



# Fiscal Pulse

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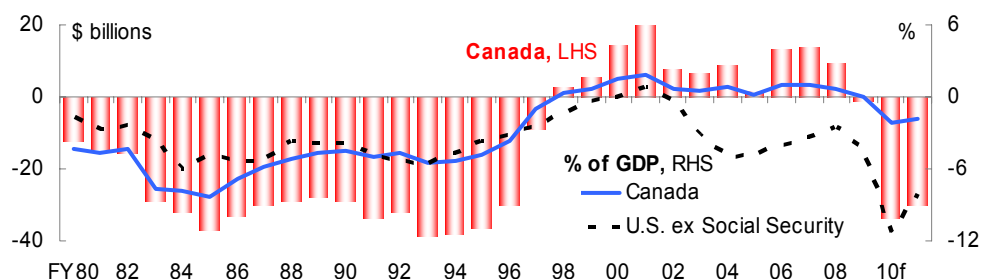
## The 2009-10 Canadian Federal Budget — Cushioning the Downturn

- Responding to financial market headwinds and the synchronized global downturn, Ottawa has stepped in with \$22.7 billion of stimulus for fiscal 2009-10 (FY10), equal to 1½% of 2009 GDP, followed by stimulus of \$17.2 billion for FY11. Adding in related provincial and municipal government funding that the federal government expects, the total stimulus for FY10 could climb towards \$30 billion.
- Following the modest \$1.1 billion deficit estimated for FY09, as pre-announced, the shortfall widens sharply to \$34 billion in FY10 and \$30 billion in FY11. In absolute dollars, the red ink in FY10 is substantially less than the record \$39 billion deficits in FY93 and FY94, and at 2.1% of GDP, a fraction of the FY83-FY85 average approaching 8.0%.
- Canada's stronger fiscal position entering this downturn is providing significant benefit. With extremely low interest rates at the present time, the debt service is projected to remain roughly 13¢ of each revenue dollar in FY10, despite expected financial requirements surpassing \$100 billion in FY09 and FY10, in stark contrast to the \$14½ billion financial source in FY08. Federal net debt is forecast to rise by \$85 billion from FY09 to FY13 before a return to balanced books is anticipated by Ottawa in FY14.
- Ottawa is projecting a return to a small surplus by FY14. It does so by assuming a more negative near-term outlook than the consensus of forecasters (and hence more in line with our view). However, it assumes a relatively more rapid and stronger recovery into 2010 and beyond than we think is probable.
- In addition to fiscal stimulus, Ottawa came through on major initiatives designed to address impaired domestic credit markets. Major non-conventional measures to aid credit markets include: an expanded Insured Mortgage Purchase Program; a new Canadian Secured Credit Facility to purchase asset-backed securities (similar to the Federal Reserve's TALF); a new Canadian Life Insurers Assurance Facility modeled along the Canadian Lenders Assurance Facility (CLAF); an extended deadline for the Canadian Lenders Assurance Facility; increased business financing activity through Crown corporations; all of the measures from the November Fall Statement; a Canadian securities regulator; CDIC ability to own shares in member institutions; and federal powers to inject capital into financial institutions.
- Ottawa also appears to have opened the door to broader consultations on bank entry into auto leasing markets, and generally broader leasing powers of federally regulated financial institutions.
- Markets should be pleased by the nonconventional policies addressing credit market problems, and the focus upon temporary stimulus that allays fears regarding the return to structural budgetary deficits.

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Federal Budget Balances — Canada's Current Advantage



Source: Finance Canada; Nominal GDP forecast: Scotia Economics.

### The Stimulus Package

In the projected \$22.7 billion FY10 stimulus package, the share to spending is more than 70%, some \$16½ billion. Of the proposed \$6.2 billion of tax relief for FY10, \$5.8 billion relates to personal income tax. The plan is multi-faceted, attempting to balance diverse regional and industrial needs.

