THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

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Budget Analysis

Federal Budget 2015

This is an election year, and this is undoubtedly an election budget. There is a strong emphasis on tax cuts for the (hardworking) Canadian families that will receive the bulk of federal largesse this year. Just the income splitting and the expanded universal child care benefit will cost $7.8 billion in 2015 and $4.5 billion per year thereafter. From innovation to infrastructure to the environment, this budget has something for everyone.

In fact, we at the Canadian Chamber of Commerce were pleasantly surprised by a number of the business-friendly tax adjustments and spending commitments. Back in the summer of 2014, the government was forecasting a $1.9 billion surplus on top of a $3 billion contingency fund. Then oil prices collapsed from $100 to $45 by the beginning of January and the Parliamentary Budget Officer expected that the resulting $5.5 billion hit to the federal treasury would leave a deficit of $400 million. Minister Oliver delayed the budget by a couple of months citing "economic uncertainty."

Since then oil prices have recovered slightly, to around $56 this morning, and we expect them to be back in the $65 by year-end. The government also enjoyed a $3.4 billion windfall from the sale of GM shares. As a result, there is room for some helpful measures to support Canadian business, a few things that will make life easier for business, a couple of gimmicks and a surplus of $1.4 billion.

Infrastructure

- The Canadian Chamber was pleased to see the government confirm $5.8 billion in funds for new infrastructure as announced in November 2014, with the majority spent over the next three years, on top of the existing $5.3 billion per year from the Building Canada Plan. There is also money for a new public transit fund: $750 million over two years, starting in 2017-18 and $1 billion annually thereafter.
- The debt caps for the Northwest Territories and Nunavut will be raised to $1.3 billion and $650 million respectively (pending Governor-in-Council approval) increasing the amounts these territorial governments can borrow to invest in the infrastructure needed for private sector economic development.

Taxes

- The big highlight was that the small business tax rate will be reduced from 11% to 9% by 2019 (0.5% reduction each year starting Jan 1, 2016), resulting in $2.7 billion in tax savings through 2020.
- The government is also targeting manufacturers by extending the accelerated capital cost allowance to 2025. The same 50% rate will be applied using the declining balance method. Previously, the straight-line method was used so that the full depreciation was taken in two years.

    - The ACCA for LNG facilities will rise to 30% from 8% for equipment and from 6% to 10% for buildings.
    - The government also promised to eliminate all remaining tariffs on M&E, manufacturing inputs, so no tariffs at all for industrial manufacturers, as well as eliminating tariffs on certain imported ships and mobile offshore drilling units.
- On payroll taxes, the Canadian Chamber was pleased by the government reconfirming the EI premium rate freeze (currently $1.88 per $100 of earnings through 2016) and, more importantly, the reduction to the seven-year break even rate in 2017. The government estimates this is somewhere around $1.49, a reduction of 21%.
- An area of special delight for tax enthusiasts, the long-awaited fix to regulation 102 of the Income Tax Act, the withholding requirement for non-residents. Previously, employers had to withhold tax amounts for any employee working in Canada even for very short periods, and the employee would have to file to get a refund. Now CRA will grant waivers to employers so they don't have to withhold tax on foreign employees who visit Canada.
- A 10-year tax incentive measure to write-off investment in tools and equipment will benefit the Canadian manufacturing sector.

Capital

- Access to capital is always a big priority for the Canadian Chamber. The government announced changes to the Canada Small Business Financing Program that will expand availability: the maximum loan amount will rise to $1M from $500K, and the small business criteria will qualify a company with $10M in revenues, up from $5M.
- $14 million to Futurpreneur to support young entrepreneurs with start-up capital, learning tools and mentorship.

