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March 4, 2010

Summary of 2010 Federal Budget



Today's budget speech was much shorter than average running just over a half an hour. There were no surprises or poison pills for the opposition. Michael Ignatieff has already confirmed that while his party will vote against the budget; he will be "responsible" and not cause an election Canadians do not want. This likely means he will hold back enough members of his caucus from voting to ensure any confidence votes coming up over the next few weeks. The NDP and Bloc are expected to oppose the government on confidence votes.

The speech started off highlighting Canada's fiscal performance compared to that of other G7 nations. Currently Canada has the lowest debt-to-GDP ratio in the G7. Canada's ratio is at 31% compared to 67% in the United States, 75% in the UK and 115% in Japan. It also boasted about Canada's banking sector and the fact taxpayers have not had to bail out financial institutions as happened in the United States and Europe. Finance Minister Jim Flaherty stated that 135,000 net new jobs have been created since July of 2009. The Work-Sharing program will continue for another year. In his speech Flaherty credited this program with protecting 225,000 jobs. Stimulus spending has financed 16,000 projects across the country. Stimulus spending will end by March 31, 2011 and the budget deficit is expected to be eliminated in 2015. Balancing the budget will come through cost-cutting and growth. The projected deficit for this fiscal year will be \$53.8 billion. For 2010-11 the deficit is projected to be \$49.2 billion with total spending of \$280.5 billion. The budget did not contain any tax cuts or new program spending. It did not raise taxes either and will not cut pensions or transfers to the provinces for health or education.

Budget speech highlights:

- The popular home renovation tax credit will not be extended.
- The government will create new employment opportunities for young Canadians

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- The budget extends by one year enhancements to the Work-Sharing program
- \$20 billion in Stimulus spending as promised in the last budget. Stimulus will end in March 2011.
- New funding for post-doctoral researchers.
- Support for innovation in colleges and universities, research hospitals and other research institutions.
- Canada will be the first G20 country to become a tariff-free zone for manufacturers on machinery and production inputs.
- The government will establish a commission to reduce red tape.
- Canada will continue to make progress in concluding free trade agreements.
- Increase the foreign aid budget to \$5B and then cap that in 2011.
- Defence spending will continue to grow at least until the military withdrawal from Afghanistan.
- The government is closing tax loopholes (such as the tax credit for cosmetic surgery).
- In two years' time the deficit will be cut in half and is projected to be all but eliminated by 2015.
- The federal general corporate income tax rate is dropping from more than 22 per cent in 2007 to 15 per cent in 2012
- Renewable energy gets \$100-million.
- The government will find \$17.6-billion in savings over the next five years through cut backs in the public service.
- A freeze on the Prime Minister, Minister, MP and Senator salaries.
- Additional money will be allocated to "Own the Podium".
- Flaherty also said in the media that the government could bring forward legislation to give the Finance Minister the power to regulate the credit and debit card industry in the future.
- In 2011, EI premium rates will be set by a new Crown corporation – the Canada Employment Insurance Financing Board. EI premiums will stay at \$1.73 per \$100 of insurable earnings in 2010.
- The budget did ease foreign ownership rules, but for satellites companies only. Minister Clement has said he wants more time to consult before doing the same in the telecom and mining sectors.

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Financial Highlights:

Some of the numbers for the 2010 federal budget (all numbers are projected figures for fiscal 2010-11):

- Projected deficit for current year (2009-10): \$53.8-billion
- Deficit for 2010-11: \$49.2-billion
- Total spending: \$280.5-billion
- Program expenses: \$249.2-billion (an increase of 4.7% over 2009-10)
- Debt charges: \$31.3-billion
- Total infrastructure project spending: \$7.7-billion
- Elderly benefits: \$36.7-billion
- EI benefits: \$22.6-billion (compared with \$16.3-billion in 2008-09)
- Health and social transfers to provinces: \$37.1-billion
- Transfers to municipalities: \$2-billion
- Total federal debt: \$566.7-billion
- Personal income tax to be collected: \$117-billion
- Personal income tax cuts: \$3.18-billion
- Corporate income tax to be collected: \$22.3-billion
- Total excise duties and GST to be collected: \$188.9-billion
- Savings from "containing administrative cost of government": \$300-million
- Administrative savings, 2011-12: \$900-million
- Savings from "closing tax loopholes": \$355-million
- Total increase in funding for scientific research and post-secondary education: \$1.88-billion

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The Speech from the Throne and Budget are both subject to a series of confidence votes. Michael Ignatieff's remarks to the media seem to indicate that there will not be a federal election on this budget or Throne Speech. This likely means the government will survive until at least the fall as Canada is the host of the G8 and G20 summit this summer and it is unlikely that an election will be called prior to that. An EKOS poll released today pegged Conservative support at 32.4%, Liberals at 29.4%, NDP at 15.2%, Greens at 10.5% and the Bloc at 9.4%. These numbers would result in another minority and provide little incentive for any of the parties to go to the polls.