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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 30e | 4e | Discours sur le budget | 19 avril 1977 | Darcy McKeough | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

The 1977 Budget, which I am presenting tonight, will reduce Ontario's cash requirements by $311million. This large reduction will be achieved by constraining the growth in our spending to 9 per cent or $1.1 billion, while revenues will increase by 12.9 percent or $1.4 billion. This responsible fiscal plan builds upon the gains of last year, uses our finances to maximum benefit and frees up resources for the private sector to ensure the continued prosperity of the Ontario economy.

The Government has instituted tough measures over the past two years to reduce the growth of public spending in Ontario. These measures have been successful. I am pleased to repeat that our 1976-77 spending will actually come in $1 1 million below the original Estimates, the first time since 1947 that this has been achieved. This demonstrates that government can cut costs, can set priorities and can live within its means.

My colleagues and I believe we must hold firm to this course of spending restraint, not just for 1977 but for the longer run as well. This Budget extends the Government's fiscal planning horizon beyond the traditional single year. It projects the revenue yield we can expect over the next three years without resorting to tax increases. And, it sets out the spending limits we can afford if the budgetary deficit is to be progressively reduced, and ultimately eliminated. Our objective is to have the capacity to balance the Ontario budget by 1980-81. This is not an inflexible commitment: indeed, economic conditions or social needs may make it inappropriate or even impossible to achieve this target by 1980-81. Still, we must make every effort to move stead- fastly towards a balanced budget. That will require determined self- discipline and day-to-day resistance against the temptation to spend and to borrow.

Canada needs at this time long-term solutions to the very basic problems that have become impediments to our economic future. To focus exclusively on short-term remedies for fundamental ailments will lead us right back to the position we are in now— a condition of excessive tax and debt burdens for Canada and Canadians, compounded by a further weakening of our ability to match foreign competition. Higher tariff barriers and industrial subsidies are not the

answer, nor are larger government expenditures. One has to be im-

pressed with the wisdom of one respected politician, who said recently,

and I quote:

"We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting Goverment spending. I tell you, in all candor, that that option no longer exists, and that insofar as it ever did exist, it worked only by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the last twenty years."

Mr. Speaker, that statement was made by someone who is most familiar with the problems of public sector growth, the Rt. Hon. James Callaghan, Prime Minister of Britain's socialist government.

**Strategy for the 1980’s**

Members will be aware that this Government has given its maximum attention to tackling the longer term challenges. We remain convinced that the highest priority has to be allocated to a strategy for the 1980's and that this strategy should embrace, in a comprehensive way, the key aspects of our economic and social life. This is not the time to slide off into makeshift remedies, because they will come back to haunt us and our children for many years. What is needed is a determined effort to tackle the larger structural problems of achieving balanced growth with full employment and price stability.

The basic issue before us is "after controls, what?" If we are to successfully avoid the errors and difficulties of the past, we shall need to address four facts of fundamental importance to our prosperity.

• First, governments must discipline themselves and avoid draining from the economy an unreasonably large portion of national and provincial resources.

• Second, we must improve the climate for investment in Canada.

• Third, we must persuade or influence industry in Ontario and Canada to concentrate its resources in those activities where we are able to compete in international markets.

• Fourth, in the labour market we must de-emphasize the adversary environment of labour-management relations.

Government Restraint

Mr. Speaker, it is no accident that Canada's image as a place to do business has suffered somewhat in other industrial countries. We have badly tilted our economic and fiscal policies towards social over- management and let go the responsibility of encouraging the economic growth that feeds us. In the past ten years, we have seen program after program to redistribute income, which is perfectly valid and necessary. But, we have seen not nearly enough effort at the national level to keep the economy alive and well to generate the income for such redistribution programs. In my judgment, it has been a process of constant leeching on private sector initiatives that has brought us to a condition of virtual non-competitiveness in so many areas of our economy. The answer must lie in self-discipline across the whole public sector.

In the matter of achieving restraint, Ontario's record stands as an example for all governments in Canada. We have every intention of maintaining that posture for the future. It is the only way we can pump resources into the private sector and permit free enterprise to move forward and generate the jobs and incomes we expect and need.

The Climate for Investment

This Government has made investment and free enterprise central concerns in all of its activities. Without profits, there is no investment; without investment, there are no new jobs— no productive and non- inflationary jobs. It is easy to create inflationary employment, but quite another matter to create the conditions for productive jobs that increase the wealth of the nation and its people.

One of Canada's major priorities in marshalling its investment capacities must be that of increasing the level of equity funding in our industries. While I recognize and support the role of internal corporate financing of our large-scale industrial activities, I would like to see government, industry and the financial community take positive steps to substantially increase the role of small investors in our economy.

It isn't enough to expect the public to be sensitive to the needs of the business climate in an abstract way. The average citizen needs and deserves to have a much greater opportunity to participate in the rewards of investment and economic growth. Only when more citizens have a direct stake through their own private investments can we hope to develop broadly-based public understanding of the importance of investment and growth in a free economy. In this regard, I am encouraged by the increase in the dividend tax credit announced in the recent federal budget.

Those who believe as a matter of blind faith that all business is bad, never, of course, see any connection between private sector investment and job creation. I think the realities of several years of irresponsible and irrational criticism of everything businessmen do are coming home to us. Unfortunately, as is all too often the case, it is ordinary working people who suffer— those whose jobs rest on investment and healthy industries, not those whose pious rancour has driven investment from the market place.

