

Better finances,
better lives



Budget 2000

Overview

February 28, 2000

Canada



Introduction

Canada is now in an era of budget surpluses.

When the Government took office, it set out a plan to restore the nation's finances, build a stronger, more innovative economy and improve the quality of life for all Canadians. The plan is working.

The deficit is eliminated, the debt burden is falling, the unemployment rate is at its lowest level in more than two decades and disposable income is increasing.

With a growing economy and the nation's finances in order, this budget charts a course to greater prosperity in the 21st century.

This budget:

- announces the fourth consecutive federal enrichment of the Canada Health and Social Transfer (CHST) to help provinces and territories meet what Canadians have identified as their highest priorities: health care and higher education;
- puts forward a five-year plan to reduce taxes, immediately restores full indexation of the personal income tax system to protect taxpayers against inflation, and cuts tax rates for the first time in 12 years;
- improves significantly the income support available to parents by increasing the Canada Child Tax Benefit (CCTB) and enhancing parental leave; and
- proposes initiatives to promote leading-edge research in universities, research hospitals and the private sector; develop new environmental technologies and improved practices; and strengthen provincial and municipal infrastructure.



Maintaining Sound Financial Management

Canadians have achieved a financial turnaround of historic proportions by eliminating a \$42-billion deficit in four years.

For the first time in almost 50 years, since 1951-52, Canada has recorded back-to-back surpluses:

- \$3.5 billion in 1997-98; and
- \$2.9 billion in 1998-99.

The Government is committed to balanced budgets or better in 1999-2000, 2000-01 and 2001-02.

This would be the first time in 50 years that the budget has been in balance or surplus for five consecutive years. In fact, since Confederation there have been only two other occasions when the Government of Canada recorded balanced budgets or better at least five years in a row.

The Debt Repayment Plan and sustained economic growth will ensure that the debt-to-GDP ratio – the level of the debt in relation to the country's annual income – remains on a permanent downward track. From a post-war peak of 71.2 per cent in 1995-96, it is expected to fall to about 55 per cent by 2001-02, and should fall to below 50 per cent by 2004-05.

Total program spending in the coming year will be \$4 billion below the 1993-94 level.



Canada Health and Social Transfer

Universal health care and quality education are the highest priorities of Canadian families.

This budget increases CHST support for post-secondary education and health care by \$2.5 billion. Starting in 2000-01, CHST cash will reach \$15.5 billion, almost 25 per cent higher than in 1998-99.

The 1999 budget increased CHST funding for health care by \$11.5 billion over five years – the Government's single largest investment ever.

The increase in this budget means that total CHST transfers to provinces and territories will reach an all-time high of almost \$31 billion in 2000-01.

Tax Relief for Canadians

The Five-Year Tax Reduction Plan, which places a special emphasis on families with children, will reduce personal income taxes for all taxpayers, especially middle- and lower-income Canadians, by:

- immediately restoring full indexation for inflation of the personal income tax system effective January 1, 2000;
- reducing the middle income tax rate to 23 per cent from 26 per cent, starting with a 2-point reduction to 24 per cent in July 2000. This will cut taxes for 9 million Canadians;
- increasing the amount Canadians can earn tax-free to at least \$8,000 and the amounts at which the middle and top tax rates apply to at least \$35,000 and \$70,000 respectively; and



- eliminating, as of July 1, 2000, the 5-per-cent deficit-reduction surtax on middle-income Canadians with incomes up to about \$85,000, and completely eliminating it by 2004.

Other measures in the tax plan will help Canada to become more competitive internationally by:

- reducing corporate tax rates to 21 per cent from 28 per cent within five years for the highest taxed business sectors, such as high-technology, beginning with a drop to 27 per cent effective January 1, 2001;

- reducing the corporate tax rate to 21 per cent from 28 per cent on small business income between \$200,000 and \$300,000 effective January 1, 2001; and

- stimulating risk taking and greater access to financing through measures related to capital gains and employee stock options.

Under the most important structural changes to the federal tax system in more than a decade:

- taxes will be reduced by a cumulative amount of at least \$58 billion over five years;

- personal income taxes will be reduced on an annual basis by an average of 15 per cent by 2004-05;

- low- and middle-income Canadians will have personal income taxes reduced by an average of 18 per cent; and

- families with children will have their personal income taxes reduced by an average of 21 per cent, including enriched benefits under the CCTB.



