

March 19, 2007

## ***Federal Budget 2007: Implications for Atlantic Canada***

The new Conservative government's second budget, tabled today by Finance Minister Jim Flaherty, places the focus firmly on new spending initiatives and increased transfers, in stark contrast to the tax cuts which dominated last year's federal budget. The largest spending areas in this budget are for fiscal transfers to the provinces, education and the labour market, infrastructure and the environment.

There is no broad based tax relief for either individuals or businesses. Personal income tax cuts are focused on a new child tax credit, increases in amounts to support single parents or single earner couples and the previously announced increases in the age credit and pension income splitting.

Budget measures that are particularly relevant in Atlantic Canada include the following:

### **Equalization**

- A new Equalization program includes many of the features advocated by provincial governments and others in Atlantic Canada, providing a formula-driven program based on the fiscal capacity of all ten provinces that responds to fiscal disparities and provides predictable and stable funding.
- The treatment of natural resource resources allows provinces to select options that give them the best outcome so that previous commitments, including those made to Newfoundland and Labrador and Nova Scotia under the Offshore Accords, are respected.
- Equalization payments for 2007-08 for both New Brunswick and Prince Edward Island are marginally higher than those legislated for 2006/07. Newfoundland and Labrador's payments (included offshore offsets) are also marginally higher than 2006-07 while Nova Scotia's total payments are \$5 million lower.

### **Education**

- The Canada Social Transfer (CST), which provides support for post-secondary education, social assistance and social services, is shifted to an equal per capita cash basis. Of the new 2007/08 total, 25% is earmarked for post-secondary education.
- An additional \$800 million infusion for post-secondary education is slated for 2008-09, worth almost \$60 million for the Atlantic provinces.
- Beginning in 2009-10, total CST payments will be increased by 3% per year to provide predictable funding.

### **The labour market**

- Beginning in 2008-09, \$500 million per year is committed for labour market training, to encourage employer training and to improve access. The funding will be allocated on a per capita basis, worth about \$35 million to the Atlantic provinces.

- Measures to help the retention of older workers to address skill shortages include permitting phased retirement and increasing the age limit for converting RRSPs.

### **Infrastructure funding**

- Each province will receive \$25 million per year over the next seven years to support investments in national priorities such as trade-related infrastructure like roads and highways.
- A new \$8.8 billion Building Canada Fund, distributed on an equal per capita basis, will support investments in the core national highway system, public transit, sewage treatment and small-scale municipal projects. This Fund will replace existing infrastructures programs that are being phased out and that were typically cost-shared.
- A \$2.1 billion national fund for gateways and border crossings, awarded on a merit basis, will enhance infrastructure at key locations. This could potentially include the Atlantic Gateway but no dedicated funding was announced.

### **The environment**

- About \$4.5 billion has been set aside for environmental initiatives. This includes the recently announced \$1.5 billion ecoTrust program for provincial energy and pollution-reducing projects and \$2 billion in operating incentives for producers of renewable fuels and next-generation renewable fuels such as those produced from agricultural and wood waste.

### **Low income Canadians**

- Low income Atlantic Canadians can face high marginal tax rates as social assistance benefits are withdrawn and tax rates rise with increases in earned income. The new Working Income Tax Benefit will provide up to \$500 for single individuals and up to \$1000 for couples or families to reduce the barriers for those entering the labour force or seeking higher paid jobs.

### **Innovation**

- There is additional funding for many national research programs plus an additional \$350 million for Centres of Excellence in Commercialization and Research (including the Life Science Research Institute in Halifax).
- No additional funds were announced for regional research initiatives such as the Atlantic Innovation Fund or the NRC regional programs.

### **Manufacturing**

- A special accelerated capital cost allowance during 2007 and 2008 will help Atlantic manufacturers seeking to restructure and reinvest.

### **Regulation**

- For small businesses, Ottawa is planning to reduce the federal paper burden by 20% by late 2008.
- Ottawa also plans to work with the provinces to explore possibility of broadening the applicability of provisions in the British Columbia-Alberta agreement on trade, investment and labour mobility (TILMA).

Atlantic Provinces Economic Council  
 5121 Sackville St., Suite 500  
 Halifax, NS B3J 1K1  
 p: 902-422-6516 f: 902-429-6803  
[info@apec-econ.ca](mailto:info@apec-econ.ca)  
[www.apec-econ.ca](http://www.apec-econ.ca)