

THE BUDGET IN BRIEF 2006

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# FOCUSING ON PRIORITIES



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CANADA'S NEW GOVERNMENT

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TURNING A NEW LEAF



Department of Finance  
Canada

Ministère des Finances  
Canada

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## Budget 2006—Focusing on Priorities

### Introduction

Budget 2006 is about focusing on priorities. It delivers real results for people in a focused and fiscally responsible way.

As the measures outlined in this plan make clear, this budget makes federal spending more transparent, accountable and disciplined, while creating greater opportunity for Canadians, investing in our families and communities, and making our streets safer and our borders more secure.

It also delivers more tax relief than the last four federal budgets combined—putting more than twice as much into tax relief than new spending.

Budget 2006 also provides a framework for discussion to restore fiscal balance in Canada, based on fundamental principles all Canadians can support.

By addressing clear priorities in accountability, opportunity, families and communities, and security—while laying the foundation for budgets to come—Budget 2006 charts a new course for building a better Canada.



## Highlights

### **Economic Developments and Prospects**

- ✓ The Canadian economy recorded solid growth in 2005, largely supported by healthy increases in final domestic demand.
- ✓ Looking ahead, forecasters expect slightly stronger near-term growth than estimated at the time of the November 2005 *Economic and Fiscal Update*.
- ✓ Private sector forecasters have raised their forecasts for gross domestic product (GDP) inflation in 2006, largely because of unexpectedly strong growth in commodity prices in late 2005. As a result, the forecast level of nominal GDP in 2006 and 2007 is now over \$20 billion higher than projected at the time of the Update.
- ✓ The risks to the Canadian economic outlook remain largely external, and include uncertainty about commodity prices, the risk of a sudden correction in U.S. house prices, and the risk that the Canadian dollar may appreciate further in response to adjustments to global imbalances.



## Building a Better Canada

### Accountability

A core priority of the Government is to improve the accountability and transparency of government operations to Canadians. The *Federal Accountability Action Plan*, released on April 11, introduced a wide-ranging set of reforms, including establishing the position of a Parliamentary Budget Officer and a commitment to provide quarterly updates of the fiscal outlook for the current fiscal year.

Budget 2006 announces a more transparent framework for budget planning, consisting of the following elements:

- ✓ The Government will make decisions in the budget over a two-year planning horizon. Measures will be introduced when they are affordable and ready to be implemented.
- ✓ The Government will restrain the rate of spending growth. The Government will introduce a new approach to managing overall spending to ensure that government programs focus on results and value for money, and are consistent with government priorities and responsibilities. The President of the Treasury Board will identify savings of \$1 billion in 2006–07 and 2007–08.
- ✓ The Government will plan on reducing the federal debt by \$3 billion annually. The Government is advancing by one year, to 2013–14, the goal of lowering the debt-to-GDP ratio to 25 per cent.
- ✓ The Government will examine the possibility of allocating a portion of any surplus at year-end larger than \$3 billion to the Canada Pension Plan and Quebec Pension Plan, in order to make them more equitable for young Canadians and improve economic competitiveness.
- ✓ Financial reporting will be improved, in keeping with recommendations from the Auditor General of Canada.



## Opportunity

- ✓ This budget proposes comprehensive tax relief for individuals, valued at almost \$20 billion over the next two years—more than the last four budgets combined.
  - As a result, about 655,000 low-income Canadians will be removed from the tax rolls altogether.
- ✓ Overall, this budget delivers more than twice as much tax relief as new spending.
- ✓ The goods and services tax (GST) will be reduced by 1 percentage point as of July 1, 2006.
- ✓ In addition to reducing the GST, Budget 2006 proposes to reduce personal income taxes for all taxpayers through:
  - The new Canada Employment Credit—a tax credit on employment income of up to \$500, effective July 1, 2006, to help working Canadians. The eligible amount will double to \$1,000 as of January 1, 2007.
  - A permanent legislated reduction in the lowest tax rate to 15.5 per cent from 16 per cent as of July 1, 2006. The budget also confirms that the lowest tax rate will be 15 per cent from January 1, 2005 until June 30, 2006.
  - Increases in the basic personal amount—the amount that all Canadians can earn without paying federal income tax—above its currently legislated level for 2005, 2006 and 2007.
  - As a result of these personal income tax and GST reductions, families earning between \$15,000 and \$30,000 a year will be better off by almost \$300 in 2007. Families earning between \$45,000 and \$60,000 will save almost \$650.



