

# 2019 Federal Budget Analysis

The federal budget, tabled on March 19, 2019, includes several commitments in non-tax areas of interest to CPA Canada. Among them are:

- A new skills training incentive, the Canada Training Benefit, to help Canadian workers cover the cost of training and take EI-funded leaves from work to attend training.
- Funding and proposed legislative changes to strengthen Canada’s anti-money laundering regime.
- A package of measures to encourage the adoption of zero-emission vehicles.

Here is how Budget 2019 measures up from CPA Canada’s perspective:

<b>TAXATION: A WORLD-CLASS TAX SYSTEM</b>	
<b>CPA CANADA RECOMMENDATIONS</b>	<b>2019 FEDERAL BUDGET</b>
<ul style="list-style-type: none"> <li>➤ Commit to a comprehensive review of Canada’s tax system, building on the recommendations advanced by the Advisory Council on Economic Growth.</li> </ul>	<ul style="list-style-type: none"> <li>• No tax review was announced.</li> </ul> <p>Key proposed tax measures in the Budget 2019 include:</p> <ul style="list-style-type: none"> <li>• Introducing the Canada Training Credit – a refundable personal tax credit of \$250 per year that can be accumulated to provide financial support to help cover up to half of eligible tuition and fees associated with training (see “<i>Innovative Skills for Work</i>” section below)</li> <li>• Limiting the use of the current employee stock option tax regime to start ups and growth companies and for other companies, to the first \$200,000 of underlying share value annually for options granted to an employee</li> <li>• Changes to the Home Buyers’ Plan (HBP), such as increasing the HBP withdrawal limit to \$35,000 from \$25,000</li> <li>• Unreduced access to the enhanced refundable SR&amp;ED credit for small and medium sized businesses with taxable</li> </ul>

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	<p>capital of up to \$10 million, regardless of their taxable income</p> <p>An additional \$150.8 million over five years was announced to further combat tax evasion and aggressive tax avoidance and \$65.8 million over five years to improve CRA's information technology systems.</p> <p><i>Further details on specific tax measures announced in the budget can be found in <b><u>CPA Canada's 2019 Federal Budget Tax Highlights.</u></b></i></p>
<p>➤ As the government assesses the potential impacts of U.S. tax reforms, consider the following measures so that Canada maintains its competitive tax advantage:</p> <ul style="list-style-type: none"> <li>• Review personal and corporate income tax rates to ensure that Canada is attracting and retaining top talent and business investment, driving job creation and overall economic growth.</li> <li>• Determine if a deduction for capital expenditures or accelerated capital cost allowance deductions would be beneficial for investments in capital property – to offset any negative effects of the new business incentives adopted in the U.S.</li> </ul>	<p>Budget 2019 confirms the government's intention to proceed with the following previously announced tax measures from the <i>Fall Economic Statement</i> (November 21, 2018) – which include:</p> <ul style="list-style-type: none"> <li>• Allowing the full cost of machinery and equipment used in the manufacturing and processing of goods to be written off immediately for tax purposes.</li> <li>• Introducing the Accelerated Investment Incentive to support investment by businesses of all sizes and across all sectors of the economy.</li> <li>• Allowing specified clean energy equipment to be eligible for an immediate write-off of the full cost.</li> </ul>
<p><b>Comments:</b></p> <p>While there were tax measures in the budget, there was little in the form of new measures aimed specifically at helping Canada and Canadian businesses remain competitive.</p> <p>Moreover, no tax review was announced. A comprehensive tax review presents the best opportunity to chart a new path that will create a world-class tax system that generates jobs, attracts talent and investment, and fosters inclusive growth for the benefit of all Canadians.</p>	

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Budget 2019 missed a key opportunity to commit to a tax review to improve Canada’s tax system. CPA Canada urges the government and the other parties to make a full-scale tax system review a key pledge in their campaign platforms for the upcoming federal election.

