At a Glance

2013 Federal Budget

Fiscal Framework

Finance Minister Jim Flaherty's eighth budget reinforces the government's intent to balance the books by mid-decade (2015-16). In light of the risk-filled environment and modest economic growth, spending restraint remains the key focus for balancing the accounts. The latest forecast projects annual program spending growth of roughly 1.5% per year through to fiscal 2015-16.

Given the lingering economic uncertainties, the government has incorporated additional prudence into the budget plan. The Canadian Chamber praises this cautious approach as it will provide the government with greater flexibility to handle unanticipated adverse events.

Canada's relatively favourable fiscal position still sets it aside from most other major industrialized economies and provides a strategic advantage for long term growth, but it is in no position to be complacent.

Advancing the Competitiveness Agenda: What Did the Budget Deliver?

The budget's main areas of focus—skills, infrastructure and trade—are potent stimulants for higher and sustained growth. The budget also includes additional measures that align well with the Canadian Chamber's 10-point national plan to regain Canada's competitive edge in the global economy. One area of disappointment is in stimulating *Scientific Research and Experimental Development* (SR&ED). Last year Ottawa cut $770 million from the *SR&ED Investment Tax Credit* program. We urged the government to have a dialogue with the leading research corporations in Canada to make sure there is replacement model in place to meet their needs.

Skills shortages
We at the Canadian Chamber, and across our network, have been tremendously successful in drawing attention to the human resource challenge confronting our members and Canada as a whole. Many Canadian businesses are looking to hire, but are not finding the right matches in terms of employees. This suggests that we need policies geared towards helping workers acquire better skills and ensuring the skills acquired match the needs of employers.

The government is moving forward with a three-point plan to address challenges in connecting Canadians with available jobs:

- Creating the *Canada Job Grant* to ensure Canadians are getting the skills employers are seeking.
- Creating opportunities for apprentices.
- Helping underrepresented groups—the disabled, youth, Aboriginal peoples and recent immigrants—to find good jobs.

Presently, the federal government provides $500 million annually to the provinces and territories under the *Labour Market Agreements* to assist Canadians who are low-skilled or not eligible for Employment Insurance (EI) benefits. The agreements are set to expire in March 2014. An additional $1.95 billion is transferred from the *EI Operating Account* each year to provinces and territories under the *Labour Market Development Agreement*s to provide training to EI-eligible individuals.

The government announced in the budget that it will renegotiate the *Labour Market Agreements* with the provinces and territories to ensure that skills training funds are being used to help Canadians obtain the qualifications they need to get jobs in high-demand fields. It will consult with stakeholder groups including employer associations, educational institutions and labour organizations. The government will also renegotiate *Labour Market Development Agreements* with provinces and territories, along similar lines.

The centerpiece of the *Labour Market Agreements* will be the *Canada Job Grant*. The grant will account for $300 million of total $500 million in annual funding on full implementation in 2017–18. $200 million per year in funding will continue to be transferred to the provinces and territories to support delivery of critical employment services, like counselling and job search assistance, as well as administration.

The grant will require matching funds from employers as well as provinces and territories. Businesses with a plan to train Canadians for an existing job or a better job will be eligible to apply for the grant. The grant will provide access to a maximum $5,000 federal contribution per person towards training at eligible training institutions (community colleges, career colleges and trade union centres). In total, the grant could provide $15,000 or more per person, including matching provincial/territorial and employer contributions.

The second pillar of the government's three-point plan relates to apprenticeship training. The government will work with the provinces and territories to harmonize requirements for apprentices and to examine the use of practical tests as a method of assessment in targeted skilled trades. Additionally, the government is introducing measures to support the use of apprentices in federal construction and maintenance contracts. It will also ensure that funds transferred to provinces and territories through the Investment in Affordable Housing supports the use of apprentices. Finally, the government will encourage provinces, territories and municipalities to support the use of apprentices in infrastructure projects receiving federal funding.

The third pillar of the government's three-point plan is aimed at fostering greater labour market participation by underrepresented groups—persons with disabilities, youth, Aboriginal peoples and recent immigrants. The government will negotiate new *Labour Market Agreements* for Persons with Disabilities by 2014 with an investment of $222 million per year to better meet the needs of Canadian businesses and improve prospects for the disabled. Stronger accountability regimes will be put in place.

The *Opportunities Fund for Persons with Disabilities* will be reformed to provide more demand-driven training solutions for persons with disabilities and to make it more responsive to labour market needs. Employers and community organizations will be involved in project design and delivery.

