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## Fiscally, the Tories' budget is, well, conservative

By David Clarke  
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By OTTAWA — The minority Conservative government's budget, released last Monday, drew immediate fire from two Canadian opposition parties, the Liberals and New Democrats.

But the Bloc Quebecois said it could live with it. So the budget is likely to pass, and for the moment, the government will stay in power.

Is the budget fiscally controversial, too?

Not really.

True, under the budget, federal spending would reach nearly \$171 billion (U.S.) in fiscal 2008, up a hefty 5.6%. But it also earmarked \$7.8 billion for debt reduction in fiscal 2008 — \$2.6 billion more than the spending increases and tax cuts combined.

The budget allocates more money for provincial spending, the environment, health and public security.

Finance Minister Jim Flaherty said in his budget speech, "I hear it at the hockey arena. I hear it at the coffee shops. I hear it from people on the street. Taxes in Canada are way too high."

"We don't see any broad-based tax relief either for taxpayers or businesses," was the response of Nancy Hughes Anthony, president and chief executive of the Ottawa-based Canadian Chamber of Commerce, the country's largest business group.

The budget breaks one Conservative promise made during the 2006 election campaign: the elimination of the tax on capital gains reinvested within six months.

But the budget improves slightly on the previously announced promise to bring the tax rate on new business investment to 28.8% in 2011.

The government says that Canada could have the lowest taxes on new investments among the Group of Seven industrialized nations.

Corporate taxes already were scheduled to drop to 18.5% in 2011 from 21%, which means Canadian corporations will be facing a lower tax regime than their U.S. counterparts.

The budget confirms the Tax Fairness Plan, announced last Oct. 31: Established income trusts face a 31.5% tax hit in four years, and new ones are taxed this year (InvestmentNews, Jan. 22).

The \$171 billion income trust market has lost about \$13.8 bil-

lion in market value since the announcement.

"I have supported the Tax Fairness Plan without any amendments since it was announced on October 31, 2006 — on the principles of tax fairness and the need to stop new income trust conversions and IPOs that were being sold to seniors using marketing materials that contained deceptive cash yields and false assurances of low risk and suitability for retirement accounts," Diane Urquhart, an independent consulting analyst in Mississauga, Ontario, wrote in an e-mail.

### Principles touted

In a familiar refrain, Mr. Flaherty's budget speech called on "provincial and territorial colleagues to come together now to establish a common securities regulator."

Canada's securities industry is governed by 13 provincial or territorial agencies, making it the only industrialized country without a unified regulator.

"Canada simply can't afford 13 securities acts and securities regulators," the government said in "Creating a Canadian Advantage in Global Capital Markets," a 39-page document accompanying the budget. The government said that it "wishes for Canada a common securities regulator, not a federal one."

In an attempt to convince provinces doubtful of the merits of a single national regulator but without going into much detail about how this would be accomplished, the document says that Canada plans to follow the lead of the United Kingdom and make its securities regulation more flexible by adopting "principles-based" regulations.

"The U.K. has distinguished itself and has attracted a large share of international business to London with pragmatic, principles-based regulation," according to the document. "Moving towards more

principles-based regulation is consistent with the recommendations put forward in October 2006 by the Allen Task Force, and has been endorsed by the [Toronto-based] Investment Industry Association of Canada," the document asserts.

Mr. Flaherty's budget speech also mentioned enforcement, although just in passing, stating that "in addition, the government will put a plan in place to combat white-collar crime that includes attracting and retaining the best-qualified police and other expert resources to the [Royal Canadian Mounted Police's] Integrated Market Enforcement Teams."

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