

EDELMAN UPDATE

2024 FEDERAL BUDGET

APRIL 16, 2024

SUMMARY

Finance Minister and Deputy Prime Minister Chrystia Freeland tabled Canada's 2024 Federal Budget, titled *Budget 2024: Fairness for Every Generation*.

Today's Budget details \$535B in spending for 2024-25 with a deficit of about \$40B. This is an increase of \$52.9B above previously planned spending over the next five years. Canada's total debt has increased to \$1.4T; the cost to finance this debt will cost \$47.2B this year and is forecast to increase to \$64.3B by 2028-29.

To raise revenue, the government plans to increase capital gains taxes paid by individuals and corporations. This is expected to raise about \$19B over five years in new revenue.

Housing, affordability and ensuring fairness for all generations were the focus of the Minister's speech to Parliament. She maintained messaging from previous years that Canada has the lowest deficit-and net debt-to-GDP ratios in the G7.

Notable investments on housing include a \$400M top-up of the Housing Accelerator Fund, and a \$15B expansion to the Apartment Construction Loan Program. A new National School Program of \$1B over five years and the Canada Disability Benefit of \$6.1B over six years lead on new affordability spending.

The government is also committing an additional \$2.4B to build capacity in artificial intelligence (AI). The majority of this (\$2B over five years) will go to launching a new AI Compute Access Fund and Canadian AI Sovereign Compute Strategy.

There is also new spending on youth mental health, transparency for airline fees, emergency and disaster relief, and Indigenous participation in research.

A major piece of the Liberal-NDP Supply and Confidence Agreement is a National Pharmacare Plan, and this budget commits \$1.5B over five years to launch it. This is much lower than the estimated cost of \$11.2B for the first year provided by Canada's Parliamentary Budget Officer last year.

LIBERAL-NDP SUPPLY & CONFIDENCE AGREEMENT

Leading up to the budget's unveiling, NDP members advocated for the inclusion of affordability measures to combat the cost-of-living crisis. The NDP influenced the inclusion of several measures, such as the national school food program, pharma & dental care, renter protections, red dress alert funding, free contraceptives and diabetes medication for 9M and 3.7M Canadians respectively, and tax credits for wildfire firefighters and search and rescue volunteers.

Despite the supply-and-confidence relationship manipulating several significant budgetary aspects, NDP members voiced criticism post-announcement that the budget does too little to fight corporate greed especially in the grocery industry which the NDP maintains is artificially inflating food prices via gouging tactics.

NDP members further criticized the proposed civil service layoffs of 5,000 workers and the lack of additional funding for Indigenous infrastructure and housing projects in rural communities.



MORE AFFORDABLE HOMES

To address the housing crisis, Budget 2024 lays out a strategy to unlock 3.87 million new homes by 2031. This includes \$1.1 billion in funding over ten years to convert 50 per cent of the federal office building portfolio into housing. Budget 2024 also proposes a \$15 billion top-up to the *Apartment Construction Loan Program*, which will build 30,000 more new homes across Canada. To protect and expand affordable housing, Budget 2024 proposes \$477.2 million over five years, starting in 2024-25, and \$147.8 million in future years, to launch a new \$1.5 billion *Canada Rental Protection Fund*.



LOWERING EVERYDAY COSTS

Budget 2024 outlines the government's recently announced plan to create a *National School Food Program*, which will provide \$1 billion over five years to Employment and Social Development Canada, Crown-Indigenous Relations, Northern Affairs Canada, and Indigenous Services Canada, starting in 2024-25, to work with provinces, territories, and Indigenous partners to expand access to school food programs. Budget 2024 announces the government's intention to amend the *Telecommunications Act* to better allow Canadians to renew or switch between home internet, home phone, and cell phone plans.



TAX FAIRNESS

To make Canada's tax system fairer, Budget 2024 proposes an increase in taxes on capital gains on the wealthiest 0.13 per cent. Selling a principal residence will continue to be exempt from capital gains taxation. To encourage entrepreneurship, the government is proposing the *Canadian Entrepreneurs' Incentive*, which will reduce the inclusion rate to 33.3 per cent on a lifetime maximum of \$2 million in eligible capital gains.



