

2005-2006

Budget in Brief

# Budget

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**Finances**

Québec



2005-2006 Budget  
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## Introduction

- The 2005-2006 Budget is one of disciplined, responsible management.
- It has three main objectives:
  - to continue to invest in our main priorities and, above all, in health and education;
  - to foster wealth creation and increase prosperity throughout Québec;
  - to modernize public infrastructures.
- With this budget, the government is on its way to keeping its commitments and putting Québec on the road to development and prosperity to raise Quebecers' standard of living and ensure the sustainability of public services.

## Economic highlights

### Québec's economy is healthy

- The Québec economic activity grew by 1.9% in 2004, the same rate as in 2003, despite adverse changes in the external sector.
- 60 800 new jobs were created and the unemployment rate fell to 8.5%, the lowest level since 1975.
- 60.3% of the labour force was working, a level never before seen in Québec:
  - Young people have benefited the most. Their current employment rate is higher than that of young Ontarians.
- Bolstered by low interest rates, domestic demand grew by 4.6% last year, a 17-year record. In particular:
  - Consumption rose 3.6% and residential investments, 14.8%. These investments translated into 58 400 housing starts, a 17-year peak;
  - Total private investment by businesses grew 13.7%, accounting for 19% of all private investment in Canada, the best performance in 12 years.
- However, like the rest of Canada, Québec was adversely affected by the stronger Canadian dollar, which has appreciated by over 20% in two years:
  - Households and businesses bought more foreign goods, to the detriment of Québec products.
- Thus, even though exports rose in 2004 for the first time in four years, the external sector's contribution to economic growth remained negative, reducing the growth rate by 2.8 percentage points.
- Québec economic activity should pick up starting in 2005, climbing by 2.4% this year and 2.6% in 2006.

- The external sector will gradually take over from the demand for goods and services which, after remaining robust in 2005, will moderate beginning in 2006. The recovery of the external sector will be spurred, in particular, by a slight dip in the Canadian dollar.

# Staying the course of our priorities

## Health first

### ***Continue to invest massively while making the system more efficient***

- Health spending has risen \$2.1 billion in the past two years.
- This investment represents three-quarters of the \$2.9-billion increase in program spending during the same period.
- In 2005-2006, the health budget will be \$20.9 billion:
  - This means \$826 million more than last year to improve direct services to the population;
  - Health spending has increased 5.2% per year since 2003-2004.
- Over the next three years, investments in health facilities will account for close to \$2.6 billion for Québec as a whole.
- Moreover, \$2.5 billion will be invested in the Centre hospitalier universitaire de Montréal and the McGill University Health Centre alone.

### ***Two new action plans***

- Two action plans will soon be announced:
  - the first is aimed at developing priority mental health services;
  - the second is aimed at providing more support for seniors losing their autonomy by providing them with more home care.



## ***Strengthening our social safety net***

### **Free medication for the most disadvantaged seniors**

- The medication of persons 65 or older who receive the maximum guaranteed income supplement will be completely free of charge:
  - Previously, they had to pay up to \$200 per year;
  - They will no longer have to do so as of July 2005.

### **Reform of support measures for natural caregivers and persons with disabilities**

- Over 80 000 natural caregivers and people with a physical or mental impairment will receive additional assistance of \$43 million.
- The tax assistance provided to these individuals will increase nearly 50%, from \$85 million to \$128 million.

### **INCREASE IN SUPPORT PROVIDED TO PERSONS WITH DISABILITIES AND NATURAL CAREGIVERS – FULL YEAR**

	<b>Number of recipients</b>	<b>Gain in millions of dollars</b>
Persons with a severe and prolonged mental or physical impairment	15 000	7
Natural caregivers of minor children	16 000	8
Natural caregivers of adults	50 000	28
<b>TOTAL</b>	<b>81 000</b>	<b>43</b>

- A tax credit for natural caregivers will be introduced:
  - Under this credit, a low-income couple that cares for an adult child with a disability will be able to count on additional support of \$1 000 a year.
- Furthermore, parents of minor handicapped children will receive up to \$450 more per year, thanks to the increase in the supplement for handicapped children.

