



*cutting through complexity*

# 2013 Federal Budget Breakfast

March 22, 2013

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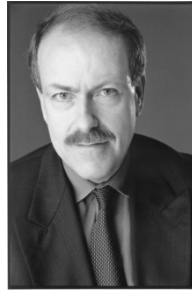
# Welcome Remarks

**Walter Pela**  
Partner-in-Charge of Tax, GVA

# Introductions



**Walter Pela**  
Partner-in-Charge  
of Tax, GVA



**Jock Finlayson**  
Executive Vice President,  
Business Council of BC



**Harry Hoff**  
Canadian Corporate  
Tax



**Dino Infanti**  
Enterprise Tax



**Mark Worrall**  
Indirect Tax



**Jodi Kelleher**  
International Tax



**Russ Crawford**  
US Tax



**Carlene Hornby**  
Canadian Corporate  
Tax



**Jonathan Kallner**  
Regional Managing  
Partner, GVA

# Agenda

<b>Welcome Remarks</b> .....	Walter Pela
<b>Economic Outlook</b> .....	Jock Finlayson
<b>Business Tax Changes</b> .....	Harry Hoff
<b>Personal Tax Changes</b> .....	Dino Infanti
<b>Indirect Tax</b> .....	Mark Worrall
<b>International Tax</b> .....	Jodi Kelleher
<b>FATCA Update</b> .....	Russ Crawford and Carlene Hornby
<b>Closing Remarks</b> .....	Jonathan Kallner

# Economic Outlook

**Jock Finlayson**

Executive VP and Chief Policy Officer  
Business Council of BC

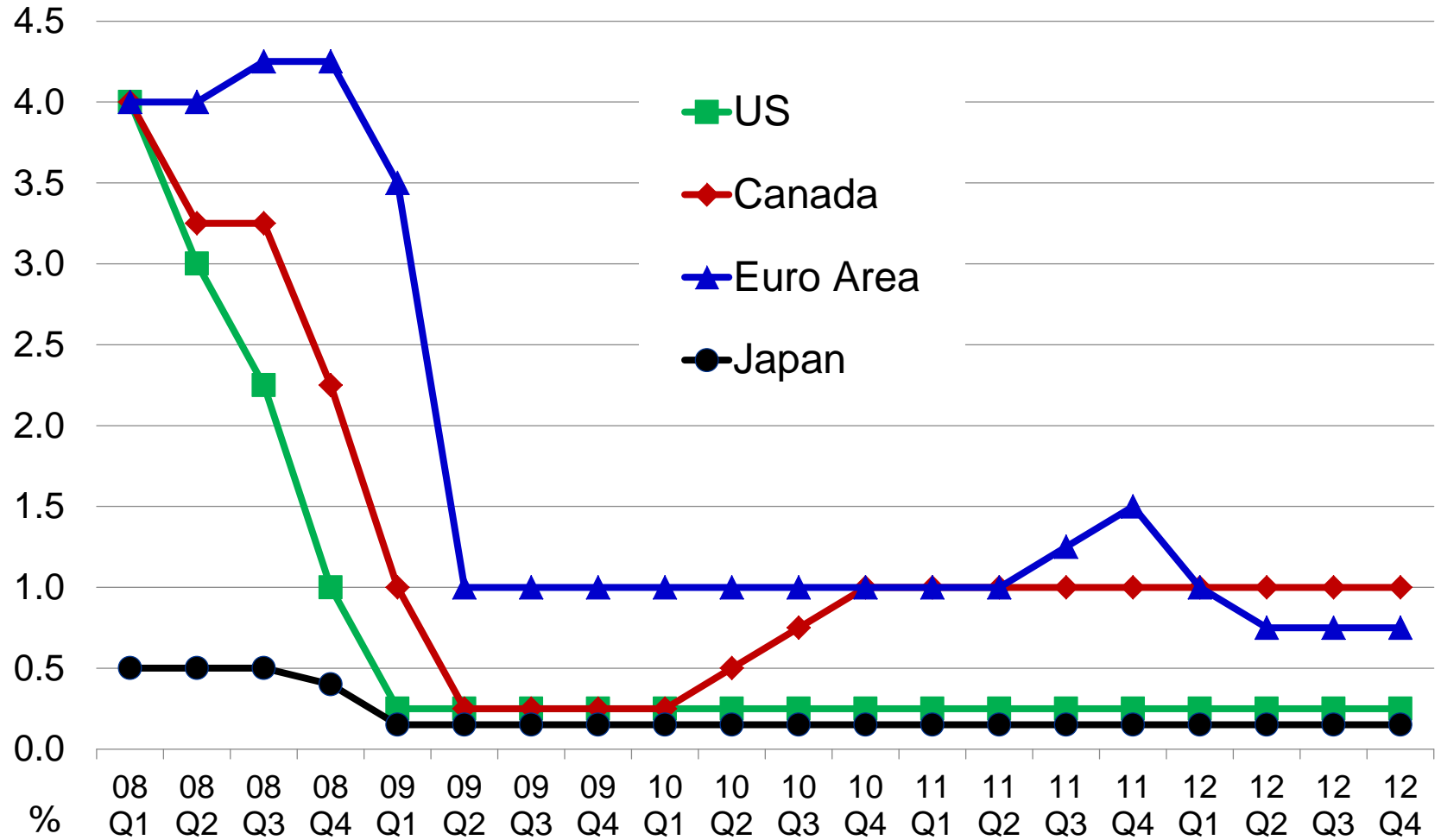
# World Economic Forecast (per cent change in real GDP)

