

Res
HJ13
A29c
1979

t BUDGET IN

f BRIEF

December 11, 1979



Department of Finance
Canada

Ministère des Finances
Canada

Fin/TB Library - Bibliothèque Fin/CT



3 0145 00055208 0

*From the Budget speech
December 11, 1979*

"... Part of the reason for our disappointing economic performance during the past decade has been the failure of governments, particularly the federal government, to face up to economic reality and to make the most of the country's opportunities: ... This I and my colleagues are determined to do even if it means risking some unpopularity, hopefully short-term. We are committed to the proposition that in the longer run good economics is good sense and thus good politics."

"A major priority in this and our subsequent budgets will be to create a system of incentives that will encourage Canadians to work, to save, to invest, to take risks in Canada, to become more efficient in production and to conserve energy and other scarce resources."

*John Crosbie
Minister of Finance*

For additional copies of this booklet:
Distribution Centre,
Department of Finance, Ottawa K1A 0G5
(613)995-2855

The Fiscal and Economic Setting

"As a country and as a government we must face the fact that we have to pay our bills and cannot continue by borrowing ever more at the expense of our future."

- As promised, the budget presents a four-year projection of government revenues and spending.
- A fundamental objective is to achieve a steady reduction in the federal deficit. By means of higher taxes and severe spending restraint, the government's cash requirements will be cut in half over the four years from almost \$10 billion this year to less than \$5 billion in fiscal 1983-84, starting with a reduction to \$8.2 billion next year.
- Government spending increases over the next four years will be held to an annual average of 10 per cent — virtually no increase after allowing for inflation. An increasing portion of expenditures will be devoted to new energy initiatives.
- This fiscal plan will leave more room for financing of new business growth. Federal spending, as a share of GNP, would be rolled back over the four years to the level of the late 1960s.
- Economic projections indicate that, following slow growth in 1980, Canada can attain an annual growth rate of 3 1/2 to 4 per cent for the 1981-85 period, assuming recovery in the U.S. economy.

Energy Policy

"Our objective is clear. It is to move Canada rapidly away from dependence on oil imports and towards self-sufficiency by 1990."

- Policy goals are to constrain demand for oil, bring in new supplies, encourage substitution of other energy forms, and lessen the impact of higher costs on lower income families and the Atlantic region.
- The domestic wellhead price of oil and natural gas would increase from now to 1984 at a measured pace to reach a ceiling of 85 per cent of the lesser of the U.S. "Chicago" price or the international price by January 1, 1984. Planned increases would total \$4 a barrel in 1980 and \$4.50 in following years.
- The price of natural gas would continue at its present 85-per-cent heat-content parity with oil for present production volumes, with a 65-per-cent parity on additional volumes to encourage substitution of gas for oil. Distributors would use the difference to aid householders and industry in converting from oil to gas.
- To help finance the energy program, agreement is being sought on the form of a new energy tax on producer revenues that would ensure the federal government roughly half of the oil and gas price increases exceeding \$2 per barrel per year and 30 cents per thousand cubic feet. It would take effect July 1, 1980.

- To promote conservation and raise révenues, an excise tax of 25 cents a gallon on all transportation fuels is levied immediately. For private motorists this means an increase of 18 cents a gallon. A rebate of 10 cents a gallon will be made for farming, commercial fishing and urban public transit. Even with the added tax and higher crude oil prices, retail prices are expected to remain below U.S. levels. Oil for heating will remain tax-exempt.
- To shelter lower- and middle-income families, a refundable energy tax credit of \$80 per adult and \$30 per child per year, phased in over two years, will be provided through the income tax system. For family incomes exceeding a given ceiling — \$21,380 in 1980 — the credit is reduced. If the credit exceeds a family's federal income tax otherwise payable, the difference will be refundable.
- A federal-provincial Canadian Energy Bank will be formed to finance energy development projects with private sector participation.
- Funding for the Canadian Home Insulation Program will be increased.
- Grants will be made in the Atlantic region to compensate for higher costs of oil-based electrical generation, and to support coal development and conversion of utilities and industries away from oil.
- The two-year fast write-off for energy conservation equipment will be extended for five years and its coverage broadened.

Major Business Incentives

"It is the first budget of a new era in the economic and financial affairs of this country — an era of new realism and an economic climate to provide improved opportunities and incentives for Canadians."

- A temporary new small business development bond will enable small business corporations to obtain lower-cost "after-tax" financing from banks and other financial firms. Interest payments on up to \$500,000 of such debt, issued before 1981, will be treated for tax purposes as dividends — non-taxable to the lender and non-deductible to the small business. Since lenders will incur no tax liability on interest receipts, they will be able to correspondingly reduce the interest rate they charge on the small business development bond.

- Individuals will be encouraged to invest in common stock of Canadian corporations by deferral of capital gains tax on shares purchased through a new Common Stock Investment Plan.

- One-half of income earned on common stock investments by Registered Retirement Savings Plans will be exempt from tax when received by individuals on the maturing of their plans.