The tax plan will provide immediate tax reductions that will grow over time.

In 2001 a typical:

- one-earner family of four with about \$32,000 of income will receive more benefits under the CCTB and the goods and services tax (GST) credit than it will pay in personal income taxes. This means that the family will pay no net tax;
- one-earner family of four with \$40,000 of income will have its net personal income taxes reduced by 17 per cent; and
- two-earner family of four with \$60,000 of income will have its net personal taxes reduced by almost 9 per cent.

By 2004 a typical:

- one-earner family of four with earnings of about \$35,000 will pay no net personal tax;
- one-earner family of four earning \$40,000 will have its net personal income taxes reduced by at least \$1,623 a year, a reduction of 48 per cent; and
- two-earner family of four with income of \$60,000 will have its net income taxes reduced by at least \$1,546 a year – a reduction of 27 per cent.



Restoring Full Indexation

Full indexation will:

- stop bracket creep – wage increases equal to inflation will no longer push income into a higher tax bracket. This increases tax fairness because the real value or purchasing power of such wages does not increase;
- stop the erosion of benefits – the real value of benefits such as the CCTB and the GST credit will automatically increase to offset inflation providing particular benefit for low-income individuals; and
- protect seniors – because, in addition to the above, it applies to the age credit, the Old Age Security reduction threshold and the GST credit, all of which will increase with inflation.

Substantial Tax Cuts for Middle-Income Canadians

Middle-income Canadians will receive substantial tax relief under the Plan.

- For the first time in 12 years, an income tax rate – specifically the middle tax rate – will be lowered.

An average family of four will pay \$600 less in income tax next year and \$900 less a year when the lower rate is fully in place.

- Canadians will be able to earn more income tax-free and more of their income will be taxed at lower rates.

Some income now taxed at the middle tax rate will be taxed at the lowest rate, while other income taxed at the top tax rate will be subject to the middle rate.



■ The Plan eliminates, as of July 1, 2000, the 5-per-cent deficit reduction surtax on middle-income Canadians with income up to about \$85,000, and completely eliminates it by 2004.

This surtax and the 3-per-cent general surtax were implemented in the 1980s to help reduce the deficit. With the deficit eliminated, the 1998 and 1999 budgets eliminated the general surtax.

Our Children, Our Future

Governments can help parents meet their children's needs by providing improved income support and services.

That is why the Government is increasing the CCTB by \$2.5 billion a year by 2004 to more than \$9 billion annually, and doubling the duration of maternity and parental leave under the Employment Insurance Program.

Raising and Extending the Canada Child Tax Benefit

The CCTB is the Government's primary means for helping families with the costs of raising children. With the enhancements proposed in the budget, about 3.8 million families, including more than 90 per cent of all children in Canada, will receive benefits.

The objective is to increase the maximum CCTB benefit to \$2,400 for a family's first child and to \$2,200 for a second child by 2004. This will be done in several steps.

