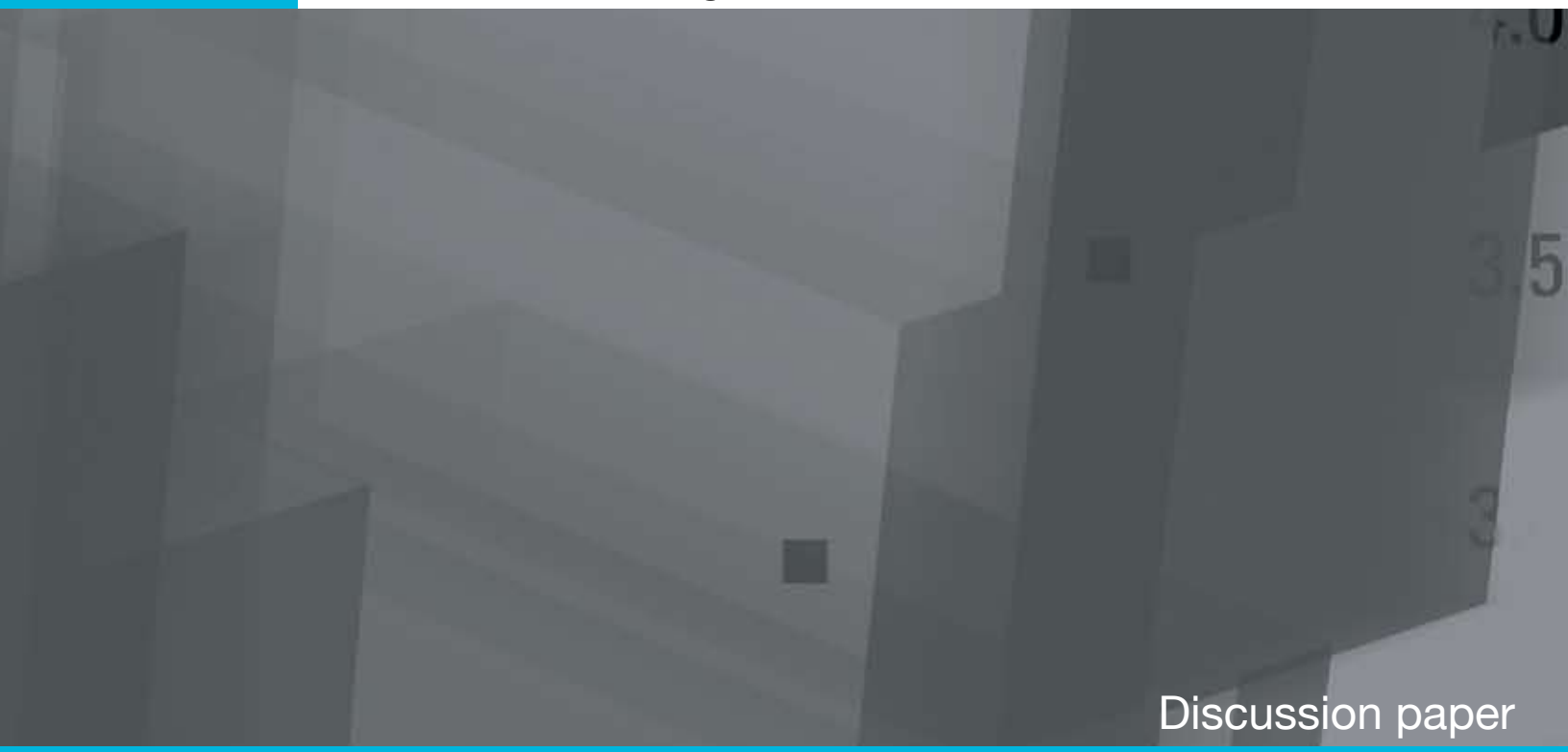
TASK FORCE
ON TAX ASSISTANCE
for the resource regions and the new economy



Discussion paper

Québec

Task Force on Tax Assistance for the Resource Regions and the New Economy

Discussion Paper
July 2007

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MESSAGE FROM THE CHAIRMAN OF THE TASK FORCE

Starting in the late 1990s, the Québec government gradually implemented a set of fiscal measures to support the development of the resource regions and the emergence of the new economy. These measures will expire between 2009 and 2013.

