

FEDERAL BUDGET 2016

Date: March 22, 2016

1. BUDGET AND RELATED DOCUMENTS

[2016 Federal Budget: Growing the Middle Class](#)

2. FEDERAL BUDGET 2016 PRIORITIES

The 2016 budget stresses a number of themes:

- Help for the middle class
- Growth for the middle class
- A better future for Indigenous peoples
 - Budget 2016 proposes to invest \$8.4 billion over five years, beginning in 2016–17, to improve the socio-economic conditions of Indigenous peoples (p. 134)
 - Investments in primary and secondary education on reserve, totaling \$2.6 billion over five years starting in 2016–17 (p. 136)
- A clean growth economy (p. 150)
- An inclusive and fair Canada
 - \$2.65 billion by 2020 on a cash basis, to address climate change in developing countries
 - More than \$1.6 billion over three years, starting in 2016–17, towards security, stabilization, humanitarian and development assistance for Iraq, Syria, Jordan and Lebanon
 - \$678 million over six years, starting in 2015–16, to respond to the Syrian refugee crisis and aid in the resettlement of 25,000 Syrian refugees

3. MUNICIPAL HIGHLIGHTS

INFRASTRUCTURE

- Investment in public transit will increase by \$3.4 billion over the next three years through a new Public Transit Infrastructure Fund (p. 91). See Figure 1 for breakdown of funding by jurisdiction.
- Clean Water & Waste Water Fund for immediate improvements to water distribution and treatment infrastructure; \$2 billion over next 4 years (p. 95). The program will fund up to 50% of eligible costs (p.96).
- Budget 2016 also proposes to provide an additional \$40.0 million over five years, starting in 2016–17, to integrate climate resilience into building design guides and

codes. The funding will support revised national building codes by 2020 for residential, institutional, commercial and industrial facilities (p.158).

- The budget is providing funding to VIA Rail to improve stations and maintenance centres (\$34 million), fleet renewal, safety upgrades and improved security (\$7.7 million).
- Cultural and Recreational Infrastructure (p.102).
 - Invest \$168.2 million over two years, starting in 2016–17, in the Canada Cultural Spaces Fund.
- Budget 2016 proposes to provide an additional \$4 million over two years, starting in 2016–17 for the Enabling Accessibility Fund to support the capital costs of construction and renovation related to improving physical accessibility and safety for people with disabilities in Canadian communities (p.102).
- Budget 2016 also proposes to provide an additional \$40.0 million over five years, starting in 2016–17, to integrate climate resilience into building design guides and codes. The funding will support revised national building codes by 2020 for residential, institutional, commercial and industrial facilities (p.158).
- Budget 2016 proposes to invest up to \$500 million over five years, starting in 2016–17, for a new program to extend and enhance broadband service in rural and remote communities (p.104).

Jurisdiction	Share of National Public Transit Ridership	Funding Under the Public Transit Infrastructure Fund
British Columbia	13.63%	\$460,490,000
Alberta	10.28%	\$347,190,000
Saskatchewan	0.86%	\$29,000,000
Manitoba	2.45%	\$82,840,000
Ontario	44.01%	\$1,486,680,000
Quebec	27.35%	\$923,710,000
New Brunswick	0.26%	\$8,740,000
Nova Scotia	0.95%	\$32,200,000
Prince Edward Island	0.02%	\$660,000
Newfoundland and Labrador	0.15%	\$4,940,000
Yukon	0.03%	\$890,000
Northwest Territories	0.01%	\$320,000
Total	100.00%	\$3,377,660,000

Notes: Ridership based on calculations done by the Canadian Urban Transit Association in the 2014 Canadian Transit Fact Book. There are no public transit systems in Nunavut.

Figure 1: PTIF funding by Jurisdiction (p. 92)

HOUSING

- \$2.3B over two years to expand affordable housing (p. 97).
- \$2.2 billion reflects the Government's commitment to invest in social infrastructure, including \$739 million for First Nations, Inuit and northern housing. A significant portion of the \$2.3 billion investment will be allocated to provinces and territories, which can identify communities where the need for affordable housing is greatest (p.97).
 - Budget 2016 proposes to provide \$89.9 million over two years, beginning in 2016–17, for the construction and renovation of shelters and transition houses for victims of family violence (p.101).
 - Budget 2016 proposes to invest an additional \$111.8 million over two years, starting in 2016–17, in the Homelessness Partnering Strategy (p.101).