#### Business tax changes look to enhancing Canada's longer-term competitiveness.

For computers and related software purchased over the next year, the current 55% declining balance CCA rate will be elevated to 100%. The 50% straight-line accelerated CCA for machinery & equipment purchased by manufacturers and processors will be extended from 2009 to 2011, not gradually phased out. Tariffs of 2.5% to 11% will be eliminated on a range of equipment imported from outside North America, saving firms in Canada \$440 million over the next five years. The threshold for the small business corporate income tax rate will rise from \$400,000 to \$500,000 as of January 2009.

Acknowledging current global headwinds, constraints on interest deductibility applicable after 2011 for multi-national corporations will be repealed, with further responses to the final report of the Advisory Panel on International Taxation forthcoming. Targeted industry assistance includes \$170 million for the forest products sector, \$550 million for agri-food, and Coast Guard vessel contracts totaling \$175 million to aid shipyards (additional details on measures are provided in the text boxes on pages 6-7).

**Infrastructure commands a significant share of the new funding**, as broadly anticipated. This year's commitment builds upon the \$37 billion FY08-FY14 pledge in Ottawa's *Budget 2007* that allocated \$4.7 billion for FY09 and \$5.4 billion for FY10. Subsequently, Ottawa has announced additional monies for areas such as transit. The 2007 Building Canada plan will now be expedited, with new efficiencies introduced in environmental and other approvals. Priority projects identified across Canada include Toronto's Union Station plans, Quebec City road upgrades, Vancouver's Evergreen transit line and Summerside Wind Energy in P.E.I. In this *Budget*, to renew infrastructure, a \$4 billion, two-year Infrastructure Stimulus Fund is proposed, alongside \$500 million for smaller communities' infrastructure projects and \$500 million for community recreation facilities. Over five years, \$1 billion is set aside for the Green Infrastructure Fund and up to \$2 billion will go towards post-secondary institution capital maintenance as part of Ottawa's emphasis on knowledge infrastructure.

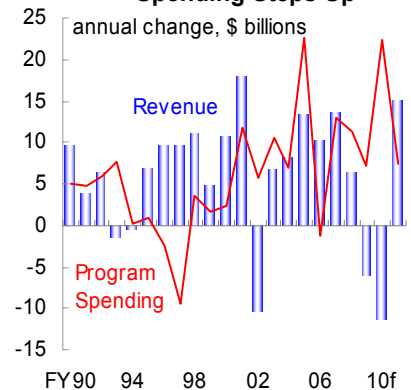
**To stimulate housing construction**, Ottawa introduced a number of measures, summing to \$7.8 billion in tax relief and funding. Of that amount, \$530 million came through initiatives that impacted FY09, \$3.9 billion is focused upon FY10, \$1.4 billion is oriented towards FY11, and the remainder thereafter.

The centrepiece is a \$3 billion Home Renovation Tax Credit. Home renovations made over the period from January 27th 2009 to February 1st 2010 will be entitled to a 15% nonrefundable tax credit on eligible spending beyond \$1,000 and under \$10,000 to a \$1,350 maximum that individuals can claim on their 2009 tax returns. Whether houses, cottages, or condos, eligible renovation spending excludes furnishings. This new credit can be claimed alongside grants of up to \$5,000 through the ecoENERGY Retrofit program that received additional funding of \$300 million over two years. The first-time home buyer limit on accessing RRSP savings has been increased to \$25,000 from \$20,000. Furthermore, first-time home buyers will get up to \$750 in tax relief.

Ottawa is also making \$2 billion available for low-cost loans to municipalities to finance improvements to housing-related infrastructure, helping them to fund their contribution to cost-shared capital projects. Ottawa's funding for social housing, which represents an opportunity for timely, local-oriented investment, includes \$1 billion for energy retrofits and renovations cost shared 50-50 with the Provinces and Territories.

**To help Canadians and stimulate spending**, a number of tax relief and training measures have been introduced, with a \$695 million impact estimated for FY09, \$5.9 billion in FY10, and almost \$7.0 billion in FY11.

As Revenues Weaken, Spending Steps Up



Source: Finance Canada.