The task force, set up on the initiative of the Minister of Finance, Minister for Government Services, Minister responsible for Government Administration and Chair of the Conseil du trésor, Monique Jérôme-Forget, is mandated to review these measures and their results, and to propose the best approaches to follow for the development of these specific regions and sectors of activity.

A demanding and stimulating mandate

This is both a demanding and a stimulating mandate.

In a relatively short time, the Task Force on Tax Assistance for the Resource Regions and the New Economy must analyze, with all possible rigor, a significant component of the measures Québec has taken to support its economic development.

It must also propose a forward-looking vision regarding the nature and scope of this support.

A transparent and open process

To do so, the task force will proceed in a transparent and open manner.

Every citizen and representative of an organization or a company interested in this debate must have a chance to offer their opinion. The consultation that will begin with the release of the discussion paper has no other objective.

Naturally, this consultation concerns the companies that benefit from the tax assistance for the resource regions and the new economy. But it is also addressed to all Québec citizens, whether they are connected to the territories or sectors concerned or simply taxpayers.

Accordingly, I invite all stakeholders interested in this issue to participate in the consultation on tax assistance for the resource regions and the new economy.

Every contribution will help the task force to fulfil its mandate.

Robert Gagné

Chairman of the Task Force on Tax Assistance
for the Resource Regions and the New Economy

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THE TASK FORCE

The Task Force's Mandate

The mandate stated by the Minister of Finance, Minister for Government Services, Minister responsible for Government Administration and Chair of the Conseil du trésor specifies the tax assistance measures to be examined as well as the content of the work to be done.

❑ *Tax assistance covered by the mandate*

The tax assistance measures covered by the mandate are:

- tax assistance granted to manufacturing businesses in the resource regions, namely:
  - three tax credits that apply in particular to secondary and tertiary processing of natural resources (ending in 2009);
  - a tax holiday for manufacturing SMEs (ending in 2010);
- tax credits intended for new economy companies occupying designated sites (ending between 2010 and 2013).

❑ *Content of the mandate*

As announced in the 2007-2008 Budget Speech of February 20, 2007 (not passed) and confirmed in the 2007-2008 Budget Speech of May 24, 2007, the task force will make recommendations to the government on the best approaches regarding the territories and sectors of activity in question, in view of the end of tax assistance for the resource regions and the new economy.

Accordingly, the task force has been asked to:

- describe these tax assistance measures;
- identify the impact of the measures on:
  - recipient businesses and other businesses in Québec;
  - the development of the territories and activity sectors concerned;
- analyze the major issues and economic challenges to be considered regarding territories and activity sectors concerned;
- examine the support that other jurisdictions offer to specific territories and sectors;
- recommend economic intervention measures for developing these territories and sectors of activity.

The task force is expected to submit its report in December 2007.

Members of the Task Force

Robert Gagné (chairman)

Robert Gagné, a graduate of the Université de Montréal in economics, is a professor at HEC Montréal and the director of the Institut d'économie appliquée. His research and teaching is focused on the fields of the theory of production, industrial organization, the economics of regulation, transportation economics and applied econometrics.

In recent years, Mr. Gagné has co-chaired the Advisory Committee on the Fiscal Imbalance and held the CN Chair in transportation economics and intermodality. In 2002, Mr. Gagné was appointed a regular member of the Centre interuniversitaire sur le risque, les politiques économiques et l'emploi (CIRPÉE) and, in 1999, a member of the Centre interuniversitaire de recherche en analyse des organisations (CIRANO). He has been particularly interested in researching issues relating to business productivity, resource optimization and the transportation sector.

Guy Lacroix (member)

Guy Lacroix is a professor at the Université Laval, where he obtained his doctorate in economics. He specializes in labour economics, applied econometrics and public policy assessment.

In recent years, Mr. Lacroix has been a guest speaker and professor at many universities in Europe and Africa. He has acted as an advisor to the Auditor General of Québec in assessing programs. He was named president of the Société canadienne de sciences économiques for 2007-2008. Recently, Mr. Lacroix has published articles in scientific reviews dealing, among other things, with wage subsidies and the underground economy.

Luc Godbout (member)

Luc Godbout holds a doctorate from the Université Paul-Cézanne-Aix-Marseille III. He is currently an associate professor at the Université de Sherbrooke, where he specializes in taxation and public finance.