	2011	2012	2013f	2014f
US	1.7	2.2	<b>1.9</b>	2.8
EU 27	1.8	-0.4	<b>-0.2</b>	1.4
All of Asia	5.8	5.2	<b>5.3</b>	5.5
Japan	-0.7	1.9	<b>0.9</b>	1.4
China	9.3	7.8	<b>7.9</b>	7.9
<i>World</i>	<i>3.7</i>	<i>2.9</i>	<b><i>3.1</i></b>	<i>3.7</i>

Source: TD Economics (March 19, 2013)

f = forecast

# Central Banks Have Maintained Exceptionally Low Policy Interest Rates



Source: Bank of Canada.

# Federal Budget 2013: Overarching Themes

**Top priority: return to a balanced operating budget by 2015/16, despite a somewhat soft economy. This left no room for stimulus or costly new initiatives**

**Heightened focus on skills development, infrastructure investment, manufacturing competitiveness, and small business job creation**

## **Policy stability**

- No significant tax rate increases/decreases
- No changes to intergovernmental fiscal arrangements
- Proceed with spending cuts and government downsizing signalled last year
- Pursue new international trade agreements
- Continued efforts around red tape reduction and regulatory reform



# The Budget's Economic Assumptions for Canada

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Real GDP Growth</b>	<b>1.8%</b>	<b>1.6%</b>	<b>2.5%</b>	<b>2.6%</b>
<b>Nominal GDP Growth</b>	3.1%	3.3%	4.7%	4.7%
<b>CPI Inflation rate</b>	1.5%	1.3%	2.0%	2.0%
<b>Unemployment rate</b>	7.2%	7.1%	6.9%	6.7%
<b>3-month T-bill rate</b>	1.0%	1.0%	1.3%	2.2%
<b>10-yr gov't bond rate</b>	1.9%	2.1%	2.8%	3.5%
<b>Exchange rate (US cents/C\$)</b>	100.1	98.9	100.7	100.9

Source: Federal Budget 2013, Table 2.1.

**“Success is the ability to go  
from failure to failure without  
losing your enthusiasm”**

***Winston Churchill***

## Economic Forecasts Consistently Too Optimistic

	One Year Ago	March 2013 federal budget*
Real GDP	2.4%	1.6%
Nominal GDP	4.4%	3.3%
90 day T-Bill rate	1.3%	1.0%
Long-term GOC bond yield	2.8%	2.1%
Inflation (CPI)	2.0%	1.3%

Source: 2013 Federal Budget, p. 51.

