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fACT sheet

2014 Federal Budget Analysis

edmonton SOCIAL PLANNING COUNCIL

Introduction

This Fact Sheet highlights spending measures outlined in the 2014 federal budget that affect Edmontonians with low and modest incomes. While the budget focuses on the fiscal year that runs from April 1, 2014 to March 31, 2015, it also contains spending and revenue projections for the following four years. By keeping program spending flat and allowing revenues to grow in line with the economy, the federal government forecasts a deficit of $2.9 billion in 2014-15 and plans a return to a surplus budget by 2015-16.

Child Tax Benefits/Universal Child Care Benefit

Other than indexing for inflation, Budget 2014 makes no changes to monthly payments for the National Child Benefit Supplement and Canada Child Tax Benefit. Further investment in child tax benefits is the single most effective way to reduce child and family poverty. Budget 2014's failure to improve financial assistance to Canadian families, including low income families with children who benefit the most from these benefits, is a disappointment.

Working Income Tax Benefit

The Working Income Tax Benefit (WITB) is an incentive for low income Canadians, especially those on social assistance, to seek and retain jobs by supplementing their earnings from paid employment. This refundable benefit was first introduced in the federal budget of 2007. Budget 2014 allocates the same funding to the WITB as in the previous five years. This means the real value of the WITB continues being eroded by inflation for the fifth consecutive year.

Skills Training

Instead of backing down in the face of unanimous provincial opposition, Budget 2014 proposed to go it alone on a new Canada Jobs Grant. The amount of federal funding per trainee is being doubled to $10,000 in federal funding if employers contribute $5,000. This program is intended to replace existing labour market agreements with the provinces that will expire in 2014. Provinces argue the proposed program infringes on their jurisdiction over labour market training. In the absence of an agreement with the provinces, the federal government has pledged to start implementing the Canada Jobs Grant on April 1, 2014 with or without provincial agreement.

Retirement Security

Budget 2012 increased the eligibility age for Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) from age 65 to age 67. The GIS eligibility age change will have a more negative impact on the incomes of seniors than the OAS change alone, driving many more low income seniors below the poverty line. The government is giving itself some political wiggle room since changes will not take effect until 2023.

Two years ago, the federal government passed legislation that allows employers to create pooled registered retirement plans. However, these plans need provincial agreement before they can be implemented. So far, no province has enacted legislation allowing for these pooled retirement plans. These voluntary savings vehicles are likely to do little or nothing to improve retirement security for the growing number of employees without adequate job related pension plans.

The Canada Pension Plan (CPP) is a proven vehicle for delivering retirement security for those Canadians needing it the most. No mention is made of the CPP in the federal budget. In fact, the federal government opposes even modest improvements to the CPP that are supported by the provinces.

Federal Cash Transfers to Alberta

The Province of Alberta will reap a one-time financial windfall of $1.03 billion in 2014-15 with the change to per capita funding for the Canada Health Transfer. Instead of a 6% increase, health transfers in 2014-15 will increase 38%. The Canadian Social Transfer (already based on a per capita formula) to the provinces will increase by 3% until at least 2024. Canadian Social Transfer funds are used by the provinces to help fund vital programs like post-secondary education, social services, and child care.

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Income Splitting Not Mentioned

Surprisingly, the Conservative promise to allow families with children to share up to $50,000 in taxable income was not mentioned in this year's budget. A recent CD Howe Institute study concluded that income splitting would worsen inequality. Costs incurred by two earner families for commuting to work, work-related clothing, childcare and after-school care more than offset the extra taxes paid by one earner families. And it's not like a family can replace two $50,000 per year jobs with one $100,000 per year job. The $3 billion annual cost of income splitting would be much better invested in child tax benefits for low and middle income families.

Employment Insurance

All the temporary enhancements introduced to Employment Insurance (EI) during the recent recession have now expired. After being frozen at $1.73 per $100 of insurable earnings from 2008 to 2010, EI premium rates increased to $1.88 per $100 of insurable earnings in 2013 and are set to remain at this level for the next several years. Program changes made to EI tighten requirements for beneficiaries to be actively seeking employment, especially if they have made frequent claims in the past. In order to retain benefits, claimants may be required to take an available job even if it is not related to their education or skill set. Under some conditions, claimants may have to be prepared to seek employment elsewhere in Canada.

Aboriginal Canadians

Budget 2014 confirms several new or renewed measures in support of Aboriginal communities that were previously announced. The major new initiative is new investments in First Nations Education including lifting the 2% annual cap on on-reserve education investment, additional funding for building or upgrading schools, and measures to enhance educational quality. Altogether, the budget says these changes represent $1.9 billion in additional investment over seven years. Looking at the fine print, however, only $120 million is being allocated for the first year of this initiative starting in 2015.

Tax Measures

Budget 2014 leaves personal income tax rates unchanged, applying only normal indexation to basic amounts exempt from taxation and to tax brackets. The federal corporate tax rate on large corporations has been 15.0% on January 1, 2012. Canada has the lowest corporate tax rate among G7 countries. In 2006, when the Conservative government came to power, the corporate tax rate was 22%.

Affordable Housing

Budget 2014 renews the Homeless Partnering Strategy for an additional five years beyond 2014 with a Housing First focus. The HPS funding level of $119 million per year is about 12% less than the current funding level of $134.8 million per year. Conditional on provincial matching, the Affordable Housing Initiative is being renewed for an additional five years at the same $253 million per year funding level. The $1.5 billion over 5 years being sought by the Federation of Canadian Municipalities to support expiring social housing agreements was not announced in the budget.

Support for Youth Entering Labour Force

A total of about $139 million will be invested over two years through such measures as allowing apprentices to access student loans, excluding vehicles from student loan eligibility assessments, and providing financial support to employers for student internships.

Concluding Comments

Budget 2014 is largely a stand pat budget. The Finance Minister even called it boring. Budget 2014 does not contain additional investments in measures like enhanced child tax benefits or working income tax benefits, which is required to significantly reduce poverty in Canada.

References

Canada (2014). Budget 2014. Retrieved online from: http://www.budget.gc.ca/2014/docs/plan/toc-tdm-eng.html