



Personal Income Tax Reduction

B E N E F I T S F O R A L L T A X P A Y E R S

Québec 

Personal Income Tax Reduction

Benefits for all taxpayers

FOREWORD

By the Deputy Prime Minister and

Minister of State for the Economy and Finance

*Quebecers pay too much personal income tax. With the reduction plan announced in the **2000-2001 Budget Speech**, the government is taking the necessary means to give Québec taxpayers a substantial amount of tax relief.*

During the last election campaign, our government promised to reduce personal income tax by at least \$1.3 billion over a full year within its current term. We are going beyond this commitment by cutting taxes, effective immediately, by \$1 billion during fiscal 2000-2001, with the full impact reaching \$2 billion beginning January 1, 2002.

This is a sizeable reduction in personal income tax. This document explains the ways and means of achieving this reduction and describes the attendant impacts for each taxpayer category. These ways and means flow directly from the hearings held by the parliamentary committee on personal income tax reduction in October and November 1999. The conditions for lowering income tax and the priority areas were discussed in an open manner. At the end of the committee's mandate, I made it clear that we had to find a way to give all Quebecers a tax break while placing special emphasis on the needs of the middle class and families.

*I am happy to say that this will be achieved through the measures announced in the **2000-2001 Budget Speech**. The personal income tax reduction plan being implemented by the government will benefit all taxpayers. Everyone wins; there are no losers. In addition, the tax cuts will especially improve the tax status of middle-income earners and families thanks to changes to the tax rates and further tax reduction for families.*

Acting on another message received during the parliamentary committee hearings, the government has decided to permanently protect taxpayers against automatic tax increases caused by inflation and thereby protect their purchasing power. For the most part, this protection will be provided starting this year, and continuing in 2001 and 2002, through tax cuts that largely exceed the impact of indexation. As of the 2003 taxation year, the tax system will be automatically indexed. In addition, if economic conditions allow, the government will introduce new tax cuts.

The government's personal income tax reduction plan was defined according to clear rules based on simple ways and means, and on priority areas identified in keeping with the message so emphatically communicated to us by the population. This reduction--retroactive to January 1, 2000--will show in taxpayers' paycheques beginning in May of this year. Taxes will be cut by a cumulative amount of \$4.5 billion over the next three fiscal years, enabling us to reduce the gap between income taxes in Québec and other Canadian provinces by nearly a third.

This tax relief is the result of sound economic and financial management that allowed us to clean up our public finances and strengthen our economy while addressing the situation of citizens most in need. But above all, it rewards Quebec society as a whole for the considerable efforts made in this direction over the past few years.

BERNARD LANDRY

SUMMARY

With the 2000-2001 Budget Speech, the government is introducing a major reduction of personal income tax. This document explains the tax cuts and describes their impact.

❑ ***Major reduction in personal income tax***

Three successive tax cuts will take effect in May 2000, January 2001 and January 2002, for an overall income tax reduction of \$1 billion in 2000-2001, \$1.5 billion in 2001-2002 and \$2 billion in 2002-2003.

The personal income tax reduction includes three elements:

- A new tax table that reduces the three tax rates under the current system from 20%, 23% and 26% to 17%, 22% and 24%, respectively.
- An additional tax reduction for families.
- Lasting protection of taxpayers' purchasing power through the combined impact of the income tax reduction and automatic indexation of the tax system as of 2003.

❑ ***Tax cuts that benefit all taxpayers***

The changes to the personal income tax system will mean an average tax cut of 13% per taxable household, or the equivalent of \$845.

This document explains the financial gains for certain typical households, including families, couples without children and persons living alone. The impacts of the new tax table and the additional tax reduction for families are described in detail, along with how the tax cuts will affect the paycheques of some of these households.

For example,

- a person living alone and earning \$30 000 will pay 16% less income tax, the equivalent of \$673;
- a one-earner family with two children and an income of \$45 000 will see its income tax reduced by 27%, a reduction of \$1 133;

- a two-earner family with two children and a combined income of \$50 000 will pay 34% less income tax, a reduction of \$1 733;
- a two-earner family with two children and a combined income of \$100 000 will see its income tax go down by 11%, a reduction of \$1 803.

□ ***Tax cuts that meet public expectations***

The tax cuts introduced by the government fulfil the different expectations voiced during the parliamentary committee hearings on the reduction of personal income tax held in the fall.

- The reduction of personal income tax renders the tax system more equitable by reducing the tax burden for all Québec taxpayers, but especially the middle class and families, while maintaining the progressivity of the tax system. Approximately 130 000 taxpayers will be removed from the Québec tax rolls.
- The new tax system will be more conducive to employment as a result of the reduction of marginal tax rates, the additional tax reduction for families and the increase in the refundable tax credit for child care expenses.
- The new tax system will be more competitive in relation to other jurisdictions by narrowing the gap in the overall tax burden for all taxpayers. The discrepancy in the tax burden between Québec and the other Canadian provinces will thus be reduced by 30%.
- Finally, the tax reduction will protect taxpayers against inflation on a lasting basis. In 2000, 2001 and 2002, the drop in tax rates will more than offset the increase in the tax burden caused by cost-of-living increases. Beginning in 2003, the tax system will be automatically indexed. If economic conditions allow, new tax cuts will be introduced.

□ ***Reaping the benefits of sound public finances***

The personal income tax reduction announced in the 2000-2001 Budget Speech means an immediate tax break for all taxpayers. The primary beneficiaries will be middle-income earners and families, who shoulder a particularly heavy tax burden. This tax relief will enable Quebecers to benefit directly from our successful efforts to restore order to public finances and from a stronger economy.

**GAIN FROM THE REDUCTION IN PERSONAL INCOME TAX BY FAMILY
INCOME BRACKET — 2002**

Income bracket	Number of taxable households	Tax before Budget		Tax reduction		
	(thousands)	(millions of \$)	(\$ per household)	(millions of \$)	(\$ per household)	(%)
Less than \$25 000	536	565	1 054	142	265	25
\$25 000 to \$50 000	875	3 100	3 541	572	654	18
\$50 000 to \$75 000	517	3 942	7 627	536	1 037	14
\$75 000 and over	439	8 064	18 387	749	1 709	9
TOTAL	2 367	15 671	6 621	2 000	845	13

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INTRODUCTION

The personal income tax reduction announced in the **2000-2001 Budget Speech** is the beginning of substantial tax relief for Quebecers, the means and impacts of which should be explained. The purpose of this document is therefore to describe, as clearly as possible, the content of the tax cuts introduced by the government, what they mean for households, and the resulting improvements in the personal income tax system.

More specifically, the document **Personal Income Tax Reduction** includes two sections containing the following analyses and information:

- Section 1 provides information on the *financial impact* of the reduction of personal impact tax for the government, *the changes to the tax system* and the *impact of the tax reduction on the different categories of households*.
- Section 2 examines the personal income tax reduction in relation to the *various expectations* voiced during the parliamentary committee hearings held in October and November 1999.¹ We must be able to establish how far the tax cuts introduced by the government go in addressing the various actions called for during the hearings, the main ones being to *make the tax system more equitable, more conducive to employment and more competitive, and to fully protect taxpayers against inflation*.

¹ Appendix 1 includes a summary of the main recommendations formulated by participants in the parliamentary committee hearings.

1 ***Reduction of personal income tax***

1. REDUCTION OF PERSONAL INCOME TAX

The Budget Speech provides for a \$2-billion reduction in personal income tax in 2002. This reduction will be implemented progressively, with taxpayers benefiting from three successive tax cuts, as follows:

- initial reduction backdated to January 2000. This reduction will show in taxpayers' paycheques beginning in May of this year;
- a second reduction effective January 2001; and
- a third reduction effective January 2002.

1.1 Financial impact for the government

Taxes will be reduced by:

- \$1 billion in 2000-2001;
- \$1.5 billion in 2001-2002;
- \$2 billion in 2002-2003.

The cumulative tax reduction will amount to \$4.5 billion over the next three fiscal years.

TABLE 1

IMPACT OF THE TAX REDUCTION ON GOVERNMENT REVENUES
(in millions de dollars)

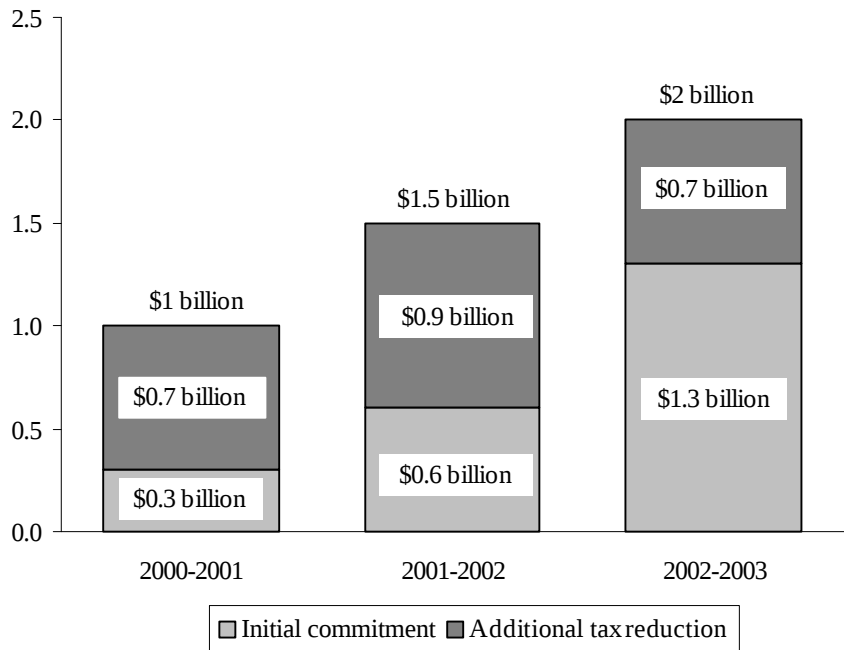
	2000-2001	2001-2002	2002-2003	Total
Personal income tax reduction	-1 000	-1 500	-2 000	-4 500

Last spring, the government promised to reduce personal income tax by \$1.3 billion during its current term, with \$300 million worth of tax breaks taking effect in 2000-2001.² The government has not only delivered on this commitment, it has gone further by reducing personal income tax even sooner and by more. Tax cuts will exceed the amounts projected in the 1999-2000 Budget Speech by:

- \$700 million in 2000-2001;
- \$900 million in 2001-2002; and
- \$700 million in 2002-2003.

GRAPH 1

REDUCTION IN QUÉBEC INCOME TAX



² QUÉBEC. Ministère des Finances. *Personal Income Tax Reduction: Discussion Paper*. March 1999.

1.2 Changes to the tax system

The personal income tax reduction will be applied through the following means:

- A new tax table that reduces the existing tax rates;
- An additional tax reduction for families;
- Lasting protection of taxpayers' purchasing power through tax cuts and automatic indexation of the tax system beginning in 2003.

These three changes to the tax system are described in greater detail below. In 2002-2003, the new tax table coupled with automatic indexation as of 2003 will provide \$1 850 million in tax relief, with families getting an additional tax break of \$150 million. The personal income tax reduction will thus be \$2 billion in 2002-2003.

