

# Budget 2022 – Insights & Analysis

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MANAGING PRINCIPAL

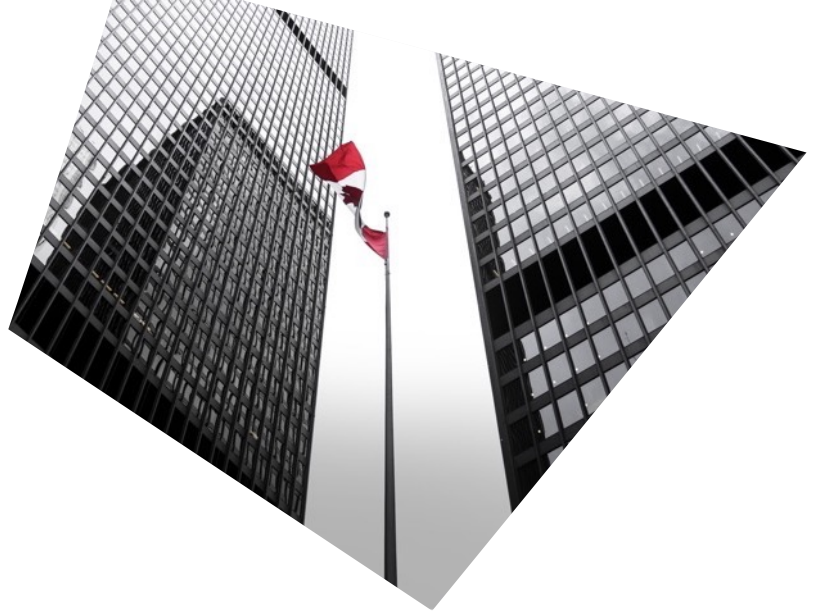
## Stability and Prudence Amidst Global Turmoil

In her second budget as Finance Minister, Chrystia Freeland has proposed a much more prudent economic plan for Canada than had been anticipated, especially when one considers her first budget in April 2021, her party's election platform last fall, and the Trudeau government's confidence-and-supply agreement with the New Democrats.

This budget signals the beginning of the end of pandemic supports. The pace of withdrawal is appropriately measured, but the objective is clear: the Government of Canada is winding down the temporary measures it had introduced as a result of COVID-19.

The budget reflects the recent agreement with the NDP, in that it signals progress on that party's key priorities, but the impact is very focused on a select few policy commitments. In fact, the impact of that agreement is circumscribed by external considerations, which have clearly applied more pressure on the government's choices than the confidence-and-supply agreement. We are indeed a far cry from *Building Back Better*.

In the main, the 2022 federal budget is shaped by global forces that have limited the government's scope of action and focused its attention on a few key priorities: housing, climate change and the war in Europe. This is not the budget that had been anticipated when Prime Minister Trudeau selected his cabinet and drafted their mandate letters. This is the budget the world and all its uncertainties have thrust onto Canada.



## What you need to know

Budget 2022 focused heavily on housing affordability, the response to the war in Ukraine, and the government's priorities for a green economic recovery. Here are the highlights:

### The Top Line

- The budget projects a 2022-23 deficit of \$52.6 billion, representing a return to the government's commitment to declining deficits and debt-to-GDP ratios.
- Strong economic performance and new revenue tools (such as a bank profits tax) form the basis of approximately \$29 billion in new spending.
- Predictably, the budget follows through on key commitments in the recent Liberal-NDP confidence and supply agreement. This includes \$5.3 billion to provide dental care to low-income Canadians; acceleration of a beneficial ownership registry; and a commitment to table pharmacare legislation.
- The Liberal's focus on making life more affordable falls primarily to new housing programs and investments that are reflective of 2021 platform commitments.
- The government continues to make big bets on the green economy, including renewed zero emission vehicle investments and a new Critical Minerals Strategy.
- The budget continues to advance key reconciliation initiatives, including \$11 billion in new spending to support Indigenous children and families.
- In response to Russia's invasion of Ukraine, the government has also committed \$8 billion in new defence spending over 5 years and direct contributions to Ukraine.