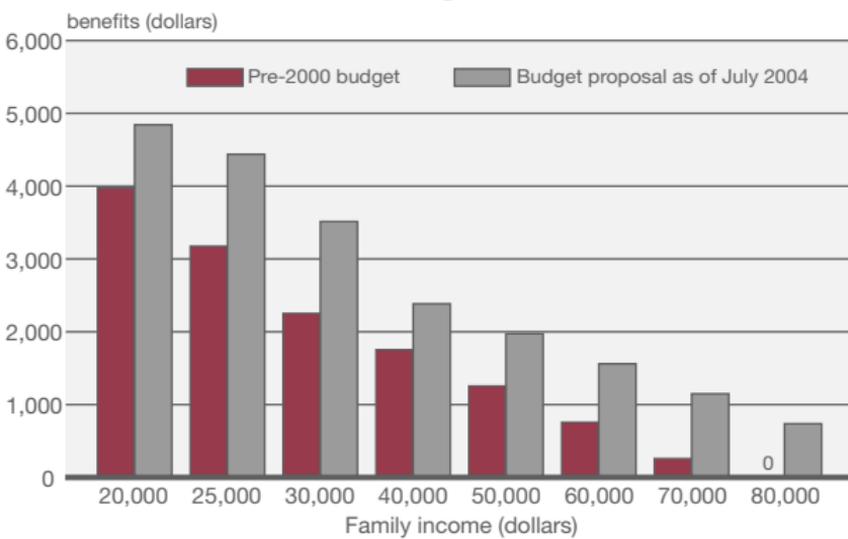


- First, so that their value is not eroded by inflation, CCTB benefits will be fully indexed to the cost of living starting January 2000.
- Second, in July 2000, the base benefit will be increased by \$70 per child. When combined with increases announced in the 1999 budget, which also take effect in July 2000, this will bring the maximum benefit for the first child to \$2,056 from \$1,805 in July 1999.
- Third, by July 2001, the CCTB supplement for lower-income families will increase by \$200 per child. This increase, combined with ongoing indexation of the entire supplement, constitutes the federal government's third major investment in the National Child Benefit System.

Benefits will also increase for middle-income families.

CCTB Benefits¹ by Income Level for a Two-Child Family

(With one child under the age of 7)



¹ Includes additional benefit available for children under 7 years of age for whom no child care expense is claimed.



Doubling Parental Leave

This budget doubles the duration of employment insurance (EI) maternity and parental leave to one year from the current maximum of six months. This extended leave will be available to parents with a child born or adopted on or after December 31, 2000.

This will be done by increasing parental leave to 35 weeks from the current maximum of 10. Combined with 15 weeks of maternity leave and the standard two-week waiting period, the amount of child-related leave will double.

To make maternity and parental leave more accessible, the budget also lowers to 600 from 700 the number of hours that must be worked to be eligible for leave.

In addition, parents will be able to work part-time while receiving benefits, in the same way as regular EI claimants.

Finally, when both parents share the leave, only one waiting period will apply rather than two, as is currently the case. As a result, parents will have greater flexibility in choosing whether one or both spend time at home with a new child.

These changes will benefit some 150,000 families a year at an estimated annual cost of \$900 million.



Children With Disabilities

This budget builds on measures in previous budgets to assist parents of children with disabilities. It proposes:

- a maximum supplement of \$500 to the Disability Tax Credit (DTC) for children with severe disabilities requiring full-time home care by a parent;
- broadened eligibility for the DTC to include persons with severe disabilities who must spend extensive time in therapy each week;
- an increase to \$10,000 from \$7,000 for the maximum annual child care expense deduction in respect of children eligible for the DTC; and
- extension of the attendant care deduction to students.

Innovation

The economies that will thrive in the modern global economy will be those that excel at innovation.

That is why this budget proposes initiatives totalling more than \$4 billion between 1999-2000 and 2002-03 to promote leading-edge research in universities, research hospitals and the private sector; promote environmental technologies and improved practices; and strengthen provincial and municipal infrastructure.



Investing in Innovation, Knowledge and Skills

This budget:

- provides \$900 million over five years to establish and sustain 2,000 Canada Research Chairs by 2004-05;
- provides a further \$900 million to the Canada Foundation for Innovation, which provides funding for leading-edge research and equipment in universities, hospitals and non-profit institutions, bringing the Government's total investment in the Foundation to \$1.9 billion;
- invests \$160 million in Genome Canada to advance the study of genes and biotechnology, especially their application to priorities like health; and
- builds on the Canadian Opportunities Strategy, introduced and expanded in the 1998 and 1999 budgets, by increasing the tax exemption for income from scholarships, fellowships and bursaries to \$3,000 from \$500.



Promoting Environmental Technologies and Practices

The Government will allocate \$700 million between 1999-2000 and 2002-03 to develop new environmental technologies and improved practices in co-operation with provinces, municipalities, the private sector and non-governmental organizations.

The budget proposals include support for a renewed Climate Change Action Fund, a Sustainable Development Technology Fund, the new Canadian Foundation for Climate and Atmospheric Sciences, new municipality-based initiatives for clean air and water, a National Strategy on Species at Risk and the Great Lakes Action Plan.

Strengthening Provincial and Municipal Infrastructure

The federal government will work with other orders of government and the private sector to reach an agreement by the end of 2000 on a multi-year plan to improve provincial and municipal infrastructure in cities and rural communities across Canada.

To that end, the federal government is allocating \$450 million over the next two years and \$550 million a year for the next four years thereafter.



How Can I Get More Information on Budget 2000?

Information is available on the Internet at
<http://www.fin.gc.ca/>

You can also obtain copies of this brochure
or other budget documents from the

Department of Finance Canada
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