BACKGROUND DOCUMENT

September 2014

QUÉBEC'S PERSONAL INCOME TAX SYSTEM

Québec

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Finances Québec

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In June 2014 the government established the Québec Taxation Review Committee to analyze the Québec taxation system and propose a reform of it.

Under the mandate that the government assigned to it, the committee is conducting a public consultation open to all interested Quebecers, groups and organizations.

To facilitate the preparation of the consultation, the committee has asked the Ministère des Finances du Québec to produce three documents containing information and data on the current taxation system.

— The first document devoted to an **overview of the Québec taxation system** was made public on September 18, 2014.

— This is the second document and it focuses on the **personal income tax system**.

— The third document will examine the **corporate taxation system**.

The Order in Council to create the Québec Taxation Review Committee

The Premier announced the establishment of the Québec Taxation Review Committee to analyze the Québec taxation system and propose the reform of it in his inaugural speech at the opening of the 41st Legislature of the National Assembly, subsequently confirmed in the June 4, 2014 *2014-2015 Budget.*

The Order in Council of June 11, 2014 officially created the Québec Taxation Review Committee and stipulated its mandate.

The mandate is defined as follows:

- examine all tax measures from the standpoint of their relevance and efficacy in order to pinpoint measures to reduce tax expenditures overall to comply with the targets set in the *2014-2015 Budget*;
- examine the Québec taxation system to enhance its efficiency, fairness and competitiveness and ensure funding for public services;
- compare international taxation trends, in particular with respect to the practices of proximate neighbours such as the United States and the other Canadian provinces;
- examine the possibility of rethinking balance between different modes of taxation;
- attentively review the business taxation system to propose avenues that will better support economic growth;
- analyze the personal income tax system, in particular to further encourage work and saving and optimize user fees while ensuring fair redistribution of collective wealth through the maintenance of adequate support for the poorest members of society;
- assess the possibility of subjecting to taxation certain user fees in order to take into account the ability to pay of the users of public services, bearing in mind the impacts on the implicit marginal taxation rates.

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INTRODUCTION

The document on the personal income tax system presents information on the income tax rules applicable to individual Quebecers, consumption taxes, user fees and the school and municipal taxes that the provincial, municipal governments and the school boards have implemented.

Moreover, it mentions certain impacts of the personal income tax system applied by the federal government.

❑ The major portion of the government's fiscal levies

Fiscal levies on individuals in Québec essentially come from two sources.

— The Québec government will collect $28.3 billion,[1] i.e. 36.4% of own-source revenue, from personal income tax, including individual contributions for health services and the health contribution.

— Consumption tax revenue, mainly paid by individuals, will reach $19.5 billion,[2] equivalent to 25.1% of own-source revenue.

Other fiscal levies include, in particular, the school property tax,[3] duties and licences, and user fees.

❑ The plan of the document

Information on taxes and user fees in this document are examined in two parts:

— Part 1 is devoted entirely to the **personal income tax system**.

— Part 2 examines **taxes** and **user fees** and focuses on consumption taxes, user fees and local taxation, i.e. in the latter instance, school tax and municipal taxes.

The document also includes an appendix devoted to the **key parameters of the personal income tax system**.

1 Appendix 1 indicates the Québec government's own-source revenue by category of levy.

2 See the preceding note.

3 The municipalities are not part of the government's reporting entity and municipal property tax revenues are excluded from total fiscal levies.

PART 1: THE PERSONAL INCOME TAX SYSTEM

The Québec tax regime applicable to individuals encompasses a series of provisions under the personal income tax system.

To facilitate understanding of the tax regime, the document presents:

— a statistical profile of taxpayers;

— the components of the tax regime;

— the rules that define the juxtaposition of transfers and taxation.

1. A STATISTICAL PROFILE OF TAXPAYERS

Below is a statistical profile of Québec taxpayers presented from the standpoint of:

— income distribution; and

— the breakdown of the tax burden.

1.1 Income distribution

The individual, or taxpayer, is the taxation unit under the Québec taxation system. In 2011, there were 6.4 million taxpayers in Québec, i.e. all of the taxable and non-taxable taxpayers who filed a tax return.

❑ The breakdown of taxpayers by income

In 2011, 75.5% of taxpayers had incomes under $50 000. Taxpayers with incomes under $20 000 accounted for 37.7% of all taxpayers.

Taxpayers with incomes of $50 000 or more filed 24.5% of income tax returns while those with incomes of $100 000 or more filed 4.8% of all income tax returns.

TABLE 1

Number of taxpayer according to total income in Québec – 2011
(in thousands)

Income bracket	Number	Percentage
Under $20 000	2 403	37.7
$20 000 to $29 999	936	14.7
$30 000 to $49 999	1 469	23.1
Subtotal: under $50 000	**4 808**	**75.5**
$50 000 to $99 999	1 258	19.7
$100 000 or more	306	4.8
Subtotal: $50 000 or more	**1 564**	**24.5**
TOTAL	**6 372**	**100.0**

Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

❑ The breakdown of total income

Total income is the sum of all of the income[4] of all taxpayers. In 2011, the total income of Québec taxpayers stood at $248.6 billion.

TABLE 2

Summary of individual taxation statistics – 2011
(millions of dollars)

	2011
Taxable income	
Total income	**248 621**
Deductions	−21 278
Net income	**227 343**
Other deductions	−7 598
Taxable income	**219 745**
Tax payable	
Tax on taxable income	38 905
Non-refundable tax credits	−15 553
Tax payable	**23 352**
Refundable tax credits	−3 953
Tax payable less refundable tax credits	19 399
Average tax rate (as a percentage)	**9.4**

Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

4 Capital gains are normally reported at 50% while dividends received from taxable Canadian corporations are reported at 125% for common share dividends and 141% for assessable dividends for the 2011 taxation year. Business income and rental income are reported net, i.e. the expenses incurred to earn such income are taken into account. Moreover, gains from gambling and lotteries and certain strike benefits are excluded from total income.

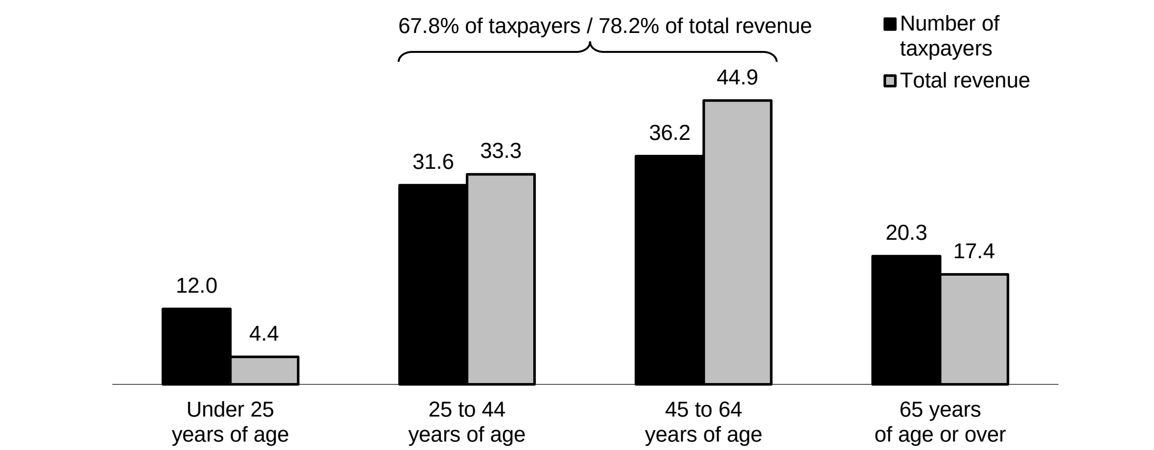
■ The breakdown of Quebecers’ total income by age group

Taxpayers between 25 and 64 years of age account for most of the labour force. In 2011, they declared 78.2% of all income and accounted for 67.8% of all taxpayers.

The share of total income of Quebecers 65 years of age or over, who accounted for 20.3% of taxpayers, stood at 17.4%. The share of total income of taxpayers under 25 years of age, who accounted for 12.0% of all taxpayers, was 4.4%.

CHART 1

Number of taxpayers and total income by age group – 2011
(as a percentage)



Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d’imposition 2011,* March 2014.

■ The breakdown of Quebecers' total income by income level

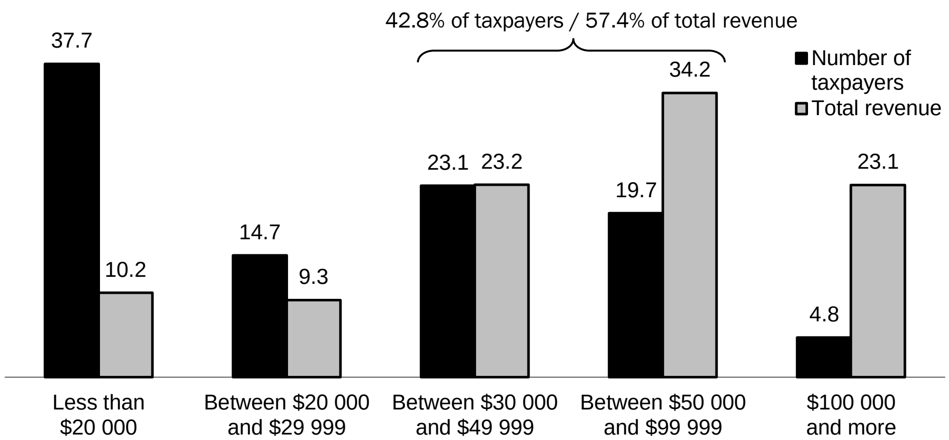
In 2011, taxpayers with incomes under $20 000 declared 10.2% of the total income of Québec taxpayers and accounted for 37.7% of all taxpayers.

Taxpayers with incomes between $30 000 and $99 999 declared 57.4% of income and accounted for 42.8% of all taxpayers.

The income of taxpayers with incomes of $100 000 or more accounted for 23.1% of all income and such taxpayers accounted for 4.8% of all taxpayers.

CHART 2

Number of taxpayers and total income by income bracket – 2011
(as a percentage)



Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

■ The breakdown of Quebecers' total income by source

Employment income and retirement income are Quebecers' two main sources of income. In 2011, employment income accounted for 63.3% of taxpayers' total income and retirement income for 16.2%.

TABLE 3

Total income by main source of income in Québec – 2011
(millions of dollars)

Source of income	Total income	Percentage
Employment	157 481	63.3
Retirement	40 257	16.2
Business and profession	14 769	5.9
Other investment income	12 757	5.1
Social benefits	7 272	2.9
Taxable capital gains	3 380	1.4
Employment insurance	3 535	1.4
Other	9 170	3.7
TOTAL	**248 621**	**100.0**

Note: Since figures are rounded, they may not add up to the total shown.
Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

1.2 The breakdown of the tax burden

In 2011, 75.5% of Québec taxpayers earned under $50 000. Among them, taxable taxpayers paid, on average, $2 195 in tax and accounted for 23.4% of taxes.

At the other end of the spectrum, in 2011, 2.4% of taxpayers earned over $130 000 and paid 26.0% of taxes. Among them, 0.6% earned over $250 000 and accounted for 13.9% of taxes, with an average annual tax of $80 634.

TABLE 4

Breakdown of taxpayers by total income group – 2011

	All taxpayers			Taxable taxpayers			
Total income group	**Number**		**As a %**	**Number**	**Tax payable (millions of $)**		**As a %**	**Average tax ($)**
Under $50 000	4 807 774		75.5	2 487 791	5 461.8		23.4	2 195
$50 000 to $100 000	1 257 936		19.7	1 247 519	9 501.0		40.7	7 616
$100 000 to $130 000	151 486		2.4	150 415	2 311.1		9.9	15 365
$130 000 to $150 000	43 836	2.4%	0.7	43 430	869.7	26.0%	3.7	20 025
$150 000 to $200 000	48 943		0.8	48 290	1 231.9		5.3	25 510
$200 000 to $250 000	21 082		0.3	20 816	720.1		3.1	34 595
$250 000 or more	40 769		0.6	40 380	3 256.0		13.9	80 634
TOTAL	**6 371 826**		**100.0**	**4 038 641**	**23 351.6**		**100.0**	**5 782**

Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

❑ Tax payable

In 2011, the tax payable stood at $23 352 million, up $1 315 million in relation to 2010, equivalent to a 6.0% increase.

Historically, tax payable has, on average, increased by $1 billion each year, in particular because of an increase in the number of taxpayers and their taxable income. The increase occurred although the taxation system remained unchanged. For example, in 2011, the number of taxpayers increased by 1.0% and taxable income by 4.6% in relation to 2010, which increased the tax payable by 6.0%.

Growth in tax payable exceeded $1 billion in 2010 and 2011, which marked a return to normal in Québec from the standpoint of such growth. Indeed, the tax payable in 2008 and 2009 declined by 2.2% and 0.7%, respectively. The decrease in 2008 stemmed mainly from the $950 million reduction in tax and that in 2009 by a smaller increase in the taxable income of taxpayers (1.5%) because of the economic downturn.

TABLE 5

Annual change in tax payable in Québec – 2005 to 2011
(millions of dollars)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Tax payable	19 506	20 346	21 639	21 157	21 011	22 037	23 352
Change in millions of dollars	—	840	1 293	−482	−146	1 026	1 315
Percentage change	—	4.3	6.4	−2.2	−0.7	4.9	6.0
Growth in taxable income (%)	*—*	*4.0*	*5.5*	*3.6*	*1.5*	*3.9*	*4.6*

Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

❑ The breakdown of tax payable by age

In 2011, the average tax rate stood at 9.4%.

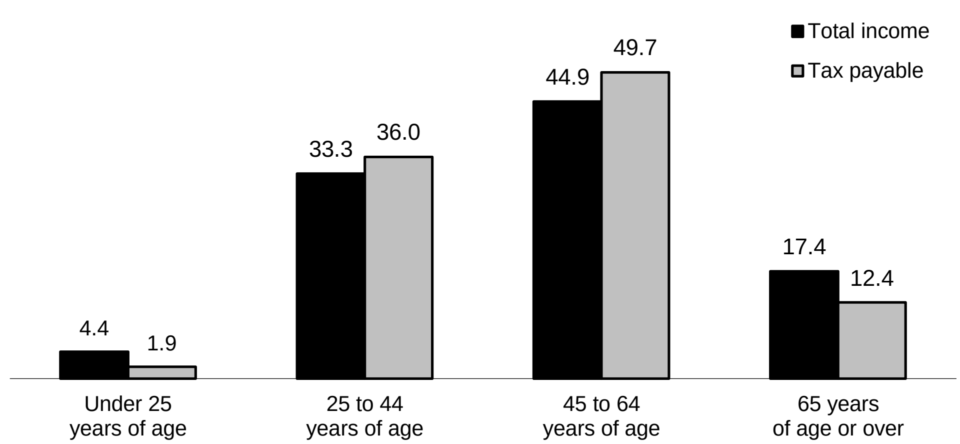
Taxpayers between 25 and 44 years of age (36.0% of the total) and those between 45 and 64 years of age (49.7% of the total), the main groups in the labour force, paid a large part of the tax payable. The other groups paid 14.3%.

A comparison of total income and tax payable reveals that the tax payable by taxpayers under 25 years of age and those 65 years of age or over fell below their share of income in relation to the other age groups, where the opposite was true, largely because the two groups have lower average income and, consequently, are taxed at average rates below those of the other age groups.

What is more, low- or middle-income taxpayers 65 years of age or over benefit from additional non-refundable tax credits (age-related deduction and retirement income deduction) that reduce their average tax rate.

CHART 3

Breakdown of total income and tax payable by age group – 2011
(as a percentage)



Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

❑ The breakdown of tax payable by income level

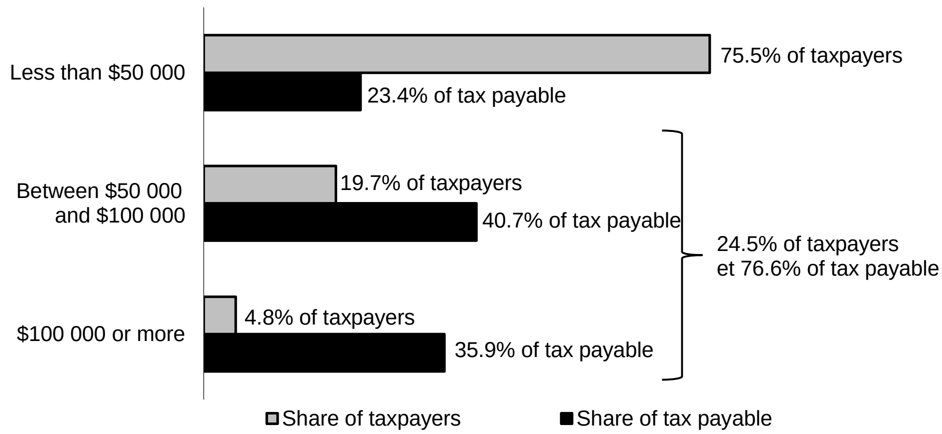
In 2011, taxpayers with income under $50 000 paid 23% of the tax payable and accounted for 75% of taxpayers.

On the other hand, taxpayers with incomes of $50 000 or more paid 77% of the tax payable but accounted for only 25% of taxpayers.

Among such taxpayers, those with incomes over $100 000 paid 36% of the tax payable but accounted for only 5% of taxpayers.

CHART 4

Breakdown of the number of taxpayers and tax payable by income bracket – 2011
(as a percentage)



Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

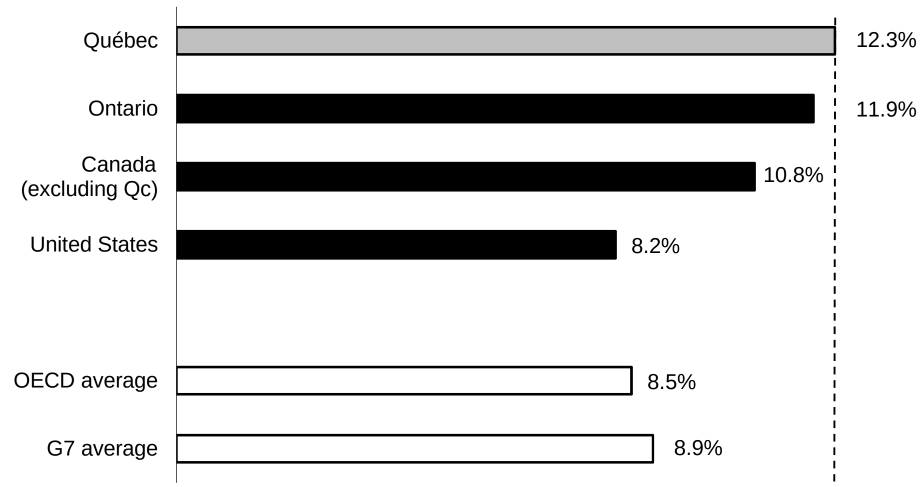
1.3 Comparison of the tax burden with Québec's main partners

A comparison of personal income tax overall collected in Québec in relation to its main partners reveals that the personal income tax burden is the highest in terms of GDP.

Personal income tax represents 12.3% of GDP, including federal tax and Québec tax. The rate is 11.9% in Ontario, 10.8% in Canada excluding Québec, 8.2% in the United States, and nearly 9.0% in the G7 countries and the OECD member countries.

CHART 5

The importance of personal income tax – 2010
(as a percentage of GDP)



Note: Personal income tax covers income tax, taxes on profits and on the capital gains of individuals paid to different levels of government.
Sources: OECD and Ministère des Finances du Québec.

❑ Non-taxpayers

In 2011, nearly 37% of taxpayers did not pay tax including, in particular, last resort assistance beneficiaries, students and seniors receiving the guaranteed income supplement.

Québec ranks fifth among the provinces in this respect.

It should be noted that non-taxpayers may pay other taxes, especially the Québec sales tax, property taxes and certain contributions such as drug insurance.