\* based on private sector consensus

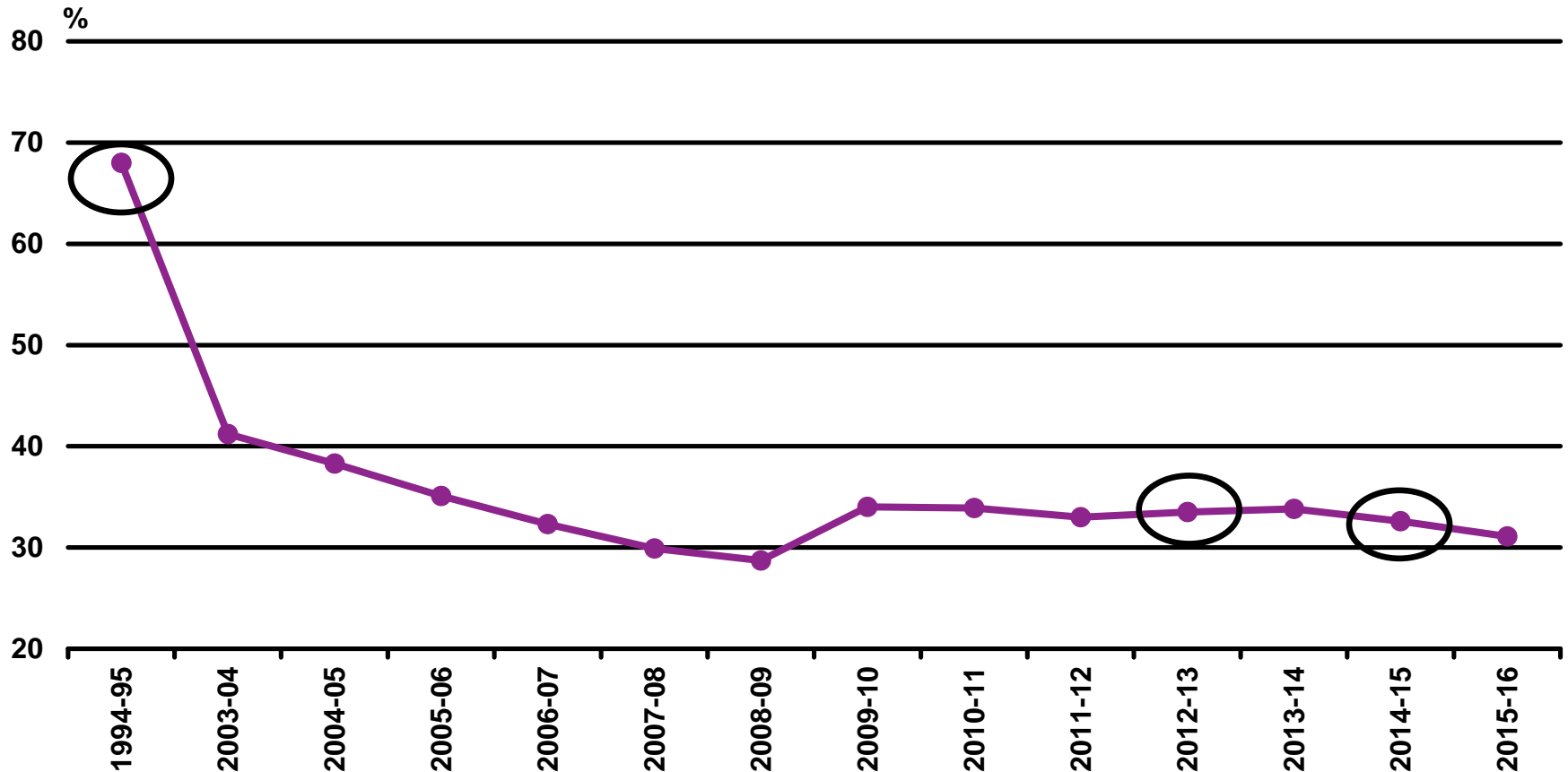
# Updated Federal Fiscal Plan (C\$ billions)

	2012/13	2013/14	2014/15	2015/16
<b>Revenues</b>	<b>254.2</b>	<b>263.9</b>	<b>279.6</b>	<b>294.9</b>
<b>Expenditures</b>	<b>280.1</b>	<b>282.2</b>	<b>286.2</b>	<b>294.1</b>
Program Spending	251.0	252.9	256.0	262.6
Public Debt Charges	29	29.7	30.2	31.5
<b>Budgetary Balance</b>	<b>- 25.9</b>	<b>- 18.7</b>	<b>- 6.6</b>	<b>+ 0.8</b>
<b>Net Federal Debt</b>	<b>608.7</b>	<b>627.4</b>	<b>634</b>	<b>633.2</b>

Source: Federal Budget 2013, Table 4.2.4, p. 287.

