Corporate Tax Statistics

(Taxation Years 1993-1994)

Summary

Early in 1998, the ministère des Finances du Québec released *Les Statistiques fiscales des sociétés* for taxation years 1993 and 1994. In addition to showing income tax, the tax on capital and the contribution to the Health Services Fund (HSF), each document gives a detailed picture of the main components used to calculate them, as well as the change compared to the year before.

Highlights for taxation year 1994
— There were 242 663 corporations with at least one place of business in Québec.
— Tax levies from corporations with at least one establishment in Québec amounted to $4.4 billion, up 3.9% compared to 1993. More than 40% of this amount, i.e., $1.9 billion, is attributable to the HSF contribution. Income tax and the tax on capital generated $1.1 billion and $1.4 billion, respectively 24.8% and 32.3% of the total collected.
— Income tax rose 9.6% compared to 1993 mainly because of the increase in taxable income in Québec. In particular, the rise in taxable income resulted from the increase of 8.8% in net earnings of corporations that earned profits (net positive earnings). The following sectors registered particularly large increases in earnings: manufacturing (43.8%); agriculture, fisheries and forest operations (41.5%); government, personal and business services (13.7%).
— Furthermore, 142 487 corporations, accounting for 58.7% of the total, paid no income tax in 1994. In most of these cases, this is because they declared negative net income for tax purposes. For the others, either the corporations were inactive in 1994 or they declared positive net income for 1994 but were able to reduce their income to zero by applying deductions for losses in other years and for taxable dividends.
— Most of the corporations that paid no income tax in 1994 did, however, pay the tax on capital (87.5%). More than half (50.8%) paid the HSF contribution.
— The average tax rate was 8.5%, down 0.2 percentage points compared to 1993.

SUMMARY OF CORPORATE TAX LEVIES
QUÉBEC 1993 to 1994

Taxation year	1993	1994	Change 1994/1993
	Number	Number	%
Number of corporations	230 355	242 663	5.3
Tax bases (millions of dollars)	Amount	Amount	%
Net positive earnings [1]	45 603	49 618	8.8
Taxable income in Québec [2]	11 480	12 850	11.9
Paid-up capital in Québec [3]	210 984	213 207	1.1
Wages paid in Québec	48 943	50 667	3.5
Tax levies (millions of dollars)			
Tax payable in Québec	1 000	1 096	9.6
Tax on capital [4]	1 425	1 432	0.5
HSF contributions	1 835	1 900	3.5
Total tax levies	4 260	4 428	3.9
Average tax rate (percentage)	Proportion	Proportion	% point
Tax payable in Québec / Taxable income in Québec	8.7	8.5	-0.2

[1] Positive net earnings correspond to the earnings of corporations that earned profits. Taking account of the net earnings of corporations that declared losses (-$20 774 million), earnings for all corporations amounted to $28 844 million in 1994.

[2] Obtained by applying the proportion of business done in Québec to world taxable income.

[3] Obtained by applying the proportion of business done in Québec to paid-up capital.

[4] Including the amount paid in lieu of the tax on capital by insurance companies.

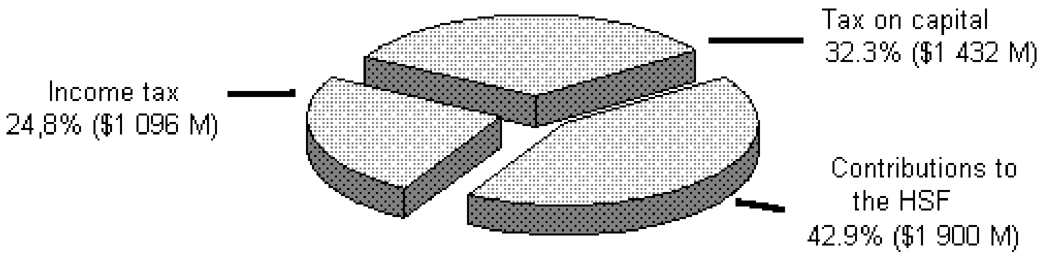
Tax Levies

Québec's corporate tax system is based on three levies: the income tax, the tax on capital and the contribution to the Health Services Fund (HSF). In 1994, these three levies totaled $4.4 billion.