TABLE 6

Non-taxpayers by Canadian province – 2011
(as a percentage)

Canadian provinces	Non-taxpayers
British Columbia	44.1
Saskatchewan	41.4
Alberta	38.3
New Brunswick	36.6
Québec	**36.6**
Ontario	36.0
Newfoundland and Labrador	35.0
Manitoba	32.1
Nova Scotia	31.8
Prince Edward Island	27.0

Sources: Finances Canada, *Statistiques sur le revenu 2013 – Année d'imposition 2011* and Ministère des Finances du Québec.

❑ A lighter tax burden for families

Families with earned income under $56 676 bear a lighter tax burden in Québec than in Ontario. However, a single individual with income over $21 275 bears a heavier tax burden in Québec than in Ontario.

CHART 6

Difference in the tax burden of a single individual between Québec and Ontario – 2014

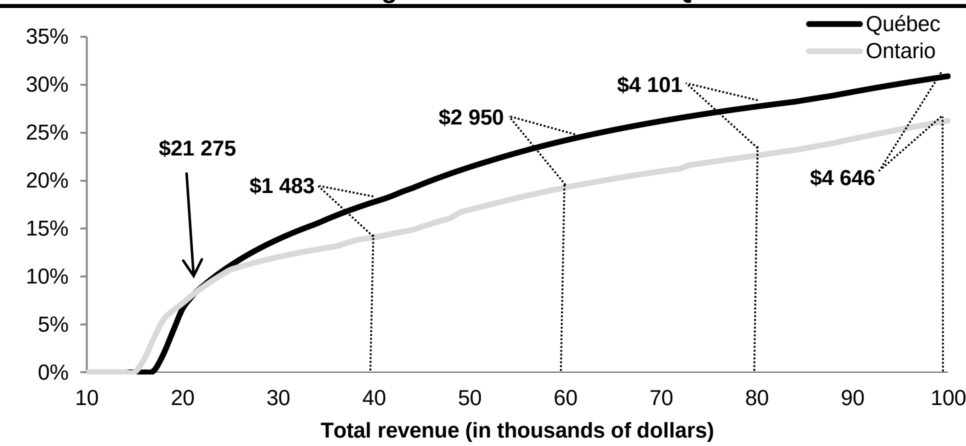
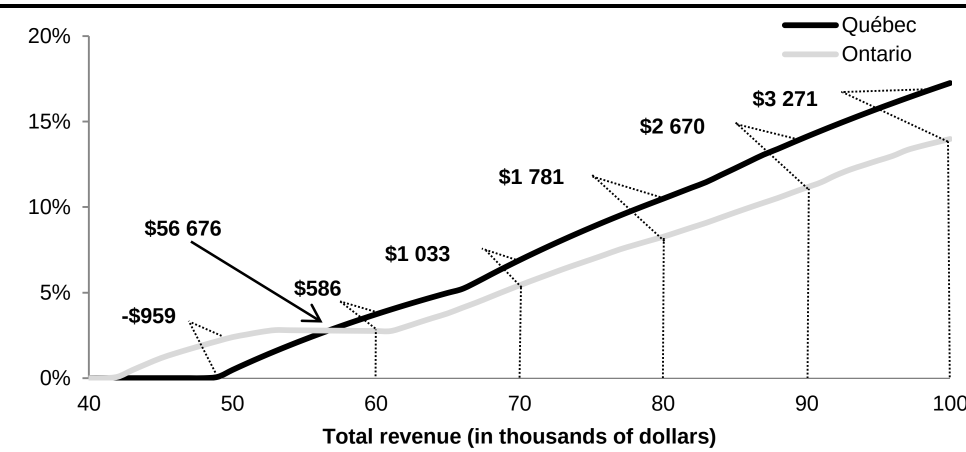


CHART 7

Difference between Québec and Ontario in the tax burden of a couple with two children – 2014



2. THE COMPONENTS OF THE TAX REGIME

This section focuses successively on the components of the personal income tax system:

— the parameters of taxation;

— tax expenditures;[5]

— social contributions.

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5 To obtain additional information on tax expenditures, please see *Dépenses fiscales – Édition 2013*, published on the Ministère des Finances du Québec website (**www.finances.gouv.qc.ca**).

2.1 The parameters of taxation

❑ The unit of taxation

The personal income tax system is centred essentially on the individual. This means that tax rates and fiscal parameters apply to the taxpayer's income, whether or not the taxpayer has a spouse.

However, certain tax measures take into account the financial situation of households and the composition of families.

❑ The main steps in the calculation of income tax

Generally speaking, tax is calculated by means of:

— the definition of net income;

— the establishment of taxable income;

— the determination of the tax on taxable income;

— the calculation of non-refundable tax credits in order to determine the tax payable.

■ Net income

The first step in the calculation of tax payable is to establish net income, which usually comprises all of the taxpayer's income, including:

— earned income;

— business or professional income;

— property income (rental income, interest, dividends, and so on);

— capital gains;

— retirement income;

— other income, such as scholarships, research grants, spousal alimony, social assistance benefits, benefits under the Québec Parental Insurance Plan, employment insurance benefits, and income replacement indemnities.

However, certain tax expenditures allow the taxpayer to fully or partially exclude certain types of income, including:

— 50% of capital gains that are included in income;

— winnings from lotteries or gambling.

Aside from the deductions granted for most expenses incurred to earn income, the taxation system allows an individual to reduce his income by means of certain deductions, including:

— the deduction for workers;

— the deduction for contributions to a registered retirement savings plan (RRSP);

— the deduction for contributions to a registered pension plan (RPP).

Net income is used to determine family income, which is considered under the taxation system to determine socio-fiscal tax credits reducible according to income such as child assistance and the solidarity tax credit, and the Québec public drug prescription plan premium.

■ Taxable income

As its name suggests, taxable income is income on which tax must be calculated. To determine taxable income, certain amounts must be added and subtracted from net income.

The amounts to be added are those on which tax must be calculated but that must not be taken into account to determine the “wealth” of households in a given year. Such amounts include the Universal Child Care Benefit, benefits from a registered disability savings plan and certain retroactive payments.

The amounts deductible in the calculation of taxable income fall into three categories:

— deferred losses;

— income exempted from tax by legislation, such as income replacement indemnities received following an industrial or automobile accident, or through a tax treaty;

— other tax expenditures, e.g. the deduction for the Cooperative Investment Plan, the security option deduction, the non-taxation of scholarships or tax holidays for certain foreign experts.

Tax on taxable income

Tax on taxable income results from the application of the rates in the tax table to taxable income.

Since 2013, tax has been determined by means of a table with four tax rates that rise for each taxable income bracket. The four rates are now set at 16%, 20%, 24% and 25.75%.

TABLE 7

The Québec tax table – 2014
(percentage rate)

Taxable income bracket		
Higher than:	**Without exceeding**	**Interest rate**
—	$41 495	16.00
$41 495	$82 985	20.00
$82 985	$100 970	24.00
$100 970	—	25.75

When combined with federal tax, the maximum marginal tax rate stands at 49.97%:

— 25.75% under the Québec system;

— 24.22% under the federal system.

TABLE 8

Tax rates of the Québec and federal governments – 2014
(percentage rate)

Québec tax table			Federal tax table			
Taxable income bracket			Taxable income bracket			
Higher than	**Without exceeding**	**Rate**	**Higher than**	**Without exceeding**	**Rate**	**Québec rate**[1]
—	$41 495	16%	—	$43 953	15%	12.53%
$41 495	$82 985	20%	$43 953	$87 907	22%	18.37%
$82 985	$100 970	24%	$87 907	$136 270	26%	21.71%
$100 970	—	25.75%	$136 270	—	29%	24.22%

(1) Takes into account the federal abatement for Québec residents.

Transfers of federal tax points and the special Québec abatement

Transfer of federal tax points in 1964-1965

In 1964-1965, the federal government offered the provinces the option to opt out of certain joint programs, in particular hospital care and social assistance, in exchange for a transfer of tax points. Only Québec accepted the offer, which led to the special Québec abatement.

In 1976, the special Québec abatement corresponded to 24% of the basic federal tax (BFT):

- 16 points for hospitalization insurance;
- 5 points for the Canada Assistance Plan;
- 3 points for youth allowances.

The federal tax payable by Québec taxpayers thus declined by 24% and their provincial tax increased by the same amount.

To ensure that the federal contribution to the programs is equivalent for all of the provinces, federal transfers in cash to Québec for health care and social programs were reduced by an equivalent amount.

Transfer of federal tax points in 1977-1978

In 1977-1978, the federal government transferred to all of the provinces 9.143 points of the BFT in respect of health care. The federal government relinquished this tax room to allow the provinces to increase their taxation rates.

The transfer of tax points had a significant impact on the special Québec abatement, which, once adjusted, represented and continues to represent 16.5% of the BFT from which:

- 13.5 points are deducted from Québec’s federal transfer revenues for health care, postsecondary education and other social programs, in light of the transfer of tax points in 1964-1965;
- 3 points are reimbursed to the federal government in respect of the fiscal transfer pertaining to the former program of youth allowances since it was abolished in 1974.

It should be noted that the special Québec abatement reduces by 16.5% the federal tax that Québec taxpayers pay and increases by the same amount their provincial tax payable. What is more, the special Québec abatement does not engender any financial gain for the Québec government since the 16.5% reduction in federal tax from which Québec taxpayers benefit is subtracted from Québec’s federal transfers for health care, postsecondary education and other social programs (13.5 points) and the fiscal transfer pertaining to the former youth allowance program is reimbursed (3 points) to the federal government.

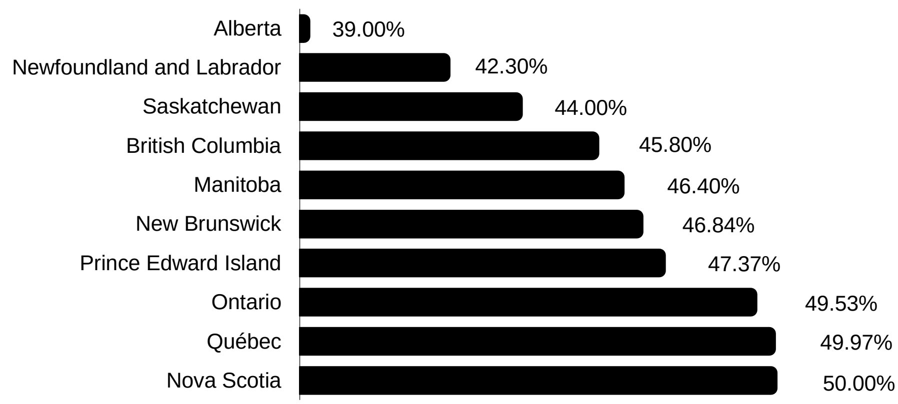
■ Comparison of the maximum marginal tax rate in Canada

Québec ranks second to Nova Scotia among the Canadian provinces from the standpoint of the combined maximum marginal tax rate.

Furthermore, high-income taxpayers in Québec are taxed at a marginal tax rate comparable to the one in Ontario (49.53%). However, the maximum rate in Québec is reached on an income of roughly $135 000, as against $220 000 in Ontario. As for Nova Scotia, which has the highest maximum marginal tax rate, the rate is reached on income of $150 000.

CHART 8

Combined maximum marginal tax rate (provincial and federal) – 2014



■ Tax payable: non-refundable tax credits

An individual determines his tax payable by deducting from the tax calculated according to the tax table the value of the non-refundable tax credits to which he is entitled. When the value of the tax credits exceeds the tax on the taxable income, the surplus may not be refunded. However, the unused portion of certain tax credits may be transferred to another person or may be carried over to reduce the tax payable in another year. The Québec taxation system allows an individual to transfer to his or her spouse the unused portion of almost the entire amount of his or her non-refundable tax credits.

Non-refundable tax credits fall into three main categories.

— The first category includes personal tax credits (basic, handicap, age, retiree, medical expenses, and so on), which essentially seek to take into account the taxpayers' ability to pay.

— The second category includes incentives such as tax credits for tax-advantaged funds, recent graduates and experienced workers.

— The third category includes tax credits designed to ensure the integration of tax regimes (dividend tax credit) or to avoid international or interprovincial double taxation.

2.2 **Tax expenditures**

To fully grasp the notion and details of tax expenditures, it is important to first examine the concept of such expenditures.

This section will then focus on existing tax expenditures under the personal income tax system, in particular measures pertaining to:

- families;
- seniors, retirees and natural caregivers;
- low- or middle-income taxpayers;
- investors.

Over the years, the government has introduced into the taxation system a series of preferential measures or tax expenditures aimed at attaining strategic economic, social, cultural or other objectives, such as:

- economic development;
- support for families;
- the work incentive;
- the saving incentive;
- support for low-income households.

Tax expenditures are integrated into the taxation system and are intended to grant tax benefits to certain specific groups of individuals or businesses, or in respect of certain activities. They mainly take the form of exemption from tax of certain types of income, deductions, or tax credits.

The concept of tax expenditures thus refers to measures that reduce or defer taxes otherwise payable by taxpayers.

Recent budgets have enhanced the main tax expenditures

The most recent budgets have made provision for enhancements to the following main tax expenditures:

- child assistance;
- work premiums;
- the deduction for workers;
- the tax credit for informal caregivers of adult persons;
- the tax credit for home-support services for seniors;
- the splitting between spouses of retirement income;
- the tax credit for retirement income;
- the tax credit for childcare expenses;
- the solidarity tax credit;
- the tax credit for experienced workers.

■ Deductions

Generally speaking, most deductions that seek to recognize expenses actually incurred to earn income are not deemed to be tax expenditures.

This category of deductions includes travel, moving and entertainment expenses and certain employment-related expenses.

On the other hand, deductions that are intended to render non-taxable a portion of income earned under specific circumstances or that is used for a recognized purpose are deemed to be tax expenditures.

The first category includes, for example, the deduction designed to exempt scholarships from taxation, tax holidays for certain foreign workers, deductions for the members of the Canadian Armed Forces or police officers on missions, and the deduction for royalties. The second category encompasses, for example, the deduction for contributions to a registered pension plan (RPP), the deduction for contributions to a registered retirement savings plan (RRSP), the deduction in respect of the Cooperative Investment Plan, or the deduction for the purchase of flow-through shares.

A deduction may be granted in the computation of net income or taxable income. When it is granted in the computation of net income, the deduction reduces the income that must be considered for the purposes of fiscal or socio-fiscal measures determined according to income.

The deductions apply according to the marginal rate and afford high-income taxpayers a bigger tax reduction.

In 2011, deductions totalled $28.9 billion, up 4.4% in relation to the preceding year.

Nearly 57% of the deductions were linked to retirement or non-taxable social benefits. They accounted for 37.9% and 18.6%, respectively, of the total. Employment-related deductions accounted for 14.5% of all deductions granted.

TABLE 9

Deductions by category in Québec – 2011

(millions of dollars)

Category of deduction	Amount[1]	Percentage breakdown
Retirement	11 314	37.9
Non-taxable social benefits	5 545	18.6
Employment-related deductions	4 339	14.5
Investments	834	2.8
Taxable capital gains	800	2.7
Strategic investments	116	0.4
Other[2]	6 901	23.1
TOTAL	**29 848**	**100.0**

(1) The deductions considered represent the amounts recorded on tax returns. The amounts differ from those used to calculate taxable income. For certain taxpayers, the surplus of deductions in relation to total income is not taken into account in the computation of taxable income. Accordingly, the deductions recorded on 2011 tax returns stood at $29 848 million and the deductions used totalled $28 876 million.

(2) Includes, for example, the deduction for residents of designated remote areas, the deduction for moving expenses, the deduction for an Indian, and the deductions for certain foreign workers.

Note: Since figures are rounded, they may not add up to the total shown.

Source: Ministère des Finances du Québec, *Statistiques fiscales des particuliers – Année d'imposition 2011,* March 2014.

Non-refundable tax credits

Deductions reduce income and non-refundable tax credits reduce tax. They are usually determined by means of a fixed rate and, unless they are reducible according to income, have the same value for everyone. It follows that the higher the rate of a tax credit the more it benefits low- or middle-income individuals since their marginal tax rate is lower.

Non-refundable tax credits are usually used to acknowledge the additional needs of certain classes of taxpayers, e.g. single individuals, seniors or people with disabilities, or to recognize that the expenses that certain individuals incur affect their ability to pay tax, e.g. the medical expense tax credit or the tuition tax credit.

They also seek to support certain sectors, e.g. by encouraging taxpayers to participate in economic development by means of tax credits to purchases the shares of tax-advantaged funds, finance charitable organizations through tax credits for charitable organizations, or to settle in a region through the tax credit for new graduates in a remote resource region.

Refundable tax credits

Refundable tax credits more closely resemble a transfer payment than a tax reduction.

While the taxation system is based on the individual, the tax credits intended for low- or middle-income households are determined in light of the financial situation of the households, e.g. the solidarity tax credit.

Refundable tax credits can seek to support certain classes of taxpayers such as families with children, e.g. the tax credit for child assistance or the tax credit for childcare expenses; seniors, e.g. the tax credit for home-support services for seniors; natural caregivers, e.g. the tax credit for informal caregivers of adult persons; or workers, e.g. the general working premium.

They can also seek to compensate certain expenses, e.g. the refundable medical expense tax credit, the adoption expense tax credit, or the children’s activity tax credit.

In 2011, Quebecers benefited from refundable tax credits worth $4 billion.

— Child assistance ($2.1 billion) accounted for nearly 53% of such assistance.

— The total of the amounts of the solidarity tax credit ($683 million), the general work premium ($351 million), the tax credit for childcare expenses ($413 million) and the tax credit for home-support services for seniors ($264 million) accounted for 43.4% of the total value of refundable tax credits.

In 2011, the tax payable less refundable tax credits stood at $19.4 billion.

■ The objectives of tax expenditures

The tax expenditures linked to the personal income tax system serve several purposes. When the measures presented for information purposes are included, there are nearly 180 such measures.

— They can seek to offer financial support to families, enhance the work incentive or encourage saving for retirement.

— Several of the measures also reflect the government's concern towards the situation of low- or middle-income households.

— Other measures instead favour investors and businesses, including the partial inclusion of capital gains and the limited exemption of capital gains on farm property or fishing property and on the shares of small businesses.

— Among the other measures aimed at individuals, mention should be made of the non-taxation of the capital gain on principal residences, the non-taxation of compensation for industrial accidents, the labour-sponsored fund tax credit, the tax credit for charitable donations, and the medical expense tax credit.

■ The cost of tax expenditures

In 2013, the cost of tax expenditures related to the personal income tax system totalled $15.3 billion. Between 2008 and 2013, tax expenditures increased, on average, by 6.3% per year.

TABLE 10

Change in the overall cost of tax expenditures pertaining to individuals – 2008 to 2013
(millions of dollars)

	2008	2009	2010	2011	2012	2013
Seniors and natural caregivers	656	749	794	844	899	956
Income support beneficiaries	1 049	1 056	1 111	1 306	1 941	2 008
Individuals saving for retirement	2 680	2 829	3 862	3 932	3 927	3 879
Families	2 943	3 073	3 119	3 202	3 308	3 441
Workers	1 055	1 073	1 090	1 115	1 142	1 163
Businesses and investments	1 531	1 745	1 924	2 164	2 129	2 144
Other	1 365	1 638	1 592	1 665	1 735	1 747
TOTAL	**11 279**	**12 163**	**13 492**	**14 228**	**15 081**	**15 338**

Note: Estimates for 2008 to 2011 and projections for 2012 and 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

Three key factors characterize changes in tax expenditures pertaining to personal income tax.

— The cost of tax expenditures rose in 2009, in particular because of the measures implemented to mitigate the impact of the financial crisis, such as the refundable home renovation tax credit.

— In 2010 and subsequent years, the economic recovery increased the cost of certain tax expenditures pertaining to retirement savings and business and investment income.

— The cost of tax expenditures continued to rise between 2010 and 2013, in particular because of the implementation of the solidarity tax credit, the enhancement of the tax credit for childcare expenses, and enhanced assistance for seniors.

