ECONOMIC STATEMENT

by the Minister of Finance and Minister
responsible for Infrastructure, Monique Jérôme-Forget

January 2009

EXPLANATORY DOCUMENT

ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT THE ECONOMY AND EMPLOYMENT

Québec

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Introduction

❑ Additional immediate actions to support the economy and employment

In a context of financial crisis and slowing global economic growth, the government is continuing the measures initiated in the last few months by announcing additional immediate actions to support the economy and employment.

These new measures aim to stimulate the residential renovation and construction sector, protect households' purchasing power and increase the cash resources and investments of companies. They also include an improvement to the infrastructure investment plan. The government will allocate an additional $291 million in 2009-2010 to fund these new initiatives.

❑ An injection of $6.9 billion in the economy as of 2009

These new initiatives take effect at the beginning of 2009 and bolster the actions announced last November and December. In addition, since January 1, 2009, businesses benefit from a reduction in the tax on capital, helping support their investments.

All these initiatives aim at a common objective: support the economy and employment in this economic slowdown. They will help inject $6.9 billion in the economy.

This document describes these additional immediate actions to support the economy and employment, namely:

— new measures benefiting individuals and businesses;

— the improvement to the government's infrastructure investment plan.

❑ Beginning of consultations for the 2009-2010 Budget

With the publication of this document, the government is initiating a process of consultation as part of the preparation of the 2009-2010 Budget concerning directions to take to support the economy.

As was mentioned in the last economic and financial update, the government will continue to closely monitor the economic situation and will take further action if the situation warrants.

1. ACTIONS TO SUPPORT THE ECONOMY AND EMPLOYMENT

Just over two months have elapsed since the *Update on Québec's Economic and Financial Situation* was released on November 4, 2008.

- At that time, the government had indicated that the economic situation was uncertain, but that Québec was in good shape, in particular because of:
  - the *Québec Infrastructures Plan* with investments of $37.7 billion over the period from 2007 to 2012;
  - the $950-million personal income tax cut on January 1, 2008 and the gradual elimination of the tax on capital by January 1, 2011[1].
- New measures adapted to the economic situation were announced at that time for individuals and businesses.

Moreover, people are expressing their concerns as to the consequences of the economic crisis on Québec's economy. The government shares their concerns and intends to continue working to support the economy and employment.

❑ The government continues to work to support the economy and employment

In this document, the government confirms the measures announced on November 4, 2008 and announces the immediate implementation of a number of commitments to:

- stimulate the home renovation sector;
- support income and protect the purchasing power of households;
- increase the cash resources and investments of companies;
- protect company pension plans;
- accelerate public infrastructure investments.

In addition to stimulating the economy, these measures target sectors most severely affected by the crisis. They will have significant economic effects that will benefit Quebecers as a whole.

1 A review of the tax reductions introduced in recent years is given in Appendix 1.

1.1 Additional immediate actions

The new measures to support the economy and employment announced in this economic statement are:

- the introduction of a refundable tax credit for renovation and home improvement to support households' spending and employment in this sector;
- an increase in the minimum wage by $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour;
- a contribution of $1 billion to the Société générale de financement du Québec (SGF) to invest in Québec businesses;
- the introduction of new relief measures for supplemental pension plans, thus acting on the recommendations of the task force formed of union and employer representatives;
- an improvement to the tax credit for Québec film and television production to support employment in the cultural sector;
- the acceleration of the Québec government's infrastructure investments.

TABLE 1

Financial impact for the government of the additional immediate actions announced January 14, 2009
(Millions of dollars)

	2009-2010
1) INDIVIDUALS	
Introduction of a refundable tax credit for renovation and home improvement	– 250
Increase in the minimum wage by $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour	—
2) BUSINESSES	
Contribution of $1 billion to SGF to invest in Québec companies[1]	– 31
Introduction of new relief measures for supplemental pension plans	—
Improvement to the tax credit for Québec film and television production	– 10
3) INFRASTRUCTURE	
Acceleration of the Québec government's infrastructure investments[2]	—
TOTAL	**– 291**

1 Impact on the government's debt service.
2 The cost will be funded from the program spending objective.

1.2 An injection of $6.9 billion in the economy as of 2009

The impact of the additional measures announced January 14, 2009 is in addition to that of the measures announced November 4, 2008 and December 19, 2008, as well as the impact of the reduction in the tax on capital on January 1, 2009.

❑ The cost of the actions to support the economy and employment

For the government, the cost of these actions to support the economy and employment amounts to $1.1 billion over two years, i.e. $184 million in 2008-2009 and $883 million in 2009-2010.

TABLE 2

Financial impact for the government of the actions to support the economy and employment
(Millions of dollars)

	2008-2009	2009-2010	Total over two years
Reduction of the tax on capital on January 1, 2009[1]	– 69	– 299	– 368
Update on Québec's Economic and Financial Situation, released November 4, 2008[2]	– 75	– 293	– 368
Measure announced December 19, 2008[3]	– 40	—	– 40
Measures announced January 14, 2009	—	– 291	– 291
TOTAL	**– 184**	**– 883**	**– 1 067**

1 According to the stipulated timetable for the elimination of the tax on capital by January 1, 2011.
2 Excluding the cost of Québec proposals that require harmonization with the federal tax system, but not agreed by the federal government.
3 Corresponds to the impact of the 25% reduction of minimum withdrawals from Registered Retirement Income Funds (RRIF) in 2008.

❑ The impact of the actions to support the economy and employment

Taken as a whole, these measures will have a significant positive effect on Québec's economy. As of 2009, these initiatives will help inject $6.9 billion in the economy.

This massive injection of money results mainly from:

— the introduction of a refundable tax credit for renovation and home improvement that will grant $250 million to roughly 170 000 households;

— the implementation of the *Renfort* program that will increase business financing by $1 billion;

— the contribution of $1 billion to SGF that will increase and diversify the supply of funds available to businesses;

— the reduction in the rate of the tax on capital that will reduce the tax burden on companies by almost $300 million;

— the acceleration of the government's infrastructure investments by $4.1 billion.

TABLE 3

Impact of the actions to support the economy and employment

(Millions of dollars)

	Cost for the government		Additional money in the economy as of 2009	Population affected
	2008-2009	2009-2010		
1) INDIVIDUALS				
Support home renovation				
Introduction of a refundable tax credit for renovation and home improvement	—	– 250	**250**	170 000 households
Support household income				
Increase in the amount of the tax credit for retirement income from $1 500 to $2 000 in 2009	—	– 24	**24**	350 000 households
Reduction of 25% of minimum RRIF withdrawals in 2008	– 40	—	**40**	100 000 taxpayers
Protect household purchasing power				
Increase in the minimum wage by $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour	—	—		300 000 workers
Increase from 1.58% to 2.36% in the indexing rate of the personal income tax system for 2009	– 23	– 136	**136**	4.3 million households
Full indexing at 2.36% of benefits of last-resort for 2009, including the benefit of households fit for work[1]	– 8	– 35	**35**	332 000 households
Increase in Child Assistance and the Work Premium	– 3	– 16	**16**	820 000 households
2) BUSINESSES				
Increase cash resources and investments				
Additional financing of $1 billion for businesses, mainly SMEs (*Renfort* program)	– 41	– 82	**1 000**	
Contribution of $1 billion to SGF to invest in Québec businesses[2]	—	– 31	**1 000**	
Introduction of new relief measures for supplemental pension plans	—	—		
Reduce the tax burden				
Improvement to the tax credit for Québec film and television production	—	– 10	**10**	
Reduction of the tax on capital on January 1, 2009[3]	– 69	– 299	**299**	
3) ACCELERATION OF THE GOVERNMENT'S INFRASTRUCTURE INVESTMENTS[4]	—	—	**4 084**	
TOTAL OF THE ACTIONS	**– 184**	**– 883**	**6 894**	

1 Corresponds to the impact of the adjustment to the indexing rate since the March 2008 budget and extension of full indexing to households fit for work.
2 Impact on the government's debt service.
3 According to the stipulated timetable, the tax on capital will be completely eliminated by January 1, 2011. Another step was taken when the rate of the tax declined from 0.36% to 0.24% on January 1, 2009. Moreover, the cost for the government is already included in the financial framework.
4 The cost will be funded from the program spending objective.

1.3 Funding of the additional immediate actions

The additional cost of $291 million in 2009-2010 of the measures announced January 14, 2009 will be funded by:

- drawing $200 million from the contingency reserve the government included in its financial framework as a measure of prudence, in view of the deterioration in economic conditions;
- an expected $91-million increase in Hydro-Québec's earnings.

Moreover, regarding the *Québec Infrastructures Plan* 2008-2013, planned investments will amount to $41.8 billion, i.e. $4.1 billion more than estimated in the earlier plan.

- This increase will boost spending by $24 million in 2008-2009 and $71 million in 2009-2010, to be funded from the program spending objective.

The cost of the measures announced last November and December as well as the impact of the reduction in the tax on capital are already included in the government's financial framework.