Trade and International Affairs

- There was an impressive list of commitments to expand trade, with a number of big wins for business and for the Canadian Chamber's report that recommended expanded trade promotion. In fact, the government promised $50 million over five years for the Export Market Development Program to help SMEs explore export opportunities - market research, attending trade shows, pilot projects for between 500 to 1,000 exporters per year. There was also $42 million over five years to expand the Trade Commissioner Service.
- In the most innovative policy of the budget, the government will be creating a Development Finance Initiative to provide financing in developing countries. This was a major ask of the Canadian Chamber because one of the best ways for business to get into tough emerging markets and build relationships is to

participate in a development project. With a capital base of $300 million, the DFI will be housed with Export Development Canada.

- There was a significant increase in funding for agriculture exports, including $18 million to promote competitiveness and trade opportunities and $12 million to market Canadian food.
- The creation of an internal trade promotion office in Industry Canada to reduce barriers to internal trade and promote efforts to renew the agreement on internal trade.
- The Canadian Chamber was disappointed that it did not see concrete investment in tourism promotion. The budget is proposing "support" to the Canadian Tourism Commission for a new initiative to promote Canada in the U.S. No dollar amount was given but details are to be provided in the coming months after consultations with stakeholders. We will be monitoring this closely.

Technology and Innovation

- The government promised $1.3 billion over six years starting in 2017-2018 to the Canada Foundation for Innovation for advanced research infrastructure at universities and research hospitals.
- $105 million for CANARIE, Canada's high-speed research and education network and $46M to the granting councils such as NSERC, CIHR.
- $1 billion over five years for technical demonstrations in the aerospace industry plus $30 million over four years for Canada's satellite communications sector.
- $100 million over five years for the Automotive Supplier Innovation Program for funding for R&D in the auto sector.
- $86 million over two years for the Forestry Innovation Program and the Expanding Market Opportunities Program.

People and Skills

- Skills featured prominently in the budget and the Canadian Chamber was pleased to see a focus on aligning post-secondary curricula with employers' needs. The investment of $65 million will allow business and industry trade associations to work with post-secondary institutions to better determine the needs of the market.
- The government also emphasized that it was negotiating with provinces on the $2 billion labour market development agreements to reorient training to labour market demand. The government will also support provinces to harmonize apprenticeship training and certification requirements in Red Seal Trades, along with $7 million for improved labour mobility, which is helpful.
- For years, the Canadian Chamber has been advocating improved labour market information, so it was pleased to see $4 million over two years to launch a new one-stop national labour market information portal. We welcome this as a first step toward more investments in actual surveys.

- $35 million to the Foreign Credential Recognition Loans Program, which pays for immigrants to take courses and tests to have foreign qualifications recognized in Canada.
- Improvements to the Canada Student Loans Program will expand access by reducing the parental contribution and excluding income earned while studying at a cost of $119 million and $116 million respectively.
- $248.5 million to support Aboriginal labour market programming - skills development and training.
- On Temporary Foreign Workers, the government offered no changes.
- A $200 million investment over five years in First Nations education through the Strong Schools, Successful Students Initiative for capacity building of school boards.

Natural Resources & Environment

- The budget included some previously announced programs to support Canada's natural gas and mining sectors through tax breaks and the forest products sector through support for innovation. Many of the measures accounted have been on the Canadian Chamber's agenda for a few years, representing a win for the resource community.
- No significant changes in direction for natural resource or environmental policy were revealed, with continued or incremental funding for community consultation through environmental assessments, environmental programs like the Chemical management plan and marine transport of oil.
- Perhaps most significant for the budget is what the budget did not mention. Despite the major upcoming climate negotiation at the UNFCCC in Paris this December, the budget made no mention of climate change.

Paperwork and Other

- New service standards and regulatory plans to reduce the paperwork burden on business. There will be quarterly remittance of employer taxes for very small employers. CRA agents will have a standard ID number, will partner with the CFIB and will be clearer in their communications.
- Should we look forward to a kinder, gentler CRA? Not if you're one of Canada's largest and most complex entities and you're engaged in aggressive tax avoidance. The CRA will spend an additional $58 million over five years to go after these entities. Interestingly, the government estimates that it will collect an additional $191 million per year and is so sure about the amounts that it has included them as revenues in the budget.