SENIORS

- Increase Guaranteed Income Supplement to the lowest income Seniors by \$947 annually (p. 171).
- Restoring the eligibility age for Old Age Security and Guaranteed Income Supplement benefits to 65 (p. 173).

TAX RELIEF

- Budget 2016 proposes to invest \$444.4 million over five years for the CRA to enhance its efforts to crack down on tax evasion and combat tax avoidance (p. 216)
- Small business reduced income tax rate of 10.5 per cent on their first \$500,000 of active business income (p. 220).
- The Canada Child Benefit will provide a maximum annual benefit of up to \$6,400 per child under the age of 6 and up to \$5,400 per child for those aged 6 through 17 (p.58).
 - Families with less than \$30,000 in net income will receive the maximum benefit.
 - Families will receive a single payment every month.
 - Families will not have to pay back part of the amount received when they file their tax returns.
 - Families benefitting will see an average increase in child benefits of almost \$2,300 in the 2016–17 benefit year.
- The Government recognizes the deep connection between child care and the economic security of families, and proposes to invest \$500 million in 2017–18 to support the establishment of a National Framework on Early Learning and Child Care. Of this amount, \$100 million would be for Indigenous child care and early learning on reserve (p.101).

4. OTHER INITIATIVES

HEALTH CARE

- Foundation for Health Care Improvement – budget proposes to provide \$39 million over three years, starting in 2016-17 (p. 178).
- Enhancing Food Safety - provide \$38.5 million over two years, on a cash basis, starting in 2016–17 to further strengthen and modernize Canada’s food safety system. (p. 179)
- Budget 2016 confirms ongoing funding for the Canadian Partnership Against Cancer at \$47.5 million per year (p.180).

MANUFACTURING

- The Government will eliminate tariffs on about a dozen manufacturing inputs, providing an estimated \$9 million in tariff savings over the next five years to Canadian manufacturers in the consumer goods and transportation sectors (p.127).
- Budget 2016 announces the extension of the Automotive Innovation Fund, which is currently scheduled to sunset at the end of 2017–18, through to the end of 2020–21 (p.122).
- A Clean Growth Economy:
 - Investing in Clean Technology; \$1B over four years (p. 150).

SUSTAINABLE ENVIRONMENT

- \$3.4 billion over five years, starting in 2016–17, to address climate change and air pollution, protect ecologically sensitive areas (p. 155).

5. STATE OF THE ECONOMY

OVERVIEW

The Government is committed to reducing the federal debt-to-GDP ratio to a lower level over a five-year period, ending in 2020–21. Where new spending is introduced, it will be focused on boosting Canada’s long-term growth potential while preserving our low-debt advantage (p.26).

Though current circumstances are challenging, the Canadian economy shows signs of resilience. Over the second half of the year, despite significant ongoing weakness in the energy sector, non-energy sector output regained momentum, rising at an annual average rate of 2.2 per cent. This spurred average growth in total industry GDP of 2.0 per cent over the second half of the year (p.38).

As the economy gradually adjusts to weaker commodity prices, a lower Canadian dollar and ongoing growth in the U.S. economy are offering some support. Canadian exports have shown signs of improvement, particularly forestry products, motor vehicles and consumer goods. Stronger exports at the end of 2015 and in early 2016 are also translating into solid gains in real manufacturing sales (p.40).

- The budgetary balance is expected to show a deficit of \$29.4 billion in 2016–17, gradually declining to a deficit of \$14.3 billion in 2020–21 (p.48).
- The Department of Finance estimates that the measures contained in Budget 2016, along with the middle class tax cut announced in December 2015, will raise the level of real GDP by 0.5 per cent in the first year and by 1.0 per cent by the second year (p.49).
- Over the last four years, growth in Canada has slowed to below 2 per cent on average and the sharp decline in global crude oil prices since the end of 2014 has placed more significant downward pressure on the economy (p.34).
- Energy-related output contracted sharply over the first half of 2015, but output outside the energy sector remained largely stable (p.38).
- Despite job losses in oil-producing regions, total employment in Canada has risen by almost 125,000 since October 2014 (p.39).

