8.0 billion to \$10.9 billion).

With this additional saving and moderate economic growth in 1996, the 3 per cent deficit target should be achieved.

Table 2

\$5 of expenditure reductions for \$1 of revenue increases

	1994-95	1995-96	1996-97	3-year total
	(billions of dollars)			
A. Net expenditure reduction measures	0.7	6.6	9.7	17.0
B. Net revenue measures	0.8	1.4	1.2	3.4
C. Total net measures	1.5	8.0	10.9	20.4

Note:

Net expenditure reduction measures of \$17.0 billion are five times greater than the net revenue actions of \$3.4 billion over the three-year period.

“Canadians have told us that they want the deficit brought down by reducing government spending, not by raising taxes. We agree.”

- For every \$1 of deficit reduction action on the revenue side over the next three years, there are \$5 of spending cuts.

This is a two-stage budget, with fiscal projections only to 1995-96. But in terms of deficit reduction, the budget does not wait for the second stage.

- The decisions in this budget by themselves set us on a clear path to achieving the government's deficit target of 3 per cent of GDP by 1996-97.

Fundamental Change: Reforming Government Programs

The 1994 budget sets in motion the most comprehensive, fundamental change to government programs in decades.

The budget sets out a critical path for far-reaching policy reforms leading to next year's budget, reforms that will be developed in consultation with the Canadian people.

ECONOMIC RENEWAL AND REVITALIZATION

Jobs and Small Business

To help small business, the government is taking a number of important actions.

- The unemployment insurance premium rate will be rolled back to the 1993 level of \$3.00 for 1995 and 1996. This will save industry almost \$300 million a year – money that can be re-invested in new jobs. As reform of the social security system kicks in, more reductions in the UI premium rate will be possible.
- To improve access to capital for small business, a task force will be established to work with banks to develop a code of conduct for small business lending. That code will set out the criteria for loan approvals and give small business a clear instrument to exercise complaints.

- The network of Canada Business Services Centres will be expanded to provide one-stop access to information on programs and services for small business in every province.
- A Business Networks Strategy will help small firms work together to achieve the critical mass needed to compete in world markets.
- The government will convene the heads of the major Canadian banks and the Export Development Corporation to seek means of furthering the capacity of small business to export.
- A special task force will recommend, on a fast-track basis, a better regulatory regime to help improve the competitiveness of business.
- The government will consult the business community on a wide range of proposed tariff cuts on imported manufacturing inputs, with the goal of helping Canadian industry to remain competitive in the global economy.
- The Minister of Transport will launch an effort, in consultation with provincial governments, to improve the efficiency of Canada's surface transportation system, an important factor in the competitiveness of Canada's businesses.
- The reform of the Goods and Services Tax is being accelerated, with the House of Commons Standing Committee on Finance reporting its recommendations on a replacement tax by June. The goal is a tax

that is harmonized with the provinces, fairer to consumers and less burdensome for business.

With the budget, the government released **Growing Small Businesses**, a document that will serve as the basis for a review with small business of how federal support can be made more effective.

Innovation and the New Economy

Innovation and ideas are essential for jobs today and in the future. The budget takes a number of actions to support Canadian innovation and technology.

- The government is developing a new long-term space plan that is affordable and offers the best possibility of commercialization and job creation. The emphasis will be on areas of Canadian advantage such as satellite technology. The government is negotiating an orderly withdrawal from current commitments to the International Space Station Program.
- Federal support will also be withdrawn for the KAON particle accelerator project, which has not been successful in securing international support.
- A Technology Partnership Program will give the private sector access to the results of research done in universities and government labs.

- A Canadian Technology Network will help small businesses gain access to new technologies and related services.
- An Engineers and Scientists Program will help small business to hire staff with technological expertise.
- A Canada Investment Fund, managed by the private sector, will provide venture capital for innovative companies.
- A strategy for developing and managing the information highway will be developed and put forward this year by the Minister of Industry.
- Funding will be increased for the National Research Council.

