



# 2021 Federal Budget: A Recovery Plan for Jobs, Growth, and Resilience

## Rapid Policy Update

April 19, 2021

On April 19, the Government of Canada announced its 2021 Federal Budget, offering the clearest picture of federal finances and Canada's economic recovery plan in over two years.

Budget 2021 includes \$101.4 billion over three years in proposed investments as part of the Government of Canada's growth plan to create jobs and support economic recovery. It proposes to extend business and income support measures through to the fall and to make investments to create jobs and help businesses across the economy.

Budget 2021 sets out a fiscal plan that reduces the federal debt as a share of the economy over the medium-term and unwinds COVID-19-related deficits. After a deficit of \$354.2 billion last year, the federal deficit is projected to decline to \$154.7 billion in 2021-22 and further decline each year afterwards to reach \$30.7 billion by 2025-26 representing 1.1 per cent of GDP.

The federal debt will increase from \$1.08 trillion to \$1.23 trillion this year, and will rise to \$1.41 trillion by 2025-26. The federal debt-to-GDP ratio is expected to increase from 49.0% to 51.2% this year, but declining every following year to 49.2% by 2025-26. This is the federal government's medium-term fiscal target.

The Budget 2021 includes a number of announcements to support business, economic growth and job creation, as well as others that will be relevant for Canadian business.

### **Extension of Business Supports:**

- Budget 2021 proposes to extend the wage subsidy until September 25, 2021. It also proposes to gradually decrease the subsidy rate, beginning July 4, 2021, in order to ensure an orderly phase-out of the program as vaccinations are completed and the economy reopens.
- Budget 2021 proposes to extend the rent subsidy and Lockdown Support until September 25, 2021. It also proposes to gradually decrease the rate of the rent subsidy, beginning July 4, 2021, in order to ensure an orderly phase-out of this program as vaccinations are completed and the economy reopens.
- Budget 2021 proposes to introduce the new Canada Recovery Hiring Program for eligible employers that continue to experience qualifying declines in revenues relative to before the pandemic. The proposed subsidy would offset a portion of the extra costs employers take on as

they reopen, either by increasing wages or hours worked, or hiring more staff. This support would only be available for active employees and will be available from June 6 to November 20, 2021. Eligible employers would claim the higher of the Canada Emergency Wage Subsidy or the new proposed subsidy, but not both. The aim is to make it as easy as possible for businesses to hire new workers as the economy reopens.

- Budget 2021 proposes to provide up to \$5 million over two years, starting in 2021-22, to Statistics Canada to work with partners to enhance the availability of business condition data, better ensuring that the government's support measures are responsive to the needs of Canadian businesses and entrepreneurs.
- Budget 2021 proposes to require that any publicly listed corporation receiving the wage subsidy and found to be paying its top executives more in 2021 than in 2019 will need to repay the equivalent in wage subsidy amounts received for any qualifying period starting after June 5, 2021 and until the end of the wage subsidy program.

### **Workforce Supports:**

- Budget 2021 proposes new investments totaling up to \$30 billion over the next 5 years, and \$8.3 billion ongoing for Early Learning and Child Care and Indigenous Early Learning and Child Care, including:
  - A 50 per cent reduction in average fees for regulated early learning and childcare in all provinces outside of Quebec, to be delivered before or by the end of 2022.
  - An average of \$10 a day by 2025-26 for all regulated child care spaces in Canada.
  - Ongoing annual growth in quality affordable child care spaces across the country, building on the approximately 40,000 new spaces already created through previous federal investments. This includes a focus on workforce development.
  - Meaningful progress in improving and expanding before- and after-school care in order to provide more flexibility for working parents.
- Budget 2021 proposes to provide \$960 million over three years, beginning in 2021-22, to Employment and Social Development Canada for a new Sectoral Workforce Solutions Program. Working primarily with sector associations and employers, funding would help design and deliver training that is relevant to the needs of businesses, especially small and medium-sized businesses, and to their employees. This funding would also help businesses recruit and retain a diverse and inclusive workforce.
- Budget 2021 proposes to invest \$298 million over three years, beginning in 2021-22, through Employment and Social Development Canada, in a new Skills for Success program that would help Canadians at all skills levels improve their foundational and transferable skills.
- Budget 2021 proposes to provide \$55 million over three years, starting in 2021-22, to Employment and Social Development Canada for a Community Workforce Development Program. The program will support communities to develop local plans that identify high potential growth organizations and connect these employers with training providers to develop and deliver training and work placements to upskill and reskill jobseekers to fill jobs in demand.
- Budget 2021 proposes to provide \$250 million over three years, starting in 2021-22, to Innovation, Science and Economic Development Canada for an initiative to scale-up proven industry-led, third-party delivered approaches to upskill and redeploy workers to meet the needs of growing industries.