— Distribution by type of tax levy

In 1994, the contribution to the HSF accounted for 42.9% of total tax levies. The tax on capital amounted to more than one third of tax levies, while income tax contributed 24.8% notably because a large number of corporations (37% of the total) suffered losses in 1994 and thus were not taxable.

Tax levies
($4 428 million)



—Distribution by company size [1]

In 1994, small businesses paid $1.1 billion in tax levies, or 24.6% of the total, but filed 92.8% of all tax returns. Large companies paid 56.5% of all tax levies and filed 1.4% of returns. Lastly, medium-size enterprises accounted for 18.9% of tax levies.

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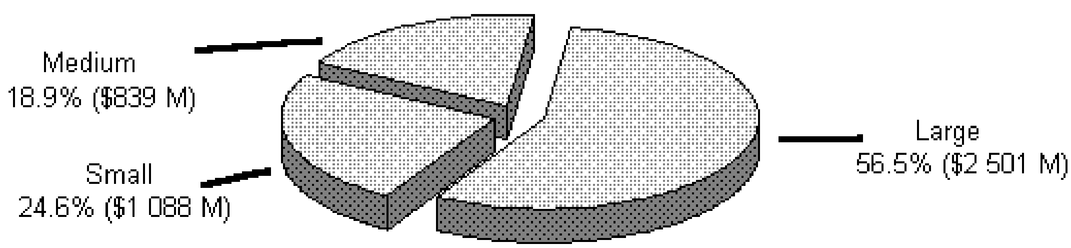
[1] For sectors other than manufacturing, small businesses are those with gross income of less than $2 million; medium-size businesses are those with gross income of between $2 and $20 million; and large companies are those with gross income in excess of $20 million. Small businesses in the manufacturing sector are those with total assets of less than $3 million; medium-size businesses are those with total assets of between $3 and $12 million; and large companies are those with total assets in excess of $12 million.

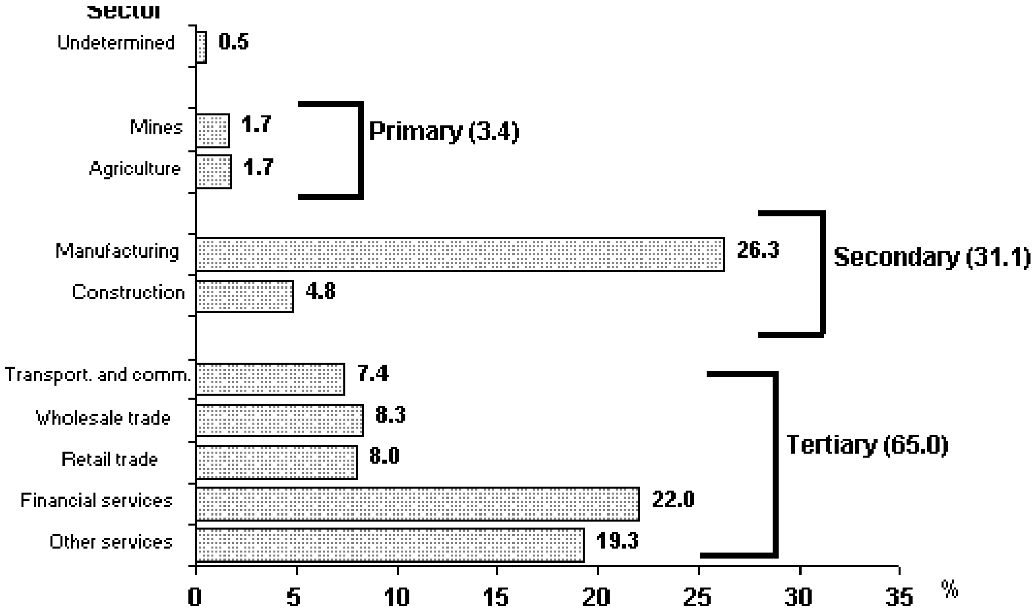
Tax levies by company size
($4 428 million)



—Distribution by sector of economic activity[2]

The tertiary sector paid 65% of total tax levies, with the primary and secondary sectors accounting for 3.4 and 31.1% respectively. In particular, the financial services sector and the manufacturing industry paid 48.3% of the $4.4 billion in tax levies.