In recent years, Mr. Godbout has accepted a number of assignments for the World Bank and the Canadian International Development Agency (CIDA). He contributed to the work of the Commission on Fiscal Imbalance. He is also a member of the Research Chair in Taxation and Public Finance. Mr. Godbout recently conducted studies of the tax burden of corporations, the tax mix, taxation and the work incentive, the comparative tax effort in Canada, and equalization. He has also authored many texts on the fiscal imbalance. Most recently, his interest has been drawn to the impact of the aging of the population on Québec's public finances.

THE CONSULTATION PROCESS

The government set up the Task Force on Tax Assistance for the Resource Regions and the New Economy to study the impact on Québec companies of the end of the fiscal measures intended for businesses in the resource regions and the new economy. The analysis and resulting recommendations will be submitted to the Minister of Finance, Minister for Government Services, Minister responsible for Government Administration and Chair of the Conseil du trésor in December 2007.

This paper brings together a quantity of factual information concerning the mandate defined by the government and the tax assistance measures concerned. A number of questions are raised at the end of the paper to stimulate reflection.

To prepare its work and gather material for reflection, the task force will begin consultations with interested individuals and representatives of organizations or companies. There will be two forms of consultations.

First, individuals, groups and businesses that wish to are invited to send their brief, opinion or comments on the questions raised in the paper, using the task force's website: www.gtaf.gouv.qc.ca or by mail to:

Task Force on Tax Assistance for the
Resource Regions and the New Economy
12, rue Saint-Louis, bureau 1.37
Québec (Québec) G1R 5L3

Contributions must be received no later than September 21, 2007. Complete information on the work undertaken by the task force is also available on the website.

The task force also expects to hold meetings, by invitation, during September in Montréal, Québec City and various other regions of Québec.

1. Tax Assistance Measures Covered

The mandate covers two groups of tax assistance measures, namely:

- tax assistance granted to manufacturing businesses in the resource regions;
- tax credits intended for new economy companies occupying designated sites.

Tax assistance granted to manufacturing businesses in the resource regions

The task force is studying four tax assistance measures:

- The refundable tax credit for processing activities in resource regions that covers:
  - processing of wood, metal, non-metallic minerals and food as well as unconventional energy production;
  - development and recycling of waste and residues resulting from the development or processing of natural resources.
- The refundable tax credit for the Vallée de l'aluminium that covers:
  - the manufacturing of finished or semi-finished products from aluminum which has undergone primary processing;
  - the development and recycling of waste and residues from aluminum processing.
- The refundable tax credit for Gaspésie and certain maritime regions of Québec that applies to:
  - the processing of sea products (fish and seafood);
  - the production of wind-power and manufacturing of wind turbines;
  - sea farming (growing sea products) and marine biotechnology.
- The tax holiday for manufacturing SMEs in remote resource regions that applies to manufacturing or processing in the manufacturing sector.

Tax credits intended for new economy companies occupying designated sites

The task force's mandate covers the following tax credits:

- Tax credits promoting the development of the new economy and regarding activities:
  - relating to biotechnology when they are carried out in a biotechnology development centre (CDB);
  - relating to the carrying out of an innovative project in the field of new information and communications technology in certain designated sites[1] (new economy centre (CNE) and information technology development centre (CDTI));
- The tax credit promoting the development of the new economy and regarding activities:
  - relating to new information and communications technology and carried out in the Centre national des nouvelles technologies de Québec (CNNTQ), in a CNE or in the Cité du multimedia (CM) in Montréal.
- The tax credit for corporations located in E-Commerce Place (ECP) in Montréal whose activities are:
  - either related to the development and supply of products and services relating to e-business;
  - or related to the operation of e-business solutions.

[1] The sites are located in various regions of Québec.

Government Assistance Available to Businesses

The tax assistance measures studied by the Task Force on Tax Assistance for the Resource Regions and the New Economy are one component of the government assistance available to businesses. This assistance can be divided into three categories, depending on whether it consists of tax assistance, budgetary assistance or an interest held by a government corporation.