To assist the process of understanding profits and their essential contribution to the growth process, the Government has established a committee to examine inflation accounting. The recent federal budget acknowledged the importance of this area of concern by introducing some changes in the method of taxing inventories. I welcome this move as a positive contribution, but I think we have to go further and examine in considerable detail the adverse effects of inflation on business investment capabilities and job creation. Therefore, I am asking the Inflation Accounting Committee to look at the recent federal tax changes and to assess their impact on investment in Ontario.

One of the largest single concerns in Canada's economic future is the matter of government's role in financing the retirement incomes of the rapidly growing number of pensioners. Ontario has established programs for supplementing the incomes of the elderly, in response to the difficulties many pensioners were experiencing with price inflation. However, the emergence in the public sector in recent times of indexed pensions at high levels of benefit raises questions concerning the capacity of our economy to withstand the massive financial burdens implicit in these public pensions.

Accordingly, in the Speech from the Throne, the Government has made known its intention to establish a Royal Commission to inquire into this matter. Since pension plans are a major source of investment savings for our economy, it is essential that we have a financially sound pensions framework.

Economic Efficiency

Mr. Speaker, there are many industries in which we enjoy the benefits of world scale and a world level of productive efficiency. However, I am concerned that in a growing number of instances we are being forced out of world markets and are losing our grip on domestic markets. Despite the fact that Canada is an industrial nation, we import far more manufactured products than we export. We have become a capital-intensive economy and I think we may be squandering our precious capital resources by fostering inefficient industries. Ontario's policy remains one of resisting subsidization and feather-bedding. We want healthy, efficient and productive industries, and I am convinced we can have more of them if we can achieve a change in our attitudes towards productivity and profits.

On the matter of the current negotiations in Geneva on international trade and tariff policies, I have to repeat Ontario's concern that the federal government is proceeding on the basis of no known strategy. It is clear that Canadian industries, and Ontario manufacturers, can- not be protected forever by high tariffs, and yet the day of tariff cuts gets closer and closer with no sign from Ottawa that Canada will be ready with adjustment programs which will enable our industries to roll with the punches. I am not in favour of high tariffs. I think we can do better for our consumers, but we need a national policy with some vision of the economic future to help us see where we should be going.

One of the key aspects of a national industrial policy, Mr. Speaker, must be to focus our effort on those industries where Canadians have special skills and talents. As a beginning, I would like to see national policies which make full use of our unique talents in the following areas:

Automobiles : Over 120,000 Canadians earn their incomes in this highly productive industry, so Canada's role and share in the Auto Trade Pact has to be a matter of great concern to us. Steel: We have developed an efficient industry which deals effectively in world markets as well as being important as a source of growth in the domestic economy. We need to develop more consciously those industries and skills that can build on this industrial base.

Industrial Rationalization: We cannot afford in many instances, with our relatively small market base, to have many firms competing in one sector. For this reason, my colleague the Minister of Industry and Tourism fully supported the recent industrial consolidation of our electrical appliance industry which was achieved through the merger of the major appliance divisions of General Steel Wares and Canadian General Electric to form the Canadian Appliance Manufacturing Company. We need to encourage more of that kind of rationalization. In doing so, we can rely on imports to provide effective price competition to the benefit of consumers and we can take full advantage of the economies of scale which industrial rationalization brings.

Energy and Resources Development : Canadian engineering talents and specialization in the energy and resource industries have made us world famous. We can and should profit more from these attributes and attempt to restore the confidence of investors in these industries. That confidence has been badly shaken in recent years by conflicts over resource taxation, environmental matters and deterrents to foreign investment.

Transportation Policy: There can be no doubt that Canadian transportation costs are critical to the success of the economy. They are too high and the industry is characterized by a lack of effective competition. Government policies have to resolve this issue and the equally important issue of improved investment in transportation facilities.

Agriculture : Is still one of Canada's richest assets: but we badly lack a national policy of income and price stabilization which is fair to both consumers and farmers, and, better still, builds up the base for increased exports.

Small Business : In the Speech from the Throne, the Ontario Government announced a wide range of initiatives to reinforce and guarantee an expanded role for small business in the economy. This is a vital aspect of maintaining a creative and efficient industrial economy. These actions will complement moves to bolster the efficiency of medium and large businesses.

Mr. Speaker, I could name many other examples. It is worth noting that Canada has also achieved a world-wide reputation in other fields where scale and size are important, notably, banking and finance, and, construction and engineering. I do not believe we lack the skills and commercial talents; rather, we seem to lack the will and the policy to fully utilize these talents and ambitions.

The Labour- Management Environment

This Budget continues to meet the challenges in the key areas of government restraint, investment and efficiency. A fourth aspect of our economic life which has to receive more attention in future years is that of moderating the atmosphere of confrontation in labour relations. The Government's intentions were made explicit at the Partnership-for- Prosperity Conference, which was convened and chaired by the Premier, drawing together 150 leaders and commentators from all aspects of Ontario life to discuss the problems of a post-controls economy. At that Conference we released a study paper entitled "Background to Decontrols" which outlined the problems and policy options.

In the Speech from the Throne, the Government put forward its views on the phasing out of controls, and on the kinds of consultative actions that would be necessary for a successful transition to a post- controls phase. We pointed out the need for a clear strategy to hold down inflation in the post-controls era, and the steps we would be taking as our contribution to this process. Budget Paper D which accompanies this Statement deals in some detail with the issues and options of decontrol.