Tax levies by sector of economic activity
($4 428 million)



[2] The agriculture sector includes agriculture, fisheries and forest operations; the mines sector includes mines, quarries and oil wells; the transportation sector includes transportation, communications and public services; the financial sector includes banks, insurance companies, investment companies and real estate services; the other services sector includes government services, services to businesses and personal services.

Income Tax

In 1994, Québec income tax payable amounted to $1 096 million. Québec income tax payable is obtained by applying the proportion of the corporation's business done in Québec[3] to its total tax, which is determined by applying tax rates[4] to its taxable world income.

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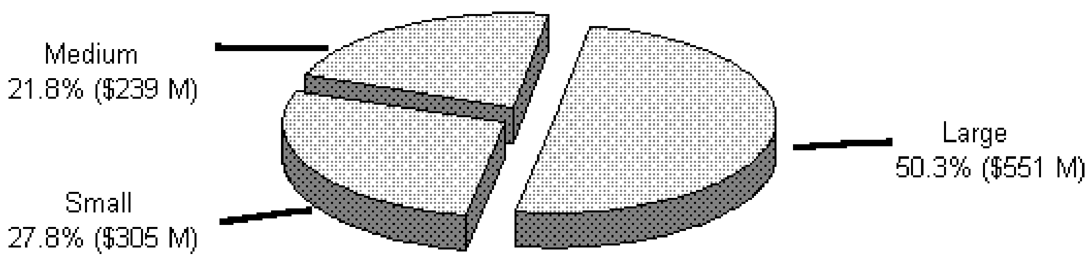
[3] To calculate income tax and the tax on capital, the proportion of a company's business done in Québec corresponds to the average of the proportions of income and wages paid in Québec [0.5 * (wages in Québec/total wages) + 0.5 * (income in Québec/total income)]. The calculation of the proportion of business done in Québec differs for insurance companies, banks, trust companies and the various types of transportation companies.

[4] The Québec income tax applicable to corporations is determined according to a scale of three tax rates that depend on the type of income and the size of the company. First, a company's passive income, notably interest, dividends and other property income, is taxed at 16.25%. Second, active income, such as income from operating a store, a manufacturing company and financial intermediation activities, is taxed at 8.9%. Lastly, for active income, some Canadian-controlled private companies are eligible for the small business deduction corresponding to a reduction of the rate from 8.90 to 5.75% on the first $200 000 of active income.

—Distribution by company size

Large companies pay about half of Québec income tax payable while the net earnings of large companies that earned profits accounted for 73.6% of total net positive earnings. This difference stems largely from the fact that these companies do only part of their business in Québec (31.6%) and are not taxed in Québec on the portion of their earnings attributable to other jurisdictions. Medium and small businesses paid 21.8 and 27.8% of the total.

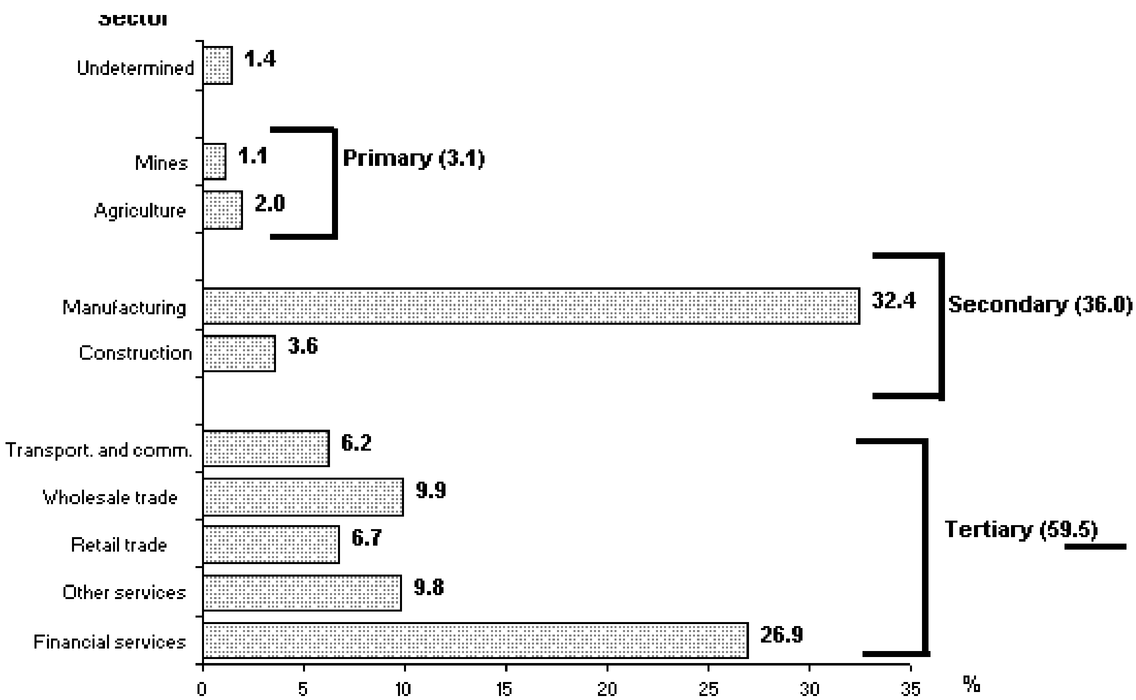
Québec income tax payable by company size
($1 096 million)