TABLE 4

Funding of the measures announced January 14, 2009
(Millions of dollars)

Cost of the new measures	
Measures intended for individuals and businesses	– 291
Increase in the *Québec Infrastructures Plan* from $37.7 billion to $41.8 billion[1]	—
Funding of the new measures	
Drawdown from the contingency reserve	200
Additional earnings of Hydro-Québec	91
NET FINANCIAL IMPACT OF THE NEW MEASURES	**0**

1 The budgetary impact of this increase will be funded from the program spending objective.

2. DESCRIPTION OF THE ADDITIONAL ACTIONS ANNOUNCED JANUARY 14, 2009

This section provides additional information on the measures announced January 14, 2009. The description of the measures announced November 4, 2008, is given in the *Update on Québec's Economic and Financial Situation*.

2.1 Introduction of a refundable tax credit for renovation and home improvement

It is well known that household spending on renovation and home improvement has a significant multiplier effect on the economy. In addition, when the economy is slowing, growth in such spending is particularly affected, especially for large-scale projects.

Accordingly, to support the home renovation industry, the government is announcing the introduction of a temporary refundable tax credit for individuals who have a qualified contractor carry out major home improvement and renovation work on their principal residence.

❑ Features of the tax credit

The tax credit will be equal to 20% of eligible expenditures in excess of $7 500, subject to a maximum tax credit of $2 500, and will apply for taxation year 2009.

Eligible dwellings will include in particular single-family homes, duplexes, triplexes, permanently-located mobile homes and condominiums.

Eligible expenditures are those incurred for recognized home improvement and renovation work.

— The following table shows a list of the major home improvement and renovation work recognized or not recognized for the purposes of the tax credit.

TABLE 5

Major home improvement and renovation work recognized or not recognized for the purposes of the tax credit

Examples of recognized work	Examples of work not recognized
– Renovation of a kitchen, bathroom, washroom – Finishing a basement, attic, garage – Expansion of a house built before 2009 (addition to the house, construction of a canopy, solarium, patio, balcony) – Replacement of the plumbing, electrical system, heating system, air exchange system – Insulation (including for a garage) – Replacement of the roofing, rainwater gutters and chimney – Replacement of doors and windows	– Work aimed exclusively at repairs (repairing a leak, a door, etc.) or maintenance (application of paint to walls solely to spruce up the appearance) – Installation of a swimming pool, sauna, hot tub – Landscaping, other than to restore the lot to its condition prior to the recognized work – Erecting or repairing a fence, low wall – Construction of outdoor play equipment

❑ Support home renovation

The new tax credit will encourage households to maintain or increase their planned home improvement and renovation spending.

- For example, for kitchen renovation work totalling $15 000, the household can claim a tax credit of $1 500, representing 10% of the total cost of the renovations.
- If the cost of the work is $20 000, the tax credit will be $2 500, i.e. 12.5% of the total cost of the work.

TABLE 6

Value of the tax credit depending on eligible expenditures

	Tax credit	
Eligible expenditures ($)	**Amount** ($)	**As a % of eligible expenditures**
7 500	0	0.0
10 000	500	5.0
15 000	1 500	10.0
20 000	2 500	12.5
40 000	2 500	6.3

Overall, the new tax credit for home improvement and renovation will grant $250 million in 2009-2010 to roughly 170 000 Québec households, i.e. an average of $1 470 per household.

For the construction industry, this tax credit will support $3 billion in renovation work, helping to maintain the jobs of 25 000 workers and creating 2 000 new jobs in this sector.

This measure is described in detail in the *Additional Information on the Fiscal Measures* tabled in the National Assembly as part of this economic statement.

2.2 Increase in the minimum wage by $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour

As it committed to do, the government will increase the minimum wage by $0.50 an hour effective May 1, 2009, bringing it to $9.00 an hour

This rise reflects the government's will to maintain the purchasing power of workers and increase the incentive to work in the current economic situation. It is also a way to reduce the consequences of the labour shortage for businesses and combat poverty and social exclusion.

❑ A significant gain for workers

As of next May 1, a person who, for example, works 40 hours per week at the minimum wage will receive roughly an extra $1 000 in annual pay, an increase of almost 6%.

The resulting increase in purchasing power will benefit approximately 300 000 workers, mainly in the service sector, i.e. retail sales, lodging and food services.

❑ Québec remains a leader in Canada

In recent years, the minimum wage has risen substantially in Québec, from $7.30 an hour in early 2003 to $9.00 on May 1, 2009, an increase of $1.70 an hour or 23.3%. By way of comparison, the consumer price index will have risen by 12% over the same period.

Among people working at the minimum wage, those in Québec have the highest purchasing power in Canada. They benefit from one of the highest minimum wages in Canada, an advantageous tax system and a cost of living below the Canadian average.

2.3 Contribution of $1 billion to the Société générale de financement du Québec (SGF) to invest in Québec companies

The international financial crisis is affecting Québec companies in many ways, in particular by limiting the financing available for their day-to-day activities. The current economic situation is also limiting companies' access to the new capital needed to carry out their investment projects, paralyzing certain major projects that could stimulate Québec's economy.

❑ Implementation of the *Renfort* program

On November 4, 2008, the government unveiled the details of the *Renfort* program that will increase business financing by up to $1 billion. Administered by Investissement Québec, this program will offer assistance consisting of a loan or loan guarantee to businesses, chiefly SMEs. The details of this new program have been announced on December 17, 2008 by the Minister of Economic Development, Innovation and Export Trade.

❑ Stimulate business investment

In the current context, the government wants to use every lever at its disposal to support the economy and stimulate investment, in particular to carry out major projects in Québec.

Accordingly, in addition to the *Renfort* program, the government will make a contribution of $1 billion over two years to the Société générale de financement du Québec (SGF), i.e. in 2009 and 2010, to increase its investments in Québec companies.

This $1-billion contribution will enable SGF:

— to intervene more intensely under its regular investment program;

— to intervene more specifically to support companies affected by the financial crisis.

With the *Renfort* program and the contribution of $1 billion to SGF, the government's interventions will allow the injection of $2 billion to increase and diversify the supply of funds available to companies.

■ SGF to intervene more intensely under its regular investment program

Under its current mandate, SGF, whose assets stood at $2.4 billion in 2007, contributes to the development of companies in Québec by investing development capital in accordance with the Québec government's economic orientations.

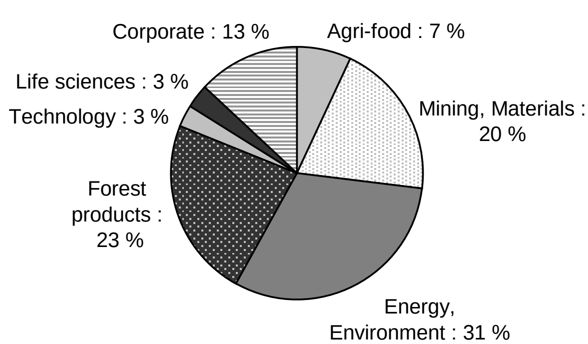
— SGF invests more than $200 million annually in profitable companies with good growth potential. The investment projects are ambitious and require a minimum capital outlay of $5 million, equivalent to a 20% to 49% equity position.

— SGF concentrates its operations in the agri-food, mining, materials, energy, environment, forest products, life sciences and information and communications technology sectors.

These investments are important to fasten Québec's economic development and to support businesses, particularly in the current economic situation. That is why SGF will receive additional funds to intervene more intensely under its regular investment program.

CHART 1

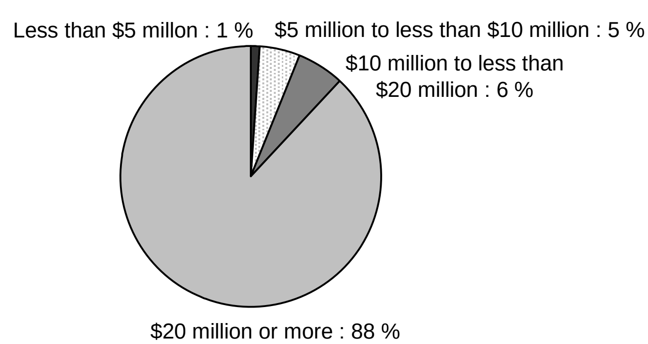
Breakdown of SGF's portfolio by activity sector
(As at December 31, 2007)



Source : Société générale de financement du Québec, *2007 annual report*.

CHART 2

Breakdown of SGF's portfolio by participation size
(As at December 31, 2007)



Source : Société générale de financement du Québec, *2007 annual report*

■ Alternative solutions for dealing with the financial crisis

Faced with the financial crisis and a slowing economy, the government must do more to support companies particularly affected by the current situation and having problems obtaining financing or new capital.

Support to businesses requires varied and flexible financial instruments. Accordingly, SGF will broaden its activities by offering alternative solutions to companies.

— In addition to acquiring participations in the common shares of companies, SGF will also invest in preferred shares and in quasi-equity for financings exceeding $10 million.

— In addition, SGF will occasionally make loans in specific cases where the required by the situation and at least $50 million is needed.

Picking up where the *Renfort* program leaves off, SGF will target medium and large Québec companies whose profit outlook is good.

Companies in every activity sector, excluding primary agriculture, real estate, retail sales and financial services, will be able to find support from SGF for their financial requirements.

