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Canadian Federal Budget 2021: **Flash Update**

In the early stages of digesting Canada's first Federal Budget in more than two years, we wanted to provide a flash update with the primary highlights. Canada's 2021 Federal Budget outlines CAD$101 billion in new government spending over a three-year period to fuel the economic recovery while continuing to bridge the growth gap due to the COVID-19 pandemic. This increases the federal deficit to $354 billion this fiscal year (2020-21), $155 billion next fiscal year (2021-2022) and gradually declining to $31 billion in 5 years time (2025-26). The debt-to-GDP ratio will increase to over 50% in the current fiscal year. There are many highlights within the budget, and we certainly won't hit on all of them, but rather focus in on the ones that may have a more direct economic impact.

The largest spend items include the following:

- $30 billion over five years and $8.3 billion annually thereafter to create a national childcare program with the goal of providing families with access to childcare at an average of $10/day by 2025-26.
- $18 billion dedicated to supporting and helping reinforce indigenous communities and interests.
- $18 billion dedicated to environmental and climate change policies to reduce overall carbon emissions and exceed the current emission reduction targets by 2030.
- $4.4 billion in incentives for homeowners to take on home efficiency renovations through interest-free loans up to $40,000.
- $3 billion dedicated to helping provinces improve their long-term care facilities for the e lderly community.
- $2.5 billion dedicated to community housing initiatives for vulnerable Canadians.

In terms of jobs and workers, the primary highlights are a new $15 federal minimum wage and the extension of the maximum period of employment insurance and sickness benefits from 15 to 26 weeks.

From a taxation perspective, there was speculation prior to the budget being released that a wealth tax may have been on the table. Although there is no direct wealth tax included, a consumption tax on luxury goods is one measure that will help increase tax revenue with the burden falling more so on the wealthier and higher income brackets. The luxury tax will be in the range of 10% to 20% targeting car and aircraft purchases worth more than $100,000 and luxury boats over $250,000. There was no increase in the capital gains inclusion rate, nor was the principal residence exemption changed. However, this budget did unveil a national roll-out of an annual 1 percent tax on the value of non-resident, non-Canadian owned residential real estate that is vacant or underused, effective January 1, 2022.

For those focusing in on retirement income, the budget includes measures to provide a grant payment of $500 to Old Age Security pensioners age 75 or older as of June 2022 as well as a 10% increase to the maximum OAS benefit for pensioners aged 75 or older starting July 1, 2022.

Over the coming days, we will continue to digest the Federal budget to assess the economic and investment implications. At a high level, the budget appears to be highly focused on social infrastructure more so than traditional transportation and civil infrastructure. The budget is also tilted in the direction of economic sustainability and more of a green economy overall.

The investment markets appear to be taking the budget update in stride. Interest rates in Canada have moved marginally lower, the Canadian dollar has remained steady at 0.80 CAD/USD and although equity market futures are currently negative ahead of tomorrow's market open, they are generally in line with global equity market futures.

The Bank of Canada will be making an overnight interest rate announcement this Wednesday, along with their Monetary Policy Report. This should provide further indication as to the Bank's economic outlook. There is also anticipation that the Bank may begin to taper their current asset purchase program, where they are currently buying bond assets within the open market. The tapering announcement is highly anticipated however it may put modest upward pressure on interest rates through the remainder of April.

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