MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

FEDERAL BUDGET 2015

Date: April 21, 2015

1. BUDGET AND RELATED DOCUMENTS

[2015 Federal Budget: Canada's Economic Action Plan]

2. FEDERAL BUDGET 2015 PRIORITIES

The budget stresses a number of themes, some of them present in previous budgets:

- tax reduction measures are identified in this and previous budgets since 2006 (p 4)
- lower taxes for businesses are said to enhance competitiveness and job creation (p 7)
- steady economic growth (pp 8-10)
- financial stewardship (pp 11-13)

The Economic Action Plan will continue to:

- support jobs and growth
- provide assistance to families and communities through tax relief
- ensure security through support of the military

3. MUNICIPAL HIGHLIGHTS

INFRASTRUCTURE

- The budget contains an extensive summary of the government's contributions to infrastructure over the last decade, including contributions from the Building Canada Fund, Federal Gas Tax, the new Building Canada Plan, stimulus funds and support for P3s (see Ch. 3.4). These contributions are significant. The summary below is limited to new initiatives. For details on existing and ongoing undertakings see ch.3.4 of the budget.
- It is noted that 95% of core public infrastructure is owned by provinces, territories and municipalities
- Most of the discussion on infrastructure is for existing programs. However, the budget announces $750 million, over two years, starting in 2017-2018 and $1 billion annually thereafter for a new Public Transit Fund. This funding will flow through PPP Canada (p 186). Funding will be allocated on merit to projects that demonstrate alternative finance

and funding mechanisms involving private sector partners that deliver value for money. (p 188). Further details are promised for later in the year.

- There is also a promise of a new dedicated infrastructure fund to support the renovation, expansion and improvement of existing community infrastructure in all regions as Canada approaches its 150 anniversary (p 190). Funding will be cost shared with municipalities, community organizations and not-for-profit entities. Further details will be announced in the coming months for the new "Canada 150 Community Infrastructure Program."

HOUSING

- The budget proposes to provide $150 million over 4 years starting in 2016-2017 to support social housing in Canada by allowing social housing providers to prepay their long-term, non-renewable mortgages without penalty. This will permit refinancing of higher interest mortgage without penalty (p 278).

SENIORS

- Seniors in particular are identified as benefiting from increased limits on tax free savings accounts (p 236). Close to 2.7 million seniors had a TFSA as of the end of 2013. Nearly 60 per cent of seniors with a TFSA had annual incomes of less than $40,000.
- New home accessibility tax credit for seniors and persons with disabilities to retrofit homes (pp 245-247).
- Reduction of minimum withdrawal factors for Registered Retirement Income Funds to assist seniors in managing their retirement income by drawing down funds more slowly (pp 242-245).

TAX RELIEF

- The budget claims to provide assistance to families through tax relief
  - increasing the limits on tax free savings accounts to $10,000
  - reaffirming a commitment to reduce employment insurance premiums in 2017
  - extending Employment Insurance Compassionate Care Benefits from 6 weeks to 6 months to support Canadians providing care for family members. This will cost $37 million annually.
- The budget indicates that the cumulative impact of tax relief measures since 2006 has been $37 billion (p 227).

4. OTHER INITIATIVES

SMALL BUSINESSES

- The budget proposes to reduce the small business tax rate from 11% to 9% by 2019 (p 120).

   - 10.5 per cent effective January 1, 2016;
   - 10 per cent effective January 1, 2017;
   - 9.5 per cent effective January 1, 2018; and
   - 9 per cent effective January 1, 201
- Employment insurance reform will result in lower premiums for small businesses (p 119)
- The budget proposes to amend the Canada Small Business Financing Act to allow more small businesses to apply for financing (p 123).
- The Business Development Bank of Canada is developing a number of new initiatives in support of small business, including measures to increase productivity (pp 125-126). Initiatives to support small business are also being developed by Export Development Canada to assist small business in bringing products and services to international markets (pp 126-127).

MANUFACTURING

- The budget proposes to provide manufacturers with an accelerated capital cost allowance of 50% on a declining-balance basis for eligible assets acquired after 2015 and before 2026 (p 77).
- The budget provides up to $100 million over 5 years, starting in 2015-2016, to support product development and technology by Canadian auto parts suppliers through a new Automotive Supplier Innovation Program (p 83). Some of the funds will come from the existing Automotive Innovation Fund.
- The government will develop a Defence Procurement Strategy to stimulate jobs and growth in Canada (p 89)

5. STATE OF THE ECONOMY

OVERVIEW

The Canadian economy continues to grow, in the context of a global recovery that remains fragile. Crude oil prices have declined sharply since mid-2014, largely reflecting increased supply. For Canada, as a producer and net exporter of crude oil, lower oil prices have led to a significant downward revision to the outlook for economy-wide prices and therefore, nominal GDP. Despite the sharply lower oil prices, economic growth is expected to be resilient, with real GDP expected to grow by 2.0 per cent in 2015 and 2.2 per cent in 2016 (p. 28).