The budget proposes measures that target youth at different stages of their educational and early labour market careers. $19 million over two years will go towards informing young people about fields of study that are relevant to existing and forecasted demand for labour in particular occupations. The government will also renew the *Pathways to Education Canada* program which focuses on communities with high unemployment rates and low levels of educational attainment. Additionally, the budget proposes to support 5,000 more paid internships for recent post-secondary graduates with an investment of $70 million over three years.

To help people in the North benefit from local employment, the budget proposes to provide capital support, subject to matching funding from the Yukon government and the private sector, to allow for additional trades and technical facilities at the Yukon College's Centre for Northern Innovation in Mining.

The budget proposes $241 million over five years to help First Nations youth access the skills and training they need to secure employment. The new *First Nations Job Fund*, totalling $109 million over five years, will fund the provision of personalized job training to these recipients, and their Income Assistance benefits will depend on participation in training. The government will continue to consult with First Nations across Canada on the development of *First Nation Education Act* and is committing to sharing draft legislation with First Nations communities for their input. This legislation would establish the structures and standards necessary to ensure stronger, more accountable education systems on reserve. The government is also committed to exploring mechanisms to ensure stable, predictable and sustainable funding for First Nations elementary and secondary education.

The government will continue to implement reforms to Canada's immigration system to make it faster, more flexible and focused on Canada's labour market needs. In the coming year, it will reopen the *Federal Skilled Worker Program* with an updated points system that gives more weight to factors that are directly related to economic success—like language proficiency and youth. In addition, the government will launch the new Start-Up Visa—the the first of its kind in the world—to attract innovative immigrant entrepreneurs to launch their companies in Canada to help create new jobs and spur economic growth.

The budget confirms the government's intention to create an *Expression of Interest* immigration management system. Canadian employers, provinces and territories will be able to select skilled immigrants from a pool of applicants that best meet Canada's economic needs.

The government will work with provinces and territories and stakeholders to support improvements to foreign credential recognition processes and address the demand for skilled workers in Canada in additional occupations.

In the coming months the government will announce details regarding *Canada's Temporary Foreign Worker Program*. It noted that it will work with employers to ensure that all efforts are made to hire Canadian workers before temporary foreign workers are considered. The government will also propose to introduce user fees for employers applying for temporary foreign workers through the labour market opinion process so these costs are not absorbed by taxpayers.

Barriers to world markets for Canadian energy products

The government noted that Canada continues to suffer from limited access to global markets, particularly for our energy exports. This has resulted in lower prices for Canadian exports of crude oil and natural gas than those prevailing outside North America, which is having a significant negative impact on economic activity and government revenues. It stated that gaining access to global energy markets represents a significant opportunity for Canada going forward.

Inadequate workforce productivity

The government stressed that continued investment by businesses in innovation and in advanced machinery and equipment and skilled labour is crucial to their long-term success and critical to Canada's long-term prosperity.

Since 2009, the federal government has eliminated all tariffs on imported machinery and equipment (M&E), and manufacturing inputs to make Canada a tariff-free zone for industrial manufacturers, the first among the G-20 to do so. These actions are providing more than $410 million in annual tariff relief to Canadian businesses.

Inadequate public infrastructure planning

The budget delivers a new *Building Canada* plan to build roads, bridges, subways, commuter rail and other public infrastructure in cooperation with provinces, territories and municipalities. The plan provides approximately $53.5 billion in new and existing funding for provincial, territorial and municipal infrastructure—an average of $5.35 billion per year from 2014–15 to 2023–24. There will be a five-year review, by the end of 2018–19, to ensure that objectives are being met.

$32.2 billion consists of an indexed *Gas Tax Fund* and the incremental *GST Rebate for Municipalities*; $14 billion in a *New Building Canada Fund* in support of major economic infrastructure projects; and $1.25 billion in support of public-private partnerships to build infrastructure projects faster and provide better value for Canadian taxpayers.

Over the next 10 years, the government will also make significant investments in First Nations infrastructure ($155 million over 10 years) and in federal infrastructure assets ($10 billion over five years). It is actively exploring the public-private partnerships potential of its two major bridge projects—the new bridge for the St. Lawrence and the Windsor-Detroit International Crossing.

Tax complexity and structure

The budget goes further in attacking some perceived tax loopholes, addressing aggressive tax planning, clarifying tax rules, and addressing international tax evasion and aggressive tax avoidance.

