

The Québec Taxation Review Committee makes public its report

An overhaul of the personal taxation system: a personal income tax cut of nearly \$4.4 billion funded by means of lower tax expenditures and a new tax mix

Québec City, March 19, 2015 – The Québec Taxation Review Committee is proposing a major tax reform that includes a new tax mix for individuals. The committee recommends a reduction of nearly \$4.4 billion in income tax with the abolition of the health contribution, an increase in the basic personal amount and a general income tax reduction combined with a more progressive tax rate schedule. The upper marginal rate would remain unchanged. The reduction would be funded by means of a reduction in tax measures (tax expenditures) and a new tax mix, including broader recourse to consumption taxes and user fees. The most disadvantaged would be protected through enhanced support measures. The proposed reform would significantly affect economic growth and Quebecers' standard of living. In particular, it would benefit middle-class taxpayers.

A personal income tax cut of nearly \$4.4 billion

To foster economic growth and a higher standard of living, the committee is recommending a revision of the current personal income tax rate schedule that would result in a \$4.4-billion tax reduction.

The abolition of the health contribution alone would represent a \$734-million personal income tax cut. The increase in the basic personal amount would raise from \$14 281 to \$18 000 the threshold below which a taxpayer does not pay tax. The increase would benefit all taxable taxpayers and represent for them an annual gain of \$225 million. The number of rates in the tax rate schedule would increase from four to nine, the lower marginal rates would be reduced and the upper marginal rate would remain unchanged but would be applied to a higher income. The changes would lead to a general income tax reduction combined with a more progressive tax rate schedule and would ensure that the maximum marginal tax rate does not exceed 50%, including federal taxation. The changes to the tax rate schedule would represent an overall personal income tax cut of \$3.4 billion.

The revision of tax expenditures

The significant reduction in personal income tax would be partly funded by means of a revision of tax expenditures leading to net savings of more than \$1.0 billion. The revision would take the form of an overall reduction in tax expenditures accompanied by the enhancement of a limited number of tax measures that satisfy the objectives adopted.

The revision of the tax mix

The reduction in personal income tax would be funded principally by means of a revision of the existing tax mix applicable to personal taxation. The new tax mix would rely more extensively on taxation methods that are less detrimental to economic growth and a higher standard of living, that is, consumption taxes and user fees.

As for consumption taxes, higher rates would generate \$2.7 billion. In particular, the committee recommends increasing to 11% the rate of the QST and the rate of the tax on insurance premiums. With regard to specific taxes, the rates of the tax on tobacco products, the tax on alcoholic beverages with respect to beer and the fuel tax on gasoline and diesel would be gradually increased over a period of five years. In addition, the revision of certain tax expenditures related to consumption taxes would generate an additional \$201 million.

From the standpoint of user fees, the committee concentrated its analysis on two specific user fees, i.e. reduced-contribution childcare expenses and Hydro-Québec's electricity rates. It is proposing a fiscalization of reduced-contribution childcare services rates that would protect low- or middle-income families and generate an additional \$101 million in relation to the reform that the government announced. As for Hydro-Québec, the committee recommends that the price of heritage pool electricity be increased and a new tax on overconsumption of household electricity be implemented.

Protection for the most disadvantaged

The committee recommends that \$310 million be earmarked to enhance the solidarity tax credit in order to protect the most disadvantaged against the deterioration of their financial situation that may stem from the new tax mix and the proposed tax increases. The increase in the basic personal amount, the reduction of the first tax brackets of the tax rate schedule and the committee's recommendations concerning the work premium would also benefit households with the lowest incomes.

Significant impact on economic growth and the standard of living

The committee had assessed the impact of the proposed reform on economic growth and on Quebecers' standard of living. The impact would be significant.

When account is taken both of the proposed new tax mix for individuals and corporations, which, overall, would total \$5.9 billion, the committee's proposed reform could raise GDP by \$2.0 billion and personal disposable income by nearly \$600 million in addition to supporting, in the long run, just over 20 000 jobs.

The new tax mix would benefit, in particular, middle-class taxpayers. Among couples with children, the main beneficiaries would be couples earning between \$40 000 and \$100 000. For couples with school-aged children, the gains could reach nearly \$2 000.

The proposed reform would have a positive impact for all persons living alone and childless couples in all income brackets. Its impact would also be positive for couples in which both spouses are 60 years of age and have work income.

The Québec Taxation Review Committee

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. Chaired by Luc Godbout, Director of the Département de fiscalité at the Université de Sherbrooke, the committee comprised specialists in the realms of taxation and public policy and representatives of the business community.

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Source and information: Press Relations
418-528-7382