#### Economic and Interest Rate Assumptions\*

	Finance Canada**				Scotia Economics	
	January Budget				January 27, 2009	
	2008e	2009f	2010f	2011-14f	2009f	2010f
annual % change except where noted						
Canada: Real GDP	0.7	-0.8	2.4	3.0	-1.6	1.6
GDP Deflator	4.1	-0.4	1.7	2.2	-1.0	1.3
Nominal GDP: Survey	4.8	-1.2	4.2	5.2	-2.5	3.0
Risk Adjusted	4.4	-2.7	4.3	5.7	-	-
Unemploy. Rate, %	6.1	7.5	7.7	6.4	8.0	8.2
CPI- All Item	2.4	0.7	1.9	2.0	-0.1	1.4
Oil Price, US\$/bbl	99.9	50.2	63.8	82.9	50	65
3-Month T-Bills, %	2.3	0.8	1.7	4.0	0.5	1.3
10-Year Bonds, %	3.6	2.8	3.4	5.0	2.7	3.3
Cdn Dollar, C\$/USD	94.1	81.2	85.5	94.4	81	88
U.S.: Real GDP	1.2	-1.8	2.1	3.1	-2.5	1.6

\* All data are annual averages. \*\* Private-sector averages except for risk-adjusted nominal GDP used in budget estimates.

**Personal income tax relief** is spread over five years. Retroactive to January 1st 2009, the basic personal exemption and the two lowest personal income tax bracket ceilings have been increased by 7.5% above 2008 levels. The tax relief associated with the Working Income Tax Benefit has been doubled. For seniors, the Age Credit amount has been increased by \$1,000. Furthermore, the National Child Benefit supplement for low-income families and the Canada Child Tax Benefit phase-out ceilings have been raised to the tune of \$436 for a family of four.

**Initiatives to assist Canadian workers** through restructuring include a two-year extension of Employment Insurance (EI) benefits for five extra weeks to a maximum of 50 weeks, up from the prior 45-week maximum. A funding increase for EI benefits for those on longer-term training and broadening access for self-employed individuals to EI maternity and parental benefits are among a variety of other measures. EI premium rates are frozen at \$1.73 per \$100 for both 2009 and 2010 at an estimated \$4.5 billion cost. A focus of the Canada Skills and Transition Strategy is a \$1 billion two-year top-up to the \$1.95 billion annual EI training programs.

**Action is promised on a number of other files.** For example, for hard-pressed federally regulated pension plans, the Office of the Superintendent of Financial Institutions is charged with providing flexibility to supplement the November Statement measure that extended the solvency funding period from five years to ten for solvency deficiencies as of December 2008. Permanent legislative and regulatory federal pension reform is promised by the end of 2009.

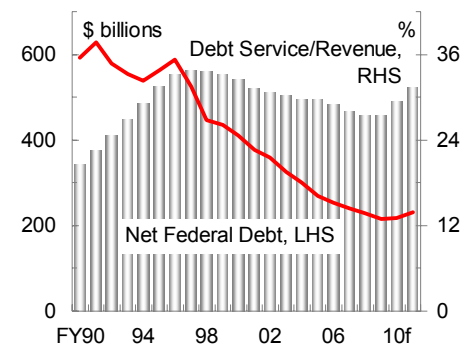
### Credit Market Measures

The *Budget* contained a number of positive measures designed to help restore proper functioning to particularly impaired segments of Canadian credit markets. They place Canada on a more even footing with other countries like the U.S. and UK in the pursuit of such measures. Many of the measures had been expected or hoped for, with several being re-introduced from the Fall Statement. There was, however, no mention of changes to legislation affecting income trusts, and no mention of programs focused upon Canadian corporate bond markets.

An over-arching Extraordinary Financing Framework will envelope a variety of credit market initiatives with up to \$200 billion backing existing and new measures. It is designed to address market failures in segments of the credit markets, mitigate systemic risks, and put Canadian financial institutions on a more even keel with initiatives being undertaken by foreign governments. Major highlights of this framework are as follows:

- ❑ Insured Mortgage Purchase Program: This has been expanded by an extra \$50 billion in insured mortgage purchases in the first half of FY10. The total program is now \$125 billion.
- ❑ Canadian Secured Credit Facility: A new, relatively modest program that will purchase up to \$12 billion in term asset-backed securities backed by loans and leases on vehicles and equipment purchased by consumers and businesses. The mixture of ABS that is purchased will depend upon the market response. Federally regulated financial institutions will be allowed to sell into the program, and provincially regulated financial institutions will require approval of the Minister of Finance. This facility will be priced on commercial terms, and is expected to generate a positive return for the government.
- ❑ The Government stated that it will consult market participants on the potential merits of changing the legislative and regulatory regime governing leasing activities by federally regulated financial institutions. This would appear to leave the door open on possible entry by banks and others into the auto leasing business as a more stable funding solution.
- ❑ Canadian Life Insurers Assurance Facility: This is a new facility that is designed to guarantee wholesale term borrowings for life insurers. It is to be modeled on the Canadian Lenders Assurance Facility.
- ❑ The deadline for issuing guaranteed instruments under the CLAF is extended to December 31st, 2009 from April 30th.
- ❑ National Securities Regulator: The Federal government will work with willing partners to establish a securities regulator.
- ❑ The Government will seek standby authority to inject capital into federally regulated financial institutions if needed.
- ❑ The CDIC will be allowed to hold or own shares in its member institutions subject to the approval of the Minister of Finance.
- ❑ A bridge bank—designed to absorb the failure of a sizeable financial institution—will be created under the auspices of the Canada Deposit Insurance Corporation.

### Low Interest Rates Restrain Current Debt Service



Source: Finance Canada, nominal GDP forecasts Scotia Economics.

- ❑ Incremental financing of \$13 billion will be provided through federal financial Crown corporations such as Export Development Canada (EDC), the Business Development Bank of Canada (BDC), and low-cost Canada Mortgage and Housing Corporation loans to municipalities. Of the \$13 billion total, at least \$5 billion will be delivered through enhanced cooperation between these Crown corporations and private financial institutions under the new Business Credit Availability Program. The authorized capital limits of EDC and BDC have each been increased by \$1.5 billion, with associated increases in borrowing limits. The EDC's contingent liability limit has been increased to \$45 billion, and the Canada Account Limit has been increased from \$13 billion to \$20 billion. EDC will be allowed to support financing in the domestic market, including accounts receivable insurance.
- ❑ To assist the Canada Mortgage Bond (CMB) program in providing increasing funds to financial institutions, the ten-year maturity launched in the fall of 2008 will be sustained through 2009, raising an expected \$10 billion.
- ❑ Canada Small Business Financing Program: The maximum eligible loan amount under this existing program will be raised from \$250,000 to \$350,000, and to \$500,000 for loans made for acquiring real property.
- ❑ The government proposes to allow the CDIC to establish a bridge bank.
- ❑ The CDIC's borrowing limit will be increased from \$6 billion to \$15 billion in order to reflect the growth of insured deposits, and the CDIC will receive broader authorities to resolve a failure, take specific action to prevent adverse effects on financial stability, and more powers regarding preparatory exams.
- ❑ The Government will require a minimum grace period on new purchases made with a credit card, and move to improve debt collection practices of federally regulated financial institutions. An increased focus upon financial literacy will also be undertaken.

### Debt Management

**After a financial source of \$14½ billion in FY08, Ottawa's financial requirement in FY09 and again in FY10 tops \$100 billion.** The large increase reflects the borrowing undertaken to strengthen the financial system, notably the \$74.6 billion raised for the Insured Mortgage Purchase Program in FY09 and the subsequent \$45.2 billion in FY10. The increase in market debt does not impact the budget balance or federal net debt as the borrowings and associated interest costs are matched by a rise in revenue-earning assets. Borrowing required for the federal Crown corporation averages \$25 billion annually in FY09 and FY10. Acknowledging the potential uncertainties involved in the Extraordinary Financing Framework, flexibility has been built into the FY10 debt management strategy, presented in the *Budget*.

**Gross issuance of domestic marketable bonds in FY10** is expected to be \$82 billion, up from \$76 billion in FY09 and \$35 billion in FY08. Net issuance is projected to climb from \$27 billion in FY08 to \$71 billion this year to \$80 billion in FY10. By March 2010, domestic marketable bonds outstanding are expected to approach \$350 billion.