TABLE 2

**IMPACT OF THE CHANGES TO THE TAX SYSTEM
ON THE TAX BURDEN OF INDIVIDUALS**
(millions of dollars)

	2000-2001	2001-2002	2002-2003
Changes to the tax table and automatic indexation as of 2003	-950	-1 400	-1 850
Additional tax reduction for families	<u>-50</u>	<u>-100</u>	<u>-150</u>
Total	-1 000	-1 500	-2 000

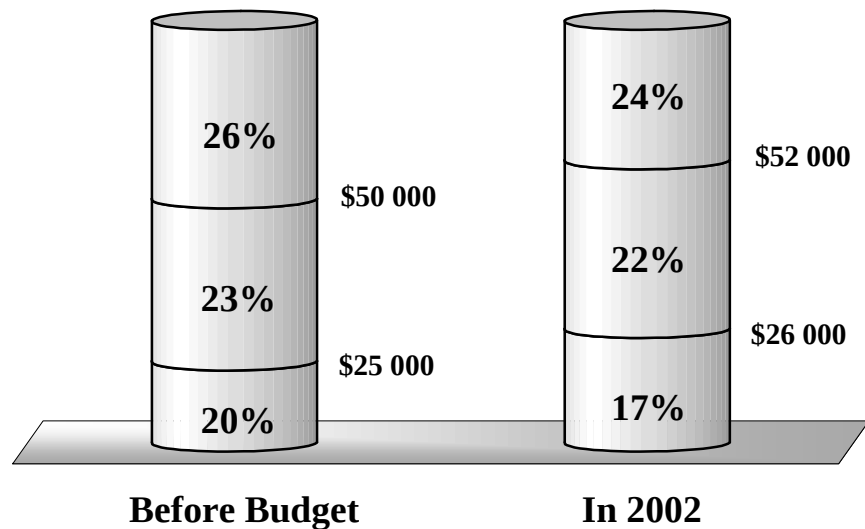
1.2.1 Reduction of tax rates

The new tax table will remain progressive, with three marginal tax rates. Between now and January 2002, the three rates will be reduced as follows:

- the first tax rate will drop from 20% to 17% and apply to taxable income up to \$26 000 instead of \$25 000;
- the second tax rate will be reduced from 23% to 22% and apply to taxable income of between \$26 000 and \$52 000 instead of \$50 000;
- the third rate will go down from 26% to 24% and apply to taxable income above \$52 000.

GRAPH 2

TAX RATE BY TAXABLE INCOME BRACKET ---



The three-point reduction in the first tax rate will be accompanied by a two-point reduction, from 23% to 21%, in the rate used to convert amounts to non-refundable tax credits. Due to the larger drop in the first rate, the value of credits in relation to income tax will go up.

The tax cuts will be spread over three taxation years, i.e. 2000, 2001 and 2002, with accompanying changes to the tax rates.

TABLE 3

NEW TAX TABLES

Tax table	Current rates	Rates after Budget		
		2000	2001	2002
Taxable income bracket				
0 to \$25 000	20.0%	19.0%	18.0%	17.0%
\$25 000 to \$26 000	23.0%			
\$26 000 to \$50 000		22.5%	22.5%	22.0 %
\$50 000 to \$52 000	26.0%			
Over \$52 000		25.0%	25.0%	24.0%
Rate used to convert amounts to non-refundable tax credits				
	23.0%	22.0%	21.5%	21.0%

1.2.2 Additional tax reduction for families

Currently, families benefit from a tax reduction of up to \$1 500, for a couple with children, and \$1 195, for a single-parent family. In both cases, the amount is lower for families with an income above \$26 000.

By 2002, families will benefit from further tax reduction:

- The tax reduction will be increased for families already claiming it and earning over \$26 000.
- Furthermore, the level of family income at which the tax reduction no longer applies will rise from \$51 000 to \$76 000, for couples with children, and from \$45 917 to \$65 833, for single-parent families.

TABLE 4

ADDITIONAL TAX REDUCTION FOR FAMILIES — 2002 (in dollars)

Family income	Couple, two children, two incomes ¹			Single-parent family, one child		
	Before Budget	After Budget	Additional reduction	Before Budget	After Budget	Additional reduction
20 000	n.a.	n.a.	n.a.	926	926 ²	0
25 000	n.a.	n.a.	n.a.	1 195	1 195 ²	0
30 000	979	979 ²	0	955	1 075	120
35 000	960	1 230	270	655	925	270
40 000	660	1 080	420	355	775	420
45 000	360	930	570	55	625	570
50 000	60	780	720	0	475	475
55 000	0	630	630	0	325	325
60 000	0	480	480	0	175	175
65 000	0	330	330	0	25	25
70 000	0	180	180	0	0	0
75 000	0	30	30	0	0	0

N/A: The tax reduction does not apply because no income tax is paid at this level.

1. Formula used to calculate the tax reduction for families:
 - before Budget: \$1 500 – 6% x (family income - \$26 000);
 - in 2002: \$1 500 – 3% x (family income - \$26 000).
2. The tax reduction remains unchanged because it is either the maximum amount or the amount needed to reduce tax to zero.

In practice, the amount of the tax reduction, which under the current system is decreased by 6% of the family income that exceeds \$26 000, will decrease more slowly, i.e. at the rate of 3% of the family income that exceeds \$26 000.

This improvement will bring the total value of the tax reduction for families to \$390 million, up from \$240 million,³ for an increase of over 60%.

1.2.3 Full indexation of the tax system

The current tax system does not protect taxpayers' purchasing power against inflation. Because the system is not indexed, its progressivity can result in increases in the average tax rate for the simple reason that taxable income has risen at the same rate as inflation.

The government is putting a stop to this situation by protecting the taxpayers' purchasing power on a lasting basis. This protection will be implemented in two stages:

- in the taxation years 2000, 2001 and 2002, the personal income tax reduction is so structured that it will largely exceed what would have been the effect of indexing the tax system, for all taxpayers;
- beginning in 2003, the government will introduce a system of automatic indexation designed to maintain this protection for all taxpayers.

³ QUÉBEC. Ministère des Finances, ministère du Revenu. *Tax Expenditures*, 1999 Edition.

INCREASE IN THE TAX CREDIT FOR CHILD CARE EXPENSES

In addition to the \$2 billion in tax relief, the refundable tax credit for child care expenses will be increased.

As of the year 2000, the rates applicable to this tax credit decrease more slowly than under the current system, gradually dropping from 75%, the pre-Budget rate applied to income of up to \$27 000, to 26% at the rate of one percentage point per additional \$1 000 of family income.

This measure represents an additional \$29 million in tax cuts for families with an income above \$27 000 and below or equal to \$75 000.

REFUNDABLE CHILD CARE TAX CREDIT RATE FOR CERTAIN FAMILY INCOME LEVELS

Family income \$	Tax credit rate			Value of tax credit after Budget ¹ \$	Gain \$
	Before Budget %	After Budget %	Increase %		
27 000	75	75	—	3 750	—
29 000	65	73	8	3 650	400
31 000	55	71	16	3 550	800
33 000	47	69	22	3 450	1 100
35 000	44	67	23	3 350	1 150
40 000	40	62	22	3 100	1 100
45 000	40	57	17	2 850	850
50 000	40	52	12	2 600	600
55 000	40	47	7	2 350	350
60 000	40	42	2	2 100	100
65 000	35	37	2	1 850	100
70 000	30	32	2	1 600	100
75 000	26	27	1	1 350	50
80 000	26	26	—	1 300	—

1. For annual child care expenses of \$5 000.

1.3 Gains for households

Overall, the changes to the personal income tax system represent an average tax reduction of 13%, the equivalent of \$845 per taxable household.

1.3.1 Financial gains for certain typical households

The tables in the remainder of this section indicate the financial gains derived from the tax reduction measures, for the most common situations and according to income level. The types of households examined include:

Families:

- couples with two children and two employment incomes;
- couples with two children and one employment income;
- single-parent families with one child.

Couples with no children:

- couples with two employment incomes;
- couples with one employment income;
- couples aged 65 or older.

Persons living alone:

- persons under 65 years of age;
- persons aged 65 or older.

TAX CUT 2002

Total income: \$50 000

Office worker: \$30 000

Cashier: \$20 000

Tax before Budget \$5 069

Tax cut:

▪ Tax table -\$1 013

▪ Reduction for families -\$720

Total cut -\$1 733

Tax after Budget \$3 336

Tax cut of 34%

□ **Couples with two children and two employment incomes**

In 2002, the tax reduction for a couple with two children and two employment incomes will be:

- \$883 (87%) for an income of \$35 000;
- \$1 543 (16%) for an income of \$70 000;
- \$1 803 (11%) for an income of \$100 000.

TABLE 5

TAX REDUCTION FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
30 000	0	—	—	—	—
35 000	1 019	222	553	883	87
40 000	2 319	322	753	1 183	51
45 000	3 679	447	968	1 493	41
50 000	5 069	532	1 123	1 733	34
55 000	6 219	377	1 038	1 733	28
60 000	7 309	362	893	1 673	23
65 000	8 429	427	838	1 643	19
70 000	9 579	452	863	1 543	16
75 000	10 729	477	888	1 443	13
100 000	16 779	702	1 113	1 803	11
125 000	22 979	902	1 313	2 203	10

Note: It is assumed that one spouse earns 60% of the household employment income and the other, 40%.

TAX CUT 2002**Total income: \$45 000**

Technician

Tax before Budget \$4 219

Tax cut

▪ Tax table -\$563

▪ Reduction for families -\$570

Total cut -\$1 133

Tax after Budget \$3 086

*Tax cut of 27%***□ Couples with two children and one employment income**

In 2002, the tax reduction for a couple with two children and one employment income will be:

- \$933 (34%) for an income of \$40 000;
- \$1 183 (10%) for an income of \$75 000;
- \$1 653 (9%) for an income of \$100 000.

TABLE 6

TAX REDUCTION FOR A COUPLE WITH TWO CHILDREN AND ONE EMPLOYMENT INCOME

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
30 000	0	—	—	—	—
35 000	1 319	207	448	733	56
40 000	2 769	282	573	933	34
45 000	4 219	357	698	1 133	27
50 000	5 669	432	823	1 333	24
55 000	7 029	342	783	1 383	20
60 000	8 329	342	633	1 333	16
65 000	9 629	392	543	1 283	13
70 000	10 929	442	593	1 233	11
75 000	12 229	492	643	1 183	10
100 000	18 729	742	893	1 653	9
125 000	25 229	992	1 143	2 153	9

TAX CUT 2002**Total income: \$30 000**

Secretary

Tax before Budget \$2 259

Tax cut:

▪ Tax table -\$595

▪ Reduction for families -\$120

Total cut -\$715

Tax after Budget \$1 544

Tax cut of 32%

□ Single-parent families with one child

In 2002, the tax reduction for a single-parent family with one child will be:

- \$483 (66%) for an income of \$25 000;
- \$1 279 (16%) for an income of \$50 000;
- \$1 844 (9%) for an income of \$100 000.

TABLE 7

TAX REDUCTION FOR A SINGLE-PARENT FAMILY WITH ONE CHILD

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
20 000	0	—	—	—	—
25 000	731	116	300	483	66
30 000	2 259	222	459	715	32
35 000	3 813	302	590	924	24
40 000	5 263	377	715	1 124	21
45 000	6 713	452	840	1 324	20
50 000	7 918	287	720	1 279	16
55 000	9 218	387	620	1 269	14
60 000	10 518	437	635	1 219	12
65 000	11 818	487	685	1 169	10
70 000	13 118	537	735	1 244	9
75 000	14 418	587	785	1 344	9
100 000	20 918	837	1 035	1 844	9
125 000	27 418	1 087	1 285	2 344	9

TAX CUT 2002**Total income: \$65 000**

Industrial designer: \$39 000

Travel counsellor: \$26 000

Tax before Budget \$9 579

Tax cut: -\$1 413

Tax after Budget \$8 166

Tax cut of 15%

□ Couples with no children and two employment incomes

Beginning in 2001, a couple with no children and two employment incomes totalling \$20 000 will no longer pay tax. In 2002, its taxes will be reduced by:

- \$413 (37%) for an income of \$25 000;
- \$1 113 (18%) for an income of \$50 000;
- \$1 903 (11%) for an income of \$100 000.