There are also some important offsetting factors that are largely external to Canada. The global economy will benefit from lower crude oil prices, in particular the U.S. economy as it remains a significant net importer of crude oil. A stronger U.S. economy will benefit Canada as it is the destination for nearly 75 per cent of Canadian exports (p. 55).

- Despite a weak global economic environment, Canada continues to lead all other G-7 economies in real GDP growth over the recovery (p. 43).
- Reflecting this solid domestic performance, over 1.2 million more Canadians are working now than at the end of the recession in June 2009—one of the strongest job creation records in the G-7 over this period (p. 45).
- Further, the depreciation of the Canadian dollar has improved the international competitive position of Canadian firms. This, along with expected stronger U.S. economic growth, points to stronger production and exports in non-energy sectors going forward (p. 48).

GLOBAL OUTLOOK

The global economy expanded at a modest rate in 2014. This softness reflected very modest growth in the euro area, a continuing downshift in Chinese growth, and either contraction or stagnation for much of the year in Japan, Russia and Brazil. The U.S. economy, however, has shown signs of strengthening, which is an encouraging sign for Canada, as the United States is Canada's largest export market.

In the context of ongoing modest global growth, a key development has been the decline in crude oil prices of about 50 per cent since mid-2014. As most countries are net importers of oil, this should support global growth in 2015 through lower energy costs and hence real income gains for households and firms (p. 29).

Despite an expected improvement in its near-term outlook, the euro area continues to face risks of stagnation and prolonged low inflation. Inflation continued to slow throughout last year and the most recent data showed a fourth consecutive monthly fall in consumer prices in March 2015. Further, while core inflation remains positive, it has also drifted well below 1 per cent, raising the risk of deflation (p. 30).

In Japan, economic growth exhibited large swings during 2014, in large part reflecting the impacts of recent policy changes. In particular, real GDP contracted in the second and third quarters of 2014 following the April 2014 consumption tax increase before rebounding to 1.5 per cent in the fourth quarter. Overall, the economy recorded no growth in 2014 following an increase of 1.6 per cent in 2013 (p. 31).

Growth in emerging economies eased in 2014, driven by negative developments in a number of large economies. In particular, growth in China slowed, Brazil's economy stagnated and the Russian economy is now likely in recession. Looking ahead, the IMF expects overall growth in emerging economies to be 4.3 per cent this year, slightly lower than its 2014 pace, before picking up to 4.7 per cent in 2016 (p. 32).

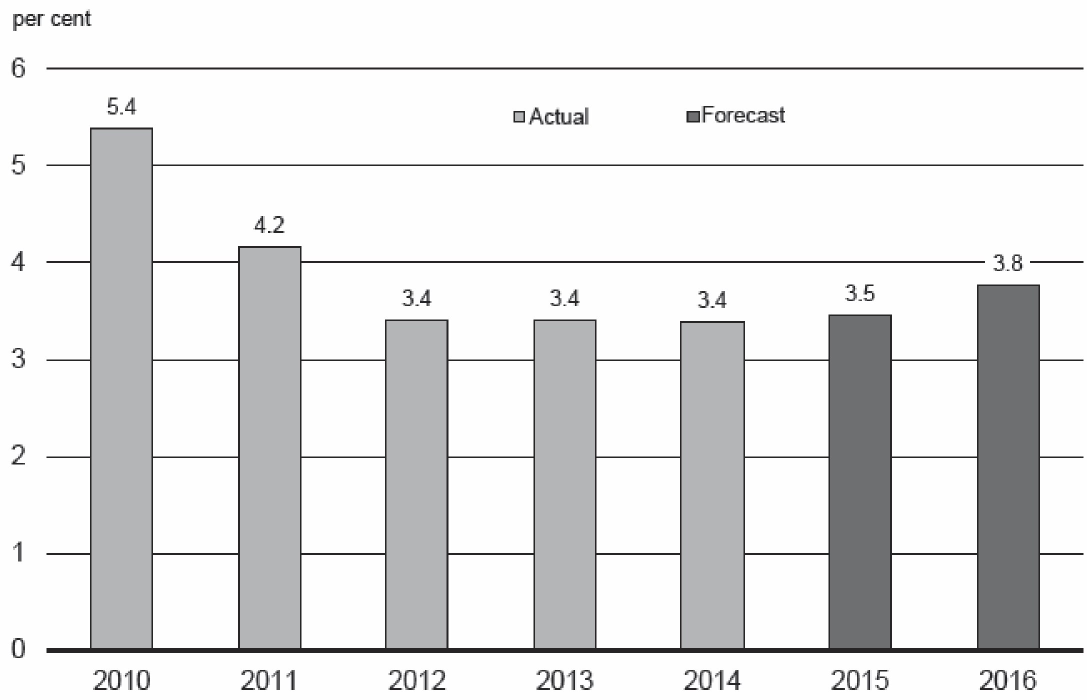
In China, real GDP growth eased to 7.4 per cent in 2014 from 7.8 per cent in 2013, compared with growth of about 9 per cent on average over the previous five years. In the first quarter of 2015, growth continued to slow to 5.3 per cent. Looking ahead, growth is expected to be 6.8

