PRESS RELEASE 3

The Québec Taxation Review Committee makes public its report

An overhaul of the corporate taxation system: a reduction of nearly $1.6 billion in corporate income tax and the payroll tax, funded through a reduction in 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 corporations. The committee recommends a corporate tax cut of nearly $1.6 billion, i.e. a reduction of nearly $1.1 billion in corporate income tax and a reduction of nearly $0.4 billion in the payroll tax (the Health Services Fund contribution). The committee is also recommending that the corporate income tax rate be reduced from 11.9% to 10%, and for SMEs, the implementation of a "growth premium" and a reduction from 2.7% to 1.6% in the payroll tax rate. The reduction would be funded by means of a reduction in tax measures (tax expenditures) and a new tax mix, including broader recourse to user fees for this group of taxpayers. The proposed reform would significantly affect economic growth and Quebecers' standard of living. It would enhance corporate competitiveness.

A significant corporate tax cut
To promote economic growth and a higher standard of living, the committee is proposing measures leading to a $1.6-billion corporate tax cut funded by means of a revision of tax expenditures and broader recourse to user fees for this group of taxpayers.

The committee recommends reducing from 11.9% to 10% the corporate income tax rate. The reduction in the general tax rate would offer Québec businesses Canada's lowest general income-tax rate. The tax cut for corporations would stand at $675 million.

The committee recommends the introduction of a "growth premium" for SMEs to replace the existing small business deduction. The premium would reduce from 10% to 4% for eligible corporations the tax rate on income for the taxable income bracket between $100 000 and $500 000. Access to the new premium would encourage small enterprises to grow in order to reach levels of income that benefit from favourable tax treatment. The "growth premium" would represent $470 million.

Lastly, the committee recommends reducing from 2.7% to 1.6% the rate of the payroll tax for SMEs in all areas of activity, which would reduce their tax burden by $430 million.

The revision of tax expenditures

The corporate tax cut would be partly funded by a revision of tax expenditures from which corporations benefit, thereby generating net savings of $1.1 billion. Accordingly, the committee recommends the elimination of the full refundability of tax credits for large businesses, which, in the long run, would generate recurring savings of $325 million. It also recommends the elimination of the existing small business deduction, which would generate $550 million in recurring savings. The revision of other tax expenditures would generate additional savings of $205 million.

A new tax mix for corporations

The corporate tax cut would also be partly funded through broader recourse to user fees. The committee’s recommendations concern Hydro-Québec’s electricity rates. The proposed increase in the price of heritage pool electricity would affect businesses, except for Hydro-Québec’s industrial customers that pay the L rate. Broader recourse to user fees would generate $500 million annually.

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, without either increasing or decreasing the tax burden.

As for corporate tax, the proposed measures would enhance corporate competitiveness. Through the reduction from 11.9% to 10% of the corporate income tax rate, Québec would offer the most competitive tax rate in Canada, nearly 3 percentage points below the Canadian average. The reduction in the tax rate would benefit roughly 90 000 enterprises. Such a reduction in the tax rate would promote business investment in Québec by increasing the return on investments in all sectors of the economy.

The marginal rate for SMEs with taxable income between $100 000 and $500 000 would be 4%. The reduction in the tax rate for SMEs would benefit nearly 20 000 enterprises. It would be lower than the current rate of 8%, lower than the 4.5% rate in force in Ontario and near the 3% average rate applied by the Canadian provinces, excluding Québec. The reduction in the payroll tax rate for SMEs would benefit more than 150 000 enterprises. The lower payroll tax would both foster job creation and enhance the competitiveness of such enterprises on external markets by reducing their production costs.

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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418-528-7382