ECONOMIC GROWTH FOR EVERY GENERATION

The government is investing \$2 billion over five years, starting in 2024-25, to launch a new *AI Compute Access Fund* and *Canadian AI Sovereign Compute Strategy*, and \$200 million over five years to boost AI startups to bring new technologies to market. Budget 2024 proposes to provide \$50 million over five years, starting in 2024-25, to create an AI Safety Institute of Canada to ensure the safe development and deployment of AI. It announces the next steps in the government's plan to attract more investment to Canada to create good-paying jobs and accelerate the development of clean technology.



PROTECTING CANADIANS AND DEFENDING DEMOCRACY

Budget 2024 invests in strengthening the full range of tools at Canada's disposal. They are continuing the ongoing NORAD Modernization, and proposing \$8.1 billion over five years, starting in 2024-25, and \$73 billion over 20 years to the Department of National Defence (DND), the Communications Security Establishment (CSE), and Global Affairs Canada (GAC) to ensure Canada is ready to respond to global threats and to protect the well-being of Canadian Armed Forces members. They will also invest in Canada's Arctic sovereignty, including investments in northern research logistics and Polar Knowledge Canada.



SAFER, HEALTHIER COMMUNITIES

Budget 2024 proposes \$607.9 million over two years, starting in 2024-25, to Transport Canada to top-up the Incentives for Zero-Emission Vehicles program. On Chemical Management, it provides \$190.9 million over five years to reduce human and environmental exposure to harmful chemicals and to enhance the Chemical Management Plan's existing cost recovery framework. The budget also provides \$273.6 million over six years for Canada's Action Plan on Combatting Hate to tackle the rise in hate crimes, among several other new public safety expenditures, and \$7.3 million over six years to combat antisemitism.

OUR POINT OF VIEW



Budget 2024 continues federal spending at a rapid pace, pledging \$52.9B in new spending over the next 5 years. To pay for this, Finance Minister Chrystia Freeland proposes to increase capital gains taxes on Canada's wealthiest corporations and citizens. The budget offered no path to balance and failed to propose savings in the event of further economic downturn.

Canadians will, for the first time in history, spend more money servicing the debt than they do on federal health transfers to the provinces. This is deeply troubling as Canada's growth continues to be sluggish heading into Q2 of 2024. Increased taxes and regulation on job creators will do little to attract needed investment to Canada in the months ahead and will undoubtedly challenge even modest growth in the Canadian economy. Canadians who were in search of a fiscal anchor from this budget were instead met with more spending and interest that will saddle future generations for years to come.

- DARCY WALSH, PRESIDENT, EGA (CANADA) & GENERAL MANAGER, OTTAWA



The government announced its approach to the housing crisis over the last several weeks. The Budget reiterated those promises looking to have about 3 million housing starts by 2031. However, much of the administrative requirements to achieve that goal are in the hands of the provinces and coordination with the provinces will be an ongoing requirement. The affordability crisis which affects all Canadians has been acknowledged but little in the budget addresses the issue directly.

Debt and spending has gone up which will delay interest rate reductions and no relief on carbon taxes. Small business will get a carbon tax rebate to a total of \$2.5B over time effective commencing in 2025, with the parameters for eligible small business corporations to be released later.

The main taxing measure introduced to raise revenues to pay for this budget is primarily an increase in the capital gains inclusion rate from 50% to 66 2/3% for gains in excess of \$250K realized after June 24, 2024. However, this is an annual cumulative amount that is only taxed on realization and can be strategized over time to lessen its impact. It will reduce investment prospects in Canada and be viewed very negatively.

- LEN FARBER, SENIOR ADVISOR EGA CANADA, FORMER DIRECTOR GENERAL, TAX POLICY BRANCH



The 2024 Budget confirms what the Government of Canada announced in the defence policy update—Our North, Strong and Free: A Renewed Vision for Canada's Defence—released April 8, 2024. The policy sets out two core objectives: strengthen the foundations of the Canadian Armed Forces and acquire new capabilities to deal with new threats.

Strategically, the Government of Canada is placing renewed emphasis on the security of the Canadian Arctic which remains a major North American and NATO priority. Secondly, this announcement also emphasizes the importance being placed on cyber security with the creation of the Cyber Security Group and priority funding being allocated.

While the policy is costed at \$73 billion over the next 20 years, the five-year fiscal framework includes incremental investments of only \$8.1 billion. These new funding commitments would raise Canada's defence spending to GDP ratio from 1.4 per cent today to 1.76 per cent in 2029-30.

