

### **The Québec Taxation Review Committee makes public its report**

#### **Tax reform that focuses on Québec's future**

**Québec City, March 19, 2015** – At the conclusion of eight months of deliberations, the Québec Taxation Review Committee is making public its final report, entitled *Focusing on Québec's Future*. The committee presents its deliberations and reflections in the six volumes of the report and formulates 71 recommendations to the government leading to a major reform of the tax system. The reform seeks to make the Québec taxation system more competitive, efficient and equitable. It would bolster the incentive to work and better encourage saving and investment and better promote economic growth and a higher standard of living. The committee is proposing a new tax mix totalling more than \$5.9 billion, numerous enhancements to the tax system and avenues for reflection for the future. It has formulated several recommendations aimed at fairness and the redistribution of wealth, better management of fiscal measures and the collection by the government of all of its tax revenues. The proposed reform would increase GDP by \$2 billion and personal disposable income by nearly \$600 million. As committee chair Luc Godbout has noted, "the committee is proposing a reform that would significantly affect wealth creation at zero cost for taxpayers. It would also be neutral for public finances. Our proposal stimulates economic growth without either increasing or decreasing the tax burden."

#### **A major tax reform**

The committee is proposing to the government a new tax mix to lay the foundations of a taxation system that is better geared to economic growth. The reorganization totalling more than \$5.9 billion would consist in annually reducing personal income tax by nearly \$4.4 billion, corporate income tax by more than \$1.1 billion, and payroll tax by more than \$0.4 billion.

From the standpoint of personal income tax, the committee recommends the elimination of the health contribution, an increase in the basic personal amount and general income tax reduction, combined with a more progressive tax rate schedule. As for corporations, the committee recommends a reduction in the general tax rate and, for SMEs, a new growth premium and the reduction of the payroll tax (the Health Services Fund contribution).

The reform would be at zero cost for taxpayers, that is, individuals and corporations, taken separately. Tax cuts would be funded through a reduction in tax measures and a new tax mix, including broader recourse to consumption taxes and user fees for certain services. In particular, the committee recommends increasing to 11% the rate of the QST and the rate of the tax on insurance premiums. As for Hydro-Québec, the committee recommends that the price of heritage pool electricity be increased and that a new tax on overconsumption of household electricity be implemented.

The committee is also proposing numerous fiscal enhancements to the tax system aimed at remedying anomalies or responding to specific challenges. In the case of individuals, it is proposing, in particular, to bolster the work incentive through the establishment of a “tax shield” and a premium for experienced workers.

The committee’s proposed reform looks further into the future with suggestions to sustain reflection in the coming years. The implementation of the suggestions would require coordination across Canada. In the medium term, the committee recommends that the government undertake a review of capital gains taxation. In the longer term, it recommends that thorough reflection occur on the very foundations of income tax by examining the implementation of a dual income tax system.

### **Significant impact on economic growth and the standard of living**

According to the evaluation that the Ministère des Finances conducted at the committee’s request, the new \$5.9 billion tax mix would raise GDP by \$2 billion and personal disposable income by nearly \$600 million. The reform would, in the long run, support the creation of just over 20 000 jobs. Based on the guidelines that the committee adopted, the reform would have a zero cost for the government.

The new tax mix for individuals that the committee is proposing would mainly benefit middle-class taxpayers with incomes between \$40 000 and \$100 000.

As for corporate tax, the proposed measures would enhance corporate competitiveness. The tax burden differential between Québec and Ontario, Québec’s main economic partner, would fall by one-third. It would be completely eliminated as regards corporate income tax, one of the most detrimental taxes for economic growth.

### **Numerous enhancements to the tax system**

The committee is proposing numerous enhancements to the tax system aimed, in particular, at remedying anomalies or responding to specific challenges.

In the case of individuals, the committee is proposing several measures intended to bolster the work incentive. The committee recommends the establishment of a “tax shield” designed to enable households that increase their work income to protect themselves against a marked increase in their tax burden. It recommends the introduction of a premium for experienced workers to encourage workers approaching retirement or who have already retired to remain on or return to the labour market.

### **The redistribution of wealth, tax measures and the recovery of tax revenues**

The committee believes that the proposed taxation system must not call into question the equitable redistribution of collective wealth and, in particular, the government’s efforts to combat poverty and social exclusion. Four measures have been pinpointed to this end, including the enhancement of the solidarity tax credit.

The committee systematically analyzed tax measures and is proposing several tightening measures based on its analysis. Once the tightening measures have been implemented, it is essential to ensure that they are soundly managed in the future and the committee has formulated a number of recommendations in this respect.

The committee focused, in particular, on the erosion of the tax base that has occurred in Québec and in all jurisdictions. To enable Québec to collect all of its tax revenues, the committee is proposing a threefold initiative: the fight against tax evasion and tax avoidance, the collection of the sales tax and income taxes related to e-commerce, and better oversight of provisions concerning trusts.

### **Eight objectives**

The committee's report hinges on eight objectives: promote economic growth and a higher standard of living; foster business investment; encourage labour market participation; encourage personal savings; adhere to the logic of sustainable development; collect all tax revenues; adapt taxation to a changing society; and ensure equitable redistribution of collective wealth and adequate support for the most disadvantaged.

### **The members of the Québec Taxation Review Committee**

The Québec Taxation Review Committee comprised specialists in the realms of taxation and public policy and representatives of the business community.

Luc Godbout, Director, Département de fiscalité at the Université de Sherbrooke, chaired the committee.

The committee comprised:

- Dana Ades-Landy, Vice-President, Bank of Nova Scotia;
- Pierre-Carl Michaud, associate professor, Département des sciences économiques, Université du Québec à Montréal;
- Danièle Milette, tax expert;
- Yves St-Maurice, economist;
- Jean-Pierre Vidal, CPA, CA, associate professor, taxation, HEC Montréal;
- Luc Villeneuve, FCPA, FCA, President, Deloitte – Québec;
- Carole Vincent, economist, consultant and researcher in economic studies.

### **Eight months of deliberations**

The report is the outcome of the eight committee members' eight months of deliberations and reflects their know-how. The committee also drew on 17 external studies prepared at its request by Québec, Canadian and foreign experts, and 198 briefs received from organizations, business or individuals. Moreover, 82 of the briefs were presented during public hearings held in Montréal and in Québec City. The Institut du Nouveau Monde organized seven citizens' forums throughout Québec's regions to enable the public to share its ideas, at which 225 participants expressed themselves.

The committee's deliberations were carried out within its \$2.5-million budget.

**A report in six volumes**

The report comprises six volumes and a summary. Volume 1, entitled *Québec Tax Reform*, presents the contents of the proposed reform. Volume 2, *A Reform of All Methods of Taxation*, provides details of the proposals by method of taxation. Volume 3, *Status Report*, presents an analysis from various angles of the main characteristics of the Québec taxation system. Volume 4, *Documents Submitted During the Mandate*, includes the interim report submitted on October 31, 2014 and the analysis of user fees for reduced-contribution childcare services submitted on November 18, 2014. Volume 5, *Studies to Support the Committee's Deliberations*, comprises the 17 studies that the committee commissioned from experts and organizations. Volume 6, *The Public Consultations*, assembles the report produced by the Institut du Nouveau Monde submitted in the wake of the citizens' forums and all of the 198 briefs received.

– 30 –

**Source and information:** Press Relations  
418-528-7382