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Investment Research

2018 Federal Budget Recap – The Ordinary Investor's Take

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In recent budgets, the Feds bumped the maximum annual TFSA contribution limit to $10,000 from $5,500 (under Harper), only to then reduce it to $5,500 starting in 2016 (under Trudeau). They also eliminated the ability of certain investment products to recharacterize interest income into capital gains through the use of derivatives, wiped out the ability to defer capital gains tax when making swathes from one fund class into another within a mutual fund corporation and forced investors in structured notes to treat any gain on the sale of a note as interest income (the rules previously allowed gains on notes sold prior to maturity to be claimed as capital gains). Strangely, the Liberal government's 2016 budget brought back the federal tax credit for labour sponsored funds – a product category that proved to be extremely expensive and a massive destroyer of wealth over the years.

Such changes were viewed by some, including us, as an affront to ordinary investors and savers looking to take advantage of the few benefits Canada's tax system offers.

The 2018 federal budget is quite benign in terms of gives or takes for savers and ordinary investors.

No material tax cuts or tax increases were announced, and various tax breaks that some had thought would get axed remain in place. The budget did, however, simplify the rules pertaining to taxation of passive income within private corporations that were introduced last year.

We will leave it to other commentators to provide detailed analyses on the complete budget document. Here, we review a few key points that have a more direct impact on clients.

The Skinny

At a high level, for the outgoing fiscal year, Ottawa is looking for a $19.4 billion shortfall, equivalent to 0.9% of GDP. The budget puts the coming fiscal year's deficit at $18.1 billion or 0.8% of GDP. That's to be followed by a $17.5 billion shortfall in 2019-20 (0.7% of GDP), with the deficit easing further in the final three years of the fiscal plan, falling to $12.3 billion or just 0.5% of GDP come 2022-23. No date has been specified for deficit elimination.

Clément Gignac and Sébastien Mc Mahon from iA's Economics Group told us that yesterday's budget was as non-event as they have seen in the last few years. The focus was clearly on gender equality and the new measures were mostly social, with five more weeks of parental leave for second parents being a headline of the budget.

There was nothing in the budget to support the competitiveness of Canadian businesses vs. their U.S. counterparts, as Mr. Morneau said he would take his time to consider the issue, but that our tax code generally is already quite competitive.

Regarding infrastructure, it seems that the funds will be deployed more slowly than expected, adding less of a punch to growth in 2018.

All in, there isn't a plan for a return to a balanced budget anytime soon, but this doesn't worry the economics team as the ratio of debt to GDP is what matters and it should continue to grind lower as the economy grows faster than the debt.

A New Advantage for Savers…Maybe

The budget announced an upcoming modernization of the Canada Deposit Insurance Corp. (CDIC), which insures eligible deposits in guaranteed investment certificates, savings accounts and other products for up to $100,000. Details on the upcoming changes were not provided, but according to the Globe and Mail, government officials said the consultations looked at adding registered disability savings plans and registered education savings plans to the list of registered accounts that are covered and adding foreign currency deposits to covered products. This would benefit snowbirds keeping large deposits in U.S.-dollar accounts. Other reforms could add coverage for guaranteed investment certificates longer than five years. Increasing the current $100,000 coverage limit for eligible deposits does not appear to be in the government's plans.

No More Funny Money

Tuesday's budget calls for a process to remove the legal tender status of bank note denominations no longer issued by the Bank of Canada — that includes the $1,000, $500, $25, $2, and $1 bills. (We had no idea some of these denominations existed and learned that $500 and $25 dollar bills were released as limited edition, commemorative notes by the Royal Canadian Mint. Very few are in circulation). The Bank of Canada will continue to honour these notes and exchange them at face value. However, as of a date yet to be determined, you will no longer be able to use them for payment on goods and services.

The Bottom Line

The 2018 federal budget provided little in the way of gives or takes for ordinary investors and savers. 2019 is an election year and we expect next year to be far more interesting on those fronts.

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