- Finally, eligibility for the tax credit respecting a severe and prolonged mental or physical impairment will be broadened, entitling some 15 000 more people to claim it:
  - This credit will be increased and indexed.
- An additional \$2 million will be granted to increase the number of places in adapted work centres.

## **Investments in education to prepare for the future**

### ***Substantial investments***

- The other main priority of the government is education:
  - Education accounts for one-quarter of our program spending, that is, \$12.2 billion;
  - An additional \$321 million will be invested in education this year;
  - Over \$1 billion has been invested in academic achievement since the government took office.
- These additional funds will go toward the following initiatives to enhance our children's success:
  - the budget of the homework assistance program is doubled;
  - improved intervention targeting 100 000 students from underprivileged communities will be possible;
  - extra-curricular physical activities and sports are increased;
  - the three-year plan to encourage reading in school will be implemented;
  - as of September 2006, English Second Language will be taught beginning in grade one;
  - \$380 million more since 2002-2003 has been allocated to universities, primarily to accept more students.

## Promoting arts and culture

### ***Objective: increase private investment***

#### **Concrete measures**

- Placements Culture is created:
  - It will support the development of arts and culture thanks to contributions from the private sector;
  - The government will inject \$5 million.
- Corporate museum memberships will be fully tax-deductible.
- An additional \$5 million will be allocated to fund some of our museums.
- The capital cost allowance rate for businesses that acquire works by our artists will be raised from 20% to 33 1/3%.

## Families: always at the heart of government action

### ***Implementation of the Québec parental insurance plan***

- As of January 1, 2006, a parental leave plan will be implemented.
- This plan will actually be administered as an insurance plan:
  - It will be financed through a separate fund administered by the Conseil de gestion de l'assurance parentale.

## **Continuing to ease the tax burden of individuals**

- The government pledged to reduce the income tax of Quebecers.
- Last year's budget focused on families. \$1 billion was returned to taxpayers.

### ***Personal income tax reduction of \$372 million***

- With the 2005-2006 Budget, the government is announcing an income tax reduction of \$372 million over a full year.
- The tax reduction announced in the 2005-2006 Budget is provided through:
  - a new \$500 tax deduction for workers;
  - an increase in the tax assistance for persons with a severe and prolonged mental or physical impairment;
  - improvement of the tax assistance for caregivers;
  - higher ceilings on contributions to registered retirement savings plans (RRSP) and registered pension plans (RPP);
  - an increase in the refundable tax credit for medical expenses.

***New \$500 deduction for workers***

- This year, priority is given to women and men who work:
  - A new \$500 deduction will take effect as of January 1, 2006 for everyone who has a job.
- This deduction will benefit 3.1 million employees and 162 000 self-employed workers.
- This tax reduction represents \$300 million annually.
- Moreover, the indexation of personal income tax will give taxpayers an additional \$250 million in 2005-2006.
- The caps on RRSP contributions will be increased by \$1 000 until 2010, and an equivalent measure will be introduced for registered pension plans:
  - When fully implemented, this will mean an additional \$27 million in tax relief.

## ***Tax cuts for the middle class***

- The tax reduction announced in this budget will benefit, in particular, middle-class taxpayers. For example, 45% of this tax relief will go to workers with incomes of between \$25 000 and \$50 000 dollars.
- This reduction in taxes is in addition to the gains provided through the 2004-2005 Budget.
- In the 2004-2005 Budget Speech, the government announced it was putting \$1 billion back into taxpayers' pockets by introducing, in 2005, the Child Assistance measure, the Work Premium and a single tax system.
- The tax reduction announced in this budget will bring the combined gains for taxpayers to \$1.4 billion in 2006.