Personal Income Tax

- Apart from the new refundable energy tax credit and the mortgage and property tax credit, no general change is proposed in rates or coverage of personal income tax.
- Taxpayers who employ their spouses in unincorporated businesses will henceforth be allowed to claim salaries paid to the spouses as taxable expenses. This will mean forgone revenues of \$160 million next year.
- Farmers will be enabled to get deferral of tax, once in a lifetime, on up to \$100,000 in taxable capital gains (representing \$200,000 of total capital gains) from the sale of their farm by transferring the gains to an RRSP.
- Several changes in income tax rules reflect recent reforms in family law, including extension of deductibility to court-ordered support payments made to a common-law spouse and children born out of marriage.
- The tax exemption for allowances paid to volunteer firemen will be increased from \$300 to \$500.
- The list of medical expenses eligible for deduction is extended by adding optical scanners for the blind (a device which translates print into a Braille-like format) and power-operated lifts designed for disabled persons.

Resource Taxation

- The special depletion allowance for frontier oil and gas exploration wells will be extended nine months to the end of 1980 at a reduced rate, and replaced then by a new measure.
- The allowable rate of depreciation write-offs for Canadian oil and gas properties will be cut from 30 to 10 per cent.
- New rules will ensure that tax-exempt institutions cannot be used to circumvent tax rules on income from oil and gas production.
- A tax avoidance arrangement by non-resident operators of Canadian resource properties is being blocked.

Regional Development

- Development projects in the Atlantic provinces and Gaspé region of Quebec may qualify for selective tax incentives tailored to their needs.
- A tax measure will encourage private sector participation in modernizing the Atlantic coast fishing fleet.

Other Main Revenue Measures

- A special corporate surtax will apply immediately, amounting to 5 per cent of regular federal income tax payable by corporations. Under a sunset clause the surtax will expire December 31, 1981. It will reduce the federal deficit by some \$370 million next fiscal year.
- Levies on liquor, wine and beer will be rationalized and increased to yield \$130 million in added revenues next year. Adjustments will more closely align the taxes with alcoholic content of the different products. On balance, the changes mean increases of 11 cents for a 25-ounce bottle of liquor, one cent for a bottle of regular beer, one-half cent on light beer, and 13.3 cents for a 25-ounce bottle of table wine. The tax on low-alcohol malt beer would decline one-half cent per bottle.
- Levies on tobacco products will be increased 10 per cent, adding \$85 million to revenues. This would add 2.5 cents to a pack of 20 cigarettes.

Other Business Provisions

- A number of important tax revisions are proposed, including several designed to check tax avoidance arrangements.
- New rules will clarify and reinforce the intent of the anti-avoidance provision relating to so-called capital gains strips.
- Rules governing the low tax rate on small business corporations will be adjusted to ensure that this benefit is not multiplied in the case of businesses that are operated as corporate partnerships.
- Changes will remove some unintended tax advantages arising out of certain kinds of unregistered employee benefit plans.
- Certain prepaid expenses of businesses will not be deductible for tax purposes until the year to which the expenditures relate, rather than in the year in which they were made.

Gold Holdings

- Up to 1 million ounces of the 22 million ounces of gold held in the official Exchange Reserves Fund will be sold in the near future, allowing more of the reserves to be invested in interest-bearing securities.

Sales and Excise Tax

- The exemption from sales tax on containers of tax-exempt goods will be restricted to manufacturers of such goods rather than extended to wholesalers and retailers of tax-exempt goods. This will affect mainly clothing and grocery stores and take-out food outlets.
- To prevent tax avoidance arrangements, sales tax on cosmetics will be imposed at the time when they are sold to retailers.
- Sales taxation is extended to the photo-finishing industry.
- Exemption from sales tax for aircraft is being limited to apply only to aircraft used exclusively in public commercial transport and in providing air services directly related to resource exploration and development, aerial spraying and seeding, aerial construction, fire protection and control and map making.

Employment Measures

- Improved tax incentives will increase job opportunities, especially for the young and the handicapped. The current employment tax credit will be replaced by a new credit of \$80 a week per person employed.
- Contribution rates for Unemployment Insurance will be increased in 1980 to finance a greater share of benefits paid and also costs of the job referral and related employment services.

Trade Policy

- A Commons committee will be asked to review White Paper proposals on safeguards against unfair trading practices.
- Tariff reductions agreed to in the Multilateral Trade Negotiations will be enacted.
- A few tariff changes are proposed in addition to MTN measures.

The Budgetary Process

In keeping with the government's commitment to a more open system of governing, excessive budget secrecy should be eliminated. This can be done while still ensuring that sensitive tax changes are not revealed in advance of the budget.

Special studies on tax policy and tax system problems are to be referred to a parliamentary committee for detailed review, beginning shortly with a paper on the taxation of capital gains.

A general review is being made of tax measures to which "sunset" provisions might be attached. Some of the measures in this budget already carry such a provision.

For further information on the budget:
Information Division,
Department of Finance, Ottawa, K1A 0G5
(613)992-1573