## INNOVATIVE SKILLS FOR WORK

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<ul style="list-style-type: none"> <li>➤ Revisit, amend and better promote the financial incentives available to Canadians and employers for upskilling and re-skilling.</li> <li>➤ To balance the public cost of the incentives, adopt a co-funding approach as proposed by the <i>Advisory Council on Economic Growth</i>.</li> <li>➤ Improve access to existing supports by revisiting the Canada Jobs Grants in concert with provincial/territorial governments, building on the pilot project offering Canada Student Grants to adult learners and better promoting the incentives for upskilling.</li> </ul>	<p>The major skills training announcement is the creation of a new Canada Training Benefit for working Canadians, investing more than \$1.7 billion over five years and \$586.5 million per year afterward:</p> <ul style="list-style-type: none"> <li>• The Canada Training Benefit has two elements: (1) a refundable Canada Training Credit of \$250 per year, up to a lifetime limit of \$5,000, to cover half the costs of training at eligible training institutions, and only available for workers with annual incomes under \$150,000; and (2) an Employment Insurance (EI) Training Support Benefit to pay 55% of a person’s weekly earnings to provide up to four weeks of income support while on leave, every four years.</li> <li>• To mitigate the impact of higher EI premiums to pay for this new leave benefit, there will be an EI Small Business Premium Rebate.</li> <li>• The government will consult with workers, employers, educational institutions and training providers, as well as provinces and territories, to finalize the design of the EI leave benefit.</li> </ul> <p>Other skills-related measures include:</p> <ul style="list-style-type: none"> <li>• Funding to improve access by Indigenous students to post-secondary education.</li> <li>• More support for digital skills.</li> <li>• The development of a new International Education Strategy received funding.</li> <li>• Work-integrated learning opportunities for post-secondary students received additional funding.</li> </ul>

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- The Global Talent Stream is now a permanent program to help recruit highly skilled professionals from abroad.
- Increased support for apprenticeship promotion and a promise to develop a new Apprenticeship Strategy.

**Comments:**

The Canada Training Credit is a welcome financial incentive to help workers cover the cost of the training they choose. In order to be effective, government needs to ensure quality control of the eligible training and accountability by means of measurable outcomes. Based on the low uptake of certain social or income benefits by low-income individuals, government should take steps to ensure awareness of the new credit to that segment of Canadians.

To be fair to employers, the government should consider a suitable notice period for an employee to inform an employer of a request for leave for training.

Of note in the Budget document, the government has forecast no proposed increases in EI premiums paid by employers or employees between 2020-21 and 2023-24 to address the cost of this new benefit. However, a premium rebate for small business suggests the possibility of higher EI premiums in the future.

## HOUSING AFFORDABILITY

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<ul style="list-style-type: none"> <li>➤ Encourage measures aimed at providing support to home buyers to improve housing affordability. However, we recommend that the federal government focus on measures that address supply constraints in Canada’s major metropolitan centres.</li> <li>➤ Recommend that the federal government avoids measures designed to put further upward pressure on home prices, such as those designed to increase leverage or lower credit quality standards, including extending amortization periods or eliminating the mortgage income stress test.</li> </ul>	<p>There were several major announcements aimed at helping first-time homebuyers:</p> <ul style="list-style-type: none"> <li>• These include a first-time home buyers incentive. Available to those with household incomes below \$120,000, the incentive would see the Canada Mortgage and Housing Corporation offering qualified first-time homebuyers a 10 per cent shared equity mortgage without interest for a newly constructed home or a five per cent shared equity mortgage for an existing home.</li> <li>• The government also announced an expansion of the Home Buyer’s Plan allowing homebuyers to take up to \$35,000 from their RRSP to finance a down payment, up from \$25,000.</li> </ul>

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- Several measures were introduced attempting to address supply concerns, including \$300 million for a new Housing Supply Challenge which essentially crowdsources new, innovative ways of expanding housing supply in markets across Canada and the announcement of a new expert panel on the future of housing supply and affordability – a coordinated measure with the BC government to address housing supply in the province.

**Comments:**

The two measures aimed at addressing housing supply issues are welcome, but also telling about the challenge that addressing supply poses. We would encourage that the expert panel announced in cooperation with the BC government be extended to all provinces in order to get on-the-ground experience on each jurisdiction’s specific issues. The fact that the government dedicated \$300 million to a crowdsourcing effort recognizes the importance of on-the-ground insight.

