



Canadian Investors: What You Need to Know About the 2017 Federal Budget

Description

Each year, finance folk eagerly await the federal budget, which covers everything from tax policy to new spending initiatives. It also gives Canadians a snapshot into the financial health of the Federal Government.

Leaks before the document was officially tabled all pointed towards higher taxes. It wasn't looking to be a nice budget for Canadian savers. Reports had the ruling party raising the capital gains inclusion rate from 50% to 75%, aggressively taxing stock option plans, and upping the tax rate on small businesses.

In addition, it was rumoured that Finance Minister Bill Morneau's budget would close many of the tax advantages available to small corporations, including taxing any cash not needed for immediate use at a much higher rate.

Fortunately for investors, the feds left taxes largely alone. They eliminated a tax break for transit users and upped taxes ever so slightly on both alcohol and cigarettes. In addition, Canadians will now have to pay GST and HST on Uber rides, and the Canada Savings Bond will be scrapped.

But tax changes may be coming. The government is nervous about what Donald Trump's new government will do. If the Liberals eliminate many small-business tax advantages — which they've promised to at least review — and the United States drastically reduces corporate taxes, it will put many Canadian businesses in a tough spot. Additionally, there are also worries the United States could start to tax imports, which could be devastating for thousands of Canadian businesses. Especially when combined with higher corporate taxes.

Spending

The one thing many will remember from this year's budget is the size of the deficit. The Federal Government will spend \$28.3 billion more than it takes in during 2017-18, and there is no indication when we'll return to balanced budgets. Deficits are projected to fall to just over \$18 billion by 2021, which is still a large number.

The feds announced several areas where it will focus its spending, including on Indigenous people

(\$3.2 billion over five years), innovation programs (\$1.18 billion), a national housing plan (\$11.2 billion over 11 years), and \$7 billion over a decade towards child spending. Keep in mind that many of these programs were already announced last year; the government just gave more direction on where the money will be spent.

The budget also included several provisions designed to help women. One notable change will be the expansion of maternity benefits from a maximum of 12 months to 18 months, although the amount paid won't increase. It'll just be spread out over a longer period of time.

The government also pledged to tackle expensive child care and promised to ensure women get fair access to programs like the \$1.18 billion allocated to tech innovation. Trudeau's Liberals will also make it easier for students to gain access to federal grants and loans, since two-thirds of people who use those programs are female.

The bottom line

Overall, Canada's latest budget was much ado about nothing. Some changes were introduced, but they were minor. It was mostly just continuing last year's plan to increase spending.

But this doesn't mean tax increases are off the table. Barring any radical move by the new Trump Administration, next year's budget could easily be filled with higher taxes, which would likely be bad news for Canadian savers.

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