How Will Tuesday’s Federal Budget Affect Stocks?

Description

Federal budgets are traditionally political documents and usually have little impact on stock markets. However, the Conservative government could push through some targeted tax measures that may affect stocks as it attempts to bring down a balanced budget on April 21.

Tax tinkering

Ottawa has strongly hinted that it will double the annual contribution limit to tax-free savings accounts (TFSAs) to $11,000 from the current $5,500. Since TFSAs can hold a number of financial products, including securities and mutual funds, doubling the limit could encourage market investing in a general sense.

The TFSA change is not without its critics. In February the Parliamentary Budget Officer (PBO) said doubling TFSA limits is “regressive” and its benefits “skew to higher income, higher wealth and older households.”

The PBO report concluded that the wealthiest 20% of Canadians would be the main beneficiaries of higher contribution room. That’s because the majority of low- to middle-income Canadians already have plenty of unused RRSP and TFSA contribution room, meaning they can’t take full advantage of such tax breaks.

Targeted measures

Finance Minister Joe Oliver could also introduce some targeted tax measures to help out the energy industry, which has been hard hit by the recent collapse in oil prices.

There have been widespread spending cuts across the oil patch since crude prices began to decline late last year. In March **Nexen Energy ULC** (TSX:NXY)(NYSE:NXY) said that it was cutting 400 jobs, including 340 positions in North America and 60 in the United Kingdom. **Talisman Energy Inc.** (TSX:TLM)(NYSE:TLM) said it was reducing its workforce by 10-15%, or as many as 200 jobs.

Kim Moody of law firm Moodys Gartner says the government could continue to tinker with the capital cost allowance (CCA) regime to incentivize certain companies to continue to make targeted capital investments during the economic decline.

“Many small businesses in Alberta have been significantly impacted by the decline in activity in the oil patch,” Moody wrote in a recent commentary. “Given such, the Conservatives may be included to adjust the ‘business limit’ with respect to the small business deduction.

“At the moment, Canadian controlled private corporations (CCPCs), together with associated corporations of the CCPC, are able to benefit from a low rate of corporate tax (currently, the combined federal and Alberta provincial rate is 14%) on the first $500,000 of profits generated from an active business carried on in Canada. Would it surprise me to see a phased-in increase of the business limit to $750,000? No, it would not.”

Moody says other measures to assist the oil patch might include a reduction in employment insurance premiums, or investment tax credits for certain capital purchases.

Meanwhile, accounting and tax firm KPMG is also recommending extending the accelerated CCA or creating a similar tax incentive. “The government may explore the possibility of extending the accelerated CCA in order for some Canadian industries, such as manufacturing, energy and clean technology, to achieve a competitive advantage in North America,” KPMG said in its budget preview.

Ottawa has also pledged to balance the budget perhaps as early as the current fiscal year. That might have a positive effect on the Canadian dollar, but will likely have little direct influence on stocks.

CATEGORY

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Date
2025/07/01
Date Created
2015/04/20
Author
dwatt