### **TAXPAYER GAIN BY INCOME BRACKET – 2006**

(millions of dollars)

<b>Taxpayer income</b>	<b>2004-2005 Budget</b>	<b>2005-2006 Budget</b>	<b>Total</b>
\$15 000 or less	369	15	384
\$15 000 to \$25 000	255	62	317
\$25 000 to \$50 000	260	166	426
\$50 000 to \$75 000	90	81	171
\$75 000 to \$100 000	23	27	50
Over \$100 000	12	21	33
<b>TOTAL</b>	<b>1 009</b>	<b>372</b>	<b>1 381</b>

**2004-2005 BUDGET - RECALL**

(millions of dollars)

	Impact on financial framework	
	2005-2006	2006-2007
<b>Gain of \$1 billion for taxpayers</b>		
Child Assistance <sup>1</sup>	- 975	- 547
Work Premium	- 115	- 243
Single personal income tax system	- 40	- 219
<b>Total</b>	<b>- 1 130</b>	<b>- 1 009</b>
<b>RECALL – INDEXATION OF THE TAX SYSTEM</b>		
2005	- 180	- 180
2006	- 70	- 315
<b>Total</b>	<b>- 250</b>	<b>- 495</b>

1 In 2005-2006, the gain from the Child Assistance measure is in addition to the tax credits claimed by families in spring 2005 in respect of 2004.

**2005-2006 BUDGET****PERSONAL INCOME TAX REDUCTION**

(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2005-2006	2006-2007
New \$500 deduction for workers	- 300	- 70	- 300
Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment	- 7	- 1	- 7
Improvement of the tax assistance for caregivers			
- Increase in the supplement for handicapped children	- 8	- 2	- 8
- New refundable tax credit for natural caregivers	- 28	-	- 5
Higher ceilings on RRSP and RPP contributions	- 27	- 7	- 15
Increase in the refundable tax credit for medical expenses	- 2	- 1	- 2
<b>TOTAL</b>	<b>- 372</b>	<b>- 81</b>	<b>- 337</b>

## Gain for taxpayers

- The cumulative gain from the 2004-2005 and 2005-2006 budgets for a couple with two children and two earned incomes is:
  - \$4 386 for a total family income of \$25 000;
  - \$850 for a total family income of \$50 000;
  - \$780 for a total family income of \$75 000.

### GAIN FOR A COUPLE WITH TWO CHILDREN AND TWO EARNED INCOMES

(dollars)

Earned household income	2004-2005 Budget		2005-2006 Budget	Increase in disposable income
	Child Assistance	Work Premium	Deduction for workers	
0	1 810	0	0	1 810
5 000	1 810	350	0	2 160
10 000	1 810	1 600	0	3 410
15 000	1 810	2 816	0	4 626
20 000	1 810	2 316	0	4 126
25 000	2 410	1 816	160	4 386
30 000	1 906	1 316	160	3 382
35 000	1 106	816	160	2 082
40 000	643	316	160	1 119
45 000	720	0	160	880
50 000	670	0	180	850
75 000	580	0	200	780
100 000	0	0	220	220

- Over and above these gains, the indexation of personal income tax will give taxpayers an additional \$275 million in 2004-2005 and \$250 million in 2005-2006.



## **Gap between Québec and the Canadian average cut in half**

- The fiscal gap between Québec and the Canadian average has been cut in half, dropping from \$2.2 billion to \$1.2 billion in three years.
- The government pledged to attain the Canadian average by the end of its mandate.

### **PERSONAL INCOME TAX TAX BURDEN DIFFERENTIAL BETWEEN QUÉBEC AND THE OTHER PROVINCES DETERMINED BY APPLYING THE OTHER PROVINCES' TAX STRUCTURE TO QUÉBEC** (millions of dollars)

	2003	2005	2006
<b>Differential Québec – other provinces</b>			
Alberta	4 433	4 081	3 756
Ontario	5 627	3 758	3 420
British Columbia	3 538	3 046	3 057
Saskatchewan	2 234	1 799	1 461
New Brunswick	1 526	798	573
Manitoba	937	577	414
Nova Scotia	689	435	86
Prince Edward Island	1 099	390	41
Newfoundland and Labrador	- 677	- 1 316	- 1 663
<b>AVERAGE DIFFERENTIAL</b>	<b>2 156</b>	<b>1 508</b>	<b>1 238</b>

## **Greater social justice for all**

### ***Deployment of the plan to combat poverty***

- The government has stood by its objective of greater social justice for all, by introducing the plan to combat poverty:
  - Investments of \$2.5 billion over five years were announced last year.

