Real CHANGE

GROWTH FOR THE MIDDLE CLASS

– THE LIBERAL FISCAL PLAN AND COSTING –

Liberal

Real CHANGE

GROWTH FOR THE MIDDLE CLASS

THE LIBERAL FISCAL PLAN AND COSTING

When you have an economy that works for the middle class, you have a country that works for everyone. Canada's extraordinary success is that we have bound together a vast country with a set of shared ideas and beliefs. We have created a society where individual rights and freedoms, compassion, and diversity are core to our citizenship. But underlying that fundamental idea of Canada is the promise that we all have a chance to build a better life for ourselves and for our children. We have long provided our citizens with upward mobility through economic opportunity.

This is at the heart of the Canadian ideal, and it is currently under real threat by a government that does not even recognize there is a problem. The middle class is the heart of the Canadian economy. That is why, when we strengthen our middle class and grow our economy, we build a Canada where people who work hard can look forward to a good standard of living, a secure retirement, and better prospects for their kids. It also means we ensure that government has the resources it needs to invest in research and innovation, lift the vulnerable out of poverty, and provide economic security to all Canadians.

Stephen Harper has the worst economic growth record of any Canadian Prime Minister since R.B. Bennett in the depths of the Great Depression. Our economy has shrunk over the first half of this year, and Canada is the only G7 country in recession. Harper's plan has failed. Canadians have experienced year after year of broken promises, failure to make promised investments, and fights with provinces, territories, and municipalities – instead of the partnerships that we need to move forward.

But Harper refuses to tell Canadians the truth. In 2008, he promised that he would never run a deficit, then immediately turned around and did just that. He cannot hide from the facts today: with the fall in oil prices, and the slowdown of the Canadian economy, the Parliamentary Budget Officer has shown that the Harper Conservatives will run a deficit again this year.

Liberals have a track record of making the right kinds of investments at the right time, and through economic growth and job creation, we have been able to balance the budget. We will do it again. By choosing to invest in the middle class and those working hard to join it, and by prioritizing job creation and economic growth, we will restore fiscal responsibility to Ottawa. We will deliver the better government that Canadians want and deserve.

OUR PLAN
CHOOSING INVESTMENT NOW

Our plan makes different choices than the Harper Conservatives and the NDP. For example:

- We will cancel child benefit cheques for millionaires so that we can increase child benefits for the middle class and those working hard to join it.
- We will increase the marginal tax rate on Canada's top one percent so that we can cut taxes for the middle class.
- We will conduct a review of all tax expenditures to target tax loopholes that particularly benefit Canada's top one percent.
- We will be honest about the government of Canada's fiscal position, and base our projections on the recent report by the Parliamentary Budget Officer, instead of April's outdated budget figures.
- We will run modest deficits for three years so that we can invest in growth for the middle class and credibly offer a plan to balance the budget in 2019.

Our choices mean that our plan will bring meaningful and immediate change to the lives of all Canadians.

OUR FISCAL APPROACH

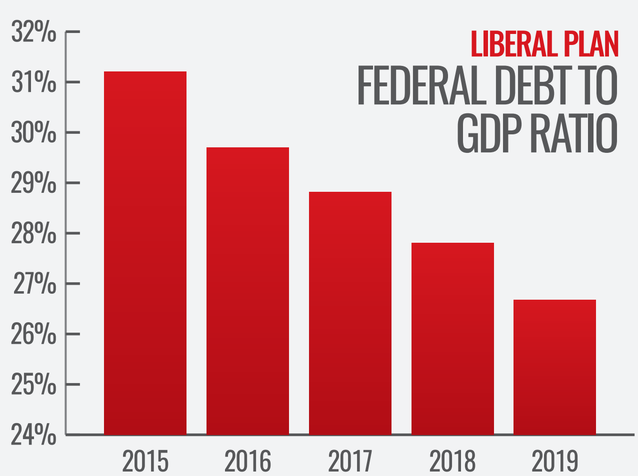
The foundation of the fiscal plan over our mandate is a planning framework that is realistic, sustainable, prudent, and transparent. These are core principles advocated by Canadian fiscal experts.[1]

A **realistic** approach recognizes that the economic and fiscal projections of the federal government have deteriorated since the budget was tabled in April. This year, 2015, started with a recession, the economic and fiscal impacts of which have been projected by the Parliamentary Budget Officer using the Bank of Canada's July Monetary Policy Report.