- The Government of Canada is announcing its intention to introduce legislation that will establish a federal minimum wage of \$15 per hour, rising with inflation, with provisions to ensure that where provincial or territorial minimum wages are higher, that wage will prevail. This will directly benefit over 26,000 workers who currently make less than \$15 per hour in the federally regulated private sector.

### **Regulation and Interprovincial Trade:**

- Budget 2021 proposes to allocate \$21 million over three years, starting in 2021-22, to:
  - Work with provincial and territorial partners to enhance the capacity of the Internal Trade Secretariat that supports the Canadian Free Trade Agreement in order to accelerate the reduction of trade barriers within Canada.
  - Advance work with willing partners towards creating a repository of open and accessible pan-Canadian internal trade data to identify barriers, including licensing and professional certification requirements, so that we can work together to reduce them.
  - Pursue internal trade objectives through new or renewed discretionary federal transfers to provinces and territories.
- To maintain momentum on strengthening Canada's regulatory systems, Budget 2021 proposes to provide up to \$6.1 million over two years, starting in 2021-22, to renew the External Advisory Committee on Regulatory Competitiveness and to continue targeted regulatory reviews.
- Budget 2021 proposes to invest \$1.9 billion over four years, starting in 2021-22, to recapitalize the National Trade Corridors Fund.
- Budget 2021 proposes to provide \$22.6 million over four years, starting in 2021-22, to Infrastructure Canada to conduct Canada's first ever National Infrastructure Assessment.

### **Transportation**

- Budget 2021 proposes to provide \$4.4 million in 2021-22 to Transport Canada and VIA Rail Canada to support the High Frequency Rail Project in order to advance due diligence and to de-risk the project.
- Budget 2021 proposes to provide \$491.2 million over six years, starting in 2021-22, to VIA Rail Canada for infrastructure investments that would support the overall success of the high frequency rail project. These investments will provide a step towards high frequency rail in the corridor.

### **Technology Adoption and Innovation:**

- Allowing Canadian Controlled Private Corporations (CCPCs) to fully expense up to \$1.5 million in capital investments in a broad range of assets, including digital technology and intellectual property.
- Budget 2021 proposes to provide an additional \$1 billion over six years, starting in 2021-22, to the Universal Broadband Fund to support a more rapid rollout of broadband projects in collaboration with provinces and territories and other partners.
- Budget 2021 proposes to provide \$2.6 billion on a cash basis over four years, starting in 2021-22, to the Business Development Bank of Canada to help small and medium-sized businesses finance technology adoption.

- Budget 2021 proposes to make available up to \$450 million on a cash basis over five years, starting in 2021-22, for a renewed Venture Capital Catalyst Initiative that would increase venture capital available to entrepreneurs.
- Budget 2021 proposes to provide a total \$2.2 billion over seven years towards the domestic life sciences sector.
- Budget 2021 proposes to provide \$4.1 million over five years, starting in 2021-22, and \$1.0 million ongoing, for Public Safety Canada to continue the cyber security and cybercrime survey program.

### **Indigenous Infrastructure**

- Budget 2021 proposes \$4.3 billion over four years for the Indigenous Community Infrastructure Fund, a distinctions-based fund to support immediate demands, as prioritized by Indigenous partners, with shovel ready infrastructure projects in First Nations, including with modern treaty and self-governing First Nations, Inuit, and Métis Nation communities.