GLOBAL OUTLOOK

Global economic growth slowed in 2015 to its weakest pace since the 2008–2009 recession, led by slower growth in emerging economies (p.27). As global growth has continued to slow, financial market volatility has risen. Concerns and uncertainty over China’s slowing growth have led to turbulence in Chinese equity markets, which has spilled over to equity markets in advanced economies (p.31).

In China, real GDP growth in 2015 eased to 6.9 per cent, its slowest rate of growth in 25 years, reflecting weaker growth in the country’s industrial sector (manufacturing and construction). This slowdown reflects the transition of the Chinese economy toward slower but more sustainable growth based on household consumption and the service sector, rather than on investment and manufacturing. The International Monetary Fund (IMF) expects that growth in China will continue to decelerate modestly over the near term, but there are risks that growth could slow more sharply than expected (p.27).

Growth in most advanced economies remains modest. In the euro area, real GDP growth improved to 1.5 per cent in 2015 from 0.9 per cent in 2014, as lower crude oil prices helped to boost consumer spending growth to its fastest pace since 2007. The IMF expects euro area growth to remain slow over 2016 and 2017. Significant risks to growth persist, including high levels of sovereign debt, still weak bank balance sheets, geopolitical uncertainty with regard to Russia, and the ongoing refugee and migrant crisis (p.28).

In contrast, the United States has been a relatively bright spot in the global economy. Real GDP growth in the U.S. held steady at 2.4 per cent in 2015—above its recovery average of 2.1 per cent. That said, the U.S. is not immune to the effects of a challenging global economic

environment. The roughly 20 per cent appreciation of the U.S. dollar since mid-2014, combined with restrained global demand, has hurt U.S. net exports. GDP growth in the U.S. is projected to remain steady over the next few years. Growth is expected to be in the range of 2-2.5 per cent through 2020, due to a solid labour market, sound corporate and household balance sheets, and a continued gradual recovery in the housing market (p.29-30).

Persistent oversupply and rising inventories, along with generalized financial market turmoil and weak demand, have continued to weigh on commodity prices. Most analysts expect oil prices to remain low and volatile, but given rising global demand and easing supply, expect market conditions to balance and prices to begin to recover later this year or in early 2017. Current futures prices suggest that oil prices could remain low for an extended period (p.33).

6. STATE OF FEDERAL FINANCES

The budget balance is expected to show a deficit of \$5.4 billion in 2015-2016, rising to \$29.4 billion in 2016-17, and declining to a deficit of \$14.3 billion by 2020-21 (p. 234).

Budgetary revenues are projected to decline in 2016-2017 due to a weaker economic outlook and a projected decrease in other revenues, which are largely caused by asset sales in 2015-16. Revenues are, however, projected to grow by an average of 4.6 per cent from 2017-18 to 2020-21, in line with the outlook for nominal GDP and interest rates.

Major transfers to persons are expected to increase by 20.9 billion over the next four years, with increases to elderly benefits (due to CPI adjustments; growing number of seniors; and the Guaranteed Income Supplement), increases to EI benefits (due to labour market projections and EI enhancements) and the increased costs of the new Canada Child Benefit (p. 241).

Private sector economists now expect real GDP growth of 1.4 per cent in 2016, lower than the 2.0 per cent in the 2015 Fall Update. Real GDP growth in 2017 and beyond is, on average, unchanged from the 2015 Fall Update (p.231).