TABLE 8

TAX REDUCTION FOR A COUPLE WITH NO CHILDREN AND TWO EMPLOYMENT INCOMES

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
15 000	0	—	—	—	—
20 000	129	32	129	129	100
25 000	1 129	82	248	413	37
30 000	2 129	132	348	563	26
35 000	3 129	182	448	713	23
40 000	4 129	232	548	863	21
45 000	5 189	307	663	1 023	20
50 000	6 279	342	718	1 113	18
55 000	7 369	377	773	1 203	16
60 000	8 459	412	828	1 293	15
65 000	9 579	477	913	1 413	15
70 000	10 729	502	938	1 463	14
75 000	11 879	527	963	1 513	13
100 000	17 929	752	1 188	1 903	11
125 000	24 129	952	1 388	2 303	10

Note: It is assumed that one of the spouses earns 60% of the household employment income and the other, 40%.

TAX CUT 2002

Total income: \$40 000

Mechanic

Tax before Budget \$4 579

Tax cut: **-\$613**

Tax after Budget \$3 966

Tax cut of 13%

□ **Couples with no children and one employment income**

In 2002, the tax reduction for a couple with no children and one employment income will be:

- \$129 (100%) for an income of \$20 000;
- \$713 (10%) for an income of \$50 000;
- \$1 753 (9%) for an income of \$100 000.

TABLE 9

TAX REDUCTION FOR A COUPLE WITH NO CHILDREN AND ONE EMPLOYMENT INCOME

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
15 000	0	—	—	—	—
20 000	129	32	129	129	100
25 000	1 129	82	248	413	37
30 000	2 279	142	318	513	23
35 000	3 429	167	343	563	16
40 000	4 579	192	368	613	13
45 000	5 729	217	393	663	12
50 000	6 879	242	418	713	10
55 000	8 179	342	518	853	10
60 000	9 479	392	568	953	10
65 000	10 779	442	618	1 053	10
70 000	12 079	492	668	1 153	10
75 000	13 379	542	718	1 253	9
100 000	19 879	792	968	1 753	9
125 000	26 379	1 042	1 218	2 253	9

TAX CUT 2002**Total income: \$30 000**

Retired couple

Tax before Budget \$1 025

Tax cut: -\$467

Tax after Budget \$558

Tax cut of 46%

□ Couples aged 65 or older

In 2002, the tax reduction for a couple aged 65 or older will be:

- \$584 (25%) for an income of \$35 000;
- \$779 (12%) for an income of \$50 000;
- \$1 304 (10%) for an income of \$75 000.

TABLE 10

TAX REDUCTION FOR A COUPLE AGED 65 OR OLDER

Total income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
25 000	0	—	—	—	—
30 000	1 025	84	276	467	46
35 000	2 346	152	358	584	25
40 000	3 668	184	394	649	18
45 000	4 991	217	430	714	14
50 000	6 313	249	466	779	12
55 000	7 636	282	503	844	11
60 000	9 107	389	614	998	11
65 000	10 476	442	668	1 104	11
70 000	11 776	492	718	1 204	10
75 000	13 076	542	768	1 304	10
100 000	19 576	792	1 018	1 804	9
125 000	26 076	1 042	1 268	2 304	9

Note: Total income includes old age security pension and guaranteed income supplement payments, as well as private income from pensions or investments.

TAX CUT 2002

Total income: \$30 000

Dental hygienist

Tax before Budget \$4 111

Tax cut: -\$673

Tax after Budget \$3 438

Tax cut of 16%

□ **Persons under 65 years of age who live alone**

In 2002, the tax reduction for a person under 65 years of age who lives alone will be:

- \$411 (23%) for an income of \$20 000;
- \$882 (10%) for an income of \$50 000;
- \$1 922 (9%) for an income of \$100 000.

Table 11

TAX REDUCTION FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE

Employment income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
10 000	0	—	—	—	—
15 000	823	55	158	261	32
20 000	1 823	105	258	411	23
25 000	2 823	155	358	561	20
30 000	4 111	221	437	673	16
35 000	5 365	251	469	732	14
40 000	6 515	276	494	782	12
45 000	7 665	301	519	832	11
50 000	8 815	326	544	882	10
55 000	10 115	426	644	1 022	10
60 000	11 415	476	694	1 122	10
65 000	12 715	526	744	1 222	10
70 000	14 015	576	794	1 322	9
75 000	15 315	626	844	1 422	9
100 000	21 815	876	1 094	1 922	9
125 000	28 315	1 126	1 344	2 422	9

TAX CUT 2002**Total income: \$25 000**

Retired person

Tax before Budget \$2 087

Tax cut: **-\$497**

Tax after Budget \$1 590

Tax cut of 24%

□ Persons aged 65 or older who live alone

In 2002, the tax reduction for a person aged 65 or older who lives alone will be:

- \$497 (24%) for an income of \$25 000;
- \$869 (10%) for an income of \$50 000;
- \$1 422 (9%) for an income of \$75 000.

TABLE 12

TAX REDUCTION FOR A PERSON AGED 65 OR OLDER WHO LIVES ALONE

Total income \$	Tax before Budget \$	Reduction in relation to tax before Budget			
		2000 \$	2001 \$	2002	
				\$	%
15 000	0	—	—	—	—
20 000	1 087	73	210	347	32
25 000	2 087	123	310	497	24
30 000	3 375	189	389	609	18
35 000	4 698	222	425	674	14
40 000	6 020	254	462	739	12
45 000	7 343	287	498	804	11
50 000	8 665	319	534	869	10
55 000	10 115	426	644	1 022	10
60 000	11 415	476	694	1 122	10
65 000	12 715	526	744	1 222	10
70 000	14 015	576	794	1 322	9
75 000	15 315	626	844	1 422	9
100 000	21 815	876	1 094	1 922	9
125 000	28 315	1 126	1 344	2 422	9

Note: Total income includes old age security pension and guaranteed income supplement payments, as well as private income from pensions or investments.

1.3.2 Breakdown of the impact of changes to the tax system on households

The following tables present a breakdown of the impact of the new tax table and the additional tax reduction for families on certain typical households in 2002.

□ *Couple with two children and two employment incomes*

The \$1 733 reduction in taxes payable by a two-earner couple with two children and a combined income of \$50 000 in 2002 breaks down as follows:

- \$1 350 attributable to the reduction of the first tax rate to 17% from 20%;
- \$100 arising from the reduction of the second tax rate to 22% from 23%;
- \$720 as a result of the additional tax reduction for families;
- -\$437 stemming from the reduction of the non-refundable tax credit rate.

TABLE 13

BREAKDOWN OF THE TAX REDUCTION FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES — 2002

		Tax reduction							
		Tax table				Tax credit rate ¹	Additional tax reduction for families	Total tax reduction	
Employment income	Tax before Budget	1st rate 20% to 17%	2nd rate 23% to 22%	3rd rate 26% to 24%					
\$	\$	\$	\$	\$	\$	\$	\$	\$	%
30 000	0	—	—	—	—	—	—	—	—
35 000	1 019	1 050	—	—	-437	270	883	87	
40 000	2 319	1 200	—	—	-437	420	1 183	51	
45 000	3 679	1 290	70	—	-437	570	1 493	41	
50 000	5 069	1 350	100	—	-437	720	1 733	34	
55 000	6 219	1 410	130	—	-437	630	1 733	28	
60 000	7 309	1 470	160	—	-437	480	1 673	23	
65 000	8 429	1 500	250	—	-437	330	1 643	19	
70 000	9 579	1 500	300	—	-437	180	1 543	16	
75 000	10 729	1 500	350	—	-437	30	1 443	13	
100 000	16 779	1 500	500	240	-437	—	1 803	11	
125 000	22 979	1 500	600	540	-437	—	2 203	10	

Note: It is assumed that one spouse earns 60% of the household employment income and the other, 40%.

1. In addition to the 3-point reduction in the first tax rate, the rate used to convert amounts to non-refundable tax credits will drop 2 points.

□ ***Persons living alone***

The \$782 cut in taxes payable by a person living alone and earning \$40 000 in 2002 breaks down as follows:

- \$750 attributable to the reduction of the first tax rate to 17% from 20%;
- \$200 as a result of the reduction of the second tax rate to 22% from 23%;
- -\$168 stemming from the reduction of the non-refundable tax credit rate.

TABLE 14

BREAKDOWN OF THE TAX REDUCTION FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE — 2002

Employment income	Tax before Budget	Tax reduction					
		Tax table				Total tax reduction	
		1st rate	2nd rate	3rd rate	Tax credit		
		20% to 17%	23% to 22%	26% to 24%	rate ¹ 23% to 21%	\$	%
\$	\$	\$	\$	\$	\$	\$	%
10 000	0	—	—	—	—	—	—
15 000	823	450	—	—	-189	261	32
20 000	1 823	600	—	—	-189	411	23
25 000	2 823	750	—	—	-189	561	20
30 000	4 111	750	100	—	-177	673	16
35 000	5 365	750	150	—	-168	732	14
40 000	6 515	750	200	—	-168	782	12
45 000	7 665	750	250	—	-168	832	11
50 000	8 815	750	300	—	-168	882	10
55 000	10 115	750	300	140	-168	1 022	10
60 000	11 415	750	300	240	-168	1 122	10
65 000	12 715	750	300	340	-168	1 222	10
70 000	14 015	750	300	440	-168	1 322	9
75 000	15 315	750	300	540	-168	1 422	9
100 000	21 815	750	300	1 040	-168	1 922	9
125 000	28 315	750	300	1 540	-168	2 422	9

1. In addition to the 3-point reduction in the first tax rate, the rate used to convert amounts to non-refundable tax credits will drop 2 points.

1.3.3 Impact of the tax reduction on paycheques

Households will see an increase in their paycheques as a result of the tax reduction measures. For example, for a two-week pay period, a two-earner couple with two children and a combined income of \$50 000 will pay fewer taxes in the amount of:

- \$31 per paycheque beginning in May 2000;
- \$43 per paycheque beginning January 1, 2001;
- \$67 per paycheque beginning January 1, 2002.

TABLE 15

TAX REDUCTION FOR A 2-WEEK PAY PERIOD¹ — FAMILIES
(in dollars relative to the pre-Budget tax system)

Annual employment income	Couple, two children, two incomes			Couple, two children, one income			Single-parent family, one child		
	May 2000	January 2001	January 2002	May 2000	January 2001	January 2002	May 2000	January 2001	January 2002
15 000	—	—	—	—	—	—	—	—	—
20 000	—	—	—	—	—	—	—	—	—
25 000	—	—	—	—	—	—	8	12	19
30 000	—	—	—	—	—	—	13	18	27
35 000	14	21	34	12	17	28	17	23	36
40 000	20	29	46	17	22	36	22	28	43
45 000	27	37	57	21	27	44	26	32	51
50 000	31	43	67	25	32	51	20	28	49
55 000	27	40	67	23	30	53	20	24	49
60 000	21	34	64	17	24	51	22	24	47
65 000	24	32	63	19	21	49	24	26	45
70 000	26	33	59	21	23	47	26	28	48
75 000	27	34	56	23	25	46	28	30	52
100 000	37	43	69	32	34	64	37	40	71
125 000	45	50	85	42	44	83	47	49	90

Note: A dash means no income tax is paid.