- Tax assistance for businesses:
  - This can be defined as a reduction or deferral of taxes payable by taxpayers.
  - It can take many forms, namely income not subject to tax, deductions in calculating income, tax credits, tax deferrals or tax exemptions.
- Budgetary assistance for economic development:
  - This assistance is considered as an expense in the government's budget.
  - It consists of a transfer from government departments to businesses.
- Interest held by government corporations:
  - These are interests acquired by the Société générale de financement (SGF) and financial contributions by Investissement Québec (e.g.: the regional economic intervention funds (FIER)).
  - The interest constitutes a capital outlay recovered at the value of the investment (with a profit or loss).

Government assistance to businesses amounted to $2.6 billion in 2006, including:

- $1.8 billion in tax assistance;
- $0.5 billion in budgetary assistance;
- $0.3 billion in interests held by government corporations.

Tax assistance for the resource regions and the new economy amounted to $290 million in 2006, including:

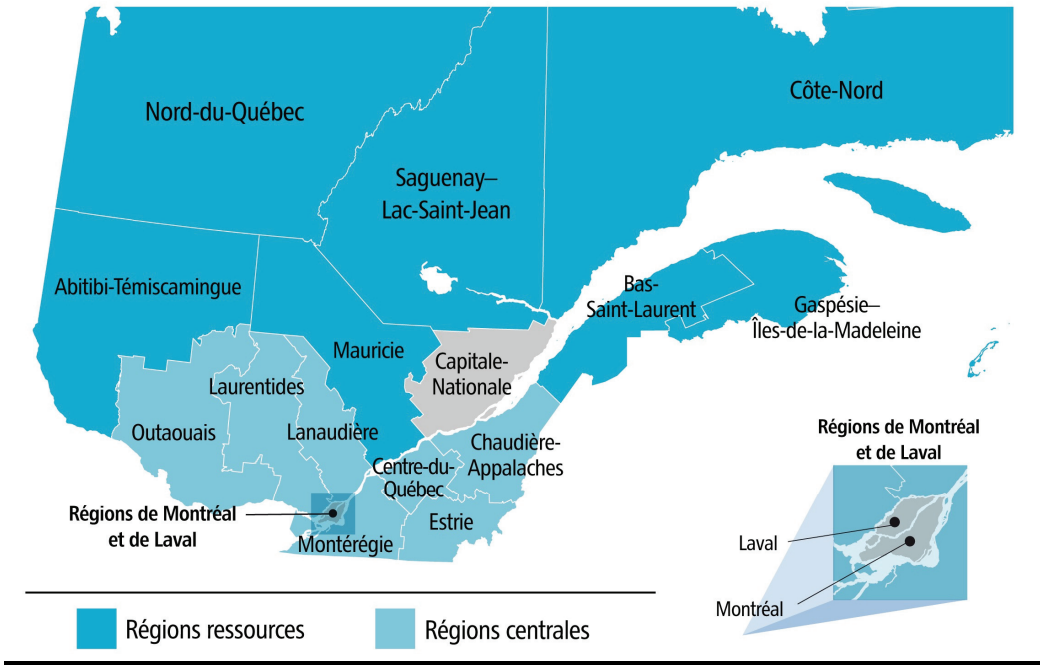
- $104 million for fiscal measures applicable in the resource regions;
- $186 million for fiscal measures relating to the new economy.

2. TAX ASSISTANCE FOR THE RESOURCE REGIONS

There are 17 administrative regions in Québec of which seven are considered resource regions: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.[2]

DIAGRAM 1

Administrative regions of Québec



[2] The following territories are also covered by the tax assistance measures: Antoine-Labelle RCM (Laurentides), Vallée-de-la-Gatineau RCM (Outaouais) and Pontiac RCM (Outaouais).

Background: the socio-economic situation of the resource regions

In 2006, the resource regions accounted for almost 15% of Québec's population but less than 13% of jobs.

The unemployment rate there is higher than elsewhere in Québec and per capita personal disposable income is lower.

