

Daily Update – 25 March 2021

Ontario Budget

On Wednesday, Ontario Finance Minister Peter Bethlenfalvy tabled his first budget after becoming Ontario's Finance Minister in December 2020. The previous budget, delayed due to the COVID-19 pandemic, was delivered by then-Finance Minister Rod Phillips on November 24, 2020, so this is Ontario's second full budget in short order.

By the numbers

- Projecting the deficit will be \$33.1 billion in 2021–22.
- Following two consecutive quarterly declines of 1.8 per cent and 12.2 per cent in the first half of 2020, Ontario's real gross domestic product (GDP) increased 9.4 per cent in the third quarter, but it remained below the level of the fourth quarter in 2019.
- Ontario's real GDP is estimated to have declined by 5.7 per cent in 2020. Between May 2020 and February 2021. Ontario's real GDP is projected to rise 4.0 per cent in 2021, 4.3 per cent in 2022, 2.5 per cent in 2023 and 2.0 per cent in 2024.
- Ontario employment has risen by 829,400 net jobs but remained 305,300 (–4.1 per cent) below its pre-pandemic level.

Leading up to the budget, the Ford government signalled clearly that the budget would focus on recovery from the COVID-19 pandemic, meaning an emphasis on health care funding and measures to support economic recovery. "The budget is designed to finish the job started one year ago", said Minister Bethlenfalvy.

In that context and as expected, Budget 2021 contains no new taxes or spending cuts. The Government is focussed on supporting individuals and businesses that have been hurt by the pandemic or impacted by related public health measures.

Fiscal Overview

The Ontario government is projected to spend \$173 billion in 2021–22, compared to pre-pandemic spending in 2018–2019 of \$148.8 billion. On the other hand, over the fiscal window of the budget, government revenues are forecast to increase from \$156.1 billion in 2019–20 to \$167.0 billion in 2023–24.

Additional pandemic spending has resulted in record deficits. For 2020–21, the government is projecting a deficit of \$38.5 billion. Beyond 2020–21, the government is forecasting deficits of \$33.1 billion in 2021–22, \$27.7 billion in 2022–23, and \$20.2 billion in 2023–24. A return to a balanced budget is not expected until 2029.

The Economy

Following two consecutive quarterly declines of 1.8 per cent and 12.2 per cent in the first half of 2020, Ontario's real gross domestic product (GDP) increased by 9.4 per cent in the third quarter. Despite that

growth, GDP remained at its Q4 2019 level and Ontario's GDP is estimated to have declined by 5.7 per cent in 2020. Going forward, the GDP is expected to rise 4.0 per cent in 2021, 4.3 per cent in 2022, 2.5 per cent in 2023, and 2.0 per cent in 2024.

Ontario employment has increased by 829,400 net jobs this year but remains 305,300 (-4.1 per cent) below its pre-pandemic level.

Economic Recovery

The other focus of Budget 2021 is supporting economic resilience and recovery from COVID-19. To that end, the Government created or extended the eligibility for several tax credits, including:

- A new Ontario Jobs Training Tax Credit for 2021 that would provide up to \$2,000 per recipient for 50 per cent of eligible expenses. The credit is estimated to provide \$260 million in support to about 230,000 workers in 2021.
- A third round of payments to support parents through the Ontario COVID-19 Child Benefit, totalling \$1.8 billion in such payments since last March. The payment will be doubled to \$400 per child for this round and \$500 for each child with special needs.
- A 20 per cent enhancement of the CARE tax credit for 2021, to help parents with the cost of child care and help them get back into the workforce. The credit will increase from \$1,250 to \$1,500, on average, providing about \$75 million in additional support for approximately 300,000 families.

Small Businesses and Tourism

To help small businesses impacted by COVID-19, the Government will double the Ontario Small Business Support Grant payments. The money will be automatically deposited in the accounts of those who received monies in the first round of the payments.

To aid the recovery of Ontario's tourism, hospitality and cultural industries, the Government will invest an additional \$400 million over the next three years in new initiatives to support those sectors. The Budget also dedicated \$150 million for a planned 2021 tax credit (pending legislation) to encourage residents to explore Ontario (when it is safe to do so).

Additional supports for small businesses and tourism in the budget include:

- An additional \$320 million in relief in 2021-22 through off-peak electricity pricing.
- \$10 million for wineries and cideries and \$1.2 million for small distillers, to support the recovery of the wine and agri-tourism industry, and an additional \$10 million in 2021-22 to do the same for the arts community.

Doubling of the Ontario Small Business Support Grant

In December, the government announced the Ontario Small Business Support Grant, which provided up to \$20,000 to eligible small businesses. This budget is providing a second round of payments to eligible businesses automatically, which means they will not need to reapply to receive additional funding. Approximately 120,000 businesses will receive an additional \$1.7 billion in relief through the second round of support, bringing the total provided through the grant to \$3.4 billion.

