

Strong Leadership. A Better Canada.

Economic Statement

October 30, 2007

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Minister of Finance



Department of Finance
Canada

Ministère des Finances
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Check Against Delivery

Mr. Speaker, I rise today to present the Government's Economic Statement to the House. I am pleased to report that unemployment is low, business investment is steady and consumer spending is strong.

With these fundamentals right:

- The GST will come down again;
- Personal income taxes will come down again; and
- Business taxes will come down again. In fact, our Government will put business taxes on a five-year downward track to ensure continued economic growth in the face of growing international competition and uncertainty.

As a result of the steps I am announcing today:

- The purchasing power of consumers will go up;
- The take-home pay for all Canadians will go up; and
- Canadian businesses, from neighbourhood coffee shops to large corporations, will have more freedom to create jobs and make further investments in their businesses.

Since coming to office 21 months ago, our Government has taken action that will reduce the overall tax burden for Canadians and businesses by about \$190 billion, bringing taxes to their lowest level in nearly 50 years.

We haven't seen taxes this low since Lester B. Pearson was Prime Minister.

This is an achievement we can all be proud of. Our Government is putting Canadians first. We are keeping our promises and managing the economy in an effective and responsible way.

Mr. Speaker, it is my privilege to table in this place today the Government's Economic Statement and a Notice of Ways and Means Motion.



Economic and Fiscal Prospects

Mr. Speaker, despite some challenges, I am happy to report to the House that Canada's economy is en route to posting another strong year.

By any measure, our economic and fiscal fundamentals are as solid as the Canadian Shield:

- We are experiencing the second longest period of economic expansion in Canadian history;
- Our budget is not only balanced, it is more than balanced, allowing us to pay down record amounts of debt;
- Business investment is expanding for the 12th consecutive year;
- Our unemployment rate is the lowest in 33 years, with more Canadians working than ever before. Since this Government took office, employment has increased by more than 590,000, with employment up in every province;
- Canada is an emerging energy superpower with the second largest petroleum reserves on the planet next to Saudi Arabia;
- Canada is one of the few countries in the world with sound public pension plans; and
- We're on the best fiscal footing of any country in the G7. In fact, we are the only member of the G7 with both ongoing budget surpluses and a falling debt burden.

Although Canada is on a solid financial footing, we are mindful of the challenges that confront us, global pressures and domestic challenges that vary from region to region and sector to sector.

The people who work on our shop floors and our assembly lines, the people who work in our forests and in our mills are struggling. The manufacturing and forestry sectors are bearing the brunt of a strong Canadian dollar. They are facing increased competition from emerging economies. This is a difficult situation.

We are seeing unprecedented growth in some parts of the country. That is driving up the cost of living and leading to a shortage of skilled workers. For many families in many regions, the dream of someday owning a home is quickly evaporating as escalating prices move beyond the capacity of family budgets. This also is a difficult situation.



From a global perspective, we are living in a world of increasing uncertainty and economic turbulence.

We are seeing countries around the world trying to cope with the ongoing credit market turbulence in an attempt to maintain well-functioning capital markets and mitigate the impact on their economies.

We are seeing weakness in some export markets.

We are seeing increasing economic competition from abroad, especially from emerging economies like China, Brazil and India.

We are seeing a significant decline in the U.S housing market and the negative economic effects that can have.

And we are seeing a rapid appreciation in the Canadian dollar.

Mr. Speaker, it's important in these challenging economic times to keep making the right decisions on economic issues. We can't afford to be wrong. Poor decisions and weak leadership could unravel our progress and prosperity far more quickly than many would like to believe.

While these challenges are significant, our Government is prepared to meet them head-on.

Through steady economic stewardship, thoughtful policy choices and the hard work of ordinary Canadians, we have created a climate for strong economic growth. Our economic fundamentals are solid. Today, we can move forward with confidence.

The Notice of Ways and Means Motion I have tabled outlines a plan that will lay the groundwork to address the challenges ahead. A plan to provide tax relief for all Canadians. A plan that will encourage further growth and create more and better jobs for the future.

Tax Relief for All Canadians

Our Government is establishing a proud legacy of tax relief.

We have provided relief in every way the Government collects taxes—personal taxes, consumption taxes, business taxes and excise taxes. As a Conservative minority Government, we have made tremendous strides in a short period of time, but we have much further to go.



Today, we are building on this legacy by providing an additional \$60 billion in broad-based tax relief over this and the next five years for individuals, families and businesses.

At the heart of this effort is an additional 1-percentage-point reduction in the GST, moving it from 6 per cent to 5 per cent effective January 1, 2008. This is a permanent tax cut for all Canadians. Whether purchasing a coffee or a car, a computer or a new home, all Canadians will benefit.

I am giving notice to the provinces with a Harmonized Sales Tax that the federal component will be reduced effective January 1, 2008.

Reducing the GST from 6 per cent to 5 per cent builds on the initial GST cut introduced in Budget 2006. For consumers, the total savings from the 2-percentage-point reduction will amount to approximately \$12 billion next year.

Individual savings will be significant:

- A family purchasing a new \$300,000 home in Barrie will save \$3,840 in GST.
- A family spending \$10,000 on home renovations in Charlottetown will save \$200 in GST.
- A family spending \$30,000 on a new minivan in Burnaby will save \$600 in GST.

