

Federal Deficit Climbs to \$28.6 Billion at Half-way Mark of Fiscal Year

The Department of Finance has released the latest issue of The Fiscal Monitor, summarizing federal government revenues and expenditures for the month of September and, more important, for the first half (April to September) of the 2009-2010 fiscal year.

Not surprisingly, the federal deficit for the year continues to climb, as a result of both a decline in revenues, especially corporate tax revenues, and increased government expenditures, reflecting increased costs for employment insurance benefits as well as supports for the automotive industry. As of the end of September, the current year deficit stands at \$28.6 billion, as compared to a surplus of \$0.5 billion posted for the same period during the 2008-09 fiscal year.

The specific revenue amounts for the first half of 2009-2010 are as follows:

- Personal income tax revenues declined by 7.5% or \$4.2 billion, a result attributed by the Department of Finance to both lower employment and the effects of tax relief and reduction measures, including the Home Renovation Tax Credit.
- Corporate income tax revenues dropped by nearly 40%, or \$6.3 billion. While the overall decline is steep, Finance attributes the change largely to a 50% increase in refunds of taxes paid in previous years, with only a 12% decline in corporate income tax receipts.
- Excise tax revenues also experienced a significant decline of \$2.8 billion, or 13.4%, resulting largely from a year-over-year decrease in goods and services tax revenues.

On the expenditure side, the largest increase arose from social benefits spending and support for the automotive sector. The expenditure amount changes for 2009-10 in each area are as follows.

- Major transfers to persons, including elderly benefits, employment insurance benefits, and children's benefits, were up by \$4.6 billion or 15.6%, with a \$3.5 billion or 50.1% increase in EI benefit payments accounting for the bulk of that increase.
- Major transfers to other levels of government were also up, by \$2.2 billion or 9.4%, reflecting the usual growth in the Canada Health Transfer, the Canada Social Transfer, and Equalization payments to the provinces and territories, as well as a doubling, effective April 1, 2009, of the gas tax transfer to provinces and municipalities.
- Other transfer payments, comprised generally of support for the automotive industry and increased infrastructure funding, were up by \$8.7 billion.

The December issue of The Fiscal Monitor is available on the Department of Finance website at <http://www.fin.gc.ca/n08/09-110-eng.asp>. The next issue, which will summarize federal government revenues and expenditures for the April to October 2009 period, will be issued during the week of December 14.

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