1. Figures are rounded off to the nearest dollar.

TABLE 16

TAX REDUCTION FOR A 2-WEEK PAY PERIOD¹ — OTHER HOUSEHOLDS
(in dollars relative to the pre-Budget tax system)

Annual employment income	Couple, no children, two incomes			Couple, no children, one income			Person living alone		
	May 2000	January 2001	January 2002	May 2000	January 2001	January 2002	May 2000	January 2001	January 2002
15 000	—	—	—	—	—	—	4	6	10
20 000	3	5	5	3	5	5	7	10	16
25 000	6	10	16	6	10	16	11	14	22
30 000	9	13	22	9	12	20	13	17	26
35 000	12	17	27	10	13	22	14	18	28
40 000	14	21	33	11	14	24	15	19	30
45 000	18	25	39	12	15	26	17	20	32
50 000	20	28	43	14	16	27	18	21	34
55 000	22	30	46	18	20	33	22	25	39
60 000	24	32	50	20	22	37	24	27	43
65 000	27	35	54	22	24	41	26	29	47
70 000	28	36	56	23	26	44	28	31	51
75 000	30	37	58	25	28	48	30	32	55
100 000	39	46	73	35	37	67	39	42	74
125 000	48	53	89	45	47	87	49	52	93

Note: A dash means no income tax is paid.

1. Figures are rounded off to the nearest dollar.

2 *Tax cuts that meet public expectations*

2. TAX CUTS THAT MEET PUBLIC EXPECTATIONS

In fall 1999, the Québec government formed a parliamentary committee to study the reduction of personal income tax. The committee held extensive discussions on the ways and means for reducing taxes by \$1.3 billion during the government's current term, as promised in the 1999-2000 Budget Speech.

The reduction of personal income tax announced in the 2000-2001 Budget Speech exceeds this commitment, and the ways and means for achieving this reduction address the concerns and meet the expectations expressed during the hearings of the parliamentary committee on personal income tax reduction. The tax measures chosen by the government will:

- make the tax system more equitable for the middle class and families;
- render it more conducive to employment;
- make it more competitive in relation to other jurisdictions;
- ensure full indexation of the tax system.

2.1 A more equitable tax system

The announced tax cuts make the tax system more equitable by:

- reducing the tax burden for all taxpayers, but especially for the middle class and families;
- maintaining the progressivity of the tax system.

2.1.1 Tax cuts that benefit the middle class and families

In 2002, the new tax table will result in a sizeable reduction in income tax rates that will benefit all taxpayers.

	Impact in \$M
All three tax rates will be reduced:	
— the first rate will drop from 20% to 17%;	1 275 ⁴
— the second rate will drop from 23% to 22%;	260
— the third rate will drop from 26% to 24%.	230
The income levels at which these rates apply will increase by 4%:	
— the first rate will apply to taxable income of up to \$26 000 instead of \$25 000;	55
— the second rate will apply to taxable income of up to \$52 000 instead of \$50 000.	30
Subtotal	1 850
Families will benefit from a further tax reduction.	150
Total tax relief	2 000

⁴ Includes the impact of the change to the rate used to convert amounts to non-refundable tax credits.

These reductions will mean substantial tax savings for households, regardless of their income level. On average, each taxable household will pay \$845 less in income tax, a reduction of 13%.

TABLE 17

**GAIN FROM THE PERSONAL INCOME TAX REDUCTION
BY FAMILY INCOME BRACKET — 2002**

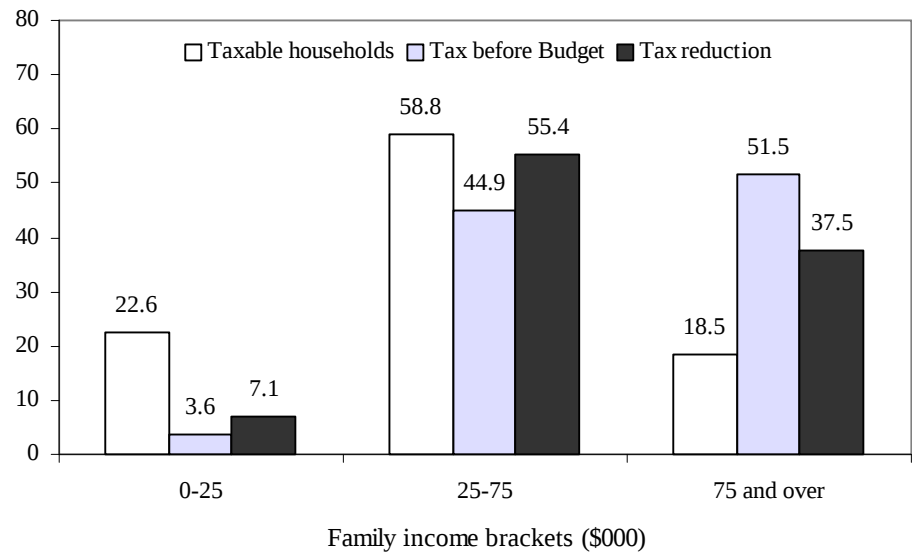
Income bracket	Number of taxable households (thousands)	Tax before Budget		Tax reduction		
		(millions of \$)	(\$ per household)	(millions of \$)	(\$ per household)	(%)
0 to \$25 000	536	565	1 054	142	265	25
\$25 000 to \$50 000	875	3 100	3 541	572	654	18
\$50 000 to \$75 000	517	3 942	7 627	536	1 037	14
\$75 000 and over	439	8 064	18 387	749	1 709	9
TOTAL	2 367	15 671	6 621	2 000	845	13

□ *Tax cuts in favour of the middle class*

The tax cuts will benefit middle-class households. Over 55% of the gain from the tax reduction will benefit households earning between \$25 000 and \$75 000, which currently shoulder 45% of all taxes.

GRAPH 3

DISTRIBUTION OF THE NUMBER OF HOUSEHOLDS, TAX BEFORE THE BUDGET AND TAX CUTS BY INCOME LEVEL — 2002
(as a percentage)



TAX CUTS IN FAVOUR OF THE MIDDLE CLASS

The combined impact of the reduction of tax rates and the increase in the income thresholds at which they begin to apply will result in an overall tax reduction for all taxpayers. The significant drop in the first tax rate, from 20% to 17%, will further reduce the tax burden shouldered by the middle class.

The average tax rate for a person living alone is reduced by:

- 1.7 points for an income of \$15 000;
- 2.1 points for an income of \$35 000;
- 1.9 points for an income of \$75 000.

AVERAGE TAX RATE FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE (as a percentage)

	Employment income (\$)			
	15 000	25 000	35 000	75 000
Average tax rate before Budget	5.5	11.3	15.3	20.4
Impact of changes on average tax rate				
First rate: 20% to 17%	-3.0	-3.0	-2.1	-1.0
Second rate: 23% to 22%	—	—	-0.4	-0.4
Third rate: 26% to 24%	—	—	—	-0.7
Rate used to convert amounts to non-refundable tax credits	1.3	0.8	0.5	0.2
Total	-1.7	-2.2	-2.1	-1.9
Average tax rate after Budget	3.8	9.1	13.3	18.5
Reduction in average rates (%)	-31.7	-19.9	-13.6	-9.3

□ *Tax cuts in favour of families*

The tax reduction measures mean sizeable savings for all individuals, regardless of their situation. Families will receive even greater tax relief, as their taxes will be reduced by a total of \$854 million, a 14% cut.

TABLE 18

**GAIN FROM THE REDUCTION OF PERSONAL INCOME TAX
BY HOUSEHOLD CATEGORY — 2002**

Household category	Number of taxable households (thousands)	Tax Before Budget (millions of \$)	Tax reduction		
			(millions of \$)	(\$ per household)	(%)
Families with children	713	6 319	854	1 198	14
Couples without children	510	4 528	520	1 019	11
Elderly persons ¹	330	1 675	220	666	13
Single persons	814	3 149	406	499	13
TOTAL	2 367	15 671	2 000	845	13

1. Households with at least one person aged 65 or older.

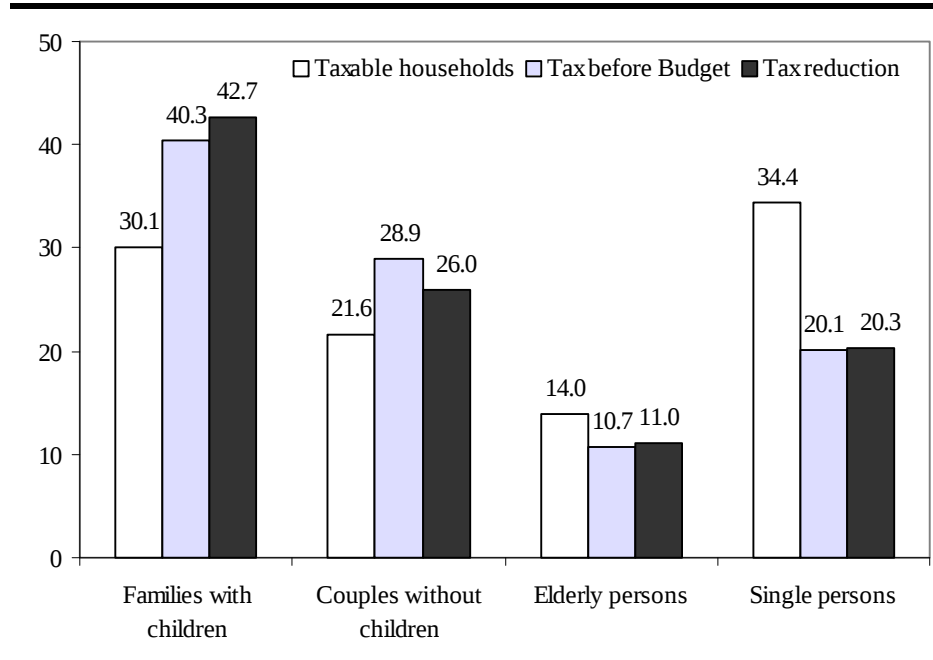
This is primarily a result of the additional tax reduction for families, which will benefit some 395 000 families.

- 295 000 families will enjoy an increased tax reduction.
- 100 000 additional families will be able to claim the tax reduction.

All told, families with children will get \$854 million in tax relief, nearly 43% of the gain from the personal income tax reduction.

GRAPH 4

DISTRIBUTION OF THE NUMBER OF HOUSEHOLDS, TAX BEFORE THE BUDGET AND TAX REDUCTION BY HOUSEHOLD CATEGORY — 2002
(as a percentage)



TAX CUTS IN FAVOUR OF FAMILIES

The combined impact of the reduction in tax rates and the additional tax reduction for families will mean a greater overall tax break for families in general and for middle-class families in particular.

The average tax rate for two-earner couples with children, which account for 80% of all couples with children, will be reduced by:

- 2.5 points for an income of \$35 000;
- 3.5 points for an income of \$50 000;
- 2.8 points for an income of \$60 000.