Although our Government will have reduced the GST by 2 percentage points, we have decided to maintain the GST credit at its current level. For low-income Canadians this is significant. It translates into more than \$1.1 billion in benefits, each and every year.

There is also good news for those purchasing a new home. The Statement proposes to retain the existing GST/HST rebate rate for new housing, ensuring that new home purchasers benefit from the GST reduction. Maintaining the rebate rate translates into \$290 million in tax relief for Canadians buying new homes.

There are also benefits for our universities, hospitals, schools and charities. The Statement proposes to retain existing public sector rebates at current levels. This means \$165 million for these groups to invest in additional services and priorities.



By reducing the GST, our Government has fulfilled a key campaign commitment and kept its word to Canadians.

Personal Income Tax Reductions

Mr. Speaker, we are also taking steps to reduce personal income taxes.

This motion proposes an increase in the basic personal amount to \$9,600 retroactive to January 1, 2007. The basic personal amount will be increased to \$10,100 on January 1, 2009. This is the total amount all Canadians can earn without paying federal income tax. This proposal will provide Canadians with an additional \$2.5 billion in tax relief in 2007 and 2008.

In addition, our Government will also move the lowest personal income tax rate to 15 per cent from 15.5 per cent retroactive to January 1, 2007. It is a proposal that provides Canadians with \$8.4 billion in tax relief over this and the next five years.

Personal income taxes will come down even further as a result of our Tax Back Guarantee. This fiscal year, we plan to make an additional debt reduction of \$10 billion, for a total of more than \$37 billion in debt relief since coming to office.

We are dedicating all interest savings from the shrinking federal debt to further reduce personal income taxes. With the additional debt reduction in this Statement, the total value of tax relief provided under the Tax Back Guarantee will rise to \$2.5 billion by 2012–13. It will also help make possible the personal income tax reductions being proposed today.

Together, these income tax cuts will deliver relief on spring income tax returns. These tax cuts will move some 385,000 people off the income tax rolls altogether.

Competitiveness Package

Mr. Speaker, all Canadians deserve a tax cut and all Canadians will get one. Our economy is the strongest it has been in a generation. The time has come to provide further support for our innovators, entrepreneurs and business leaders. This will help stimulate further economic growth and create even more jobs.



We are putting business taxes on a five-year track downward. We are ushering in a new era of declining business taxation in Canada. It will be a steady, predictable decline that businesses can count on and can plan on.

The motion being presented today proposes to cut the corporate income tax rate much deeper and much faster than ever contemplated before. Our Government will make an immediate 1-percentage-point reduction in 2008 in addition to those we have already legislated. This will be followed by ongoing reductions that will bring the tax rate down to 15 per cent by 2012, from more than 22 per cent today.

This is a substantial shot of adrenalin for all Canadian businesses. These tax measures provide the right incentives for the future.

With these reductions, Canada's general federal corporate income tax rate will fall by one-third between 2007 and 2012, and Canada's corporate tax rate will become the lowest among the major industrialized economies.

These reductions will also enable Canada to achieve its goal of having the lowest overall tax rate on new business investment among the major industrialized countries by 2011. This will give businesses in Canada a substantial tax advantage over competitors in the United States—to be precise, a statutory tax rate advantage of 12.3 percentage points and an overall tax advantage on new business investment of 9.1 percentage points in 2012.

But if we are going to keep pace with the competition, we will need the cooperation of the provinces to get our combined corporate tax rates in Canada down to 25 per cent.

Our Government is moving to 15 per cent. If the provinces move as well, a 25 per cent combined rate will be a powerful brand for Canada globally.

Our Government is also paying attention to small business. We are proposing to accelerate the small business income tax rate reduction to 11 per cent by 2008, one year earlier than scheduled.

The \$60-billion tax relief package announced today brings the federal tax burden to its lowest level in nearly a half a century. And our Government is committed to further tax reductions. Why? Because we want to create more jobs, encourage further investment, and ease the tax burden on individuals, families and businesses.



Good economic management by this Government has made us all strong today. We are leveraging this position of strength to lock in gains for tomorrow.

Conclusion

Mr. Speaker, let me conclude with a few final thoughts.

A strong, growing economy is not only about numbers. At its heart, it is about people, the places they live, and the dreams they hope to fulfill.

There is nothing this country can't do if we put our minds and energy behind it. There is nothing Canadians can't do when we mobilize and focus our creativity and talent.

Like the North Star, we are a bright light for others to follow. Canada has emerged as a shining example in an economic universe of rapid change and uncertainty.

We are leading the way with our tax cuts, our debt reduction and our focused and responsible spending.

Our fundamentals are strong and we are well positioned to weather any sudden economic storms. But we must continue to look ahead and keep moving forward.

Now is not the time to risk Canada's future with uncertain schemes and irresponsible leadership. We must be mindful of the challenges ahead of us and resist the temptation to become complacent.

It is time to press ahead and build on our achievements. This way, we will make our strong economy even stronger and ensure a brilliant future for all Canadians.

Mr. Speaker, that is the purpose of this Statement today.