### ***Investment in social housing***

- \$145 million will be invested for the construction of 2 600 new dwellings under the AccèsLogis program.
- With this additional investment, our government is paving the way for the construction of 18 600 low-rent and affordable housing units, for a total investment of \$401 million:
  - This is 5 600 more units than promised.
- An additional \$15 million will be granted to renovate existing social housing.

## Fostering wealth creation

- To foster wealth creation and increase prosperity in all regions of Québec, the government is introducing four series of initiatives, namely:
  - a major reform of corporate taxation to promote investment;
  - improved assistance for business financing;
  - enhanced support for research and development (R&D), innovation and exports;
  - greater support for regional development.
- Overall, these measures will result in the injection of almost \$900 million in the Québec economy over the next three years.

### FOSTERING WEALTH CREATION FINANCIAL IMPACT FOR THE GOVERNMENT (millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Reform of corporate taxation to promote investment	- 72	- 159	- 261	- 492
Improved assistance for business financing	- 9	- 30	- 40	- 79
Support for R&D, innovation and exports	- 15	- 31	- 31	- 77
Support for regional development – Coulombe Commission recommendations	- 57	- 79	- 104	- 240
<b>TOTAL</b>	<b>- 153</b>	<b>- 299</b>	<b>- 436</b>	<b>- 888</b>

## Increasing private investment for greater productivity

### *Reform of corporate taxation to promote investment*

- The government is introducing a major reform of corporate taxation, including, in particular:
  - a reduction of more than 50% in the tax on capital and an increase in the income tax rate applicable to large businesses;
  - a lower income tax rate for SMEs;
  - implementation of a capital tax credit for new investments in fabrication and processing equipment.
- Once its full impact is felt in 2009, this reform will reduce taxes collected from businesses by \$305 million:
  - The amount of tax on capital will have fallen by \$860 million.

### **REFORM OF CORPORATE TAXATION TO PROMOTE INVESTMENT**

#### **FINANCIAL IMPACT FOR THE GOVERNMENT**

(millions of dollars)

	Impact over three years			Ultimate impact in 2009-2010
	2005-2006	2006-2007	2007-2008	
Reduction of more than 50% in the tax on capital	-50	-221	-380	-858
Increase in the tax rate of large businesses	43	174	258	587
Introduction of a capital tax credit of 5% of the value of new investments in fabrication and processing equipment	-55	-74	-96	–
Reduction in the tax rate of SMEs	-7	-30	-32	-34
<b>Subtotal – Reform of corporate taxation</b>	<b>-69</b>	<b>-151</b>	<b>-250</b>	<b>-305</b>
Increase in capital cost allowance rates	-3	-8	-11	-20
<b>TOTAL</b>	<b>-72</b>	<b>-159</b>	<b>-261</b>	<b>-325</b>

**Reduction of more than 50% in the tax on capital**

- Tax on capital will be reduced by over 50%:
  - As of January 1, 2006, the applicable rate will be gradually reduced from 0.6% to 0.29% in 2009.
- This measure will be largely self-financed by occupying the tax room vacated by the federal government regarding corporate income tax:
  - As of January 1, 2006, the tax rate of large businesses will gradually increase from 8.9% to 11.9% by 2009.
- This measure follows up on the recommendation of the 1996 Commission on Taxation and the Financing of Public Services, chaired by Alban D'Amours, which states :
  - "The government should finance measures to reduce fixed tax expenses as follows: (...) increase tax rates on the active income of businesses (...)."