AVERAGE TAX RATE FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES (as a percentage)

	Household income (\$)			
	35 000	50 000	60 000	75 000
Average tax rate before Budget	2.9	10.1	12.2	14.3
Impact of changes on average tax rate				
First rate: 20% to 17%	-3.0	-2.7	-2.5	-2.0
Second rate: 23% to 22%	—	-0.2	-0.3	-0.5
Third rate: 26% to 24%	—	—	—	—
Tax reduction for families	-0.8	-1.4	-0.8	-0.04
Rate used to convert amounts to non-refundable tax credits	1.2	0.9	0.7	0.6
Total	-2.5	-3.5	-2.8	-1.9
Average tax rate after Budget	0.4	6.6	9.4	12.4
Reduction in average rates (%)	-86.7	-34.2	-22.9	-13.5

2.1.2 Maintenance of the progressivity of the tax system

One of the features of the Québec tax system is to allow for better redistribution of income between rich and poor. This redistribution of wealth is ensured through the progressivity of income tax.⁵ This feature is not called into question by the announced tax reduction measures.

- Low and middle-income households will pay a smaller share of income tax.
- The level of income at which income tax becomes payable in Québec will be raised.
- Overall, tax rates will be reduced even further for middle-class households.

⁵ Under a progressive tax system, the tax rate increases with a person's income.

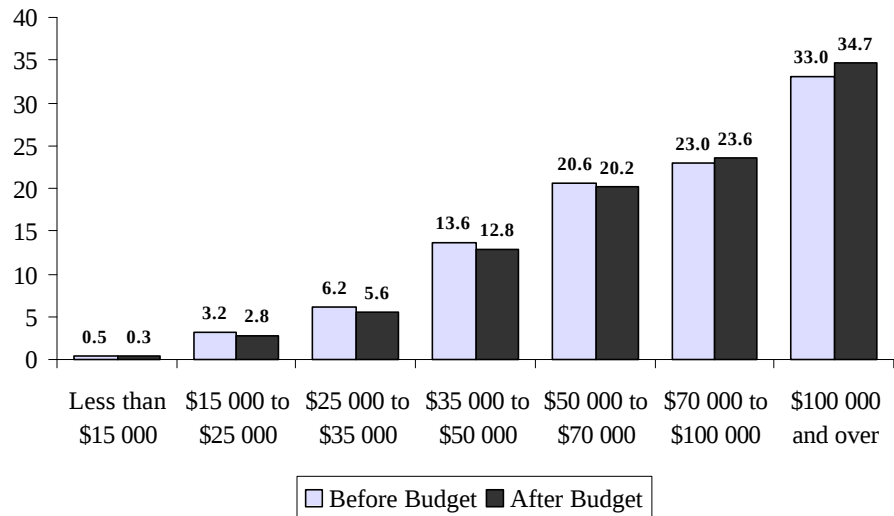
□ *Distribution of income tax among households*

Low and middle-income households will pay a lower share of taxes. For example, the share of taxes paid by households with a family income of between \$35 000 and \$50 000 will drop from 13.6% to 12.8%.

Moreover, families earning \$100 000 or over will account for 34.7% of income taxes paid, instead of 33.0% under the current system.

GRAPH 5

DISTRIBUTION OF INCOME TAX PAYABLE BY FAMILY INCOME BRACKET— 2002 (as a percentage)



□ *Increase in tax thresholds*

The reduction of tax rates and the additional tax reduction for families will raise the amount a person can earn tax-free in Québec.⁶

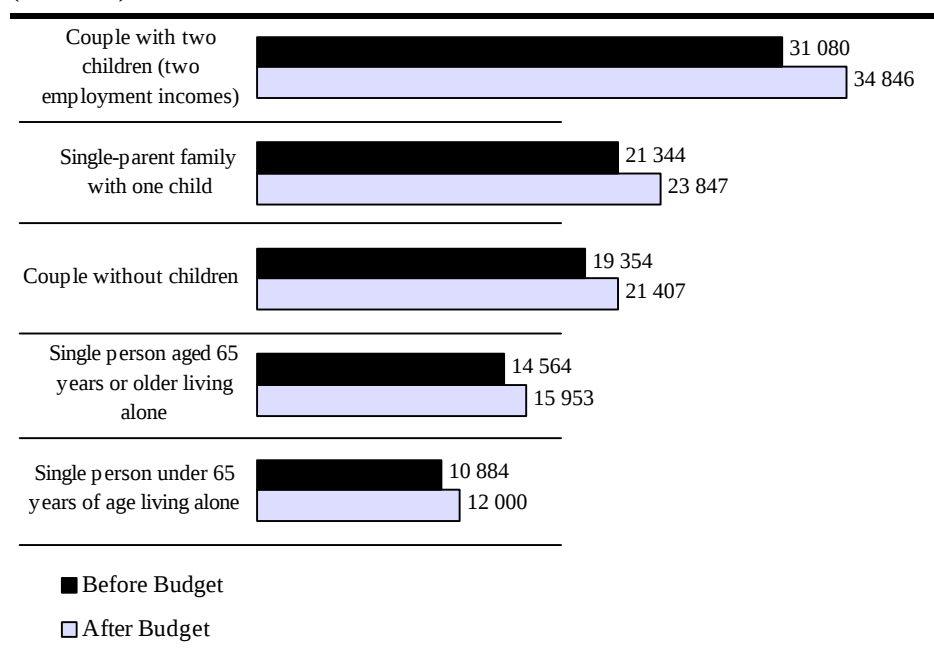
The tax cuts will raise the tax threshold for a two-earner couple with two dependent children 12.1% from \$31 080 to \$34 846.

The tax thresholds for single-parent families, elderly persons, couples without children and persons living alone will be increased by around 10 %.

As a result, the number of Québec taxpayers not on the tax rolls, around 40% of all taxpayers, will increase by approximately 130 000.

GRAPH 6

COMPARISON OF TAX THRESHOLDS — 2002 (in dollars)



⁶ See Appendix 2 for the tax thresholds applicable in the taxation years 2000, 2001 and 2002.

❑ ***Decrease in average tax rates for all households***

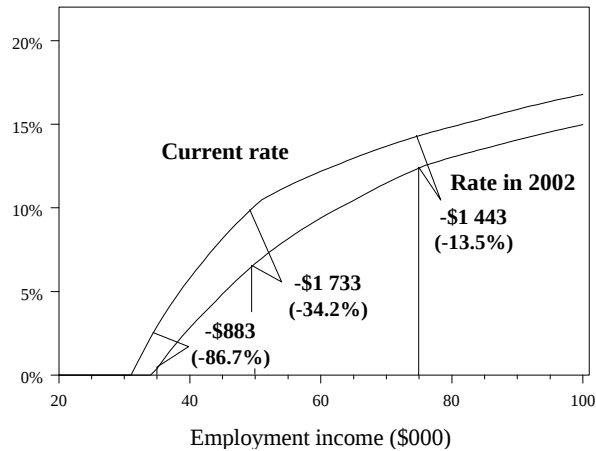
Maintenance of the progressivity of the Québec tax system can also be illustrated by comparing the progression in average tax rates relative to income before and after the tax reduction.

For persons living alone as well as for families, average household tax rates will be reduced while rates will continue to progress as income rises.

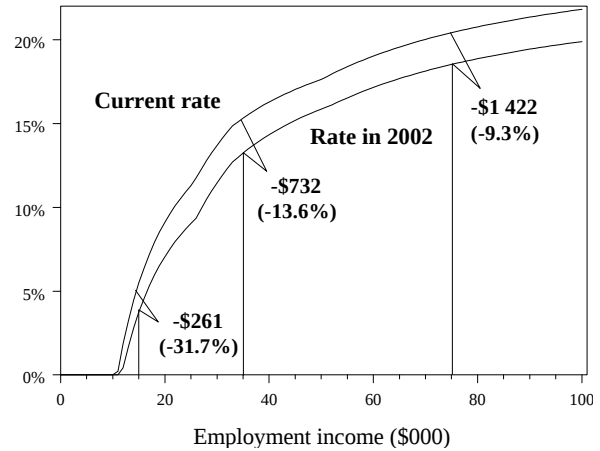
GRAPH 7

COMPARISON OF AVERAGE TAX RATES BEFORE AND AFTER THE BUDGET
(as a percentage)

Couple with two children and two employment incomes



Person living alone



2.2 A tax system that is more conducive to employment

This Budget noticeably increases the incentive to work thanks to the reduction in the implicit marginal tax rates.⁷ This reduction is achieved through the following measures:

- Lowering of the three tax rates;
- An increased tax reduction for families;
- An increase in the refundable tax credit for child care expenses.

As a result of tax reduction, the implicit marginal tax rates, calculated solely for the Québec tax system, will be lowered significantly for taxpayers who actually pay taxes.

□ *Implicit marginal tax rates*

In certain situations, the tax system can considerably reduce the additional income earned by a taxpayer. This phenomenon can be attributed to the fact that as income rises, the tax rate goes up and certain tax benefits, including the refundable tax credit for child care expenses, go down. The combined impact of these two mechanisms on each additional dollar earned is generally referred to as the “implicit marginal tax rate.”

As raised during the parliamentary committee hearings held last fall, implicit marginal taxation, something which is neither new nor specific to Québec, can reduce the incentive to work. To counter this phenomenon, gradual adjustments can be targeted, thereby making it possible to reduce the implicit marginal tax rates where the incentive to work is weakest.

More specifically, the Budget measures will mean greater reductions in the implicit marginal tax rates for middle-class families, since they benefit from a three-point reduction in the first marginal tax rate, whose impact on the incentive to work is strong. At the same time, families who claim the refundable tax credit for child care expenses will see a marked improvement in their situation.

⁷ For more information, see QUÉBEC. Ministère des Finances. Commission parlementaire sur la réduction de l'impôt des particuliers. *Les taux marginaux implicites de taxation*. October 1999.

□ ***Reduction in the implicit marginal tax rate for middle-class families***

For couples with two children and an income of between \$32 000 and \$50 000, the tax reduction will result in a drop of at least 5 percentage points in the implicit marginal tax rate. For example, with an income of \$36 000, the couple will see its marginal tax rate reduced by 6 percentage points, broken down as follows:

- A reduction of 3 percentage points due to the new tax table;
- A reduction of 3 percentage points stemming from the changes to the tax reduction for families.

TABLE 19

IMPLICIT MARGINAL TAX RATES¹ FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES
(as a percentage)

Household employment income (\$)	Rate before Budget	Impact of measures			Rate in 2002
		New tax table	Additional tax reduction for families	Total	
32 000	29	-23 ²	-3	-26	3
34 000	29	-9	-3	-12	17
36 000	27	-3	-3	-6	21
38 000	26	-3	-3	-6	20
40 000	26	-3	-3	-6	20
42 000	28	-5	-3	-8	20
44 000	28	-2	-3	-5	23
46 000	28	-2	-3	-5	23
48 000	28	-2	-3	-5	23
50 000	28	-2	-3	-5	23
60 000	22	-2	3 ³	1	23
80 000	23	-1	—	-1	22
100 000	25	-2	—	-2	23

1. The implicit marginal tax rates are calculated solely for the Québec tax system on an increase of \$1 000 in employment income.
2. The strong impact on the implicit marginal tax rates is due to the fact that one of the taxpayers pays no tax.
3. A couple who becomes eligible for the tax reduction for families will see an increase in their implicit marginal tax rate. Nonetheless, its after-tax income will increase.

□ ***Additional reduction in implicit marginal taxation for families with child care expenses***

Furthermore, due to the increase in the refundable tax credit for child care expenses, families who pay child care expenses will benefit from an even greater reduction in the implicit marginal tax rate.

For a single-parent family with an income of between \$27 000 and \$33 000 and a child under six years of age, the implicit marginal tax rate will drop by at least 14 percentage points. For example, with earnings of \$27 000, this family will see its implicit marginal taxation decrease from 63% to 39% for a total reduction of 24 percentage points, broken down as follows:

- A 20-point reduction due to the increase in the refundable tax credit for child care expenses;
- A 1-point reduction due to the tax table;
- A 3-point reduction stemming from the changes to the tax reduction for families.