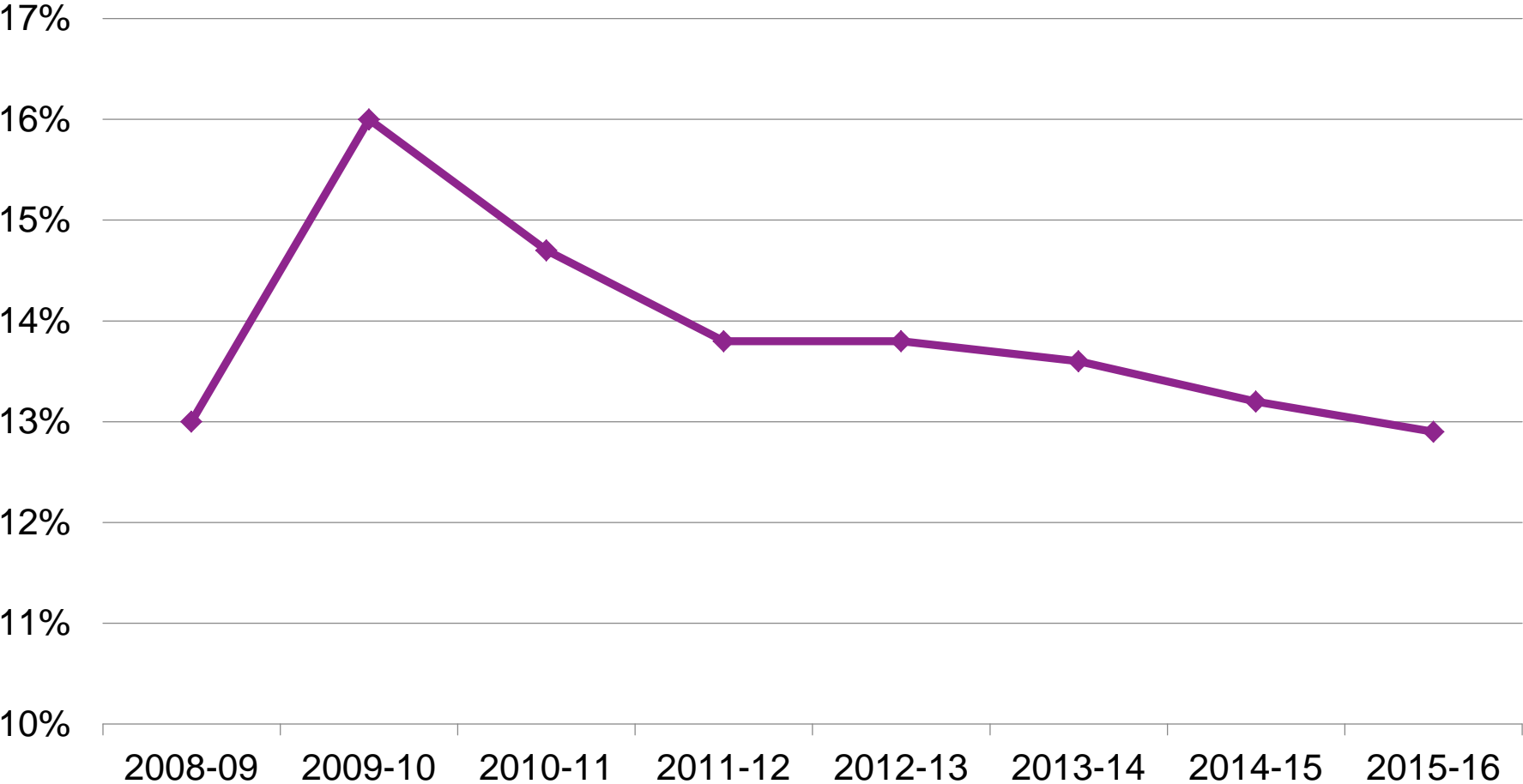
# Federal Debt Burden Remains Manageable

## Federal Debt as a Share of GDP



Source: Department of Finance.