- ✓ To create an environment for jobs and growth, Budget 2006 proposes to make Canada's tax system more internationally competitive by:
  - Reducing the general corporate income tax rate to 19 per cent from 21 per cent by 2010.
  - Eliminating the corporate surtax for all corporations as of January 1, 2008.
  - Eliminating the federal capital tax as of January 1, 2006, two years ahead of schedule.
  
- ✓ To support the growth of small business, Budget 2006 proposes to:
  - Increase the amount of small business income eligible for the 12-per-cent tax rate to \$400,000 from \$300,000 as of January 1, 2007.
  - Reduce the 12-per-cent tax rate applying to qualifying small business income to 11.5 per cent in 2008 and 11 per cent in 2009.
  
- ✓ Budget 2006 takes action in support of a more skilled and educated workforce by proposing:
  - A new tax credit of up to \$2,000 for employers who hire apprentices.
  - A new \$1,000 grant for first- and second-year apprentices.
  - A new \$500 tax deduction for tradespeople for costs in excess of \$1,000 for tools they must acquire as a condition of employment. Also, the \$200 limit on the cost of tools eligible for the 100-per-cent capital cost allowance will be increased to \$500.
  - A new tax credit for the cost of textbooks, which will provide a tax reduction of about \$80 per year for a typical full-time post-secondary student.
  - The elimination of the current \$3,000 limit on the amount of scholarship, bursary and fellowship income a post-secondary student can receive without paying federal income tax.
  - Confirming up to \$1 billion to provinces and territories to support urgent investments in post-secondary education infrastructure.



- Expanded eligibility for Canada Student Loans through a reduction in the expected parental contribution, starting in August 2007.
- ✓ Budget 2006 affirms this government’s strong commitment to agriculture by providing an additional \$2 billion over two years to the farming sector.
  - \$1.5 billion will be provided this year. This includes \$500 million for farm support, plus a one-time investment of \$1 billion to assist farmers in the transition to more effective programming for farm income stabilization and disaster relief.
- ✓ Budget 2006 provides \$400 million over two years to combat the pine beetle infestation, strengthen the long-term competitiveness of the forestry sector and support worker adjustment.
- ✓ Looking forward, the Government will develop a broad-based agenda to promote a more competitive, productive Canada.



## **Families and Communities**

Budget 2006 provides \$5.2 billion over two years in increased support for Canadians and their families.

### **Canada's Universal Child Care Plan**

- ✓ \$3.7 billion over two years for the Universal Child Care Benefit (UCCB), which will provide all families with \$100 per month for each child under age 6. The UCCB will not affect federal income-tested benefits and will be provided as of July 1, 2006.
- ✓ \$250 million to support the creation of new child care spaces. The goal is to create 25,000 additional spaces each year.

### **Other Family Measures**

- ✓ A children's fitness tax credit for up to \$500 in eligible fees for physical fitness programs for each child under age 16.
- ✓ Assistance for persons with disabilities will be enhanced by:
  - Increasing the maximum annual Child Disability Benefit (CDB) to \$2,300 from \$2,044, effective July 2006.
  - Extending eligibility for the CDB to middle- and higher-income families caring for a child who is eligible for the disability tax credit, effective July 2006.
  - Boosting the maximum amount of the refundable medical expense supplement to \$1,000 from \$767, effective 2006.
- ✓ \$52 million per year for the Canadian Strategy for Cancer Control.
- ✓ Increasing to \$2,000 the maximum amount eligible for the pension income credit, effective 2006. This will benefit nearly 2.7 million taxpayers with pension income and will remove approximately 85,000 pensioners from the tax rolls.



Budget 2006 provides almost \$3 billion over two years to help make our communities better places to live.

### **Immigration Measures**

- ✓ Reducing the Right of Permanent Residence Fee from \$975 to \$490, effective immediately.
- ✓ Increasing immigration settlement funding by \$307 million and taking steps towards the establishment of a Canadian agency for the assessment and recognition of foreign credentials.

### **Affordable Housing**

- ✓ Confirming up to \$800 million to provinces and territories to address immediate pressures in affordable housing.

### **Aboriginal Communities**

- ✓ \$450 million for improving water supply and housing on reserve, education outcomes, and socio-economic conditions for Aboriginal women, children and families.
- ✓ Confirming up to \$300 million to provinces to address immediate pressures in off-reserve Aboriginal housing, and up to \$300 million to territories for affordable housing in the North.