TABLE 1

Regional socio-economic snapshot of Québec, 2006

Regions	Population[1]	Jobs	Unemployment rate (%)	Per capita disposable income[2] ($)
Resource regions	1 113 540	479 600	10.1	20 036
As a percentage of total (%)	*14.6*	*12.7*		
Central regions	3 615 707	1 813 100	7.0	22 007
As a percentage of total (%)	*47.2*	*48.2*		
Montréal/Laval/Capitale-Nationale	2 922 284	1 472 700	8.6	23 067
As a percentage of total (%)	*38.2*	*39.1*		
TOTAL/AVERAGE	**7 651 531**	**3 765 400**	**8.0**	**22 124**
As a percentage of total (%)	*100.0*	*100.0*		

1 Preliminary data.
2 Preliminary data for 2005.
Sources: Statistics Canada and Institut de la statistique du Québec.

Since 2000, the situation of the resource regions in relation to Québec as a whole has changed slightly:

- The gap between the unemployment rate in these regions and in Québec as a whole has narrowed.
- However, their demographic weight has declined, as has the share of jobs associated with these regions in relation to Québec as a whole.
- Per capita personal disposable income has remained basically unchanged in relation to Québec as a whole.

TABLE 2

Change in the socio-economic situation of the resource regions, 2000 and 2006

Indicators	2000	Share in Québec (%)	2006	Share in Québec (%)
Population	1 145 133	15.6	1 113 540[1]	14.6
Jobs	463 600	13.6	479 600	12.7
Unemployment rate (%)	11.7		10.1	
Gap with Québec as a whole (%)	*3.2*		*2.1*	
Per capita disposable income ($)	17 126		20 036[2]	
Index (Québec = 100)	*90.5*		*90.6*	

1 Preliminary data.
2 Preliminary data for 2005.
Sources: Statistics Canada and Institut de la statistique du Québec.

Objectives, parameters and cost of the fiscal measures

The tax assistance measures for the resource regions were set up to achieve the following four objectives:

- support job creation;
- foster economic diversification of the resource regions;
- encourage secondary and tertiary processing of resources;
- compensate for the structural disadvantages of producing in the regions.

The tax credits studied are generally calculated on the basis of the wages paid to eligible new employees and the rate is 30% or 40%. The tax holiday consists of an exemption of 75% of the tax expenses payable by a corporation.

TABLE 3

Parameters and cost of fiscal measures for the resource regions, 2006

Tax assistance	Parameters of tax assistance	Estimated cost ($ million)
Tax credit for processing activities	30% of wages relating to eligible jobs created	54
Tax credit for the Vallée de l'aluminium	30% of wages relating to eligible jobs created	5
Tax credit for Gaspésie and certain maritime regions of Québec	40% of wages relating to total or eligible jobs created[1]	6
Tax holiday for manufacturing SMEs	Exemption of 75% of taxes payable[2]	39
TOTAL		**104**

1 This specific feature applies only to the sea farming and marine biotechnology sectors.
2 Income tax, tax on capital and employer contributions to the Health Services Fund (HSF).

The fiscal measures for the resource regions account for about 5.8% of the $1.8 billion in tax assistance granted to companies in Québec in 2006.

Application details of the fiscal measures and how they have changed recently

❑ *Tax credits*

The application details of the three tax credits expected to end December 31, 2009 are as follows:

- To be eligible, a corporation must carry on a business regarding which an eligibility certificate has been issued by Investissement Québec.
- Subsequently, the corporation must also obtain each year from Investissement Québec an eligibility certificate for its activities and an eligibility certificate for its employees.

❑ *Tax holiday*

The government has defined the following application details for the tax holiday scheduled to end December 31, 2010:

- A corporation must qualify as a manufacturing SME located in a remote resource region, i.e.:
  - All or almost all (90% or more) of its payroll must be attributable to employees who work in establishments located in remote resource regions.
  - Its activities taken as a whole must consist mainly (50% or more) of carrying on a manufacturing or processing business.
  - Its paid-up capital must be less than $30 million (the notion of paid-up capital is similar to the value of its assets).[3]
- A corporation must hold an annual eligibility certificate from Investissement Québec regarding a taxation year ending after December 31, 2007.

[3] The tax holiday reduces proportionally where paid-up capital lies between $20 and $30 million.

❑ *Integrity rules in the tax legislation*

The application details also include a number of rules to protect the integrity of these measures:

- no tax assistance is paid to a corporation regarding employees or businesses shifted to the resource regions;
- associated corporations must calculate the increase in payroll on a consolidated basis;
- other specific rules have been defined, in particular in the case of a business merger or winding-up;
- Investissement Québec and Revenu Québec provide administrative follow-up.

❑ *Tightening of fiscal measures*

In recent years, the government has tightened fiscal measures to prevent undesirable competition between regions.