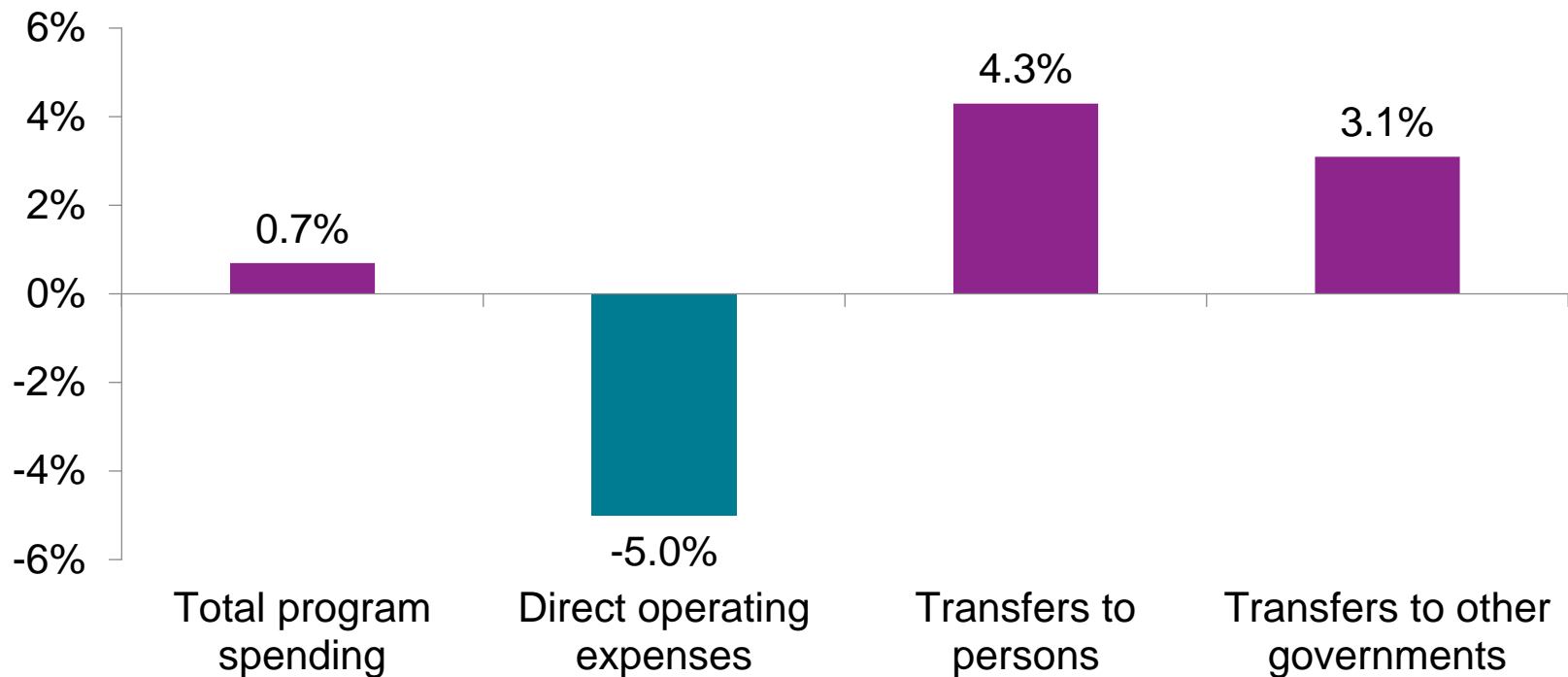
# Federal Program Spending Declining as Share of GDP



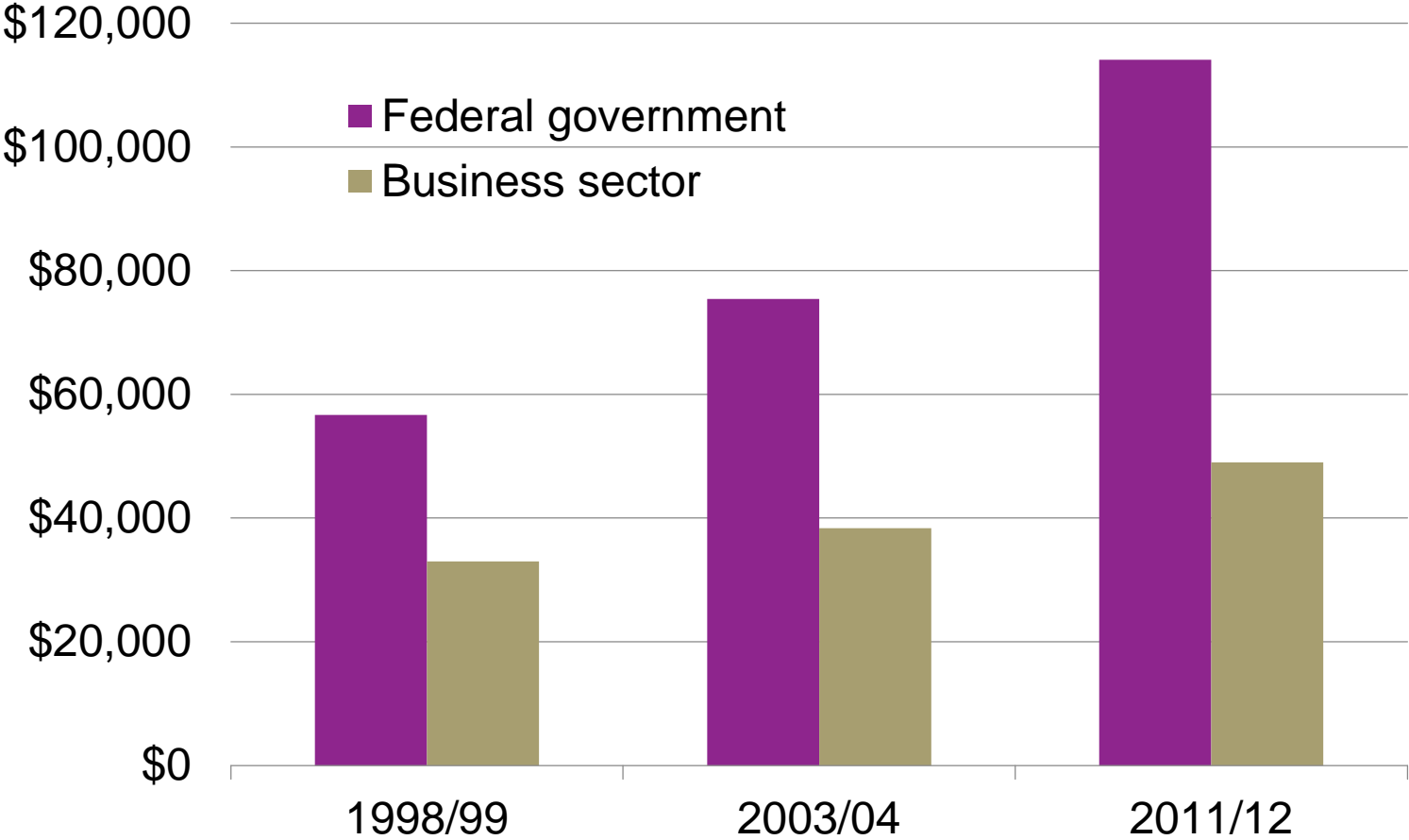
Source: Federal Budget 2013, p. 287..

