

Deficit-reducing budget to secure economic renewal

Finance Minister Michael Wilson presented a new federal budget, February 26, aimed at controlling public debt and reducing the federal deficit significantly by the end of the decade. Reduction in government spending, elimination of tax preferences and raising finances to pay the full cost of present government programs and a share of the interest burden were the means of achieving this goal. The budget also contains a number of new programs to assist low-income families, farmers, trade, research, job creation, small business and other sectors. Following are highlights:

Today I will announce further measures to implement the economic renewal plan set out in November of 1984, measures that will restore fiscal stability by the end of the decade.

The deficit next year will be \$29.5 billion, a reduction of 14 per cent from this year. Financial requirements next year will fall to \$22.6 billion, a decline of 22 per cent from this year's level. By the end of the decade financial requirements will fall to \$11 billion.

Increases in taxation contribute to this result. But fully 70 per cent of the debt reduction will be achieved by spending cuts.

As a result of expenditure reductions, total program spending will be held to \$86.6 billion — lower than last year's spending.

Expenditure restraint

To achieve the goal of fiscal stability, the government is adopting measures to restrain government expenditures even further.

The government will continue its efforts to privatize those Crown corporations which no longer have a public policy purpose.

In government management there will be a \$500-million special reduction in non-statutory spending for the 1986-87 fiscal year, equivalent to 2 per cent of the cost of all non-statutory government programs, with the exception of foreign aid and defence. After 1986-87, operating costs in all departments will not be permitted to rise by more than 2 per cent per year. These initiatives will result in savings of \$850 million in 1986-87, rising to \$2.8 billion in 1990-91.

The government has requested Canada Post to prepare a new operating plan that will reduce its operating deficit to zero by the end of fiscal 1987-88.

The government has also re-examined its funding commitment for foreign aid in light of the tight constraints being imposed on domestic programs. Growth in Canada's aid program is accordingly being reduced by \$1.5 billion over the next five years. Over this period, foreign aid will now grow, on average, by 8.7 per cent per year.

The government is also reducing the rate of growth of defence spending by 1 per cent in each of the next two fiscal years. This will result in savings of \$285 million.



Mr. Wilson is applauded by the government during the budget presentation.

By the end of the decade, government spending on programs will fall to the same share of the economy as at the beginning of the 1960s.

Tax restructuring

The budget implements the first phase of the restructuring of the corporate income tax, based on the proposals in the May 1985 budget.

- The 3 per cent inventory allowance will be eliminated effective February 26, 1986.
- The general investment tax credit will be phased out starting next year.
- The 20 per cent investment tax credit will remain to encourage investment in Atlantic Canada and the Gaspé Peninsula.
- The Cape Breton investment tax credit will remain at 60 per cent and will be improved.
- The special investment tax credit for manufacturing investments in designated areas will be extended past its termination date at the end of this year at a reduced rate of 40 per cent.
- Corporate tax rates will be reduced over a three-year period beginning July 1, 1987 from 36 per cent to 33 per cent of taxable income.
- The tax rate for manufacturing companies

will fall from 30 to 26 per cent by 1989.

- The federal tax rate for small business will fall from 15 per cent to 13 per cent.

The budget also proposes a number of changes to corporate and personal income taxes to tighten the system and prevent erosion of the tax base. These include: the introduction of new "at-risk" rules for limited partnerships; new provisions governing salary deferral arrangements; limits on the deferral of tax through deductions for unpaid remuneration; changes to the married exemption allowed in the year of marriage; and the introduction of reporting requirements for treasury bill income.

The budget announces the following tax increases: a 3 per cent surtax on federal personal income taxes commencing July 1, 1986; a 3 per cent surtax on all corporations effective January 1, 1987; an increase of 1 percentage point in federal sales tax, effective April 1, 1986; and an increase in excise taxes and duties on alcohol and tobacco of 4 per cent and 6 per cent respectively, effective midnight, February 26, 1986.

The net effect of all tax measures will be to raise \$1.5 billion in 1986-87 and \$2.4 billion the following year.

Programs for those in need

To provide more timely assistance to low-income families and to reduce the need for tax discounting, a prepayment of \$300 per child will be paid in November 1986 to families whose income in 1985 was \$15 000 or less; a refundable sales tax credit of \$50 per adult and \$25 per child will be provided for families and individuals with incomes below \$15 000; and the disability deduction will be increased by \$250 for disabled Canadians. The government is committing up to \$100 million a year for the next three years to target training programs to social assistance recipients and help them find employment.

To preserve a viable farm sector, the government is adopting a new Farm Financial Assistance Policy that includes: increased resources to the Farm Credit Corporation to establish commodity-based mortgages; the establishment of Farm Debt Review Panels; and the creation of a Rural Transition Program to assist farmers who must seek alternative employment. The Minister of Agriculture will also be announcing measures to assist tobacco farmers to diversify crop production.

Investing in the future

The government is pursuing more open bilateral and multilateral trading arrangements. The deficit reduction plan and the proposed corporate and sales tax reforms forecast in this budget will support Canada's trade initiatives.

The government is prepared to facilitate

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