- ROBERT FONBERG, SENIOR ADVISOR, EGA CANADA, FORMER DEPUTY MINISTER
- GENERAL (RETIRED) JEAN BOYLE, SENIOR ADVISOR, EGA CANADA, FORMER CHIEF OF THE DEFENCE STAFF

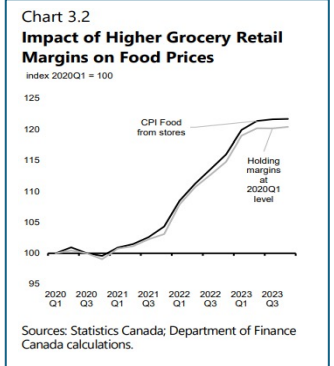
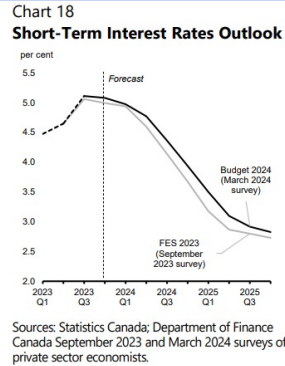
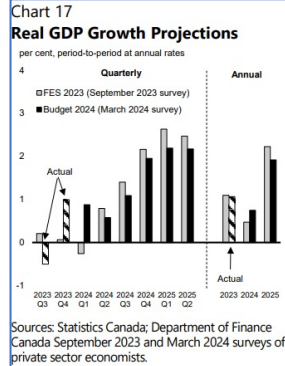
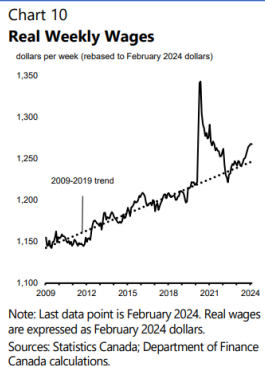
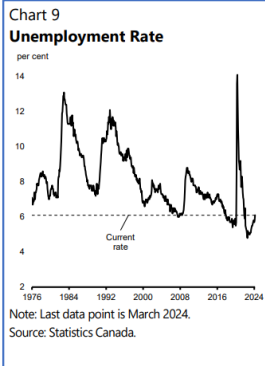
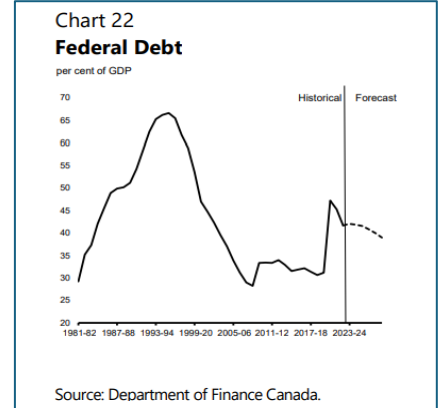
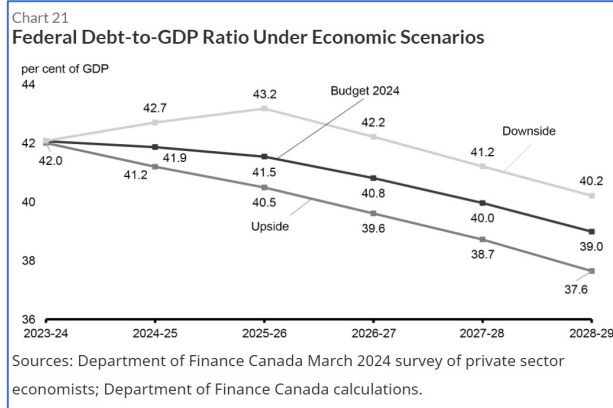
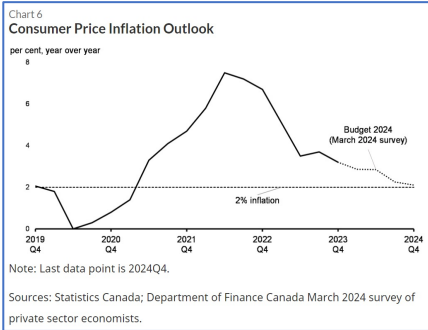
Edelman's Trust Barometer shows that Canadians are increasingly concerned about their economic future. Today's budget focuses on addressing concerns prioritized by Canada's largest voting block—millennials. We saw new funding and policy ideas that aim to address housing, affordability, the future of work and promoting equitable access to all. Key promises and investments—for mental health care, a school breakfast program, a renter bill of rights and preparing for the future of artificial intelligence—all speak to younger people.

