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Budget 2007 Highlights

Ottawa – Finance Minister Jim Flaherty's 2007 budget is designed to prepare the way for a possible election in the spring. Flaherty announced $7.4 billion in new spending for next year as well as $3 billion for debt reduction. Three billion of the new spending was in tax reductions and $4.4 billion in new program spending. While this year's total spending in absolute dollars will reach a record high, the percentage of federal spending compared to Gross Domestic Production will actually decline, from 13.7% in 2004-05 to 13.2% in 2008-09.

First and foremost, Budget 2007 will be remembered for its attempt to deal with the fiscal imbalance question, transferring financial resources from the federal to provincial level. The Budget proposes, over 7 years, to allocate $39 billion of new money to this end. The fiscal imbalance issue is dealt with in this Budget by a number of measures including increased funding for Equalization which transfers tax resources from richer to poorer provinces. Quebec will get the largest equalization increase of $1.6 Billion in one year, made up of about $700 million in new money. In total, all of Quebec's new transfer increases (including social and health transfers) will amount to some $2.3 billion. Other provinces such as Manitoba and PEI will also benefit from the new equalization scheme. The premiers of these provinces have already expressed their satisfaction with the Budget.

However, the premiers of British Columbia, Saskatchewan, Newfoundland and Nova Scotia are opposed to the new equalization proposals in the Budget. In the case of BC, the formula takes into account rising property prices, eliminating BC as an equalization recipient for the foreseeable future. Other provinces do not like the new formulas because they include 50% of non-renewable resources and propose a cap on total payments.

Ontario and Alberta will benefit from a new increase to the Canada Social Transfer (CST) (destined for social programs and post secondary education) which is now equalized on a per capita basis across the country and will be increased by 3% per year. Some $687 million in new money, combined with an already planned increase of $300 million, means that the CST will increase by nearly $1 billion in 2007-08. This is an important move, as is the call by the Federal Government to negotiate future accountability. The issue of how the CST is spent by the provinces has plagued federal-provincial relations since its creation. The issue remains how to make sure that the increased spending is used for post secondary education and social programs. $800 million in new money targeted by the Budget for post secondary spending will be added to the CST, but only in 2008-09. Ontario remains concerned that similar per capita health funding will only be brought in by 2014.

No Specific Measures for Co-operatives

None of the major proposals made by seven national co-operative organizations and endorsed by the all-party House Finance Committee in their recent pre-Budget consultations report made it into Budget 2007. The three recommendations were: 1) a renewed and increased Co-operative Development Initiative, 2) a Co-operative Investment Plan (tax credits for purchasing co-op shares) and 3) a community enterprise or social economy plan.

"This lack of attention to the need for co-operative development is extremely disappointing" commented Carol Hunter, Executive Director of the Canadian Co-operative Association.

"Most of the politicians we talk to see the benefits of co-operatives and job creation in their ridings and we were hoping for an announcement about a federal Co-operative Investment Plan similar to the one in Quebec. It would provide a big incentive for farmers starting new value-added co-ops or workers starting employee owned businesses."

Several other measures in the Budget may be of interest to co-operatives and credit unions. The Credit Union Central of Canada has information on how credit unions can use certain of the tax and registered savings plans changes in the Budget. This report is available at http://www.cucentral.ca/Ottawa_Budget_mar07.

Manufacturing and Processing Co-ops

The last budget reduced the general corporate income tax rate to 18.5 % from 21 % by 2011, accelerated the elimination of the federal capital tax, and eliminated the corporate surtax for all corporations by 2008.

Budget 2007 proposed additional measures to "allow Canada to become one of the most investment-friendly countries in the G7". This will done by providing assistance for Canada's manufacturing sector, aligning capital cost allowances with useful life for manufacturing buildings and other assets, and providing a financial incentive to the provinces to facilitate the elimination of provincial capital taxes.

Canadian co-ops involved in manufacturing and processing will be able to benefit from this new tax regime, but they must act quickly.

