

BUILDING A STRONGER ECONOMIC FUTURE: KEY TAKEAWAYS FROM FEDERAL BUDGET 2022

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Finance Minister Chrystia Freeland delivered the federal budget (“Budget 2022”) on Thursday, April 7th, 2022. “A Plan to Grow Our Economy and Make Life More Affordable,” Budget 2022 sets out the federal government’s new spending plan of \$56 billion over the next six years. A total of \$9.5 billion for the 2022-2023 fiscal year will mainly focus on increasing housing supply, addressing climate change and labor shortages, and supporting Indigenous reconciliation and national defense.

PART 1 THREE PILLARS

The budget outlines three pillars for growing Canada’s economy:

1. Investing in People
2. Investing in Green Transition
3. Investing in Productivity and Innovation

People are the backbone of a strong and growing country: The federal government plans to double the number of newly built homes for Canadians over the next 10 years, easing skilled immigration and delivering country-wide \$10-a-day child care by 2025-2026. The world is going green: Budget 2022 proposes to establish a new Canada Growth Fund to help attract private sector investment, both domestic and abroad, to accelerate the green transition. Canada’s economic productivity is lagging far behind the rest of the industrialized world: Ottawa has stepped forward with investments in technology and innovation that will increase economic productivity by creating a new Canadian Innovation and Investment Agency. The budget reflects the federal government’s commitment to creating jobs and prosperity and making life more affordable for all Canadians.

PART 2 BUDGET HIGHLIGHTS

HOUSING

Addressing housing supply

With the overarching goal of doubling new housing construction in the next decade, several measures are proposed: A new Housing Accelerator Fund will be launched with \$4 billion funding over five years, targeting 100,000 net new housing units in total. Budget 2022 also covers a plan to provide \$1.5 billion over two years to extend the Rapid Housing Initiative to create at least 6,000 new affordable housing units, starting in the next fiscal year.

More savings incentives toward housing

Besides doubling support provided through the First Time Home Buyers’ Tax Credit (HBTC), Budget 2022 plans to roll out a new tax benefit account Tax-Free First Home Savings Account (TFFHSA), that will allow Canadians to save up to \$40,000 towards their first home. This is designed to shorten the time it takes first-time homebuyers to afford down payments as contributions would be tax-deductible, and withdrawals to purchase a first home – including investment income – would be non-taxable.

Banning foreign home buyers

The federal government is making a move to prohibit foreigners, with some exemptions, from buying any residential properties in Canada for the next two years to ensure houses are being used as homes rather than as investment commodities. Some economists, however, believe this measure will have minimum impact on addressing housing demand, given the negligible share of total transactions from foreign buyers who are subject to the ban.

Targeting home flipping activities, Budget 2022 introduces new rules. Effective January 1st, 2023, any person who sells a property held for under 12 months would be subject to full taxation on their profits as business income.

CLIMATE CHANGE

More affordable electric vehicles

It is estimated that “on-road transportation accounts for 20% of Canada’s greenhouse gas emissions”. To help reduce emissions on the road, the government is making electric vehicles more affordable for Canadians. Budget 2022 promises \$1.7 billion over five years to extend incentives of up to \$5,000 to purchase zero-emission vehicles until March 2025. The budget also announced funding of \$900 million to build charging infrastructure in both large-scale urban and remote communities to encourage more Canadian households and businesses to adopt green vehicles.

Increasing investment in cleantech

Budget 2022 announces further investments of close to \$900 million to support the expansion of clean electricity, building on ongoing funding of \$15 billion made available since 2016. In addition, an investment tax credit of up to 30 percent on net-zero technologies, battery storage solutions, and clean hydrogen is also under discussion, with the design details to come in the 2022 fall update.

Action Plans to protect oceans and freshwater

The federal government is taking further steps to protect Canada’s coasts and waterways through additional funding of \$2 billion over nine years for the Oceans Protection Plan’s renewal and expansion. Canada has about 20% of the planet’s freshwater resources in lakes, rivers, streams, and wetlands, making freshwater protection critically important to Canadians and the world. Budget 2022 supports this initiative by funding Environment and Climate Change Canada through several freshwater programs.