percent in 2015, in line with the revised official growth target of about 7 per cent for the year, and to slow further to 6.3 per cent in 2016 (p. 33).

In the face of global challenges, the U.S. economy continues to show a pickup in underlying growth. Despite a temporary setback at the start of 2014, the economic expansion has subsequently strengthened, averaging almost 4 per cent growth over the last three quarters of the year. On an annual basis, growth is projected to be 3.1 per cent in 2015, up from 2.4 percent in 2014, and to remain close to 3 per cent in 2016 (p. 33-4).

Global growth remained subdued in 2014 and is expected to pick up only modestly in 2015 and 2016

Chart 2.1
IMF World Real GDP Growth Outlook



Source: International Monetary Fund (IMF), April 2015 *World Economic Outlook*.

Table 2.2
Average Private Sector Forecasts
per cent, unless otherwise indicated

	2014[1]	2015	2016	2017	2018	2019	2015–2019
Real GDP growth							
Economic Action Plan 2014[2]	2.3	2.5	2.5	2.3	2.2	-	-
September 2014 survey[2]	2.5	2.6	2.4	2.3	2.2	2.1	2.3
March 2015 survey	2.5	2.0	2.2	2.3	2.2	2.0	2.2
GDP inflation							
Economic Action Plan 2014[2]	1.5	2.0	2.0	2.0	2.0	-	-
September 2014 survey[2]	2.0	1.6	2.0	2.1	2.0	2.0	1.9
March 2015 survey	1.8	-0.4	2.6	2.3	2.1	2.1	1.7
Nominal GDP growth							
Economic Action Plan 2014[2]	3.9	4.5	4.5	4.4	4.2	-	-
September 2014 survey[2]	4.5	4.3	4.4	4.4	4.2	4.1	4.3
March 2015 survey	4.4	1.6	4.9	4.7	4.3	4.2	3.9
Nominal GDP level (billions of dollars)							
Economic Action Plan 2014[2]	1,968	2,056	2,150	2,244	2,339	-	-
September 2014 survey[2]	1,978	2,063	2,155	2,251	2,347	2,444	-
March 2015 survey	1,976	2,008	2,106	2,204	2,299	2,396	-
Difference between March 2015 survey and September 2014 survey[2]	-2	-55	-49	-47	-47	-48	-
3-month treasury bill rate							
Economic Action Plan 2014	1.0	1.5	2.7	3.6	4.0	-	-
September 2014 survey	0.9	1.2	2.1	2.9	3.4	3.6	2.6
March 2015 survey	0.9	0.6	1.0	2.0	2.7	3.0	1.9

6. STATE OF FEDERAL FINANCES

Under the Government's Economic Action Plan, the deficit has been reduced from $55.6 billion at the height of the global economic and financial crisis to a projected surplus of $1.4 billion for 2015–16 (p. 327).

Compared to the Fall Update, projected budgetary revenues are lower over the forecast horizon. This decline is primarily due to lower projections for tax revenues driven by weaker-than-expected year-to-date results and the lower forecast for nominal GDP. Budgetary revenues are also negatively affected by a lower expected rate of return on interest-bearing assets—recorded as part of other revenues—as a result of a lower forecast for interest rates. (p. 355). Overall, expenses are expected to be lower than the level projected in the Fall Update over the forecast horizon, with an increase in direct program spending being more than offset by lower projected major transfers to persons and public debt charges (p. 356).