### **Environment**

- ✓ A tax credit for the purchase of monthly public transit passes, effective July 1, 2006.
- ✓ Accelerating the capital cost allowance for forestry bioenergy.

### **Infrastructure**

- ✓ \$5.5 billion over four years for a new Highways and Border Infrastructure Fund, Canada's Pacific Gateway Initiative, the Canada Strategic Infrastructure Fund, the Municipal Rural Infrastructure Fund and a Public Transit Capital Trust.



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## **Other Measures**

- ✓ Exempting donations of publicly listed securities to public charities from capital gains tax, effective immediately.
- ✓ Exempting donations of ecologically sensitive land made under the Ecogift program from capital gains tax, also effective immediately.
- ✓ \$50 million to the Canada Council for the Arts.
- ✓ Providing temporary solvency funding relief to help re-establish full funding of federally regulated defined benefit pension plans in an orderly fashion, with safeguards for promised pension benefits.



## **Security**

Budget 2006 provides \$1.4 billion over two years to protect Canadian families and communities, to secure our borders and to increase our preparedness to address public health threats. Over the same period, this budget provides \$73 million to better secure our financial system. The Government is also committed to strengthening Canada's role in the world by investing an additional \$1.1 billion over two years in Canada's armed forces and by working to ensure the effectiveness of international assistance.

### **Cracking Down on Crime**

- ✓ \$161 million for 1,000 more RCMP officers and federal prosecutors to focus on such law-enforcement priorities as drugs, corruption and border security (including gun smuggling).
- ✓ \$37 million for the RCMP to expand its National Training Academy (Depot) to accommodate these new officers and build the capacity to train more officers in the future.
- ✓ Set aside funds to expand Canada's correctional facilities to house the expected increase in inmates as a result of changes in sentencing rules.
- ✓ \$20 million for communities to prevent youth crime with a focus on guns, gangs and drugs.
- ✓ \$26 million to give victims a more effective voice in the federal corrections and justice system, and to give victims greater access to services (such as travel to appear at parole hearings).

### **Securing Safe and Open Borders**

- ✓ \$101 million to begin arming border officers and eliminating "work-alone" posts.
- ✓ \$303 million to implement a border strategy to promote the movement of low-risk trade and travellers within North America while protecting Canadians from security threats.



### **Preparing for Emergencies**

- ✓ \$460 million (\$1 billion over five years) to further improve Canada's pandemic preparedness.
- ✓ \$19 million per year to Public Safety and Emergency Preparedness Canada to enhance our capacity to deal with catastrophes and emergencies.

### **Transportation Security**

- ✓ \$133 million to support Canadian Air Transport Security Authority operations.
- ✓ \$95 million for new measures to enhance the security of passenger rail and urban transit.

### **Strengthening Canada's Role in the World**

- ✓ \$1.1 billion (\$5.3 billion over five years) to strengthen the Canadian Forces' capacity to defend our national sovereignty and security.
- ✓ Up to \$320 million in 2005–06 to fight polio, tuberculosis, malaria and HIV/AIDS and to help low-income countries cope with natural disasters or sharp rises in commodity prices.

### **Enhancing Security in the Financial System**

- ✓ \$64 million to enhance Canada's anti-money laundering and anti-terrorist financing regime.
- ✓ \$9 million to fund integrated enforcement teams to combat currency counterfeiting.



## Restoring Fiscal Balance in Canada

In Budget 2006, the Government is committing to take immediate action to restore fiscal balance. This government will address concerns over fiscal imbalance through:

- ✓ Implementation of the 10-Year Plan to Strengthen Health Care.
- ✓ A Patient Wait Times Guarantee for medically necessary services, developed with provincial and territorial governments.
- ✓ Certainty for equalization and Territorial Formula Financing payments for 2006–07 through reliance on more current economic and fiscal data, as well as one-time adjustments of \$255.4 million to offset declines.
- ✓ Additional funding of up to \$3.3 billion for provinces and territories to help address immediate pressures in post-secondary education, affordable housing (including Northern and off-reserve Aboriginal housing) and public transit, contingent on sufficient funds being available from the 2005–06 surplus.
- ✓ A commitment to work with provinces and territories toward a common securities regulator.

The Government is also committing to further action over the next year, working toward more open, transparent and collaborative fiscal relations in Canada. It proposes:

- ✓ A principle-based framework on fiscal arrangements, outlined in the companion document *Restoring Fiscal Balance in Canada*, which will lead to:
  - A new approach for allocating unplanned federal surpluses.
  - Renewed, transparent and principle-based Equalization and Territorial Formula Financing programs.
  - A new approach to long-term and predictable support for post-secondary education and training.
  - A new framework for long-term funding support for infrastructure programs.