Mr. Speaker, the responses to these four critical issues of national concern will be assembled and studied in a variety of ways. As part of that effort, Ontario is establishing follow-up working groups to the Partnership-for-Prosperity Conference to advise the Government on practical approaches to monitoring the performance of prices, profits, wages and salaries in the post-controls period.

**Ontario's Economic Outlook**

Following the practice of recent years, 1 have engaged in extensive pre-Budget discussions with representatives of many sectors of the economy. The advice I have received reflects a considerable range of opinion about economic prospects for 1977 and what constitutes appropriate fiscal policy. Many believe the economy should be stimulated and just as many insist that inflation is still our number one problem. A few have even suggested that Ontario should jump in and do all those things which, in their opinion, the federal budget left undone. I have found these pre-Budget consultations very informative, and I would like to express my appreciation for this useful input.

For 1976 as a whole, despite some difficult obstacles, employment and real incomes continued to expand. I think there is every reason to be optimistic about the outlook for 1977. The United States economy, our own economy, and those of the European Common Market, are all broadly balanced in the direction of expansion. The recent federal budget builds in considerable fiscal stimulation which, as I shall document later, will generate large increases in personal disposable incomes during the year.

The Ontario economy at this time is displaying signs of solid strength in several sectors which will produce positive results in terms of rising incomes and jobs as the year unfolds. For example, there is growing evidence that the large inventory of unsold housing is beginning to move well, and this is having an encouraging effect on the industry. Automobile production is running ten per cent ahead of last year and sales are up more than double that rate.

Investment is beginning to turn around, assuming we maintain a stable and hospitable business environment. Government spending on capital projects in Ontario, including those of Ontario Hydro, will be higher. There are also significant investments in steel and petrochemical projects which, as they come into production, will establish world scale in those industries. These are most encouraging prospects, which will be materially assisted by the drop in the external value of the Canadian dollar over the past four months; it will assist our exports and help tourism in Canada.

I expect lower interest rates to help in the recovery. I have pointed out that each percentage point drop in interest rates saves Canadian consumers, over time, a billion dollars a year. Thus, high interest rates in our economy have to be a continuing concern to all of us. The answer, however, is not to drop interest rates in some arbitrary way. If inflation is not beaten, we cannot have lower interest rates without precipitating a flight of capital from Canada. Therefore, inflation must be a continuing and major concern.

In summary, my expectation for fiscal 1977 is that the annual rate of growth of the Ontario economy will move from four per cent a year in the first half to a rate of six per cent a year by the last half of the year. If prices, profits, wages and salaries get out of line with real productivity gains, however, the ability of the economy to expand will be drastically impaired. The rate of recovery will depend very directly on the restraint all participants in the economic process are prepared to contribute. Excessive demands from any part of the economy will take jobs away from our citizens. That is the simple and absolutely unavoidable fact of our economic life. There is no easy way out, and there can be no exceptions to the effort required of us all.

**Built-in Fiscal Stimulus**

The federal budget of March 31, 1977, provides needed stimulation to the economy. It reduces corporate and personal income taxes by $1 billion in 1977-78. In addition to these tax cuts, take-home pay of Canadians will rise by about 1 billion dollars in 1977-78 as a result of indexation of the personal income tax. Some $900 million of these federal tax reductions will flow to Ontario businesses and individuals during the 1977-78 fiscal year. Ontario will contribute $130 million on top of this federal stimulus as its own share of the costs of indexing. In total, therefore, there is already built into the Ontario economy a fiscal stimulus in excess of $1 billion. I would also point out to Members that Ontario residents are now receiving their income tax refunds- including Ontario tax credits — for the 1976 taxation year. I estimate that these payments will further boost purchasing power by well over $500 million immediately.

Mr. Speaker, I think the state of Ottawa's finances which is revealed in the federal budget underscores the wisdom of Ontario's decision, taken two years ago, to constrain spending and reduce the Province's deficit. As a result of past excesses in spending, Ottawa's projected budgetary deficit for 1977-78 is a whopping $7.2 billion. This is an increase of almost $600 million over the previous year. By contrast, we have succeeded with great determination I might add — in reducing our deficit substantially.

Before I turn to the details of my Budget for 1977, I should briefly like to draw the attention of Members to Budget Paper E which out- lines some essential statistics on federal fiscal redistribution in Canada. I think Members will find it an interesting first attempt on our part to distribute the revenue and expenditure of the Government of Canada among the various provinces. I am also tabling an analysis of inter- provincial trade flows and the cost of tariffs to Canadian consumers.

I should caution Members that these are preliminary figures. Canada is seriously lacking in data of this kind, which has hampered reasoned debate on the costs and benefits of Confederation. I, for one, would like to see the federal government put the figures on the table so that all Canadians can see for themselves what every province pays and what it receives in return. While I do not profess to understand the technical aspects of these figures, I am convinced that they show Confederation to be a powerful and protective economic shield for ail Canadians.

**Expenditures priorities**

I would now like to turn to the Government's expenditure plan for the coming year.

The planned expenditure growth rate of 9.0 per cent for 1977-78 marks the third consecutive year that a reduction in expenditure growth has been achieved. I would like to draw the Members' attention to the fact that Ontario's expenditure growth rate for 1977-78 is one of the lowest among the provinces and is below that of the federal government for the sixth consecutive year.