TABLE 20

IMPLICIT MARGINAL TAX RATES ¹ FOR A SINGLE-PARENT FAMILY WITH A CHILD UNDER SIX YEARS OF AGE AND CHILD CARE EXPENSES OF \$5 000 PER YEAR
(as a percentage)

Household employment income (\$)	Rate before Budget	Impact of measures				Rate in 2002
		Tax credit for child care expenses	New tax table	Additional tax reduction for families	Total	
27 000	63	-20	-1	-3	-24	39
28 000	63	-20	-1	-3	-24	39
29 000	63	-20	-1	-3	-24	39
30 000	63	-20	-1	-3	-24	39
31 000	58	-15	-1	-3	-19	39
32 000	58	-15	-1	-3	-19	39
33 000	49	-10	-1	-3	-14	35
35 000	32	5 ²	-1	-3	1	33
40 000	29	5 ²	-1	-3	1	30
60 000	31	—	-2	3 ³	1	32
80 000	26	—	-2	—	-2	24

1. Rates are calculated for the Québec tax system on an increase of \$1 000 in employment income.

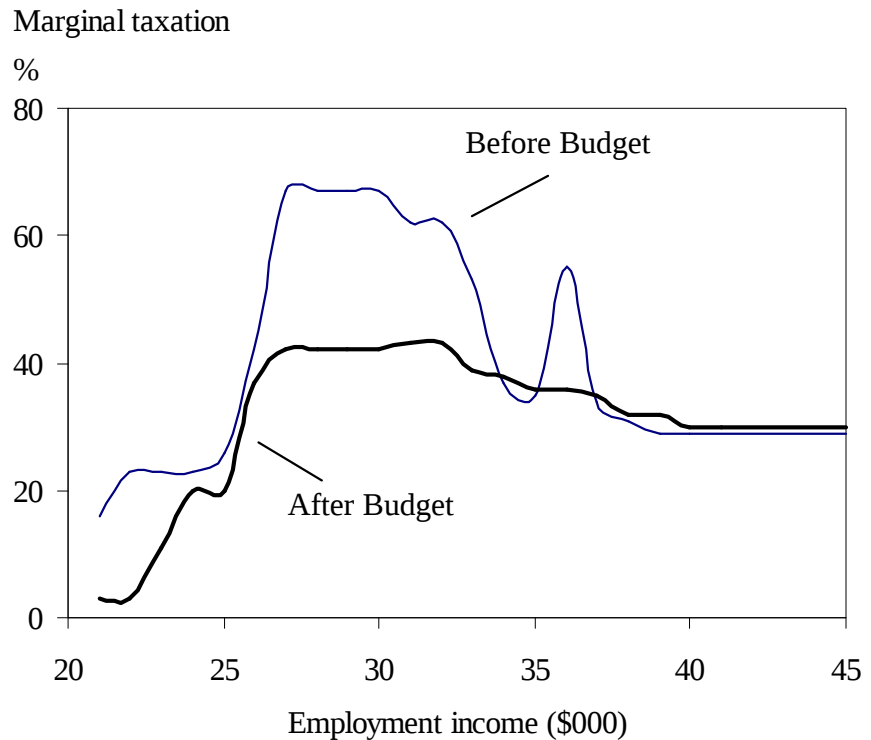
2. In this category, the tax credit rate declines rather than remaining constant. The marginal tax rate is increased but assistance is improved.

3. A single-parent family who becomes eligible for the tax reduction for families.

Essentially, the increase in the refundable tax credit for child care expenses brings the implicit marginal tax rates for households earning between \$27 000 and \$33 000 down to levels comparable to those of other households. This is a major adjustment which rectifies one of the most problematic situations.

GRAPH 8

**IMPLICIT MARGINAL TAX RATE FOR A SINGLE-PARENT FAMILY
WITH A CHILD UNDER SIX YEARS OF AGE — 2002**



Note: The implicit marginal tax rate corresponds to the sum of the taxes levied by the Québec government on a \$1 000 increase in income. These taxes include, for instance, income tax, the refundable tax credit for sales tax and the refundable tax credit for child care expenses of \$5 000.

These families benefit from the increase in the refundable tax credit for child care expenses on top of the tax reduction, which will result in a considerable financial gain.

For example, for a single-parent family with a child under six years of age and \$35 000 in employment income, the three measures will result in an increase in disposable income of \$2 074, broken down as follows:

- A gain of \$1 150 thanks to the refundable tax credit for child care expenses;
- A gain of \$654 attributable to the new tax table;
- A gain of \$270 due to the changes to the tax reduction for families.

The amount saved, \$2 074, is even greater than the amount of tax paid, estimated at \$1 613. This household thus no longer pays taxes and will receive a refund of \$461.

TABLE 21

GAIN FOR A SINGLE-PARENT FAMILY WITH A CHILD UNDER SIX YEARS OF AGE AND ELIGIBLE CHILD CARE EXPENSES OF \$5 000 PER YEAR
(in dollars)

Household employment income	Net tax ¹ before Budget	Financial gain in 2002				Net tax ¹ after Budget
		Tax credit for child care expenses	New tax table	Additional tax reduction for families	Total	
22 000	-3 619	—	131	—	131	-3 750
24 000	-3 219	—	453	—	453	-3 672
26 000	-2 789	—	543	—	543	-3 332
28 000	-1 890	200	569	60	829	-2 719
30 000	-741	600	595	120	1 315	-2 056
35 000	1 613	1 150	654	270	2 074	-461
37 000	2 393	1 250	674	330	2 254	139
40 000	3 263	1 100	704	420	2 224	1 039
45 000	4 713	850	754	570	2 174	2 539
50 000	5 918	600	804	475	1 879	4 039
60 000	8 518	100	1 044	175	1 319	7 199

1. Tax payable minus the refundable tax credit for child care expenses.

2.3 A more competitive tax system

Since the overall tax burden differential is reduced for all taxpayers on the tax rolls, the tax system becomes more competitive with respect to other jurisdictions.

□ *Reduction of the overall tax burden differential*

The \$2-billion in tax relief will narrow the gap between the tax burden borne by Québec taxpayers and that borne by taxpayers in other provinces.

One way of measuring the difference between Québec's tax burden and that of the other provinces is to compare the income taxes Quebecers currently pay with the income taxes they would pay if the tax system of another province applied in Québec. Such a comparison was made based on the tax system of each of the provinces in 1999 and based on the assumption that the measures announced by the governments were fully implemented.⁸

For 1999, the results of this comparison indicate that Québec taxpayers would have paid 20% less tax if the tax systems of the other provinces had applied in Québec. This represents a difference of \$3.1 billion.⁹

When the full impact of the tax relief provided for by the other Canadian governments is taken into account, the \$2-billion tax cut in Québec reduces the difference between its tax burden and that of the other provinces from \$3.1 billion in 1999 to \$2.2 billion once the measures are fully implemented, a decrease of 30%.

⁸ The calculation of the tax burden borne by individuals in each of the provinces takes into account tax rates, surtaxes, tax credits and provincial allowances for children. In Québec, contributions to the health services fund and the anti-poverty fund (Fonds de lutte contre la pauvreté par la réinsertion au travail) are included. Finally, the Québec tax abatement of 16.5% is subtracted from the difference in the tax burden.

⁹ QUÉBEC. Ministère des Finances. Commission parlementaire sur la réduction de l'impôt des particuliers. *Effort fiscal comparé des contribuables québécois*. October 1999.

The difference in the tax burden is reduced significantly as compared to most of the provinces. For example, Québec's tax burden becomes lower than that of Saskatchewan, and the gap between Québec and British Columbia narrows by 41%. In addition, despite the tax cuts announced in both of these provinces, Québec's tax burden will decrease by 14% as compared to that of Alberta and by 8% as compared to that of Ontario.

TABLE 22

**DIFFERENCE IN THE TAX BURDEN IN QUÉBEC AND THE OTHER PROVINCES
DETERMINED BY APPLYING THE TAX STRUCTURE OF THE OTHER PROVINCES TO
QUÉBEC — PERSONAL INCOME TAX**

	1999	Fully implemented¹	Decrease in difference
	(millions of \$)	(millions of \$)	(%)
Difference Québec - other provinces²			
Ontario	-5 779	-5 341	-8
Alberta	-4 828	-4 150	-14
British Columbia	-4 046	-2 406	-41
Nova Scotia	-3 300	-2 394	-27
Prince Edward Island	-2 676	-1 123	-58
New Brunswick	-2 599	-1 040	-60
Manitoba	-1 911	-436	-77
Saskatchewan	-1 584	77	-105
Newfoundland	-1 321	-2 707	105
Average difference	-3 116	-2 169	-30
<i>As a percentage of Québec tax</i>	<i>-20</i>	<i>-16</i>	

1. The estimate takes into account the federal and provincial measures announced as at March 15, 2000.

2. The Québec tax abatement of 16.5% is subtracted from the difference in the tax burden.

□ **Reduction in the tax burden differential for all taxpayers**

The differences in the taxes paid by Québec taxpayers and those of other provinces will be considerably reduced, both for families and single persons. In addition, the benefit granted by the Québec tax system to low-income taxpayers is improved.

• **Two-earner couples with two children**

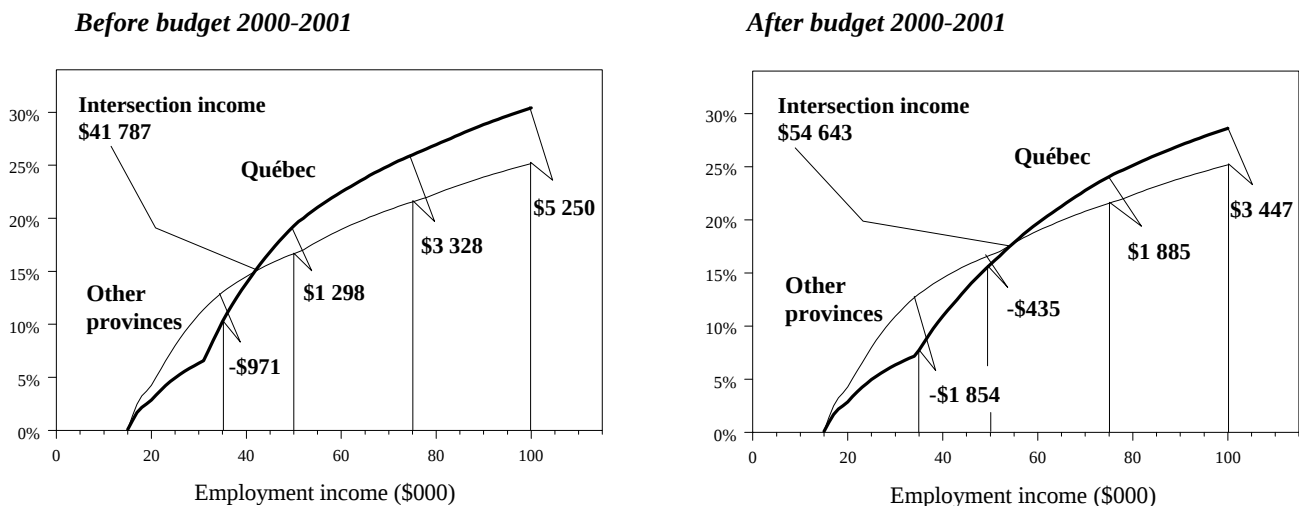
The benefit granted by the Québec tax system to middle-class families will increase. Thus, a couple with two children will pay less tax in Québec than it would elsewhere in Canada up to an income of \$54 643, as compared to \$41 787 without the tax reduction.¹⁰ For example, a couple earning \$50 000 will go from a situation in which they would pay \$1 298 more in taxes on average elsewhere in Canada to one in which they will pay \$435 less.

