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**Task Force on Tax Assistance for the Resource Regions
and the New Economy
Reworked Tax Assistance for the Resource Regions
and the New Economy**

Montréal, February 7, 2008 – The Task Force on Tax Assistance for the Resource Regions and the New Economy today releases the report it submitted to the Minister of Finance, Monique Jérôme-Forget. The Task Force recommends maintaining assistance for businesses in the resource regions and the new economy while overhauling the criteria under which the assistance is provided. Accordingly, it proposes:

- defining assistance for the less developed regions on the basis of remoteness, as there is a close link between remote regions and regions in difficulty;
- replacing tax credits calculated on the basis of jobs with an investment tax credit;
- maintaining a refundable tax credit in the information technology sector for high value-added jobs.

“These recommendations will help place the Québec businesses concerned “on equal terms” in the great battle for competitiveness,” Robert Gagné, chairman of the Task Force, indicated.

The annual cost of the reworked tax assistance measures could be similar to that of the tax measures that currently apply, i.e. roughly \$300 million.

The Task Force reached these conclusions after consulting with close to 120 participants concerned by the tax assistance measures for the resource regions and the new economy, studying more than 160 briefs it received as well as opinions sought from various other experts.

The Minister of finance, Monique Jérôme-Forget, had confirmed that the Task Force would be formed in the 2007-2008 Budget Speech. The Task Force was mandated to examine the following tax measures:

- tax assistance granted to manufacturing businesses in the resource regions;
- the tax credits for new economy businesses set up in designated sites (e.g. Cité du multimedia).

The Task Force consisted of Robert Gagné, professor and head of the Institut d'économie appliquée at HEC Montréal, Luc Godbout, associate professor with the Département de sciences comptables et de fiscalité at the University of Sherbrooke, and Guy Lacroix, professor with the Département d'économique at Laval University.

Resource regions: fair solutions

The Task Force notes that:

- overall, and compared to their economic weight, the resource regions receive more than the central regions and the metropolitan regions, considering all the assistance provided for businesses;
- many Québec businesses have a productivity problem and there is a persistent disparity in economic development between the resource regions and the rest of Québec;
- some regions suffer from a real structural disadvantage compared to other regions and they must be supported;
- the primary cause of these problems is the remoteness of these regions from the major urban centres;
- weaknesses in the definitions used for the tax assistance measures for the resource regions have created tensions among the regions, tensions that would not have existed otherwise;
- the tax holiday is missing its target because it only helps businesses in good financial health, and its principle is open to criticism because it is not related to the criteria of employment and investment.

The Task Force recommends that the government:

- define assistance to the less developed regions on the basis of remoteness, as there is a close link between remote regions and regions in difficulty;
 - base territorial divisions on the distance of administrative regions from the centre of the three metropolitan regions, which involves dividing remote regions into two groups depending on whether they are located in the intermediate zone (between 200 km and 300 km) or in the most remote zone (more than 300 km);
- replace tax credits calculated on the basis of jobs and the tax holiday for manufacturing SMEs with an investment tax credit:
 - made available to the entire manufacturing sector at a rate of 40% in the most remote zone (Abitibi-Témiscamingue; Côte-Nord; Gaspésie-Îles-de-la-Madeleine; Eastern portion of Bas-St-Laurent) – and at a rate of 20% in the intermediate zone (Saguenay and Western portion of Bas-St-Laurent);
 - targeting businesses with paid-up capital of less than \$250 million for the purchase of manufacturing and processing equipment;
- maintain tax credits relating to employment in the Gaspésie-Îles-de-la-Madeleine region, in addition to the new assistance for investment in remote regions because of the severe problems facing the region;
- apply the assistance programs until 2015;

- introduce flexible transitional measures by allowing businesses that currently benefit from tax assistance measures the choice of continuing with the current system until its expiry or opting for the new one;
- apply specific budgetary assistance programs for regions in difficulty that do not have to overcome the obstacle of remoteness:
 - thus, under the proposed system and once the existing tax assistance measures have expired, the Mauricie region and the Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs should continue to benefit from government financial assistance programs.

The cost of the new measures would be of the same order as that of existing assistance programs, i.e. roughly \$100 million.

The New Economy: necessary assistance measures

The Task Force notes that:

- the information technology sector faces very stiff global competition;
- governments in developed countries as well as emerging economies do not hesitate to intervene to support businesses located in their territory;
- despite its skilled workforce, Québec has difficulty maintaining its position in Canada.

The Task Force recommends:

- allowing a refundable tax credit in the information technology sector;
 - of 30% of salaries paid, to a maximum of \$20 000 per job, per year;
 - applicable only to high value-added jobs;
 - targeting businesses with a minimum critical mass of more than five eligible employees throughout Québec, thus ending the experiment with designated sites;
 - lasting until 2015;
- introducing flexible transitional measures by allowing businesses that currently benefit from tax assistance measures the choice of continuing with the current system until its expiry or opting for the new one;
- not extending, beyond the stipulated period, the tax assistance measures for the four other sectors of the new economy (materials technology; scientific and technical services; production technologies; and the biotechnology sector) and replacing them with budgetary assistance that is better adapted to such diversified sectors in which innovative activities are difficult to identify.

The support provided for information technologies would be at least equal to the tax assistance measures for the new economy, i.e. roughly \$200 million.

The Task Force's conclusion

Following its analysis, the Task Force concludes that while tax assistance measures for the resource regions and the new economy account for only a limited share of total tax assistance, they are of strategic importance for the businesses concerned.

By assessing the various aspects of the tax assistance measures, the Task Force adopted a constructive and forward-looking approach. The approach we propose and the resulting recommendations seek to put the Québec companies concerned “on equal terms” in the great battle of competitiveness on markets.

For both assistance measures for the resource regions and those for the new economy, the Task Force hopes that its recommendations will help provide solid bases for future government initiatives while keeping in mind the limits of the government's financial capacity.

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Source: Jacques Delorme
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