2.4 Introduction of new relief measures for supplemental pension plans

On November 4, 2008, the government announced that it intended to offer relief for companies regarding the funding of their pension plan, taking into account the interests of workers and retirees. The following measures were announced at that time:

- creation of a task force mandated to make proposals to the government on how to mitigate the negative effects of the financial crisis on supplemental pension plans;
- application of special standards, that could be retroactive to December 31 of the preceding year, for pension plans facing major financial difficulties;
- implementation, retroactive to December 31, 2008, of the actuarial standards the Canadian Institute of Actuaries plans to put into effect in 2009, provided their effect is to reduce pension plan deficiencies.

❑ The task force on the financial crisis and supplemental pension plans

The government's priority has been to form the task force to do everything possible to quickly find solutions on which the task force can reach a consensus.

- The expert panel is formed of representatives of the Confédération des syndicats nationaux, the Fédération des travailleurs et travailleuses du Québec, the Conseil du patronat du Québec, de la Fédération des chambres de commerce du Québec and the Régie des rentes du Québec.
- The task force has two objectives:
  - for businesses, reduce the burden of contributions that will be required under the Supplemental Pensions Plan Act because of the drop in returns from financial markets in 2008;
  - ensure that the proposed measures do not affect the security of benefits of pension plan participants and retirees.

Last December, the task force reached a consensus on five relief measures for pension plans to be proposed to the government. They would apply for three years as of December 31, 2008.

❑ The five relief measures proposed by the task force

1) *Application, as at December 31, 2008, of the new standards that the Canadian Institute of Actuaries (CIA) is to adopt in 2009.*

   — These new standards should enable the value of pension plan commitments (liabilities) to decline by an average of from 3% to 5%.

2) *Consolidation of solvency deficiencies.*

   — This measure would consolidate all the deficiencies, both new and existing at the time of the actuarial valuation, into a single deficiency, thus reducing the required contribution.

3) *Extension of the solvency deficiency amortization period from five to ten years.*

4) *Smoothing of plan assets over a period of five years.*

   — In the current context, this measure would increase the assets included on the date of the actuarial valuation, thus reducing the plan's deficiency.

5) *Securing the pensions of retirees upon termination of a pension plan because of the bankruptcy of the employer and its inability to cover the deficiency.*

   — To apply this measure that would protect retirees, the Régie des rentes du Québec:

     – would offer retirees the option to taking over the management of their assets and payment of their pensions rather than purchasing their annuities from an insurer;

     – would manage these assets in accordance with a "prudent" investment policy seeking to increase the amount of retirees' pension;

     – would provide retirees with the amount of pension noted when it took charge of their assets;

     – would cease managing the assets of the retirees at an appropriate time.

Application of the first four measures must not result in reducing the amount of contributions required to less than what it would have been without the financial crisis.

❑ Tabling in the National Assembly of a bill amending the Supplemental Pension Plans Act

As announced on December 17, 2008, by the Minister of Employment and Social Solidarity, the government welcomes the task force's recommendations. In the current context, it will do what is necessary to put these relief measures into effect as quickly as possible.

To that end, the Minister of Employment and Social Solidarity will table a bill amending the Supplemental Pension Plans Act in the National Assembly. This bill will enable the implementation of all the relief measures proposed last December 17.

2.5 Improvements to the refundable tax credit for Québec film and television production

To support Québec's economic development and promote its cultural identity, the government grants specific financial support to cultural businesses operating in Québec consisting of a number of refundable tax credits and budgetary programs.

In particular, a tax credit for film and television production supports the production of films and television shows by Québec companies.

— This tax credit provides roughly $100 million a year in financial support to more than 450 film and television productions.

With an annual private production volume in excess of $800 million, this industry generates substantial economic spin-offs for Québec, in particular by supporting 32 000 direct and indirect jobs.

❑ The refundable tax credit for Québec film and television production

In Québec, the tax credit for film and television production, which applies to labour expenditures, has two base rates, depending on the type of production.

Accordingly, a base rate of 39.375% applies to certain productions, including French-language feature films, French-language programs for young people, French-language single documentaries and giant screen films, regardless of language.

For any other eligible production, such as a television series, the base rate is 29.1667%.

Increases in the base rate are allowed for certain productions.

— An increase of 10.2083% is granted for special effects, computer animation and shooting scenes in front of a coloured screen.

— A 9.1875% increase for regional production is aimed at producers located outside the Montréal region that make a giant screen film or a production eligible for the French-language increase. This increase can reach 19.3958% for other productions.

Lastly, regardless of the applicable increases, the rate of the tax credit for a production can never, in total, exceed 48.5625% for the same labour expenditure.

❑ Two important issues for Québec's film and television industry

Québec's film and television industry faces two major issues, namely the difficult economic situation and more intense tax competition among the provinces to attract productions.

1) Keeping jobs despite the difficult economic situation

The industry is particularly affected by the current economic situation that threatens the jobs of thousands of artists and artisans because, in particular, of the drop in the number of Québec and foreign productions.

2) Tax competition in Canada

Over the years, Québec's tax system applicable to the film and television industry has been very competitive compared with those of the other provinces in Canada. Recently, however, some provinces have raised the rate of their tax credit for film and television productions.

For example, in Ontario and British Columbia, the base rate of the tax credit was raised to 35% at the start of 2008, i.e. nearly 6 points higher than the lowest rate in Québec.

In addition, the difference is substantial for some productions shot in Montréal, particularly those that do not benefit from any increase in the tax credit or receive any financial assistance from a public organization.

— In some cases, the rate of Québec's tax credit is 29.1667%, while for productions shot in Ottawa, roughly 200 km from Montréal, the rate of the tax credit is 45%.[2]

— Competition among the provinces is intense because producers can film just about anywhere in Canada. The amount of tax assistance is therefore a major factor in deciding where to shoot. For that reason, the tax assistance must remain competitive for producers not to be encouraged to shoot outside Québec.

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2 This difference is attributable to the fact that in Ontario, all producers that film outside Toronto receive a regional enhancement of 10%, in addition to the 35% base rate.

For Québec, the results are a less stable industry, job losses and threats to the continuation of expertise in Québec that is acknowledged around the world.

❑ Four new measures to bolster the competitiveness of Québec's film and television industry

To stimulate film and television production in Québec, the government is announcing the immediate implementation of the following four measures:

- increase in the base rates from 29.1667% and 39.375% to 35% and 45% respectively;
- introduction of a 10% increase for certain types of productions provided they are not covered by any financial assistance from a public organization;
  - public financial assistance includes, for instance, certain grants from the Société de développement des entreprises culturelles (SODEC), Telefilm Canada and the Canadian Television Fund;
  - this increase applies to a feature film lasting a minimum of 75 minutes and to certain single documentaries;
- elimination of the cap of $2 187 500 on the maximum amount of the tax credit that can be claimed per film or television series;
- increase in the maximum rate of the Québec tax credit from 48.5625% to 65%.

With these four measures, Québec is better positioned to attract productions intended for markets outside Québec, keep more productions in Québec and foster the filming of more ambitious productions.

The following table shows the impact of these changes on the value of the tax assistance claimed by a company making a privately-financed $1-million production. This illustration compares Ontario's tax system as it applies in Ottawa with Québec's tax system as it applies in Montréal.

— The changes to the tax system will enable companies in Québec to be competitive compared to companies in Ontario.

TABLE 7

Illustration of the impact of the increases for a $1-million production receiving no public financial assistance
(Dollars)

	Montréal		Ottawa
	Before	**After**	
PRODUCTION			
Value of the production	1 000 000	1 000 000	1 000 000
Eligible salaries paid[1]	500 000	500 000	500 000
GOVERNMENT ASSISTANCE			
Ontario tax credit[2]			225 000
Québec tax credit			
▪ Base rate (29.1667%)	146 000	—	
▪ Enhanced base rate (35%)	—	175 000	
▪ Increase of 10% for a production receiving no public financial assistance	—	50 000	
Federal tax credit[3]	128 000	116 250	116 250
Total - Government assistance	**274 000**	**341 250**	**341 250**
– **As a percentage of the value of the production**	**27.4**	**34.1**	**34.1**

1 The labour expenditures eligible for the tax assistance account for 50% of the value of the production.
2 The calculation was carried out using a rate of 45% (base rate of 35% and Ontario's regional increase of 10%).
3 The rate of the federal tax credit is 25%.

In addition, the changes to the tax system will benefit all productions, regardless of their source of financing. As the following table illustrates, a $1-million production that receives grants totalling 20% of the value of the production will benefit from greater tax and budgetary assistance.

TABLE 8

Illustration of the impact of the increases for a $1-million production 20% of whose financing is public
(Dollars)

	Montréal		Ottawa
	Before	**After**	
PRODUCTION			
Value of the production	1 000 000	1 000 000	1 000 000
Eligible salaries paid[1]	500 000	500 000	500 000
GOVERNMENT ASSISTANCE			
Public financing	200 000	200 000	200 000
Ontario tax credit[2]			180 000
Québec tax credit			
▪ Base rate (29.1667%)	146 000	—	
▪ Enhanced base rate (35%)	—	175 000	
▪ Increase of 10% for a production receiving no public financial assistance	—	—	
Federal tax credit[3]	98 000	94 000	93 000
Total - Government assistance	**444 000**	**469 000**	**473 000**
– **As a percentage of the value of the production**	**44.4**	**46.9**	**47.3**

1 The labour expenditures eligible for the tax assistance account for 50% of the value of the production.
2 The calculation was carried out using a rate of 45% (base rate of 35% and Ontario's regional increase of 10%).
3 The rate of the federal tax credit is 25%.

