

## THE GLOBE AND MAIL

### **Flaherty expected to announce surplus, paving way for tax cuts**

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OTTAWA -- The Conservative government's fall economic update will set the stage for some big-ticket tax cuts ahead of the 2015 federal election.

The updated numbers that Finance Minister Jim Flaherty will unveil Tuesday in Edmonton are expected to show a surplus for 2015-16 that is significantly larger than earlier estimates. Mr. Flaherty has hinted that the number won't be "tiny" and Treasury Board President Tony Clement said over the weekend that the update will show a "comfortable" surplus that year.

With last year's deficit coming in at nearly \$7-billion less than previously estimated, Ottawa is clearly ahead of schedule in terms of finding internal savings. More than 20,000 federal public service jobs have been eliminated and federal departments are now regularly underspending their approved budgets.

Tuesday's update is not expected to include any new policy announcements.

While private-sector economists aren't hung up on the exact year the deficit is erased provided it keeps shrinking, there is a political motivation driving the Conservative government's push to show an election-year surplus in the billions.

When Prime Minister Stephen Harper last hit the hustings in 2011, he made several promises that came with a big caveat - they would be implemented only after the books are balanced. The Conservative platform promised a \$3.7-billion surplus in 2014-15, but Mr. Flaherty would later delay the return to surplus by a year.

The federal government's most recent forecast - outlined in the March budget - said there would be a deficit of \$6.6-billion in 2014-15 and a surplus of \$800-million in 2015-16. Mr. Flaherty is expected to release rosier projections for those years Tuesday.

Net debt during the recent years of deficits has grown from \$516.3-billion in 2007-08 to \$671.4-billion in 2012-13. That represents an increase of \$155.1-billion or 30 per cent, but Ottawa's debt as a percentage of gross domestic product remains low by international standards.

Surpluses that go unspent are put toward the debt, however, the government is planning to use its first post-recession surplus to deliver on past campaign promises.

"I know Minister Flaherty's goal is to have that comfortable surplus so that we can keep some of the promises we made during the last election campaign," Mr. Clement told CTV's Question Period on Sunday.

The 2011 Conservative platform included cost estimates for those promises. One in particular comes with a hefty price tag and a lively debate over its policy merits.

The platform promised families with dependent children under the age of 18 would be allowed to split their income for tax purposes. **The Institute of Marriage and Family Canada has been urging MPs on Parliament Hill to support the pledge, arguing it will make it more affordable for one parent to stay home.** But researchers with the C.D. Howe Institute have warned income splitting "does more harm than good" and would discourage mothers in particular from returning to the work force.

Implementing the pledge would cost \$2.5-billion a year in forgone tax revenue, according to the Conservative platform.

University of Calgary economist Jack Mintz, an advocate of income splitting, said there are options to reduce the cost, including phasing in the pledge.

"That was an important promise made during the election campaign," he said. "I always felt that once they get to a balanced budget, they'll want to carry out some prominent tax reduction that probably won't cost too much money. ... I think they would feel comfortable fighting an election on it as well."

Other outstanding campaign promises are less expensive. Establishing an adult fitness tax credit would cost \$275-million; doubling the children's fitness tax credit would cost \$130-million a year; and doubling the amount Canadians can save each year in tax-free savings accounts would cost \$30- million a year.