Over the remainder of the forecast horizon, revenues are projected to grow at an average annual rate of 4.0 per cent, roughly in line with growth in nominal GDP (p. 364).

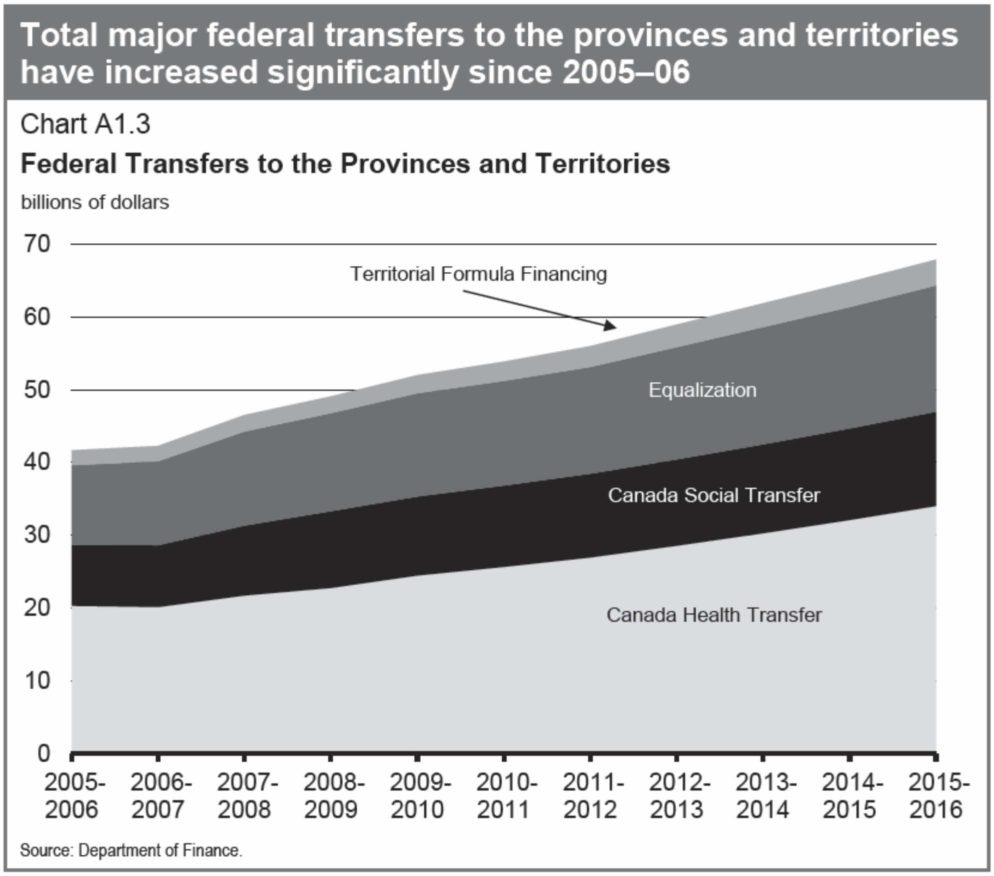
As a share of GDP, program expenses are projected to decline from 13.1 per cent in 2013–14 to 12.7 percent in 2019–20, which is below its pre-recession level (p. 371).

FEDERAL TRANSFERS

Federal Transfers (p. 387)

Transfer	Details
Canada Health Transfer (CHT)	● Will grow at an annual rate of 6 per cent for two more years and, beginning in 2017–18, it will grow in line with nominal GDP, with a guaranteed minimum funding growth rate of 3 per cent per year.
Canada Social Transfer (CST)	● The Canada Social Transfer will continue to grow at its current rate of 3 per cent per year in 2015–16 and beyond. It will also be reviewed in 2024.
Gas Tax	● Will grow by $1.8 billion over the next decade, with close to $22 billion to flow over the 10-year period of the New Building Canada Plan. (p. 181)
Equalization and Territorial Formula Financing	● Going forward, Equalization will continue to grow in line with nominal GDP, and Territorial Formula Financing will continue to grow based on its current formula.

Four Major Transfers to Provinces and Territories



It should be noted that the increases shown do not necessarily reflect the actual increases in individual provinces or territories as the data are for Canada as a whole.