Three steps have been taken since 2006:

- to benefit from the tax holiday for manufacturing SMEs in remote resource regions, an annual eligibility certificate must be obtained from Investissement Québec (June 2007);
- wage indexing has been withdrawn from the calculation of the tax credit for processing activities in resource regions (May 2007);
- installation activities are ineligible for the three tax credits (March 2006).

Observed effects

❑ *Fiscal measures applicable to the resource regions: some observations*

The following tables provide relevant data concerning the fiscal measures applicable to the resource regions:

TABLE 4

Tax credits applicable to the resource regions, 2006
(Number of businesses, jobs and cost)

Tax credits	Eligible businesses	Eligible jobs created	Tax expenditure ($ million)	Average tax assistance per eligible job created ($)	Effective average wage ($)
Processing activities in the resource regions	603	5 318	54	10 154	33 846
Vallée de l'aluminium	70	489	5	10 225	34 101
Gaspésie and certain maritime regions	56	614	6	9 772	24 435
TOTAL/AVERAGE	**729**	**6 421**	**65**	**10 123**	**32 967**

Sources: Investissement Québec and ministère des Finances du Québec.

TABLE 5

Tax holiday for manufacturing SMEs in remote resource regions, 2006
(Number of businesses and cost)

	Recipient businesses	Tax expenditure ($ million)	Average tax assistance per business ($)
Tax holiday for manufacturing SMEs	1 100	39	35 455

Sources: Revenu Québec and ministère des Finances du Québec.

❑ *Support for economic diversification of the resource regions*

— More than 700 businesses engaged in secondary and tertiary processing of natural resources receive tax credits for the resource regions.

— The wood and metals processing sectors alone account for 519 businesses, i.e. 71.1% of all eligible businesses.

TABLE 6

Sectoral distribution of tax credits for the resource regions, 2006

(Number of businesses and jobs created)

Activity sectors	Eligible businesses	Distribution (%)	Eligible jobs created	Distribution (%)
Wood processing (forest)	273	37.4	2 949	45.9
Metal processing (mines)	246	33.7	1 460	22.7
Food	82	11.2	788	12.3
Non-metallic minerals	24	3.3	160	2.5
Energy	11	1.5	175	2.7
Sea products, marine biotechnology, sea farming and wind-power sector	56	7.7	614	9.6
Development and recycling	18	2.5	195	3.0
Other	19	2.6	80	1.2
TOTAL	**729**	**100.0**	**6 421**	**100.0**

Sources: Investissement Québec and ministère des Finances du Québec.

— Businesses in Saguenay–Lac-Saint-Jean and Bas-Saint-Laurent receive almost 60% of the tax assistance granted to the resource regions.

TABLE 7

Regional distribution of the cost of fiscal measures applicable to the resource regions, 2006

Administrative regions	Tax expenditure ($ million)	Distribution (%)
Saguenay–Lac-Saint-Jean	31.4	30.2
Bas-Saint-Laurent	29.8	28.7
Mauricie[1]	20.5	19.7
Gaspésie–Îles-de-la-Madeleine	7.5	7.2
Abitibi-Témiscamingue	6.4	6.2
Côte-Nord	4.7	4.5
Designated RCMs (Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac)	2.9	2.8
Nord-du-Québec	0.8	0.8
TOTAL	**104.0**	**100.0**

1 Only the agglomeration of La Tuque and the RCM of Mékinac are eligible for the tax holiday.
Sources: Revenu Québec and ministère des Finances du Québec.

3. TAX ASSISTANCE FOR THE NEW ECONOMY

Background: support for research and development (R&D) and the emergence of information technologies

❑ *Diagram of the Québec government's intervention strategy*

Tax assistance for the new economy is a package of tax support measures the government has defined on the basis of the risk assumed by investors. Tax assistance is adjusted on the basis of the business risk that investors bear.

DIAGRAM 2

Amount of tax assistance adapted to risk – R&D and innovation

RISK

\+ ⟶ -

Scientific	Technology and production	Manufacturing	Commercial
Scientific R&D (applied and basic)	Scaling and technological adaptation	Manufacturing	Analysis of markets
Experimental development	Prototype development	Optimization of manufacturing methods	Promotion and advertising
Design, operational research		Equipment	
R&D	New economy		

Source: Ministère des Finances du Québec.

