

Delivering Year 2 of Canada's Economic Action Plan

\$19 Billion in New Stimulus in 2010-11





Highlights

Budget 2010 will deliver Year 2 of Canada's Economic Action Plan, with \$19 billion in new federal stimulus in 2010–11, by:

- ✓ Providing \$3.2 billion in personal income tax relief to support growth and job creation.
- ✓ Delivering \$1.6 billion to strengthen benefits for the unemployed.
- ✓ Providing \$1 billion to enhance training opportunities for all Canadian workers.
- ✓ Freezing the Employment Insurance premium rate at \$1.73 per \$100 of insurable earnings to the end of 2010—the lowest rate since 1982—in order to leave more money in the hands of employers and employees.
- ✓ Providing \$7.7 billion in new stimulus to modernize infrastructure, support home ownership, and improve social housing across Canada.
- ✓ Investing almost \$1.9 billion in post-secondary education infrastructure, research, technology innovation and environmental protection.
- ✓ Providing \$2.2 billion in stimulus spending to support adjustment and secure job opportunities in regions, communities and industries that have been most affected by the economic downturn.
- ✓ Introducing new measures to strengthen Canada's financial sector, allowing businesses to continue growing and creating jobs.



Canada's Economic Action Plan is a two-year \$62-billion plan to protect and create jobs in response to the deepest global recession since the Second World War. Chapter 5 describes the full Action Plan and reports on the Government's progress in its implementation. This section briefly reviews the main elements of the Action Plan that will be in effect for 2010–11.

In the first year of the Action Plan (2009–10), a significant amount of stimulus has been provided to support the economy and Canadians. The Government is ready to begin delivering Year 2 of the Economic Action Plan. The Action Plan will continue to maintain and create jobs, and help Canadian workers and families manage through still difficult economic conditions. Year 2 delivers \$19 billion in new federal stimulus spending, with an additional \$6 billion in stimulus from provinces, territories, municipalities and other partners. Even before the start of the fiscal year, 92 per cent of Year 2 funding is committed and ready to be delivered. This includes:

- \$3.2 billion in personal income tax relief.
- More than \$4 billion in actions to create and protect jobs and help the unemployed.
- \$7.7 billion to modernize infrastructure and improve housing across Canada.
- \$1.9 billion to create the economy of tomorrow.
- \$2.2 billion to support industries and communities.

Actions under the Economic Action Plan that come into effect in 2010–11 are described below.



Reducing the Tax Burden for Canadians

Tax reductions in the Economic Action Plan are an essential part of the Government's effort to stimulate the economy and to create and maintain jobs. The Economic Action Plan will deliver \$3.2 billion in personal income tax relief in 2010–11. This includes allowing Canadians to earn more income before paying federal income tax and before being subject to higher tax rates. It includes the enhanced Working Income Tax Benefit, which reduces the welfare wall by making work pay better for many low-income Canadians. Eligible beneficiaries will begin to receive enhanced benefits upon filing their 2009 tax returns. Tax measures for 2010–11 also include higher child benefits for parents and lower taxes for low- and middle-income seniors.

Tax measures in 2010–11 will continue to support the housing market. First-time home ownership is being encouraged through the First-Time Home Buyers' Tax Credit and additional access to Registered Retirement Savings Plan savings to purchase or build a home.

Millions of Canadian families took advantage of the Home Renovation Tax Credit before its expiry on January 31, 2010, and will be able to claim the credit when they file their 2009 income tax returns.