Table A1.1

AVERAGE PRIVATE SECTOR FORECASTS

per cent, unless otherwise indicated

	2015	2016	2017	2018	2019	2020	2016– 2020
Real GDP growth							
Budget 2015 ¹	2.1	2.2	2.3	2.2	2.0	–	–
2015 Fall Update ¹	1.3	2.0	2.2	2.2	2.0	2.0	2.1
Budget 2016	1.2	1.4	2.2	2.2	2.0	1.9	1.9
GDP inflation							
Budget 2015 ¹	-0.3	2.6	2.3	2.1	2.1	–	–
2015 Fall Update ¹	-0.3	2.1	2.4	2.1	2.2	2.1	2.2
Budget 2016	-0.4	1.0	2.4	2.1	2.1	2.1	1.9
Nominal GDP growth							
Budget 2015 ¹	1.8	4.9	4.7	4.3	4.2	–	–
2015 Fall Update ¹	1.0	4.2	4.6	4.4	4.2	4.2	4.3
Budget 2016	0.7	2.4	4.6	4.3	4.2	4.1	3.9
Nominal GDP level (billions of dollars)							
Budget 2015 ¹	2,008	2,106	2,204	2,299	2,396	–	–
2015 Fall Update ¹	1,993	2,077	2,173	2,267	2,363	2,461	–
2015 Fall Update—adjusted for planning purposes ¹	1,983	2,057	2,153	2,247	2,343	2,441	–
Budget 2016	1,988	2,036	2,129	2,221	2,313	2,408	–
Forecast adjustment	–	-40	-40	-40	-40	-40	-40
Budget 2016—adjusted for planning purposes	1,988	1,996	2,089	2,181	2,273	2,368	–
Difference between Budget 2016 survey and 2015 Fall Update planning assumption	5	-21	-23	-26	-30	-34	-27
Difference in planning assumptions between Budget 2016 and 2015 Fall Update	5	-61	-63	-66	-70	-74	-67
3-month treasury bill rate							
Budget 2015	0.6	1.0	2.0	2.7	3.0	–	–
2015 Fall Update	0.5	0.6	1.3	2.1	2.7	3.0	1.9
Budget 2016	0.5	0.5	0.7	1.6	2.4	2.7	1.6
10-year government bond rate							
Budget 2015	1.7	2.5	3.2	3.7	3.9	–	–
2015 Fall Update	1.5	2.1	2.8	3.3	3.6	3.9	3.1
Budget 2016	1.5	1.6	2.3	3.0	3.4	3.6	2.8

Federal Transfers (p. 241)

Transfer	Details
Canada Health Transfer (CHT)	<ul style="list-style-type: none"> • In 2016–17, the CHT is legislated to grow by 6.0 per cent. Starting in 2017–18, the CHT will grow in line with a three-year moving average of nominal GDP growth, with funding guaranteed to increase by at least 3.0 per cent per year.
Canada Social Transfer (CST)	<ul style="list-style-type: none"> • The CST is legislated to grow at 3.0 per cent per year, increasing from \$13.0 billion in 2015–16 to \$15.0 billion in 2020–21.
Gas Tax	<ul style="list-style-type: none"> • The Gas Tax Fund is projected to grow from \$2.0 billion in 2015–16 to \$2.2 billion in 2020–21 as these payments are indexed at 2.0 per cent per year, with increases applied in \$100 million increments.
Equalization and Territorial Formula Financing	<ul style="list-style-type: none"> • Equalization payments will increase to \$17.9 billion and Territorial Formula transfers will increase by \$3.6 billion in 2016-2017 (p. 243). The equalization and territorial formula financing programs are set to be renewed in 2019.