**5% tax on capital credit for new investments in machinery and equipment**

- Businesses that make a new investment in the manufacturing sector will be entitled to a tax on capital credit equal to 5% of the value of the investment in machinery and equipment:
  - This measure will take effect as of April 22, 2005.
- This credit will completely eliminate the tax on capital on new investments in fabrication and processing equipment:
  - It will also substantially reduce the tax on capital payable on the business's other assets.

**Reduction in the taxation rate of SMEs**

- In conjunction with the corporate taxation reform, the taxation rate applicable to the income of SMEs is being reduced:
  - As of January 1, 2006, the taxation rate of SMEs will be permanently reduced to 8.5%.
  - This rate will apply to the first \$400 000 of taxable income.

## ***Assistance for business financing***

### **Seeding and startup**

- FIER-Régions, a component of the regional economic intervention fund, was introduced for the purpose of carrying out promising projects in the seeding and startup phases of businesses in the regions.
- Additional funding of \$78 million will be allocated to FIER-Régions:
  - thereby doubling the government's initial capital outlay.
- Innovatech Régions ressources will be converted into a mixed public-private capital corporation through a partnership with Capital régional et coopératif Desjardins and Desjardins Capital de risque to finance new projects in the regions:
  - an injection of \$30 million in new capital.
- The Innovatech Québec et Chaudière-Appalaches and Innovatech du sud du Québec will receive a total of \$10 million that will be used as leverage to attract private capital and promote their conversion into mixed public-private corporations.

### **Growth and expansion of businesses**

- From now on, tax-advantaged funds will be able to invest in larger businesses, that is, in businesses with assets of up to \$100 million.
- A new plan, known as the SME Growth Stock Plan, will be created:
  - providing a new tax incentive for individuals investing on the public market.
- A new refundable tax credit equal to 25% of salaries will be made available to businesses operating in the information technology sector to support projects that create at least 500 jobs in Québec. Businesses will have to claim this tax credit before January 1, 2008.

**Transferring businesses**

- Investissement Québec will add a new component, Relève PME, to its Financement PME program:
  - This component will facilitate the transfer of businesses to a family member, a director or any other entrepreneur interested in acquiring such firms.

***Support for R&D, innovation and exports*****Supporting R&D**

- The refundable R&D tax credit, currently set at 35%, will be increased to 37.5% for SMEs.

**Making the shift to product development**

- The design tax credit will be extended to all designers in all industrial sectors:
  - This will raise the number of businesses entitled to the tax credit from 300 to 700.

**Supporting export businesses and productivity enhancement**

- \$15 million will be allocated over three years to helping businesses improve their performance and take advantage of business opportunities on foreign markets:
  - Specialized consulting services will be made available to businesses.

## **\$240 million for the development and prosperity of our regions**

### ***Support for regional development***

- To support efforts to adapt and diversify and act on some of the priority recommendations of the Coulombe Commission's report in the regions, \$240 million will be earmarked over three years.
- The federal government will also take part in funding this initiative.

### **\$75 million for forest management**

- \$75 million will be allocated over three years to improve forest management:
  - creation of the position of chief forester;
  - improvement of the calculation of the allowable cut;
  - development of knowledge and improved forest inventories;
  - support program for forest stakeholders;
  - increased support for aboriginal communities to facilitate access to the resource;
  - development of technologies and new products.

### **Support for regional communities**

- A \$30-million assistance fund for single-industry towns will help support communities experiencing economic difficulties.
- In addition, \$10 million in support will be allocated over three years to workers in forest-based communities for the training of forestry workers and social economy business projects in forest regions.



### **Encouraging secondary and tertiary processing in the regions**

- The tax credits equal to 30% of salaries for businesses engaged in secondary and tertiary processing in the resource regions will be extended to the end of 2009.