On the demand side of the equation, the new measures announced raise concerns about whether they will be successful in actually improving access to housing among first-time buyers. In a supply-constrained housing market, particularly in Canada’s major metropolitan centres, providing the ability for a segment of the population to leverage up further simply raises the risk of additional upward pressure on home prices due to those particular segments of the market being already saturated.

## SUSTAINABLE ECONOMIC GROWTH

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<ul style="list-style-type: none"> <li>➤ Remain committed to the strategy outlined in the Pan-Canadian Framework on Clean Growth and Climate Change.</li> <li>➤ Develop a national adaptation plan to coordinate the climate change adaptation efforts of all levels of government and the private sector.</li> <li>➤ Develop a comprehensive Canadian action plan outlining the partnerships, policy, regulation and standards needed for sustainable finance in Canada.</li> </ul>	<ul style="list-style-type: none"> <li>• To promote the adoption of zero-emission vehicles (electric or hybrid):               <ul style="list-style-type: none"> <li>○ Investments to expand the network of zero-emission vehicle charging stations</li> <li>○ Transport Canada to work with automakers to secure voluntary zero-emission vehicle sales targets</li> <li>○ A new federal purchase incentive of up to \$5,000 for the purchase of a zero-emission vehicle</li> <li>○ Funding to attract and support investments in zero-emission vehicle</li> </ul> </li> </ul>

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- Full tax write-off for the purchase of zero-emission vehicles by businesses.
- Investment of \$1.01 billion toward energy efficiency in residential, commercial and multi-unit buildings.
- The Department of Finance to publish details, draft amendments and invitation to comment on refinements to the federal carbon pollution pricing system.
- Funding to establish a web-based Canadian Centre for Energy Information to compile energy data and improve information to Canadians.

### Comments:

Budget 2019 contains interesting new language in support of sustainable finance. It states: “The Government supports the TCFD’s (Task Force on Climate-related Financial Disclosures) voluntary international disclosure standards and a phased approach to adopting them by major Canadian companies, as appropriate. By supporting these standards, the Government aims to raise firms’ awareness of the importance of tracking, managing and disclosing material climate-related risks and opportunities in a consistent and comparable way.”

The Government will also encourage adoption of the TCFD standards by federal Crown corporations, where appropriate – an initiative supported by participants at a CPA Canada roundtable in December. CPA Canada welcomes these statements and looks forward to the release this spring of the recommendations of the Expert Panel on Sustainable Finance.

The budget measures to promote adoption of zero-emission vehicles are well-designed and include investments in infrastructure, incentives to encourage manufacturing, and tax incentives for the transition of business fleets. Subsidies to consumers can be controversial and expensive, but the federal proposal is limited to three years and applies only to vehicles with a manufacturer’s suggested retail price of under \$45,000. More details of the program are to come.

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## INNOVATION AND BUSINESS GROWTH

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<ul style="list-style-type: none"> <li>➤ Commit to further improving Canada’s regulatory competitiveness and efficiency.</li> <li>➤ Consider broadening the scope of the Red Tape Reduction Act to include regulatory requirements.</li> <li>➤ Measures should be considered to improve stakeholder input and the confidence of the business community in the regulatory process.</li> <li>➤ Demonstrate federal leadership in addressing duplicative or overlapping regulatory requirements between different jurisdictions.</li> </ul>	<p><i>The Fall Economic Statement contained several new steps to address regulatory reform, including:</i></p> <ul style="list-style-type: none"> <li>• <i>Making regulatory efficiency and economic growth a permanent part of regulators’ mandates</i></li> <li>• <i>Introducing an Annual Modernization Bill</i></li> <li>• <i>Establishing an External Advisory Committee on regulatory competitiveness.</i></li> </ul> <p>Budget 2019 highlights include:</p> <ul style="list-style-type: none"> <li>• Elimination of the income threshold for accessing the enhanced SR&amp;ED credit (see CPA Canada Tax Highlights for details).</li> <li>• Introduction of the first three “Regulatory Roadmaps” including funding and related legislative and regulatory changes.</li> <li>• Renewed commitment to regulatory cooperation and harmonization between jurisdictions.</li> <li>• Commitment to universal high-speed internet for every Canadian.</li> <li>• Futurpreneur Canada program to receive \$38 million over five years. It should support the work of approximately 1,000 young entrepreneurs each year.</li> <li>• Measures to act on regulatory reform commitments made in Fall Economic Statement.</li> </ul>