The Government is looking forward to a rich dialogue on fiscal relations, engaging Canadians, provincial and territorial governments, academics and experts, concluding with further action to improve fiscal relations in Canada.



## **Fiscal Outlook**

- ✓ For 2005–06, the federal surplus is currently estimated at \$8 billion, based on monthly financial information through February 2006. The final result will reflect developments in March and year-end accrual adjustments.
- ✓ Starting this fiscal year, the Government is planning on achieving annual debt reduction of \$3 billion.
- ✓ The Government is directing higher than expected surpluses over the planning period to the priorities of Canadians, largely to reducing taxes. As a result, revenues as a share of gross domestic product (GDP) are projected to decline from 16.4 per cent in 2004–05 to 15.5 per cent in 2007–08.
- ✓ The Government is committed to reducing growth in spending to a rate that is sustainable. Program expenses as a share of GDP are projected to decline from 13.7 per cent in 2004–05 to 13.0 per cent in 2007–08.
- ✓ The debt-to-GDP ratio is projected to fall to 31.7 per cent by 2007–08, on track to meet the new medium-term objective of reducing the debt-to-GDP ratio to 25 per cent by 2013–14.



Table 1

**Summary Statement of Transactions  
(Including May 2006 Budget Measures)**

	<u>Actual<sup>1</sup></u>	<u>Estimate</u>	<u>Projection</u>	
	2004-05	2005-06	2006-07	2007-08
	(billions of dollars)			
<b>Budgetary revenues</b>	211.9	220.9	227.1	235.8
Program expenses	176.3	179.2	188.8	196.5
Public debt charges	34.1	33.7	34.8	34.8
<b>Total expenses</b>	210.5	212.9	223.6	231.4
<b>Planned debt reduction</b>	1.5	8.0	3.0	3.0
<b>Remaining surplus</b>			0.6	1.4
Federal debt	494.4	486.4	483.4	480.4
<b>Per cent of GDP</b>				
Budgetary revenues	16.4	16.1	15.7	15.5
Program expenses	13.7	13.1	13.0	13.0
Public debt charges	2.6	2.5	2.4	2.3
Total expenses	16.3	15.6	15.4	15.2
Debt reduction	0.1	0.6	0.2	0.2
Federal debt	38.3	35.5	33.3	31.7
Nominal GDP (billions of dollars, calendar year)	1,290	1,369	1,451	1,517

Note: Totals may not add due to rounding.

<sup>1</sup> Revised to reflect the impact of consolidating foundations.



Table 2

**Budget 2006 New Initiatives**

	2005-06	2006-07	2007-08	Total
	(millions of dollars)			
<b>Accountability</b>		57	60	117
<b>Opportunity</b>				
Reducing the GST rate to 6 per cent		3,520	5,170	8,690
Other tax relief for all Canadians	4,965	3,640	3,685	12,290
Creating jobs and growing Canada's economy		1,405	735	2,140
Promoting education, training and research		575	665	1,240
Support for opportunity in primary economic sectors	755	1,700	700	3,155
Other actions to support opportunity		3	3	6
<b>Subtotal</b>	5,720	10,843	10,958	27,521
<b>Families and communities</b>				
Families				
Canada's Universal Child Care Plan		1,610	2,335	3,945
Other family measures		632	672	1,304
<b>Subtotal</b>		2,242	3,007	5,249
Communities				
Immigration measures		251	298	549
Aboriginal communities		150	300	450
Environment		160	240	400
Infrastructure		464	925	1,389
Other community measures		75	85	160
<b>Subtotal</b>		1,100	1,848	2,948
<b>Subtotal</b>		3,342	4,855	8,197
<b>Security</b>				
Protecting Canadian families and communities		193	331	524
Securing our borders		188	216	404
Defence		401	725	1,126
Pandemic preparedness		170	290	460
Financial security		40	33	73
<b>Subtotal</b>		992	1,596	2,588
<b>Equalization and Territorial Formula Financing</b>		255		255
<b>Expenditure reallocations</b>		(1,200)	(2,420)	(3,620)
<b>Total net budget 2006 initiatives</b>	5,720	14,290	15,049	35,058

Note: This table does not include initiatives announced before the November 2005 *Economic and Fiscal Update* and confirmed by the Government.