Liberals channel higher revenues into tax breaks for business in fall fiscal update

By Bill Curry
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Billions in new federal revenue from stronger economic growth will go almost entirely toward tax breaks for businesses as Bill Morneau unveiled Ottawa's effort to keep Canada competitive with the United States.

The Finance Minister said new tax breaks for business are needed now to address the real concern that tax cuts enacted this year under President Donald Trump risk shifting profits and investment south of the border.

In releasing his fall economic statement Wednesday, Mr. Morneau told the House of Commons that while his Conservative critics want him to shrink the deficit, the Liberal government decided that responding to the U.S. tax cuts is a more pressing concern.

"We could have ignored the concerns of business leaders… and we would have had a lower deficit as a result," said Mr. Morneau. "To do so would be neither a rational response, nor a responsible one."

The U.S. plan cut corporate and personal tax rates and allowed businesses to expense the cost of new investments in machinery and equipment immediately rather than over the life of the asset. In response, Mr. Morneau's update leaves corporate and personal tax rates unchanged but announces similar tax breaks to the U.S. in terms of investments in capital costs.

The new tax breaks for business are projected to reduce federal revenues by $14.4-billion over more than five years.

Wednesday's fall economic statement reports that since the February budget, the federal government's bottom line was on track to improve by $4.6-billion this year and $5.3-billion next year, primarily due to stronger economic growth. However rather than using that new revenue to reduce the deficit, the update announces new spending and tax breaks that exceed those amounts and produce a revised bottom line that is slightly deeper in the red over the coming years.

The latest forecast now estimates this fiscal year's deficit at $18.1-billion and $19.6-billion the year after, before declining to $11.4-billion in 2023-24.

The update, titled "Investing in Middle Class Jobs," has new measures that include pro-business efforts to reduce regulations and expand international trade.

It also includes a package worth $595-million over five years to support Canada's news sector. Those measures including allowing non-profit journalism organizations to issue charitable donation receipts, a refundable tax credit for newsroom labour costs and a non-refundable tax credit for subscriptions to Canadian digital news media. Ottawa will also spend $14.6-million over five years toward the creation of a Francophone digital platform for French culture.

A large part of the update attempts to make the case – in the run up to the 2019 election – that Liberal government policies adopted since 2015 deserve credit for Canada's stronger economic performance.

"Our plan to grow the economy is working, because people are working," Mr. Morneau said.

The finance minister's upbeat assessment of the Canadian economy is in sharp contrast to this week's economic headlines, which include steep losses on financial markets and strong concern in Canada's energy sector over record low oil prices for Canadian crude.

Mr. Morneau's speech briefly referenced the "very low" crude oil market prices as a challenge facing the economy. He told reporters Wednesday that the new tax breaks on investment will also benefit the oil and gas sector.

The update includes Finance Canada's long-promised assessment of how the changes affect Canada's competitiveness.

"The U.S. federal tax reform has significantly reduced the overall tax advantage that Canada had built over the years, posing important challenges that, if left unaddressed, could have significant impacts on investment, jobs and the economic prospects of middle class Canadians," the government states in the update.

It also suggests that the full package of U.S. tax cuts are not sustainable, pointing to estimates that they will add $1.5-trillion to the U.S. deficit over the next decade.

By focusing tax breaks on new investment, the update states that Canada's marginal effective tax rate – which combines several factors – will decline from 17 per cent to 13.8 per cent and will be lower than the rate in the U.S. and all other G7 nations.

A September report by the accounting firm PwC for the Business Council of Canada warned that the U.S. tax cuts pose a major risk to the Canadian economy and could put hundreds of thousands of jobs in peril.

However, Parliamentary Budget Officer Yves Giroux has challenged the "catastrophic" claims from business groups by pointing to the fact that foreign direct investment in Canada remained steady over the first half of 2018.