In addition, the difference in the amount of tax paid is reduced from:

- \$3 328 to \$1 885 for a family with an income of \$75 000;
- \$5 250 to \$3 447 for an income of \$100 000.

GRAPH 9

COMPARISON OF AVERAGE TAX RATES IN QUÉBEC AND THE OTHER PROVINCES FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES^{1,2} - 2002



1. Federal and provincial income tax including the impact of the federal and provincial measures announced as at March 15, 2000.
2. The average tax rate for the other provinces is equal to the mean of the average tax rate calculated for each of the provinces.

¹⁰ Appendix 3 provides a comparison of average tax rates in Québec and Ontario.

Only higher-income families will continue to be taxed at a higher rate than the Canadian average, but the difference is lowered to close to 10%.

TABLE 23

**COMPARISON OF AVERAGE TAX RATES IN QUÉBEC AND THE OTHER PROVINCES
FOR A COUPLE WITH TWO CHILDREN AND TWO EMPLOYMENT INCOMES**
(as a percentage)

Average tax rate¹	Employment income (\$)				
	35 000	50 000	60 000	75 000	100 000
Québec in 2002					
— Before Budget	10.2	19.3	22.5	26.0	30.4
— After Budget	7.7	15.8	19.7	24.1	28.6
Other provinces in 2002²	13.0	16.7	19.0	21.5	25.2
Difference with other provinces (%)					
— Before Budget	-21.3	15.6	18.6	20.6	20.9
— After Budget	-40.7	-5.2	3.9	11.7	13.7

1. Federal and provincial income tax including the impact of the federal and provincial measures announced as at March 15, 2000.

2. The average tax rate for the other provinces is equal to the mean of the average tax rate calculated for each of the provinces.

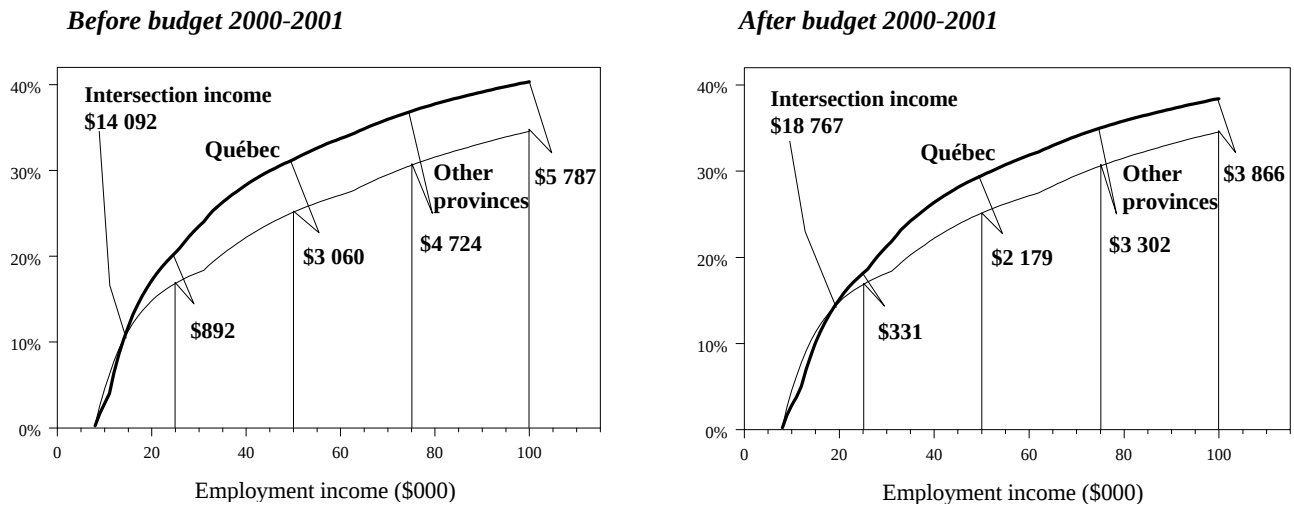
- **Persons living alone**

A person living alone will pay less tax in Québec than in the other provinces, on average, up to an income of \$18 767, as compared to \$14 092 before the tax cut. At higher income levels, the difference in the amount of tax paid is considerably reduced from:

- \$892 to \$331 for an income of \$25 000;
- \$4 724 to \$3 302 for an income of \$75 000.

GRAPH 10

COMPARISON OF AVERAGE TAX RATES IN QUÉBEC AND THE OTHER PROVINCES FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE^{1,2} - 2002



1. Federal and provincial income tax including the impact of the federal and provincial measures announced as at March 15, 2000.
2. The average tax rate for the other provinces is equal to the mean of the average tax rate calculated for each of the provinces.

The reduction in the average tax rates narrows the gaps where they were the widest, that is, with respect to middle-income taxpayers. Indeed, without the tax reduction, a taxpayer earning \$35 000 would pay 29.7% more tax than elsewhere in Canada. Thanks to the tax reduction of \$732, this gap will now dwindle to 19.4%. For persons living alone who earn \$75 000, the current discrepancy of 20.6% will be reduced to 14.4%.

TABLE 24

**COMPARISON OF AVERAGE TAX RATES IN QUÉBEC AND THE OTHER PROVINCES
FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE**
(as a percentage)

Average tax rate¹	Employment income (\$)				
	25 000	35 000	50 000	75 000	100 000
Québec in 2002					
— Before Budget	20.4	26.3	31.3	36.9	40.3
— After Budget	18.2	24.2	29.5	35.0	38.4
Other provinces in 2002²	16.8	20.3	25.1	30.6	34.6
Difference with other provinces (%)					
— Before Budget	21.2	29.7	24.3	20.6	16.7
— After Budget	7.9	19.4	17.3	14.4	11.2

1. Federal and provincial income tax including the impact of the federal and provincial measures announced as at March 15, 2000.

2. The average tax rate for the other provinces is equal to the mean of the average tax rate calculated for each of the provinces.

□ ***Reduction of the maximum marginal tax rate***

The decrease in the maximum marginal tax rate allows the current gap of some two percentage points between the maximum rate in Québec and the average rate for the other provinces to be maintained. The maximum marginal tax rate in Québec will be reduced from 52.1% in 1999 to 48.2% in 2002.

TABLE 25

COMPARISON OF MARGINAL TAX RATES ON THE HIGHEST INCOMES¹
(as a percentage)

	1999	2000 ²	Fully implemented ²
Québec	52.1 ³	50.7	48.2
Other Canadian provinces			
Alberta	45.2	43.7	40.0
New Brunswick	49.7	49.2	47.8
Ontario	48.8	47.9	43.7
Nova Scotia	49.2	48.8	47.3
Manitoba	49.0	48.1	46.6
Prince Edward Island	49.5	49.1	47.7
Saskatchewan	50.8	50.4	48.9
British Columbia	52.3	51.3	49.8
Newfoundland	52.9	50.2	44.6
Average of other provinces	49.7	48.8	46.3
Difference Québec - other provinces	2.4	1.9	1.9

1. The maximum marginal tax rate corresponds to the combined federal and provincial rate at which each additional dollar on the highest income is taxed.
2. Includes the impact of the federal and provincial measures announced as at March 15, 2000.
3. Does not include the 0.3% contribution to the anti-poverty fund (Fonds de lutte contre la pauvreté par la réinsertion au travail).

2.4 Full indexation of the tax system

During periods of inflation, non-indexation of the tax system automatically increases the tax burden. For example, when a taxpayer's salary increases with inflation, the progressivity of the tax system triggers an increase in his average tax rate. The resulting increase in taxes thus weakens this taxpayer's purchasing power.

In order to counter this effect, it may be advisable to index the tax system. However, this implies a financial impact for the government. For example, indexing the tax system by 1% over one year represents an impact of some \$100 million.¹¹

□ *Two options*

In order to eliminate the effects of inflation on purchasing power, two options can be envisaged:

- Automatic indexation of all parameters of the tax system;
- Broad-based reduction of personal income tax.

The second option, that is, broad-based personal income tax reduction, is more advantageous for taxpayers when its impact is greater than that of indexation. However, when no structural changes are made to the system, automatic indexation preserves taxpayers' purchasing power.

¹¹ Source: QUÉBEC. Ministère des Finances. Commission parlementaire sur la réduction de l'impôt des particuliers. *L'indexation du régime d'imposition et des transferts aux particuliers*. October 1999.

□ *Ensuring full indexation*

The government has decided to combine these two options in order to permanently protect taxpayers' purchasing power while providing them with tax breaks that go far beyond simple indexation.

- For 2000, 2001 and 2002, the reduction of tax rates announced in this Budget Speech more than offset the increase in the tax burden caused by cost-of-living increases.

As indicated in the table below, every year the government will grant a tax reduction that is greater than what is necessary to protect taxpayers against the effects of inflation. This amount is set at \$550 million for 2002-2003, but the government is injecting an additional \$1.5 billion, for a total reduction of \$2 billion.

- Beginning in 2003, this protection will be maintained through automatic indexation of the tax system. If economic conditions allow, further tax cuts will be introduced.

TABLE 26

INDEXATION OF THE TAX SYSTEM AND ADDITIONAL TAX REDUCTION

(in millions of dollars)

	2000-2001	2001-2002	2002-2003
Tax reduction required to offset inflation ¹	250	400	550
Additional tax reduction	750	1 100	1 450
Total tax reduction	1 000	1 500	2 000

1. The amount corresponds to the impact of indexing the tax system from January 2000 to March 2003, based on inflation rates of 1.9% in 2000 and 1.6% on average in the years following.

CONCLUSION

Personal income tax reduction means immediate benefits for all taxpayers. As this document clearly illustrates, the major changes made to the tax system will significantly reduce the tax burden of all tax-paying households, while at the same time removing more taxpayers from the Québec tax rolls.

These changes to the personal income tax system were made with a clearly expressed priority: the reduction in taxes must first and foremost benefit the middle class and families, whose tax burden is particularly heavy. This is the government's response to a message clearly expressed by the public – a message relayed last fall during the parliamentary committee hearings on personal income tax reduction.

By elaborating a new tax table, granting an additional tax reduction to families and fully indexing the tax system, the government is in fact meeting the different expectations voiced with regard to the current tax system: thanks to the measures announced in the 2000-2001 Budget Speech, the tax system will become more equitable for the middle class and families, more conducive to employment and more competitive, while henceforth ensuring that taxpayers enjoy lasting protection against inflation.

This personal income tax reduction thus heralds a significant change in personal taxation. It significantly improves the situation of taxpayers, and is designed to enable Quebecers to benefit directly from a sound financial position and a stronger economy.

Appendices

Appendix 1: The parliamentary committee on personal income tax reduction

In the fall of 1999, the Québec government held parliamentary committee hearings on personal income tax reduction. The public was consulted on how to implement the \$1.3-billion tax reduction announced in the 1999-2000 Budget Speech.

The hearings took place over a six-week period in October and November of 1999. Numerous participants came before the committee to express their opinions and make recommendations concerning the tax reductions that were to come.

A total of 48 briefs were presented by citizens from various backgrounds and milieus of Québec society – business associations, unions, socio-economic groups, retired persons, youth groups, other groups and individuals.