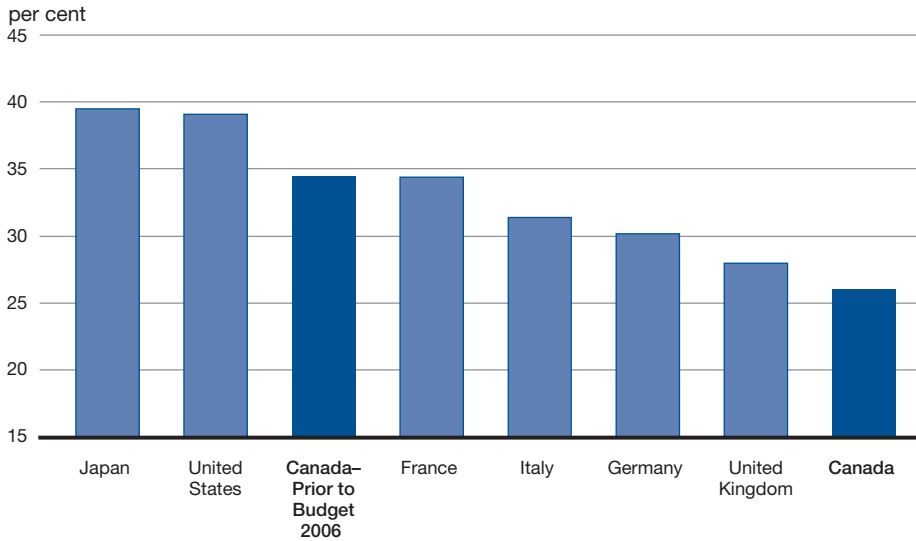
Tax relief will also continue to benefit Canadian businesses in the coming year. The measures included in Canada's Economic Action Plan, as well as actions taken by this Government since 2006, are positioning Canadian businesses to emerge stronger and better equipped to compete globally as the economy recovers.

The Government is lowering the federal general corporate income tax rate from 22.12 per cent (including the corporate surtax) in 2007 to 15 per cent in 2012. Canada's business tax advantage is being strengthened as the Government of Canada, provinces and territories progress toward the goal of a 25-per-cent combined federal-provincial corporate income tax rate. These broad-based corporate income tax reductions foster investment and help build a strong foundation for job creation and higher rates of productivity growth. As a result of these actions, Canada will have the lowest corporate income tax rate in the G7 in 2012.



Canada will have the lowest corporate income tax rate in the G7 in 2012

Chart 3.1.1
Corporate Income Tax Rates in 2012¹



¹ Includes national and sub-national corporate income tax rates.

Sources: Organisation for Economic Co-operation and Development; Department of Finance.

These lower tax rates help us and companies like us keep more capital at work and achieve our priority in reinvesting in the business for future growth in our company.

— Tim Hortons Chief Financial Officer Cynthia Devine
“Canada Regains Tims Bragging Rights,”
Edmonton Journal, September 23, 2009



Tax Achievements Since 2006

The Government has reduced taxes on individuals, families and businesses by an estimated \$220 billion over 2008–09 and the following five fiscal years. The Government's tax reduction efforts began in 2006—well before the introduction of Canada's Economic Action Plan.

Individuals and families at all income levels are benefiting from tax relief, with proportionately greater savings for those with lower incomes. For example:

- All Canadians—even those who do not earn enough to pay personal income tax—are benefiting from the 2-percentage-point reduction in the Goods and Services Tax (GST) rate. Maintaining the GST credit level while reducing the GST rate by 2 percentage points translates into more than \$1.1 billion in GST Credit benefits annually for low- and modest-income Canadians.
- All taxpayers are benefiting from personal income tax relief, which includes reducing the lowest personal income tax rate to 15 per cent from 16 per cent and increasing the basic amount that Canadians can earn without paying federal income tax.
- The Working Income Tax Benefit (WITB) introduced in Budget 2007 and enhanced in the Economic Action Plan will provide \$1.1 billion annually in benefits for low-income working Canadians. The WITB, in combination with other tax relief introduced by this Government, has substantially improved work incentives and the financial circumstances of many low-income Canadians.
- The Tax-Free Savings Account (TFSA) is improving incentives to save through a flexible, registered general-purpose account that allows Canadians to earn tax-free investment income while saving for their individual needs such as for a car, a home or retirement. The TFSA is the single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP).

The Government has also introduced measures targeted to help families, students, seniors and pensioners, workers, persons with disabilities and communities. Examples of such measures include:

- A Child Tax Credit in recognition of the expenses associated with raising children.
- Exempting from tax primary, secondary and post-secondary scholarship, bursary and fellowship income in support of academic studies.
- The introduction of pension income splitting, the doubling of the Pension Income Credit and two \$1,000 increases to the Age Credit amount, which provide substantial tax savings to seniors and pensioners.
- The Canada Employment Credit, which recognizes work-related expenditures such as home computers, uniforms and supplies.



Tax Achievements Since 2006 (*cont'd*)

- The Registered Disability Savings Plan (RDSP), which helps ensure the financial security and well-being of children with severe disabilities.
- The Children's Fitness Tax Credit, which promotes physical fitness among children.
- A tax credit for public transit passes.