This is an activist budget from a government that remembers being elected by millennials and needs them back. The budget is designed to appeal to this well-informed and economically squeezed generation that wants to see real solutions to social problems prioritized over protecting the wealthy. The Trudeau Government hopes that this budget will be seen to address the many challenges preoccupying this generation.

- DAVID RODIER, MANAGING DIRECTOR, CORPORATE COMMUNICATIONS, EGA OTTAWA



BY THE NUMBERS



STAKEHOLDER REACTIONS



"This is the ninth deficit after the Prime Minister promised the budget would balance itself. And what did he do with the money? Everything he's spent on has become more expensive. He's doubled the rent, doubled mortgage payments, doubled the needed down payment for a home, forced 35 homeless encampments in Halifax alone. 1 in 4 kids cannot afford food. And now, he's adding \$40 billion of new debt and new spending, that's \$2,400 of new inflation. That is why Conservatives will vote against this wasteful inflationary budget that is like a pyromaniac spraying gas on the inflationary fire that he lit. It is getting too hot and too expensive for Canadians and that's why we need a carbon tax election to replace him with a common-sense Conservative government."

- Hon. Pierre Poilievre, Leader of the Official Opposition



"We forced Justin Trudeau to build more homes and protect renters, to make birth control and diabetes medication free and to help feed hungry kids at school. This is a glimpse of what an NDP government could do - but this is not an NDP budget. Justin Trudeau will not take on the corporate greed that is driving up Canadians' bills. The prime minister refused to reverse Pierre Poilievre's \$60 billion corporate handouts or put in place an excess profits tax. It's disappointing the Liberals haven't shown more courage."

- Jagmeet Singh, Leader of the NDP



Going into Budget 2024, Minister Freeland had indicated the government would help create the conditions for interest rates to fall. Was that achieved? The results are mixed. Using tax increases may dampen the inflationary force of new spending, but deficits are on track to widen over the next five years. Moreover, provinces are ramping up spending and deficits in the near-term, so the overall government sector is still getting in the BoC's way.

Having said that, the fiscal plan is still reliant on a steadily expanding economy, even if modest. Any major economic potholes would leave Canada vulnerable to missing the fiscal anchors. While the government will tout the potential for its new policies to boost economic growth though higher productivity, new taxes on capital gains may run afoul. All told, higher taxes won't be beneficial to investment, something which is sorely needed given the significant underperformance in capital spending, meaning it will not improve the trajectory of Canadian economic growth nor boost the real incomes of Canadians.

- Beata Caranci, SVP & Chief Economist, TD Bank



"Today's budget contains few surprises. Most of the major new spending was announced by the government over the last few weeks, and the government's projections for the deficit are largely in line with previous predictions. Instead of using a revenue windfall to reduce the deficit more quickly, the government chose to use it along with changes to the capital gains tax, to fund this new spending. What's still missing is a clear plan to promote productivity and restore economic growth in Canada. Canada continues to slip further behind our competitors in both of these categories. Our lagging productivity and stalled GDP growth means Canadians are becoming collectively poorer and working harder to just remain where they are today. Among the positive announcements in today's Budget, we're happy to see a focus on streamlining internal trade. Strengthening our internal trade could elevate GDP growth by up to 8% and fortify Canada's economic foundation. It shouldn't be easier to trade with Europe than it is within our own country."

- Perrin Beatty, President and CEO, Canadian Chamber of Commerce.



"The big surprise for small business is a series of changes to capital gains taxation. Our early assessment is that most small business owners will come out ahead or be unaffected by today's changes as a result of a boost in the Lifetime Capital Gains Exemption from \$1 to \$1.25 million and a new Canadian Entrepreneurs' Incentive for some sectors which will lower the capital gains inclusion rate to 33.3% on the next \$2 million when fully phased in. What worries me the most about the capital gains changes is the potential to demotivate Canadians from getting into business in the first place or working hard to grow a small business to a medium-sized business. CFIB will be pushing back against any increase in the capital gains inclusion rate for all small- and medium-sized business owners. It seems bizarre that government would single out some sectors of Canada's SME community for higher taxes, including many of those hardest hit by pandemic restrictions like restaurants and arts and recreation firms."

- Dan Kelly - President, Canadian Federation of Independent Business (CFIB)



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