❑ *Participants' recommendations*

In the document *Personal Income Tax Reduction: Discussion Paper*, the government set forth five tax reduction proposals as a basis for discussion of how the reductions should be implemented. These proposals were commented on at length in the briefs submitted and during the presentations made to the committee members. The viewpoints expressed were numerous, varied and enriching, and the discussions with the members of the National Assembly sitting on the committee allowed the proposals to be expanded upon. Reflecting diverse interests, the opinions expressed often differed considerably, and even the orientations and recommendations tabled diverged widely in several cases.

For the most part, the participants in the committee hearings were in favour of reducing personal income tax. However, some of them expressed reservations as to the relevance of cutting taxes in the current context, pointing out that government reinvestment in health care and education was more of a priority than easing the taxpayers' burden. Several groups, on the other hand, voiced their desire to see the government make a firmer commitment to providing tax relief by implementing cuts above and beyond the announced amount of \$1.3 billion.

- **New tax table**

The orientations proposed by the participants in the hearings with respect to the choice of a new tax table were, for the most part, highly relevant to the objectives pursued by each of them.

- Some of the participants made low-income households their focus, emphasizing that the purchasing power of this category of citizens has decreased in recent years.
- Others pointed out that the highest tax burden was in fact shouldered by the middle class.
- Several participants, meanwhile, stressed that it was necessary to ease the tax burden of high-income taxpayers in order to boost Québec's competitiveness in comparison to that of its trading partners.

The following table shows the main recommendations formulated by the participants during the parliamentary committee hearings.

TABLE A.1

**MAIN RECOMMENDATIONS FORMULATED DURING THE
PARLIAMENTARY COMMITTEE HEARINGS – TAX SYSTEM**

Recommendations or suggestions	Number of briefs endorsing these recommendations
Recommendations specifically targeting low-income taxpayers, including:	27
▪ take low-income taxpayers into account	
▪ maintain or increase the progressivity of the tax system	
▪ raise the basic personal exemption as well as the tax credits	
Recommendations in favour of easing the middle-class tax burden	16
Recommendations specifically targeting high-income taxpayers, including:	17
▪ reduce the progressivity of the tax system	
▪ adjust the excessive marginal tax rates	
Recommendations aimed specifically at improving assistance for families	12
Other recommendations targeting taxpayers as a whole, including:	
▪ protect taxpayers against inflation	17
▪ reduce taxes by more than \$1.3 billion	14
▪ do not increase the QST rate in order to finance the personal income tax reduction	17
▪ simplify the tax system	5

Analysis of the recommendations and suggestions underscores the following points:

- As a whole, the tax status of low- and middle-income households and families appears to have been at the centre of the concerns of a large number of participants, who often expressed a parallel wish to see the progressivity of the tax system maintained or increased.
- A number of participants emphasized the fact that all families need tax relief, especially as concerns expenses related to children.
- Others focused more on the treatment of high-income taxpayers. Since the tax burden in Québec is heavier than elsewhere, they suggested that the number of tax rates be reduced and additional tax exemptions granted. The goal was to provide better incentives to these taxpayers and avoid motivating them to move to jurisdictions where they would be taxed less steeply.
- In general, participants rejected the idea of partially financing the personal income tax reduction by raising the Québec sales tax rate.

- **The progressivity of the tax system**

As indicated during the committee hearings, Québec's current tax system is one of the most progressive in North America. As mentioned above, several participants felt that this progressivity should be maintained and even increased, while others, less numerous, were of the opinion that progressivity should be reduced in order to avoid the negative effects heavy taxation of high-income taxpayers has on competitiveness.

- **Implicit marginal tax rates**

The phenomenon of implicit marginal taxation was discussed during the committee hearings. The experts who broached this issue themselves acknowledged that it was difficult to find a comprehensive solution to the problem. Most participants who discussed it said that the phenomenon was cause for concern and that corrective action should gradually be taken in order to mitigate it.

- **Taking the effects of inflation into account**

Another of the participants' main expectations pertained to the consideration of the effects of inflation. A substantial number of participants raised this issue in their briefs and all of them, regardless of the stakeholders they represented, felt that the government should ensure that inflation did not automatically push up taxation levels.

- ***Measures that meet public expectations***

The government's intention was to take into account the opinions and concerns expressed during the parliamentary committee hearings. The ways and means of achieving the announced tax reduction thus take into consideration, as a whole, the above-mentioned points.

- The focus is on middle-class households and families. However, lower-income households also benefit, since they, too, receive sizeable tax breaks. In fact, substantial tax cuts have been granted to all households, thereby meeting the expectations voiced.
- The changes to the personal income tax system include the maintenance of a three-rate tax table, which in turn ensures preservation of a progressive tax system. In this way, the government has addressed one of the participants' principal concerns.
- The planned tax cuts amply offset any decrease in the purchasing power of households which could be triggered by inflation; in addition, the government will implement automatic indexation as of 2003.
- In reducing taxes by \$2 billion, the government goes beyond what was originally announced, as many had requested. It does so without resorting to additional financing, as many had feared.

Appendix 2: Tax thresholds before and after the Budget

TABLE A.2

COMPARISON OF INCOME THRESHOLDS AT WHICH TAX BECOMES PAYABLE
(in dollars)

	Current system	System after Budget		
		2000	2001	2002
Couple with one child				
- one employment income	28 547	29 034	29 958	31 061
- two employment incomes	28 957	29 477	30 768	32 326
Couple with two children				
- one employment income	30 451	30 954	31 905	33 077
- two employment incomes	31 080	31 677	33 113	34 846
Single-parent family with one child	21 344	21 764	22 745	23 847
Couple under 65 years of age with no children				
- one employment income	19 354	19 487	20 389	21 407
- two employment incomes	19 354	19 487	20 389	21 407
Retired couple aged 65 or older	25 564	25 740	26 711	27 753
Single person under 65 years of age				
- living alone	10 884	10 959	11 448	12 000
- sharing a dwelling	9 677	9 743	10 194	10 703
Single person aged 65 or older				
- living alone	14 564	14 664	15 270	15 953
- sharing a dwelling	13 357	13 448	14 016	14 656

Note: For couples with two employment incomes, it is assumed that one spouse earns 60% of the household income, and the other, 40%. In the case of taxpayers under 65 years of age, income is employment income. For taxpayers aged 65 or older, income includes retirement and investment income, as well as old age security pension payments including, where applicable, those of the spouse.

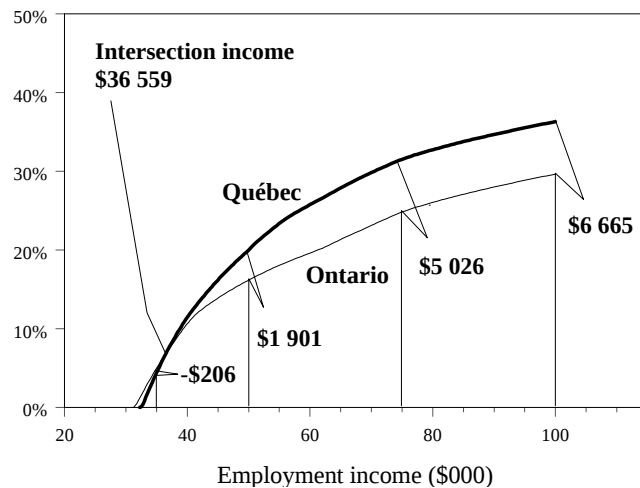
Appendix 3: Comparison of average tax rates in Québec and Ontario

A couple with two children will pay less tax in Québec than in Ontario, up to an income of \$45 721 instead of \$36 559.

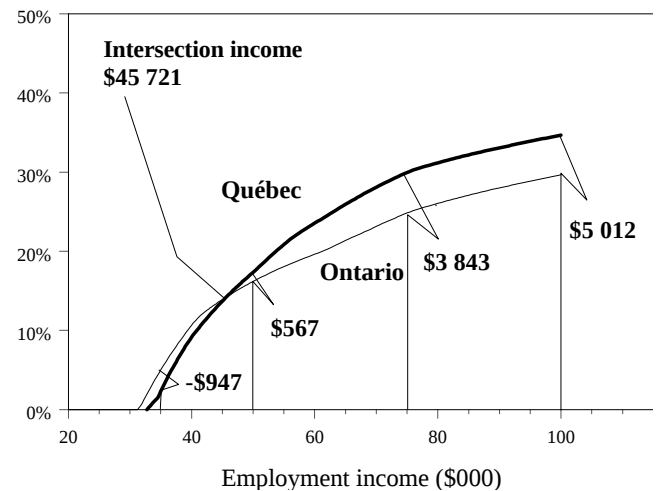
GRAPH A.1

AVERAGE TAX RATES FOR A COUPLE WITH TWO CHILDREN AND ONE EMPLOYMENT INCOME¹ - 2002

Before Budget 2000-2001



After Budget 2000-2001



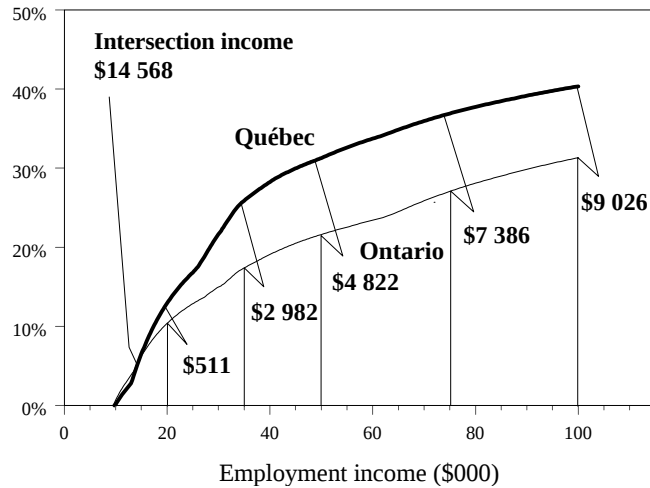
1. Federal and provincial income tax, minus refundable tax credits, the child tax benefit and the family allowance. This includes the impact of the federal and provincial measures announced as at March 15, 2000.

A person living alone will pay less tax in Québec than in Ontario, up to an income of \$18 562 instead of \$14 568.

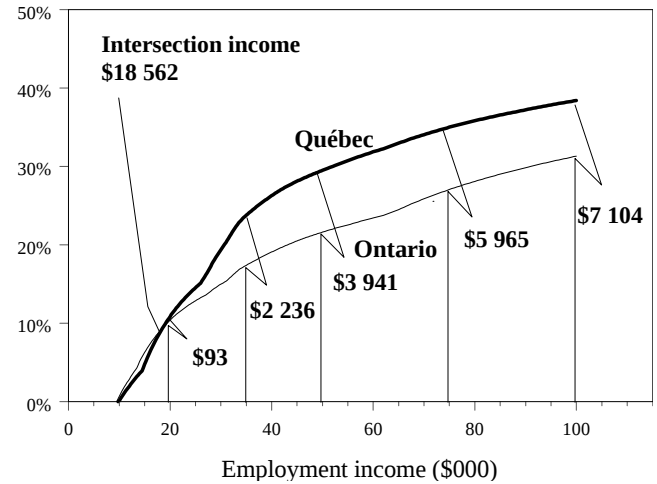
GRAPH A.2

AVERAGE TAX RATES FOR A PERSON UNDER 65 YEARS OF AGE WHO LIVES ALONE¹ - 2002

Before budget 2000-2001



After Budget 2000-2001



1. Federal and provincial income tax, minus refundable tax credits and including the impact of the federal and provincial measures announced as at March 15, 2000.

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