I am firmly convinced that this progressive reduction in expenditure growth rates is helping to restore a more appropriate balance of public and private sector activities. During this period of expenditure restraint, the Government has substantially reordered its priorities to meet pressing needs. For the information of Members, I have included a table showing expenditure growth rates by policy field which illustrates these changing priorities.

Mr. Speaker, you will recall that on November 23, 1976, I out- lined the broad dimensions of the Government's 1977 spending plan. One of our key objectives was to minimize operating costs and over- head expenses, so that more resources could be mobilized for job- creating investment projects. The 1977 spending plan meets this objective. It provides increased funding for the new Northern Affairs Ministry, for water and sewerage investment, the OECA capital program in the North, and it also includes increases for GWA, FBA, and blind and disabled benefits under GAINS.

An important element in the Province's cost-control program is the elimination of unnecessary staffing positions. In 1977-78, the civil service complement will not increase. This means we will hold the reductions achieved over the past two years. We will meet additional manpower requirements in some programs by redistributing our existing human resources. A new system of manpower control will be implemented this year which focuses on overall dollars. Full details will be provided by my colleague, the Chairman of the Management Board.

Assistance to Local Government

The Government's financial assistance to local government for 1977 was announced last September 10th. This was the earliest time ever and fully three months earlier than the previous year. To accomplish this required a great deal of effort and co-operation from all ministries involved. I have received many local expressions of appreciation and assurances that this action helped greatly in local budgeting.

During the present year, the Government expects to transfer some $3.4 billion to local government, or more than triple the amount transferred during the 1969-70 fiscal year. Counting the advance payments we mailed out in early April, our assistance for 1977-78 is up by 12.5 per cent over last year.

I would like to take this opportunity to remind our local governments that this 12.5 per cent increase in assistance is in no way an indication of the end to the need to restrain spending. As I have said on many occasions, it is critical that we develop a leaner more efficient public sector. There remains ample scope for further shake-out at the local government level. The increases in property taxes in 1976 have eroded some of the benefits of our Provincial actions to stabilize tax burdens. The accompanying table shows that property taxpayers are still relatively better off than in 1970 or 1972, but important ground was lost during 1976 when the average property tax rose to 2.5 per cent of household income. The latter was due exclusively to the in- crease in education taxes.

As in previous years, I am tabling a separate document today on the Government's financial assistance to local government. As well, I would like to remind Members that two important studies on local government matters— Blair and Mayo — have already been released, and four others— Robarts, Archer, Comay, and Stevenson— will be forthcoming in the next few months. These will be of critical importance in proceeding with orderly reforms of local government structure and finance.

**Job Creation**

Within our limited resources for 1977, the Government has placed its highest priority on creating jobs. The job-creating initiatives must be selective and directed where they will have the biggest impact on unemployment.

Before detailing these measures I would like to draw the attention of the Members to Budget Paper A entitled 'The Changing Character of Unemployment in Ontario". This paper continues the in-depth analysis of the Ontario labour market begun in Budget Paper D of my 1976 Budget. This 1977 paper indicates that for a variety of reasons the level of unemployment consistent with the provincial economy reaching its full-employment performance has risen significantly since 1971. Unemployment in Ontario has not been below 4 per cent since 1969. Even in 1973 and 1974, during a period of high growth and rapid inflation, unemployment remained above the then accepted full-employment norm. Budget Paper A suggests that the full-employment target for Ontario appropriate to the 1970's is 5.3 per cent, up from 3.0 per cent some years ago. The magnitude of the change may be debated, but similar sentiments have been expressed by the Governor of the Bank of Canada in his recent Annual Report and by the federal Minister of Finance in his recent budget.

Construction Jobs

The major slowdown in non-residential construction in Ontario during this past year has led to disproportionately higher unemployment among construction workers. Unemployment in the construction industry is currently running in excess of 15 per cent. To stimulate jobs and reinforce the vitality of this industry, we will accelerate Provincial capital spending by $75 million in 1977-78. This will generate almost 3,400 additional jobs and will provide a powerful stimulus to the construction industry.

The job-creation package for the construction trades includes the acceleration of road and transit projects, sewage and water treatment plants, plus new funding for repairs and insulation of Government and university buildings, health capital projects, and agricultural infra- structure. Details of these projects and their job-creating potential will be made available by the ministries concerned.

My colleague, the Minister of Housing, has already announced plans to stimulate the rental housing industry.

I would also like to inform Members that I have authorized Ontario Hydro to accelerate its capital construction program. The Government had limited Hydro's capital borrowing to $1.5 billion annually during 1976, 1977 and 1978, because of our concern about the availability of capital funds. The Province's success in reducing its own financing requirements, however, provides room to prudently expand Hydro's borrowing program to $1.7 billion for 1978. This will allow Hydro to do more construction work this year and next year, thereby im- proving the employment prospects in this important industry.

I would like to emphasize that no part of this authorized increase in borrowing is to be used by Hydro for operating purposes.