**For current benchmark maturities,** issuance will be either maintained or increased in FY10, and a 3-year maturity will be re-introduced, with a March/September auction cycle under consideration. For the new three-year bond, a target benchmark size of \$7 to \$10 billion is planned. The regular bond buyback program is expected to be \$2.4 billion in FY10, down from an estimated \$5 billion in FY09 and \$7 billion in FY08, and it will be conducted on a switch basis only.

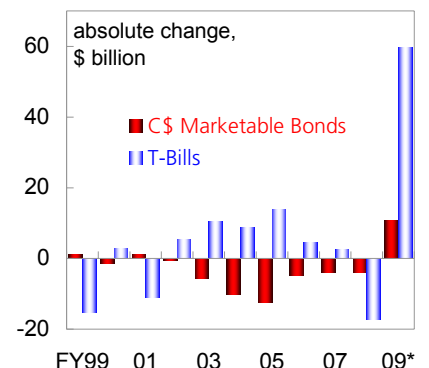
**Treasury bills o/s are expected to reach \$194 billion by March 2009, up \$77 billion over the year,** with a further \$29 billion increase anticipated in FY10 to \$223 billion. The average size of bi-weekly Treasury bill auctions for 3-month, 6-month and one-year terms is expected to expand.

### Market Impact

This *Budget* is likely to be favourably interpreted by markets. The fact that Ottawa has met our hopes for expanded nonconventional monetary policies oriented towards challenges facing financial institutions should be a plus to equity markets and some elements of corporate fixed income markets.

The further impact upon fixed income markets is two-fold. One is a favourable effect upon the asset backed securities market stemming from the expanded IMPP and the new Canadian Secured Credit Facility.

Ottawa's Canadian Dollar Debt



\*April to December 2008.  
Source: Finance Canada.



Second is that concerns with respect to the direction of Canadian government finances are likely to be more muted post-budget. Canada still retains its strong fiscal advantage compared to most of its peers among industrialized economies. Ottawa has presented a plan—with risks—to get back to balanced budgets over the next five fiscal years. The fact that most of the stimulus measures are temporary in nature will help to allay the fear that Canada is returning to the structural deficits of the 1970s through to the mid-1990s. Furthermore, market issuance is likely to occur within the context of lower private debt issuance thereby mitigating concerns that government issuance will crowd out other borrowers and push interest rates higher.

### Fiscal Details

**Before stimulus, building in its risk-adjusted nominal GDP assumptions**, Finance Canada estimates balanced books this year, followed by a \$16 billion shortfall in FY10 and a \$14 billion gap in FY11. The stimulus affecting the budget bottom line adds \$18 billion and \$15½ billion to the FY10 and FY11 deficits, respectively.

**The erosion in revenue growth witnessed this year is expected to continue through FY10**, with total receipts down 7.2%. The sharp 7.2% decline projected for tax revenues in FY10 reflects both \$6.2 billion of proposed tax relief and an underlying correction from the slowing economy. Corporate income tax revenues, that have boosted receipts in recent years, are expected to drop by more than a third over FY09 and FY10. Total tax receipts are forecast to drop to just 11.6% of GDP in FY10, the lowest level in more than four decades.

**Conversely, program spending** in FY10 is projected to climb to 14.6% of GDP, substantially higher than the 12.1% share in FY00-FY01. The 10.8% jump in program outlays for FY10, boosted by the stimulus package, follows an 18% increase over the prior three years. Underlying the spending estimates is significant restraint in public-sector compensation, with a commitment to put legislation in place outlining a 2.3% wage increase in FY08 followed by annual 1.5% rises for the following three years.

**The stimulative spending lasts through FY11**, and amounts not spent will not be rolled forward past FY11. As program spending growth flattens in FY12, higher market interest rates and Ottawa's increased borrowing raise the debt service from the estimated low of \$29½ billion in FY10 to more than \$37 billion by FY12.