Objectives, parameters and cost of the fiscal measures

The tax assistance measures for the new economy were set up to achieve the following objectives:

- sharing of risk associated with the development of the multi-researcher sector;
- creation of a critical mass of businesses within a designated site in order to control costs;
- foster Québec's move to the knowledge-based economy;
- development of specialized industrial fields in many technology centres;
- Québec's visibility (international profile);
- job creation, especially among young people.

The tax credits studied are calculated on the basis of the salaries paid to eligible employees. The rate of the tax credit varies from 30% to 40%. The amount of the tax credits is subject to an annual limit per job.

TABLE 8

Parameters and cost of fiscal measures for the new economy, 2006

Designated sites	Parameters of tax assistance[1]	Estimated cost ($ million)
Cité du multimédia	40% of salaries relating to eligible jobs (max. $15 000)	37
New economy centres	40% of salaries relating to eligible jobs (max. $15 000)	39
E-Commerce Place	35% of salaries relating to eligible jobs (max. $12 500)	74
Information technology development centres	40% of salaries relating to eligible jobs (max. $15 000)	20
Centre national des nouvelles technologies de Québec	40% of salaries relating to eligible jobs (max. $15 000)	14
Biotechnology development centers	30% of salaries relating to eligible jobs (max. $11 250)	2
TOTAL		**186**

1 The tax assistance lasts for a maximum of 10 years and ends no later than December 31, 2013.
Source: Ministère des Finances du Québec.

In 2006, tax expenditures for the new economy amounted to roughly $186 million, representing 10.3% of the $1.8 billion in tax assistance granted to Québec businesses during the year.

Evolution

❑ *Recent measures regarding support for the new economy*

The following measures were announced in the 2003-2004 Budget Speech to tighten tax assistance for the new economy:

- a halt to new certifications for fiscal measures associated with designated sites other than biotechnology development centres. However, the government is honouring its commitments to previously certified corporations;
- reduction in floor space authorized for designated sites.

In the 2004-2005 Budget Speech, the government confirmed that strategic tax assistance measures would be maintained. For instance, those for R&D, designated sites for the biotechnology sector, the regions and culture.

Lastly, the 2005-2006 Budget Speech announced a new measure:

- the refundable tax credit for major employment-generating projects in the information technology sector (contract reached before January 1, 2008 and leading to the creation of a minimum of 150 jobs).

Observed effects

❑ *Tax assistance measures applicable to the new economy: some observations*

The following table provides relevant data concerning the fiscal measures applicable to the new economy.

TABLE 9

Fiscal measures relating to the new economy, 2006
(Number of businesses, jobs and cost)

Designated sites[1]	Businesses	Jobs per designated site[2]			Tax expenditure per designated site		
		Shift	Current	Creation	Per site ($ million)	For each job ($)	For each job created ($)
CNE	206	4 105	6 874	2 769	39	5 674	14 085
CM	66	2 315	4 665	2 350	37	7 931	15 745
CNNTQ	61	928	1 952	1 024	14	7 172	13 672
CDTI	40	367	1 430	1 063	20	13 986	18 815
CDB	12	137	245	108	2	8 163	18 519
ECP	4	4 290	7 037	2 747	74	10 516	26 938
TOTAL	**389**	**12 142**	**22 203**	**10 061**	**186**	**8 377**	**18 487**

1 CNE (new economy centre), CM (Cité du multimédia), CNNTQ (Centre national des nouvelles technologies de Québec), CDTI (information technology development centre), CDB (biotechnology development centre), ECP (E-Commerce Place).
2 Jobs correspond to the total jobs of businesses located in a designated site or building (eligible or not).
Sources: Investissement Québec and ministère des Finances du Québec.

4. SUPPORT MEASURES IN OTHER JURISDICTIONS

Regional and sectoral development policy

Governments just about everywhere in the world are concerned by disparities in development among their various regions and growth in their various activity sectors and apply specific measures to help them.

However, these development policies can differ substantially from one jurisdiction to another:

- depending on whether they are motivated by cyclical weakness in certain industrial sectors or by structural problems;
- depending on the institutional framework in the jurisdiction concerned (for instance, American policies are much more decentralized than those in Europe).

Four major intervention tools are generally used:

- taxation (the tool most commonly used);
- business subsidies;
- holdings by public organizations;
- regulation and fees.