The following table shows the new rate scale of the Québec tax credit including the various increases available.

TABLE 9

Main parameters of the refundable tax credit for Québec film and television production after enhancements

(Per cent)

	Rate of the tax credit						Effective rate[3]	
	Base rate	Increase for computer animation and special effects	Increase for regional production	Increase without public financial assistance[1]	Maximum rate	Cap on labour expenditures		
	(% of labour expenditures)					(% of production costs)	Minimum	Maximum
French-language feature, medium and short film, single documentary and shows for young people	45	n.a.	10	10	65	50	22.5	32.5[4]
Giant screen film	45	n.a.	10	10	65	50	22.5	32.5[4]
Other productions	35	10	20	10	65[2]	50	17.5	32.5[5]

1 This increase applies to a Québec film or television production that is a feature film of fiction or a single documentary that has not received any financial assistance from a public organization.
2 Where all or part of the labour expenditures give rise to more than one increase, the total cannot exceed 65%.
3 The effective rate is obtained by multiplying the rate of the tax credit, expressed as a function of labour expenditures, by the rate of the cap, expressed as a function of production costs.
4 To determine the maximum assistance, it is assumed that the labour expenditures giving rise to the base rate also give rise to the supplementary rates for regional production and the increase for no public financial assistance.
5 To determine the maximum assistance, it is assumed that the labour expenditures giving rise to the base rate also give rise to the supplementary rate for regional production and, as the case may be, the supplementary rates for special effects and computer animation or the increase for no public financial assistance.

These changes are described in detail in the *Additional Information on the Fiscal Measures* tabled in the National Assembly as part of this economic statement.

2.6 Increase in the *Québec Infrastructures Plan* to $41.8 billion

In October 2007, the government announced the *Québec Infrastructures Plan* with investments of $37.7 billion over the 2007-2012 period and including $7.6 billion for the completion of projects started prior to 2007. This is the initial phase of a huge undertaking that, over a period of 15 years, will lead to the renewal of all public infrastructures.

In accordance with the provisions of the Act to promote the maintenance and renewal of public infrastructures, passed in December 2007, the government is tabling the update to the investment plan. Accordingly, investment will amount to $41.8 billion for the 2008-2013 period, an increase of more than 10%, i.e. $4.1 billion more than in the earlier plan[3].

The government is also tabling, in Appendix 3 of this document, the annual report on how the capital budget for fiscal year 2007-2008 was used, as stipulated in the Act to promote the maintenance and renewal of public infrastructures.

Adding the federal government's $4.6-billion contribution, further in particular to the signature of the Canada-Québec Framework Agreement on Infrastructure last September 3, and investments of $4.2 billion by the municipalities, more than $50 billion will be injected into the economy to renew public infrastructures.

TABLE 10

Infrastructure investments
(Billions of dollars)

2007-2012 Québec Infrastructures Plan announced October 11, 2007	37.7
– Intensification of public investments to counter the economic slowdown	4.1
2008-2013 QUÉBEC INFRASTRUCTURES PLAN	**41.8**
Contribution of partners in projects planned under the *Québec Infrastructures Plan*	
– Federal government's share further in particular to the *Canada-Québec Framework Agreement on Infrastructure*	4.6
– Municipalities' share	4.2
TOTAL INVESTMENTS 2008-2013	**50.6**

By launching the *Québec Infrastructures Plan* in October 2007, the government acted for Québec's prosperity in the medium and long term.

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3 See Appendix 2: Detailed tables of the *2008-2013 Québec Infrastructures Plan*.

— Transportation infrastructures are essential to the movement of goods and people. They facilitate trade between Québec's regions and with our economic partners.

— Municipal infrastructures, like those for water purification and treatment, are essential to the operations of businesses as well as to people's health and quality of life. For businesses, they are an important factor in deciding where to invest.

— Health infrastructures are essential for the well-being and health of the population and help create a competitive advantage for Québec.

— Education infrastructures contribute to community development. More precisely, they support the training of workers, research and innovation, key factors of productivity.

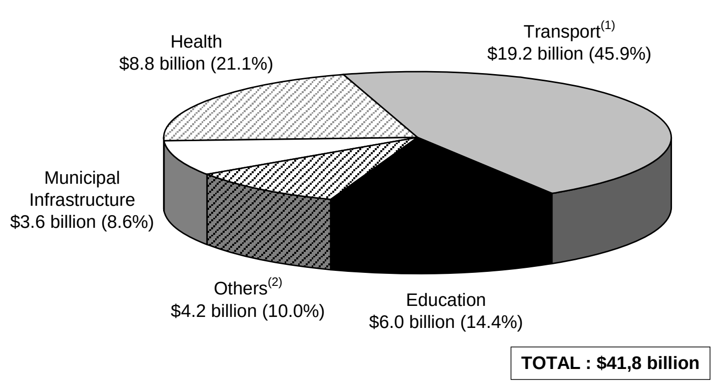
In addition to maintaining, improving and increasing the quantity and quality of public infrastructures, the investments have significant spill-over effects since they encourage private investment, productivity, workers' wages and, generally, the emergence of new technologies.

❑ Major investments in all sectors

Investments of almost $42 billion will help maintain and improve public infrastructures in all sectors. Major projects have already begun or will start shortly (see the list of major projects in Appendix 2).

CHART 3

Québec government investments by intervention sector
(Billions of dollars and per cent)



1 Including the road network ($16.2 billion), public transit ($2.6 billion) and maritime infrastructures ($0.4 billion).
2 Including cultural facilities, public housing, research infrastructures, law courts and public security facilities.

❑ Significant intensification of the government's investments over the next three years

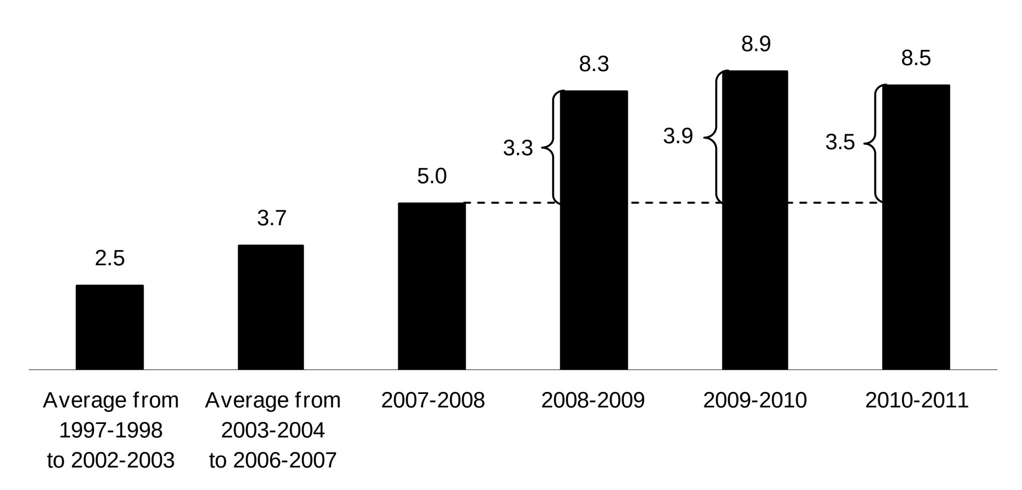
Investment in public infrastructure is a powerful economic engine creating and sustaining thousands of jobs in every region of Québec. Quality infrastructures contribute to Québec's growth and prosperity and help secure a modern, wealth-generating economy for future generations.

In 2008-2009 and 2009-2010, investments will amount to $8.3 billion and $8.9 billion respectively, more than triple the average annual investments made during the period from 1997-1998 to 2002-2003. In 2010-2011, investments will amount to $8.5 billion.

Compared to 2007-2008, the government is injecting $3.3 billion more in investments this year, $3.9 billion more in 2009-2010 and $3.5 billion more in 2010-2011.

CHART 4

Investments by the Québec government[1]
(Billions of dollars)



1 Excluding investments made by departments and budgetary organizations and by special funds other than the Road Network Preservation and Improvement Fund.

❑ Investments by Hydro-Québec in clean energy

The development of hydro power has been a powerful tool of economic development for Québec for more than 50 years. Québec still enjoys substantial renewable energy potential that contribute to improving the quality of life and well-being of its people from a sustainable development perspective. With Hydro-Québec at the controls, Québec can and must benefit from developing other potential sources of renewable energy to secure the energy supplies needed for its development at the best possible cost while protecting the environmental balance.

For 2008 alone, Hydro-Québec has invested $4.5 billion to provide Quebecers with a sufficient, reliable and secure supply of electrical power and maximize its spin-offs. Of this amount, $1.3 billion has been allocated to major projects such as Eastmain-1-A-Sarcelle-Rupert and Gentilly-2. In addition, $200 million has been allocated to the construction of an interconnection line with Ontario to promote sales of electricity outside Québec. Along with these new projects, the corporation is implementing its global energy efficiency plan whose objective is to save 4.7 terawatt-hours by 2010, for an overall investment of $1 billion from 2008 to 2010. In total, the investments planned for these projects will amount to $2.6 billion in 2009 and $2.5 billion in 2010.