The temporary accelerated capital cost allowance for new investment in machinery and equipment in the manufacturing and processing sector has been extended for an additional two years at a cost of $1.4 billion.

The government will invest $225 million to expand and extend the temporary *Hiring Credit for Small Business* for one year. This credit provides up to $1,000 against a small business employer's increase in its 2013 Employment Insurance (EI) premiums over those paid in 2012.

The budget provides $110 million over five years to increase support for small business owners, farmers and fishermen by increasing the *Lifetime Capital Gains Exemption* to $800,000 and indexing the new limit to inflation. It will help these entrepreneurs to better ensure their financial security for retirement and will facilitate the intergenerational transfer of their businesses.

To support junior mineral exploration the 15% *Mineral Exploration Tax Credit* for flow-through share investors is extended for an additional year at a net cost of $100 million.

The budget proposes to phase out the accelerated capital cost allowance for capital assets used in new mines and major mine expansions and to reduce the rate at which pre-production mine development expenses may be deducted for tax purposes.

The budget proposes $76 million of tariff relief on baby clothing and sports and athletic equipment. The Canadian Chamber considers this a first step in reducing and eventually eliminating tariffs on imported consumer products as they hurt the Canadian economy by raising prices and encouraging Canadian consumers to shop across the border.

The federal government along with provincial and territorial governments explored whether new rules for the taxation of corporate groups could improve the functioning of the corporate tax system. The government has determined that moving to a formal system of corporate group taxation is not a priority at this time.

Poor innovation performance

The budget provides $121 million over two years to the National Research Council to help the growth of innovative businesses in Canada. Further details will be announced in the coming year.

$20 million over three years is provided to help small and medium-sized enterprises access research and business development services at universities, colleges and other non-profit research institutions of their choice through a new pilot program to be delivered through NRC-IRAP.

Deficient strategies for trade success in new markets

Details of the refreshed *Global Commerce Strategy*, including the important *International Education Strategy* component will be announced in the coming months. The Canadian Chamber is encouraged by this as it will increase export opportunities for Canada's education providers, help attract global talent and boost Canada's profile in new markets.

The budget announces a number of economic and security initiatives to enhance perimeter security and facilitate legitimate trade and travel under the Canada-United States *Beyond the Border Action Plan*. Of note, the government will implement a single window for companies to submit electronically all the data required by government departments for arriving shipments, thereby reducing red tape, delays and business costs.

The budget delivers measures to promote Canada's foreign trade zone (FTZ) advantage, including: Eliminating the annual registration fee for the *Customs Bonded Warehouse Program*; simplifying the application process; accepting applications for new FTZ—single window initiatives to deliver FTZ programs at strategic locations in Canada; and providing funding to market Canada's FTZ advantage.

Internal barriers to trade

The government is committed to improving the regulation of Canada's capital markets through a common securities regulator established cooperatively with provinces and territories. It would be prepared to delegate the administration of its own securities legislation to a common securities regulator if a critical mass of provinces and territories were willing to do the same.

Uncompetitive travel and tourism strategies
The government announced that it will develop an *Interactive Advance Passenger Information System* to make "board/no board" decisions on all travellers flying to Canada prior to departure.

Lack of access to capital
In last year's budget the government provided $400 million to help increase private sector investments in early-stage risk capital. Over the summer and fall the government conducted extensive consultations with key stakeholders to determine how to structure this support to best contribute to the creation of a sustainable, private sector-led venture capital sector in Canada.

The 2013 budget provides $60 million over five years to help outstanding and high-potential incubator and accelerator organizations in Canada expand their services to entrepreneurs, and makes available a further $100 million through the Business Development Bank of Canada to invest in firms graduating from business accelerators.

The federal *Labour-Sponsored Venture Capital Corporations* (LSVCC) tax credit will be phased out by 2017. It has been criticized as being an ineffective means of stimulating a healthy venture capital sector.

The Canadian Chamber has urged the government to provide greater clarity with respect to Canada's foreign direct investment review process. The government announced in December 2012 clarifications regarding how it will assess proposed investments in Canada by foreign state-owned enterprises and the extension of timelines for national security reviews, where necessary. The budget proposes to amend the *Investment Canada Act* to implement these reforms.

In Conclusion

We urge the government to press forward with the further measures we have proposed to secure Canada's economic future. For more information on the Canadian Chamber's Top 10 barriers challenging the competitiveness of Canada's businesses and how we can connect to solve them, please visit our website.

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