❑ *Canada*

In general, the other Canadian provinces do not use fiscal measures to stimulate the development of disadvantaged regions or specific activity sectors.

However, there are exceptions, for instance:

- Manitoba, which grants a general tax credit of 10% for investment to encourage the acquisition of assets used in the manufacturing and processing sector.
- Prince Edward Island, which grants a temporary income tax exemption for businesses involved in the aviation sector. This assistance is limited to businesses that locate in certain specified industrial parks.
- Newfoundland and Labrador which offers an exemption from fixed tax expenses for businesses that locate or expand in certain regions of the province (e.g.: the northeast Avalon region). This exemption can extend over a period of 15 years.

❑ *United States*

The United States intervenes extensively in industrial development.

— Assistance is highly decentralized: most measures in favour of disadvantaged regions apply at the state level.

— A panoply of fiscal and budgetary measures is offered to attract investment and businesses to designated zones (for instance, such measures prompted carmakers to shift a significant part of their activities to the South).

— The nature of the tax interventions varies little from one state to another, but there are substantial differences in the amount of assistance and eligibility criteria.

Georgia

Georgia offers an employment tax credit (from $750 to $3 500 per year per job created) for a maximum of five years for corporations operating in any of the following sectors:

- manufacturing;
- telecommunications and processing (data, information, software, telemarketing, etc.);
- distribution centres and warehouses;
- R&D;
- tourism.

The value of the tax credit and the minimum number of jobs to be created vary with the zone:[1]

- zone 1 (less developed): $3 500 per job created – minimum of 5 jobs created;
- zone 2: $2 500 per job created – minimum of 10 jobs created;
- zone 3: $1 250 per job created – minimum of 15 jobs created;
- zone 4 (more developed): $750 per job created – minimum of 25 jobs created.

Manufacturing and telecommunications companies can claim either the employment tax credit or an investment tax credit that varies between 1% and 8% of eligible capital expenditures (minimum of $50 000) depending on location and the nature of the investment.

In addition, certain activity sectors (industrial machinery, raw materials and pollution control and electricity production equipment) are exempt from the state sales tax.

[1] For each of these zones, an additional $500 per job created can be added under certain conditions.

North Carolina

North Carolina applies the following two assistance measures, among others:

1) Employment tax credit (varying from $500 to $12 500 per job created spread over four years) for corporations operating in a number of sectors, including:

   - manufacturing;
   - wholesale trade;
   - computer services;
   - customer service centres;
   - R&D.

   The value of the tax credit varies depending on the zone:[1]

   - zone 1 (less developed): $12 500 per job created;
   - zone 2: $4 000 per job created;
   - zone 3: $3 000 per job created;
   - zone 4: $1 000 per job created;
   - zone 5 (more developed): $500 per job created;

2) These corporations can also claim an investment tax credit for the purchase of equipment and machinery. The tax credit is spread over a period of seven years and its value varies depending on the zone:

   - zone 1 (less developed): 7% of the investment;
   - zone 2 : 7% of the investment in excess of $100 000;
   - zone 3 : 6% of the investment in excess of $200 000;
   - zone 4 : 5% of the investment in excess of $1 000 000;
   - zone 5 (more developed): 4% of the investment in excess of $2 000 000.

[1] For each of these zones, an additional $4 000 per job created can be added under certain conditions.

5. QUESTIONS FOR CONSIDERATION

The Task Force on Tax Assistance for the Resource Regions and the New Economy wants to hear from individuals and representatives of organizations and companies interested in the following questions:

- ***What is your view on the very principle of tax assistance measures defined on the basis of territory or activity sector?***

- ***What is your view on the impact of tax assistance:***

  — on the companies that benefit from the tax assistance (manufacturing businesses in the resource regions and new economy businesses)?

  — on the development of territories (resource regions and designated sites) and sectors covered (manufacturing and new economy)?

  — on territories and businesses in Québec that do not benefit from these measures?

- ***What is your view on the cost of the tax assistance measures in question?***

- ***What is your view on the termination of the tax assistance measures in question?***

Individuals, groups and businesses that wish to are invited to send their brief, opinion or comments before September 21, 2007 by email to:

info-gtaf@finances.gouv.qc.ca

or by mail to:

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