Better results are required from the efforts of the federal government in science and technology. An effective new strategy with clear priorities will be developed.

- A paper on science and technology will be released in coming weeks by the Minister of Industry to set the stage for a national dialogue leading to a new science and technology policy.

A strategy will be put forward by the Ministers of the Environment and Industry to encourage the growth of the environmental technology industry.

- The budget includes tax measures to help clean up mining properties.
- A task force involving government, industry and environmental non-governmental

organizations will be established to identify barriers and disincentives to sound environmental practices and to find effective ways in which to use economic instruments to protect the environment.

Investing in Jobs and People

The budget keeps the government's commitment to invest in jobs and people now. It cuts and reallocates existing expenditures to fund:

- The federal government's share of a \$6 billion national program to renew Canada's infrastructure.
- New youth internship and apprenticeship programs to help get high school students ready for the workplace.
- A Canadian Youth Service Corps to help young Canadians gain work experience through community service.
- Restored funding for the National Literacy Program.

Table 3*Initiatives to support economic growth
and create jobs*

	1994-95	1995-96	1996-97
	(millions of dollars)		
A. <i>Creating Opportunity</i> initiatives	1,015	1,661	1,309
B. Innovative new approaches to social security and adjustment programs	500	800	700
C. Space Plan funding	14	88	120
D. Lowering unemployment insurance premium rates	125	500	500
E. First-time home buyers' plan	15	55	60
F. Charitable donations credit		15	15
G. Mining reclamation funds	15	15	15
H. Total new funding	1,684	3,134	2,719

TOWARDS RENEWED AND RESPONSIBLE SOCIAL PROGRAMS

The government intends to renew and revitalize Canada's social security system within two years, to deliver better service to those in need and to ensure that the social safety net remains affordable.

- The budget provides \$800 million over two years to test innovative new approaches to training and getting people back to work in co-operation with the provinces and territories.

The budget lays the foundation for social security reform in two important areas:

Unemployment insurance: The budget prevents the UI employee premium rate from jumping to \$3.30 in 1995, and rolls it back to the 1993 level of \$3.00 for 1995 and 1996, helping to create jobs. This requires that immediate steps be taken to begin UI reform:

- The maximum duration of UI claims will be reduced for new claimants with weak attachment to the labour force.
- The minimum entrance requirement will be increased from 10 to 12 weeks.
- The benefit rate will be reduced to 55 per cent, except for individuals with modest incomes who support children, an aged parent or other dependants. For them, the benefit rate will be raised to 60 per cent.

- To improve fairness, there will be amendments to the provisions governing workers who quit their jobs voluntarily or are fired for misconduct.

The focus of the UI changes is greater fairness – a system that reaches out to the most vulnerable in society, one that is progressive and helps put Canadians back to work.

Transfers to the provinces: A two-year period of predictability and modest growth is provided for social security transfers while reform is pursued in a co-operative way with the provinces. A saving of at least \$1.5 billion is projected for 1996-97.

The budget provides funds to meet a number of priorities and commitments:

- A \$1.7 billion program over five years under the Atlantic Groundfish Industry Renewal and Adjustment Strategy, to help Atlantic fishermen adjust to the loss of their livelihood in the decimated Atlantic groundfish industry.
- A demonstration project with the government of Prince Edward Island and the Canadian Association for Community Living, to seek enhanced opportunities for people with intellectual disabilities.
- An Aboriginal Head Start Program for pre-school children and their parents.
- A Centre of Excellence for Women's Health, aimed at effective and equal treatment of women's health issues.

- Creation of the Canadian Race Relations Foundation to promote equality in Canadian society.
- Reinstatement of the Law Reform Commission and the Court Challenges Program, both abolished by the previous government.
- A Prenatal Nutrition Program for low-income pregnant women.
- The Residential Rehabilitation Assistance Program (RRAP) is being re-instituted.

