

## 2008 Federal Budget Highlights

TAX

## Economic Highlights

### Topics Addressed

- ◆ Economic Trends and Outlook
- ◆ Federal Budget 2008 Highlights/Implications
- ◆ Other Issues:
  - = BC Budget, updated economic forecast and carbon tax

### Global and North American Economic Outlook

- ◆ World economy is slowing
- ◆ US on cusp of recession, led by sharp drop in residential investment and slumping housing markets
- ◆ EU and Japan expected to post sluggish growth at best in 2008
- ◆ Credit market turbulence from last summer/fall continues to take a toll
- ◆ China and other emerging markets provide support to the global economy

## The US Housing Bubble Pops...



Source: US Census Bureau,  
forecast Wachovia Annual Outlook (December 2007).

Latest actual: Q4 2007

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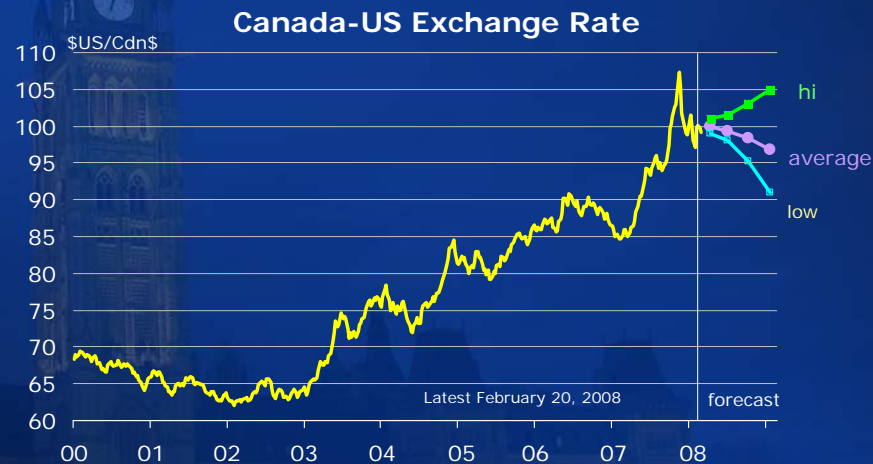
## Canadian Economic Outlook in Numbers

	2007	2007	2009
Real GDP growth	2.6	1.7	2.4
Nominal GDP growth	5.7	3.5	4.3
Employment Growth*	2.3	1.2	0.9
Inflation (CPI)*	2.2	1.4	2.0
Interest rate (3-month T-bill)	4.2	3.2	3.8
Interest rate (10-year gov't bond)	4.3	3.6	4.2

Source: Budget 2008, \* TD Economics.

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## Loonie Marches Higher



Source: Bank of Canada for history, forecasts are averages of forecasts from BMO Capital Markets, CIBC, RBC, Scotiabank, TD.

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## Budget Themes

- ◆ Ottawa has little fiscal room due to slowing economy plus big tax cuts in October 2007 Economic Statement
- ◆ Balanced budgets/tiny surpluses going forward
- ◆ Some modest assistance to hard pressed manufacturers
- ◆ Additional funding for infrastructure, research, and innovation, post-secondary students, farmers, and the environment

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## Fiscal Outlook

(C\$ billions, unless otherwise indicated)

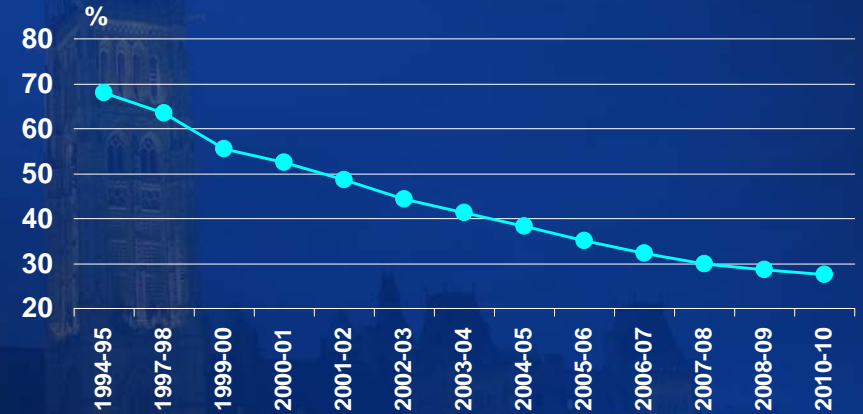
	06/07	07/08	08/09	09/10
Revenues	236.0	244.5	241.9	252.0
Expenditures	222.2	234.3	239.6	250.7
Program Spending	188.3	201.2	208.1	218.3
Public Debt Charges	33.9	33.1	31.5	32.4
Debt Reduction	14.2	10.2	2.3	1.3
Budgetary Surplus	nil	nil	nil	nil
Net Federal Debt	467.3	457.1	454.8	453.5
Debt/GDP (%)	32.3	29.9	28.7	27.5

Source: Budget 2008.

