



COMMUNIQUÉ

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2006 Budget Highlights

Priorities kept... but at what cost?

Ottawa – Federal Finance Minister Jim Flaherty presented the Conservative Government's first budget yesterday with the theme of *Focusing on Priorities*. Designed to satisfy its key constituencies and attract new voters, the 2006 Federal Budget has delivered on many of the Conservative election promises. In the process:

- tax cuts for individuals, families and businesses are prominent,
- defence spending is increased by major amounts,
- cities continue to receive promised gas tax revenues,
- the Liberal child care program is scrapped and replaced with a Universal Child Care Benefit,
- Kyoto is terminated and replaced with a much smaller unspecified program, and
- the Kelowna Agreement with funding for Aboriginals is cut.

In keeping with the Throne Speech, there is no mention of economic strategies for particular sectors, except for tax cuts. There are very few real initiatives to stimulate specific business areas and create jobs, the exception being forestry. But there is no plan to build new sectors such a renewable fuels industry, develop a value-added agricultural sector, secure the auto industry, or enhance lagging Canadian productivity through major funding for student tuitions and universities.

The Government promises to fix the fiscal imbalance with the provinces but this is put off until after discussions over the course of this year. Concrete measures are promised for next year's budget.

Tax Cuts

The budget is strong on tax relief for certain groups, delivered mainly through a myriad of tax credits and a 1% cut in the GST. Twenty-eight tax relief measures were announced. While the basic personal exemption will rise only slightly, income tax rates in the lowest bracket also rise by 0.25% this year to 15.25% and to 15.5% next year. On the whole, most families gain some income through these tax cuts although, as the Government itself points out, the gains are much higher in absolute terms for higher income families.

Most business tax cuts will not occur this year. There will be some tax cuts in January 2007 for small businesses with the threshold eligible for the reduced federal tax rate being increased from \$300,000 to \$400,000. The general small business rate cut is only effective in 2008 and goes from 12% to 11.5%. The federal capital tax is eliminated January 1 2007. General corporate tax rates are reduced to 20.5% and the corporate surtax is eliminated in 2008.

To help pay for the immediate tax relief, the Government promises to cut federal programs by \$1 billion in each of the next two years, but these are not identified. While this will have some impact, it is comparable to what the Liberals used to do. After the two year period, much more substantial cuts will be necessary to pay for the budget promises that kick in by 2008 and beyond.

Co-operatives and the Budget

There were no major announced programs in this budget that directly benefit co-operatives except for one. As a result of relentless pressure from co-operatives across the country, Budget 2006 promises to finally implement the tax deferral for patronage dividends reinvested in agricultural co-operatives. This measure was promised in the last budget but was never passed as changes to the *Income Tax Act* were scuppered in the dying days of the Liberal Government.

As for the Social Economy Initiative, there are no announced cuts to the program. This is good news for now and means that the Canadian Co-operative Association (CCA) will have to continue its campaign to ensure that this Initiative is not eliminated as part of the announced expenditure review.

International Aid

This is one election promise the Conservatives did not keep. Last year they, along with the NDP and the Bloc, promised to reach the Pearson target of 0.7% of GNI for international aid. In its election platform, the Conservative Party promised to increase international aid to the OECD average of 0.42% of GNI by 2010 and to add \$425 million to foreign aid.

What it has put in the Budget is the same amount as the previous Liberal Government, namely an 8% per annum increase. This means that Canada will once again be far from the goal that has been agreed to by most European donor countries. There was no mention of shifting the emphasis back to civil society organizations as the way to deliver funding, which would have benefited the co-operative sector's international work.

Child Care

As expected, the Conservatives will be implementing a child care payment of \$1,200 per year per child for families with children under six years of age, starting on July 1 2006. Now called the "Universal Child Care Benefit," this payment does not really help parents who have to work and require organized child care, which can cost up to \$1,000 per month. The benefit is taxable and benefits most high income families (particularly those with one parent working and one with little or no income) as it is taxed on the lowest income earner. At the same time, Budget 2006 will cancel an existing Child Tax Benefit supplement for parents with children under seven who do not use child care. Cost of the new program is \$1.6 billion in 2006-07 and \$2 billion in 2007-08.

In the meantime, the Conservatives have cancelled the national child care strategy negotiated by the last government with the provinces and worth \$1 billion a year. The new government will honour the previous agreement only for this fiscal year and the \$650 million for the creation of regulated child care spaces will be phased out by March 2007.

To support new child care spaces, the budget sets aside \$250 million for next fiscal year. The Government says it will consult with governments, businesses and community organizations on how to accomplish this using "different delivery approaches ... such as grants or tax credits." There has been a shift in thinking on the part of the Conservatives, which originally only promised tax credits of \$10,000 per space to businesses to build on-site daycare centres. With the mention of grants, there is a greater possibility that some of the Federal government funding could assist child care co-ops and other non-profit organizations. There is still the major problem of paying for the on-going costs of maintenance and salaries.