Jobs for Ontario Youth

On the employment front, the most pressing priority is to do some- thing quickly and effectively for our young people. A large part of the high unemployment reported in the first three months of this year falls within the 15-24 age group. I am concerned that these young people have been unfairly saddled with the economic problems that governments in Canada have not been able to resolve. If we have un- employment today, it is because we have an industrial cost structure that results in our industries not being able to compete abroad as they did in the past. And it is precisely because public spending has put Canadian taxes at a level unprecedented in North America that our industries are struggling to compete with productive and efficient industries around the world. For our young people we need two things: first, immediate help; second, the stimulus of a growing economy so that new investment can provide the ongoing economic growth and jobs they need to build their own lives, raise their families and enjoy the same standard of living as we do.

To provide further employment opportunities for youth, the Ontario Government will implement a five-point program in 1977. The Government will:

• expand the regular summer replacement program by 700 positions to a total of 10,000 jobs;

• expand the Experience program by 2,350 jobs to a total of 11,492 jobs;

• increase the Ontario Career Action Program by 1,000 jobs to 2,300 jobs;

• introduce a new program to train 250 young people to assist the elderly and the handicapped to live more comfortably in their homes. Full details of this program will be announced by the Minister of Community and Social Services; and,

• introduce a new Ontario Youth Employment Program to provide employers of young people with a grant of one dollar an hour towards the wages of summer employees. This program is expected to provide a sixteen-week subsidy for up to 20,000 young people at a cost of $ 1 million. Details of the two new programs are out- lined in Appendix B.

Altogether, these youth-oriented programs should provide jobs and introductory training to the labour market for about 45,000 young people, at a cost of $68 million. This represents a funding increase of more than $20 million over last year and better than twice the number of job opportunities for our energetic young people.

**Tax Actions**

As I mentioned earlier in my Statement, the recent federal budget will have a significant effect on Ontario's revenue. In total it will cause a reduction of $74 million in this fiscal year— $32 million in personal income tax and $42 million in corporation income tax. The taxpayers of Ontario will benefit directly from the Province's decision to parallel these federal tax measures.

Within the economic objectives which the Government has set for this year, 1 have decided upon a package of additional tax reductions amounting to $ 1 27 million to stimulate important sectors of the economy. I am proposing to balance this total revenue loss of $201 million by tax increases of $209 million in order to meet my financial target.

Personal Income Tax

As a result of the new federal-provincial fiscal arrangements, the Province's personal income tax rate increases to 44 per cent of federal basic income tax for the 1977 taxation year. The 44 per cent rate will ensure that, given the reduced federal base for calculating Ontario tax, the Province will occupy the tax room vacated by the federal government. At the same time, taxpayers will be left virtually unaffected overall. This means that, other than in Alberta, Ontario's personal income tax rate remains the lowest of any province in Canada.

The history of the new arrangements, the mechanics of this transfer of personal income tax room, and the impact on filers are fully documented in Budget Paper B. I am also taking this opportunity to table a staff research paper entitled "The Equity and Revenue Effects in Ontario of Personal Income Tax Reform: 1972-75". This paper, which is number 13 in the Ontario Tax Studies series, examines how reform of the personal income tax has worked in Ontario.

Let me now turn to the tax decreases contained in this Budget.

The new federal-provincial fiscal arrangements have implications for Ontario's personal income tax reduction. To ensure that the majority of Ontario taxfilers who pay no federal tax are also free of Provincial tax, effective for the 1977 taxation year, Ontario income tax will no longer be payable by taxfilers with less than $1,680 taxable income. This enrichment from the 1976 level of $1,540 will remove the Ontario tax liability for an additional 35,000 filers and will cost more than $3 million. In the majority of circumstances it should mean that no Ontario tax will be payable where no federal tax is payable. In some cases, however, the new $50 federal tax credit for children will remove federal tax liability while Ontario liability will remain. In the near future I will be reviewing the viability of incorporating this provision in The Ontario Income Tax Act.

Retail Sales Tax

I am proposing a number of reductions to the retail sales tax, effective midnight this day.

Ontario has, over the past few years, increased the level of the retail sales tax exemption for prepared meals so that residents and visitors alike are able to purchase essential meals free of tax. At the same time, the levels chosen have ensured the continued generation of revenue from the more elaborate, higher-priced dinners. In continuation of this practice, I am proposing a further increase in the level of exemption to $6. This change ensures that all basic meals will be free of tax, and should result in considerable benefit to the tourist trade since the average vacationing family of four will enjoy a saving of about $2 a day.

Second, I am proposing to exempt from sales taxation all disposable items purchased by operators of hotels, motels and similar establishments for use in guest rooms. This tax has been an irritant to the trade and its removal will allow the industry to compete more effectively for the tourist and convention dollar.

These two tax actions should be of considerable benefit to Ontario's tourist industry, which is the province's second-largest employer. Together, these moves will cost the Province $8 million in 1977-78.

Recognizing the importance of conserving energy, the Government last year provided sales tax relief to retail purchasers of thermal insulation materials used for existing residences. To further encourage the conservation of energy, I am proposing an extension of this exemption to include thermal insulation materials for all buildings. In addition, I am proposing that other energy-conserving materials and equipment, for example heat recovery units and solar cells, be added to the list of retail sales tax exemptions. The potential saving on the purchase of a solar energy system is approximately $200-$300. I estimate that these new initiatives will provide a total tax saving to consumers of about $6 million in 1977-78.

I am also proposing that the exemption from sales tax on the price of admission to places of amusement be increased from 750 to $3.00 It is estimated that the tax saving to consumers will be around $10 million in 1977-78. This measure will simplify the procedures involved in administering this tax. It will also provide relief to the many thousands of charitable and non-profit organizations in Ontario and assist the promotion of public events such as agricultural fairs and exhibits in museums and art galleries.