Preparing for an Aging Population

- A discussion paper will look at what services Canada's aging society will need, and what changes are required to ensure that our public pension system remains affordable for the long term. The tax incentives currently in place to encourage private saving for retirement, including registered pension plans (RPPs) and registered retirement savings plans (RRSPs), and the use to which invested funds are directed, will also be reviewed.

National Forum on Health

- The Prime Minister will chair a National Forum on Health to foster, in co-operation with the provinces, a comprehensive dialogue on the renewal of Canada's health system.

REDUCING THE DEFICIT

Canada's burden of deficits and debt poses a major barrier to growth and jobs. Economic growth will reduce the deficit, but direct budgetary action is also required.

Expenditure Reductions

The actions in the budget reduce spending from previously planned levels by \$17 billion over the next three years – on a net basis after funding new initiatives entirely from departmental reallocations and other savings.

Government Operations: Operating budgets of government departments will be reduced from planned levels by \$400 million in 1994-95 and \$620 million in 1995-96.

- Additional savings of \$1.5 billion from government operations are required over the next three years. The government will work with the appropriate bargaining agents of the Public Service in the hope of making the necessary decisions in a collaborative way.
- To ensure the savings will be found, the budget announces a two-year legislated extension of the current salary freeze and a two-year suspension of pay increments within grade. The government is prepared to lift the freeze to the degree that the savings are secured through a review of government operations, leading to greater efficiency.

- The extended salary freeze also applies to the Prime Minister, the Cabinet, Senators and MPs, all other appointed federal officials and certain Crown corporations.
- The budgets of Ministers' offices have been reduced by \$13 million. Proposals have been made to reduce spending by Parliament.
- A review of the size, scope, composition and cost of every government-appointed board, commission and agency will be completed this year and followed immediately by action in the 1995 budget.

Total savings in government operations will exceed \$3.1 billion over the next three years.

Defence Spending: For years, defence infrastructure has exceeded any probable defence need. As a result, one of the government's first acts was to cancel the EH-101 helicopter project, saving \$1.7 billion over the next three years alone. Defence spending will be cut by an additional \$1.9 billion over the next three years by cutting overhead expenses, including closing and reducing Canadian Forces bases and units.

Thorough reviews of our defence policy, foreign policy and international assistance policy will be undertaken to ensure an efficient and effective role for Canada in the post-Cold War world.

International Assistance: Spending will be reduced by 2 per cent for 1994-95, and then frozen at that level. Canada's spending on

international aid will still exceed \$2.6 billion per year, comparing favourably with that of other industrialized countries.

Subsidies to Business: The budget reduces direct business subsidies. Together with reductions in tax breaks for business, the reductions in business subsidies exceed the target of \$225 million set in **Creating Opportunity**.

Grants and Contributions to Groups: Most other non-statutory grants and contributions will be reduced by 5 per cent. The government will review its policy on funding interest groups, with the goal of encouraging greater reliance on funding from other sources.

Total government spending on programs should remain constant at about \$122.5 billion for each of the next three years.

Table 4
Restructuring government programs

	1994-95	1995-96	1996-97
	(millions of dollars)		
A. Reductions in operating costs			
Cut in operating budgets	400	620	620
Cuts in budgets for:			
Ministerial staff/PMO	13	13	13
Parliament (proposed)	5	5	5
Reduction in wage bill	50	510	940
Total	468	1,148	1,578
B. Reductions in defence spending			
Cancellation of EH-101 helicopters	395	654	657
Additional defence cuts	350	425	759
Total	745	1,079	1,416
C. Reductions in grants and contributions			
International assistance	91	132	173
Business transfers			
Regional agencies/Industry			
Canada	69	141	140
Other departments	48	59	54
Other	45	49	42
Total	253	381	409
D. Building a responsible social security system			
Unemployment insurance	725	2,400	2,400
Social security transfers to provinces		466	1,540
Total	725	2,866	3,940
E. Gross spending cuts (excluding initiatives funded through internal reallocations)	2,191	5,473	7,343

Taxing Fairly

“The fundamental basis of a sound tax system is the reality and perception that everyone pays his or her fair share. When an increasing minority avoid doing so, the legitimacy of the tax system suffers.”