Adding the infrastructure maintenance and improvement projects, Hydro-Québec's total investments for 2009 and 2010 exceed $10 billion.

TABLE 11

Investments by Hydro-Québec[1]
(Billions of dollars)

	2008	2009	2010
Major projects			
Eastmain-1-A-Sarcelle-Rupert	1.1	1.3	0.9
Gentilly-2 – repair project	0.2	0.4	0.4
Interconnection with Ontario	0.2	0.3	0.1
Global energy efficiency plan	0.3	0.3	0.3
Other	0.3	0.3	0.8
Subtotal	**2.1**	**2.6**	**2.5**
Regular projects[2]	**2.4**	**2.4**	**2.8**
TOTAL	**4.5**	**5.0**	**5.3**

1 Fiscal year ending December 31.
2 Chiefly infrastructure maintenance and improvement.

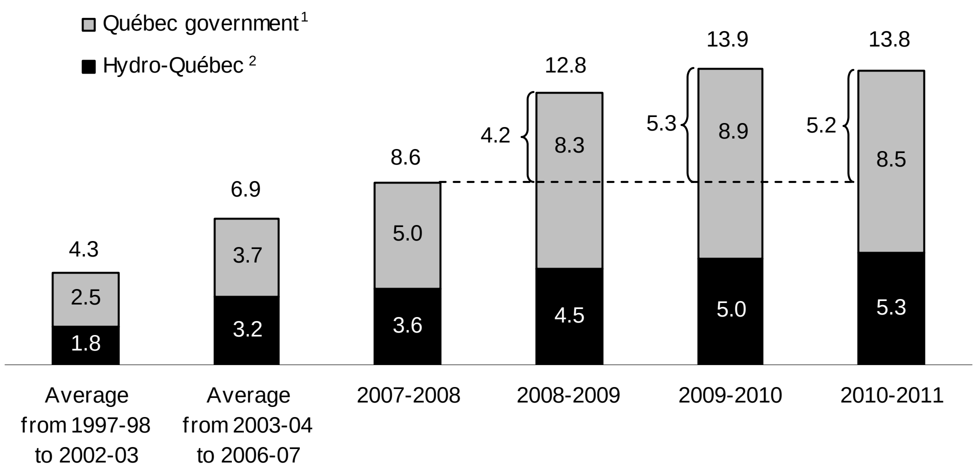
❑ Acceleration of infrastructure investments by the government and Hydro-Québec

The Québec government and Hydro-Québec are stepping up the pace of investments over the period from 2008-2009 to 2010-2011. These investments will average $13.5 billion a year, a level not seen since the early 1980s.

Overall, compared to 2007-2008, investment by the government and Hydro-Québec will rise by $4.2 billion in 2008-2009, $5.3 billion in 2009-2010 and $5.2 billion in 2010-2011, helping support economic growth.

CHART 5

Investments by the government and Hydro-Québec
(Billions of dollars)



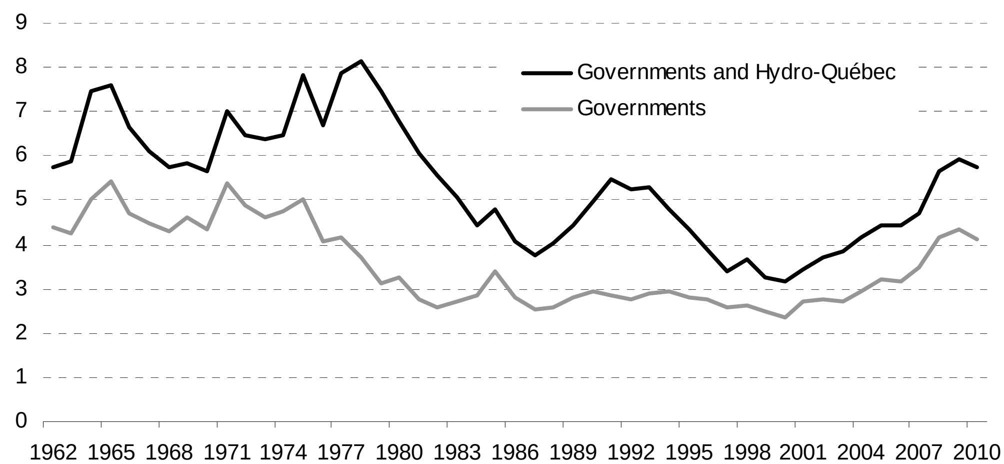
1 Excluding investments made by departments and budgetary organizations and by special funds other than the Road Network Preservation and Improvement Fund.
2 Fiscal year ending December 31.

■ A major contribution to economic prosperity

Total public investments in Québec, including those of the *Québec Infrastructures Plan*, Hydro-Québec, the municipalities and the federal government, will reach 5.9% of GDP in 2009, a level not seen for over 25 years.

CHART 6

Investments by governments and Hydro-Québec in Québec
(As a percentage of GDP)



Sources: Statistics Canada and ministère des Finances du Québec.

In fact, the forecast average investment of $13.5 billion from 2008 to 2013 by the government, under the *Québec Infrastructures Plan* and by Hydro-Québec will support more than 100 000 jobs in Québec, i.e. 2.7% of all jobs.

— That is about 7 800 jobs supported for each $1 billion of public investment in infrastructure.

TABLE 12

Jobs supported by investments by the Québec government and Hydro-Québec

	Annual average value of investments (billions of dollars)	**Annual average number of jobs**[1] (units)
2003-2004 to 2007-2008	7.2	56 300
2008-2009 to 2012-2013	13.5	105 800

1 Ministère des Finances du Québec, estimated from the input-output model of the Institut de la statistique du Québec.

3. OUTLOOK FOR THE 2009-2010 BUDGET

The government is achieving two objectives in releasing this document:

— it introduces new measures to support the economy and employment;

— it begins the process of consultation on the orientations to take to support the economy in the next budget.

As part of the preparation of the 2009-2010 Budget, the ministère des Finances will, in the coming weeks, update the government's financial framework, including, in particular:

— recent changes in the international, Canadian and Québec economic outlook;

— the impact of the federal government's budget, expected in late January 2009.

❑ The economic situation

When the *Update on Québec's Economic and Financial Situation* was released last November 4, real gross domestic product (GDP) was expected to grow by 0.8% in 2008 and 0.6% in 2009.

■ Growth in 2008

Recently published economic indicators confirm the forecast for economic growth in Québec for 2008. Economic activity and employment remained at levels corresponding to what was expected:

— retail sales gained 5.6% over the first ten months;

— housing starts reached 47 800 units in 2008;

— real investments by businesses rose 4.5% for the first three quarters;

— 30 000 jobs were created in 2008. In addition, the unemployment rate remained stable, averaging 7.2%.

On the whole, real GDP rose 1.1% for the first three quarters of 2008 compared to the same period the year before according to the latest data published by the Institut de la statistique du Québec last December 19, exceeding the forecast of 0.8% growth for the year.

Accordingly, as forecast, growth in domestic demand was enough to offset the 2.9% decline in exports so far and enable positive overall economic growth.

■ Outlook for 2009

For 2009, the recent deterioration of the international economic situation has darkened the outlook for Québec's economy, one of the most open economies in the world.

— 50% of our economy relies on export markets. Almost 75% of our international exports are shipped to the United States.

Since last November 4, the average private sector economic growth forecast for 2009 has been adjusted downward both for the United States and for Canada:

— in the United States, it has slid from 0.0% to – 1.3%, an adjustment of – 1.3%[4];

— in Canada, it has fallen from 1.1% to – 0.1%, an adjustment of – 1.2%[4].

This deterioration in the growth outlook for the United States and Canada will have an impact in Québec both on exports and on consumer and business confidence.

— Accordingly, for Québec, the average growth forecast of private sector forecasters in 2009 has declined from 0.7% to – 0.5%, an adjustment of – 1.2%[5].

Moreover, most analysts maintain that Québec is well-prepared to face slowdown in global economic growth.

By injecting $6.9 billion into the economy as of 2009, the new measures announced today by the Québec government will help mitigate the economic slowdown.

The governments of Canada and the United States have also announced that they intend to act vigorously to support economic activity. That will also benefit Québec's economy.

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4 Source : Consensus Economics.

5 Reading by the ministère des Finances du Québec of the private sector forecasts completed between December 1 and December 31, 2008.

❑ Of paramount importance: the next federal budget

The next federal budget, which will be tabled in late January 2009, will be crucial for Québec. The federal government must also help support the economy and maintain its funding to the provinces.

More specifically, what the Québec government is seeking regarding the next federal budget is clear, in particular:

- maintain a fair equalization program;
- accelerate federal infrastructure spending;
- develop federal measures to support training, jobs and economic activity in the short term in industrial sectors dealing with particular difficulties, including the manufacturing industries and the forestry and mining sectors;
- respect provincial jurisdiction over the securities industry.

Economic recovery is everyone's business. The federal and provincial governments must work closely with the shared objective of supporting economic activity to counter, as effectively as possible, the impact of the global economic slowdown on employment and the purchasing power of all citizens.

❑ The budgetary context

The latest economic and fiscal data confirm that the budget will remain balanced for 2008-2009. As indicated in the economic and financial update last November 4, drawing from the budgetary reserve will bridge the revenue shortfall attributable to the economic slowdown.