\$400M for the Invest Ontario Fund

In order to help make Ontario more competitive as a destination for investment and job creation, the government is allocating \$400 million over four years to create the Invest Ontario Fund, which will support Invest Ontario and encourage investments in key sectors across the province.

Ontario: Enhancing the Regional Opportunities Investment Tax Credit

The Regional Opportunities Investment Tax Credit is a 10 per cent refundable Corporate Income Tax credit available to Canadian-controlled private corporations that make qualifying investments in eligible geographic areas of Ontario. The tax credit is available for eligible expenditures in excess of \$50,000 and up to \$500,000 in a year, for investments that become available for use on or after March 25, 2020.

Ontario is proposing to temporarily double the Regional Opportunities Investment Tax Credit rate. The proposed enhancement would allow corporations to claim a 20 per cent credit. The enhanced credit would be available for eligible expenditures in excess of \$50,000 and up to \$500,000 for property that becomes available for use in the corporation's taxation year, and in the period beginning on March 24, 2021 and ending before January 1, 2023.

Qualifying investments are eligible expenditures for capital property included in Class 1 and Class 6 for the purposes of calculating capital cost allowance. Qualifying investments include expenditures for constructing, renovating or acquiring eligible commercial and industrial buildings and other assets.

Franchisors and franchisees who are planning to renovate should explore this credit in more detail to see how they might be able to take advantage of it to help with the costs of the renovation project that occurs outside the Greater Toronto and Hamilton Area.

Ontario Business: Tap Into Post-Secondary Talent and Apply For a Valuable Wage Subsidy

The Talent Opportunities Program (TOP) is an initiative of the Ontario Chamber of Commerce designed to help employers located anywhere in Canada hire college and university students on work placements. Employers hiring eligible students may receive a wage subsidy up to 75 per cent (up to a maximum of \$7,500) per placement.

Employers must be a registered Canadian business or not-for-profit organization, may be located anywhere in Canada, and may operate in any industry sector. Some restrictions apply. Please see the [TOP Handbook](#) for full details.

Students hired on work placements must be registered at a recognized Canadian college or university, be enrolled in a program or course where a work placement is part of their study plan, and be Canadian citizens, permanent residents or persons to whom refugee protection has been conferred under the Immigration and Refugee Protection Act.

Please refer to the [TOP Handbook](#) for more information about the program and the application process.

TOP is a program delivered by the Ontario Chamber of Commerce with funding from the Government of Canada's Student Work Placement Program.

Quebec's pandemic budget

By the numbers

- Balanced budget by 2027-28
- No tax increases or other deficit-reduction measures until Quebec reaches pre-pandemic employment levels
- Estimated GDP growth of 4.2% in 2021 and 4% in 2022
- Generations Fund deposits maintained, with the fund expected to reach \$30 billion in 2025-26
- Spending increased 15% (\$12.9 billion) over March 2020 projection due to the pandemic
- Repeated demand for federal government to increase its contribution to health from 22% to 35% of expenses

Taxes

- Small business tax rate deduction increase, bringing effective rate for first \$500,000 of income from 4% to 3.2% as of Friday
- Doubling until Dec. 31, 2022 of C3i investment and innovation tax credit, reaching up to 40% for investments in regions with low vitality
- Tax holiday for digital transformation until Dec. 31, 2024
- Ensure QST is collected on foreign goods from fulfilment warehouses
- Ensure QST is collected on all platform-based short-term accommodation systems (e.g. Airbnb)
- Increase of refundable credit for on-the-job training by 25% until May 1, 2022
- More stringent reporting requirements for trusts
- \$50 million more to Revenue Quebec for tax audits
- \$1 million more per year to combat alcohol smuggling
- Changes to municipal tax rules to lessen the burden on homeowners who made significant repairs to properties damaged by pyrrhotite
- \$5 million to help Revenu Québec improve cybersecurity

Industry and labour

- \$157.5 million for job retraining
- \$246.1 million for integration of immigrants, including \$57 million to encourage them to move to regions and \$50 million to help them learn French
- \$150 million this year to maintain the Concerted Temporary Action Program for Businesses and the Emergency Assistance Program for Small and Medium-Sized Businesses
- \$50.9 million for youth employment centres
- Reduction of 5,000 administrative positions in government by 2022-23
- \$15 million to support the battery industry
- \$95 million to renew support for the aerospace industry
- \$35 million to renew support for the aluminum sector

- \$92.8 million for the forestry sector

Quebec will pump \$4 billion over five years into measures to spur business investment, lift productivity and revive industries battered by COVID-19 as part of an effort to speed up economic growth and cut the wealth gap with Ontario.

Some \$1.3 billion will be spent on a program to connect all Quebecers to high-speed Internet, finance minister Eric Girard said Thursday as he unveiled his fiscal 2021-22 budget. Hundreds of millions more will go toward supporting tourism and culture, upgrading infrastructure and re-training workers to tackle persistent labour shortages.