Agriculture

Due to the recent demonstrations and protests by farmers, and the strong presence of Conservative MPs from rural ridings, it was no surprise that Budget 2006 recognized the value of farmers and their role in food production and rural economies. There was an announcement of a one-time infusion of \$1 billion to assist farmers in the transition to new income stabilization and disaster relief programming and an additional \$500 million per year for "farm support." As yet undefined, this annual amount will be used to work with farmers and other partners "towards securing a more prosperous future for the agriculture sector." Budget documents mention a variety of measures such as a replacement for the CAIS program, "the enhancement of cash advance programming, new investments in biomass science and funding in support of a biofuels strategy, new programming to support the agri-food industry in developing new market opportunities" and some assistance for low-income farm families.

Just prior to the budget, the Canadian Federation of Agriculture announced that it was looking for \$2 billion a year for the next three years to transition the industry toward long-term change. The budget falls short of that. In CCA's pre-budget submission, we recommended that additional funding be provided to the Co-operatives Secretariat for agricultural co-op development, including promotion, advisory services and capital assistance. There was no mention of this measure in the budget, although there is a better opportunity with the new general funding.

Renewable Energy

We were watching for the implementation of the Conservative's election promise to require a mandatory 5% renewable fuel content in Canadian gasoline and diesel fuel by 2010. In recent months Agriculture Minister Chuck Strahl made a further commitment that farmers would benefit from an expanded ethanol and biodiesel industry in Canada. There was no announcement of the fuel standard and only minor mention of funding in support of a "biofuels strategy." CCA had urged the Government to develop a Renewable Fuels Strategy that ensures a domestic supply of renewable fuels that benefits farmers and rural communities. Through the process of developing this strategy we hope to gain support for producer and community-owned energy co-operatives.

The lack of environmental measures other than the 15.5 % tax credit for the cost of transit passes is indicative of the Conservatives cutbacks in climate change programs and the withdrawal of Canadian support for the Kyoto Accord. The budget did promise \$2 billion over five years for a "made-in-Canada climate change program" that is still being developed, but this is less than half of the \$1 billion per year that had previously been budgeted for climate change programs.

Housing

The Budget announced that most of the previously promised \$1.6 billion for housing in the last additions to the 2005 Liberal Budget will be allocated this year via trust funds to the provinces and territories as follows:.

- \$800 million will flow for affordable housing via the provinces
- \$300 million will go to off reserve aboriginal housing
- \$300 million to housing in the North

While this money is welcomed, it is last year's money and there are no new investments for this year nor is there a housing strategy for future years. The Government will also cut the \$500 million housing retrofit program for low-income households.

Aboriginal Peoples

One of the big losers in the Budget is Aboriginal peoples. While the previous Federal Government and the provinces had struck an historic agreement in Kelowna in November 2005, committing \$5.1 billion over five years to improve the quality of life of First Nations, the Conservative budget allocated only a fraction of this — \$150-million in 2006–2007, and \$300-million in 2007–2008. The Conservatives say they are committed to working with Aboriginal leaders and provinces and territories to develop a new approach to meet the targets articulated in Kelowna.

Funding for the next two years will go toward education, water and housing on reserves, as well as improving socio-economic conditions for Aboriginal women, children and families. There does not appear to be any funding for economic development as originally planned, although there is a surprise allocation of a one-time payment of \$300 million for off-reserve Aboriginal housing and another \$300 million fund for affordable housing in the three territories.

\$2.2 billion was set aside for the implementation of a recent agreement to resolve the legacy of Indian residential schools. This will involve lump sum payments for all survivors to compensate for loss of language and culture resulting from the schools, a national “truth-telling” commission to bring greater understanding and awareness of this issue, and expedited compensation payments for the elderly

Domestic Poverty

The new Universal Child Care Benefit will provide some help for poor families with children under six, but it remains taxable and may still be clawed back from families on social assistance in many parts of the country Only five provinces have so far promised not to take it back.

While the new employment credit of \$500 this year and \$1000 next year will help all workers it will be balanced by a raise in the lowest income tax rate. A children's fitness tax credit to pay for sports participation of children under 16 and even the GST tax reduction are not likely to have much effect on low income families who spend little outside of basic necessities.

One interesting point is that the November 2005 Economic and Fiscal Update proposal to introduce an earned income tax credit called the Working Income Tax Benefit (WITB) to “improve incentives to work for low-income Canadians” will be brought forward but there are no details on how or when it would begin to take effect.

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