TABLE 11

The cost of certain tax expenditures pertaining to individuals – 2013
(millions of dollars)

	Cost
Refundable tax credit for child assistance[1]	2 222
Registered retirement savings plan[2]	2 108
Registered pension plan[2]	1 771
Refundable solidarity tax credit	1 721
Non-taxation of the capital gain on principal residences	1 175
Partial inclusion of capital gains	739
Deduction for workers	688
Medical expense tax credit	674
Refundable tax credit for childcare expenses	557
Refundable tax credit attributing a work premium[3]	331
Refundable tax credit for home-support services for seniors	312
Charitable donations tax credit	217
Age tax credit	211
Tax credit for retirement income	195
Pension income splitting between spouses	129
Other	2 288
TOTAL	**15 338**

Note: Projection for 2013.
(1) Including the supplement for children with disabilities.
(2) Including the deduction of contributions and the non-taxation of investment income, reduced by the taxation of withdrawals.
(3) Including the work premium adapted to individuals experiencing severe constraints to employment and the supplement for long-term beneficiaries who relinquish last-resort financial assistance or the Alternative jeunesse program.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

❑ Measures pertaining to families

In the context of its family policy, the government has implemented four groups of family assistance measures:

— the refundable tax credit for child assistance;

— the reduced-contribution childcare services program;

— the refundable tax credit for childcare expenses;

— the parental leave plan.

Among these measures, only the refundable tax credits are deemed to be tax measures. Government assistance for childcare services and the parental leave plan are budgetary programs. The budgetary programs are examined here to provide a comprehensive picture of the measures that the government has defined in favour of families.

■ The refundable tax credit for child assistance

Introduced in 2005, the refundable tax credit for child assistance is a form of financial assistance paid in respect of children under 18 years of age. It comprises two sections:

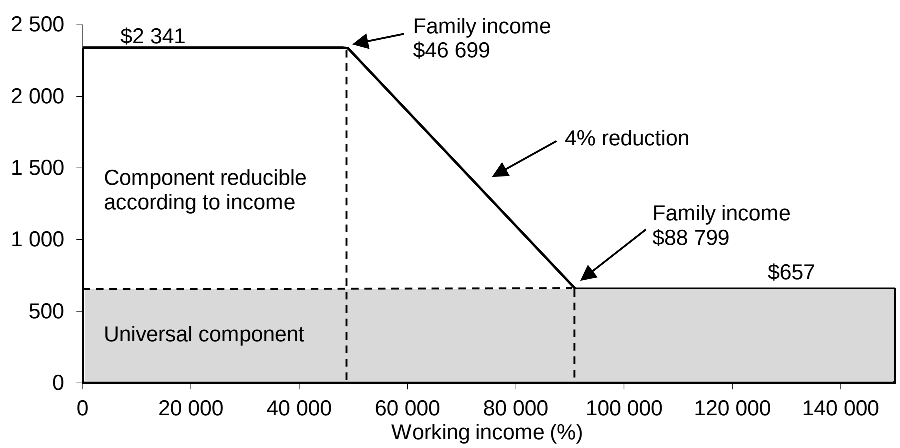
— the payment of child assistance, which includes a universal component paid and a component reducible according to family income in order to offer additional support to low- or middle-income families;

— the supplement for children with disabilities, which is granted regardless of family income.

In 2014, roughly 864 000 households benefited from child assistance for a total annual amount of $2.2 billion.

CHART 9

Illustration of the payment of child assistance for a couple with one child – 2014
(dollars)



■ The reduced-contribution childcare services program

Introduced in September 1997, the reduced-contribution childcare services program has gradually reached preschoolers.

The parental contribution was initially set at $5 and was raised to $7 a day in January 2004. Moreover, the *2014-2015 Budget* announced the indexation of the parental contribution starting October 1, 2014 according to growth in overall childcare costs.

As at March 31, 2014, the program offered nearly 222 000 spaces at $7. When 47 000 non-subsidized spaces are included, Québec offered to parents of preschool aged children 269 000 supervised childcare spaces.

Three types of childcare services offer subsidized childcare spaces:

— childcare centres;

— families;

— private subsidized day care centres.

In 2013-2014, government subsidies stood at $2.3 billion. When the target of 250 000 spaces is reached, government investment will stand at nearly $3 billion.

TABLE 12

Spaces available in subsidized childcare services in Québec – 2006 to 2014
(number as at March 31 of the year)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Childcare centres	74 573	75 934	77 165	77 864	79 547	82 671	84 672	85 831	86 770
Families	89 011	88 645	88 771	91 582	91 607	91 607	91 626	91 663	91 664
Private subsidized day care centres	33 034	34 027	35 230	36 377	38 865	40 526	41 036	41 590	43 549
TOTAL	**196 618**	**198 606**	**201 166**	**205 823**	**210 019**	**214 804**	**217 334**	**219 084**	**221 983**

Source: Ministère de la Famille.

■ The refundable tax credit for childcare expenses

The parents of children who attend non-subsidized childcare services may benefit from the refundable tax credit for childcare expenses.

The tax credit seeks to compensate a portion of the childcare expenses that families incur, in particular to work or study. The childcare expenses paid for reduced-contribution spaces are not eligible for the tax credit.

The maximum amount of eligible childcare expenses stands at:

— $10 000 for a child with a severe, prolonged mental or physical disability, regardless of age;

— $9 000 for a child under 7 years of age;

— $4 000 for any other eligible child 16 years of age or under.

The rate of the tax credit varies from 75% to 26% according to family income.

In 2013, the tax credit for childcare expenses represented a tax expenditure of nearly $560 million and covered nearly 450 000 households.

TABLE 13

Table of the rates applicable to calculate the refundable tax credit for childcare expenses – 2014
(dollars)

Family income			Family income			Family income		
Higher than	**Without exceeding**	**Rate (%)**	**Higher than**	**Without exceed-ing**	**Rate (%)**	**Higher than**	**Without exceed-ing**	**Rate (%)**
—	34 065	75	46 685	47 945	64	140 385	141 650	44
34 065	35 325	74	47 945	49 210	63	141 650	142 925	42
35 325	36 590	73	49 210	50 465	62	142 925	144 190	40
36 590	37 850	72	50 465	51 730	61	144 190	145 455	38
37 850	39 110	71	51 730	93 360	60	145 455	146 730	36
39 110	40 365	70	93 360	134 030	57	146 730	147 995	34
40 365	41 645	69	134 030	135 305	54	147 995	149 280	32
41 645	42 900	68	135 305	136 570	52	149 280	150 545	30
42 900	44 155	67	136 570	137 840	50	150 545	151 815	28
44 155	45 410	66	137 840	139 115	48	151 815	or over	26
45 410	46 685	65	139 115	140 385	46			

■ The Québec Parental Insurance Plan

The Québec Parental Insurance Plan makes provision for the payment of benefits to all eligible workers, both employees and self-employed workers, who take maternity leave, paternity leave, parental leave or adoption leave.

Maternity leave benefits (reserved exclusively for the mother), paternity leave benefits (reserved exclusively for the father) and parental and adoption leave benefits (which the parents can share) are granted to enable parents to maintain a presence with and care for the child during the first year of his life and when the child joins the family.

Québec Parental Insurance Plan benefits are covered by a contribution levied on workers and employers (see page 56).

❑ Measures pertaining to seniors, retirees and natural caregivers

Seniors may find themselves in straitened circumstances. For this reason, the personal income tax system makes provision for several measures intended for them or to support those who help them.

The measures seek primarily to:

— increase the disposable income of seniors;

— enable them to remain in their own homes;

— better support natural caregivers.

According to the most recent projections for 2013, some $956 million was paid to seniors, retirees and natural caregivers.

TABLE 14

Tax expenditures pertaining to seniors, retirees and natural caregivers – 2008 to 2013
(millions of dollars)

	2008	2009	2010	2011	2012	2013
Refundable tax credits:						
– home support for seniors	205	225	246	267	283	312
– natural caregivers of adult persons	42	44	46	50	53	54
– volunteer respite services	f	f	f	f	f	f
– expenses incurred to offer respite to natural caregivers	f	f	f	f	f	f
– purchase or rental of goods designed to sustain the autonomy of seniors	—	—	—	—	5	5
– living expenses a functional recovery transitional care unit	—	—	—	—	2	3
Tax credits:						
– retirement income	113	161	171	177	187	195
– age	160	175	182	190	201	211
Pension income splitting between spouses	92	105	111	117	123	129
Non-taxation						
– guaranteed income supplement and spouse’s allowance	44	39	38	43	45	47
– partial non-taxation of US social security benefits	—	—	f	f	f	f
TOTAL	**656**	**749**	**794**	**844**	**899**	**956**

Note: Estimates for 2008 to 2011 and projections for 2012 and 2013.
f : The fiscal cost is under $2 million.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

■ Refundable tax credit for home-support services for seniors

The refundable tax credit for home-support services for seniors is intended to financially support seniors to enable them to remain as long as possible in their living environments and, consequently, to prevent or delay their placement in the public health and social services network.

In 2013, more than 268 000 seniors benefited from the tax credit and received tax assistance totalling $312 million, which represents an average amount of $1 164.

Of this number, 113 000 seniors were living in a private seniors' homes and benefited from advance payment of the refundable tax credit, for average monthly tax assistance of $204 or $2 445 per year, at a total cost of $277 million.

TABLE 15

Refundable tax credit for home-support services for seniors – 2013

	Taxpayers		Tax credit	
	(in thousands)	**As a %**	**(millions of $)**	**As a %**
Private seniors' homes	113	42.2	277	88.8
Outside seniors' homes	155	57.8	35	11.2
All beneficiaries	**268**	**100.0**	**312**	**100.0**

Sources: Advance payment file respecting the refundable tax credit for home-support services for seniors and *Dépenses fiscales – Édition 2013* of the Ministère des Finances du Québec.

▪ Application details

In 2012, the refundable tax credit for home-support services for seniors granted tax assistance equivalent to 30% of eligible expenses up to a maximum of $15 600 for a senior 70 years of age or over who was autonomous and $21 600 if the senior was not autonomous.

The tax credit for seniors with higher incomes was reduced by 3% of family income that exceeded $53 465. In the case of seniors living in a retirement home, the allowable expense was determined by means of a table.

The tax assistance was enhanced starting in 2012 within the framework of the government's *Aging and Living Together, at Home, in One's Community* policy through:

— the gradual increase by 1 percentage point of the rate of the tax credit until it reaches 35% in 2017;

— the increase in the expense ceiling to $19 500 for autonomous seniors and to $25 500 for non-autonomous seniors;

— the abolition of the reduction of the tax credit according to family income for seniors recognized as non-autonomous.

- **Tax assistance that takes into account services and the type of home**

The refundable tax credit for home-support services for seniors applies to all types of dwelling units, according to the extent of services and the manner in which they are offered to individuals 70 years of age or over.

The method of calculation of the expense eligible for the tax credit seeks to determine the value of the allowable home-support services paid by the senior.

— A significant portion of eligible services such as nursing and meal preparation are included in the monthly rent of seniors living in private seniors' homes. The expense is estimated using a rate table that varies depending on the type of service and the amount of the rent.

— Eligible services such as snow-removal and lawn-mowing are usually included in the rent of seniors living in apartment buildings. A portion of the rent is thus recognized as an allowable expense under the formula adopted.

— Eligible services such as snow-removal and lawn-mowing are usually included in the condo fees of seniors who own their own dwelling unit in a condo building. A portion of such fees is thus recognized as an allowable expense.

— Seniors living in a private home other than a condominium must calculate all of their expenses based on the invoices paid for allowable "à la carte" services.

Seniors living in private seniors' homes, an apartment building or a condominium may also take into account certain expenses that are not included in their rent or condo fees for the allowable "à la carte" services.

TABLE 16

Comparison of the tax credit for home-support services for seniors by type of dwelling unit for a single senior – 2014

	Private seniors' homes	**Apartment buildings**	**Residential condominium unit**	**Private home**
Allowable expense ceiling				
– Autonomous seniors	$19 500	$19 500	$19 500	$19 500
– Non-autonomous seniors	$25 500	$25 500	$25 500	$25 500
Allowable expenses included in the rent or condo fees	Calculation according to the table	Calculation according to the formula adopted[1]	Share of expenses	NA
– Maximum percentage of expenses allowable – autonomous seniors	65%	5%	NA	NA
– Maximum percentage of expenses allowable – non-autonomous seniors	75%	5%	NA	NA
Expenses for "à la carte" services	As billed	As billed	As billed	As billed
Rate of the tax credit	32%	32%	32%	32%
Maximum tax credit				
– **Autonomous seniors**	**$6 240**	**$6 240**	**$6 240**	**$6 240**
– **Non-autonomous seniors**	**$8 160**	**$8 160**	**$8 160**	**$8 160**

NA: Not applicable.
(1) According to the formula equivalent to 5% of the rent, up to a maximum rent of $600 per month.

■ Refundable tax credit for natural caregivers of adults

The refundable tax credit for natural caregivers of adults is intended to recognize the social gesture that natural caregivers make and a means of affording them respite.

It is granted to adults who house an eligible relative or who live with the person.

In 2014, the maximum amount of the tax credit for informal caregivers of adult persons is $1 142 per eligible relative and comprises two components:

— a base amount of $628;

— a $514 supplement that is reducible at the rate of 16% for each dollar of income[6] that exceeds $22 840.

The tax credit is also granted to individuals who are living, elsewhere than in a private seniors' home, with a spouse 70 years of age or over who is incapable of living alone because of a severe, prolonged mental or physical disability.

In 2014, a single amount of $850 is granted to an individual who is the natural caregiver of his or her spouse. No supplement is granted since the taxation system already allows the transfer between spouses of the unused portion of most non-refundable tax credits, including the tax credit for individuals with severe, prolonged impairments of physical or mental functions.

To enable them to obtain more extensive respite, the 2*012-2013 Budget* made provision for a gradual increase in the amount of the tax credit to a spouse, which will rise from $925 in 2015 to $1 000 in 2016.

The tax credit is enabling seniors who wish to do so to remain longer in their own homes.

The refundable tax credit for informal caregivers of adult persons covered 48 276 taxpayers in 2013 at a cost of $54 million, i.e. an average tax credit of $1 122 per natural caregiver.

TABLE 17

The refundable tax credit for informal caregivers of adult persons – 2013

	Number of natural caregivers	Cost (millions of $)	In $ per natural caregiver
Natural caregivers of an eligible relative[1]	40 741	48.3	1 186
Natural caregivers of a spouse 70 years of age or over incapable of living alone	7 535	5.8	775
TOTAL	**48 276**	**54.1**	**1 122**

Note: Projection for 2013.
(1) Account is taken of the fact that a natural caregiver may support more than one eligible relative in a given year.

6 The income considered is that of the eligible relative.

■ The tax credit for experienced workers

To encourage experienced workers to remain on or return to the labour market, the taxation system grants workers 65 years of age or over a tax credit that eliminates the tax payable on an amount of their working income that exceeds $5 000.

Since its implementation in 2012, the tax credit has eliminated the tax that a worker must pay on the first $3 000 of eligible earned income that exceeds an initial eligible earned income bracket of $5 000.

In 2013, the cost of the measure was estimated at $43 million and benefited roughly 110 000 seniors, who obtained an average tax reduction of $390.

Furthermore, the 2*014-2015 Budget* stipulates that starting in the 2015 taxation year, the tax credit will be calculated on the first $4 000 of the eligible earned income of an experienced worker that exceeds an initial amount of $5 000 in eligible earned income.

■ Splitting of retirement income

Since 2007, the taxation system includes a splitting mechanism to allow couples who receive certain pension income to reduce their overall tax burden. The mechanism was introduced, in particular, to increase incentives to save and to invest to ensure financial security upon retirement.

Under the mechanism, an individual may deduct in the calculation of his income an amount not exceeding 50% of all of his pension income eligible for splitting, provided that the amount is included in the computation of his spouse's income.

The amount of income attributed is deemed to have been received by the spouse of the originator of the splitting as pension income for the application of the tax credit for single persons, age and retirement income. On the other hand, the originator of the splitting is deemed not to have received such an amount for the purposes of calculating the tax credit.

Individuals who benefit from a life annuity pursuant to a registered pension plan could resort to the retirement income splitting mechanism before they reached the normal age of retirement (65). The government intervened in the 2*014-2015 Budget* to set at 65 the eligibility age for the retirement income splitting mechanism.

In 2013, some 220 000 couples benefited pension income splitting between spouses and obtained $129 million in tax relief.

❑ Measures pertaining to low- or middle-income taxpayers

■ The solidarity tax credit

Since July 2011, the solidarity tax credit has been granted to low- or middle-income households to mitigate the cost of the Québec sales tax (QST) and housing and to recognize that the cost of living is higher in Northern villages than elsewhere in Québec.

The tax credit is granted to any adult person or emancipated minor within the meaning of the *Civil Code of Québec* residing in Québec who is a Canadian citizen or a landed immigrant, an individual's spouse or the father or the mother of a child with whom he resides.

The tax credit is paid monthly and comprises three components:

— a component to compensate for the QST;

— a component aimed at households that assume eligible housing expenses;

— a component for individuals living in Northern villages.[7]

To be eligible for the housing component, an individual must inhabit an eligible dwelling unit of which he is the owner-occupier, tenant or sub-tenant.

The maximum amount is determined by adding each of the amounts granted to the household according to the components of the tax credit to which he is entitled, bearing in mind his situation. It is then reduced by 3% of family income exceeding the reduction point when the household is eligible for only one component. If the household is eligible for more than one component, the amount is reduced at a rate of 6%.

— By way of an example for 2014, without taking into account the component for individuals living in a Northern village, a single person may receive up to $940 per year and a couple with two children, $1 425 per year.

Between July 2012 and June 2013, 2.6 million Québec households benefited from the tax credit and $1.7 billion was paid.

[7] One of 14 villages in Nunavik.

The general work premium

Since 2005, low- or middle-income workers have benefited from a work premium in the form of a refundable tax credit.

The work premium seeks to support and promote work and encourage individuals to relinquish social aid and enter the labour market.

The earned income excluded, the supplementation rates and the reduction points of the work premium are integrated into social assistance[8] to ensure that the assistance increases to the requisite level of earned income at which a household is no longer eligible for social aid.

The general work premium varies according to family status. For example, a single-parent family obtains more maximum assistance than a single person. However, the reduction in the work premium occurs as income rises, at the rate of 10% for all households.

The work premium adapted to individuals with severely limited capacity for employment

Individuals with severely limited capacity for employment, including the disabled, have, since 2008, benefited from a more generous work premium adapted to their specific situation. More specifically, the adapted work premium is aimed at:

- households receiving Social Solidarity Program benefits or who received such a benefit for at least one month over the preceding five years;
- households one of whose members is eligible, in the year, for the non-refundable tax credit for severe and prolonged impairment in physical or mental functions.

The work premium is said to be “adapted” since the determination of the tax assistance is adjusted according to the special provisions governing eligible households.

The work premium supplement for long-term beneficiaries who relinquish social assistance

Since April 1, 2008, long-term recipients who relinquish social assistance may benefit from a work premium supplement to promote their integration into the labour market. The work premium supplement stands at $200 per month per eligible adult, i.e. $2 400 for a maximum period of 12 consecutive months.

Individuals who return to the labour market after receiving social assistance benefits for at least 36 of the 42 preceding months are eligible for the work premium supplement. They must have earned working income of at least $200 during the month and cease to be eligible for social assistance programs because of the working income earned by their household.

[8] See page 58 for additional information on the harmonization.

❑ The refundable medical expense tax credit

The taxation system grants a refundable medical expense tax credit to facilitate the integration of persons with a disability into the labour market given that for a number of them such integration means the loss of special benefits that cover specific needs related to their state of health from which they benefit under a last-resort financial assistance program.

The tax credit is granted to individuals whose earned income is equal to or greater than $2 925 (in 2014). It corresponds to the lesser of $1 141 and 25% of the total of the portion of the individual's expenses that entitle him to the refundable medical expense tax credit and the amount deductible in respect of products and services to support a person with a disability.