This Government's previous tax achievements also include actions to make Canada's business tax system more competitive, which is essential to encouraging new investment, growth and job creation in Canada.

Examples include:

- Substantial, broad-based tax reductions that will reduce the federal general corporate income tax rate from 22.12 per cent (including the corporate surtax) in 2007 to 15 per cent in 2012.
- An increase in the amount of small business income eligible for the reduced federal income tax rate to \$500,000 effective January 2009, following an earlier increase to \$400,000 from \$300,000—as well as a reduction of the federal income tax rate applying to qualifying small business income to 11 per cent effective January 2008.
- The alignment of capital cost allowance (CCA) rates for a number of assets, including non-residential buildings, computers, railway locomotives, carbon dioxide pipelines, natural gas distribution pipelines, and liquefied natural gas facilities, to better reflect their useful life—this both reduces the tax burden on investment and ensures neutral tax treatment of different capital assets, encouraging investment to flow to its most productive uses.
- The elimination in 2006 of the federal capital tax, a particularly damaging tax for business investment. In 2007, a temporary financial incentive was introduced to encourage provinces to eliminate their general capital taxes and to eliminate or replace their capital taxes on financial institutions with a minimum tax. All provincial general capital taxes will be eliminated by 2012.
- An enhancement of the financial support for small and medium-sized research and development performers, which was announced in 2008. The expenditure limit for the enhanced refundable Scientific Research and Experimental Development Investment Tax Credit was increased to \$3 million and extended to medium-sized companies by phasing out access to this benefit over increased taxable capital and income ranges.



Actions to Create and Protect Jobs and Help the Unemployed

While the unemployment rate has stabilized and there are signs that the economy is improving, too many Canadians are still unemployed. In 2010–11, Canada's Economic Action Plan will provide more than \$4 billion in additional benefits, training opportunities and Employment Insurance (EI) premium relief to help unemployed Canadians through this difficult period, and help ensure that they are equipped to re-enter the workforce and prosper in the future.

The Government is providing \$1.6 billion in 2010–11 to strengthen benefits for the unemployed. This support includes providing up to an extra five weeks of EI regular benefits for all EI-eligible claimants, providing greater access to EI regular benefits for long-tenured workers, and extending the duration and the scope of the work-sharing program.

The Government is providing almost \$1.0 billion in 2010–11 to enhance training opportunities for all Canadian workers. This includes additional support to the provinces and territories to expand training and skills development. It also includes helping youth to gain work experience and necessary skills and offering more opportunities to Aboriginal Canadians.

The Government is maintaining the freeze of the EI premium rate at \$1.73 per \$100 of insurable earnings to the end of 2010—the lowest rate since 1982 (Chart 3.1.2). In Budget 2009, this action was estimated to leave more than \$1.6 billion in the hands of employers and employees in 2010–11.

When the temporary freeze of EI premiums is lifted in 2011, premium rates will be set by an independent arms's length Crown corporation, the Canada Employment Insurance Financing Board (CEIFB). Under the EI financing regime announced in Budget 2008, the CEIFB will set EI premium rates in order to balance the EI program over time, subject to a 15-cent limit on annual changes. Consistent with the Government's commitment in Budget 2009, the CEIFB will not be mandated to recover any EI deficits resulting from the benefit and training enhancements announced in Budget 2009.

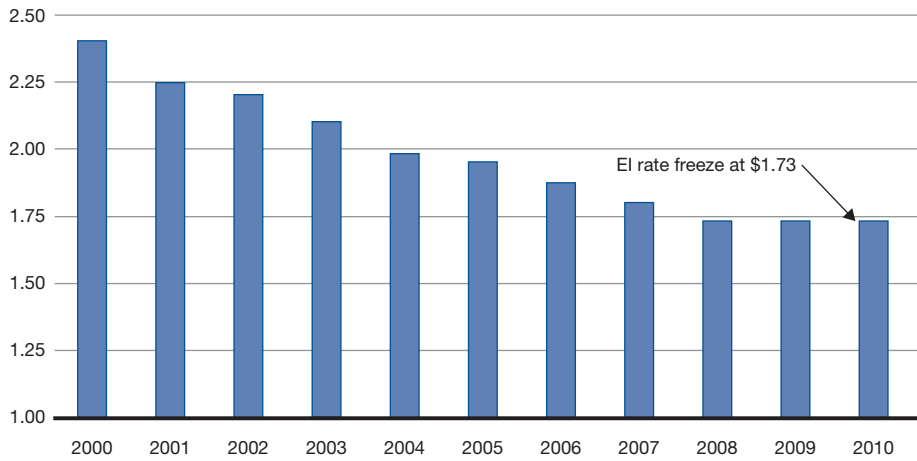


Freeze in EI premium rate leaves money in the hands of employers and employees in 2010–11