### **Climate Change:**

- \$5 billion over seven years to increase funding for the Strategic Innovation Fund's Net Zero Accelerator. This will support projects that will help decarbonize heavy industry, support clean technologies and help meaningfully accelerate domestic greenhouse gas emissions reductions by 2030.
- Budget 2021 proposes to introduce an investment tax credit for capital invested in CCUS projects with the goal of reducing emissions by at least 15 megatonnes of CO<sub>2</sub> annually. This measure will come into effect in 2022. It is the intent that enhanced oil recovery projects would not be eligible for this credit.
- Budget 2021 proposes to provide \$9.6 million over three years, starting in 2021-22, to create a Critical Battery Minerals Centre of Excellence at Natural Resources Canada. The centre would coordinate federal policy and programs on critical minerals, and work with provincial, territorial, and other partners. The centre would also help implement the Canada-U.S. Joint Action Plan. An additional \$ 36.8 million will be provided over three years to Natural Resources Canada to build critical battery and mineral processing expertise.
- A 50% tax reduction for companies that manufacture zero emission technologies. List of eligible technologies to be determined by Finance, ECCC, ISED, Sustainable Development Technology Canada and other stakeholders.
- Budget 2021 provides \$1 billion to incentivize private sector capital into clean technology companies.

### **Taxation and Financing:**

- Budget 2021 proposes to implement a Digital Services Tax at a rate of 3 percent on revenue from digital services that rely on data and content contributions from Canadian users. The tax would apply to large businesses with gross revenue of 750 million euros or more. It would apply as of January 1, 2022, until an acceptable multilateral approach comes into effect. This would help ensure that Canada's tax rules capture new ways in which businesses carry out value-creating activities.

- Budget 2021 proposes to introduce a tax on the sales, for personal use, of luxury cars and personal aircraft with a retail sales price over \$100,000, and boats, for personal use, over \$250,000. The tax would be calculated at the lesser of 20 per cent of the value above the threshold (\$100,000 for cars and personal aircraft, \$250,000 for boats) or 10 per cent of the full value of the luxury car, boat, or personal aircraft. This measure would come into force on January 1, 2022.
- Budget 2021 announces the government's intention to implement a national, annual 1 per cent tax on the value of non-resident, non-Canadian owned residential real estate that is considered to be vacant or underused, effective January 1, 2022. The tax will require all owners, other than Canadian citizens or permanent residents of Canada, to file a declaration as to the current use of the property, with significant penalties for failure to file.
- Budget 2021 proposes to improve the Canada Small Business Financing Program through amendments to the Canada Small Business Financing Act and its regulations. These proposed amendments are projected to increase annual financing by \$560 million, supporting approximately 2,900 additional small businesses. Amendments will include Expanding loan class eligibility to include lending against intellectual property and start-up assets and expenses, increasing the maximum loan amount from \$350,000 to \$500,000 and extending the loan coverage period from 10 to 15 years for equipment and leasehold improvements, expanding borrower eligibility to include non-profit and charitable social enterprises, and introducing a new line of credit product to help with liquidity and cover short-term working capital needs.

### **Support for Hardest Hit Sectors**

- Budget 2021 proposes to invest \$1 billion to support Canada's tourism, major and local festivals, and cultural events sectors through the following:
  - \$200 million through the regional development agencies to support major festivals.
  - \$200 million through Canadian Heritage to support local festivals, community cultural events, outdoor theatre performances, heritage celebrations, local museums, amateur sport events, and others.
  - \$100 million to Destination Canada for marketing campaigns.
  - \$500 million Tourism Relief Fund, administered by the regional development agencies. The Fund will support investments by local tourism businesses in adapting their products and services to public health measures and other investments that will help them recover from the pandemic.
- The budget proposes to invest an additional \$430 million in additional supports for the heritage, performing arts, sports, musicians and music venues, and cultural spaces.