However, the amount determined is reducible at the rate of 5% of each dollar of family income that exceeds $22 080 (in 2014).

❑ Measures pertaining to investors

The main measures pertaining to investors are:

— the partial inclusion of capital gains;

— incentives pertaining to specific investments.

■ The partial inclusion of capital gains

A taxpayer who obtains a capital gain in a given year must only include 50% of the gain when determining his income. The partial inclusion is also allowed in the other provinces and by the federal government.

The partial inclusion of capital gains was implemented to acknowledge that a portion of the increase in the value of a property is attributable to inflation and that, consequently, this portion of the appreciation must not be taxed. The measure also seeks to foster investment.

The estimated cost to the government of the partial inclusion of capital gains stood at $739 million in respect of personal income tax in 2013. Over 425 000 taxpayers benefited from the measure.

Historical background of the capital gains inclusion rate
Prior to January 1, 1972, capital gains were not taxable.
From January 1, 1972 to December 31, 1987, the inclusion rate was set at 50%.
It was set at 66⅔% for 1988 and 1989.
From January 1, 1990 to February 27, 2000, the inclusion rate was set at 75%.
From February 28, 2000 to October 17, 2000, the inclusion rate was set at 66⅔%.
Capital gains realized since October 18, 2000 have been subject to an inclusion rate of 50%.

■ The registered retirement savings plan

Each year, several billion dollars are contributed to registered retirement savings plans (RRSPs). Fiscal measures pertaining to RRSPs comprise three sections: the deductibility of contributions paid to such plans, the non-taxation of investment income accumulated in the plans, and the taxation of withdrawals.

An individual may deduct in the calculation of his income the allowable RRSP contributions for the application of the federal taxation system.

Briefly, contributions that do not exceed the RRSP ceiling for the year ($24 270 in 2014)[9] are eligible for deduction or, if it is lower, the amount corresponding to 18% of earned income during the preceding year. In the case of individuals who participate in a registered pension plan (RPP) or a deferred profit-sharing plan (DPSP), the maximum amount eligible for deduction is reduced by an amount corresponding to the pension adjustment for the preceding year. The factor measures the retirement savings that an individual has accumulated during a given year in the RRPs or DPSPs in which he is participating.

The amounts invested in an RRSP and the investment revenue stemming from it are usually only taxed upon withdrawal.

■ The registered pension plan

Fiscal measures pertaining to RPPs comprise three sections: the deductibility of contributions paid to such plans, the non-taxation of investment income accumulated in the plans, and the taxation of withdrawals.

The deduction for contributions to an RPP exempt the amounts contributed. The taxation of the amounts and the investment income that they generate is thus deferred to the time of withdrawal, usually upon retirement.

In the case of a defined-contribution RPP, the amount deductible as contributions to the plan for employees may not exceed a certain ceiling determined for the year.

The amount that an employee may deduct for a defined-benefit RPP is not subject to a ceiling.

9 The annual contribution limit is indexed annually.

■ Other incentives pertaining to certain investments

Other incentives are offered with regard to certain investments, including:

— the flow-through share regime;

— the labour-sponsored fund tax credit;

— the tax credit for the acquisition of Capital régional et coopératif Desjardins shares.

▪ The flow-through share regime

The flow-through share regime seeks to promote the financing of mining, oil and gas companies in Québec and in Canada.

An individual who purchases a flow-through share usually benefits from a deduction equivalent to 100% of the purchase price of the share if the financing thus obtained by the issuing company is used to pay the cost of exploration or development work in Canada pertaining to a mineral, oil or gas resource and if the expenses thus incurred are renounced in favour of the shareholder.

An additional deduction of 10% is granted to an individual who purchases a flow-through share if the expenses incurred by the issuing company from the proceeds of the issuing of the flow-through share are mineral exploration expenses incurred in Québec that the company has renounced.

A second additional deduction of 10% is granted to an individual if the expenses incurred by the issuing company from the proceeds of the issuing of the flow-through share are surface mineral exploration expenses incurred in Québec that the company has renounced.

In the case of oil or gas exploration expenses incurred in Québec, additional deductions totalling 20% are granted.

All told, the deductions can represent 120% of the cost of the flow-through share in the case of mineral, oil or gas exploration expenses incurred in Québec.

To ensure that the shareholder has access to the additional deductions, the issuing company must not at the time that it incurs the expenses have exploited a mineral resource or an oil or gas well.

The flow-through share regime also enables an individual to benefit under certain circumstances from other advantages such as the additional deduction for certain flotation costs.

Accordingly, to summarize, when a company makes a public offering of flow-through shares and renounces the deduction for flotation costs incurred in respect of the issue and such expenses pertain to shares proceeds from which will be used to cover exploration expenses in Québec, an additional deduction is granted to the purchasers of such flow-through shares for an amount equal to the lesser of the flotation costs incurred by the company and 12% of the proceeds of the issue of flow-through shares.

- **The labour-sponsored fund tax credit**

Labour-sponsored funds contribute to the financing of Québec SMEs in all economic sectors and promote the creation and maintenance of numerous jobs in all regions of Québec in addition to promoting retirement savings.

The purchase by an individual of the shares of a labour-sponsored fund entitles the purchaser to a non-refundable tax credit. The amount on which the tax credit may be requested may not exceed $5 000 per year. In Québec, the rate of the tax credit is:

— 15% for the shares of the Fonds de solidarité FTQ;

— 25% for the shares of Fondaction until May 31, 2015, when the rate will return to 15%.

The federal government also offers a non-refundable tax credit of 15%. However, the tax credit will decrease by 5 percentage points per year between 2015 and 2017, since the federal government announced its abolition in its 2013 budget. Accordingly, starting in 2017, only Québec will offer a tax credit on the purchase of shares in a Québec labour-sponsored fund.

- **The tax credit for the acquisition of Capital régional et coopératif Desjardins shares**

Capital régional et coopératif Desjardins contributes to financing Québec SMEs, especially by promoting the economic development of the resource regions and the growth of Québec cooperatives. It also specializes in business transfers and business succession.

The rate of the non-refundable tax credit is 45%. An individual may purchase a maximum amount of $5 000 in shares per year and must hold the shares for a minimum of seven years.

2.3 **Social contributions**

Québec taxpayers are subject to various social contributions. This section examines:

— the contribution to the Health Services Fund;

— the healthcare contribution;

— contributions to the Québec Parental Insurance Plan.

❑ The contribution to the Health Services Fund

The Health Services Fund (HSF) is a dedicated fund used to finance the budgetary expenditure of the Ministère de la Santé et des Services sociaux in respect of the Régie de l'assurance maladie du Québec and its regional functions.

Revenue is drawn from two sources, i.e. a contribution on:

— personal income other than employment income (annual tax revenues of $0.2 billion in 2011);

— the total payroll of employers (annual tax revenues of $6.3 billion in 2011).

An individual who receives income other than employment income must pay a 1% contribution to the Health Services Fund in respect of the portion of such income that exceeds a defined threshold.

The main income subject to tax is business, property or retirement income. However, certain types of income are excluded from the base of the contribution, including, for example, income security benefits, indemnities paid by the Commission de la santé et de la sécurité du travail and the old age security pension.

Individuals who have income other than employment income must pay a contribution to the HSF if their income subject to the contribution exceeds $14 135 in 2014.

— The contribution reaches $150 when income ranges from $29 135 to $49 140.

— The maximum contribution of $1 000 is reached on an income of $134 140.

TABLE 18

Contributions by individuals to the HSF – 2014

Income subject to the contribution	Contribution
Under $14 135	None
Between $14 135 and $29 135	1% of the amount that exceeds $14 135
Between $29 135 and $49 140	$150
Between $49 140 and $134 140	$150 plus 1% of the portion that exceeds $49 140
Over $134 140	$1 000

■ Revenues collected

Under the personal income tax system, the contribution to the HSF is payable by 1.4 million taxpayers, who paid an average contribution of $156 in 2011.

Over 82% of the contributors to the HSF had income under $70 000.

TABLE 19

Contributions to the HSF by total income – 2011

Taxpayer's total income	Taxpayers			Contributions to the HSF	
	Number		As a %	Millions of $	In $/taxpayer
Under $25 000	277 137		20.2	9.7	35
Between $25 000 and $50 000	637 920	82.1%	46.4	69.8	109
Between $50 000 and $70 000	213 150		15.5	34.2	160
Between $70 000 and $100 000	116 604		8.5	28.5	244
Between $100 000 and $500 000	121 026		8.8	65.8	544
Between $500 000 and $1 000 000	5 477		0.4	4.4	806
$1 000 000 or over	1 947		0.1	1.7	853
TOTAL	**1 375 272**		**100.0**	**214.0**	**156**

❑ The healthcare contribution

Since 2013, adults whose net income exceeds a certain threshold must usually pay a healthcare contribution to help fund the public healthcare system.

The healthcare contribution is a progressive levy based on income. The structure is indicated below for the 2014 taxation year.

— No healthcare contribution is applied to net personal income of under $18 175 per adult. It gradually reaches $100 for income ranging from $18 175 to $20 175.

— It is $100 for all taxpayers with net income between $20 175 and $40 390 and gradually reaches $200 for those whose income is between $40 390 and $42 390.

— It is maintained at $200 for taxpayers with incomes between $42 390 and $131 260.

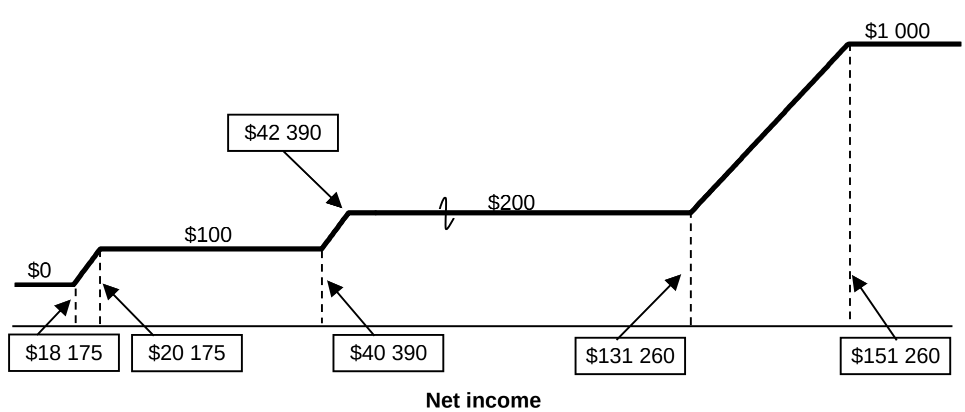
— It rises gradually from $200 to $1 000 for taxpayers with incomes between $131 260 and $151 260 and is $1 000 for taxpayers with incomes of $151 260 or over.

What is more, seniors who receive a guaranteed income supplement equal to or greater than 94% of the maximum guaranteed income supplement benefit from an exemption from the healthcare contribution.

Moreover, the funds stemming from the healthcare contribution are used to finance healthcare establishments through the Fund to Finance Health and Social Services Institutions (FINESSS).

CHART 10

Progressive healthcare contribution – 2014
(dollars)



❑ Contributions to the Québec Parental Insurance Plan

The Québec Parental Insurance Plan is funded through a contribution levied on salaried workers, self-employed workers and employers.

- Since the Québec Parental Insurance Plan came into force, Québec contributors have benefited from a contribution reduction to the employment insurance program. The federal government determines the reduction.
- For 2014, the level of contribution deductions is 0.35% of insurable income for salaried workers and self-employed workers participating in the health and compassion components of the employment insurance program.
- The reduction for employers is 0.49%, i.e. 1.4 times that of salaried workers.

For a salaried worker, the establishment of the Québec Parental Insurance Plan led to a 0.2 percentage point increase in the contribution rates (2.089% as against 1.88%).

In 2014, additional contributions may reach $215.61 for employees and $301.44 for employers.

TABLE 20

Parameters of the Québec Parental Insurance Plan and the employment insurance program – 2014

	Canada excluding Québec	Québec			
	Employment insurance	Employment insurance	Québec Parental Insurance Plan	Total	Discrepancy between Québec and the rest of Canada
Contribution rate (%)					
Employee	1.880%	1.530%	0.559%	2.089%	+0.209%
Employer	2.632%	2.142%	0.782%	2.924%	+0.292%
Self-employed worker[1]	—	—	0.993%	0.993%	+0.993%
Maximum contribution (in $)					
Employee	$913.68	$743.58	$385.71	$1 129.29	+$215.61
Employer	$1 279.15	$1 041.01	$539.58	$1 580.59	+$301.44
Self-employed worker	—	—	$685.17	$685.17	+$685.17

(1) Since 2010, self-employed workers living in the other Canadian provinces have been eligible for maternity and parental benefits if they register for the employment insurance program (EIP). Self-employed workers in Québec may also benefit from sickness and compassion benefits under the EIP.

3. THE JUXTAPOSITION OF TRANSFERS AND TAXATION

The personal income tax system includes numerous tax expenditures aimed at attaining certain public policy objectives and, in particular, the objectives of the family policy and social policies.

Such policies hinge on a number of budgetary programs, especially programs that encompass the transfers of funds, often aimed at the same clienteles.

The juxtaposition of transfers and taxation raises the problem of high marginal tax rates. The problem is examined below from the standpoint of:

— socio-fiscal measures and transfer programs;

— the problem of marginal tax rates;

— measures aimed at reducing the marginal tax rates.

3.1 Socio-fiscal measures and transfer programs

❑ The integration of taxation and transfers

Certain tax measures are integrated with each other and with certain transfer programs.

By way of an example, the work premium:

— is determined according to certain parameters of the Social Assistance Program;

— determines the income threshold at which the tax credit for child assistance is reduced.

■ Integration of the work premium into social assistance

The monthly social assistance benefit to which a beneficiary is entitled is determined according to the working income that he earned during the month.

— First, a social assistance recipient may earn a certain level of working income without having his benefit reduced. The level of income is commonly referred to as the allowable level of income.

— However, beyond his allowable level of income, the beneficiary’s benefit is reduced for each additional dollar of income.

The amount of assistance paid under the work premium is integrated into the parameters of the Social Assistance Program. For example, for a couple with children:

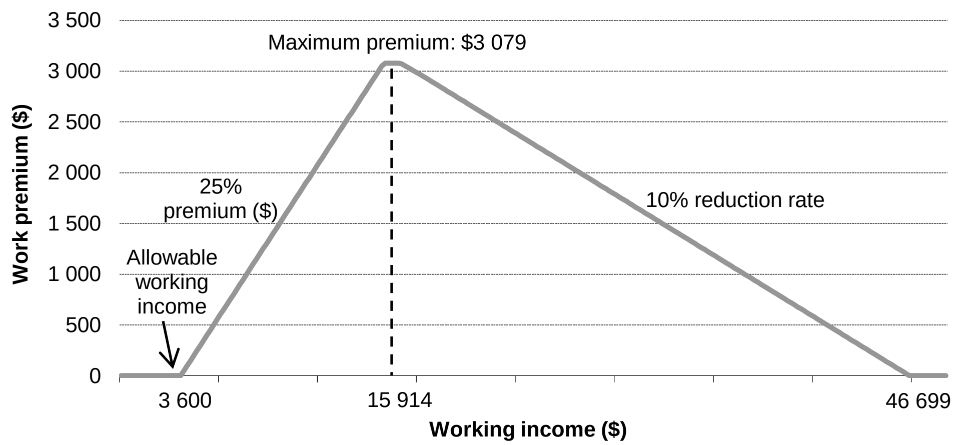
— the first $3 600 of working income (working income excluded from social assistance) are exempt from the calculation of the work premium;

— beyond the allowable level of income, the premium increases gradually with income at a rate of 25%. It reaches a maximum ($3 079) at the income threshold at which a household, able to work, is no longer eligible for social assistance, i.e. $15 914;

— at that income level, the premium falls to a rate of 10% up to a maximum of $46 699 in income, which corresponds to the cut-off threshold for the premium.

CHART 11

General work premium according to working income – Couple with children and one income – 2014
(dollars)



The work premium is not only integrated into last resort assistance but also child assistance. As the following chart shows:

— the work premium is determined according to working income that is higher than working income allowable in respect of social assistance;

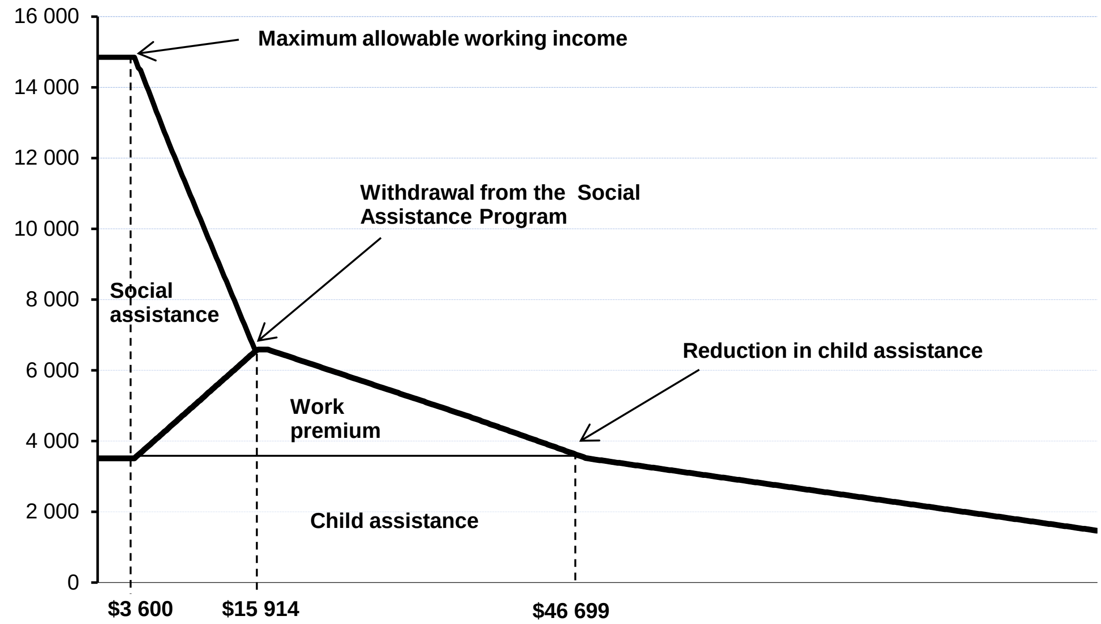
— the work premium reaches a maximum at the income threshold at which a beneficiary is cut off from social assistance;

— the work premium is reduced according to the income that exceeds the cut-off threshold for social assistance;

— lastly, the cut-off threshold for the premium, i.e. the level of income at which the work premium becomes null, corresponds to the threshold at which begins the reduction in child assistance.

CHART 12

Integration of the general work premium, child support and the last resort assistance program – Couple with two children 3 and 4 years of age and one income – 2014
(dollars)



❑ Programs administered by the Ministère de l’Emploi et de la Solidarité sociale

The Ministère de l’Emploi et de la Solidarité sociale offers programs that pay financial assistance to individuals or families who are unable to provide for their needs.

Social assistance programs
Three social assistance programs are aimed at separate clienteles: – the social assistance program is aimed at households that are not experiencing employment constraints or are experiencing temporary constraints; – the social solidarity program is aimed at households experiencing severe employment constraints; – the Alternative jeunesse program is aimed at young people between 18 and 24 years of age who take steps to find work. Nearly $3 billion annually is earmarked for financial support for social assistance programs. The concept of last resort assistance refers to two general social assistance programs, i.e. the social assistance program and the social solidarity program. Since 1997, the last resort assistance scales have been modified to cover the essential needs of adults, as the needs of children have, since then, been covered by family allowances (federal tax benefits for children and child support).

❑ The programs of the Société d'habitation du Québec

The Société d'habitation du Québec, through the Allocation-logement program, financially supports low-income households that are struggling to bear their housing costs.