The adjustment to the economic outlook and the financial framework for 2009-2010 and subsequent years will be completed for the next budget. The update to the financial framework and the economic outlook that will be carried out over the coming weeks will reflect:

- the impact of the downward adjustment to the growth outlook of our major trading partners on Québec's economy;
- the impact of the federal government's budget, expected in late January, which must contain additional measures to support the economy of Canada and Québec;
- the impact of the plan to support the United States economy that will be brought forward by the new Obama administration and will be of benefit to our economy.

■ Prepare for any contingency

With the uncertainty that continues to plague the world economy, every government must remain vigilant and prepare for any contingency.

Accordingly, should the deterioration in the economy have a greater impact than expected on the government's revenues, difficult choices will be necessary to both keep the budget balanced and further support economic activity.

In this situation, one possible option to offset a revenue shortfall could be to temporarily suspend the annual payments to the Generations Fund. These payments come from dedicated revenues, the bulk of which consists of water-power royalties paid by Hydro-Québec and private producers of hydroelectricity.

All options that may be considered, including the possible use of revenue dedicated to the Generations Fund, will have to be discussed in the course of the budgetary consultation.

❑ Beginning of consultations for the 2009-2010 Budget

Supporting the economy and employment is the Québec government's priority. We must act now and remain proactive in the future.

To that effect, the government will consult the opposition parties as well as representatives of social, labour and economic groups to come up with possible solutions to mitigate the impact of the economic slowdown on Québec. The three issue tables already in place, consisting of labour market partners, economic development partners and financial sector partners, will be invited to propose solutions. The public will also be asked to contribute via the internet.

In that spirit, the Québec government is initiating consultations today for the 2009-2010 Budget with this economic statement.

APPENDIX 1: REVIEW OF TAX REDUCTIONS

Support personal consumption

❑ Review of tax relief measures for individuals granted since the beginning of 2008

Since January 1, 2008, personal income taxes have been lowered by $950 million. Adding the new measures announced up to now and including the indexing of the tax system, the Québec government is leaving an extra $1.3 billion in taxpayers' pockets in 2008-2009.

For 2009-2010, households will benefit from $2.0 billion in additional tax relief.

TABLE 13

Tax relief measures for individuals since the beginning of 2008
(Millions of dollars)

	2007-2008	2008-2009	2009-2010
General tax reduction of $950 million effective January 1, 2008	200	950	950
Measures announced November 4, 2008	—	3	40
Measure announced December 19, 2008[1]	—	40	—
Measure announced January 14, 2009[2]	—	—	250
Indexing of the tax system in 2008	34	203	221
Indexing of the tax system in 2009	—	69	410
Other measures taking effect as of 2008	—	76	167
TOTAL	**234**	**1 341**	**2 038**

1 Corresponds to the impact of the 25% reduction of minimum withdrawals from Registered Retirement Income Funds (RRIF) in 2008.
2 Corresponds to the impact of the introduction of a refundable tax credit for home improvement and renovation.

❑ Increase in households' disposable income since 2008

In practical terms, for households, the effects of the tax cuts since the beginning of 2008 and the indexing of the tax system result in a significant improvement in disposable income in 2008 and 2009.

For a couple with two children, considering all the measures implemented by the Québec government and the federal government, the increase in disposable income in 2009 compared to 2007 is:

— $1 204 if income is $25 000;

— $1 069 if income is $50 000;

— $1 689 if income is $75 000;

— $1 770 if income is $100 000.

TABLE 14

Disposable income[1] in 2007, 2008 and 2009 for a couple with two children[2] – including the impact of Québec and federal measures
(Dollars)

	Disposable income			Change from 2007 to 2009		
				Québec: $950-million tax cut + indexing in 2008 and 2009	Total: Québec and federal[3]	
Household work income	2007	2008	2009	($)	($)	(%)
25 000	36 962	37 455	38 166	520	1 204	3.3
30 000	38 501	39 025	39 736	520	1 235	3.2
40 000	40 117	40 917	41 608	929	1 492	3.7
50 000	44 442	45 047	45 511	813	1 069	2.4
60 000	49 756	50 371	50 832	829	1 076	2.2
75 000	57 179	58 413	58 868	1 429	1 689	3.0
100 000	68 966	70 233	70 736	1 422	1 770	2.6
125 000	82 383	83 631	84 076	1 422	1 693	2.1

Note: Figures have been rounded off, so they may not add up to the total indicated.
1 Household disposable income is equal to the sum of the earned income of the head of household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan). Disposable income reflects the Québec and federal systems.
2 Couple with a single work income.
3 Including changes in worker contributions.

❑ Review of tax relief measures for individuals granted since 2003

Since 2003, the Québec government has cut personal income tax and implemented a major reform of assistance for families. Considering all the measures introduced since 2003, the tax relief measures will increase households' disposable income by $5.4 billion in 2009.

TABLE 15

Québec tax relief measures for individuals granted since 2003
(Billions of dollars)

	Full year 2009
General tax reduction of $950 million effective January 1, 2008	1.0
Reform of assistance for families[1]	0.6
Work premium and deduction for workers	0.9
Additional support for the elderly and informal caregivers	0.3
Refundable tax credit for home improvement and renovation	0.3
Indexing of the income tax system[2]	1.9
Other measures	0.4
TOTAL	**5.4**

1 Introduction of Child Assistance in 2005 replacing the tax credits for dependent children, the tax reduction for families and family allowance.
2 Indexing for 2004 to 2009.

For a couple with two children, considering the impact of the Québec and federal measures, the increase in disposable income in 2009 compared to 2003 is:

- $6 454, i.e. an increase of 32.4%, if there is no income;
- $9 667, i.e. an increase of 33.9%, if income is $25 000;
- $5 638, i.e. an increase of 14.1%, if income is $50 000;
- $6 934, i.e. an increase of 13.4%, if income is $75 000;
- $6 019, i.e. an increase of 9.3%, if income is $100 000.

TABLE 16

Disposable income[1] in 2003, 2008 and 2009 for a couple with two children[2] – including the impact of Québec and federal measures
(Dollars)

	Disposable income			Change from 2003 to 2009		
				Impact of Québec measures[3]	Total: Québec and federal[4]	
Household work income	2003	2008	2009	($)	($)	(%)
None	19 895	25 817	26 349	2 883	6 454	32.4
15 000	23 795	33 145	33 677	5 381	9 883	41.5
25 000	28 499	37 455	38 166	4 813	9 667	33.9
30 000	30 594	39 025	39 736	3 984	9 142	29.9
40 000	34 580	40 917	41 608	2 440	7 028	20.3
50 000	39 874	45 047	45 511	1 906	5 638	14.1
60 000	44 845	50 371	50 832	2 198	5 987	13.4
75 000	51 934	58 413	58 868	2 648	6 934	13.4
100 000	64 717	70 233	70 736	1 918	6 019	9.3
125 000	77 780	83 631	84 076	1 918	6 296	8.1

Note: Figures have been rounded off, so they may not add up to the total indicated.
1 Household disposable income is equal to the sum of the earned income of the head of household, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance, Québec parental insurance plan and public prescription drug insurance plan). Disposable income reflects the Québec and federal systems.
2 Couple with a single work income.
3 Including tax relief measures and changes in transfer payments to individuals.
4 Including changes in worker contributions.
Source: *Disposable income calculator,* ministère des Finances website (www.finances.gouv.qc.ca) and ministère des Finances du Québec.

Support business investment

In recent years, the government has reduced the tax burden on businesses to support the economy and investment, thus encouraging Québec companies to boost productivity.

❑ The tax burden to be reduced by $1.9 billion in 2011-2012

Overall, the measures taken by the Québec government will gradually lower taxes on businesses by $1.9 billion per year as of 2011-2012, a reduction of 23% in the tax burden compared to 2007-2008. In the context of the financial crisis currently gripping the world economy, the reduction in taxes makes it easier for businesses to make investment decisions by increasing their cash resources.

TABLE 17

Reduction of the corporate tax burden
(Millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Elimination of the tax on capital					
Elimination of the tax on capital as of December 31, 2010	749	976	1 275	1 649	2 036
Elimination of the tax on capital for manufacturing businesses in 2008	—	220	225	92	—
Subtotal	**749**	**1 196**	**1 500**	**1 741**	**2 036**
Refundable investment tax credit and other tax assistance for the resource regions					
5% investment tax credit	—	30	60	80	100
Investment tax credit at the higher rate of 20%, 30% or 40% in the resource regions and other measures[1]	—	20	56	101	119
Subtotal	**—**	**50**	**116**	**181**	**219**
Refundable tax credit for the development of e-business	—	20	30	40	140
Other corporate tax reduction measures and financing measure[2]	– 274	– 386	– 401	– 432	– 493
TOTAL	**475**	**880**	**1 245**	**1 530**	**1 902**
– As a percentage of the tax burden[3]	6%	12%	17%	20%	23%
– **Additional impact compared to 2007-2008**	**—**	**405**	**770**	**1 055**	**1 427**

1 One-year extension of the tax credits for processing in the resource regions, as well as extension of and change to the tax credit for Gaspésie and certain maritime regions of Québec and the tax credit for the Vallée de l'aluminium.
2 The other corporate tax reduction measures include the implementation of the reduced tax rate for SMEs, various enhancements to depreciation deductions for certain investments and the improvements to the refundable tax credit for film and television production. The financing measure is the rise in the general corporate income tax rate to partially fund the elimination of the capital tax.
3 Corporate income tax, tax on capital and employer contribution to the Health Services Fund.