Quebec's gross domestic product shrank by 5.2 per cent last year as public-health restrictions plunged the global economy into a deep recession. Lodging, food services, recreation and cultural industries bore the brunt of multiple lockdowns.

Quebec's unemployment rate will probably drop to 6.4 per cent in 2021 and 6 per cent in 2022 from last year's 8.9 per cent average, budget forecasts show. Despite the drop, the jobless rate will remain above its pre-pandemic level of 5.1 per cent in 2019.

To encourage companies to adopt new, more productive technologies, Quebec is temporarily boosting the investment and innovation tax credit while cutting the income tax rate for small and middle-sized businesses. The measures will cost \$753 million over five years.

Quebec estimates that the innovation tax credit hike, which will cost \$290 million over five years, will help more than 10,000 businesses complete their investment projects faster.

Effective Friday, all eligible SMBs will pay an income tax rate of 3.2 per cent on the first \$500,000 of their taxable income, the same as Ontario, instead of 4 per cent. Quebec estimates more than 70,000 SMBs will pay lower taxes, collectively saving \$346 million over five years.

Quebec will also unlock \$523 million over six years to bolster the tourism sector, modernize infrastructure and finance regional development.

Nova Scotia budget tabled

By the numbers

- A deficit of \$584.9 million is projected on a spending program of \$12.5 billion, with total debt hitting \$17.97 billion and a goal of returning to balance in four years.
- The health budget is growing overall by \$510 million to reach \$5.3 billion, almost an 11 per cent increase over last year's estimate, with over half of that from added COVID-19 related expenses.
- A deficit of \$584.9 million is projected on a spending program of \$12.5 billion, with total debt hitting \$17.97 billion and a goal of returning to balance in four years.
- The health budget is growing overall by \$510 million to reach \$5.3 billion, almost an 11 per cent increase over last year's estimate, with over half of that from added COVID-19 related expenses.

- There is \$8.6 million to replace and renovate seven nursing homes and to add 230 beds by 2025, and \$6 million to support the sector with COVID-19 expenses and almost \$4 million to make up for lost revenues during the pandemic.
 - The province's gross domestic product shrank by four per cent last year in nominal GDP, and revenues were \$252.6 million lower than originally planned, while expenses soared by close to \$550 million.
 - The budget includes the capital plan, which invests \$1.17 billion in roads, schools, health-care facilities and other public infrastructure.
-

Saskatchewan to temporarily cap food delivery fees

The Saskatchewan government says it's going to cap food delivery charges in a move to support restaurants. Delivery fees are to be capped at 18 per cent of a customer's pre-tax order if the food deliver service provider completes the delivery and 10 per cent if a customer picks up their food.

Minister of Trade and Export Development Jeremy Harrison said the restaurant sector in particular faced challenges through the COVID-19 pandemic.

The cap on delivery fees will apply to providers that serve more than 50 restaurants across the province. The cap will be enforced by the minister's order under the Emergency Planning Act and is to be in effect starting Wednesday until April 30, 2021.

Supreme Court rules Ottawa's carbon tax is constitutional

In a 6-3 decision, the Supreme Court of Canada has ruled the federal Liberal government's carbon pricing regime is constitutional — a major decision that allows Ottawa to push ahead with its ambitious plan to ensure every province and territory has a price on carbon to curb greenhouse gas emissions.

Some provinces — notably Alberta, Ontario and Saskatchewan — have forcefully opposed the carbon tax, arguing natural resources are in the provinces' jurisdiction under the Constitution.

Chief Justice Richard Wagner, writing for the majority, said the federal government is free to impose minimum pricing standards because the threat of climate change is so great that it demands a co-ordinated national approach.

He agreed with the federal government's argument that climate change is a pressing matter of national concern and said it's constitutionally permissible for Ottawa to take the lead on a threat that crosses provincial boundaries.

Bank of Canada Lays Out Plans to Slow QE, Halts Other Programs

In a speech on Tuesday, Deputy Governor Toni Gravelle said the central bank is winding down emergency liquidity programs it deployed to grease markets when the coronavirus hit last year,

including programs to buy provincial and corporate debt. He also provided insight into how the central bank plans to pare back its main government bond purchasing program -- including a pledge that any tapering will be gradual.

Policy makers have been buying a minimum of C\$4 billion (\$3.2 billion) in federal government bonds each week to help keep borrowing costs low. Economists say that pace may no longer be warranted, with an outlook that appears to show the economy growing at a much stronger clip than officials had been expecting.

Tapering in April is "as near a certainty as these things can be," Andrew Kelvin, chief Canada strategist at TD Securities, said by email. "If they were planning on maintaining bond purchases at these levels, it would've made sense to push back against tapering expectations."

The central bank also wants to avoid taking ownership of too large a share of the outstanding bond market. Currently, the bank owns a little more than 35% of the total market of outstanding government of Canada bonds. Governor Tiff Macklem has said that when holdings rise above 50%, market functioning could get distorted.