Incentives to Small Business

Small business continues to be one of the outstanding strengths of the Ontario economy, and the Province has a substantial- number of programs and incentives designed to encourage the development of this sector. In keeping with this approach, I am proposing the following incentives to small business:

• increased compensation for tax collection activities;

• simplified capital tax compliance; and,

• the establishment of Venture Investment Corporations.

For tax collected on or after April 1 , 1977 the level of compensation provided to retail vendors and appointed tobacco tax collectors will be expanded from 3 per cent to 4 per cent, and the annual maximum will be increased from $500 to $700. This raises current levels by over one-third and means that the tax collection compensation paid to small businesses in Ontario is the highest provided by any province in Canada or any major U.S. state. The cost of this improvement will be approximately $5 million for 1977-78.

I recognize that filling out complex capital tax returns is a nuisance to most owners of small businesses. I therefore propose that, in lieu of the regular capital tax rates, corporations with taxable paid-up capital in Ontario of up to $50,000 pay a flat tax of $50, and corporations with taxable paid-up capital in Ontario in excess of $50,000 and up to $100,000 pay a flat tax of $100. These corporations will receive a tax saving at a cost to the Province of $3 million. The filing of capital tax returns is thus greatly simplified for about 95,000 Ontario corporations.

Members will recall that in the 1976 Budget I introduced legislation, for first reading only, which proposed that special Venture Investment Corporations be established to provide risk capital to small businesses in Ontario. A deferral of corporation income taxes was proposed as an incentive to encourage the deployment of risk capital into these small corporations. The purpose of this legislation was to encourage and facilitate discussion of the concept with the federal government and the private sector. The discussion resulted in a revised version of the VIC legislation being tabled with my November Economic Statement.

The recent federal budget introduced one provision respecting the tax treatment of investments in Venture Investment Corporations. This allows Ontario to proceed with VICS. Therefore, I will introduce tonight The Venture Investment Corporations Registration Act, with the intention of having the system in place and operating before the end of 1977. The complementary tax amendment to The Corporations Tax Act will be introduced later in the year by my colleague the Minister of Revenue; details of this proposal are provided in Appendix A to this Statement.

It is my hope that the VIC program will substantially encourage the development of small business in this province. The capital tax relief for small businesses and the programs recently announced by other ministries, such as the elimination of the annual corporation filing requirement and the expansion of the Ontario Development Corporation services, demonstrate this Government's firm belief in a strong and growing small business sector in this province.

Succession Duties and Gift Taxes

In the past year, the provinces of British Columbia and Saskatchewan have abandoned the succession duty field. As a result, only Manitoba, Quebec and Ontario now levy succession duties and gift taxes. We have reviewed this matter carefully and have concluded that our own statutes should remain in force. They add a valuable degree of equity to the Province's tax structure. However, it is the Government of Ontario's policy to have these taxes paid by those who can best afford to do so. The 1975 Budget went a considerable way towards ensuring this goal by exempting from duty all estates valued at less than $250,000. As a further move towards concentrating the burden of death taxes on large estates, and to allow for the upward valuation in assets which occurs over time, I am proposing that the basic level below which no duty is payable be increased to $300,000, effective in respect of deaths occurring on or after April 20, 1977.

At the same time, the Province of Ontario recognizes its long-term commitment to phase out succession duty when the capital gains tax matures. At the present time, and indeed in the foreseeable future, the level of capital gains revenue will not be adequate replacement for revenue lost by vacating the succession duty field. Therefore, the Government has decided instead to fully remove any element of double taxation by integrating succession duty and capital gains tax through a credit mechanism. I am proposing that, effective in respect of deaths occurring on or after April 20, 1977, capital gains tax arising as a result of death will be eligible to be treated as a credit against succession duty. It is expected this credit mechanism will result in ever-increasing reductions in succession duty over time, as the value of capital assets increases and The Succession Duty Act is amended periodically to recognize the effect of inflation.

In addition, the current requirements of affidavits from all beneficiaries will be replaced by a simplified return submitted by the executor of the estate. The accessibility of beneficiaries to the assets of the estate will also be made easier. As well, the Ministry of Revenue will be offering regional counter-service in respect of succession duties in the near future— which will enable small estates to be processed promptly and have their assets cleared quickly.

To complement these changes to The Succession Duty Act, and to permit the distribution of assets prior to death, The Gift Tax Act is also amended. For 1977 and subsequent years, gifts of up to $10,000 per recipient and $50,000 per donor per year will be exempt from gift tax. This represents a doubling of the allowances which were available for 1976.

It is estimated that these changes to The Succession Duty Act and The Gift Tax Act will cost $8 million in this fiscal year.

The Land Transfer Tax

I am proposing that, effective today. The Land Transfer Tax Act be substantially amended in terms of its tax treatment of non-resident individuals and corporations to encourage productive foreign investment.

Currently, all land transferred to non-residents attracts the high 20 per cent rate of tax. I am proposing to tax only agricultural and recreational land — restricted land— at this high rate. Specifically, any transfer to a non-resident individual or corporation of land that is "zoned" or "assessed'" as commercial, industrial or residential is to be taxable at the normal low rate of land transfer tax.