Real GDP Growth Projections (%)	2015/16	2016/17	2017/18	2018/19	2019/20
Budget 2015 (April)	1.9	2.3	2.3	2.2	2.0
PBO 2015/16 – 2017/18 and projection 2018/19 – 2019/20	1.0	2.7	2.4	2.2	2.2

Projections in fiscal years – per PBO format.

We project a reduction in the budget's assumption for nominal GDP levels and fiscal balance, which only begins to mitigate in 2018/19 and 2019/20. This reflects the Bank of Canada's projections for sharply lower real GDP growth in 2015, and slight increases in real GDP growth in outer years versus budget forecasts, as excess capacity from the recession is recovered.



External economic projections continue to change and these represent realistic projections for the years ahead. A new Liberal government will release a fall Economic and Fiscal Update so that Canadians can get a more accurate picture of the federal government's revised position since April.

In every year of our plan, federal debt-

1. http://www.3dpolicy.ca

to-GDP will continue to fall. Canada benefits from a low debt-to-GDP level and historically low borrowing rates. Our plan ensures that the government of Canada remains in a **sustainable** fiscal position. We have two fiscal anchors that guide our overall fiscal framework.

In 2019/20, we will:

- **Reduce the federal debt-to-GDP ratio to 27 percent**
- **Balance the budget**

Our plan is anchored in **prudent** forecasting, including restoring a contingency reserve as we return to surplus, and not budgeting for the positive fiscal impacts of new investments.

We will raise the bar on fiscal **transparency**. We will ensure accounting consistency among the Estimates and the Public Accounts; provide costing analysis for each government bill; restore the requirement that government borrowing plans receive Parliamentary approval; end the inappropriate use of omnibus legislation; and we will ensure the Parliamentary Budget Officer (PBO) is truly independent, properly funded, and answerable only, and directly, to Parliament.

We will also add the costing of political party platforms to the PBO's mandate, as is the case in Australia and the Netherlands, so that starting in the next federal election, Canadians can review the fiscal plans of political parties from a credible and comparable baseline.

PLANNING FRAMEWORK

We were the first party in this campaign to announce our planning framework.

"...long-lived investment is actually a wonderful thing to be doing. It's exactly the right thing to be doing."

DAVID DODGE, former Governor of the Bank of Canada and former Deputy Minister of Finance
(CBC Radio One, The House, August 29, 2015)

"[This] announcement by the Liberal Party of Canada has the potential to meaningfully improve the quality of life of Canadians in cities and communities across the country."

RAYMOND LOUIE, President of the Federation of Canadian Municipalities
(Federation of Canadian Municipalities, August 27, 2015)

"Canada's Liberal Party is pushing what should be pushed in US– a major infrastructure initiative to get the economy going & build for future."

LAWRENCE SUMMERS, former Director, President Obama's National Economic Council
(Twitter, @LHSummers, August 27, 2015)

"...significant and meaningful commitment to meet the urgent need for major infrastructure investment in cities and communities across Canada."

GREGOR ROBERTSON, Mayor of Vancouver
(Office of the Mayor of Vancouver, August 27, 2015)

With the Liberal plan, the federal government will have a modest short-term deficit of less than $10 billion in each of the next two fiscal years – less than half the average Harper deficit of over $20 billion per year. After the next two fiscal years, the deficit will decline and our investment plan will return Canada to a balanced budget in 2019/20. Combining fiscal prudence with investments in economic growth, we will end the Harper legacy of chronic deficits and reduce Canada's federal debt-to-GDP ratio each year.

The Conservatives and the NDP have based their planning framework on assumptions from the April 2015 budget, before it was understood that Canada was in a recession. Our plan is transparent and honest about the weakened fiscal position that the federal government is facing.

Planning Framework	2016/17	2017/18	2018/19	2019/20
April Finance forecast (including contingency)	2,700	3,600	4,600	7,800
Estimated impact of reduction in economic growth	– 2,100	– 1,400	– 1,200	– 200
Revised forecast (PBO 2016/17 - 2017/18) + projection	**600**	**2,200**	**3,400**	**7,600**
New revenue	23,939	26,611	28,258	29,756
New investment announced	33,262	35,952	34,819	35,001
Measures not yet announced	1,170	2,375	2,557	1,355
Planning framework with Liberal plan for growth	**– 9,893**	**– 9,516**	**– 5,718**	**1,000**
Federal debt-to-GDP	30%	29%	28%	27%

Figures in millions of dollars

Our plan includes measures that, according to Department of Finance multiplier projections, will have positive impacts on economic growth, particularly infrastructure investment and measures for lower-income Canadians. This new economic growth would in turn improve the fiscal position of the federal government. With our plan's level of investment, this would translate into additional billions per year for the fiscal bottom line. While these improvements to the bottom line would be material, consistent with Department of Finance practices, we have not included them in our planning framework.