**Comments:**

With substantive announcements in the Fall Economic Statement to address the regulatory burden, it was not anticipated that Budget 2019 would have major announcements in this area. However, the theme of regulatory competitiveness continues. Particularly welcome is the renewed commitment to working through a number of regulatory cooperation bodies to harmonize regulations both within Canada and with our major trading partners.

The first three Regulatory Roadmaps will address specific stakeholder issues and irritants in the agri-food and aquaculture, health and bio-sciences, and transportation and infrastructure sectors. They aim to result in a more user-friendly regulatory system with greater freedom for

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innovation and experimentation and greater cooperation across government jurisdictions. Details will be released in the coming weeks and will be worth noting.

## RESPONSIBLE FISCAL MANAGEMENT

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<p>➤ Address Canada’s persistent deficit situation by establishing a target date for a return to balanced budgets over the medium term.</p>	<p>Budget 2019 projects deficits until at least 2023-24:</p> <p>2018-19: -\$14.9B            2019-20: -\$19.8B            2020-21: -\$19.7B            2021-22: -\$14.8B            2022-23: -\$12.1B            2023-24: -\$9.8B</p>

### Comments:

The current federal government promised temporary and modest deficits, but persistent deficits prevail and will continue to exist into the foreseeable future, according to the government’s latest budget projections.

While the Canadian economy has been operating at full capacity, there are signs that the pace of economic growth has been slowing down, with significant global risks on the horizon - including US-China trade tensions, Brexit negotiations and continued weakness in global oil prices. If an economic downturn were to occur, the government has little fiscal room to address it, given Canada’s current deficit and debt situation.

The government’s continued commitment to reduce Canada’s debt-to-GDP ratio may be somewhat encouraging, but this target is merely one of many fiscal anchors required for prudent and responsible fiscal management.

Despite an economic windfall that allowed the government to narrow the deficit more than they had anticipated, the government continues to project deficits through its forecast. Canada needs a plan for fiscal stability - one that establishes a target date for a return to balanced budgets over the medium term and will provide the government guidance in its financial planning.



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## ANTI-MONEY LAUNDERING

CPA CANADA RECOMMENDATIONS	2019 FEDERAL BUDGET
<p>➤ Strengthen Canada’s anti-money laundering regime, better promote compliance and optimize enforcement.</p>	<ul style="list-style-type: none"> <li>• Proposed legislative amendments to the <i>Criminal Code</i>, the <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)</i> and the <i>Seized Property Management Act</i>, which are intended to strengthen the legal framework.</li> <li>• The government will further amend the <i>Canada Business Corporations Act</i> to make the beneficial ownership information “more readily available” to tax authorities and law enforcement.</li> <li>• Creation and funding for a pilot project called the Anti-Money Laundering Action Co-ordination and Enforcement Team, bringing together federal agencies, and a new Trade Fraud and Trade-based Money Laundering Centre of Expertise.</li> <li>• Increased funds to the Royal Canadian Mounted Police and to FINTRAC for operational capacity.</li> <li>• Related to its AML efforts, the government is working to deter financial crime in real estate with a focus on British Columbia – including through the newly announced joint working group with the Province of B.C. to address tax fraud and money laundering in the province.</li> </ul>

**Comments:**

New plans, projects and funding to strengthen Canada’s anti-money laundering regime are welcome, subject to a detailed understanding of how they will address the current inadequacies in the federal legal framework and enforcement system and the implications for accountants in their key roles in the efforts to counter money laundering.

The announcement of these proposed legislative measures in the Budget document gives the government the authority to introduce such changes, including in a forthcoming budget implementation act.

With respect to further changes to the CBCA regarding beneficial ownership information, the intent is to enable tax authorities and law enforcement to proactively request such information.