The Allocation-logement program
The Allocation-logement (PAL) program offers financial assistance to low-income households that earmark a significant portion of their budget for housing. The PAL is aimed at: – single individuals 52 years of age[1] or over; – couples in which one spouse is 52 years of age[1] or over; – low-income families with at least one dependent child (including a child 18 years of age or over if he is engaged in full-time study). The PAL is intended for property owners, tenants, lodgers and individuals who share a dwelling unit with other occupants. The allowance takes into account the number of persons in the household, the type of household, household income and the monthly rent. The assistance is calculated annually and paid monthly. It can reach $80 per month ($960 per year) and is not taxable. Between October 2012 and September 2013, over 100 000 households received $74 million. The amount of the allowance is equivalent to two-thirds of the difference between the rent actually paid and the anticipated contribution of the household, which is set at 30% of annual income up to a maximum rent established by the program. ***Allocation-logement = ⅔ x (B-A)*** *A = Max (30% of household income; Minimum allowable rent);* *B = Min (Rent paid; Maximum allowable rent).*

1 51 years of age as of October 1, 2014 and 50 years of age as of October 1, 2015.

3.2 The problem of marginal tax rates

When the income of certain taxpayers increases, the higher income simultaneously leads to a reduction in the transfers from which the taxpayers benefited and an increase in taxation.

The problem of the marginal effective tax rate (METR) stems from the connection between the personal income tax system and the transfer programs implemented for the same taxpayers.

The coexistence of the two separate mechanisms, both defined according to income, can reduce by a relatively significant amount the additional income that a taxpayer obtains when he increases his work effort.

❑ Illustration of the problem posed by METRs

We can illustrate a situation in which the METR is high by taking as an example a couple with two children and two equal incomes totalling $35 000 and whose working income increases by $5 000.

The increase in income from $35 000 to $40 000 is accompanied by a drop in additional income of $3 915, which represents a METR of 78.3%.

TABLE 21

Example of a calculation of the METR for a couple with two children 7 and 9 years of age and two equal incomes totalling $35 000 – 2014
(in dollars per year)

			Difference
1 Working income	**35 000**	**40 000**	**5 000**
2 Québec government			
– Tax[1]	−742	−1 523	−781
– Socio-fiscal credits[2]	8 560	7 659	−901
– Healthcare contribution	—	−72	−72
– QPP contributions	−1 449	−1 708	−259
– RQAP contributions	−196	−224	−28
– Québec drug insurance plan	−139	−507	−368
Subtotal	***6 034***	***3 626***	***−2 408***
3 Federal government			
– Tax[3]	—	−302	−302
– Socio-fiscal credits[4]	7 144	6 016	−1 128
– Employment insurance contributions	−536	−612	−77
Subtotal	***6 609***	***5 101***	***−1 507***
4 Childcare expenses	−5 920	−5 920	—
5 Net contribution (2. + 3. + 4.)	6 723	2 808	−3 915
6 METR (5. ÷ 1.)	—	—	**−78,3**
7 Disposable income	**41 723**	**42 808**	**1 085**

(1) Personal income tax.
(2) Including child assistance, the work premium, the solidarity tax credit and the refundable tax credit for childcare expenses.
(3) Federal personal income tax.
(4) Including the Canada Child Tax Benefit and the refundable GST tax credit.

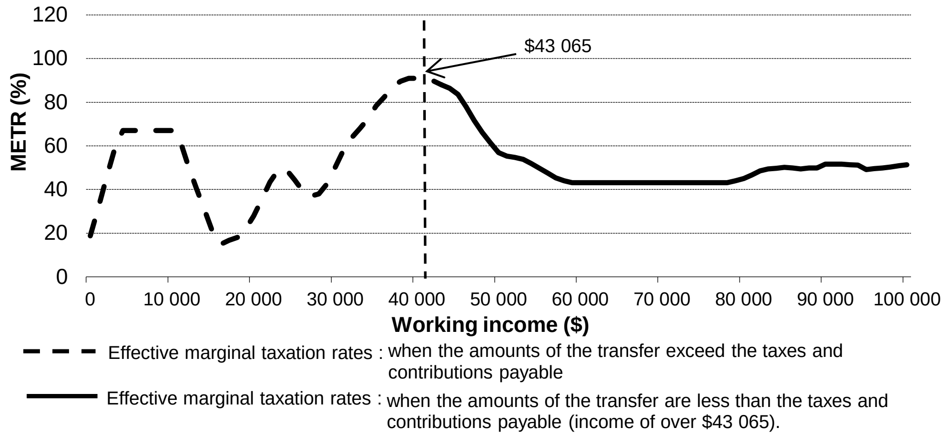
The following chart illustrates the METR curve according to income and presents the income fields in which taxpayers are affected by high METRs.

The curve reveals the high METRs that result from the accumulation of tax rates or the clawback that applies to a given household.

Accordingly, for a couple with two children 7 and 9 years of age and two working incomes, the METR reaches 90.9% on an income of $40 000.

CHART 13

METR for a couple with two children 7 and 9 years of age and two equal working incomes – 2014



❑ The importance of the phenomenon in Québec

Researchers have emphasized for several years that the METRs reach excessively high levels for certain Québec households.

By attributing to each household its own METR, it is possible to measure the importance of this phenomenon in the population overall:

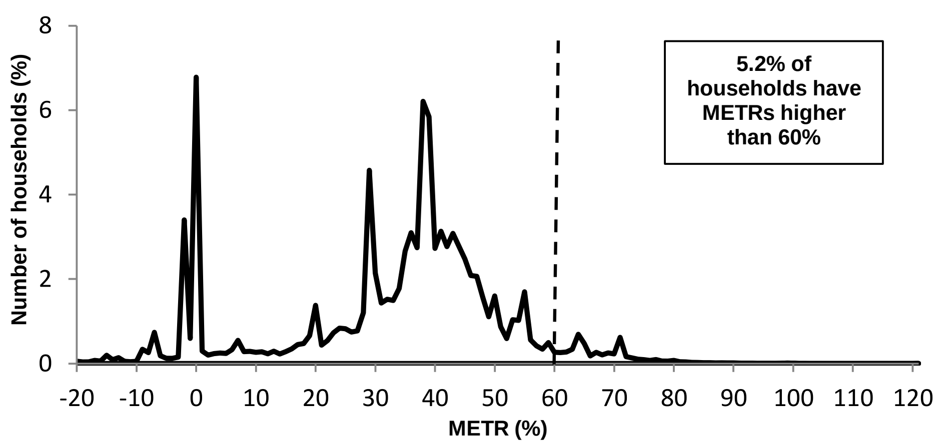
— 20% have a METR under 20%. Most of the individuals are not subject to taxation;

— 74% of households have a METR between 20% and 60%. Such households are, by and large, middle- and high-income households;

— 5.2% of households have a METR above 60%. This situation is attributable to more generous family assistance and substantial benefits for seniors.

CHART 14

Density of METRs for all households – 2014



However, the proportions of households with METRs above 60% are higher in certain situations:

— 12.1%, in the case of single-parent families;

— 7.1%, in the case of couples with children;

— 21.3%, in the case of single seniors.

TABLE 22

Breakdown of households with METRs above 60% by category of household – 2014

Category of household	Number of households (in thousands)	Households with METRs over 60%	
		(in thousands)	(%)
Single individual	1 954	16	0.8
Childless couple	642	3	0.4
Single-parent family	290	35	12.1
Couple with children	678	48	7.1
Single senior	640	136	21.3
Senior who is part of a couple	465	4	0.9
All households	**4 668**	**242**	**5.2**

3.3 Measures aimed at reducing the marginal tax rates

❑ The work premium

Social assistance benefits are reducible at the rate of 100% when the beneficiaries' net working income exceeds the allowable exemptions. More specifically, for each additional dollar of working income earned in certain income fields, the social assistance benefit is reduced by the same amount, which makes the offer of employment less worthwhile.

In this respect, the work premium is intended in itself to respond to the problem of high implicit marginal taxation in respect of low-income workers. Indeed, the integration of the work premium and social assistance reduces the METR, between 7% and 30% depending on family status.

Furthermore, the federal government has given the provinces an opportunity to adjust the Working Income Tax Benefit (WITB) with the existing mechanisms in the provincial plans. Accordingly, the restructuring of the WITB for Québec has further lowered the METR of last resort assistance beneficiaries, which is enhancing the incentive to work.

For example, a couple with children receives for each dollar of last resort assistance lost:

— $0.25 through the Québec work premium;

— $0.08 through the federal government's WITB.

PART 2: TAXES AND USER FEES

The Québec tax regime applicable to individuals includes a second group of provisions, i.e. taxes and user fees.

This section examines:

— consumption taxes;

— user fees;

— local taxation, i.e. the school tax and the municipal taxes.

1. CONSUMPTION TAXES

Québec levies two types of consumption taxes:

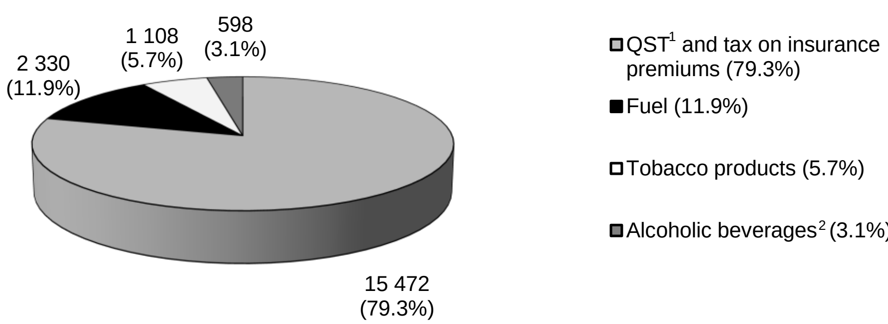
— ad-valorem taxes that are calculated according to a percentage of the selling price of the good or service to which they apply. This is true of the Québec sales tax (QST) and the tax on insurance premiums;

— the specific taxes that are calculated according to a unitary rate by quantity sold of certain goods. This is true of the tax on alcoholic beverages, the fuel tax and the tax on tobacco products.

Consumption tax levies will represent $19.5 billion in 2014-2015, of which $15.5 billion (79.3%) comes from the QST and the tax on insurance premiums, and $2.3 billion (11.9%) from the fuel tax.

CHART 15

Breakdown of consumption tax levies – 2014-2015
(millions of dollars)



(1) Excluding the refundable solidarity tax credit.
(2) Including $100 million in revenue dedicated to the Generations Fund.

This section examines:

— the QST;

— the tax on insurance premiums;

— specific taxes;

— tax expenditures related to consumption taxes.

1.1 The Québec sales tax

The QST, like the goods and services tax (GST), is a value-added tax levied on a wide array of property and services at all stages of production and distribution.

— The general rate applied in respect of the QST is 9.975%, and 5% for the GST.

Since the tax is payable by the final consumer, an input tax rebate (ITR) is granted to businesses throughout the production and distribution chain. What is more, the QST usually applies solely to property and services consumed in Québec and, consequently:

— imports are subject to it;

— exports are exempt from it.

The QST system includes zero-rating, exemption and rebate measures that are deemed to be tax expenditures, e.g. the zero-rating of basic groceries, the exemption of rental accommodation, and the rebate granted to the purchasers of new homes.

❑ Historical background of the QST

The QST was implemented on July 1, 1992 to substantially harmonize the Québec taxation system and the federal GST[10] system and thereby facilitate as of that date unified administration by Québec in its territory[11] in order to simplify for businesses the application of the taxes.

Until May 12, 1994, two QST rates were applied, i.e. an 8% rate for supplying corporeal movable property such as computers or automobiles, and a 4% rate for supplying incorporeal movable property such as a patent on an invention, immovables such as a lot, and services such as those of a plumber or an accountant.

From May 13, 1994 to December 31, 1997, a single rate of 6.5% applied.

The rate of the QST was subsequently increased successively by 1 percentage point in January 1998, in January 2011 and in January 2012.

— To limit the impact of the increases on low-income households, the QST tax credit was enhanced. The enhancements were taken into account when the solidarity tax credit was introduced.[12]

[10] The GST was implemented on January 1, 1991.

[11] Under an administrative agreement concluded between the Canada and the Québec governments, Revenu Québec administers the GST in Québec's territory on behalf of the federal government.

[12] Since July 2011, the solidarity tax credit has replaced and grouped together the QST tax credit, the property tax refund and the refundable tax credit for individuals living in Northern villages.

Since January 1, 2013, the QST has no longer been applied to the GST. Indeed, Québec agreed to this effect under the *Comprehensive Integrated Tax Coordination Agreement* between the Government of Canada and the Québec government.

To avoid any impact on the QST payable, the rate was raised to 9.975% in 2013 to correspond to its effective rate applicable in 2012. The change in the rate did not affect consumers.

TABLE 23

Historical background of QST rates
(as a percentage)

	Rate of the QST
From July 1, 1992 to May 12, 1994[1]	8 and 4
From May 13, 1994 to December 31, 1997	6.5
From January 1, 1998 to December 31, 2010	7.5
From January 1, 2011 to December 31, 2011	8.5
From January 1, 2012 to December 31, 2012	9.5
Since January 1, 2013	9.975

(1) The 8% rate was applied to the supplying of corporeal movable while the 4% was applied to the supplying of services, incorporeal movable property and immovables.

Comprehensive Integrated Tax Coordination Agreement between the Government of Canada and the Québec government

In March 2012, the Canada and Québec governments concluded an comprehensive integrated tax coordination agreement to achieve greater harmonization of the QST and the GST and further simplify the administration of the taxes.

Under the agreement, Québec agreed to:

- eliminate the application of the QST on the GST;
- exempt financial services, which were zero-rated (exempt sales do not give rise to ITRs for those who effect them, while zero-rated sales do so);
- abolish the restrictions on the ITRs of large businesses applicable to certain property and services (gradual abolition 2018 to 2020);
- maintain the tax base and rules of the QST harmonized with those of the GST and the harmonized sales tax (HST[1]) subject to a 5% leeway (of which 3% is already used to preserve certain specific measures under the QST system, such as the zero-rating of books and children's diapers).

By way of compensation, Québec received $2.2 billion.

1 The HST groups together the GST and the provincial sales tax.

❑ A comparison with the other provinces

All of the provinces except Alberta levy a general sales tax. The rates vary from 5% in Saskatchewan to 10% in Nova Scotia, with an average of 8.1% for the provinces with a sales tax, or 7.3% when Alberta is included.

TABLE 24

Comparison of the provincial sales tax rates – 2014
(as a percentage)

	Provincial sales tax	GST[1]	Combined rate
Alberta	—	5	5
Saskatchewan	5	5	10
British Columbia	7	5	12
Newfoundland and Labrador[2]	8	5	13
New Brunswick[2]	8	5	13
Ontario[2]	8	5	13
Manitoba	8	5	13
Prince Edward Island[2]	9	5	14
Québec	9.975	5	14.975
Nova Scotia[2]	10	5	15
AVERAGE[3]	**8.1**	**5**	**12.3**

(1) The GST or the federal portion of the HST.
(2) The provincial portion of the HST.
(3) For the provincial sales tax, the average represents that of the provinces that levy such a tax (excluding Alberta) and for the combined rate, the average represents that of all of the provinces including Alberta.

❑ The breakdown of the QST paid by individuals

Just over half of the revenues stemming from the QST come from three types of purchases by households:

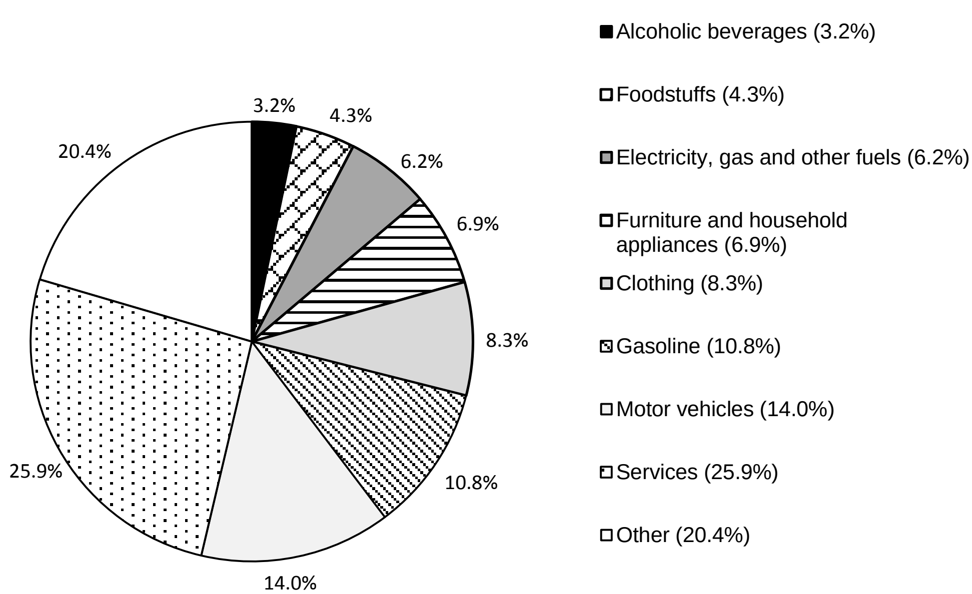
— services (25.9%);

— motor vehicles (14.0%);

— gasoline (10.8%).

CHART 16

QST paid by individuals by item of expenditure – 2013
(as a percentage)



Note: The item “Other” includes, in particular, the QST paid on restaurant expenses and on communications equipment.
Sources: Statistics Canada and Ministère des Finances du Québec.

1.2 The tax on insurance premiums

Insurance premiums are subject to a tax other than the QST on which the general rate is 9%.

The tax applies to most insurance premiums such as damage insurance premiums on property and premiums on group insurance of persons, including non-insured employee benefit plans.

— Individual personal insurance premiums, such as life, health or accident insurance, are exempt.

— Moreover, the premiums or contributions payable under certain insurance plans made compulsory by specific statutes, mostly of a social nature, are also exempt, such as contributions to parental insurance, employment insurance and Québec health insurance (unlike the premiums payable to a private group health insurance plan, which are taxable).

As for automobile insurance premiums, the tax at the general rate of 9% applies to contributions payable to the Société de l’assurance automobile du Québec (SAAQ) to cover personal injury (personal insurance), but the rate is reduced to 5% for the premiums payable to an insurer to cover material harm (damage insurance on property).

TABLE 25

Applicable rate of the tax on insurance premiums
(as a percentage)

	Rate
Personal insurance, e.g. life, health, accidents	
– Individual	—
– Group	9
– Contribution payable to the SAAQ	9
Damage insurance, e.g. accident, fire, theft, vandalism	
– Automobile	5
– Home and other	9

The tax on insurance premiums elsewhere in Canada

Aside from Québec, Ontario and Manitoba also apply a sales tax on insurance premiums.

In Ontario, the premiums paid under individual and group insurance contracts are subject to the retail sales tax at the rate of 8%.

- However, individual insurance premiums pertaining to the life, health or physical well-being of insured parties are exempt.
- An exemption is also allowed concerning automobile insurance premiums in respect of automobiles that must be insured pursuant to the *Compulsory Automobile Insurance Act.*

In Manitoba, the 8% retail sales tax also applies to individual and group insurance premiums.

- However, individual insurance premiums on life, disability, critical illness or accidental death or mutilation and individual or group health insurance premiums are exempt.
- Insurance premiums in respect of a vehicle registered pursuant to *Drivers and Vehicles Act* are also exempt.

1.3 Specific taxes

Specific taxes are usually intended to recover certain social costs linked to the consumption of the product concerned and to limit its use. The revenues that the taxes generate are in some instances earmarked for specific missions.

Such taxes are often preferred to other taxes to collect the revenue necessary to fund public services. The objectives pursued make them more acceptable to society.

Québec levies three specific taxes:

- the specific tax on alcoholic beverages;
- the specific tax on fuel;
- the specific tax on tobacco products.

Fiscal levies from the specific taxes on alcoholic beverages, fuel and tobacco products will represent $4 billion in 2014-2015, equivalent to 20.7% of consumption taxes collected.

