THE CANADIAN CHAMBER OF COMMERCE | LA CHAMBRE DE COMMERCE DU CANADA

Budget 2017 – A Time for Caution

Skills, Innovation and Wait-and-see

The government's first budget centered on campaign promises: the middle class, growth, climate change. But, a lot of the critical details were put off to later: the infrastructure plan with "export corridors," the innovation agenda, health spending, the tax expenditure review. Of course, the government had only been in office for 100 days, and it needed to consult on many of these items.

Budget 2017 is completely different—big deficits and economic uncertainty mean there is not much money for new programs or big announcements. But, there is far more detail around previously announced policies and programs.

This budget could also be described as a cautious "wait-and-see" budget where the government is looking at potentially radical changes south of the border, perhaps a sharp reduction in corporate taxes and decreased regulation. This could put Canada at a serious competitive disadvantage, but it is difficult to change tax policy based on what might or might not happen in President Trump's budget.

That is why the tax changes in Budget 2017 are very modest. When the headline tax changes are the removal of the public transit credit and a tax hike on alcohol and tobacco, it is likely that we are in wait-and-see mode.

Innovation

Innovation was expected to be the main feature of the 2017 budget, but with limited funds available in a difficult file, it is not easy to bring about transformative change. Still, we urged more investment and private sector involvement in new programs, so we welcome the new investments.

Superclusters: $950 million over five years will be provided on a competitive basis to support a small number of innovative industries. The competition to determine which clusters to support will be private-sector led and will launch in 2017. These clusters could be advanced manufacturing, agri-food, digital technology, etc.

Strategic Innovation Fund: $1.26 billion over five years to consolidate and simplify business innovation programming. This includes the Strategic Aerospace and Defence Initiative, the Technology Demonstration Program, and the Auto Innovation Fund. There is actually an extra $200 million over three years in new funding.

Venture Capital Catalyst Initiative: $400 million over three years through BDC for late-stage venture capital available to young, established businesses with revenues to help them scale up.

Cleantech financing: $1.4 billion in new financing (equity, working cap and project finance) will be made available to clean technology firms through BDC and EDC.

Review of business innovation programs: The government will review all existing programs with the help of external experts to ensure the programs are simple, effective and best meet the needs of Canada's innovators. The government will also review the Scientific Research and Experimental Development tax incentive program to ensure its continued effectiveness and efficiency.

Taxes

Good news! With a government that is looking for revenues and (was) pondering the taxation of employee health benefits, we in the tax community thought no tax credit was safe. Capital gains inclusion, dividends and stock options might all be under the gun. But no, the only major change is the removal of the public transit tax credit (bus passes are no longer deductible) and an increased tax on alcohol and tobacco.

Uber and ride-sharing services will have to register and pay GST.

The deferral of decreases in the Small Business Tax rate (from the current 10.5% down to 9%) was not mentioned. In the previous budget, there was no date or estimate given for the duration of the deferral.

The government is currently reviewing tax-planning strategies that inappropriately reduce the personal taxes of high-income individuals. It will release a paper in the coming months.

Infrastructure

The Canadian Chamber, along with economists across the country, has been urging investment in the type of trade-enabling infrastructure that will boost productivity, such as roads, bridges, ports airports and digital infrastructure. So far, we have been concerned that these types of investments represent just 11% of the total $120 billion in infrastructure spending (the rest is green infrastructure, social infrastructure, etc.).

Canada infrastructure bank: The government will invest $35 billion over 11 years using loans, guarantees and equity. The government says these investments will focus on large, transformative projects, such as regional transportation networks and electricity grids. The government hopes to have the bank operational in 2017.

Smart cities plan: The government will spend $300 million over 11 years to launch a smart cities challenge fund. This competition will reward participants who improve a city's quality of life through better planning and clean, connected technology.

National Trade Corridors: Budget 2017 proposes $2 billion over 11 years to address capacity constraints and freight bottlenecks. These will target marine ports, such as Vancouver and Montreal, along with the busiest rail and highways around the GTA. The amount is small compared to the need.

Canadian Centre on Transportation Data: $50 million over 11 years to measure transportation performance, supply chains and distribution.

