INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Summary of 2010 Key Budget Points for IIAC Members

The federal Budget charts a prudent course to support recovery of the Canadian economy and bring public finances back into balance. The government has set out a realistic plan to reduce the $54 billion deficit to near fiscal balance in five years.

The summary below focuses on portions of the Budget that may be of interest to IIAC members.

Proposed tax relief for Canadian business:

- The government has not expedited its plans to lower federal general corporate income tax rate. The government will maintain its previously announced schedule of lowering the federal general corporate income tax rate from 22.12% (including the corporate surtax) in 2007 to 16.5% on January 1, 2011 and to 15% on January 1, 2012.

Strengthening the financial sector

- The government will move forward with provinces and territories to establish a Canadian securities regulator within the next three years. Key next steps include:
  - Release of the draft Canadian securities bill in spring 2010
  - Referral of the draft securities bill to the Supreme Court of Canada for its opinion as to whether Parliament has the constitutional authority to enact and implement a federal securities regulatory regime
  - Delivery by summer 2010 of an organizational and administrative transaction plan by the Canadian Securities Transition Office
  - Ongoing work on the rules and regulations that will complement the Canadian securities act.

- The government is continuing the Business Credit Availability Program (BCAP) and the creation of the Vehicle and Equipment Financing Partnership under BCAP. However, certain initiatives under the Extraordinary Financing Framework (EFF), including the **Insured Mortgage Purchase Program (IMPP)** and the **Canadian Secured Credit Facility**, will end as planned as of March 31, 2010.

- The government will create, under the BCAP program, the **Vehicle and Equipment Financing Partnership**. This initiative will be funded and managed by BDC, with an initial allocation of $500 million in funding, in partnership with experienced lenders and investors in the private market for asset-based financing. The partnership will expand financing options for small and medium-sized finance and leasing companies, increasing the availability of credit at market rates for dealers and users of vehicles and equipment.

- The government will help federally regulated financial institutions diversify their funding sources by introducing legislation setting out a framework for covered bonds. **Covered bonds** are debt instruments that are secured by high quality assets, such as residential mortgages. The legislation will increase legal certainty for investors in these debt instruments, thereby making it easier for Canadian financial institutions to access this low-cost source of funding

Promoting economic growth and encourage investment:

- The government intends to launch a new Small and Medium-sized Enterprise **Innovation Commercialization Program** with $40 million over two years.

- The government will make Canada into a "tariff-free zone" for industrial manufacturers by eliminating all remaining tariffs on machinery and equipment and goods imported for further manufacturing. The majority of these tariffs will be eliminated March 5, 2010, with the remainder being gradually eliminated by no later than January 1, 2015.

- The government will establish a new **"Red Tape Reduction Commission"**, involving both Parliamentarians and private sector representatives to review federal regulations in areas where reform is most needed to reduce the compliance burden, especially on small businesses.

- The government will narrow the definition of taxable Canadian property under Section 116 of the *Income Tax Act*, eliminating the need for tax reporting under that section for many investments, and thereby improving the ability of Canadian businesses, including innovative high-growth companies that contribute to job creation and economic growth, to attract foreign venture capital.

- The government is creating a new private sector Advisory Committee on Small Business and Entrepreneurship, which will report to the Government through the Minister of State (Small Business and Tourism) and provide advice on how to further improve business access to federal programs and information.

Improving Registered Disability Savings Plans:

- The government will improve Registered Disability Savings Plans (RDSPs) to allow for flexibility for contributions.

- In recognition of the fact that families of children with disabilities may not be able to contribute regularly to their plans, Budget 2010 proposes to allow a 10-year carry forward of **Canada Disability Savings Grants** (CDSG) and **Canadian Disability Savings Bonds** (CDSB) entitlements. The carry forward will be available starting in 2011.

- To give parents and grandparents more flexibility in providing for a disabled child's long-term financial security, Budget 2010 proposes to allow a deceased individual's RRSP or RRIF proceeds to be transferred, on a tax-free basis, to the RDSP of a financially dependent infirm child or grandchild.

Strengthening the Canadian retirement income system:

- The government will undertake consultations with the public on the government-supported retirement income system, including the main issues in saving for retirement and approaches to ensuring the ongoing strength of the system. This process will be launched in March 2010.

Recent Canadian economic developments:

- The economic recovery in Canada strengthened over the second half of 2009, with real GDP increasing 0.9% in the third quarter and 5.0% in the fourth quarter.
- Over the course of the recession, the level of real GDP declined by 3.6%, however, the decline in Canadian real GDP was virtually the smallest of all G7 countries.
- Growth in real consumer spending on goods and services averaged more than 3.5% over the second half of 2009.
- Residential investment has also rebounded strongly, supported by the Home Renovation Tax Credit, increasing 9.5% in the third quarter and 29.7% in the fourth quarter, following double-digit declines at the onset of the recession.

A "three-point plan" for returning to budget balance without raising taxes:

- The government will follow the exit strategy in the Economic Action Plan, winding down temporary measures. However, over the next fiscal year the government will commit to $19 billion in new federal stimulus spending, which will be complemented by $6 billion from provinces, territories, municipalities and other partners.
- The government will reduce spending through targeted measures that will achieve $17.6 billion in savings over five years.
- The government will undertake a comprehensive "review" of government administration and overhead costs to identify additional savings.

Through these efforts, the government has estimated that the federal deficit ($58.3 billion in 2009-2010) will decline rapidly over the next five years:

- 2011-2012: decline by one-half to $27.6 billion
- 2012-2013: decline by two-thirds to $17.5 billion
- 2014-2015: decline to $1.8 billion

Please refer to the Federal Budget for additional details:

http://www.budget.gc.ca/2010/index.html