TABLE 26

Fiscal levies from specific taxes
(millions of dollars)

Specific taxes	2013-2014	2014-2015
Alcoholic beverages[1]	552	598
Fuel	2 331	2 330
Tobacco products	1 026	1 108
TOTAL	**3 909**	**4 036**

(1) Including $100 million dedicated to the Generations Fund.

❑ The specific tax on alcoholic beverages

The specific tax on alcoholic beverages is calculated according to a unitary rate per volume (dollar per litre) that applies to all retail sales of alcoholic beverages in Québec. The tax is collected by collection officers prior to the final sale to consumers.

On August 1, 2014, the rates applicable were standardized such that since that date the rates are the same regardless of the place of consumption (in the home or in an establishment).

— The application of different rates to alcoholic beverages depending on the place of consumption stemmed from historic changes in the taxation of such beverages, which was always higher in establishments for on-site consumption.

The following tax rates have been in force since August 1, 2014:

— beer, $0.63 per litre;

— wine and spirits, $1.40 per litre.

TABLE 27

The specific tax on alcoholic beverages
(in dollars per litre)

	Beer		Wine and spirits	
	Consumption in the home	**Consumption in an establishment**	**Consumption in the home**	**Consumption in an establishment**
Taxation prior to August 1, 2014	0.50	0.82	1.12	2.47
Taxation since August 1, 2014	0.63	0.63	1.40	1.40

A comparison with the other provinces

Few provinces levy on consumers a specific tax on alcoholic beverages.

— In Prince Edward Island and in Saskatchewan an ad-valorem tax (calculated according to a percentage of the selling price) applies to alcoholic beverages.

— In Ontario, an ad-valorem tax and a specific tax apply to wine and a specific tax applies to beer.

The provinces derive revenues when alcohol is sold or distributed to consumers through their distribution agency equivalent to the Société des alcools du Québec (SAQ).

Under certain conditions, Québec allows the distribution of products (beer and wine) outside the government corporation.

Prices are advantageous in Québec in relation to those in Ontario and New Brunswick

The price of beer purchased in retail stores is significantly lower in Québec than in the neighbouring provinces.

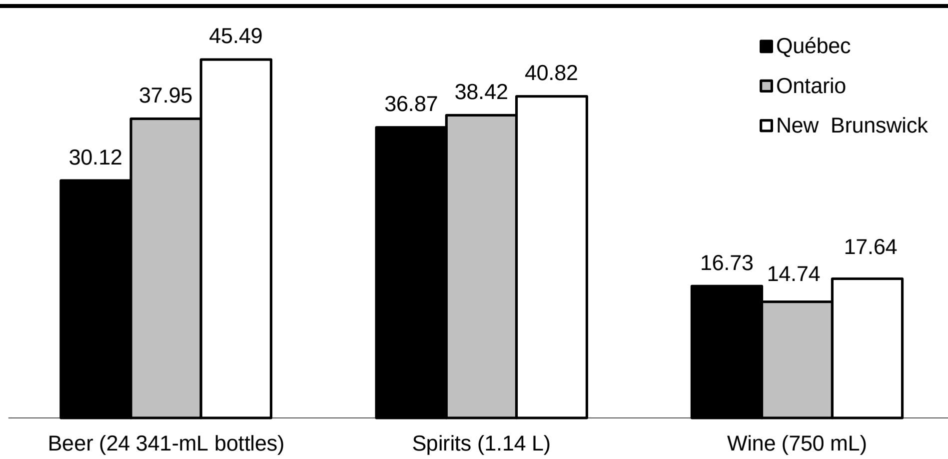
What is more, the price of wine and spirits is competitive in Québec in relation to Ontario and New Brunswick. A comparison of the average prices of 20 top-selling products in Québec that are available in Ontario and New Brunswick reveals that:

— the price of spirits is lower in Québec than in Ontario and New Brunswick;

— the price of wine remains lower in Québec than in New Brunswick but slightly higher than in Ontario.

CHART 17

Comparison of the prices of certain alcoholic beverages among the most widely sold in Québec including the impact of the increase in the specific tax
(dollars)



Note: The price of beer in Québec is the minimum price including GST and QST. For wine and spirits, the average is indicated of the prices of 20 top-selling products in Québec that are available in Ontario and New Brunswick.
Sources: Ministère des Finances du Québec and the websites of the Liquor Control Board of Ontario, Alcool NB Liquor and the SAQ (consulted on May 29, 2014).

■ Fiscal levies stemming from the specific tax on alcoholic beverages and their allocation

Fiscal levies stemming from the specific tax on alcoholic beverages totalled $552 million in 2013-2014.

In 2013-2014, all of the fiscal levies from the specific tax on alcoholic beverages will be paid into the general fund. Starting in 2014-2015, a portion of the levies will be paid into the Generations Fund and will reach $500 million in 2016-2017.

Accordingly, in 2014-2015 and in 2015-2016, an annual amount of $100 million from the specific tax will be allocated to the Generations Fund. The payment of a portion of the fiscal levies from the tax reflect the government's desire to diversify the sources of funding of the Generations Fund and to allocate stable revenue to it.

Starting in 2016-2017, an additional amount of $400 million will be paid into the fund, thus bringing the total payment from the specific tax on alcoholic beverages to the Generations Fund to $500 million per year.

❑ The specific tax on fuel

The specific tax on fuel is calculated according to a unitary rate per volume (cent per litre) that applies to all retail sales of fuel in Québec. The tax is collected by collection officers prior to the final sale to consumers.

Since April 1, 2013, the general rate of the specific tax on fuel has been 19.2 cents per litre for gasoline and 20.2 cents per litre for diesel (uncoloured fuel oil).

It should be noted that the general rates of the specific tax on gasoline and diesel were increased, respectively, by 1 cent per litre on April 1 of each year from 2010 to 2013.

Moreover, a rate reduced to 3 cents per litre is applicable to aviation gasoline and kerosene and coloured fuel oil for railroad locomotives.

TABLE 28

Rate of the specific tax on fuel by type of vehicle[1]
(in cents per litre)

	2009	2010	2011	2012	2013 current
Gasoline	15.2	16.2	17.2	18.2	19.2
Diesel (uncoloured fuel oil)	16.2	17.2	18.2	19.2	20.2
Aviation gasoline and kerosene	3.0	3.0	3.0	3.0	3.0
Coloured fuel oil for railroad locomotives	3.0	3.0	3.0	3.0	3.0

(1) As of April 1 of each year.

The general rate of the fuel tax applicable to gasoline is increased in certain regions to ensure funding for mass transit services in the territories:

— 3 cents per litre (since May 2010) on gasoline sold in the territory of the Communauté métropolitaine de Montréal, proceeds from which are paid to the Agence métropolitaine de transport (AMT);

— 1 cent per litre (since July 2012) on gasoline sold in the territory of the Gaspésie–Îles-de-la-Madeleine administrative region.

Conversely, the general rate of the fuel tax applicable to gasoline and diesel is reduced in certain regions:

— 1 to 8 cents per litre on gasoline sold in regions bordering on another jurisdiction;

  — 1 to 4 cents per litre in regions bordering on Ontario and New Brunswick;

  — 2 to 8 cents per litre in regions bordering on the United States;

— 0.1 to 4.65 cents per litre on gasoline and diesel sold in regions remote from major urban centres (peripheral and specified regions and adjacent regions).[13]

[13] It should be noted that motorists in peripheral and specific regions have also benefited since November 1995 from a reduction in motor vehicle registration fees applicable to passenger vehicles of $52 and $26, respectively.

TABLE 29

Comparison of different rates of the specific tax on fuel

	(in cents per litre)
Gasoline	19.2
– Communauté métropolitaine de Montréal	22.2
– Gaspésie–Île-de-la-Madeleine administrative region	15.55
– Border regions	11.2 to 18.2
– Peripheral and specific regions and adjacent regions	14.55 to 19.0
Diesel (uncoloured fuel oil)	20.2
– Peripheral and specific regions and adjacent regions	16.38 to 20.1

■ Comparison with the other provinces and certain American states

The specific taxation in Québec of fuel is among the highest in relation to other Canadian and American jurisdictions, more specifically in respect of gasoline and diesel. Only British Columbia levies higher specific taxes than Québec does, because of the levying of a carbon tax.

Furthermore, the level of sales taxes of 14.975% applicable to fuel sold in Québec (GST of 5% and QST of 9.975%) ranks second to Nova Scotia (HST of 15%, i.e. GST of 5% and the provincial portion of 10%). However, it should be noted that businesses may be eligible for a refund of sales taxes paid on fuel.

The differences in taxes are reflected on the price paid at the pump in Québec, where significant unfavourable price differences are noted in relation to other jurisdictions.

TABLE 30

Comparison of the taxation of fuel in certain jurisdictions[1]
(in cents per litre)

	Rate in the province or state	Federal rate	Combined rates	Rates of the general sales taxes	Price difference in relation to Québec[2]
Gasoline					
Québec	19.2	10.0	29.2	14.975%	—
New Brunswick	13.6	10.0	23.6	13.0%	–8.8
Ontario	14.7	10.0	24.7	13.0%	–7.5
Alberta	9.0	10.0	19.0	5.0%	–23.1
British Columbia[3]	21.2	10.0	31.2	5.0%	–10.3
Maine	7.9	5.0	12.9	—	–28.1
New Hampshire	6.3	5.0	11.3	—	–35.5
New York[4]	9.9	5.0	14.9	4.0%	–28.5
Diesel (uncoloured fuel oil)					
Québec	20.2	4.0	24.2	14.975%	—
New Brunswick	19.2	4.0	23.2	13.0%	–3.4
Ontario	14.3	4.0	18.3	13.0%	–9.0
Alberta	9.0	4.0	13.0	5.0%	–23.7
British Columbia[3]	22.7	4.0	26.7	5.0%	–9.3
Maine	8.2	6.9	15.1	—	–25.7
New Hampshire	6.3	6.9	13.2	—	–29.9
New York[4]	9.9	6.9	16.8	4.0%	–20.7

(1) Exchange rate of C$1.085 = US$1 as of August 28, 2014.
(2) Difference calculated based on a pre-tax price of 95 cents per litre, to which the applicable taxes are added (specific taxes and general sales taxes).
(3) Also includes the carbon tax (6.67 cents per litre for gasoline and 7.67 cents per litre for diesel).
(4) Includes the specific state tax and a specific tax allocated to towns and villages.

■ Fiscal levies stemming from the specific tax on fuel and their allocation

Preliminary results for 2013-2014 indicate that fiscal levies from the taxation of fuel stand at $2 331 million.

The fiscal levies can be broken down as follows:

— $2 213 million to the Land Transportation Network Fund (FORT);[14]

— $17 million to the general fund;

— $101 million from the increase in the gasoline tax allocated to the AMT.

[14] The fiscal levies from the specific tax on gasoline and diesel are paid to the FORT to ensure funding for road infrastructure and mass transit.

❑ The specific tax on tobacco products

The specific tax on tobacco products is calculated according to a unitary rate per volume (cent per gram) that applies to all retail sales of tobacco in Québec. The tax is collected by collection officers prior to the final sale to consumers.

However, in the case of cigarettes, the tax is calculated according to a unitary rate (cent per cigarette). In the case of cigars, the tax is calculated as a percentage of the taxable price of each cigar (ad-valorem tax).

The specific tax on tobacco products is $29.80 per carton of 200 cigarettes.

The following tax rates apply:

— 14.9 cents per cigarette;

— 14.9 cents per gram of loose leaf tobacco or leaf tobacco;

— 80% of the taxable price of each cigar;

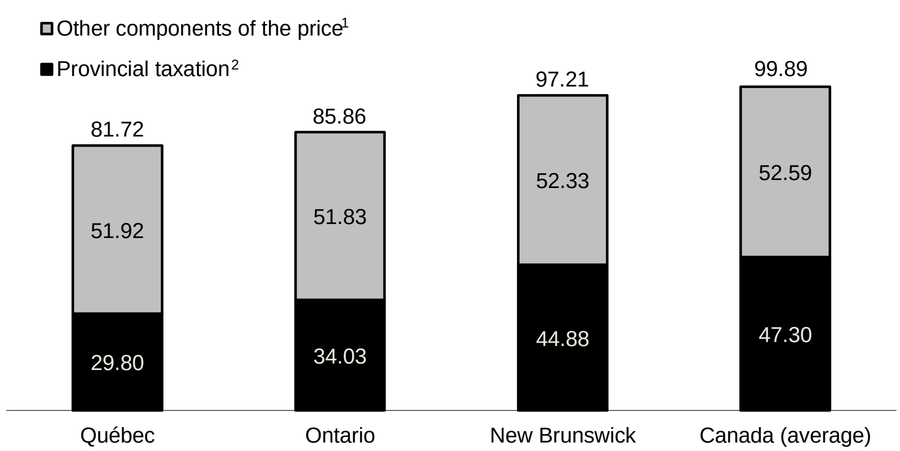
— 22.92 cents per gram of any tobacco other than cigarettes, loose leaf tobacco, leaf tobacco and cigars.

■ A comparison with the other provinces

Québec has lowest effective taxation of tobacco products of any province. The difference is $4.23 with Ontario, $15.08 with New Brunswick and $17.50 with the Canadian average.

CHART 18

Components of the price of a carton of 200 cigarettes
(dollars)



(1) The other components of the price have been calculated assuming constant production costs in Canada. They also include the federal excise tax of $21.03 and GST.
(2) Including the provincial portion of the HST.
Sources: Finance departments of the provinces and Department of Finance Canada. Compilation of the Ministère des Finances du Québec.

Fiscal levies stemming from the specific tax on tobacco products and their allocation

Fiscal levies stemming from the specific tax on tobacco products totalled $1 026 million in 2013-2014.

Most of the fiscal levies stemming from the specific tax on tobacco products are paid into the general fund. However, $121 million in such levies from the tax were paid to various special funds in 2013-2014.

In 2014-2015 and in subsequent years, $131 million will be earmarked for the funds.

1.4 Tax expenditures related to consumption taxes

The main tax expenditures related to consumption taxes come from:

— the QST;

— the tax on insurance premiums;

— the specific tax on fuel;

— the specific tax on alcoholic beverages.

TABLE 31

Change in the cost of tax expenditures related to consumption taxes – 2010 to 2013
(millions of dollars)

	2010	**2011**	**2012**	**2013**
QST	3 356	4 022	4 603	4 553
Tax on insurance premiums	473	492	508	525
Fuel tax	225	249	257	262
Tax on alcoholic beverages	14	15	16	16
Subtotal	**4 068**	**4 778**	**5 384**	**5 356**
Other measures	39	44	48	53
TOTAL	**4 107**	**4 822**	**5 432**	**5 409**

Note: Estimates for 2010 to 2011 and projections for 2012 and 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

❑ Tax expenditures related to the QST

Various measures have been adopted with respect to the QST. The measures essentially take the form of exemptions (zero-rating or exemption) or rebate, e.g. the 50% rebate of the QST paid on the purchases of charities.

Two forms of exemptions under the QST system
Zero-rated property and services No QST is levied on the sales of zero-rated property and services and the vendor may request a refund of the tax paid on his purchases, such that consumers ultimately do not support any QST. Zero-rated property and services include, for example, basic groceries and prescription drugs. **Exempt property and services** No QST is levied on the sales of exempt property and services but the vendor may not request a refund of the tax that he paid on his purchases. Since the vendor must pay the QST on his purchases, a portion of the tax may be borne by the consumer through the adjustment of the selling price. Exempt property and services include, for example, rental accommodation, health care services, childcare and personal care services and standard municipal services.

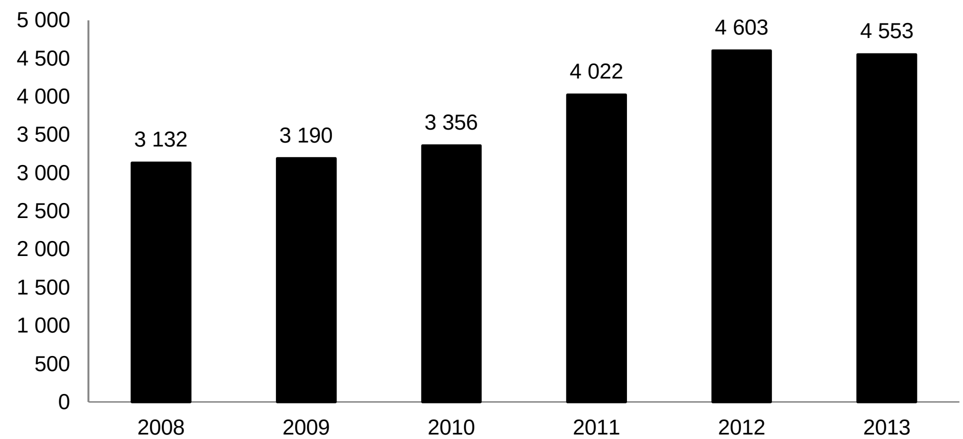
Tax expenditures related to the QST grew by an average annual rate of 7.8% between 2008 and 2013.

Such growth hinges on two factors, i.e. the increase in spending on property and services, but above all the 1-percentage-point increases in the QST rate in 2011 and 2012.

— Indeed, tax expenditures related to the QST rose by 37% between 2010 and 2012.

CHART 19

Change in tax expenditures related to the QST – 2008 to 2013
(millions of dollars)



Note: Estimates for 2008 to 2011 and projections for 2012 and 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

In 2013, 30 measures mitigated the impact of the QST, at a cost of nearly $4.6 billion.

TABLE 32

Tax expenditures related to the QST – 2013
(millions of dollars)

	Cost
Zero-rating of basic groceries	1 684
Exemption of rental accommodation	611
Rebate granted to public service bodies	588
Zero-rating of prescription drugs	351
Exemption of health care services	296
Exemption of financial services	148
Exclusion of small suppliers from the scope of application of the QST	138
Rebate granted to the purchasers of new residential housing	133
Child care and personal care services	130
Exemption of educational services	116
Exemption of standard municipal services	99
Exemption of municipal transit services	82
Zero-rating of medical devices	74
Zero-rating of books	60
Rebate granted to lessors of new residential property	22
Zero-rating of children’s diapers and breast-feeding items	13
Exemption of ferries, roads and toll bridges	4
Simplified method for charities	4
TOTAL	**4 553**

Note: Projection for 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

■ The main tax expenditures related to the QST

The main measures covered by tax expenditures related to the QST are:

— the zero-rating of basic groceries;

— the zero-rating of prescription drugs;

— the exemption of residential rental accommodation;

— the exemption of health care services;

— the rebate granted to public service bodies.

In 2013, the five main measures pertaining to the QST accounted for nearly 78% of tax expenditures related to the tax.

TABLE 33

Change in the cost of the main tax expenditures related to the QST – 2010 to 2013
(millions of dollars)

	2010	2011	2012	2013
Zero-rating of basic groceries	1 203	1 414	1 631	1 684
Zero-rating of prescription drugs	254	294	333	351
Exemption of rental accommodation	437	510	586	611
Exemption of health care services	207	246	287	296
Rebate granted to public service bodies	416	505	537	588
Subtotal	**2 517**	**2 969**	**3 374**	**3 530**
Other tax expenditures	839	1 053	1 229	1 023
TOTAL	**3 356**	**4 022**	**4 603**	**4 553**

Note: Estimates for 2010 to 2011 and projections for 2012 and 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

■ The zero-rating of basic groceries

Basic foodstuffs, which include most foodstuffs intended for preparation and consumption in the home, are not subject to the QST.

The exemption does not apply to certain products, such as softdrinks, candy and other confectionery products, snack foods and alcoholic beverages.

The zero-rating of basic groceries was implemented to take into account, in particular, the negative consequences that the levying of a tax on such products would have for low-income taxpayers.

This is by far the main measure pertaining to the QST. Indeed, it accounted for 37% of tax expenditures related to the QST in 2013 at a projected cost of $1 684 million.