The most important measures taken are as follows:

- complete elimination of the tax on capital in 2008 for manufacturing businesses, and by January 1, 2011, for businesses in other sectors;
- introduction of an investment tax credit in the 2008-2009 Budget that applies at a rate of 5% throughout Québec, though the rate rises to 20%, 30% or 40% for eligible investments made in the resource regions;
- implementation of a refundable tax credit for the development of e-business, corresponding to 30% of eligible salaries, encouraging jobs relating to high value-added activities in companies specializing in information technology.

❑ Québec's tax system makes our businesses more competitive

The tax system applicable to businesses is competitive regarding investment, in particular because of a low corporate income tax rate, the sales tax rebate mechanism for inputs associated with the Québec sales tax system, the elimination of the tax on capital and the new investment tax credit.

- In 2012, once the Québec and federal measures are fully in effect, Québec's tax system will rank among the most competitive in the world.

■ A low corporate income tax rate

In Québec, considering the Québec and federal tax systems, the combined tax rate on corporate profits will be 26.9% in 2012, lower than the forecast average rate of the G7 countries.

- In 2000, the combined rate in Québec was 38.0%.

■ Québec's tax system encourages investment

Another advantage of Québec's tax system is the preferential treatment offered to companies that invest. The effective marginal tax rate (EMTR) on investment in Québec, which is 21.5% in 2008, is lower than that of most provinces and comparable with the average among OECD countries. In 2012, the EMTR in Québec will be 16.2%, a lower rate than in Alberta.

■ Québec's tax system helps keep our manufacturing businesses competitive

For the manufacturing sector, Québec's tax system remains competitive even considering the taxes applicable to all business location and operating costs, including the cost of labour.

— According to the KPMG Competitive Alternatives model, that compares the tax load among jurisdictions, Québec's tax competitive index is similar to that of Canada and almost 20% lower than that of the United States.

APPENDIX 2: THE *2008-2013 QUÉBEC INFRASTRUCTURES PLAN*

Detailed tables

The following tables provide details on:

- investments by type and by sector;
- investments by sector and by year;
- the impact of the investments on the government's spending.

TABLE 18

Investments under the *2008-2013 Québec Infrastructures Plan* by type of investment and by sector
(Contribution by Québec, millions of dollars)

	Asset maintenance						
Sectors	**Regular budget**	**Absorb maintenance deficit over 15 years**	**Subtotal**	**Improvement and replacement**	**Subtotal**	**Project completion**	***2008-2013 QIP***
Road network	8 378.0	2 070.0	10 448.0	1 336.8	11 784.8	4 366.5	16 151.3
Public transit	973.7	514.0	1 487.7	665.6	2 153.3	485.5	2 638.8
Maritime infrastructures	—	—	—	350.0	350.0	—	350.0
Health	4 325.4	1 051.8	5 377.2	2 127.2	7 504.4	1 277.5	8 781.9
Education	4 345.5	1 167.9	5 513.4	471.7	5 985.1	56.0	6 041.1
Culture	629.6	234.2	863.8	148.0	1 011.8	170.2	1 182.0
Municipal infrastructures	1 785.6	1 603.9	3 389.5(1)	40.0	3 429.5	200.0	3 629.5
Public housing	260.1	223.0	483.1	115.4	598.5	559.2	1 157.7
Research	17.4	—	17.4	100.0	117.4	802.2	919.6
Justice and public security	291.1	—	291.1	665.1	956.2	—	956.2
TOTAL	**21 006.4**	**6 864.8**	**27 871.2**	**6 019.8**	**33 891.0**	**7 917.1**	**41 808.1**

1 Including an envelope of $1.2 billion to bring drinking water purification and sewage treatment facilities of municipalities included under the "Improvement and replacement" heading of the 2007-2012 QIP up to standard.

TABLE 19

Investments under the *2008-2013 Québec Infrastructures Plan* by sector and by year

(Contribution by Québec, millions of dollars)

Sectors	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Total
Road network	2 002.9	2 257.2	2 396.3	2 593.1	2 535.3	11 784.8
Public transit	542.3	567.9	537.0	343.6	162.5	2 153.3
Maritime infrastructures	—	15.4	24.0	148.5	162.1	350.0
Health	1 378.3	1 475.3	1 350.1	1 583.3	1 717.4	7 504.4
Education	1 300.7	1 278.6	1 119.3	1 133.4	1 153.1	5 985.1
Culture	191.5	235.9	259.1	155.8	169.5	1 011.8
Municipal infrastructures	542.1	738.6	647.7	748.8	752.3	3 429.5
Public housing	92.8	94.7	128.9	143.7	138.4	598.5
Research	4.0	3.7	3.6	3.0	103.1	117.4
Justice and public security	165.4	265.6	218.3	225.2	81.7	956.2
Subtotal	**6 220.0**	**6 932.9**	**6 684.3**	**7 078.4**	**6 975.4**	**33 891.0**
Project completion	**2 035.5**	**2 004.4**	**1 782.3**	**1 338.3**	**756.6**	**7 917.1**
2008-2013 QIP	**8 255.5**	**8 937.3**	**8 466.6**	**8 416.7**	**7 732.0**	**41 808.1**

TABLE 20

Impact of the *2008-2013 Québec Infrastructures Plan* on government spending

(Millions of dollars)

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Impact of the *2008-2013 Québec Infrastructures Plan*	288	576	848	1 099	1 377
Impact of the *2007-2012 Québec Infrastructures Plan*	264	505	735	922	1 152
ADDITIONAL IMPACT OF THE *2008-2013 QUÉBEC INFRASTRUCTURES PLAN*	**24**	**71**	**113**	**177**	**225**

Major investment projects

Many major investment projects are already underway or will start in the near future. These investment projects will stimulate economic activity while the economy is slowing.[6]

❑ Road network investments: $16.2 billion

Investments of $16.2 billion are planned for the road network, including $10.4 billion to maintain assets. These investments will reduce the defect rate of road surfaces and continue to repair work on bridges and overpasses, in particular as part of the following projects:

— construction of a road to bypass the Island of Montréal, highway 30 ($1 973 million);

— replacement of the Turcot interchange in Montréal ($1 500 million);

— redevelopment of route 185 between highway 20 and the New Brunswick border ($1 140 million);

— extension of highway 20 between Cacouna and Mont-Joli ($989 million);

— widening to four lanes of route 175 between Québec City and Saguenay ($905 million);

— construction of a direct link in the east end of Montréal with northern suburbs on highway 25 ($578 million).

6 In each sector, the total cost of projects, including the contribution of the federal government and the municipalities, if any, is mentioned in parentheses.

❑ Public transit investments: $2.6 billion

Investments of $2.6 billion will be made in public transit. These investments are consistent with the policy positions of the public transit policy seeking to increase ridership by 8% and the supply of services by 16% by 2012. Major projects are underway:

— the purchase of MR-63 subway cars to replace 336 cars that entered service in 1967 ($1 206 million);

— continuation of the Réno-Système 2 program to maintain the fixed equipment of the Montréal metro system ($644 million);

— the purchase of 130 commuter train passenger cars and 15 locomotives ($576 million);

— implementation of a rapid commuter train line between downtown and eastern Montréal ($300 million);

— replacement of 410 low-floor buses of the Société de transport de Montréal ($200 million);

— the Rapibus project that seeks to implement a dedicated rapid transit lane system in Gatineau ($195 million).

❑ Investments in health and social services institutions: $8.8 billion

Investments of $8.8 billion are allocated to the health and social services network, including $5.4 billion to maintain the assets of institutions (including furniture and equipment) and absorb maintenance deficits. The planned investments will also enable:

— construction, under a public-private partnership, of the Centre de recherche du Centre hospitalier de Montréal (CHUM) and the Glen Campus of the McGill University Health Centre (MUHC) and the renovation of the Centre hospitalier universitaire de Québec (CHUQ);

— renovation of emergency wards, radiation oncology and cardiology units;

— addition of 1 000 CHSLD beds.

- **Investments in educational institutions: $6 billion**

Investments of $6 billion are planned for the education and higher education network, including $5.5 billion to maintain assets, renovate buildings and purchase equipment.

- **Investments in municipal infrastructure: $3.6 billion**

Investments of $3.6 billion are allocated to municipal infrastructures to, in particular, help municipalities to complete the bringing of their drinking water treatment and waste water purification facilities up to standard. These investments include $600 million to carry out work on facilities in Baie-Comeau, Laval, Montréal, Shawinigan and Thetford Mines.

- **Cultural facilities investments: $1.2 billion**

Investments of $1.2 billion will be allocated to culture for major projects in this sector, such as the construction of the Montréal Symphony Orchestra's new concert hall, to be carried out by a public-private partnership, the expansion of the Musée national des beaux-arts du Québec and the Montréal Museum of Fine Arts as well as the completion of the Quartier des spectacles de Montréal.