All businesses engaging in manufacturing or processing goods for sale or lease will be eligible to claim accelerated capital cost allowance at a rate of 50 % on a straight-line basis, for investments in eligible machinery and equipment, from now until the end of 2008. This measure will apply to investments starting on March 19, 2007, and ending December 31, 2008.

In addition, the Budget proposed an increase to 10 % from 4 % in the capital cost allowance (CCA) rate for buildings used for manufacturing or processing and an increase of the CCA rate for computers to 55 % from 45 %.

Environmental Issues Including Biofuels

Budget 2007 has some help for new biofuel co-operatives. The accelerated capital cost allowance for clean energy generation as well as the support for biofuels may be of use to some co-operatives.

CCA has been working on policy and programs for biofuel co-ops being planned by farmers and rural communities. The Ag-CDI programme, which started in September 2006 and is slated to end on March 31, has provided advisory and educational services to 12 new biofuel co-ops out of a total 27 new co-operatives aided. We also know of other co-op projects, including some planned by existing agricultural co-ops.

The Federal Government will be investing up to $2 billion in support of renewable fuel production in Canada to help meet the new renewable fuel standards for gasoline and diesel. Neither of these fuel standards has been passed yet and the budget document is hesitant on the requirements of 2% biodiesel by 2012, until the new blended fuel is verified as "safe and effective for our Canadian climate and conditions".

New funding will include up to $1.5 billion in operating incentives for manufacturers of renewable fuels, with up to $0.10 per litre for ethanol and up to $0.20 per litre for biodiesel for the first three years of operation, declining thereafter. This will be paid to all manufacturers of biofuels, including the large oil companies.

There are considerable restrictions on this incentive such as the withdrawal of federal support when the producer's profits exceed 20 %. Support under the program to individual companies or co-ops will be capped to ensure that benefits are provided to a wide range of participants in the sector. Government support will be determined annually.

"CCA supported the Canadian Renewable Fuels Association's proposal for the inclusion of a tax credit for all biofuel fuel producers in the up-coming budget. We are happy that there will be some funding to compensate for the substantial federal and state subsidies provided to American biofuel plants" said John Anderson, CCA's Director of Government Affairs and Public Policy.

"Now we need some announcements from the Federal Government on targeted support to farmer - owned biofuel plants which provide additional benefits to rural communities. We also need the Agriculture Co-operative Development Initiative renewed for another year."

$500 million is slated for next-generation renewable fuels. This will enable Sustainable Development Technology Canada to invest "with the private sector" in establishing large-scale facilities for the production of next-generation renewable fuels. Next-generation renewable fuels are produced from agricultural and wood waste products such as wheat straw, corn stover, wood residue and switch grass. Some of the new biodiesel co-op projects will be using these feedstocks and may benefit from this measure.

Other major environmental initiatives such as the $1.5 billion ecoTrust Initiative had been announced before hand. What is new in the Budget is an important $110 million for support of the habitat of endangered species and rebates (up to$2,000) for fuel efficient or alternative fuel vehicles, as well as green taxes up to $4,000 on gas guzzlers. While oil sands tax advantages would be very gradually phased out, but only after 2010, there are no new overall strategies nor any allocation of the funds needed to reduce green house gases emissions in order to effectively deal with global warming.

Agriculture

There was very little new for the agriculture industry, except for a reannouncement of a one-time payment of $400 million to address rising costs of production and a new accounts-based income stabilization program. The Federal Government will provide a one-time payment of $600 million to help build the new savings accounts, once agreement is reached with provinces and territories and these accounts are established.

This announcement of $1 billion was made on March 9 in Saskatoon and has been warmly greeted by the Canadian Federation of Agriculture.

Tax Measures

While there were no across the board personal income tax cuts, families with children will benefit from the $2,000 per child tax credit. This amounts to a real savings of $310 per child. The non refundable tax credit for low income or non-working spouses has been raised to provide up to $209 of tax relief.

Parents with the ability to save in a Registered Education Savings Plan (RESP) will benefit substantially from the elimination of the annual maximum contribution and a raise in the 20% maximum government grant. The fully-funded RESP maximum will rise to $50,000.