Appendix A: Revenue Outlook

Table 5.2.5
Revenue Outlook
billions of dollars

		Projection					
	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020
Income taxes							
Personal income tax	130.8	134.2	143.4	151.8	159.3	165.9	172.9
Corporate income tax	36.6	37.9	36.8	39.5	40.4	40.9	42.5
Non-resident income tax	6.4	6.4	6.2	6.5	6.9	7.3	7.7
Total income tax	173.8	178.5	186.4	197.8	206.6	214.1	223.0
Excise taxes/duties							
Goods and Services Tax	31.0	31.5	32.7	34.6	36.5	38.0	39.5
Customs import duties	4.2	4.5	4.9	5.0	4.7	4.9	5.1
Other excise taxes/duties	10.9	11.4	11.4	11.4	11.4	11.4	11.3
Total excise taxes/duties	46.1	47.4	49.0	50.9	52.6	54.3	55.9
Total tax revenues	**219.9**	**225.9**	**235.4**	**248.8**	**259.2**	**268.4**	**279.0**
Employment Insurance premium revenues	21.8	22.6	23.1	22.5	19.8	20.6	21.4
Other revenues	30.0	30.9	31.7	31.2	34.4	37.2	39.2
Total budgetary revenues	**271.7**	**279.3**	**290.3**	**302.4**	**313.3**	**326.1**	**339.6**
Per cent of GDP							
Personal income tax	6.9	6.8	7.2	7.2	7.2	7.3	7.3
Corporate income tax	1.9	1.9	1.8	1.9	1.8	1.8	1.8
Goods and Services Tax	1.6	1.6	1.6	1.6	1.7	1.7	1.7
Total tax revenues	11.6	11.4	11.8	11.9	11.8	11.7	11.7
Employment Insurance premium revenues	1.1	1.1	1.2	1.1	0.9	0.9	0.9
Other revenues	1.6	1.6	1.6	1.5	1.6	1.6	1.7
Total budgetary revenues	14.3	14.1	14.5	14.4	14.3	14.3	14.3

Note: Totals may not add due to rounding.

Appendix B: Expense Outlook

Table 5.2.6
Program Expenses Outlook
billions of dollars

		Projection					
	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020
Major transfers to persons							
Elderly benefits	41.8	43.7	45.7	48.1	50.8	53.6	56.5
Employment Insurance benefits[1]	17.3	17.8	18.4	19.0	19.5	20.2	20.9
Children's benefits	13.1	14.2	18.0	18.0	18.3	18.5	18.7
Total	72.2	75.7	82.0	85.2	88.6	92.3	96.1
Major transfers to other levels of government							
Canada Health Transfer	30.3	32.1	34.0	36.1	37.4	39.1	40.9
Canada Social Transfer	12.2	12.6	13.0	13.3	13.7	14.2	14.6
Equalization	16.1	16.7	17.3	18.0	18.6	19.5	20.4
Territorial Formula Financing	3.3	3.5	3.6	3.6	3.7	3.8	3.9
Gas Tax Fund[2]	2.1	2.0	2.0	2.1	2.1	2.2	2.2
Other fiscal arrangements[3]	-3.5	-4.0	-4.5	-4.8	-5.1	-5.3	-5.6
Total	60.5	62.8	65.4	68.3	70.5	73.5	76.3
Direct program expenses							
Operating expenses	74.7	74.9	76.1	78.3	80.2	82.5	84.3
Transfer payments	36.7	36.0	34.0	36.7	37.3	38.3	39.1
Capital amortization	4.5	5.2	5.7	5.8	6.0	6.4	6.7
Total	115.9	116.1	115.8	120.8	123.5	127.2	130.1
Total program expenses	**248.6**	**254.6**	**263.2**	**274.3**	**282.7**	**293.0**	**302.6**
Per cent of GDP							
Major transfers to persons	3.8	3.8	4.1	4.1	4.0	4.0	4.0
Major transfers to other levels of government	3.2	3.2	3.3	3.3	3.2	3.2	3.2
Direct program expenses	6.1	5.9	5.8	5.8	5.6	5.6	5.5
Total program expenses	13.1	12.9	13.2	13.1	12.9	12.8	12.7

Note: Totals may not add due to rounding.

1 EI benefits include regular EI benefits, sickness, maternity, parental, compassionate care, fishing and work-sharing benefits, and employment benefits and support measures. These represent 90 per cent of total EI program expenses. The remaining EI costs relate mainly to administration and are part of operating expenses.

2 The Gas Tax Fund is a component of the Community Improvement Fund.

3 Other fiscal arrangements include the Youth Allowances Recovery; Alternative Payments for Standing Programs, which represent a recovery from Quebec of a tax point transfer; statutory subsidies; transitional payments; transfer protection payments in 2013–14; payments under the 2005 Offshore Accords; assistance regarding sales tax harmonization; the Wait Times Reduction Transfer; and other health-related transfers.

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