**The risk** in the current highly uncertain environment is that Canada's economy does not stage the healthy pick-up that Ottawa assumes in 2010, leaving revenue growth short of the 6.7% projected for FY11. This potential shortfall would subsequently place the 8.1% revenue gain assumed for FY12 at some risk. Scotia Economics looks for real GDP growth of just 1.6% in 2010, significantly softer than the private sector's 2.4% average. Finance Canada's sensitivity estimates indicate that our forecast would shave a further \$2½ billion from the bottom line.

**The challenge in a softer-than-expected economic recovery** will be covering any revenue shortfalls with increased program expenditure restraint. The silver lining in the possible intensification of budgetary pressures is the incentive to seriously reassess existing programs and tax expenditures during the FY12-FY14 period, creating the opportunity for modernizing and enhancing government service delivery in the "post-downturn" period.

### Ottawa's Budget Arithmetic

\$ billions unless otherwise noted

	FY09		FY10	FY11	FY14*
	Bud.	Rev.	Bud.	Bud.	Bud.
Personal Income Tax (PIT)	118.6	117.1	110.3	117.9	146.0
Corporate Income Tax (CIT)	36.8	31.8	26.4	30.8	39.5
Goods & Services Tax (GST)	27.6	26.4	25.8	27.3	33.0
Employment Insurance Premiums	16.5	16.6	16.8	17.3	20.4
Other Revenue	42.4	44.5	45.7	46.7	55.5
<b>Total Revenue</b>	<b>241.9</b>	<b>236.4</b>	<b>224.9</b>	<b>239.9</b>	<b>294.3</b>
Transfers: Persons	60.5	60.9	66.4	68.1	72.6
Transfers: Other Cdn Gov'ts	46.2	46.3	50.1	52.1	59.7
Direct Program Expenditures	101.5	99.6	112.7	116.3	121.8
<b>Total Program Spending</b>	<b>208.1</b>	<b>206.8</b>	<b>229.1</b>	<b>236.5</b>	<b>254.1</b>
Debt Service	31.5	30.7	29.5	33.3	39.6
<b>Total Expenditure</b>	<b>239.6</b>	<b>237.4</b>	<b>258.6</b>	<b>269.7</b>	<b>293.7</b>
<b>Budget Balance</b>	<b>2.3</b>	<b>-1.1</b>	<b>-33.7</b>	<b>-29.8</b>	<b>0.7</b>
Non-Budgetary Transactions	-17.7	-102.6	-67.5	-0.9	46.6
<b>Financial Source/Requirement</b>	<b>-15.4</b>	<b>-103.7</b>	<b>-101.2</b>	<b>-30.7</b>	<b>47.3</b>
<b>Net Debt</b>	<b>454.8</b>	<b>458.7</b>	<b>492.4</b>	<b>522.2</b>	<b>541.8</b>
<b>Annual Change, %</b>					
Personal Income Tax (PIT)	4.9	3.6	-5.8	6.9	7.4
Corporate Income Tax (CIT)	-9.3	-21.9	-16.9	16.6	8.6
Goods & Services Tax (GST)	-7.9	-11.9	-2.2	5.9	6.5
Total Tax Revenue	-0.2	-3.9	-7.2	7.8	7.1
<b>Total Revenue</b>	<b>-0.2</b>	<b>-2.5</b>	<b>-4.8</b>	<b>6.7</b>	<b>7.0</b>
Transfers: Persons	4.0	4.7	9.0	2.6	2.1
Transfers: Other Cdn. Gov'ts	0.1	0.3	8.2	4.1	4.6
Direct Program Expenditures	6.6	4.6	13.1	3.2	1.5
<b>Total Program Spending</b>	<b>4.3</b>	<b>3.6</b>	<b>10.8</b>	<b>3.2</b>	<b>2.4</b>
<b>Memo Items, %</b>					
Tax Revenue / GDP*	12.6	12.1	11.6	12.1	13.0
Total Revenue / GDP	15.0	14.7	14.3	14.8	15.9
Program Spending / GDP	12.9	12.8	14.6	14.6	13.7
Budget Balance / GDP	0.1	-0.1	-2.1	-1.8	0.0
Net Debt / GDP	28.2	28.5	31.4	32.3	29.2
Debt Service / Revenue	13.0	13.0	13.1	13.9	13.5

Source: Finance Canada; Nominal GDP forecasts: Scotia Economics.