— Distribution by sector of economic activity

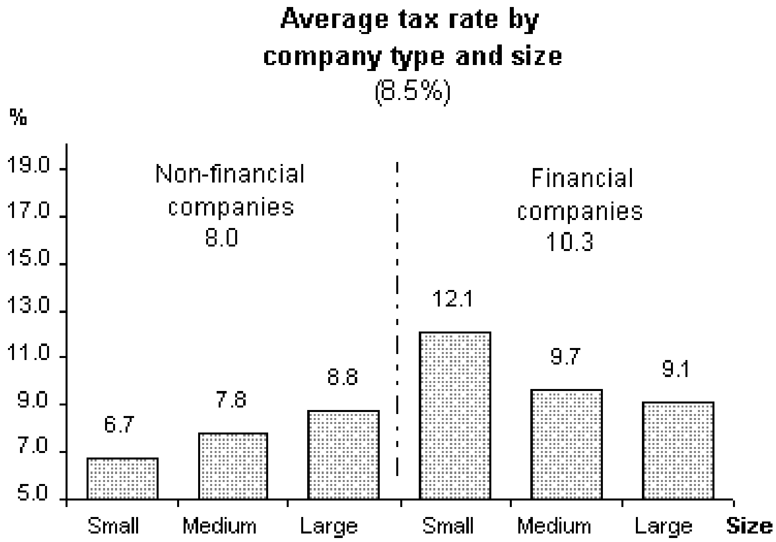
In 1994, the tertiary sector paid the largest share of Québec income tax payable, namely 59.5% of the total, mainly because of the large number of companies in the sector (73.4% of companies that filed a return). In addition, the tertiary sector includes financial companies many of which earn passive income not eligible for reduced tax rates. The secondary sector accounted for 36% of income tax payable. This sector includes, among others, manufacturing companies which paid 32.4% of Québec income tax payable. The primary sector paid only $34 million in Québec income tax, a proportion of 3.1% of total income tax payable.

Québec income tax payable by sector of economic activity
($1 096 million)



— Average tax rates by company type and size

In 1994, the average tax rate of financial companies, i.e., Québec tax payable as a proportion of taxable income in Québec, was 10.3%, more than two percentage points higher than that of non-financial companies. This difference is attributable mainly to the fact that many financial companies are small investment corporations which earn passive income and are taxed at the general rate of 16.25% on this income. The average tax rates of small financial companies was 12.1%, in contrast with that of small non-manufacturing companies, which was 6.7%.