Economic Multipliers of Expenditure and Tax Measures

Fiscal Measure	Dollar impact on the level of real GDP of a one-dollar increase in fiscal measures		
	2009	2010	2010Q4
Infrastructure investment measures	1.0	1.5	1.6
Housing investment measures	1.0	1.4	1.5
Other spending measures	0.8	1.3	1.4
Measures for low-income households and the unemployed	0.8	1.5	1.7
EI premiums	0.2	0.5	0.6
Personal income tax measures	0.4	0.9	1.0
Business tax measures	0.1	0.2	0.3

Source: Department of Finance (2009)

NEW REVENUE

New Revenue	2016/17	2017/18	2018/19	2019/20
Replacing UCCB, CCTB, and NCBS expenditures	17,960	18,245	18,550	18,825
Tax on wealthiest one percent	2,800	2,856	2,913	2,971
Tax expenditure and Harper spending review	500	1,000	2,000	3,000
Reduced EI premiums from $1.88 to $1.65	524	2,100	2,140	2,185
Cancel family income splitting (not pension income splitting)	1,995	2,050	2,110	2,165
Cancel TFSA limit increase from $5,500 to $10,000	160	235	295	360
Continue to phase out fossil fuel subsidies	0	125	250	250
Total new revenue	**23,939**	**26,611**	**28,258**	**29,756**

Figures in millions of dollars

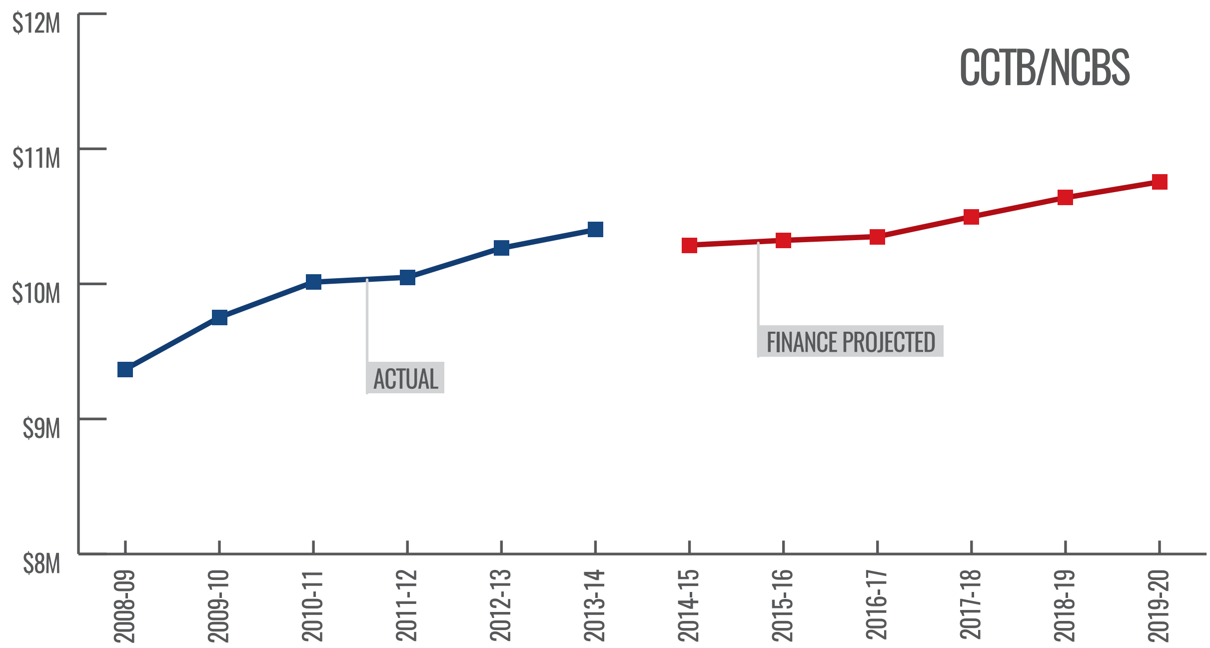
NOTES:

Replacing the Universal Child Care Benefit (UCCB), Canada Child Tax Benefit (CCTB), and National Child Benefit Supplement (NCBS) expenditures - Canada Child Benefit

The Canada Child Benefit (CCB) is projected to have a net new cost of $1.8 billion in 2016/17, rising to $2.0 billion in 2019/20. This reflects a CCB that invests $21.7 billion in 2016/17, the savings from cancelling income splitting ($2.0 billion), and replacing the CCTB, NCBS, and UCCB ($17.9 billion).

CCB cost projections are based on the number of children under 18 by family income (CANSIM Table 111-0013, Table 111-0022) applied against the CCB's new benefit levels. Cost projections were compared and confirmed with Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). To project future years, the average growth rate for child benefits in recent years was used, based on historical data from Canada Revenue Agency (CRA) and the Public Accounts.

After the announcement of the Liberal CCB, the Conservatives falsely claimed that Liberals had not accounted for federal revenue from the taxable UCCB. This was proven false. As part of that claim, the Conservatives released previously unavailable and more detailed Department of Finance data on CCTB/NCBS cost projections, which showed a reduction in the costs of child benefits in 2014/15.



If there are lower child benefit costs, then the cost of both existing benefits and the new CCB will be reduced. In fact, using those revised projected child population growth rates would reduce the net cost of the CCB below the $1.8 billion that we have estimated. We will, therefore, continue to use our higher starting projections to ensure the most prudent figure possible.

Backgrounder – Real Change: Fairness for the middle class

Tax increase on the top one percent

Our projection is based on a Library of Parliament analysis which determined that a new tax bracket of 33 percent on individual incomes in excess of $200,000 would have increased revenue in 2014 by $3.24 billion. With inflation, that estimate increases to approximately $3.4 billion by 2016/17. High earners may attempt to use tax planning strategies to avoid higher taxes. We will increase enforcement resources for the CRA to ensure tax liabilities are collected. However, we have also included a prudence factor of $600 million in our estimates. We project revenue of $2.8 billion in 2016/17, rising to $3.0 billion in 2019/20.

Backgrounder – Real Change: Fairness for the middle class

Tax expenditure and Harper spending review

The government of Canada's budget is approximately $300 billion per year, totalling over $400 billion per year when tax expenditures are accounted for. It is important that the federal government is persistently committed to ensuring federal expenditures are fair for Canadians, efficient, and fiscally responsible. In 2005, then-Prime Minister Paul Martin tasked National Revenue Minister John McCallum with a government-wide expenditure review, which resulted in $3 billion in booked annual savings within four years.[1]

We will meet this same target within four years, which in 2019/20 would represent significantly less than one percent of total federal fiscal and tax expenditure spending. Today's challenges are different than those in 2005, and our priorities reflect the changes that are needed after ten years of Harper's Conservative government. These include:

- Significantly reducing the advertising budget of the government of Canada, and ending the use of government advertising for partisan activities.

- Conducting an overdue and wide-ranging review of the over $100 billion in increasingly complex tax expenditures that now exist, with the core objective being to look for opportunities to reduce tax benefits that unfairly help those with individual incomes in excess of $200,000 per year. For example, a recent Parliamentary Budget Officer analysis of tax expenditure changes from 2005 to 2013 demonstrates that multiple new measures introduced by Stephen Harper provided new benefits to tax filers in the 96th to 100th percentiles.

- A starting point would be to set a cap on how much can be claimed through the stock option deduction. The Department of Finance estimates that 8,000 very high-income Canadians deduct an average of $400,000 from their taxable incomes via stock options. This represents three quarters of the fiscal impact of this deduction, which in total cost $750 million in 2014. Stock options are a useful compensation tool for start-up companies, and we would ensure that employees with up to $100,000 in annual stock option gains will be unaffected by any new cap.

- Directing CRA to immediately begin an analysis and stronger enforcement of tax evasion, or what the OECD calls the "tax gap." According to a 2013 analysis by the Parliamentary Budget Officer, the size of the gap totals nearly 7 percent of total tax liability in the United Kingdom and 14.5 percent in the United States. Harper's Conservative government refused to provide the PBO with the data that is needed to undertake a similar analysis for Canada.