LABOR MARKET

Creating jobs and training

With over 3 million jobs created since the onset of the pandemic, 112% of jobs recovered in the past 25 months, and a near-record low unemployment rate of 5.5% in February 2022, Canada continues to invest in skilled workers to help them succeed and ensure a diverse and inclusive business environment. Budget 2022 plans to introduce a Labour Mobility Deduction – an annual expense tax recognition on up to \$4,000 to eligible workers, and double the funding for the Union Training and Innovation Program, which is estimated to help 3,500 apprentices from underrepresented groups each year.

Canada Growth Fund

Canada is moving to pool capitals across the public sector, private sector, and industries to fight against challenges from climate change, technological change, and a changing global economy. Budget 2022 unveils a new Canada Growth Fund with an initial investment of \$15 billion over five years. Intending to meet important economic policy goals to step up on climate initiatives by reducing emissions, boosting exports by investing in low-carbon industries and new technologies, and supporting the restructuring of critical supply chains.

Small business tax reduction

To encourage small businesses to grow and create more jobs, Ottawa promises to gradually phase out their beneficial tax rate, with a full phase-out when taxable capital reaches \$50 million instead of \$15 million. This change is estimated to save employers \$660 million in taxes over the next five years, starting from April 7th, 2022.

SOCIAL WELFARE

Free dental for low-income families

Budget 2022 promises \$5.3 billion to expand access to dental care for Canadians with annual family incomes of less than \$90,000, starting this year with children under 12 and reaching full implementation by 2025. While implementing a federal dental program could prove tricky due to existing provincial coverage and private insurance. This could help free low-income families with no dental insurance from the high costs of dental visits.

Slashing childcare costs

The federal government has signed agreements on early learning and child care with every single province and territory, a move that will make life more affordable for middle-class Canadian families. As a result, childcare costs will be reduced by 50% by the end of this year and will average only \$10 per day by 2025-2026 across Canada.

NATIONAL DEFENCE

To meet national defense priorities, Budget 2022 is increasing the capabilities of the Canadian Armed Forces through a \$6.1 billion investment over five years. As a reliable and long-standing partner since 1991, Canada also calls for more support for Ukraine and proposes to send an additional \$500 million in 2022-23 as further military aid. Budget 2022 also sets aside nearly \$900 million over the next five years to enhance Canada's cyber security to address the rapidly evolving cyber threat environment.

RECONCILIATION

Over six years, a budget of \$10.6 billion is proposed to support reconciliation efforts with Indigenous groups as the federal government is committed to a renewed nation-to-nation relationship. Additional funding is also tabled to support education and child care and address housing gaps in an attempt to support the Indigenous communities and help them continue to grow.

TAX ON FINANCIAL FIRMS

Ottawa discloses a two-part plan to raise tax on large financial institutions in Budget 2022. First, under the newly-introduced temporary Canada Recovery Dividend, banks and life insurance companies face a one-time 15% tax on taxable income above \$1 billion for the 2021 tax year. There will also be a permanent increase of 1.5% in the corporate income tax rate from 15% to 16.5% on their taxable income above \$100 million. It is estimated that both measures combined will contribute \$6.1 billion in revenue over five years.

FISCAL OUTLOOK

The federal government projects a brightening budgetary deficit of about \$52.8 billion for the fiscal year 2022-2023, significantly improved from much higher deficits during the peak of the pandemic. The declining trend will continue, with the deficit projected to shrink to \$8.4 billion by 2026-2027. The federal Debt-to-GDP ratio is projected to fall by 5% to 41.5% over the next five years, a faster rate of decline than the previous projection last December.

PART 3 CLOSING THOUGHTS

Budget 2022 does not include all of the spending items promised last year as it is "the first of four chapters," with more details and measures to follow over the next three budgets. While concerns around the scale of new spending might add fuel to the current high inflation, the budget demonstrates the federal government's determination to steer the Canadian economy through persistent inflation, move away from pandemic-era massive stimulus and build a stronger economic future.

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