The substantial difference between the new legislation and the existing Act is in the treatment of non-resident industry. The latter forced legitimate industrial or commercial enterprises through a deferral process that, with changing economic conditions, has proven to be unnecessary and inappropriate. The new proposal does away with deferrals where the non-resident transferee is purchasing "unrestricted" land. The procedures for deferrals of tax are carried over from the old Act where the non-resident purchases restricted land for the purpose of commercial, industrial or residential development and resale, or for the purpose of establishing, expanding or relocating an active commercial or industrial enterprise.

The Land Speculation Tax

The Government remains committed to its policy of discouraging non-productive speculative activities. However, I am proposing two necessary changes to The Land Speculation Tax Act.

The current provision for a reduction in taxable value with respect to investment properties completely eliminates tax over a ten-year period. This provision has required a longer than desirable commitment by non-residents who wished to buy investment properties in Ontario. Consequently, a substantial pool of capital normally available to resident developers has dried up. I am therefore proposing to halve the reduction period from ten to five years, by doubling the reduction value to 20 per cent per annum.

A second proposal permits farmers to rent out their farm properties without forfeiting the 10 per cent per annum reduction in taxable value permitted to farm property. Whereas the previous provision deemed the rental period as being an interruption in the farming period, the new provision allows for the rental period to equal three years or less in the ten-year period without loss of the reduction. However, the rental period may not exceed two years immediately prior to disposition. This proposal gives farmers time to decide whether or not to sell their farm properties without opening the door to full-fledged speculation by non bona fide farmers.

In addition to the relaxation of the treatment of farms and investment properties, The Land Speculation Tax Act parallels the changes to The Land Transfer Tax Act. It is my hope that these significant changes to the land transfer and land speculation taxes will further encourage job-creating investment.

I should note my satisfaction that the federal Minister of Finance, in his recent budget, has changed the treatment of capital gains taxation to allow the rollover of capital gains when funds realized from the sale of business and farming assets are reinvested in similar assets.

Long-Term Investment Incentives

In addition to the tax reductions I have just detailed, I am pro- posing the following long-term measures, in the interests of federal- provincial tax harmony and to maintain Ontario's competitive position.

• Continuation of the manufacturing and processing fast write-off for an indefinite period. This measure will cost the Province approximately $80 million in a full year.

• Paralleling the three per cent inventory valuation adjustment which was announced in the federal government's March 31, 1977 budget, at a cost to the Province in fiscal 1977-78 of $40 million. This is an interim measure at both the federal and Provincial levels pending the recommendations of committees which are now examining the tax aspects of inflation accounting.

• Adopting the federal 25 per cent resource allowance for oil and gas companies and replacing our present automatic depletion system with earned depletion for these companies. In addition, I propose to parallel the incentive for frontier oil and gas exploration announced in the latest federal budget. I estimate that the revenue loss to Ontario of these changes will be about $6 million annually.

The recent federal budget also contained major changes to the taxation of insurance companies. The implications and revenue effects of these changes will have to be carefully examined before any decision could be made concerning Ontario's taxation of this sector, bearing in mind the competitive position of Canadian insurance companies in the United States market.

Mr. Speaker, the cost to the Province of the above tax reductions is $201 million. To offset this revenue loss and keep to the deficit target, I am proposing to raise an approximately equivalent amount through tax increases.

Tobacco Tax

I am proposing to raise additional revenue of $58 million from cigarettes, cigars and cut tobacco.

The tax on cigarettes will be increased by 5 cents per package of 20 cigarettes. The tax on cigars, which is applicable on the retail price, will be doubled. Thus, the tax on a 25c cigar will increase from 5c to 100. The tax on cut tobacco will also be doubled, from 2.50 per half ounce on the old "avoirdupois" basis to the equivalent of 50 per half ounce on the new "metric" basis.

Motor Vehicle Registration Fees

Government road-related expenditure is growing faster than revenue derived from road users. Consequently, in order to restore a reasonable balance between expenditure and revenue, I am proposing to increase the registration fees for passenger cars, commercial vehicles, motorcycles and buses. Effective for the 1978 registration year, the annual registration fees for passenger cars will be increased as follows:

• 4 cylinders— from $23 to $30

• 6 cylinders— from $32 to $45

• 8 cylinders— from $40 to $60.

Additionally, the fee for passenger cars registered for the first time and equipped with an engine having a displacement in excess of 6,500 cubic centimeters (397 cubic inches) will be $80. The annual registration fee for motorcycles will be increased by $5, while the fee for snowmobiles will remain unchanged.

The annual registration fees for commercial vehicles, farm trucks and buses will be raised by adding a flat $22 to each weight class and by raising these new levels by 9 per cent. In respect of smaller commercial vehicles this measure will adjust the fee to the same level as the fee now proposed for 8 cyclinder passenger cars. A large majority of these small commercial vehicles are equipped with 8 cylinder engines and their weight is also comparable to an 8 cylinder passenger car.

The fee increases will raise $78 million in 1977-78. This new, more progressive fee structure encourages energy conservation.

**Reduced Fees in Northern Ontario**

In identifying the need to raise registration fees, however, it is also recognized that the operation of a passenger car in Northern Ontario involves substantial costs over and above those experienced in the southern part of the province. These costs are the direct consequence of greater distances travelled, the effect of climatic conditions on mileage, and sometimes higher gasoline prices in the North.