# Federal Spending Restraint: Where Does the Axe Fall?

Per cent change in spending,  
2013-14 versus 2012-13



# Total Compensation Per Employee, Federal Government versus Business Sector (wages/salaries plus benefits)



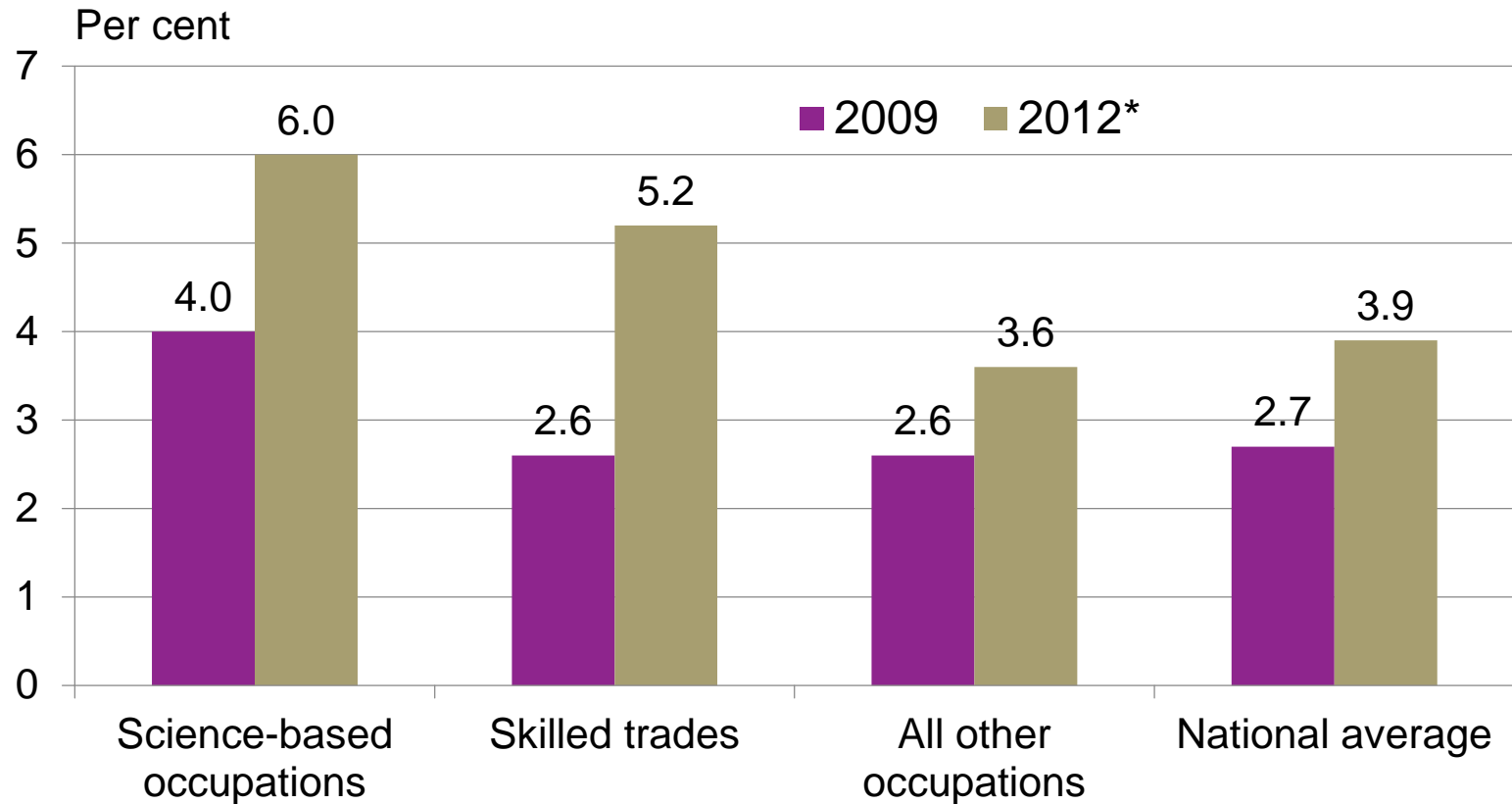
Source: C.D. Howe Institute.