- Enforcement will be strengthened and focused on problem sectors of the economy. This will include joint initiatives with the provinces and the business community to deal with the underground economy and to improve taxpayer compliance.

The budget raises revenue in the fairest way possible. It better targets incentives, closes loopholes and brings greater equity to Canada's tax system.

Business Income Tax

- The corporate income tax deduction and GST tax credit for meal and entertainment expenses will be reduced from 80 per cent to 50 per cent.
- Large private corporations with capital of over \$15 million will no longer be eligible for the small business deduction.
- New measures will prevent Canadian-based companies from using foreign affiliates to avoid paying Canadian taxes, and ensure that the income of financial institutions is measured appropriately for tax purposes.

- Corporate tax rules relating to tax shelters, research and development incentives, debt forgiveness and asset sales are tightened.

Personal Income Tax

- The \$100,000 capital gains exemption, which primarily benefits higher income Canadians, is eliminated for gains accruing after budget day.
- The \$500,000 exemption for small business shares and farm property will remain. A special study of capital gains taxation as it applies to small business and farmers will be undertaken with their full participation.
- The first \$25,000 of life insurance benefits provided by employers will no longer be exempt from tax. For affected employees, this will mean an additional cost of between \$30 and \$50 per year in federal and provincial taxes.
- The age credit for persons 65 years and older will be income-tested, as is the case for other credits such as the child tax benefit. The age credit will start to be reduced when an individual's net income exceeds \$25,921 and will be completely eliminated when net income exceeds \$49,100. This will not affect 75 per cent of seniors.
- The taxation of family trusts will be reviewed by the House of Commons Finance Committee.

- To encourage charitable donations, the threshold for the 29-per-cent tax credit rate is being lowered from \$250 to \$200. The government acknowledges this is a modest step, but one that goes in the right direction.
- The Home Buyers' Plan will be replaced by a continuing program that will allow first-time home buyers to use RRSP funds to buy homes.
- The air transportation tax will be restructured. The tax will be reduced on short-haul flights and increased for long distance flights, generating additional revenues to improve facilities and services.

Table 5*Tax base broadening measures*

	1994-95	1995-96	1996-97
	(millions of dollars)		
A. Personal income tax measures			
Tax employer-paid private group life insurance premiums	120	200	200
Eliminate \$100,000 lifetime capital gains exemption	30	415	340
Income-tested age credit	20	170	300
Total	170	785	840
B. Business income tax measures			
Business meals and entertainment expenses	235	245	260
Eliminate preferential tax rate for large private corporations	15	40	40
Securities held by financial institutions	60	60	60
Regional investment tax credits		80	95
Private corporations dividends		40	40
Reserves of insurance companies	30	35	55
Energy conservation and pollution abatement equipment	10	25	45
Other tightening measures	55	85	95
Total	405	610	690
C. Total fiscal impact	575	1,395	1,530

AN OPEN BUDGET POLICY FOR CANADIANS

The 1994 budget was developed following unprecedented public consultations that brought together a wide spectrum of Canadians to discuss the economic and fiscal challenges confronting the country. The budget process will be further opened up in the years ahead. The Minister of Finance will continue to consult openly and widely with Canadians across the country.

CONCLUSION

“We are pursuing a balanced approach to fundamental reform – to create jobs, to continue to care for those in need, and to get the deficit down.

“Now is not a time to move away from our values. Now is the time to return to them.

“The value of hard work. The value of frugality. The value of fairness. The value of compassion. The value of working together.

“This budget builds on those values and seeks to make them more real.”

Paul Martin
Minister of Finance
February 22, 1994