## What you need to know

### Growth of the Green Economy

- The federal government is promoting the use of zero-emission vehicles with a sales mandate to ensure that at least 20 per cent of light-duty vehicles sales will be zero emission by 2026, 60 per cent by 2030 and 100 per cent by 2035. The program also includes an investment of \$1.7 billion over five years to extend the Incentives for Zero-Emissions Vehicles program.
- For corporations, there will be an investment of \$547.5 million over four years to launch new purchase incentive program for medium-and heavy-duty zero emission vehicles and \$199.6 million over five years to expand the Green Freight Program.
- The federal government has committed additional funding to a series of programs that already exist to promote the low-carbon economy. This includes \$2.2 billion over seven years to expand and extend the Low Carbon Economy Fund.
- The government is also focusing on carbon capture utilization and storage (CCUS) by introducing a refundable investment tax credit for businesses that incur CCUS expenses.
- Budget 2022 also introduced \$2 billion over nine years to expand the Oceans Protection Plan.
- To lower the use of plastic, the government is investing \$183.1 million over five years in programs designed at limiting plastic usage, and to help understand the effects of micro-plastics on human health and monitor contaminants in the North.



## What you need to know

### Housing Affordability

- The government committed more than \$72 billion in financial supports through the National Housing Strategy by 2027-28.
- Budget 2022 supports first-time buyers with the Tax-Free First Home Savings Account that gives first time home buyers the ability to save up to \$40,000. The budget also doubles support provided through the First Time Home Buyers' Tax credit from \$750 to \$1,500.
- The government is supporting affordable housing with \$2.9 billion in funding, on a cash basis, under National Housing Co-Investment fund to accelerate creation of up to 4,300 new units for Canadians who need them most. It also provides \$475 million to one-time, \$500 payments to those facing housing affordability challenges and \$1.5 billion over two years to extend the Rapid Housing Initiative, creating at last 6,000 new affordable housing units.
- It is also providing \$458.6 million to the Canada Mortgage and Housing Corporation to provide low-interest loans and grants to low-income housing providers.
- The government is investing \$4 billion over five years to the Canada Mortgage and Housing Corporation to launch a new Housing Accelerator fund.
- The government is also introducing the Multigeneration Home Renovation Tax Credit which provides up to \$7,500 in support for constructing a secondary suite.





## What you need to know

### Canada's Leadership in the World

- The government is providing \$8 billion in new funding over five years to immediately reinforce Canada's national defence. This includes \$252.2 million for NORAD modernization, and \$6.1 billion to improve the capabilities of the Canadian Armed Forces.
- To address issues related to the internal culture of the Canadian Armed Forces, Budget 2022 proposes \$100.5 million over six years for a variety of measures, including the modernization of the military justice system.
- Building on the \$90 million in military aid already provided to Ukraine, the government will provide an additional \$500 million in military aid, as well as a \$1 billion loan program.
- New funding for international aid focuses on the global fight against COVID-19, including an additional \$732 million to support the efforts of the Access to COVID-19 Tools Accelerator.
- The government will review the Anti-Money Laundering and Anti-Terrorist Financing Regime.
- The government will establish a new Canada Financial Crimes Agency.
- In line with the recent NDP supply and confidence agreement, the government will accelerate the implementation to create a publicly accessible beneficial ownership registry. They anticipate it will be accessible by the end of 2023.



## What it means

### From Zero to Hero: Opportunities for Canadian Businesses

As in previous budgets, the Liberals are continuing their plans to make green off going green. They are investing billions in this budget on major efforts to attract more green investment, from investing \$3 billion in zero-emission vehicles and its charging infrastructure to \$3.8 billion over eight years in a Critical Minerals Strategy to support building an electric vehicle (EV) battery supply chain. Most notably, they have set aside \$15 billion over five years in a new Canada Growth Fund that aims to court the trillions in private sector investments necessary to build a low-carbon economy by 2050.

The Trudeau government's ambition for Canada to be an "innovation nation" runs broader than global leadership in green technologies. Taking a page from Israel and Finland, the government is setting up a new investment agency intended to give new and established Canadian companies the competitive boost they need in international markets. In the same vein, \$750 million is being set aside over six years to support the growth of Canada's Global Innovation Clusters. These clusters will help advance key government priorities, such as fighting climate change and strengthening supply chains.

While there were no net new investment in other innovation areas like the life sciences, or artificial intelligence, about \$120 million is being set aside for small modular nuclear reactors and \$97 million is going towards efforts to strengthen Canada's intellectual property regime.

Building on successive tax cuts for small businesses, the government is proposing to phase out access to the small business tax rate more gradually - representing a \$660 million tax cut for small- and medium-size enterprises over the next five years.

All in all, these investments represent a shift back to the Liberals' original priorities when Trudeau first took government in 2015.



## What it means

### Home is where the (budget's) heart is

Today's budget featured the Trudeau government's first major move on housing since the 2021 election campaign.