- As we reduce the small business tax rate to 9 percent from 11 percent, we will ensure that Canadian-Controlled Private Corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses. Michael Wolfson from the University of Ottawa estimates that approximately $500 million per year is lost, particularly as high-income individuals use CCPC status as an income splitting tool.

- Reducing the use of external consultants, bringing expenditures closer to 2005/06 levels. Here are a few examples of how this spending item has increased under Harper:

    - Employment and Social Development Canada (formerly Human Resources and Skills Development Canada) has increased its spending on external "Business Services" by

1. http://fin.gc.ca/budget05/booklets/bkexp-eng.asp

61 percent since 2006/07, equivalent to 7 percent compound annual growth – a total increase of $140 million per year.

- Public Works and Government Services Canada has increased its spending on external "Business Services" by 150 percent since 2006/07, equivalent to 14 percent compound annual growth – a total increase of $188 million per year.

- Public Works and Government Services Canada has increased its spending on external "Other" professional services by 212 percent since 2006/07, equivalent to 18 percent compound annual growth – a total increase of $332 million per year.

Phasing out fossil fuel subsidies

We will fulfill Canada's G-20 commitment to phase out subsidies for the fossil fuel industry. In 2014, the Pembina Institute estimated that more than $1 billion in fossil fuel subsidies still existed in our current tax framework. We will direct the Department of Finance to conduct a detailed analysis of fossil fuel subsidies. A target of $250 million in reduced fossil fuel subsidies is our starting point, and a first step will be to allow for the use of the Canadian Exploration Expenses tax deduction only in cases of unsuccessful exploration.

NEW INVESTMENTS

New Investment	2016/17	2017/18	2018/19	2019/20
Tax cuts and benefits	25,500	26,085	26,695	27,240
Infrastructure	5,025	5,025	3,450	3,450
Employment insurance	524	2,100	2,140	2,185
Jobs and training	905	950	935	625
Environment and the economy	415	445	400	400
Arts and culture	185	380	380	380
Indigenous Peoples	250	550	450	350
Veterans	325	309	311	313
Immigration	133	108	58	58
Total new investments	**33,262**	**35,952**	**34,819**	**35,001**

Figures in millions of dollars

Tax Cuts and Benefits

Tax Cut / Benefit	2016/17	2017/18	2018/19	2019/20
Canada Child Benefit	21,725	22,160	22,600	23,000
Middle class tax cut	2,870	2,925	3,000	3,050
10 percent boost to GIS for single seniors	720	760	800	840
Index OAS/GIS to Seniors Price Index	55	105	160	210
GST rebate for new rental housing construction	125	130	130	135
Enhanced flexibility of RRSP Home Buyer's Plan	5	5	5	5

Figures in millions of dollars

- Canada Child Benefit costing is described above under New Revenue
- Middle class tax cut projection from PBO calculation

- Projections for GIS data from the Chief Actuary[1]
- Projection for seniors inflation calculated from Statistics Canada analysis[2]
- GST rebate projected from existing 33 percent rebate, with higher take-up
- Assumes higher take-up of RRSP Home Buyer's Plan from enhanced flexibility

Backgrounder – *Real Change: Fairness for the middle class*
Backgrounder – *Real Change: Retirement security for our seniors*
Backgrounder – *Real Change: Affordable housing for Canadians*

Infrastructure

Investment	2016/17	2017/18	2018/19	2019/20
Public transit infrastructure	1,675	1,675	1,150	1,150
Social infrastructure	1,675	1,675	1,150	1,150
Green infrastructure	1,675	1,675	1,150	1,150

Figures in millions of dollars

Backgrounder – *Real Change: An historic investment plan to strengthen the middle class, create jobs, and grow the middle class*

Employment Insurance

Investment	2016/17	2017/18	2018/19	2019/20
End new and re-entering worker EI discrimination	138	550	560	570
Reduce waiting period to one week	175	700	725	750
More flexible parental leave	30	125	125	130
Better access to compassionate care	48	190	195	200
Increase LMDA training funding	125	500	500	500
Reverse 2012 EI changes	8	35	35	35

Figures in millions of dollars

Projections from ESDC analysis, EI Monitoring and Assessment Report, Canada Gazette, with assumed higher take-up of enriched existing benefits due to enhancements (compassionate care, parental benefits).