## Industry Initiatives

**Patricia Mohr**

### **Energy — An Emphasis on Carbon Capture in the Oil Sands**

In line with Ottawa's climate change objectives and a stepped-up focus on renewable, 'green' energy by the Obama Presidency, *Budget 2009* will provide \$1 billion over five years for research on 'clean' energy technologies and the development of promising technologies (including large-scale carbon capture and storage projects) — important for the Alberta oil sands. The government will consult with stakeholders on accelerated CCA for carbon capture and storage.

The Mineral Exploration Tax Credit available to individuals investing in flow-through shares will be extended one year to March 2010. *Budget 2009* also provides \$38 million to departments and agencies to support environmental assessments, regulatory coordination and Aboriginal consultations related to the Mackenzie Gas Project.

Nuclear power emits virtually no greenhouse gases, with huge expansion planned in many 'emerging' as well as G7 countries in the next ten years. To take advantage of nuclear energy opportunities at home and abroad, *Budget 2009* will provide \$351 million to AECL to fund development of the Advanced CANDU reactor and to maintain reliable operations at the Chalk River Laboratories.

### **Forest Products — Funding for Product Innovation and Export Promotion**

Ottawa's support for Canada's hard-pressed Forest Products sector focuses on a renewal of funding for new product innovation, export promotion and development of a competitive advantage in 'green' technology (for example, energy from forest biomass). The Forest Products Association of Canada advocated these measures in pre-budget consultations. However, direct tax support (such as refundable SR&ED credits) was not provided. Forest products companies can take advantage of broader tax measures such as the extension of the temporary 50% straight-line accelerated CCA for eligible manufacturing or processing machinery and equipment undertaken in 2010 and 2011, though their ability to do so will be constrained by weak earnings.

*Budget 2009* will provide \$80 million to Natural Resources Canada over two years to fund the 'FPInnovations Transformative Technologies Program' — run by Feric, Forintek, Paprican and the Canadian Wood Fibre Centre. These not-for-profit research institutes undertake much of the R&D on new product development and emerging technologies such as forest biomass in Canada. In the past, federal funding for forestry R&D has been leveraged by a factor of twenty by other stakeholders including companies. Funding was scheduled to expire in 2009. Another \$40 million will be provided for large-scale pilot plants.

*Budget 2009* will also provide \$40 million over two years for export promotion via the 'Canada Wood', 'Value to Wood' and 'North America Wood First Programs'. Again, a number of these programs were set to expire in 2009. An additional \$10 million will be provided to Natural Resources Canada in 2009-10 to support large-scale demonstrations of Canadian-style wood construction in offshore markets (possibly China) and non-traditional uses of wood in domestic markets (such as commercial buildings).

Building material demand in Canada will receive a modest boost from construction of additional social housing and infrastructure spending as well as the renovation tax credit for consumers. The \$1 billion Community Adjustment Fund will provide welcome support for communities adjusting to the shut down of mills and the mountain pine beetle devastation in B.C.

## Other Major Revenues and Expenditure Measures

### **Revenue Initiatives**

#### **Personal Income Tax (PIT)**

Effective January 1, 2009: The basic personal amount, the spousal/common-law partner amount and the eligible dependent amount will rise from \$9,600 to \$10,320; the upper limit of the first PIT bracket (15%) will rise from \$37,885 in 2008 to \$40,726; and for the second bracket (22%), the ceiling will rise from \$75,769 in 2008 to \$81,452 (\$1,885 million for FY10). All amounts will be indexed to inflation for 2010 and thereafter.

**RRSP/RRIF losses after death** have become an issue in light of the recent financial turmoil. For final RRSP or RRIF distributions after 2008, post-death decreases in asset values can now be carried back and deducted against the year-of-death RRSP/RRIF income inclusion (\$30 million for FY09)

**Canada's Marginal Effective Tax Rate (METR)** on new business investment by 2012 could drop to 14.7% according to Finance Canada with provincial sales tax harmonization and a drop in the combined federal-provincial-territorial statutory

### Other Major Revenues and Expenditure Measures — continued

corporate income tax rate to 25%. This would compare to the OECD METR average of 21.2% and the METR average for small developed countries of 19.5%. In *Budget 2009*, Ottawa indicated its commitment to identify potential changes in the current framework for federal-provincial harmonization that would help the remaining Provinces with a Provincial Sales Tax to agree to harmonization.