The zero-rating of prescription drugs

Controlled drugs that can only be obtained by prescription and other drugs prescribed by an authorized health professional are not subject to the QST. However, this zero-rating measure does not apply to drugs labelled or supplied for veterinary use.

The zero-rating of prescription drugs was implemented since such drugs are considered an essential need and their taxation would have negative consequences for low-income taxpayers.

In 2013, the projected cost of this measure was $351 million and accounted for nearly 8% of the tax expenditures related to the QST.

The exemption of rental accommodation

The QST does not apply to rental accommodation of a minimum duration of one month and short-term accommodation whose cost does not exceed $20 per day.

This measure was adopted because housing is regarded as an essential need and its taxation would have negative consequences for low-income taxpayers.

It accounted for 13% of the tax expenditures related to the QST in 2013 at a projected cost of $611 million.

The exemption of health care services

The QST does not apply to health care services, which include services provided:

- in a healthcare institution;
- by certain health professionals such as physicians, dentists, nurses and certain practitioners whose profession is regulated by the governments of at least five provinces; or
- covered by a provincial health insurance plan.

The measure facilitates access by all taxpayers to services that are deemed to be essential, in particular for low-income taxpayers for whom the taxation of such services would have negative consequences.

It had a projected cost of $296 million in 2013 and accounted for nearly 7% of the tax expenditures related to the QST.

The rebate granted to public service bodies

The rebate granted to public service bodies covers:

- charities and qualifying non-profit organizations;
- non-profit schools, colleges and universities, hospitals and municipalities.

Charities and qualifying non-profit bodies (at least 40% of whose funding comes from a government or a municipality) may obtain a rebate of 50% of the QST paid on their purchases.

The measures seek to reduce the impact of the establishment of the QST system on such organizations, which play an important role in society. In 2013, the projected cost of the measure stood at $156 million.

In the case of non-profit schools, colleges and universities and hospitals and municipalities, a partial rebate of the tax paid on their purchases was implemented to avoid increasing their tax burden when the QST system came into force in 1992. The rate is 47% for non-profit schools, colleges and universities, at a projected cost of $223 million in 2013.

The rebate rate of the QST for hospitals is 51.5% and the projected cost reached $209 million in 2013.

As for the municipalities, the rebate rate was 43% when the rebate was abolished in 1997 and has stood at 62.8% since it was reintroduced in 2014.[15]

TABLE 34

Change in the rebate of the QST granted to public service bodies – 2010 to 2013
(millions of dollars)

	2010	2011	2012	2013
Charities and qualifying non-profit bodies	131	139	142	156
Non-profit schools, colleges and universities	160	192	204	223
Hospitals	125	174	191	209
Municipalities	f	f	f	f
TOTAL	**416**	**505**	**537**	**588**

Note: Estimates for 2010 to 2011 and projections for 2012 and 2013.
f : The fiscal cost is under $2 million.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

❑ Tax expenditures related to the tax on insurance premiums

The measures covered by tax expenditures related to the tax on insurance premiums are:

— the exemption in respect of the individual insurance of persons;

— the reduction of the rate of the tax in respect of automobile insurance;

— the exemption in respect of certain compulsory insurance plans.

The 9% tax on insurance premiums does not apply to premiums for the individual insurance of persons, e.g. the premiums on life, health or accident insurance.

What is more, the general rate of 9% is reduced to 5% in respect of automobile insurance premiums. However, the reduction does not apply to contributions payable to the SAAQ.

[15] Under the *Entente sur un nouveau partenariat fiscal et financier avec les municipalités pour les années 2007 à 2013*, the municipalities received from the government compensation for the amounts of QST that they had to pay on their purchases, which was determined according to a formula and the rules stipulated in the agreement. In 2014, the compensation was replaced by a rebate at a rate of 62.8% of the QST actually paid by each municipality. The rate was established based on the amounts paid in compensation to the municipalities in 2013, which, overall, represented 62.8% of the QST payable by them during the year.

Lastly, the tax on insurance premiums does not apply to amounts paid under certain insurance plans that specific statutes, mainly of a social nature, have made mandatory:

- the *Act respecting industrial accidents and occupational diseases*;
- the *Act respecting parental insurance*;
- the *Crop Insurance Act*;
- the *Act respecting farm income stabilization insurance*;
- the *Act respecting the Régie de l'assurance maladie du Québec*;
- the *Act respecting the Québec Pension Plan*;
- the *Employment Insurance Act.*

The total cost of the tax expenditures related to the tax on insurance premiums stands at $525 million.

❑ Tax expenditures related to the specific tax on alcoholic beverages

The specific tax on alcoholic beverages system includes reductions in the rate in respect of products sold by microbreweries and small-scale producers.

A reduction in the rate of the specific tax applicable to beer is granted to products sold by microbreweries that produce beer in Québec. The reduction is intended to enhance the competitiveness of small beer producers.

The rate of the specific tax is reduced by:

— 67% on the first 75 000 hectolitres of beer sold in a calendar year;

— 33% on the next 75 000 hectolitres.

A reduction in the rate of the specific tax is granted in respect of alcoholic beverages other than beer sold by small-scale producers that produce such beverages in Québec. The reduction is intended to enhance the competitiveness of small-scale producers of wine, cider and any other alcoholic beverage.

The rate is reduce by:

— 100% on the first 1 500 hectolitres of beverages sold in a calendar year;

— 85% on the next 13 500 hectolitres.

TABLE 35

Tax expenditures related to the specific tax on alcoholic beverages – 2013
(millions of dollars)

	Cost
Reduction of the rate of the tax in respect of beer sold by microbreweries	13
Reduction of the rate of the tax in respect of alcoholic beverages sold by small-scale producers	3
TOTAL	**16**

Note: Projection for 2013.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

❑ Tax expenditures related to the specific tax on fuel

Tax expenditures related to the specific tax on fuel consist, in particular, in:

— reductions of the rate of the tax;

— exemption from payment of the tax;

— refunds of the tax paid.

In 2013, the government granted estimated tax expenditures totalling just over $260 million, including:

— $90 million for reductions of the rate in certain regions, on the one hand to reduce higher transportation costs in areas remote from major urban centres and, on the other hand, to support the competitive position of Québec retailers in regions bordering on an American state or a Canadian province;

— $102 million for reductions of the rate in respect of aviation gasoline and kerosene and coloured fuel oil for railroad locomotives to avoid the shifting of economic activities.

TABLE 36

Tax expenditures related to the specific tax on fuel – 2013
(millions of dollars)

	Cost
Reduction of the rate in certain regions	90
Reduction of the rate of the tax in respect of aircraft and railroad locomotives	102
Exemptions and refunds granted to farmers and fishermen	f
Exemptions and refunds granted to the industrial sector	n/a
Exemption and refund granted to the aviation sector	n/a
Exemption and refund granted to commercial vessels	n/a
Exemption for propane gas	n/a
Refund granted to agricultural, forest and mining enterprises	26
Refund granted to public carriers	25
Refund in respect of biodiesel fuel	f
Refund in respect of fuel used to run a motor for non-propulsive purposes in vehicle equipment	19
TOTAL	**262**

Note: Projection for 2013.
n/a: Data unavailable.
f : A measure whose fiscal cost is under $2 million.
Source: Ministère des Finances du Québec, *Dépenses fiscales – Édition 2013*, March 2014.

2. USER FEES

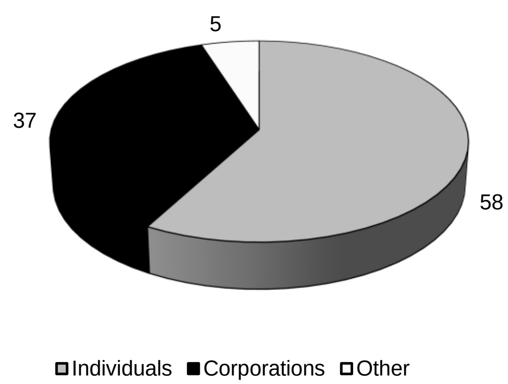
User fees differ from taxes through the direct link that they establish between the revenues collected and the service offered. The policy for the funding of public services regulates the fees and is based on the principle that the beneficiary pays, i.e. that the beneficiaries of a service, who may be the users or society, must assume a portion of funding commensurate with the benefit that they derive.

The government collects user fee revenues both from individuals, corporations and other users, in particular the municipalities and other governments.

Government user fees stood at $15.2 billion in 2011-2012. User fee revenues levied on individuals are estimated at $8.9 billion, which represented 58% of all user fee revenues of government departments and bodies, networks and insurance. This proportion stood at 37% for corporations and 5% for other users.

CHART 20

Breakdown of government user fees by type of clientele – 2011-2012
(as a percentage)



Note: Preliminary data.

In 2011-2012, the user fee revenues collected from individuals came mainly from:

- contributions to government insurance schemes, i.e. the drug insurance plan ($1 618 million), automobile insurance ($1 063 million) and parental insurance ($714 million);
- contributions from adults accommodated in the health network ($837 million);
- fees on driver’s licences and motor vehicle registration fees ($675 million);
- university tuition fees ($495 million).

User fee revenues contribute to funding public services offered to the public. For example, motor vehicle registration fees and fees on driver's licences are paid by and large into the Land Transportation Network Fund (FORT) to fund the maintenance and development of the road network and mass transit.

Moreover, compensatory measures have been adopted in Québec to alleviate the impact of user fees on low-income households.

By way of an example, in the education sector, the calculation of student aid in the form of loans and scholarships takes into account the contributions and expenses normally related to study, including tuition fees and the income of students and their parents, as the case may be. In addition, tax assistance enables all students to benefit from a non-refundable tax credit for tuition or examination fees, which totalled $90 million in 2013.

Electricity rates

To government user fees are added the electricity rates that Hydro-Québec collects.

The Régie de l'énergie, in the wake of public hearings, sets the rates applicable by Hydro-Québec to consumers. The rates are based on four components:

- the cost of supplying electricity;
- transmission costs;
- distribution costs;
- a fair return on Hydro-Québec's assets.

Revenues from electricity sales in Québec stood at $10.7 billion in 2011, up $271 million or 2.6% in relation to 2010.

- Sales of residential and agricultural electricity totalled $4.5 billion, equivalent to 42.4% of total electricity sales in Québec.

Total electricity sales in Québec
(millions of dollars)

	2010	2011
Residential and agricultural	4 302	4 536
Commercial and institutional	2 648	2 599
Industrial and other	3 467	3 553
TOTAL	**10 417**	**10 688**

Source: *Rapport annuel de gestion 2011*, Hydro-Québec.

3. LOCAL TAXATION

Property taxes[16] are a field of taxation that the municipalities and the school boards share.

Unlike income tax or the sales tax, property tax is levied on an asset (building or lot) rather than a monetary flow. To this end, property tax does not make specific provisions for individuals since it applies to an immovable, independently of whether an individual or a corporation owns it.

Municipal taxation accounts for the biggest share of local taxation. Unlike the school taxation system, local taxation is not part of the Québec government's consolidated revenue but it does play a significant role in funding public services since it covers a large part of the funding of services that the municipalities offer. It is important to examine it here to provide as a comprehensive profile as possible of the tax rules applied to individuals.

This section examines:

— the school tax;

— municipal taxes.

[16] Property tax encompasses all of the taxes that a municipality and a school board levy in respect of an immovable.

3.1 **The school tax**

In Québec, preschool education and elementary and secondary education are provided by the public and private education networks.

❑ The taxing power of the school boards

The public network comprises 69 school boards, i.e. 60 French-language school boards and nine English-language school boards.

The school boards are legal persons established in the public interest and are decentralized local institutions headed by school trustees elected by universal suffrage. They exercise their activities in the language and the territory of their jurisdiction.

The school boards exercise taxing power that is regulated by the *Education Act.* The Act empowers them to collect and levy within their territory a tax on the value of taxable immovables, i.e. the school tax.

In addition to the 69 school boards, three school boards have special status, i.e. the Kativik School Board, the Cree School Board and the Commission scolaire du Littoral (Basse-Côte-Nord and L'Île-d'Anticosti), and do not collect school tax in their territory.

❑ Funding of the public education network

Three sources of revenue fund the public network:

- government allowances (recurrent or non-recurrent basic and supplementary allowances) determined by the annual budgetary rules stipulated by the Ministère de l'Éducation, du Loisir et du Sport, which represent nearly 76% of the school boards' revenues;
- the school tax, which represents nearly 15% of the school boards' revenues;
- fees for goods and services such as food services, space rental, lunchtime supervision, and other revenues such as grants in lieu of taxes paid by the federal government on its immovables, which represent just under 10% of the school boards' revenues.

❑ The school tax base

School taxes are taxes levied on the value of immovables registered on the real estate assessment roll throughout the territory of the school board.

Pursuant to the *Act respecting municipal taxation,* certain immovables such as those of religious institutions or non-profit organization are exempt from the school tax.

Certain taxable immovables also benefit from specific tax treatment, including gold courses open to the public, oil refineries, caravans, and registered agricultural operations.

Pursuant to the *Education Act*, in the case of taxable residential property, individuals who do not have children in school may choose for the purposes of the school tax either the French-language school board or the English-language school board that has jurisdiction over their territory. However, for individuals with a child in school, the choice is limited to the school board where their child is registered.

In the case of non-residential property, the property-tax base is divided proportionally according to the number of French-speaking and English-speaking students in the territory that the school boards concerned share.

Funding for private schools in Québec

Québec funds a private preschool, elementary and secondary education network.

The basic allowance of each approved private establishment for the purposes of the grant is established according to an amount per student and the number of students in the establishment.

- The amount per student varies according to the educational services offered and represents 60% of the cost of a comparable student in the public sector.
  - The cost per student changes annually in light of the level of grants accorded to public educational services to comparable students.
- An amount is also earmarked as a rental value, which is similar to the maintenance of the assets of the budgetary rules governing investments for the school boards.
- The budgetary rules also make provision for certain additional allowances.

An overview of funding for private education elsewhere in Canada

The private network in the other Canadian provinces is funded according to different formulas.

Manitoba, Saskatchewan, Alberta and British Columbia subsidize private education.

- In Manitoba, funding for private establishments is established in light of the operating expenditures of the school district.
- In Alberta, private establishments may receive 60% of the basic grant accorded to public establishments, or 70% with the obligation to be accountable.
- Lastly, British Columbia also offers two levels of grants, i.e. 50% and 35%, but most establishments are in the first category.

❑ The allocation of school tax revenues

The school boards have two types of expenditures, operating expenditures and investment expenditures.

- Operating expenditures mainly concern expenditures incurred within the framework of their ongoing operations such as salaries, supplies and maintenance.
- Investment expenditures are related to the acquisition of real estate and other assets and the realization of projects to improve and alter existing assets.

School tax revenues and the equalization grant must be earmarked for the payment of operating expenditures devoted to the organization of services.

❑ Setting the rate of the school tax

It is incumbent upon the board of trustees of each school board to set the rate of the tax applicable in its territory.

The rate is determined according to the property value of immovables in the territory of each school board.

— The rate applicable is the same for all properties in a municipality within the territory of the school board. However, the rate may differ from one municipality to the next or in the case of a French-language or an English-language school board.

— The legislation stipulates that each school board collects the school tax, except the school boards located wholly or partially on Montréal Island, where the Comité de gestion de la taxe scolaire de l'île de Montréal collects the school tax and redistributes to the school boards concerned.

— The tax rate set by the school board may not exceed $0.35 per $100 of standardized property assessment of taxable immovables.

— A school board may not set a tax rate that would engender revenues that exceed the maximum proceeds of the tax set by the government unless it first obtains the approval of the voters in a referendum.

In Québec, the school tax system does not allow the application of differential tax rates for the residential sector and the commercial and industrial sector, unlike the municipal tax system.

Unlike other Canadian provinces, there is no uniform tax applicable throughout Québec's territory.

■ Maximum proceeds from the tax

Each year, the government sets a maximum amount of operating expenditures devoted to the organization of services that can be funded through the school tax.

The amount, called the "maximum proceeds from the tax," is determined by means of the budgetary rules of the Ministère de l'Éducation, du Loisir et du Sport according to three parameters:[17]

— the number of students eligible;

— the amount per student;

— the base amount per school board.

The determination of the maximum proceeds from the tax takes into account the special conditions in each school board, in particular demography.

■ Staggering of changes in assessed values

The *Education Act* stipulates that the school boards must stagger over three years the variation in assessed values when a new real estate assessment roll is submitted.

The staggering of the variation in assessed values seeks to limit the impact stemming from a significant increase in the real estate assessment roles on the school tax account of taxpayers.

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17 The calculation of the maximum proceeds from the tax is stipulated in the *Règlement sur le calcul du produit maximal de la taxe scolaire*, which is updated annually.

■ Payment of an equalization grant

When school tax revenues are insufficient to cover the maximum proceeds from the tax despite the levying of the maximum tax rate of $0.35 per $100 of assessment, the government covers the difference through the payment of an equalization grant in respect of a shortfall in tax resources.

The grant therefore corresponds to the difference between the maximum proceeds from the tax and revenues stemming from the levying of the maximum school tax allowed under the *Education Act.*

What is more, certain school boards are eligible for additional assistance in the form of an equalization payment.

— Such assistance, which was implemented to reduce the impact on the increase in the school tax resulting from volatility on the Québec real estate market in the mid-2000s, guaranteed a grant in an amount equivalent to that granted in 2006, regardless of change over time in the school board’s real estate wealth.

— The permanent nature of the payment of additional assistance deviated the equalization program from its objective of maintaining tax fairness.

— To remedy the situation, the government decided to gradually reduce the amount of the additional assistance granted to the school boards with sufficient real estate wealth to cover their operating expenditures devoted to the organization of services.

❑ The revenues of the school boards

During the period from 2008-2009 to 2012-2013, the revenues of the school boards rose by $912.7 million, to $10 777.3 million, a 9.3% increase.

Québec government allowances increased from $7 486.3 million to $8 240.0 million, a $753.7 million upturn, or 10.1%.

Moreover, expenditures increased during the period from 2008-2009 to 2012-2013 by $1 086.1 million, or 11.1%, from $9 770.7 million to $10 856.8 million.

The more rapid growth in spending in relation to revenues since 2008-2009 explains the reduction in the surpluses between 2008 and 2011 and the deficits in subsequent years.

TABLE 37

Change in revenues and expenditures
(millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Growth rate over five years
Revenue						
Government allocations						
General transfers to the school boards	6 822.7	7 069.7	7 321.2	7 537.2	7 674.8	12.5%
Equalization grant[1]	663.5	639.2	612.0	589.5	565.2	−14.8%
Subtotal – Government allocations	***7 486.3***	***7 708.9***	***7 933.2***	***8 126.7***	***8 240.0***	***10.1%***
School tax	1 448.3	1 479.8	1 494.4	1 547.8	1 594.9	10.1%
Share	*14.7%*	*14.7%*	*14.5%*	*14.6%*	*14.8%*	
Other revenue	930.0	873.1	878.1	904.7	942.3	1.3%
Total – Revenue	***9 864.6***	***10 061.9***	***10 305.7***	***10 579.2***	***10 777.3***	***9.3%***
Expenditure	**9 770.7**	**9 945.9**	**10 300.4**	**10 586.1**	**10 856.8**	**11.1%**
SURPLUS (DEFICIT) FOR THE FISCAL YEAR	**93.9**	**116.0**	**5.3**	**–6.9**	**–79.5**	

(1) The equalization grant comprises the grant for insufficient fiscal resources and the additional assistance.
Source: Ministère de l'Éducation, du Loisir et du Sport.

3.2 **Municipal taxes**

This section devoted to municipal taxes provides a more complete picture of the fiscal rules applicable to individuals.

❑ The taxing power of the municipalities

To fund the services that they offer the public, the municipalities must levy taxes. Local municipalities are the only municipal bodies to possess this power.