Via Rail: $867 million over three years for operations and capital requirements.

Procurement

A new procurement program, Innovative Solutions Canada, will commence next year, modelled on the U.S. Small Business Innovation Research program.

A portion of the $50-million funding from federal departments and agencies will be allocated towards early-stage research and development, late-stage prototypes and other goods and services from Canadian innovators and entrepreneurs.

The hope is that the government will have access to the latest, most innovative products and services. Effort will also be made to encourage procurement from companies led by women and other underrepresented groups. Further details about initial participation and spending targets will follow in the coming months.

Climate Change

There were not many new initiatives in the environment and energy space. Instead, for the most part resources were shifted or reallocated among measures that have already been announced or are underway.

No additional detail on the carbon pricing "backstop" announced last fall was forthcoming. Instead, the government will release a consultation paper "in the coming months" on the technical details of the proposed mechanism.

With the federal government's approach to carbon pricing still pending, they continue to move forward with greenhouse gas regulation for business. The budget allocates funding to continue the coal phase out and natural gas greenhouse gas regulations. In addition, the budget announces more regulations on marine, rail, aviation, and heavy-duty and off-road vehicles as well as continued work on the proposed Clean Fuel Standard.

Trade

Trade Remedies: Budget 2017 proposes legislative and regulatory amendments to improve the enforcement of trade remedy measures, address the circumvention of duties, better account for market and price distortions, and provide unions with the ability to participate in trade remedy proceedings.

Improving regulatory alignment: Budget 2017 proposes to provide the Treasury Board Secretariat with $6 million over three years to continue its efforts to support business growth by promoting regulatory alignment with Canada's trade partners.

Skills

For years, skills and workforce development has been the number one issue for Canadian business. We fully recognize that a highly skilled workforce is the most important competitive advantage and are very pleased with the additional investment in skills. However, we are concerned these investments are mainly funded by EI premiums. These are effectively a tax on salaries and hiring, which is why we have been urging for years that EI be treated like a true insurance fund so that rates can be reduced. We also worry that the $3 billion per year is transferred to the provinces (who deliver EI training programs) with little accountability and performance measurement.

We expect EI premium rates will have to increase in order to pay for the large additional spending. However, there is also some good news for employers and workers.

Additional funding for training programs: Budget 2017 will invest $1.8 billion over six years to expand EI training programs under the Labour Market Development Agreements. The government will also broaden worker eligibility for these programs.

New organization to assess labour market information: $225 million over four years starting in 2018-2019 has been dedicated to set up the organization, which has three main goals:

- Identify the skills sought and required by Canadian employers
- Explore new and innovative approaches to skills development
- Share information and analysis to help inform future skills investments and programming

New permits and processing time under the Global Skills Strategy: Budget 2017 provides significant commitment to improving the access to talent from abroad:

- Two-week standard in the processing of visas and work permits
- $7.8 million for a Global Talent Stream developed under the Temporary Foreign Worker Program
- A new permit for stays of 30 days or less in a year to be used for inter-company work exchanges, study exchanges or entrance of temporary expertise
- Amendments to the Immigration and Refugee Protection Act to ensure the Express Entry program is more responsive to the needs of the labour market
- The reallocation of $27.5 million from Employment and Social Development Canada's existing resources to support a Targeted Employment Strategy for Newcomers

More money for workplace-integrated learning: $225 million over five years is earmarked to increase the number of workplace-integrated learning spaces from 3,750 to 10,000 per year for post-secondary students and graduates

Renewal of the Aboriginal Skills and Employment Training Strategy (ASETS) with funding $50 million in 2017–18 and reallocating resources from other programming that support skills and training more generally.

Training for the future: $50 million over two years available so digital skills trainers can apply to teach these skills to students in K-12.

Debt and Deficits

The budget deficit will reach $28 billion this year and next before gradually declining to $21 billion in 2020. We are disappointed the government does not have a plan to return to balanced budgets. In the absence of the discipline from a fiscal anchor, spending will simply grow year after year, as we have seen. This leaves Canada vulnerable to a deteriorating fiscal position and less able to react in the event of a downturn (from a major housing correction or a decrease in trade).