Chart 3.1.2

Employment Insurance Premium Rates

\$ per \$100





Actions to Create and Protect Jobs

Canada's Economic Action Plan is a \$62-billion stimulus plan aimed at creating and maintaining 220,000 jobs by the end of 2010. The Action Plan is on track to meet its objective, with 130,000 jobs created or maintained to date.

Canada's Economic Action Plan also targets \$7.0 billion over two years in direct support to those workers most affected by the recession, providing them with additional benefits and expanded access to training and skills development.

Strengthening Benefits—\$2.7 Billion

- Up to an extra five weeks of Employment Insurance benefits—\$1.15 billion
- Enhanced work-sharing—\$200 million
- Extended benefits for long-tenured workers—\$1.3 billion
- Wage earner protection—\$50 million

Enhancing Availability of Training—\$1.9 Billion

- Enhanced Employment Insurance training programs—\$1 billion
- Strategic Training and Transition Fund—\$500 million
- Youth employment—\$55 million
- Targeted Initiative for Older Workers—\$40 million
- Apprenticeship Completion Grant—\$80 million
- Foreign credential recognition—\$50 million
- Aboriginal Skills and Employment Partnerships—\$80 million
- Aboriginal Skills and Training Strategic Investment Fund—\$75 million
- Aboriginal Human Resources Development Strategy—\$25 million

Employment Insurance Premium Rates—\$2.4 Billion

- Freezing Employment Insurance premium rates at \$1.73 per \$100 of insurable earnings for 2010



Building Infrastructure to Create Jobs

During 2010–11, communities, businesses and individuals from across Canada will continue to see the benefits of infrastructure investments under Canada’s Economic Action Plan. The Action Plan will provide \$7.7 billion in stimulus in 2010–11 to modernize infrastructure, support home ownership, stimulate the housing sector and improve social housing across Canada. This builds on the \$8.3 billion in infrastructure and housing stimulus delivered in 2009–10.

In 2010–11, the Economic Action Plan will invest more than \$4 billion in provincial, territorial and municipal infrastructure, \$285 million in First Nations community infrastructure and \$780 million in priority federal projects. These investments will create jobs and ensure that Canada emerges from the economic downturn with a more modern and greener infrastructure.

In addition, the Economic Action Plan will provide over \$2 billion in 2010–11 to renew Canada’s social housing stock. This funding provides significant support for provinces, territories and municipalities to renovate their social housing, including housing for low-income seniors and persons with disabilities. The Action Plan also invests in First Nations and northern housing.



Infrastructure investments will continue to create jobs over the coming year

In 2009–10 and 2010–11, the Government will deliver the following infrastructure programs as part of the Economic Action Plan:

Immediate Action to Build Infrastructure—\$8.2 Billion

- Infrastructure Stimulus Fund—\$4.0 billion
- Accelerating payments under the Provincial/Territorial Base Funding Initiative—\$441 million
- Bonus for Community Projects under the Building Canada Fund—\$500 million
- Green Infrastructure Fund—\$400 million
- Recreational Infrastructure Canada—\$500 million
- First Nations infrastructure—\$515 million
- Federal infrastructure projects—\$1.8 billion

Stimulating Housing Construction—\$7.8 Billion

- Support for home ownership and the housing sector—\$3.8 billion
- Investments in social housing for Canadians—\$4.1 billion

These Action Plan initiatives and their progress are described in Chapter 5.

Creating the Economy of Tomorrow

In designing Canada's Economic Action Plan, the Government incorporated measures to help create the economy of tomorrow. In 2010–11, the Action Plan will invest almost \$1.9 billion in post-secondary education, infrastructure, research, technology innovation, and environmental protection. This builds on 2009–10 investments of over \$2.1 billion to support these strategic investments.

In 2010–11, the Government will provide \$1 billion to support deferred maintenance, repair and construction at Canada's colleges and universities. This investment will help keep Canadian research and educational facilities at the forefront of scientific advancement and will help to ensure that high-paid jobs are maintained and created in Canada.

