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5 Minutes for Business

What to Expect When You're Expecting (a Federal Budget!)

February 28, 2017

Can you feel the excitement in the air? A brand new federal budget is about to be delivered into the world. A precious bundle of joy, full of hopes, expectations and the future of the Canadian economy will come screaming into the House of Commons in a couple of weeks. So what should we expect?

Three big things are keeping us on the edge of our seats. This baby will have larger deficits than last year amid economic uncertainty. She'll be full of exciting details around previous announcements—the innovation agenda, the infrastructure bank, the FDI hub. Finally, we'll see some nasty surprises coming from the review of tax credits. Wahhh!

The budget is unusually late this year. We're now expecting it on March 21, after a number of delays. Pity the poor Finance Department. Last year's budget was hit by a sharp decline in oil prices and an economy that was weaker than expected. This year's budget is upended by Hurricane Trump—normal expectations around trade and business investment are out the window.

There is now more uncertainty than we've seen in decades, and the federal government has run out of fiscal room. The deficit will reach $26 billion this year, and that's before the additional costs for new health deals with the provinces. For years, we've advocated balanced budgets, or at least a solid plan to return to balance. The Finance Department's current forecasts show this will not happen before 2050. (This baby will be middle-aged by then.)

Growing deficits make it unlikely that we'll see any large new programs. Instead, this budget is likely to fill in details around previous announcements. Remember, Budget 2016 left many of the tough questions to be filled in after consultations. The government had said Phase 2 of the infrastructure plan, with the "fast, efficient trade corridors" would be announced in the next year. The Innovation Agenda, a "bold new plan" to redesign how Canada supports innovation, was coming later. Health spending would be determined. A review of tax expenditures was coming soon.

We're excited about the innovation program, but it's that last promise that has us most worried. The government announced an internal review of all federal tax credits, with a view to eliminating poorly targeted and inefficient ones. A panel of external experts is in place, but there has been no consultation.

We certainly support simplifying the tax system, but some of these tax credits are very important to business and Canadians. For several months, we campaigned vigorously to oppose a plan to tax employer-sponsored health and dental plans. The plan would have cost workers thousands of dollars and was only abandoned by the government after tens of thousands of emails and negative media.

The government is looking for revenue so we'll likely see a few unpleasant surprises in the budget. It would be odd if the government reviewed 150 tax credits and decided to keep all of them. So, we just don't know if the capital gains inclusion rate, the federal dividend tax credit or flow-through shares might be on the chopping block. We'll be watching the budget closely to determine the positive (innovation agenda, infrastructure) and negative impacts (tax credits and deficits) on business. I'm worried this baby could be adorable and smiling on the surface but with some smelly surprises hidden away.

For more information, please contact:
Hendrik Brakel
Senior Director, Economic, Financial & Tax Policy
613.238.4000 (284) | hbrakel@chamber.ca