Québec has 1 134 local municipalities:

— 1 111 local municipalities established under the general municipal systems, including 883 governed by the *Municipal Code* and 228 governed by the *Cities and Towns Act*;

— 23 local municipalities established under specific municipal systems, mainly in the Nord-du-Québec region, of which14 are governed by the *Act respecting Northern villages and the Kativik Regional Government* and nine are governed by *The Cree Villages and the Naskapi Village Act.*

The municipalities assume full responsibility for services pertaining to mass transit, fire safety, drinking water, water purification and residual materials.

The government and the municipalities share responsibility in respect of housing, police services, recreation and culture, parks and green spaces, land-use planning and urban planning and the road network.

Supramunicipal and paramunicipal bodies (regional county municipalities [RCMs], metropolitan communities, intermunicipal management board and agencies responsible for mass transit) are funded through the shares from local municipalities and own-source revenue other than taxes.

❑ The principles underlying municipal taxation

Municipal taxation hinges on the following principles.

— Financial autonomy: funding for the municipalities centres principally on own-source revenue. The municipalities have the leeway to determine the use of such sources within the guidelines set by the *Act respecting municipal taxation.*

— Representativeness: the power to levy taxes is reserved for authorities elected directly by the population, i.e. the local municipalities.

— Neutrality: municipal taxation must have the least possible impact on economic agents.

— Simplicity and transparency: the municipal taxation system must be as simple to understand and to administer as possible, both for the municipalities and for taxpayers.

— Horizontal equity: taxpayers in a given municipality pay the same amount of tax when their tax base is the same and each taxpayer contributes to the cost of services according to the benefit he derives from them, as far as possible.[18]

The criterion of vertical equity is not relevant to municipal taxation, insofar as the redistribution of wealth is not part of the mandate of the municipalities.

18 Legislation and orders in council concerning municipal amalgamations make provision for the harmonization of property taxes in order to stagger over several years the difference between the levels of taxes in the municipalities grouped together. Different levels of taxes may therefore be observed in the territory of the city grouped together. The debts of the former municipalities also remain the responsibility of the territories that contracted them.

❑ Oversight of municipal taxation

Provision is made for general oversight of municipal taxation in the *Act respecting municipal taxation* and various regulations that focus, in particular, on:

- compensation in lieu of taxes;
- the equalization system;
- the real estate assessment roll;
- tax bills and the payment of taxes;
- user fees;
- the municipal tax to fund 911 emergency centres.

Other statutes also contain fiscal and financial provisions:

- the *Municipal Code*;
- the *Cities and Towns Act*;
- the *Municipal Powers Act*;
- specific charters and statutes pertaining to certain cities.

Moreover, certain statutes are devoted to specific aspects of funding, in particular:

- the *Act respecting duties on transfers of immovables*;
- the *Municipal Aid Prohibition Act.*

It should also be noted that other sectoral legislation, such as the *Police Act*, the *Environment Quality Act* and legislation pertaining to municipal reorganization contain fiscal and financial provisions.

❑ The property-tax base

Property taxes are taxes levied on the value of property registered on the real estate assessment roll:

- throughout the territory of the municipality (general taxes);
- on a portion of the territory of a municipality (sector taxes or local improvement taxes).

Property taxes may also take the form of a user fee levied on a characteristic of the immovable other than its value, e.g. its area, the size of its façade or another of its dimensions.

Since 2001, the municipalities have had the possibility of applying a property tax scheme at different rates according to the following categories of immovables:

- immovables with six or more dwelling units;
- other residential immovables (“residual” category);
- farm property;
- serviced vacant lots;
- industrial immovables;
- other non-residential immovables.

The introduction of variable rates enables the municipalities to mitigate the fiscal transfers that would likely have arisen between different categories of immovables in the wake of the establishment of a new assessment roll.

Variable rates are subject to certain capping rules.

- No ceiling applies to the base rate that is applicable to immovables in the residual category (residential immovables with fewer than six dwelling units).
- The rates applicable to other categories of immovables may not be lower than the base rate, except for farm property.
- The rates other than the base rate are also subject to additional guidelines.

TABLE 38

Breakdown of the consolidated revenue of municipal bodies – 2012

	Millions of $	Proportion
Property and business taxes	**9 377**	**49%**
Compensation in lieu of taxes		
Québec government	575	3%
Government of Canada	170	1%
Other immovables	30	0%
Total – Compensation in lieu of taxes	**776**	**4%**
User fees and the sale of goods and services		
User fees for municipal services	1 415	7%
Users fees on debt service	222	1%
Sales of goods and services	1 407	7%
Mass transit	886	5%
Total – User fees and the sales of goods and services	**3 930**	**20%**
Other revenue from local sources		
Property transfer fees	528	3%
Fees, permits, royalties and fines	545	3%
Contributions from promoters	256	1%
Interest and other revenue from local sources	659	3%
Total – Other revenue from local sources	**1 988**	**10%**
TOTAL OWN-SOURCE REVENUE	**16 071**	**83%**
Transfers		
Transfers of fees	607	3%
Transfers under a fee-sharing agreement	1 965	10%
Transfers for mass transit	619	3%
Total – Transfers	**3 190**	**17%**
Consolidated revenue	**19 261**	**100%**

Source: Ministère des Affaires municipales et de l'Occupation du territoire.

■ Exceptions to municipal property taxation

▪ Immovables and facilities not included on the assessment roll

Some immovables and facilities are not included on the assessment roll on which municipal property taxation hinges:

— certain immovables belonging to public bodies such as public lands, public highways, waterworks and sewers, wharves, water treatment and garbage treatment systems;

— certain facilities related to industrial production and mining and agricultural operations;

— immovables in a gas distribution, telecommunications (other than television, radio and wireless telecommunications) network or an electrical energy generation, transmission or distribution network. Such immovables are covered instead by the tax on public services. The Québec government collects the tax revenues.

▪ Immovables included on the real estate assessment roll but exempt from property taxes

Some immovables are included on the real estate assessment roll but are exempt from tax:

— immovables of the Government of Canada and the Québec government or their mandataries, educational institutions, health and social services establishments, and the immovables of municipal bodies;

— churches and the presbyteries attached to them and cemeteries;

— the immovables of religious institutions;

— the immovables that make up a nature reserve;

— the immovables of non-profit organizations that have obtained recognition from the Commission municipale du Québec.

It should be noted that immovables in these categories (except churches, presbyteries and cemeteries) may be subject to the payment of compensation in lieu of taxes.

- **Taxable immovables subject to specific tax treatment**

Certain immovables are taxable but are subject to specific tax treatment:

— golf courses open to the public;

— presbyteries belonging to a minister;

— oil refineries;

— trapping camps belonging to an Indian;

— private residential and long-term care centres;

— the base of railroad lines and certain marshalling yards;

— caravans;

— registered agricultural operations;

— forest land belonging to a registered producer.

■ Compensation in lieu of taxes

Pursuant to certain provisions, the municipalities receive compensation in lieu of taxes from the Québec and federal governments.

In other instances, the municipalities are empowered to demand the payment of compensation for municipal services.

■ The assessment rolls provide the basis for levying property taxes

Municipal bodies (RCMs or major local municipalities) are responsible for producing the assessment rolls according to the standards and methods established by the Ministère des Affaires municipales et de l'Occupation du territoire.

The assessment rolls are revised every three years:

— the values recorded on the rolls are adjusted to the market (balanced);

— municipalities with fewer than 5 000 inhabitants may renew the same roll for a second consecutive cycle.

It is possible for the municipalities to stagger the change in values, i.e. to spread over three years the increases and decreases in values stemming from the coming into force of a new assessment roll.

A taxpayer may contest the value recorded on the assessment roll by submitting an application for review to the municipal body responsible for the assessment. If the dispute persists, the taxpayer may launch an appeal before the Tribunal administratif du Québec.

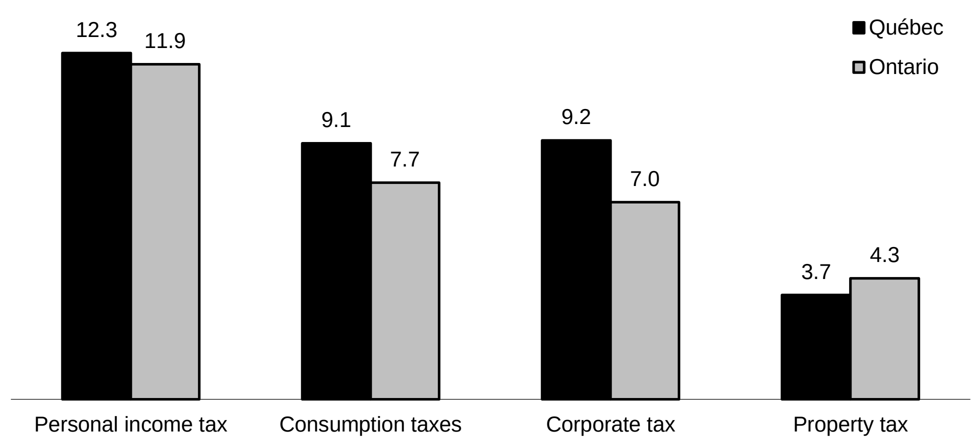
❑ A stable, predictable source of municipal funding that Québec uses less extensively than Ontario

Property tax is a stable, predictable source of municipal funding. Property tax is hardly conducive to tax evasion and is not subject to the fluctuations in income tax and sales tax.

Taxes on property, including the property tax, is the only field of taxation that Québec uses less extensively than Ontario.

CHART 21

Occupation of fields of taxation in Québec and in Ontario – 2010
(as a percentage of GDP)



Sources: OECD and Ministère des Finances du Québec.

❑ Other sources of municipal funding

Property tax revenues represent roughly 49% of the total revenues of municipalities and nearly 59% of their own-source revenue.

The municipalities can rely on other local sources of revenue.

■ User fees and the sale of goods and services

The second biggest source of revenue is user fees and the sale of goods and services, which represent roughly 20% of total revenues and nearly 25% of the own-source revenue of municipal bodies.

■ Duties on transfers of immovables

Since 1992, all municipalities must collect a duty on the transfer of any immovable in its territory, calculated according to the tax base established in accordance with the following rates:

— between $0 and $50 000 the rate is 0.5%;

— between $50 001 and $250 000 the rate is 1%;

— over $250 000 the rate is 1.5%.

The rates and the application threshold of the duty have not been indexed since 1992.

Since 2008, the Ville de Montréal has been granted the right to set a rate higher than that now stipulated in the *Act respecting duties on transfers of immovables* for the property value exceeding $500 000. The Ville de Montréal has set the rate at 2%.

■ Other revenue from local sources

The municipalities benefit from other sources of revenue, including:

— the 911 service tax: $0.40 per telephone line per month;

— non-fiscal user fees: the price demanded from time to time for the use of a service;

— billing for services rendered to other municipal bodies, governments or private companies;

— other revenues: fees (including the duties on transfers of immovables and the duties collected from the operators of quarries and sandpits), fines, permits, asset sales, and so on.

Transfers

Municipal revenues can come from transfers in respect of cost-sharing agreements, i.e. subsidies to be used for the purposes stipulated by assistance programs such as debt service in respect of water purification infrastructure.

The municipalities also receive transfers of duties, i.e. subsidies paid without conditions in respect of the use of the amounts, such as equalization and the reimbursement of the QST paid.

Shares

Shares represent the financial contributions that the municipalities make to the expenses of a municipal body of which they are a member from the standpoint of the responsibilities that the body assumes.

In particular, this includes an RCM, a metropolitan community, a transportation company, or an intermunicipal management board.

In the case of an agglomeration, the shares represent the revenues of the related municipalities in payment of all of the expenditures that the central municipality makes in exercising a field of jurisdiction incumbent upon the agglomeration.

CONCLUSION

The information and data assembled in this document are intended to facilitate participation by all Quebecers interested in the impending discussions on tax reform and, more specifically, the reform of the personal income tax system.

Revenue from the tax regime applied by Québec to individuals represents the biggest portion of the government's consolidated revenue.

This document also examines municipal and school taxation, which provides a large part of the funding of services that the municipalities and the school boards offer. Moreover, it mentions certain impacts of the personal income tax system adopted by the federal government.

❑ The questions

The mandate that the government has assigned to the Québec Taxation Review Committee pinpoints the key questions that the impending reform raises. A number of the questions directly concern the personal income tax system.

— Can we define a new balance between different modes of taxation?

— What analysis can we conduct of the personal income tax system in order to further encourage work and saving and optimize user fees while ensuring the fair redistribution of collective wealth, in particular through the maintenance of adequate support for the poorest members of society?

— Can we subject to taxation certain user fees in order to take into account the ability to pay of the users of public services, bearing in mind the impacts on the marginal taxation rates?

In the mandate that it defined, the government also asked the commission to identify reductions to be made in tax expenditures in order to attain the targets set in the *2014-2015 Budget*, based on an examination of their relevance and efficacy.

All of these questions are now on the table. Quebecers are invited to submit to the commission their analyses, express their opinions and present their recommendations within the framework of the public consultation organized in the fall.

APPENDIX 1: THE QUÉBEC GOVERNMENT'S OWN-SOURCE REVENUE

TABLE 39

The Québec government's own-source revenue by category of fiscal levy – 2014-2015

	Millions of $	As a %
Fiscal levies on individuals		
Personal income tax	27 349	35.2
Contributions to the Health Services Fund	210	0.3
Healthcare contribution	719	0.9
Subtotal	**28 278**	**36.4**
Fiscal levies on corporations		
Corporate income tax	4 738	6.1
Contributions to the Health Services Fund	4 369	5.6
Other fiscal levies[1]	1 009	1.3
Subtotal	**10 116**	**13.0**
Consumption taxes		
QST[2] and tax on insurance premiums	15 472	19.9
Fuel	2 330	3.0
Tobacco products	1 108	1.4
Alcoholic beverages[3]	598	0.8
Subtotal	**19 508**	**25.1**
Other fiscal levies		
School property tax	1 901	2.4
Duties and licences	2 506	3.2
Miscellaneous revenue	9 670	12.4
Government enterprises	5 105	6.6
Other	706	0.9
Subtotal	**19 888**	**25.6**
Total - Own-source revenue	**77 790**	**100**

Note: Since figures are rounded, they may not add up to the total shown.
(1) Includes the tax on public services, the capital tax paid by insurance companies and the temporary contribution of financial institutions.
(2) Excluding the cost of the refundable solidarity tax credit, which stands at roughly $1.7 billion.
(3) Including $100 million in fiscal levies dedicated to the Generations Fund.

APPENDIX 2: MAIN PARAMETERS OF THE PERSONAL INCOME TAX SYSTEM

TABLE 40

Main parameters of the personal income tax system
(in dollars)

	2014
Base amount	**11 305**
Conversion rate of personal amounts in respect of non-refundable tax credits	**20%**
Amounts for single individuals, in respect of age or retirement income	
Amount for a single individual	
– base amount	1 325
– supplement for a single-parent family	1 640
Amount in respect of age	2 435
Amount for retirement income	2 160
Reduction in the amounts for single individuals, in respect of age or retirement income	
– reduction point	32 795
– reduction rate	15%
Other amounts for recognized essential needs	
Amount of the transfer of the recognized parental contribution	
– maximum amount of recognized needs	7 450
– reduction when only one session of study has been completed	2 085
Amount for a minor child engaged in occupational training or postsecondary studies (per session, maximum of two sessions)	2 085
Amount for other dependants	3 035
Amount for a severe, prolonged deficiency in mental or physical functions	2 570
Other non-refundable tax credits	
Tax credit for volunteer firefighters	
– amount recognized	3 000
– conversion rate	16%
Tax credit for volunteers participating in search and rescue activities	
– amount recognized	3 000
– conversion rate	16%
Tax credit for experienced workers	
– amount allowable of working income exceeding $5 000	3 000
– conversion rate	15.04%
Tax credit for new graduates working in remote resource regions.	
– amount of eligible salary	7 500
– conversion rate	40%
– maximum cumulative amount for a postsecondary graduate	10 000
– maximum cumulative amount for a secondary school graduate	8 000

Main parameters of the personal income tax system (continued)
(in dollars)

	2014
Other non-refundable tax credits (continued)	
Labour-sponsored fund tax credit	
– maximum amount of the issue price of shares acquired in labour-sponsored funds	5 000
– conversion rate for shares in the Fonds de solidarité FTQ	15%
– conversion rate for shares in Fondaction	25%
Tax credit for the acquisition of Capital régional et coopératif Desjardins shares	
– maximum amount of the issue price of the shares purchased	5 000
– conversion rate	45%
Certain deductions and exemptions	
Deduction for workers	
– rate	6%
– maximum amount	1 110
Maximum amount of the exemption respecting amounts paid to emergency service volunteers	1 110
Maximum monthly amount for the exemption of certain allowances for board and lodging paid to young athletes	340
Certain non-refundable tax credits	
Medical expense tax credit	
– maximum amount	1 141
– minimum amount of working income	2 925
– reduction point	22 080
– reduction rate	5%
Tax credit for informal caregivers of adult persons	
– basic amount for an eligible relative	628
– supplement reducible according to income	514
– reduction point	22 840
– reduction rate	16%
Tax credit for a natural caregivers caring for his or her spouse	850
Québec education savings incentive	
– first income threshold for the purposes of calculating the increase	41 495
– second income threshold for the purposes of calculating the increase	82 985
Tax credit for taxi drivers and taxi owners	553

Main parameters of the personal income tax system (continued)
(in dollars)

	2014
Reduction of certain non-refundable tax credits	
Reduction of the refundable tax credit to maintain seniors in their homes and expenses incurred to offer respite to natural caregivers	
– rate	3%
– reduction point	55 320
Maximum family income to benefit for the refundable tax credit for youth activities	131 260
Maximum income to benefit from the refundable tax credit for seniors' activities	40 000
Solidarity tax credit	
Amounts for the QST	
– base amount	275
– spousal amount	275
– additional amount for a single individual	132
Amounts for housing	
– amount for a couple	647
– amount for a single individual or a single-parent family	533
– amount for each dependent child	114
Amounts for individuals living in Northern villages	
– amount for an adult	1 620
– amount for each dependent child	350
Reduction of the solidarity tax credit	
– reduction point	32 795
– rate for a component	3%
– rate for two or more components	6%

Main parameters of the personal income tax system (continued)
(in dollars)

	2014
Contribution by individuals of 1% to the Health Services Fund	
First income bracket	
– exemption	14 135
– maximum amount	150
– rate	1%
Second income bracket	
– exemption	49 140
– maximum amount	1 000
– rate	1%
Healthcare contribution	
First income bracket	
– minimum ($0)	18 175
– minimum ($100)	20 175
Second income bracket	
– minimum ($100)	40 390
– maximum ($200)	42 390
Third income bracket	
– minimum ($200)	131 260
– maximum ($1 000)	151 260
Child assistance	
Maximum amounts	
– first child	2 341
– second and third children	1 170
– fourth and subsequent children	1 755
– single-parent family	821
Maximum amounts	
– first child	657
– second and subsequent children	607
– single-parent family	328
Monthly amount of the supplement for children with disabilities	185
Reduction in child assistance	
– reduction point – single-parent family	33 944
– reduction point – couple	46 699
– reduction rate	4%

Main parameters of the personal income tax system (continued)
(in dollars)

	2014
General work premium	
Working income excluded	
– one adult	2 400
– couple	3 600
Maximum amounts	
– single individual	552
– childless couple	862
– single-parent family	2 366
– couple with children	3 079
Supplementation rate	
– single individual	7%
– childless couple	7%
– single-parent family	30%
– couple with children	25%
Reduction in the general work premium	
– reduction point – one adult	10 286
– reduction point – couple	15 914
– reduction rate	10%
Work premium adapted to individuals with severely limited capacity for employment	
Working income excluded	1 200
Maximum amounts	
– single individual	1 071
– childless couple	1 605
– single-parent family	2 976
– couple with children	3 567
Supplementation rate	
– single individual	9%
– childless couple	9%
– single-parent family	25%
– couple with children	20%
Reduction in the adapted work premium	
– reduction point – one adult	13 104
– reduction point – couple	19 034
– reduction rate	10%

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