Funding to create the economy of tomorrow will also extend access to broadband Internet in remote communities, develop carbon capture and storage technology, and fund other strategic investments in science, technology and research.



Supporting Industries and Communities

Canada's Economic Action Plan is providing \$2.2 billion in stimulus spending in 2010–11 to support adjustment and secure job opportunities in regions, communities and industries that have been hard hit by the economic downturn.

In 2010–11, the Government will provide \$1.3 billion in support to affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture. These investments will help to maintain and create jobs across the country.

Building on tariff measures implemented in the Economic Action Plan, in this budget the Government is eliminating all remaining tariffs on manufacturing inputs and machinery and equipment. This historic step will position Canada as the first among its G20 partners to establish itself as a tariff-free zone for manufacturers. Full details regarding tariff reductions can be found in Chapter 3.3.

In addition, over \$900 million will be invested in communities that have been particularly hard hit by the economic downturn. This includes \$500 million through the Community Adjustment Fund, which is designed to help communities with fewer than 250,000 people deal with industrial restructuring by investing in new economic opportunities.

Strengthening Canada's Financial Sector

The Extraordinary Financing Framework (EFF) introduced as part of Canada's Economic Action Plan helped to ensure that credit continued to be available in Canada throughout the financial crisis, allowing businesses to continue to grow and create jobs. Financing conditions in Canada have improved markedly since the EFF was introduced. Accordingly, certain initiatives under the EFF, including the Insured Mortgage Purchase Program and the Canadian Secured Credit Facility, will end as planned as of March 31, 2010. Others, such as the Business Credit Availability Program, will remain in place to support the growth in business credit that will be needed during the economic recovery.

Budget 2010 builds on the strengths of Canada's financial sector, further bolstering Canada's advantage in global capital markets. New measures will support Canada's strong and competitive financial sector, help businesses access the financing they need to support the recovery, and protect Canadian financial consumers.



Table 3.1.1

**Year 2 of Canada's Economic Action Plan—\$19 Billion
in New Stimulus in 2010–11**

	Year 1	Year 2	
	2009–10 Stimulus	2010–11 Stimulus	Total Action Plan
	(millions of dollars—cash basis)		
Reducing the Tax Burden for Canadians			
Personal income tax relief for all taxpayers	1,885	1,950	3,835
Increases to the National Child Benefit supplement and the Canada Child Tax Benefit	230	310	540
Enhancing the Working Income Tax Benefit	580	580	1,160
Targeted relief for seniors	325	340	665
Total—Reducing the Tax Burden for Canadians	3,020	3,180	6,200
Actions to Create and Protect Jobs and Help the Unemployed			
Strengthening benefits for Canadian workers	1,115	1,550	2,665
Enhancing the availability of training	919	986	1,905
Maintaining low EI premium rates	818	1,631	2,449
Total—Actions to Create and Protect Jobs and Help the Unemployed	2,852	4,167	7,019
Building Infrastructure to Create Jobs			
Investments in provincial, territorial and municipal infrastructure	1,710	4,156	5,866
Investments in First Nations infrastructure	230	285	515
Investments in federal infrastructure projects	1,007	780	1,786
Support for home ownership and the housing sector	3,340	425	3,765
Investments in social housing for Canadians	2,025	2,050	4,075
Total—Building Infrastructure to Create Jobs	8,312	7,696	16,007



Table 3.1.1 (cont'd)

Year 2 of Canada's Economic Action Plan—\$19 Billion in New Stimulus in 2010–11

	Year 1	Year 2	Total Action Plan
	2009–10 Stimulus	2010–11 Stimulus	
(millions of dollars—cash basis)			
Creating the Economy of Tomorrow			
Action to invest in post-secondary education and research	1,089	1,155	2,244
Investing in science and technology	1,049	725	1,774
Total—Creating the Economy of Tomorrow	2,139	1,880	4,018
Supporting Industries and Communities			
Support for industries	1,171	1,296	2,467
Support for communities	879	935	1,813
International partnerships to support the auto sector	9,718	0	9,718
Total—Supporting Industries and Communities	11,768	2,231	13,998
Economic Action Plan stimulus	28,090	19,152	47,242
Assumed provincial and territorial actions	8,441	5,978	14,419
Total Economic Action Plan stimulus (with leverage)	36,531	25,131	61,661

Note: Totals may not add due to rounding.