- **Other investments**

In addition, other investments will continue the financing of research infrastructures, the addition of 24 000 planned social housing units, the repair of law courts and public security facilities as well as the upgrading of maritime infrastructures.

Appendix 3: Report on Public Infrastructure Investments in 2007-2008

The Act to promote the maintenance and renewal of public infrastructures, passed by the National Assembly in December 2007, decrees, among other things, that the Minister responsible for Infrastructure table in the National Assembly:

— the capital budget;

— the annual report on how it was used.

As a complement to the *Québec Infrastructures Plan*, this section describes the investments under the *2007-2012 Québec Infrastructures Plan* made in 2007-2008, in accordance with the provisions of the law.

❑ A completion rate of almost 83%

Investments of $5.0 billion were completed in the sectors covered by the *Québec Infrastructures Plan*, representing 82.8% of the investments of $6.1 billion initially planned.

In the education, roads and public housing sectors, the completion rates exceeded 90%.

However, some of the planned investments were not fully completed, in particular because of the conclusion, in September 2008, of the *Canada-Québec Infrastructure Agreement*, delaying the implementation of municipal infrastructure projects. In addition, some projects in other sectors were more complex than expected and were delayed, in particular in research and public security infrastructures. Lastly, the need to reach prior agreements with partners delayed the completion of projects. The investments not completed will be carried over to subsequent years.

— In the road network, almost 98% of planned investments were completed, for an amount of $1 695 million. In addition to the continuation of the major work on highways 25, 30, 50, 73 and routes 175 and 185, work was focused on the preservation of road surfaces and structures as well as on network improvement (repairs on 1 994 km of roads, work on 574 structures, corrections to 76 sites showing a risk of serious accident).

— In public transit, investments of $322 million were completed, in particular advancing the renovation of the metro systems for $122 million (control system, replacement of escalators, etc.) and $41 million in financial assistance granted to public transit organizations to replace and purchase city buses.

— In the health and social services sector, an envelope of $441 million was applied to maintenance work on buildings (repairing roofs, electrical and mechanical systems, windows, electrical panels, etc.), and carry out functional renovations in network establishments. In addition, investments of $626 million were made to replace or upgrade medical and non-medical equipment, finalize various projects, in particular in CHSLD and emergency wards. The Centre de radio-oncologie de l'Hôpital Maisonneuve-Rosemont ($21.5 million), the emergency wards of Hôtel-Dieu du Centre hospitalier de Sherbrooke ($33 million), the Hôpital Sacré-Cœur in Montréal ($18 million) and the Hôpital de l'Enfant-Jésus in Québec City ($14.1 million) in particular received major investments.

— In the education sector, investments of $1 211 million were made, including $821 million to carry out a variety of maintenance work on immovable, movable and informational assets in the three networks, such as replacing roofs, windows, heating systems and bringing infrastructures up to standard. Funding allocated amounted to $525 million to the primary-secondary system, $135 million to the college system and $161 million to the university system. In addition, an envelope of $98 million has been earmarked for research infrastructure projects.

— Investments of $90 million were made in culture, including $62 million to maintain cultural facilities regarding 64 projects for the restoration of protected buildings and 103 churches, the renewal of the permanent exhibitions of museums as well as the renovation and expansion of regional museums, libraries and auditorial facilities.

— Turning to municipal infrastructures, the completion rate stands at 53% and is attributable to the conclusion of the new Canada-Québec Infrastructure Agreement in September 2008. The municipalities are the principal contractors for work in this sector, whose funding is shared with the Québec government and the federal government. The investments made have enabled, in particular, the continuation of work to bring drinking water and waste water treatment plants up to standard.

— Regarding social housing, more than 90% of the investments have been completed, including $26 million allocated to maintaining low-rent housing assets (maintenance and repair of buildings, heating system, electricity, etc.) and $128 million for the delivery of 60 new dwellings in Nunavik and 3 043 AccèsLogis and Logement abordable Québec dwellings.

— Lastly, for the research as well as the justice and public security sectors, the completion rates of roughly 50% result from certain projects being deferred because they proved to be more complex than anticipated, in particular regarding the Bordeaux detention facility. The main achievements include the co-funding of projects with the Canada Foundation for Innovation ($52.6 million) as well as the renovation of law courts ($16 million) and detention facilities ($5.5 million).

TABLE 21

Investments in 2007-2008 by type and sector

(Millions of dollars)

Sectors	Asset maintenance[1]	Improvement and replacement[2]	Subtotal	Completion[3]	Total QIP	Completion rate
Road network						
Planned budget	1 163.1	31.8	1 194.9	535.1	**1 730.0**	
Total completed	1 162.1	19.0	1 181.1	513.4	**1 694.5**	97.9%
Public transit						
Planned budget	338.4	13.6	352.0	150.8	**502.8**	
Total completed	217.9	43.4	261.3	60.4	**321.7**	64.0%
Health						
Planned budget	630.5	143.6	774.1	648.8	**1 422.9**	
Total completed	441.2	50.5	491.7	575.5	**1 067.2**	75.0%
Education						
Planned budget	820.9	239.8	1 060.7	155.1	**1 215.8**	
Total completed	820.9	228.9	1 049.8	161.1	**1 210.9**	99.6%
Culture						
Planned budget	89.0	—	89.0	25.6	**114.6**	
Total completed	76.8	—	76.8	13.5	**90.3**	78.8%
Municipal infrastructures						
Planned budget	575.3	—	575.3	40.0	**615.3**	
Total completed	294.7	—	294.7	31.2	**325.9**	53.0%
Public housing						
Planned budget	36.8	—	36.8	145.9	**182.7**	
Total completed	36.8	—	36.8	128.0	**164.8**	90.2%
Research						
Planned budget	0.1	—	0.1	182.8	**182.9**	
Total completed	0.1	—	0.1	91.0	**91.1**	49.8%
Justice and public security						
Planned budget	23.9	66.5	90.4	—	**90.4**	
Total completed	24.1	23.8	47.9	—	**47.9**	53.0%
TOTAL						
Planned budget	3 678.0	495.3	4 173.3	1 884.1	**6 057.4**	
Total completed	3 074.6	365.6	3 440.2	1 574.1	**5 014.3**	82.8%

1 Investments in asset maintenance consist in preserving public infrastructures, including buildings and equipment, throughout their useful life, bringing them up to standard and ensuring public health and security. They also include the investments needed to make up their maintenance deficit accumulated over the years.

2 Investments in improvement and replacement of infrastructure seek to maintain and increase the level of services on the basis of the priority needs of the population.

3 Investments in completion seek to continue completion of projects initiated before 2007.

❑ A rigorous management framework for asset maintenance

Concerning investments in asset maintenance specifically, $3.1 billion, i.e. 84% of the planned amounts, was completed.

Investments in asset maintenance were made according to the management frameworks set up in each sector concerned, setting asset maintenance needs on the basis of recognized standards and the characteristics of infrastructure inventory (age, useful lifetime, replacement value), as shown in the following table.

The management frameworks also specify the budget allocation details, as well as the nature of the accountability to which the bodies responsible for management, authorization and allocation of envelopes are subject.

Monitoring systems are also being implemented in government departments and organizations to ensure rigorous management of asset maintenance investments, such as the Actifs + Réseau system at the ministère de la Santé et des Services sociaux and the Système informatisé de maintien d'actifs immobiliers des commissions scolaires (SIMACS) at the ministère de l'Éducation, du Loisir et du Sport.

TABLE 22

Major components of the management frameworks for asset maintenance investments

Sectors	Standards	References	Replacement value ($ billions)	Maintenance deficit ($ billions)
Road network				
Road surfaces	International roughness index	World Bank	60.0	3.0
Structures	percentage of number in good condition	Ministère des Transports audits	23.9	5.1
Public transit				
Métro, trains	2.5% of replacement value (RV)	Useful lifetime of 40 years with straight-line depreciation	15.6	2.4
Buses	Average age of fleet: 8 years (half the useful lifetime of buses)	Standard agreed in the departmental program	2.6	
Maritime infrastructures (STQ)	Intervention at halfway point of useful lifetime	Internal standard optimizing repair costs	1.1	—
Health and social services				
Buildings	2.0% of RV	American Hospital Association	14.9	3.0
Functional renovations	1.0% of RV	American Hospital Association	—	—
Movable assets and equipment	—	—	4.0	—
Education				
Buildings	2.0% of RV	US National Research Council	37.0	3.3
Movable assets and equipment	—	—	4.2	—
Culture				
Government corporations	2.0% of RV	US National Research Council	1.0	0.1
Cultural facilities	2.0% of RV	US National Research Council	12.6	1.0
Heritage property	3.0% of RV	US National Research Council		
Movable assets and equipment	—	—	0.2	—
Municipal infrastructures				
Installations	2.5% of RV	Useful lifetime of 40 years with straight-line depreciation	14.5	2.2
Conduits	1.0% of RV	Useful lifetime of 100 years with straight-line depreciation	60.0	6.8
Social housing units				
Buildings	2.0% of RV	US National Research Council	7.5	1.8
Justice and public security				
Buildings	2.0% of RV	Société immobilière du Québec audits	1.4	—
TOTAL			**260.5**	**28.7**[1]

1 This is the total maintenance deficit that will be made up by the partners as a whole. Québec's share in the funding of this deficit amounts to $20.5 billion.