### **Supporting the agricultural sector**

- The budget of the ministère de l'Agriculture, des Pêcheries et de l'Alimentation will be \$653 million in 2005-2006:
  - The Financière agricole du Québec has over \$305 million at its disposal to fund its income security and development support programs.
- \$5 million will be devoted over the next two years to promoting the marketing and distribution of local products and the development of small-scale alcoholic beverage production in Québec.
- A biofood centre will be created in east-end Montréal and include a business incubator aimed at facilitating the implementation of innovative projects in the biofood sector.

### **Developing the tourism industry**

- Additional funding of \$5 million is being granted in 2005-2006 to support structuring tourism activities in the regions that are based on special events and the development of regional attractions.

### **Preserving our natural heritage**

- The Société des établissements de plein air du Québec (Sepaq) will invest \$22 million over the next two years to consolidate the quality of Québec's national park infrastructures and improve public safety.
- To contribute to the preservation of our natural heritage, a program including a commitment of \$9 million over three years will be introduced to preserve and maintain protected areas.

**SUPPORT FOR REGIONAL DEVELOPMENT**

(millions of dollars)

	2005-2006	2006-2007	2007-2008	Total
Improved forest management	- 25	- 25	- 25	- 75
\$30-million assistance fund for single-industry towns	- 10	- 10	- 10	- 30
Support for workers in forest-based communities	- 1	- 2	- 2	- 5
Support for social economy business projects in the regions	- 1	- 2	- 2	- 5
Extension of tax credits for secondary and tertiary processing in the resource regions	- 9	- 28	- 53	- 90
Greenhouse production - use of alternative energy sources	- 3	- 2	—	- 5
Local products	- 2	- 3	- 4	- 9
Investments in nature park infrastructures	—	- 6	- 6	- 12
Tourism in the regions	- 5	—	—	- 5
Development of a network of protected areas	- 1	- 1	- 2	- 4
<b>TOTAL</b>	<b>- 57</b>	<b>- 79</b>	<b>- 104</b>	<b>- 240</b>

**400th anniversary of the founding of Québec City**

- A one-time budget of \$110 million will be allocated for the 400th anniversary of the founding of Québec City, namely, \$40 million for the organization of the festivities and \$70 million for various infrastructure work, including the revitalization of the banks of the St. Lawrence River.

## Record investments in infrastructures

- The government has decided to considerably accelerate the pace of investment in infrastructures.
- In 2004-2005, investments totalled nearly \$4.1 billion.
- In 2005-2006, projects totalling \$4.9 billion will be carried out both to maintain existing assets and build new infrastructures:
  - These investments will be made in collaboration with the federal government, municipalities and, in certain cases, the private sector.
- The level of investment by the government in three years will have been unparalleled in the history of Québec.

### ***Modern road infrastructures***

- Average investments of \$1.3 billion a year will be made throughout Québec by 2007-2008 to renovate and develop Québec's road network:
  - That is almost double the annual amount allocated between 1994 and 2002.
- Several projects will be accelerated this year:
  - Highway 185 in the Bas-Saint-Laurent region;
  - Highway 175 between Québec City and the Saguenay;
  - Autoroute 73 and Highway 173 in the Beauce region;
  - Autoroute 55 in the Centre-du-Québec and Estrie regions;
  - Autoroute 25 linking Montréal and Laval;
  - Autoroute 50 in the Outaouais region;
  - Autoroute 35, heading toward the Vermont border;
  - Autoroute 30 in the Montérégie region;
  - Autoroute 20 in the Bas-Saint-Laurent and Gaspésie regions.
- Major investments are also planned to improve public transit infrastructures.

### ***Leading-edge facilities in the health and education sectors***

- Close to \$2 billion will be invested in health and education facilities in the coming year.

### ***Functional urban and municipal infrastructures***

- The Société de financement des infrastructures locales du Québec (SOFIL) was created in the last Budget. It will offer a flexible source of funding to municipalities and their agencies.
- The duties levied on vehicles with large-displacement engines are remitted to SOFIL. This will also be the case for the portion of the federal gas tax transferred to Québec.
- The government intends to increase its contribution to the new corporation:
  - infrastructure funding through SOFIL will break down as follows:
    - 25% by the Québec government;
    - 25% by municipalities;
    - 50% by the federal government.
  - This will ultimately enable municipalities to invest close to \$1 billion in their infrastructures annually.