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## Debt Burden Falling Relative to GDP

Federal Debt as a Share of GDP



Source: Department of Finance; Budget 2008 for projections.

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## October 2007 Economic Statement

◆ A budget in all but name, the Economic Statement unveiled a significant package of tax reductions totalling \$60 billion over five years...

- = GST cut by one point to 5% (\$6 billion) effective January 1, 2008
- = GST credit maintained at previous level, despite lower tax rate
- = General corporate income tax rate falls from 22.1% to 15% by 2012
- = Small business tax rate drops to 11% in 2008, instead of in 2009

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## October 2007 Economic Statement (cont'd)

- = Lowest personal tax rate is reduced to 15% from 15.5%, retroactive to January 2007
- = Tax free amount for individuals increases to \$9,600 for 2007-08, rising to \$10,100 for 2009
- = Basic EI premium declines 10 cents per \$100 insurable earnings for 2008
- ◆ Note that 2006 and 2007 budgets also included several tax reduction measures, including the previous GST rate cut, elimination of capital tax, elimination of the corporate surtax (2008), and tax incentives for apprenticeship training, transit use, and low income workers

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## Key Tax Measures – Budget 2008

- ◆ A new Tax-Free Savings Account – \$5,000 annual contribution limit (over 18)
- ◆ Extension of accelerated capital cost allowance for manufacturing M&E investment
- ◆ Improvements in the scientific research and experimental development tax incentive program
- ◆ Implement previously announced corporate tax cuts

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## Budget 2008: Economic Impact

- ◆ Together with tax cuts outlined in October 2007 Economic Statement, federal fiscal policy is somewhat stimulative (especially due to GST cut and lower personal income and EI taxes)
- ◆ Budget 2008 by itself cannot cushion the slowing economy – monetary policy will have to do some of the heavy lifting

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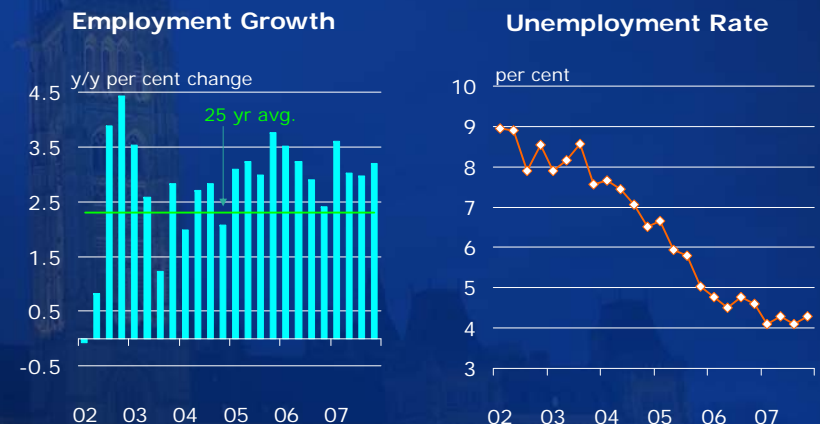
## Budget 2008: BC Impacts

- ◆ \$192 million in 2008-09 for new infrastructure initiatives
- ◆ Make Gas Tax Fund for municipalities permanent
- ◆ \$67 million over two years for public transit (via Public Transit Capital Trust)
- ◆ \$67 million for labour market training starting 2008
- ◆ Immigration – streamline the system to accelerate processing of applicants
- ◆ \$129 million over three years from Community Development Trust to “help vulnerable communities”
- ◆ \$53 million over five years to hire more police officers