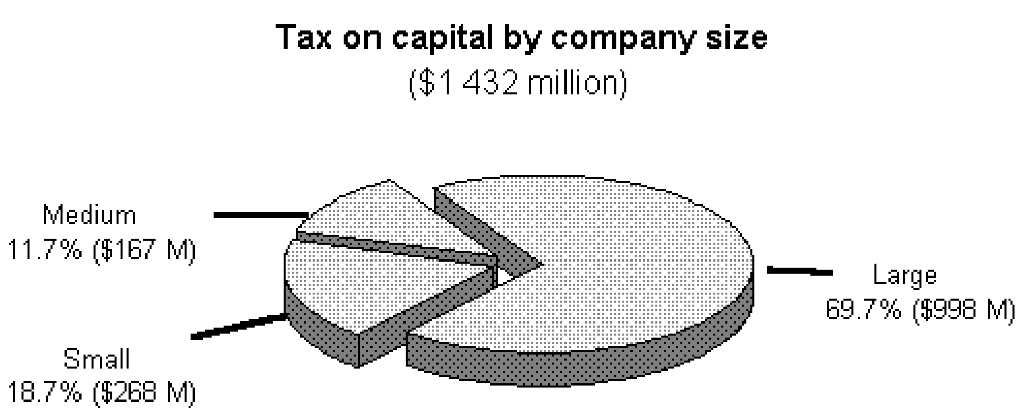


Tax on Capital

The tax on capital is collected from private sector corporations and government corporations that are commercial in nature. For corporations other than insurance companies, the tax on capital is imposed on the corporation's paid-up capital as shown in its books and financial statements. Insurance companies are subject to a levy in lieu of the tax on capital calculated on the basis of the premiums payable stipulated in an insurance contract. The rates applicable to paid-up capital are 0.56% for corporations other than financial institutions and 1.12% for financial institutions. For insurance companies, the rate applicable to life and health insurance is 2%, while general insurance premiums are taxed at 3%.

— Distribution by company size

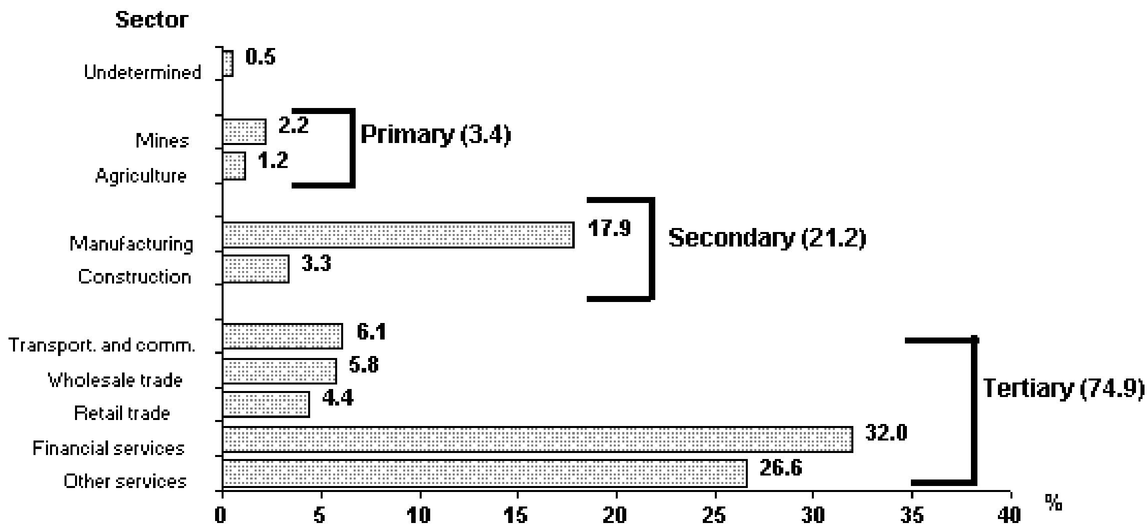
Large companies paid 69.7% of the tax on capital, a higher proportion than that of Québec income tax payable (50.3%). This is partially attributable to the fact that large corporations are generally more capital-intensive than small and medium-size corporations. In addition, the proportion of tax on capital paid by small businesses is 18.7%, which is lower than their share of tax payable (27.8%). Medium-size businesses accounted for 11.7% of the tax on capital.



— Distribution by sector of economic activity

Almost three-quarters (74.9%) of the tax on capital is paid by companies in the tertiary sector, which is greater than their share of Québec income tax payable (59.5%). This stems from the fact that the proportion of the tax on capital paid by the other services sector (26.6%) is much higher than its share of Québec income tax payable (9.8%). This result is attributable to the fact that this sector includes government corporations exempt from income tax while some of them, corporations of a commercial nature, are subject to the tax on capital.