### ***Assets that must must be kept in good condition***

- A new policy on the maintenance of assets will be introduced in the health and education networks.
- The government will invest an additional \$1 billion over three years to restore the quality of our public facilities:
  - in schools, reception centres and hospitals.

## **Building on our energy resources**

- In the years to come, Hydro-Québec will invest over \$3 billion annually in new hydroelectric power station projects.
- Hydro-Québec recently awarded contracts to build a wind farm of more than 1 000 mégawatts requiring an investment of over \$1.9 billion:
  - This project will have substantial economic benefits for the Gaspésie and Bas-Saint-Laurent regions.
- Hydro-Québec will thus further diversify its energy supply and develop the abundant clean, renewable energy sources in Québec.
- The Budget is promoting the use of two less-polluting fuel sources:
  - A refundable tax credit will be introduced for the production and marketing of ethanol in Québec.
  - The fuel tax paid on biodiesel purchased by public carriers will be fully refunded.
- The Budget is introducing a program to develop pilot projects aimed at recovering energy and using alternative energy sources in greenhouse production.

## **Disciplined management to maintain a balanced budget**

- Economic growth should rise slightly, to 2.4% in 2005 and 2.6% in 2006.
  - These growth rates do not leave much leeway.
- The fiscal imbalance and our obligations regarding collective agreements and pay equity are exerting pressure on public finances.

### ***A zero deficit in 2005-2006***

- Responsible management of government spending will continue in 2005-2006.
- The program spending objective is being raised to 3.6%, in part to take collective agreements and pay equity into account.
- Efforts to modernize government will make it possible to:
  - save money;
  - meet the spending growth target;
  - provide more efficient, better-quality public services to Quebecers.
- Efforts to fight tax evasion will be continued to foster greater tax fairness:
  - The measures already announced last year, in particular those concerning economic and financial crime, will be renewed.
- Thanks to the government's responsible management, a balanced budget will be achieved again in 2005-2006.

***2006-2007: maintenance of fiscal discipline***

- A balanced budget must also be maintained in the coming years:
  - Achieving this goal also raises major challenges for 2006-2007.
- Program spending growth is expected to be 3.6% in 2006-2007, in part to take collective agreements and pay equity into account.
- A budgetary shortfall of around \$800 million will have to be made up.
- No efforts will be spared to make up this shortfall :
  - Balancing the budget is and will remain an inescapable obligation.
- Québec currently has the highest debt load of the Canadian provinces.
- The total government debt now stands at 44% of GDP:
  - Thanks to the maintenance of a balanced budget, this percentage will fall to below 40% by the end of this decade.

***Restoring balance and equity within the Canadian federation***

- The government must have at its disposal the financial resources needed to assume its responsibilities:
  - The federal government has the necessary manoeuvring room to correct the fiscal imbalance and restore equity within the Canadian federation.
- Last fall, substantial gains were made:
  - The federal government considerably increased its funding for health services.
- There are still major problems, however, regarding equalization and the funding of post-secondary education and other social programs.

- The new federal equalization policy runs counter to the objectives set forth in the Constitution of Canada.
- Québec will continue to play a leadership role in Canada to restore balance and equity within the Canadian federation.