**Tourism:** An arrivals Duty-Free program will be reviewed for major airports to promote purchases in Canada rather than abroad.

#### **Expenditure Initiatives**

The **Canada Skills and Transition Strategy** involves funding for a number of smaller programs over two years to ensure broader worker coverage. The Strategic Training and Transition Fund will receive \$500 million to serve workers not eligible for EI training; the Canada Summer Jobs Program for students will receive \$20 million; an Apprenticeship Completion grant will be launched with \$40 million and an additional \$50 million will be directed to foreign credential recognition.

**Ontario** in FY10 will benefit from all Equalization-receiving Provinces qualifying for equal per capita Canada Health Transfer cash. A **Southern Ontario Development Agency** will receive more than \$1 billion over five years and the Eastern Ontario Development Agency will receive \$20 million over two years. A new economic development agency is also outlined for the North with funding of \$50 million over five years. A \$1 billion **Community Adjustment Fund** will help communities adjust to restructuring, with the funds delivered through regional development agencies.

**Multiple two-year infrastructure commitments** include \$515 million for “ready-to-go” First Nations projects, particularly schools, water and critical community services and \$25 million to a National Trails Coalition. **PPP Canada Inc.** is a P3 federal Crown corporation to facilitate public-private partnership projects with an initial call for applications to the Public-Private Partnerships Fund planned for FY10.

**Knowledge infrastructure investments**, beyond deferred maintenance for universities and colleges, covers \$250 million for modernizing federal laboratories, \$50 million for the Institute for Quantum Computing in Waterloo, \$87 million to upgrade Arctic research facilities and an additional \$500 million for Canada Health Infoway to spur the implementation of electronic health records. For the **Canada Foundation for Innovation**, a not-for-profit corporation assisting institutional research infrastructure, a further \$150 million is provided for 2009 projects as the Foundation develops a strategic post-2010 plan. Canada currently has the highest broadband connection rate among the G7 nations, and \$225 million will be directed to extending this coverage to smaller communities over the next three years.

**Refurbishment of federal infrastructure assets** ranges from additional Trans-Canada Highway projects, nearly \$130 million for federal bridges and up to \$200 million to repair core commercial fishing harbours. VIA Rail Canada will receive an additional \$407 million, with one directive to enhance train frequencies between Toronto and Montreal.

**Social housing** funding is boosted over two years on a cost-shared basis with the Provinces and Territories. In addition to Ottawa's \$1 billion for social housing energy retrofits and renovations, additional federal outlays include \$400 million for low-income seniors housing, \$75 million for housing for the disabled, \$200 million for social housing in the Territories. For First Nations, though the federal government's primary objective is advancing to a private housing sector on reserves, \$400 million will be provided over two years for social housing on reserves as a transition measure towards market-based reserve housing.

**Tourism:** To help the industry through the economic downturn and intensifying competition from overseas destinations over the next two years, the Canada Tourism Commission will receive \$20 million for domestic advertising and \$20 million for promotion in priority international markets, Parks Canada will receive \$75 million to enhance visitor sites and \$75 million to upgrade national historic sites, and marquee festivals and other special events will receive \$100 million.

**Environment:** The Canadian Environmental Sustainability Indicators initiative will receive \$10 million in FY10 to continue preparing indicators on air and water quality and greenhouse gas emissions.

**Media:** The Canada New Media Fund will receive annual funding of \$14 million to encourage Canadian interactive digital cultural content and the distribution of new media works. The Canadian Television Fund will receive \$200 million over the next two years.

**The Canadian Space Agency** will receive \$110 million over three years for space robotic vehicles and other technologies.

**Agreement on Internal Trade:** From the First Ministers' meeting in mid-January important actions included amending the Agreement on Internal Trade to enhance full labour mobility by recognizing across Canada the certification from any Province or Territory.

### **Scotia Economics**

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