Bland budgets for business

Andrew Petrozzi

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Last week's federal and provincial budgets provided no real wins or losses for B.C. businesses, as Ottawa gave a little and Victoria took a bit.

Both budgets contained little new spending and reiterated previous stimulus expenditures or extended existing recovery programs.

While the federal government had to be seen as taking action on unemployment, the province was more focused on preparing the ground for the introduction of the HST.
"Looking line per line, the [two budgets] are actually in opposition to each other," said Mark Jasayko.

The portfolio manager for McIver Wealth Management of Richardson GMP rated the B.C. budget as slightly negative for business and its federal counterpart as slightly positive.

"The B.C. budget isn't really that specific to business as a whole. There's no particular industry or businesses in general that are addressed," he said. "That's a function, at the provincial political level, of jobs and economic growth not being the hot button issues that they are at the national level."

A net increase in the tax burden in the B.C. as a result of the HST bodes ill for continued economic growth and will negatively impact retailers, he said, particularly those who rely on more discretionary spending decisions.

"That's really where the downside for business is in the province," said Jasayko.

He added that the increase in medical services plan (MSP) premiums this year and a potential hydro rate increase could place additional pressure on consumer spending.
While the province's international financial activity program was expanded to include digital-media publishing and distribution, certification and trading of carbon credits and clean technology on the list of businesses that qualify for tax reductions, it also created a new tax credit for digital media and bumped up the provincial film-tax credit scheme.

Victoria also found $100 million for climate action and clean energy development.
B.C. manufacturers support the introduction of the HST. Canadian Manufacturers & Exporters BC said the harmonized tax "represents a real improvement in competitiveness for B.C.'s manufacturers and exporters."

But for many, the provincial budget was a wash.

“Business will be pleased to see that there are no surprises either good or bad in Budget 2010,” said John Winter, president and CEO of the BC Chamber of Commerce.

In Ottawa, the government made small concessions to business.
The federal general corporate income tax rate was reduced to 18% on January 1, 2010. It will be further reduced to 16.5% on January 1, 2011, and to 15% on January 1, 2012. Ottawa also eliminated all remaining tariffs on machinery and equipment and goods imported for further manufacturing in Canada, extended the maximum length for work sharing agreements and provided funding for young workers.

Billions of dollars in stimulus spending focused on infrastructure projects played a large part in both budgets.

But Jasayko said both budgets simply reiterated or extended programs.

“The public right now isn’t demanding any more,” he said. “We tend to get the budgets that we deserve. If the public was a little more whipped up about this and truly concerned about where we are going in terms of unsustainable debt levels, then governments tend to respond and they do bring in tough medicine.”

He was surprised the provincial government didn’t take stronger action in dealing with lower revenue by introducing cuts in health-care and education spending.

“With three years to go with a majority mandate, the time for tough medicine is now.”

Jasayko added that the minority federal government has to be seen to be doing something on the jobs front. “On a net basis, it looks like it’s a slight benefit for businesses. There’s some hiring incentives, elimination of tariffs along with a slight decrease in the corporate tax rate over the next three years.”

Ottawa also wants to boost foreign investment by changing the scope of what a taxable Canadian property is, a move applauded by PricewaterhouseCoopers as improving Canada’s global competitiveness and financial position. According to the federal government, narrowing the definition of taxable Canadian property will eliminate the need for tax reporting under Section 116 of the Income Tax Act for many investments and will improve the ability of Canadian businesses to attract foreign venture capital.

Ottawa has proposed that the definition of taxable Canadian property in the Income Tax Act be amended to exclude shares of corporations and other interests that do not derive their value principally from real or immovable property in Canada, Canadian resource property or timber resource property.

According to Jasayko, the red tape reduction commission announced by Ottawa is too undefined to have an impact. “I would like to see specifics rather than mentioning they’re going to look into it,’ he said. “It’s a surprise they mentioned this commission is even being formed.” •

apetrozzi@biv.com