Tax on capital by sector of economic activity
($1 432 million)

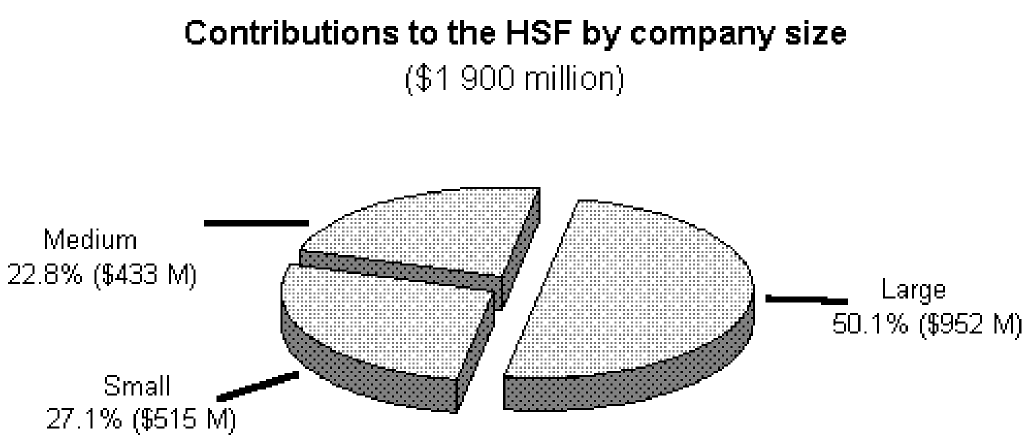


Contributions to the Health Services Fund (HSF)

The contribution to the HSF applies to all corporations, whether in the public or private sector. It is assessed at 3.75% of the corporation's total payroll plus the value of taxable benefits granted to employees.

— Distribution by company size

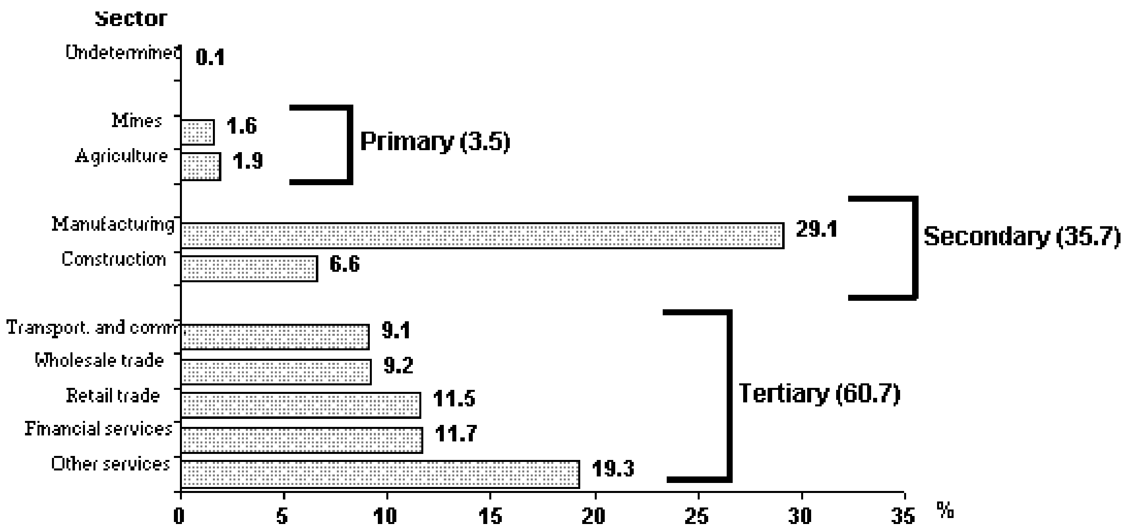
About half the contributions to the HSF are paid by large companies (50.1%). The proportions for small and medium-size businesses are 27.1 and 22.8% respectively.



— Distribution by sector of economic activity

The tertiary sector accounts for the largest share of contributions to the HSF (60.7% of the total) while the secondary and primary sectors contribute 35.7 and 3.5% of the total respectively. The manufacturing industry has the highest proportion of contributions paid (29.1%).

Contributions to the HSF by sector of economic activity



($1 900 million)

Copies of *Statistiques fiscales des sociétés* for taxation years 1993 and 1994 are available from:

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Sainte-Foy (Québec)
Tel : (418) 643-5150 or 1 800 463-2100