

# 2018 Fall Economic Statement

## Rapid Policy Update

November 21, 2018

On November 21, the Government of Canada released its 2018 Fall Economic Statement entitled “*Investing in Middle Class Jobs*”, which provides an update on the government's finances and announces commitments to improve Canada's competitiveness.

The government is projecting steady, moderate growth in Canada's economy, with real GDP forecasted to rise by 2 percent in 2018. The Fall Economic Statement forecasts a deficit of \$18.1 billion in 2018-19, down by \$0.9 billion from the previous year. Growth is expected to be more modest over the next four years due to limited economic capacity, higher interest rates, and slowing US growth.

### REGULATORY COMPETITIVENESS

*The government announced plans to:*

- Explore making competitiveness a permanent part of regulator mandates
- Introduce an annual modernization bill to keep regulations up-to-date
- Establish a dedicated External Advisory Committee on Regulatory Competitiveness
- Launch a Centre for Regulatory Innovation
- Enhance Government's capacity to develop and implement effective regulations
- Take immediate action in response to business regulatory recommendations
- Work together with provincial and territorial partners to accelerate action to remove regulatory barriers in four areas:
  - Transporting goods between provinces and territories,
  - Harmonizing food regulations and inspection rules,
  - Aligning regulations in the construction sector
  - Facilitating greater trade in alcohol between provinces and territories

### **CCC Response:**

Many of these measures announced were recommended in our May, 2018 report , [Death by 130,000 Cuts](#) where the CCC urged the federal government to reduce the onerous regulatory burden on Canadian businesses. Our report provided several recommendations to the government, including giving regulators economic growth and competitiveness mandates, establishing a government-business regulatory

competitiveness working group, and providing federal leadership on reducing interprovincial barriers to trade. The government's announcement is a clear recognition of the CCC's leadership on improving Canada's regulatory competitiveness. CCC will continue to call for the government to restore regulatory certainty to our resource sector, including making amendments to Bill C-69.

## TAX COMPETITIVENESS<sup>1</sup>

*The government announced plans to:*

- Allow businesses to immediately write off the full cost of machinery and equipment used for the manufacturing and processing of goods
- Allow businesses to immediately write off the full cost of specified clean energy equipment
- Create an Accelerated Investment Incentive, which will allow businesses of all sizes and in all sectors of the economy to write off a larger share of the cost of newly acquired assets in the year the investment is made

### **CCC response:**

The CCC has been calling for the immediate implementation of 100% write offs of capital investments across all economic sectors. The measures announced in the Fall Economic Statement are an important step in the right direction for accelerated capital cost allowance, but falls short of a full 100% write off for all sectors. Nevertheless, together these changes will spur business investment as Canada now has the lowest Marginal Effective Tax Rate (METR) on new business investment in the G7. The CCC will continue to advocate for a Royal Commission on taxation to adjust the tax mix and simplify the tax system to improve business competitiveness.

## FISCAL COMPETITIVENESS

- The federal deficit is projected to decline from \$19.6 billion in 2019-20 to \$11.4 billion by 2023-24.
- The federal debt-to-GDP ratio is expected to continuously decline and reach 28.5 per cent in 2023-24.

### **CCC response:**

The CCC is pleased to see a continued reductions in budget deficits starting in 2019-20. However, we continue to call on the federal government to provide a detailed plan for getting the books back to balance. Our members continue to press the government on its fiscal flexibility to pursue stimulus spending should the economy face headwinds.

## TRADE COMPETITIVENESS

---

<sup>1</sup> See Appendix A for details.

*The government has announced plans to:*

- Establish a continuous call for proposals for the National Trade Corridors Fund backed by an accelerated investment of \$773.9 million over five years
- Providing funding of \$7 million over five years to Canadian SMEs to help them explore new export opportunities
- Provide funding of \$10 million over three years for export readiness and export capacity building initiatives for through local organizations, including chambers of commerce

**CCC response:**

The CCC is pleased to see announcements to invest in trade-enabling infrastructure, mobilizing SME exports, and overall trade diversification. We continue to call on the government to implement targeted measures to help our struggling oil and gas industry get its resources to world markets.

**OTHER ISSUES**

*The government has announced plans to:*

- Provide a further \$800 million over five years to the Strategic Innovation Fund, including \$100 million that will focus on providing support to the forestry sector
- Creating a Social Finance Fund that gives charitable, non-profit and social purpose organizations access to new financing, and connects them with non-government investors
- Advance pay equity by ensuring that women and men in federally regulated sectors receive equal pay for work of equal value

## APPENDIX A

### Immediate Expensing and the Accelerated Investment Incentive Will Allow Businesses to Recover Investment Costs Sooner

Table 3.1

#### Illustrative Impact of Proposed Measures on Selected Assets, Deduction in the First Year

	Normal	With Proposed Measures (maximum 100%)
<b>Immediate Expensing</b>		
Manufacturing and processing machinery and equipment	25%	100%
Clean energy equipment	25%	100%
<b>Accelerated Investment Incentive</b>		
Computer software	50%	100%
Computers	27.50%	82.50%
Trucks and tractors for hauling freight	20%	60%
Motor vehicles	15%	45%
Earth-moving equipment	15%	45%
Data network infrastructure equipment	15%	45%
Aircraft	12.50%	37.50%
Office equipment	10%	30%
Fibre-optic cables	6%	18%
Buildings used in manufacturing and processing	5%	15%
Other non-residential buildings	3%	9%
Goodwill <sup>1</sup>	2.50%	7.50%
Other <sup>2</sup>	Variable	Up to 3x normal rate

<sup>1</sup> Goodwill is an intangible business asset that is linked to the established reputation of a business. In practice, goodwill is the difference between the price paid to acquire a business and the value of the net assets (e.g., buildings, equipment) acquired during the sale.

<sup>2</sup> The category "other" includes all other capital assets, including intangible capital assets, that are not presented in this table.