## *Skills development and training*

- **Canada Job Grant -- funding for businesses to train unemployed and underemployed people \$5,000 per employee**
- **Businesses to apply. Provinces/employers have to match (taking the amount to \$15,000 per employee)**
- **Ottawa intends to re-negotiate Labour Market Development Agreements with provinces to improve outcomes**
- **Increased support for apprenticeships**
- **More internships for university/college graduates**

# The Number of Available Jobs Has Increased Since 2009



\* The job vacancy rate is defined as the number of online job postings divided by total labour demand, that is, job postings plus occupied positions (total employment).

Source: Statistics Canada; WANTED Analytics Inc.; Department of Finance calculations.

# Budget 2013: Measures Affecting Canadian Business

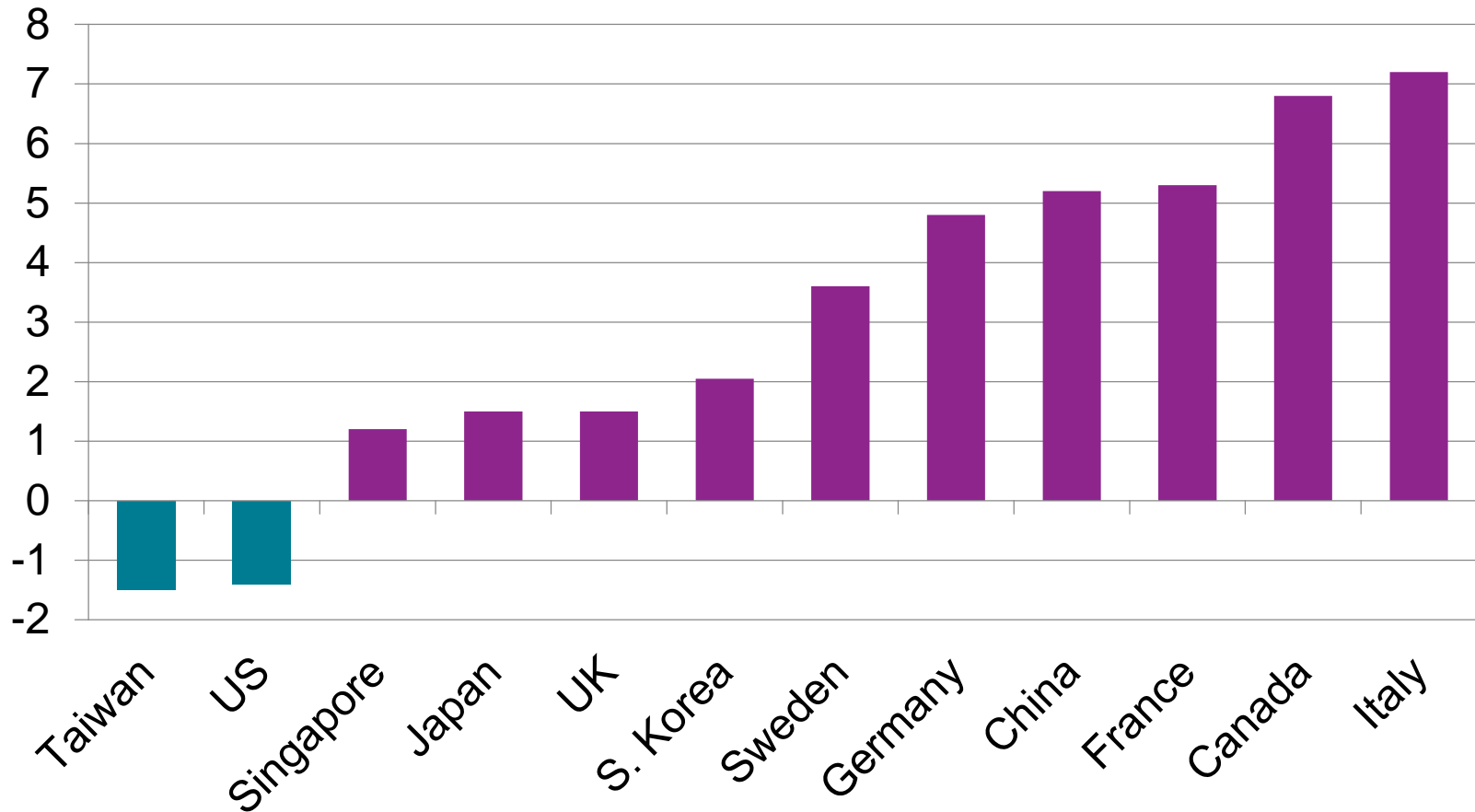
## *Competitiveness*

- **Extend accelerated CCA for investment in machinery & equipment**
- **Retain hiring tax credit for small business**
- **Targeted support for individual sectors (aerospace, forestry innovation and market development, aquaculture)**
- **Some additional funding for R&D, innovation and commercialization**

## *Building Canada infrastructure plan*

- **\$47 billion over ten years for local and economic infrastructure projects, starting in 2014-15**
- **Will stimulate construction activity and improve productivity**

# Change in Manufacturing Unit Labour Costs, 2002-2011 (average annual percentage change, costs in US dollars)



Source: US Bureau of Labor Statistics.

# Let's Tax the Rich! (But...We Already Do!)

**Canada's personal income tax regime is already very "progressive," with higher marginal tax rates applied as income rises**

**25.5 million Canadian tax filers in 2011**

**The most affluent 20% paid  $\frac{3}{4}$  of all personal income tax; the remaining 80% of filers paid the rest**

**Top 1% of tax filers in 2011 had incomes > \$201,400**

- **this small group accounted for 10.6% of all personal income**
- **they paid one-fifth of a personal income tax collected**