Appendix A: Revenue Outlook

Table A1.3

REVENUE OUTLOOK

billions of dollars

	Projection						
	2014– 2015	2015– 2016	2016– 2017	2017– 2018	2018– 2019	2019– 2020	2020– 2021
Income taxes							
Personal income tax	135.7	142.7	143.9	153.7	160.9	168.5	177.0
Corporate income tax	39.4	38.8	37.9	39.9	40.4	42.1	44.5
Non-resident income tax	6.2	6.3	6.3	6.3	6.6	6.9	7.2
Total income tax	181.4	187.8	188.0	199.9	208.0	217.5	228.7
Excise taxes/duties							
Goods and Services Tax	31.3	33.1	33.5	35.2	36.7	38.3	40.0
Customs import duties	4.6	5.2	5.0	4.5	4.7	4.8	4.9
Other excise taxes/duties	11.3	11.5	11.1	11.2	11.2	11.2	11.2
Total excise taxes/duties	47.2	49.8	49.6	50.9	52.6	54.3	56.2
Total tax revenues	228.6	237.6	237.6	250.8	260.6	271.8	284.9
Employment Insurance premium revenues	22.6	23.0	22.4	21.0	21.8	22.7	23.5
Other revenues							
Crown corporations	13.5	13.1	10.4	11.6	12.7	13.5	13.6
Other programs	16.4	15.5	15.3	16.3	17.7	18.6	19.3
Net foreign exchange	1.4	2.1	1.9	2.2	2.5	2.8	3.1
Total other revenues	31.2	30.6	27.7	30.2	32.9	34.9	36.0
Total budgetary revenues	282.3	291.2	287.7	302.0	315.3	329.3	344.4
Per cent of GDP							
Personal income tax	6.9	7.2	7.2	7.4	7.4	7.4	7.5
Corporate income tax	2.0	2.0	1.9	1.9	1.9	1.9	1.9
Goods and Services Tax	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Total tax revenues	11.6	12.0	11.9	12.0	11.9	12.0	12.0
Employment Insurance premium revenues	1.1	1.2	1.1	1.0	1.0	1.0	1.0
Other revenues	1.6	1.5	1.4	1.4	1.5	1.5	1.5
Total budgetary revenues	14.3	14.6	14.4	14.5	14.5	14.5	14.5

Note: Totals may not add due to rounding.

Appendix B: Expense Outlook

Table A1.4

PROGRAM EXPENSES OUTLOOK

billions of dollars

	Projection						
	2014– 2015	2015– 2016	2016– 2017	2017– 2018	2018– 2019	2019– 2020	2020– 2021
Major transfers to persons							
Elderly benefits	44.1	45.6	48.4	51.1	53.9	56.9	60.1
Employment Insurance benefits ¹	18.1	19.4	21.1	21.6	21.3	21.5	22.1
Children's benefits	14.3	18.1	21.9	22.8	22.4	22.1	21.8
Total	76.5	83.1	91.4	95.5	97.7	100.5	104.0
Major transfers to other levels of government							
Canada Health Transfer	32.1	34.0	36.1	37.1	38.5	40.2	41.9
Canada Social Transfer	12.6	13.0	13.3	13.7	14.2	14.6	15.0
Equalization	16.7	17.3	17.9	18.3	19.0	19.9	20.7
Territorial Formula Financing	3.5	3.6	3.6	3.7	3.8	3.8	3.9
Gas Tax Fund	2.0	2.0	2.1	2.1	2.2	2.2	2.2
Other fiscal arrangements ²	-3.7	-4.0	-4.4	-4.7	-5.0	-5.3	-5.6
Total	63.1	65.8	68.6	70.3	72.7	75.4	78.1
Direct program expenses							
Transfer payments	35.1	34.1	41.7	45.3	44.0	44.3	46.0
Capital amortization	4.8	5.2	5.8	6.1	6.2	6.3	6.5
Operating expenses	74.4	82.8	83.9	87.4	88.1	87.8	88.7
Total	114.3	122.0	131.3	138.8	138.3	138.3	141.1
Total program expenses	253.8	270.9	291.4	304.6	308.7	314.2	323.2
Per cent of GDP							
Major transfers to persons	3.9	4.2	4.6	4.6	4.5	4.4	4.4
Major transfers to other levels of government	3.2	3.3	3.4	3.4	3.3	3.3	3.3
Direct program expenses	5.8	6.1	6.6	6.6	6.3	6.1	6.0
Total program expenses	12.9	13.6	14.6	14.6	14.2	13.8	13.6

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 direct program expenses.

² 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; payments under the 2005 Offshore Accords; a fiscal stabilization payment to Quebec in respect of its 1991–92 claim; payments with respect to the Common Securities Regulator; and advance fiscal stabilization payments to Alberta and Newfoundland and Labrador with respect to 2015–16.

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