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# fACT sheet

## 2012 Federal Budget Analysis

edmonton SOCIAL PLANNING COUNCIL

## Introduction

This Fact Sheet highlights spending measures outlined in the 2012 federal budget that will impact Edmontonians with low and modest incomes. This is the first budget under the majority Conservative government. While it focuses on spending for the fiscal year that runs from April 1, 2012 to March 31, 2013, it also contains spending and revenue projections for the four years that follow. The federal government plans to achieve a surplus budget by 2015-16. The Conservatives will achieve this goal in part by imposing budget cuts totaling $5.2 billion over three years.

## Retirement Security

As expected, Budget 2012 contains the widely-publicized increase in the eligibility age for Old Age Security (OAS) from age 65 to age 67. Budget observers were surprised to find that this age increase is also being applied to the Guaranteed Income Supplement (GIS) for low income seniors. The GIS change will have a more negative impact on the incomes of seniors than the OAS change alone, driving many more of these individuals below the poverty line. The government is giving itself plenty of political wiggle room since changes will not take effect until 2023. Similar to the Canada Pension Plan, starting in 2013, seniors turning 65 will be allowed to defer receiving their taxable OAS benefit for up to five years, in return for receiving a higher payment. Finally, "proactive enrollment" for OAS and GIS benefits will be phased in starting next year, meaning many seniors will no longer be required to separately apply.

The government has introduced legislation for pooled registered retirement plans but needs provincial governments onside before they can be implemented. These voluntary savings vehicles are likely to do little or nothing to improve retirement security for those employees without adequate job related pension plans. Meanwhile, the Alberta government continues to block even modest enhancements to Canada Pension Plan (CPP) benefits. The CPP is a much superior vehicle for delivering retirement security for those Canadians who need it the most.

## Canada Social Transfer

A good news item in Budget 2012 is that the annual 3% increase in the Canadian Social Transfer to the provinces will be locked in until 2024. Canadian Social Transfer funds are used by the provinces to help fund vital programs like post-secondary education, social services, and child care.

## Activities and Funding of Canadian Charities

The budget states the Canadian Revenue Agency will crackdown on registered charities who engage in political activities. Charities have always been allowed to spend a limited amount of their time and money doing political advocacy on important issues that fit their mandate, as long as this is done on a non-partisan basis. It is hard to know what impact these changes will have on the charitable sector, other than an overall chilling effect on advocacy. The government also wants charities to be more transparent about funding they receive from foreign sources. Charities are already required to report annually to the Canadian Revenue Agency about foreign funding. This information is available to the public on a public database run by the Canadian Revenue Agency. For example, the database shows The Fraser Institute received over $1.7 million in donations from foreign sources in 2010 (Canada Revenue Agency, 2012).

## Child Tax Benefits/Universal Child Care Benefit

Budget 2012 makes no changes to monthly payments for the National Child Benefit Supplement and Canada Child Tax Benefit other than normal indexing. Further investment in child tax benefits is the single most effective way to reduce child and family poverty. Budget 2012's failure to do so is disappointing. Nor are there any increases contemplated to federal child tax benefits in the four-year planning horizon of this budget.

## Working Income Tax Benefit

The Working Income Tax Benefit (WITB) is an incentive for low income Canadians, especially those on social assistance, to seek and retain jobs by supplementing their earnings from paid employment. This refundable benefit was first introduced in the Federal budget of 2007, with an annual budget of $550 million. This amount doubled in Budget 2009. Budget 2012 allocates the same funding to the WITB as in the previous three years. This means the real value of the WITB continues being eroded by inflation.

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## Employment Insurance

All the temporary enhancements introduced to Employment Insurance (EI) during the recent recession have now expired. After being frozen at $1.73 per $100 of insurable earnings from 2008 to 2010, EI premium rates are increasing by 5 cents per $100 each year until 2015, when they will reach $1.98 per $100 of insurable earnings. The government also plans to tighten the requirement for EI beneficiaries to be actively seeking employment, especially if they have made frequent claims in the past. A pilot project will be launched that cuts in half the claw back of EI benefits for claimants who have found temporary or part-time work while continuing to search for permanent, full-time work.

## Aboriginal Canadians

Budget 2012 contains several new measures in support of Aboriginal communities. For First Nations, these measures include: $331 million over two years to improve water infrastructure; $12 million in the coming year to address family violence; new strategies to support economic development and job creation; and $275 million over 3 years to build and renovate schools. The Urban Aboriginal Strategy will also receive funding for two additional years.

## Tax Measures

Budget 2012 leaves personal income tax rates unchanged, applying only normal indexation to basic amounts exempt from taxation and to tax brackets. The federal corporate tax rate was reduced from 16.5% to 15.0% on January 1, 2012. Canada has the lowest corporate tax rate among G7 countries. In 2006, when the Conservative government came to power, the corporate tax rate was 22%.

## Affordable Housing

Budget 2012 continues the trend toward declining federal contributions to affordable housing programs. According to the Wellesley Institute, across all federal housing programs including those provided by the Canada Mortgage and Housing Corporation, there will be a further 6% ($131 million) funding cut in the coming year on top of a larger cut last year. The Eco-Energy Home Retrofit Program (which partially subsidizes home energy efficiency improvements) is being cancelled and no replacement program is expected.

## Canadians with Disabilities

Registered Disability Savings Plans (RDSPs) is a useful social policy innovation introduced in the 2010 budget to support children with severe disabilities into their adulthood. Disability organizations have long called upon the federal government to convert the existing Disability Tax Credit from a non-refundable to a refundable tax credit. At present, the benefits of opening an RDSP for a disabled child goes to middle and higher income families, not lower income families. While declining to make the benefit refundable, the government will be making a number of other changes to provide greater flexibility in making withdrawals and repayments to an RDSP.

## Concluding Comment

Budget 2012 did not - for the most part - contain the draconian cuts to programs and services some had feared. However, it lacks additional investment in the types of measures, such as enhanced child tax benefits or working income tax benefits, required to significantly reduce poverty in Canada. The increase in the eligibility age for the Guaranteed Income Supplement is also an unpleasant surprise. When it comes to fighting poverty, the budget's message is 'don't expect the federal government to do anything more than what it's already doing'.

Budgets are about choosing between different priorities. Every dollar spent on one priority means a dollar less to spend on another. Thankfully, Budget 2012 does not continue the practice of introducing boutique tax credits designed to appeal to middle and high income earners, at least not for this year. A very expensive $2.5 billion per year promise is looming on the horizon once the budget is balanced (i.e. income splitting for families). Income splitting will benefit single earner high income families the most. The same amount of money could instead be used to fund a 25% increase in refundable child tax benefits for low and middle income families with most of the benefit going to those with lowest incomes.

## References

Canada Revenue Agency. (2012, 02 25). *Detailed Financial Information - The Fraser Institute*. Retrieved 03 30, 2012, from Canada Revenue Agency: http://bit.ly/H885WH