## **Budget Items of Note for British Columbia**

**Build Canada infrastructure plan is positive news for cities and communities across BC**

**Also welcome : tax relief and other assistance for the manufacturing sector**

**\$92 million over two years (starting in 2014-15) for forestry innovation and market development**

**Flow-through Mineral Exploration Tax Credit extended for one year**

**New funding for Sustainable Development Technology Canada will benefit BC's clean tech/clean energy sector**

**\$100 million to Business Development Bank to invest in small technology firms "graduating from accelerators"**

**Canada Job Grant and pledge to renegotiate Labour Market Development Agreements – how will BC respond?**

# Federal Budget: A Few Areas of Concern

**Execution/implementation risks around the Canada Job Grant and other new initiatives to expand skill training – e.g., provincial and employer reactions and take-up?**

**Ongoing overhaul of the federal SRE&D program has reinforced the bias against larger companies and made it less attractive for capital-intensive firms to do R&D in Canada**

**Sponsors of defined benefit pension plans are seeking greater flexibility to meet solvency funding requirements**

**Negative impact of change in tax treatment of pre-production expenses in the mining sector**

**Modest economic growth for 2013, similar to last year**

**Consumer spending has been soft, housing markets are correcting**

**Some gains in exports and business investment are expected over 2013-14, as global growth slowly strengthens and the US economy improves**

**HST-PST transition issues and possible change of government in Victoria pose risks**

**New federal budget probably will not prompt the Business Council to alter our economic forecast for the province**



# BC Economic Outlook

(annual per cent change unless otherwise indicated)

	2012	2013f	2014f
Real GDP	1.8	1.6	2.7
Employment	1.7	1.0	1.4
Unemployment rate (%)	6.7	6.3	6.3
Housing starts – all areas (units)	27,500	23,900	23,500
Retail sales	2.2	2.9	3.9
Inflation (all-items CPI)	1.1	0.7	1.6

Source: Statistics Canada and BC Stats; RBC Economics for forecasts.

a – actual f – forecast