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## Hot Job Market

### BC Labour Market

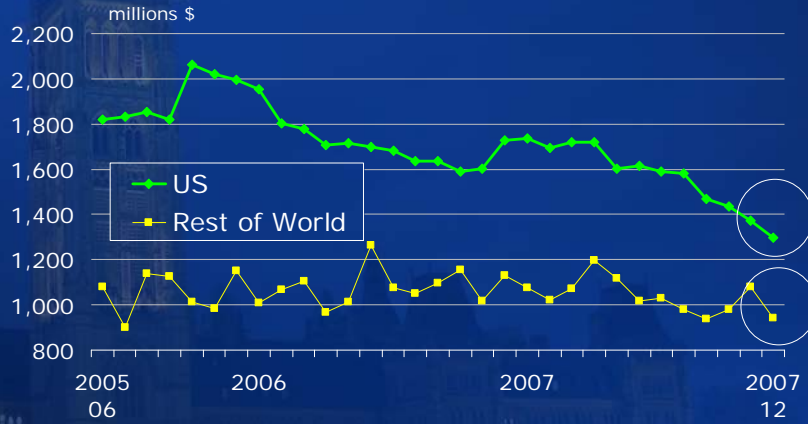


Source: Statistics Canada, quarterly averages.

Latest: Q4 2007 16

## BC Exports – Structurally Weak and Recently Falling

BC International Merchandise Exports, Monthly, Seasonally Adjusted



International exports fell 6.5% in 2007.

Latest December 2007 17

Source: BC Stats.

## BC Economic Forecast (annual % change unless noted)

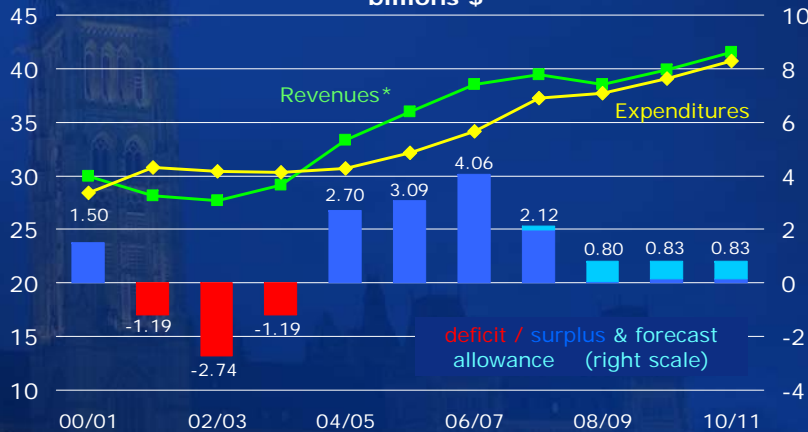
	estimate	forecast		
	2007	2008	2009	2010
Real GDP	3.0	2.4	2.8	2.9
Employment	3.2	1.7	1.7	1.9
Retail sales	6.7	5.3	5.2	5.1
Housing starts (units)	39,200	34,600	32,500	30,800

Source: BC Ministry of Finance.

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## BC Fiscal Track

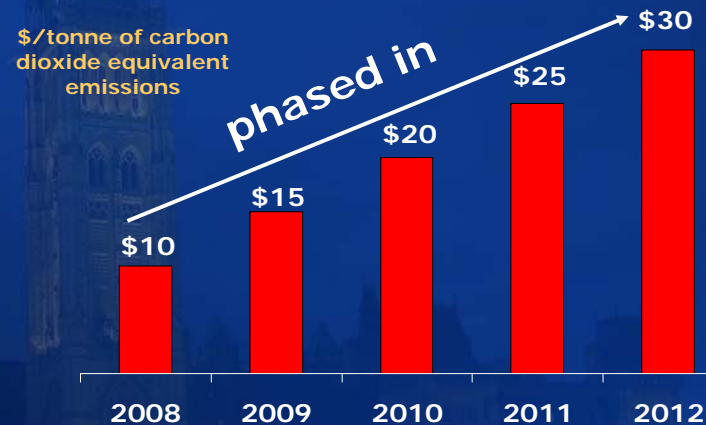
Operating Statement 2000/01 to 2010/11  
billions \$



Source: BC Budget and Fiscal Plans 2006/07 and 2007/08.