I am therefore pleased to propose that, effective for the 1978 registration year, registration fees be reduced to $10 for all passenger cars and motorcycles registered North of the French River. By this measure, all bona fide residents of the area will receive a saving equivalent to 5c per gallon of gasoline, based on an average annual distance travelled of 10,000 miles.

The total saving to Northern Ontario residents is approximately $12 million in 1977-78.

Registration of Sellers and Distributors of Middle Distillate Fuels

To improve taxpayer compliance under The Motor Vehicle Fuel Tax Act, I propose that by July 1 of this year all sellers and distributors of diesel fuel, home heating oil, furnace oil and similar products be registered with the Ministry of Revenue. Users of taxable middle distillate fuels will also be registered.

I would like to point out that all of the other provinces have in place systems to minimize avoidance of fuel taxes. I estimate that Ontario's tighter enforcement will generate $10 million in 1977-78.

Environmental Tax

For some time, the Ontario Government has been advocating the use of refillable soft drink containers and seeking ways to discourage the use of non-refillable throwaway containers. The Government has two basic objectives:

• to reduce the volume of solid waste in Ontario; and,

• to conserve energy resources wasted in the production of throw- away convenience containers.

In support of these objectives, the Minister of the Environment has announced a ban on the sale of non-refillable bottles in Ontario, effective April 1, 1978. Cans for carbonated soft drinks are an equally important contributor to the problem, hence action to limit the use of cans is also necessary.

I am proposing that a tax of 50 per can be imposed on the consumer who chooses to buy soft drinks in cans, effective June 1, 1977. For ease of administration this tax will be collected at the manufacturers' and importers' level. Inventory will be taken at all levels on that date. The tax will be included in the retail selling price, thus attracting retail sales tax as well.

It is my hope that this environmental tax, which will apply equally to canned carbonated soft drinks manufactured in Ontario or imported into the province, will be combined with a concerted effort on the part of soft drink producers to substantially reduce the proportion of soft drinks sold in cans. Since consumer buying habits do not change over- night, however, the $25 million which is estimated to be collected in the first year will assist in the funding of major environmental projects. Grants will be available to municipalities and citizens groups for the construction and operation of collection and recycling depots. In addition, there will be increased support for municipal reclamation facilities across the province.

**Paid-up Capital Tax**

Finally, I have decided that the most appropriate way to secure the balance of revenue needed is to increase the paid-up capital tax on large corporations. Accordingly, I am proposing that the paid-up capital tax on corporations be increased by 50 per cent for fiscal years ending after April 19, 1977. The new general rate of capital tax will be ^ of 1 per cent. For banks, the new rate will be | of 1 per cent.

I estimate that this increase will generate an additional $68 million gross revenue in a full year and $55 million in the 1977-78 fiscal year.

For corporations paying income tax the burden of this increase is not unduly onerous since the paid-up capital tax is deductible in calculating taxable income. This feature enhances the overall equity of the corporation tax system.

Mr. Speaker, the $209 million in tax increases I have just proposed constitute a fair and balanced package for the people of Ontario.

**Ontario's Financial Strategy for 1977-78**

This Budget achieves a pronounced strengthening in the Province's financial health, as reflected in the $311 million improvement in our net cash requirements to a two-year low of $1,077 million. Moreover, the financial plan for 1977 reduces our budgetary deficit from $1,279 million in 1976-77 to $992 million. Non-public borrowing will be more than adequate to meet financing needs.

This fiscal plan means that for the second consecutive year Ontario will not need to borrow in the public capital markets on its own account. In looking ahead, achievement of a balanced budget by 1980-81 would mean the virtual elimination of the Province's reliance on non-public borrowing as well. This would greatly enhance our fiscal flexibility. It would permit Ontario's surplus non-public funds to be deployed for major private and public investment projects— such as Ontario Hydro— thereby restoring a more appropriate balance between government and private sector demands on the finite resources of the capital markets Budget Paper C examines Ontario's revenue growth potential and discusses the implications for expenditures of this balanced budget target.

**Conclusion**

Mr. Speaker, this 1977 Budget carries forward the sound management of our economic and fiscal resources. It demonstrates clearly the ability of the Government of William G. Davis to effectively manage the affairs of this Province of Ontario. It meets our most immediate and pressing needs by:

• funding a large number of new jobs in the construction industry and for our young people; and,

• proposing a financing plan that reduces the Government's claim on the provincial economy.

As a further expression of our sound management practices, this Budget also addresses the longer term problems of economic policy by establishing a fiscal strategy for balancing the budget by 1980-81. I believe that this responsible strategy will provide the stability and bolster the confidence our economy needs for continued growth and prosperity.

The Government of this Province of Ontario has also demonstrated its concern for those in our society who are less fortunate and who deserve to share fully in the benefits of economic growth and our un- paralleled abundance. We have assisted youth; we have provided housing; we have developed a plan of workmen's compensation — admittedly not perfect — but which is better than any other; we have created a system of public services unequalled on this continent. GAINS and a host of social service programs have enhanced the security and dignity of our senior citizens. We have, with some success, spread new economic opportunities to all parts of the province. And we have provided the hospitals, schools, libraries, recreational facilities, day nurseries, and cultural amenities the quality of life that makes Ontario the envy of our American neighbours.

With this impressive record of leadership and with our grasp of the realities of economic life, I look forward with confidence to the challenges of 1977 and succeeding years.