Backgrounder – *Real Change: Employment Insurance that strengthens our economy and works for Canadians*
Backgrounder – *Real Change: Working for modern Canadian families*
Backgrounder – *Real Change: Better compassionate support for caregivers*

1. http://www.osfi-bsif.gc.ca/eng/oca-bac/ar-ra/oas-psv/pages/oas12.aspx
2. http://www41.statcan.gc.ca/2007/70000/ceb70000_004-eng.htm

Jobs and Training

Investment	2016/17	2017/18	2018/19	2019/20
Restore Labour Sponsored Venture Capital Corporations tax credit	115	160	165	165
Youth jobs strategy	455	455	435	125
New training investment	200	200	200	200
Aboriginal skills and employment training	50	50	50	50
Building trades training equipment	25	25	25	25
Teacher tax benefit	60	60	60	60

Figures in millions of dollars

- Labour Sponsored Venture Capital Corporations tax credit restoration from Department of Finance projections
- Teacher and Early Childhood Educator School Supply Tax Benefit estimated from Prince Edward Island baseline

Press Release – Liberal Party of Canada Leader Justin Trudeau shares economic vision for Canada
Backgrounder – Real Change: Jobs and skills training for Canadians
Backgrounder – Real Change: Investing in our children and educators

Environment and Economy

Investment	2016/17	2017/18	2018/19	2019/20
Resource sector clean-tech strategies	200	200	200	200
Clean-tech production	100	100	100	100
National Parks programming and science	50	50	50	50
Free entry to National Parks in 2017	15	45	0	0
Water science and monitoring	50	50	50	50

Figures in millions of dollars

Backgrounder – Real Change: A new plan for Canada's environment and economy

Indigenous Peoples

Investment	2016/17	2017/18	2018/19	2019/20
New education partnership with First Nations	100	200	300	300
First Nations education infrastructure	100	300	100	–
Increase to post-secondary student support program	50	50	50	50

Figures in millions of dollars

New Education Partnership with First Nations is net of funding committed in fiscal framework, but yet to flow to First Nations. The total commitment to First Nations education is $750 million per year.

Backgrounder – Real Change: Education and economic opportunity for First Nations

Veterans

Investment	2016/17	2017/18	2018/19	2019/20
Expanded Permanent Impairment Allowance	25	25	25	25
Increase Earnings Loss Benefit	38	42	44	46
New Veterans Education Benefit	80	80	80	80
Re-open nine VAC offices	7	7	7	7
Increase the Last Post Fund by 50 percent	5	5	5	5
Support for veterans and their families	100	100	100	100
Veterans' care Centres of Excellence	20	0	0	0
Expand Veterans' Affairs service staff	50	50	50	50

Figures in millions of dollars

- Permanent Impairment Allowance and Earnings Loss Benefit projections based on Veterans Ombudsman projections, less modest increases since by the government
- Veterans Education Benefit based on number of personnel leaving the CAF each year, cost of a year of post-secondary education, and high take-up rate
- Cost of Veterans Affairs offices from government projections
- The actuarial impact of restoring lifelong pensions for injured veterans and increasing survivors pensions will be booked immediately in 2015/16

Backgrounder – Real Change: The future we owe our veterans

Arts and Culture

Investment	2016/17	2017/18	2018/19	2019/20
Renewed investment in CBC/Radio-Canada	75	150	150	150
Export promotion of arts	10	25	25	25
Investment in NFB/Telefilm	10	25	25	25
Double funding for Canada Council for the Arts	90	180	180	180

Figures in millions of dollars

Backgrounder – Real Change: Investing in Canadian culture and middle class jobs

Immigration

Investment	2016/17	2017/18	2018/19	2019/20
Reduce application processing time	25	50	50	50
Eliminate assessment fee for caregivers	8	8	8	8
25,000 Syrian refugee intake	100	50	0	0

Figures in millions of dollars

- Assessment fee based on CIC statistics for caregiver approvals
- Additional $100 million immediately for intake in 2015/2016 and $100 million to UNHCR

Backgrounder – Real Change: A new plan for Canadian immigration and economic opportunity

Net Cost Total Measures Not Yet Announced

Investment	2016/17	2017/18	2018/19	2019/20
Net cost total measures not yet announced	1,170	2,375	2,557	1,355

Figures in millions of dollars

In the remaining weeks of this election campaign, we will be making additional commitments. These investments will also fit within our fiscal plan.