\* Revenues include net earnings of Crown corporations 19

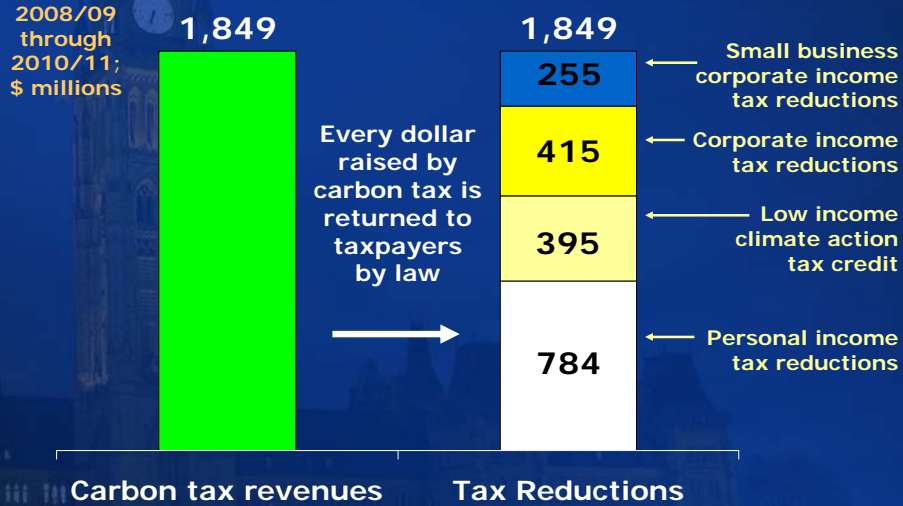
## Revenue neutral BC carbon tax



Source: BC Ministry of Finance.

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Source: BC Ministry of Finance.

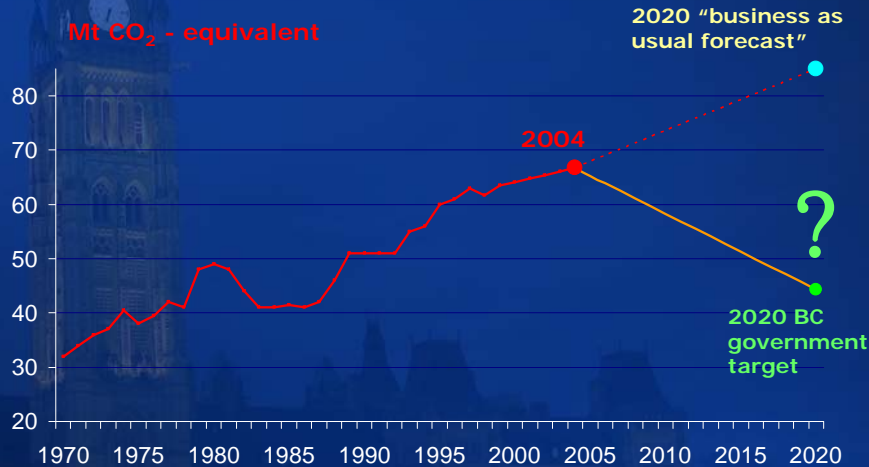
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## Carbon Tax Implications for Business

- ◆ Carbon tax rate set low initially and increases through 2012 – allows time for adjustment
- ◆ Will apply to all emissions from domestic fossil fuel combustion, with a few exceptions (interjurisdictional air and marine transport)
- ◆ With offsetting personal and business tax cuts, the package is “revenue neutral” in aggregate
  - = but there will be winners and losers
  - = a net tax/cost increase for carbon intensive businesses
  - = industries and households with small carbon footprints come out ahead from the tax shift

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## Total Greenhouse Gas Emissions in British Columbia

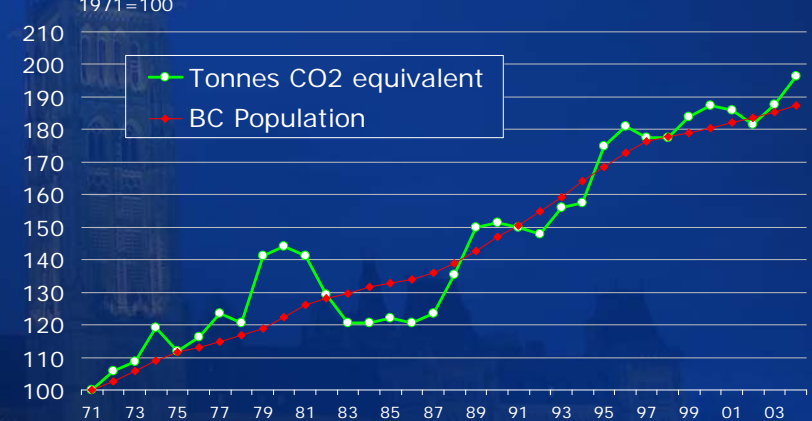


Source: Environment Canada.

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## Emissions Track Population Growth

### BC GHG Emissions and Population, Indexed 1971=100



Source: Environment Canada, BC Stats.

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Presenter's contact details

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