Canada evaluating impact of lower U.S. corporate tax

By Fergal Smith
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The Canadian government is evaluating what impact lower U.S. corporate taxes could have on competitiveness north of the border, the finance minister said on Friday, though he gave no details on what Canada might do in response.

Finance Minister Bill Morneau met with a group of private sector economists earlier in the day to discuss the Canadian outlook ahead of the release of the federal government's budget later this month.

Morneau said they discussed the need to carefully consider some of the challenges facing Canada, such as the renegotiation of the North American Free Trade Agreement (NAFTA) and changes to the U.S. tax rate.

"With respect to risks like changing tax rates, we need to do it right, so we are doing our analysis to understand the impact of any changes," Morneau told reporters, adding that he considered Canada's tax rate to be competitive.

U.S. President Donald Trump late last year signed a massive tax overhaul into law, cutting the U.S. corporate rate to 21 percent from 35 percent.

The Bank of Canada last month warned the tax changes may prompt firms to redirect spending from Canada to the United States.

The Canadian federal government charges a 15 percent corporate tax, with provincial taxes giving a combined rate of about 27 percent in some of Canada's major provinces.

The Liberal government will release its budget on Feb. 27, its third since coming into power in 2015 on the promise of running deficits in order to spend on the economy.

The budget is not expected to contain much in the way of major new spending, although the government may have some leeway given the economy's strong performance in 2017.

Asked whether the budget will forecast when Ottawa will return to balance, Morneau said the government will continue to focus on reducing its debt compared to gross domestic product.

Long-term fiscal projections released by the Finance Department in December anticipated Canada would run a surplus by 2045.