**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****2005-2006 BUDGET SPEECH**

(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
<b>A. REVENUE MEASURES</b>		
<b>1. Personal income tax reduction</b>		
New \$500 deduction for workers	-70	-300
Increase in the tax assistance for persons with a severe and prolonged mental or physical impairment	-1	-7
Improvement of the tax assistance for natural caregivers		
– Increase in the supplement for handicapped children	-2	-8
– New refundable tax credit for natural caregivers	—	-5
Higher ceilings on RRSP and RPP contributions	-7	-15
Increase in the refundable tax credit for medical expenses	-1	-2
<b>Subtotal – Personal income tax reduction</b>	<b>-81</b>	<b>-337</b>

## FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES

## 2005-2006 BUDGET SPEECH (CONT.)

(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
<b>2. Fostering wealth creation</b>		
<b>2.1 Corporate tax reform to encourage investment</b>		
– Reduction of more than 50% in the tax on capital	-50	-221
– Increase in the tax rate of large companies	43	174
– Reduction in the tax rate of SMEs	-7	-30
– Introduction of a capital tax credit of 5% of the value of new investments in manufacturing and processing equipment	-55	-74
– Increase in capital cost allowance rates	-3	-8
<b>Subtotal</b>	<b>-72</b>	<b>-159</b>
<b>2.2. Business financing</b>		
– SME Growth Stock Plan	-4	-20
– Assistance for major employment-generating projects in the information technology sector	-5	-10
<b>Subtotal</b>	<b>-9</b>	<b>-30</b>
<b>2.3 R&amp;D and innovation</b>		
– Increase to 37.5% in the rate of the refundable “R&D salary” tax credit for SMEs	-6	-18
– Broadening of the scope of the design tax credit	-2	-6
<b>Subtotal</b>	<b>-8</b>	<b>-24</b>
<b>2.4 Support for regional development</b>		
– Extension of tax credits for processing activities in the resource regions	-9	-28
<b>Subtotal</b>	<b>-9</b>	<b>-28</b>
<b>Subtotal – Encouraging wealth creation</b>	<b>-98</b>	<b>-241</b>
<b>3. Other measures</b>		
Fuel tax refund in respect of biodiesel fuel	-2	-2
Refundable tax credit for the production of ethanol in Québec	—	-12
Removal of expenses paid for cosmetic purposes from the list of eligible medical expenses	2	5
<b>Subtotal – Other measures</b>	<b>—</b>	<b>-9</b>
<b>TOTAL IMPACT OF REVENUE MEASURES</b>	<b>-179</b>	<b>-587</b>

**FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES****2005-2006 BUDGET SPEECH (CONT.)**

(millions of dollars)

	Financial impact for the government	
	2005-2006	2006-2007
<b>B. EXPENDITURE MEASURES</b>		
<b>1. Social housing</b>		
Investments of \$145 million in the construction of 2 600 social housing units	—	-1
Additional investment of \$15 million for the repair and maintenance of low-rental housing units	-5	—
<b>Subtotal</b>	<b>-5</b>	<b>-1</b>
<b>2. Homework assistance program</b>	<b>-10</b>	<b>-10</b>
<b>3. Financial support for museums</b>	<b>-5</b>	<b>—</b>
<b>4. Productivity enhancement and export development</b>	<b>-5</b>	<b>-5</b>
<b>5. Proof of concept funding for university research findings</b>	<b>-2</b>	<b>-2</b>
<b>6. Support for regional development</b>		
Improved forest management	-25	-25
\$30-million assistance fund for single-industry towns	-10	-10
Support for workers in forest-based communities	-1	-2
Support for social economy business projects in the regions	-1	-2
Tourism in the regions	-5	—
Greenhouse production - use of alternative energy sources	-3	-2
Local products	-2	-3
Investments in nature park infrastructures	—	-6
Development of a network of protected areas	-1	-1
<b>Subtotal</b>	<b>-48</b>	<b>-51</b>
<b>7. Québec City's 400<sup>th</sup> anniversary</b>	<b>-2</b>	<b>-10</b>
<b>TOTAL IMPACT OF EXPENDITURE MEASURES</b>	<b>-77</b>	<b>-79</b>
<b>TOTAL IMPACT OF REVENUE MEASURES</b>	<b>-179</b>	<b>-587</b>
<b>TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES</b>	<b>-266</b>	<b>-666</b>

Note: A negative entry indicates a cost for the government.