Perhaps the best new initiative in the Budget is the Registered Disability Savings Plan (RDSP) which allows parents to save for the long term financial security of a child with a severe disability. This plan, which has a lifetime contribution limit of $200,000, is notable because government grants, which max out at $70,000, allow parents to have their contributions matched and in many cases, exceeded by government.

Seniors will also benefit with an increase of the age credit by $1000, as well as an increase from age 69 to age 71 of the age at which RRSPs mature. Seniors who continue to work will be able to draw on their pension as well as work in a phased retirement option.

Small businesses, farmers and fisherman will receive an increase in the life time capital gains exemption from $500,000 to $750,000.

The Working Income Tax Benefit is a positive measure promised in several past budgets and finally delivered. The $500 per individual or $1000 per family benefit can only been seen as a start, as this amount remains below what is needed to allow people to climb over the “welfare wall”.

CCA has argued, along with the Make Poverty History campaign, for a national anti-poverty strategy similar to the provincial strategies or laws which exist in Newfoundland and Quebec. Such a strategy could help co-ordinate federal and provincial programs and develop goals and targets for poverty reduction.

International Development

International development funding received no new major increases in the Budget. While a one time $315 million was added in 2006-07, no new funding initiatives were announced for 2007-08. The Federal Government will follow-through with the 8 % annual increase that was initiated by the previous Liberal government, but there is no move to honour Prime Minister Harper’s earlier pledge for a one-time development spending boost of $425 million. At 0.33 % of Gross National Income, Canada will continue to be among the least generous countries in the developed world, in spite of Harper’s promise to bring our spending up to the average of other donor nations. The government can still help to speed the passage of Bill C-293 which is near the completion of its passage in the House and focuses Canadian aid on poverty reduction.

Child Care

There are almost 500 child care co-operatives across Canada and so support for child care is an important co-operative issue. As previously leaked in the media last week, the government has decided to give the $250 million, originally slated for the creation of new child care spaces by businesses, to the provinces. This year’s allocation must be spent on child care creation but will be folded into the Canada Social Transfer next year. While the $10,000 per space credit still remains for businesses to create spaces, the Government is downplaying this initiative.

The $250 million will certainly be welcomed by the provinces. However, this is far below the amount needed to develop a national child care program and create the number of needed affordable child care spaces. The previous federal provincial agreements amounted to an average of $1 billion per year for child care funding and even that amount was only seen as a first step.

Municipalities

Municipalities will continue to get funding from the gas-tax transfer and a renewal of the existing infrastructure program. There are no new major initiatives to fund public transportation and other priorities as asked for by the Federation of Canadian Municipalities.

Housing

Surprising was the lack of new funding for affordable housing as the last budget had contained a sizeable allocation. "We are disappointed that there is no additional funding for affordable housing in this Budget" said Nicholas Gazzard, Executive Director of the Co-operative Housing Federation of Canada.

"The budget does not commit the federal government to a continuing role in the financing of affordable housing, a role it played from the 1960s until the early 1990s. While today it is assumed that provinces and territories will play the key role in the delivery of affordable housing programs, this should not absolve the federal government from financial responsibility for housing those four million Canadians whose shelter needs are not served by the market."

While most areas of Federal spending jurisdiction were touched by the Budget, there was a notable absence of any important new spending on Aboriginal issues. Aboriginal poverty remains at record levels and much more needs to be done to focus on this issue in a rich country such as ours.

For more details, visit Finance Canada's website. The Budget in Brief is at www.budget.gc.ca/2007/overview/briefe.html and the complete document can be downloaded at www.budget.gc.ca/2007/bp/bptoce.html

The Canadian Co-operative Association is a national association for co-operatives in Canada, representing more than seven million co-operative and credit union members from over 3,000 organizations. CCA members come from many sectors of the economy, including finance, insurance, agri-food and supply, wholesale and retail, housing, health and the service sector. CCA provides leadership to promote, develop, and unite co-operatives and credit unions for the benefit of people in Canada and around the world.

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