The proposed initiatives lean heavily on the need for more supply-side growth, a lens through which the government appears to view many federal issues including child care. The \$4 billion investment to improve municipal planning processes has the potential of saving builders time and money without additional costs to cities. While this doesn't guarantee that savings will be passed on to buyers, shaving construction costs and accelerating supply may help cool the housing market.

Those looking for an immediate curb on foreign investment will have to wait a bit longer for the forthcoming legislation. Budget 2022 recommits to prohibiting foreign investment, but the devil is in the (lack) of details. Some may be relieved to see that money laundering rules are being extended to include real estate transactions, while tax rules on assignment sales of prebuilt housing are being tightened. The government also intends to crack down on property flippers with stronger tax laws.

First time home buyers are receiving some assistance through a new tax-free savings account that will provide tax free withdrawals on interest gained from the account. The first-time buyers tax credit is also being doubled and \$200 million in new investments are being allocated to support a new rent to own program.

Ultimately, the government has committed to launching a national study with an eye to solving the ever-deepening housing affordability crisis. Though Minister Freeland continues to suggest there's no "silver bullet" for the issue, time will tell whether these measures will be enough to cool Canada's red-hot housing market.





## What it means

### The Trudeau government recommits to its social roots

Though affordability and fiscal prudence were the primary focus of today's budget, the Trudeau government didn't shy away from investing in key social policy areas.

Investments in Indigenous communities were a significant component of today's announcement. In addition to committing to a renewed nation-to-nation relationship with Indigenous peoples, the budget provides \$11 billion to support Indigenous children and families. Amongst a swath of other financial investments, the government will provide \$275 million to address Canada's shameful legacy of residential schools.

To create safer and more inclusive communities, the government is planning to allocate \$100 million to support the implementation of a federal LGBTQ2 Action Plan. Approximately \$85 million will directly support the launch of a new Anti-Racism Strategy and National Action Plan on Combatting Hate. Additional investments are also planned for the Black, Muslim and Jewish communities.

In a nod to the recent Liberal-NDP confidence-and-supply agreement, the government will invest \$5.3 billion over five years to provide dental care to families with incomes of less than \$90,000. Children under 12 years old will start receiving access to this care by the end of 2022. A total of \$140 million is also being allocated for the Wellness Together Canada portal to give Canadians additional mental health supports, while the budget also proposes a new pilot project for a Menstrual Equity Fund.

Though many communities will certainly be supportive of these investments, the significant spend has drawn the ire of Conservatives who are calling this another Liberal-NDP tax and spend budget.



## What it means

### Is Canada finally “back” on the world stage?

In 2015, Prime Minister Justin Trudeau boldly claimed that Canada was “back” on the world stage. Seven years and six budgets later, the government may finally be putting its money where its mouth is – at least in part. Two months ago, Chrystia Freeland may have looked to the government’s defence budget as a path to reduce spending, but Russia’s invasion of Ukraine has reshaped the political calculus. Budget 2022 attempts to recognize the existential threat to our country by making the necessary investments to better equip our military and support our allies abroad.

Building on the government’s 2017 defence policy review, the government has announced an additional \$8 billion in spending over five years, largely directed towards increasing the capabilities of the Canadian Armed Forces. The investment represents a significant increase (spending was \$23.3 billion in 2021), but still leaves Canada well behind some of its NATO peers. In addition to direct spending, the government still has longstanding issues within the military, including widespread cultural issues and a dreadfully slow procurement process (see the F-35 fighter jet boondoggle).

Additional supports for Ukraine also predictably receive focus in the Budget. Building on existing supports, the government proposes an additional \$500 million in military aid, and \$1 billion in loans. While welcome news to many, critics will note the absence of additional aid to other global crisis, including the government’s laggard response to our “other” allies fleeing Afghanistan.

The government’s renewed defence spending may well meet the moment, but as we track other large commitments (such as pharmacare and dental care), the pressure on the government to find long-term revenues or savings remains.



## What now?

With the government's roadmap for the next year now in place, Ministers and departments across government will be working to quickly develop the specifics for new spending and deliver on key new commitments.

Businesses and organizations should now be thinking about how they can influence the development of these new spending priorities. How can you ensure that new programs benefit your organization? What new wins or losses will be determined in the fine print? With only a year to deliver on important spending programs, government will be looking to the private sector for both expertise and cooperation.

For more analysis, or support engaging government on any of the budget announcements, contact your Navigator team or reach out at [info@navltd.com](mailto:info@navltd.com).

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