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Highlights of the report of the Quebec Taxation Review Committee

The following is Deloitte's summary of the Quebec Taxation Review Committee report.

Context and mandate of the Committee

In June 2014, the government of Quebec established the Quebec Taxation Review Committee to analyze the province's taxation system and propose reform. The Committee, chaired by tax expert Luc Godbout, presented its report to the Minister of Finance on February 6, 2015. The report was made public today.

As defined by the government, the Committee's objectives were as follows:

- identify reductions to be made in tax expenditures in order to attain the targets set in the 2014-2015 budget, based on an examination of the relevance and efficacy of the expeditures;
- examine the Quebec taxation system to enhance its efficiency, fairness and competitiveness and to ensure funding for public services;
- compare international taxation trends, in particular with respect to the practices of proximate neighbours such as the United States and the other Canadian provinces;
- examine the possibility of rethinking the balance between different modes of taxation;
- attentively review the business taxation system to propose avenues that will better support economic growth;
- analyze the personal income tax system, in particular to further encourage work and saving and optimize user fees while ensuring fair redistribution of collective wealth through the maintenance of adequate support for the poorest members of society; and
- assess the possibility of subjecting to taxation certain user fees in respect of public services in order to take into account the users' ability to pay, bearing in mind the impact on the implicit marginal taxation rates.

Deloitte has supported the deliberations of the Committee from the very beginning, and Luc Villeneuve, President of Deloitte in Quebec, was one its members. Deloitte is calling on the government to engage in open discussions with principal stakeholders on the various measures put forward in the Committee's report.

The proposed reform focuses mainly on reductions to personal income tax, corporate income tax and payroll tax. This reform is zero cost to taxpayers, as certain proposals come with recommendations on how to fund them.

The tax and economic highlights contained in the Committee's report are summarized below.

Personal income tax system

Quebec has one of the highest personal income tax burdens as a percentage of GDP.

The Committee proposes a reduction in personal income tax by:

- eliminating the **health contribution** (of up to $1,000);
- increasing the **basic personal amount** to $18,000;
- implementing a **general reduction in income tax**, combined with a **more progressive tax rate schedule** (the upper marginal rate would remain unchanged at 25.75%, but would apply at a higher income level); and
- ensuring that the **maximum marginal tax rate,** including federal taxation, not exceed 50%.

The Committee recommends replacing the tax credit for experienced workers by a **premium for experienced workers** to be added to the **work premium.** This new tax credit would be a major incentive for experienced workers to stay or return to the labour market and would apply as of age 60.

Corporate tax system

The Committee's various corporate tax recommendations focus on five areas:

- a reduction in the general corporate tax rate from 11.9% to 10%;
- the introduction of a "growth premium" for small and medium enterprises (SMEs) to replace the existing small business deduction;
- a reduction in the payroll tax rate for SMEs (Health Services Fund contribution);
- capital gains taxation; and
- the revision of tax expenditures.

Revision of certain sector-specific tax credits

Tax credit for the production of multimedia titles: The Committee recommends that this tax credit be enhanced to partly reverse the tightening of measures announced on June 5, 2014. The rate for Category 1 multimedia titles would increase from 24% to 28% and the Category 2 rate would rise from 21% to 25%. The rate of the French production premium under Category 1 would be increased from 6% to 7%. The Committee recommends that this enhancement be accompanied by the addition of a ceiling on the tax credit equivalent to $25,000 per year per eligible job.

The scientific research and experimental development tax credit (SR&ED): The Committee recommends maintaining the tax credit in its current form and in accordance with the amendments announced in 2014, namely, keeping the SR&ED tax credit for large businesses at 14% and the SR&ED tax credit for SMEs at 30%. The Committee also recommends budget measures be introduced to support the marketing by SMEs of the outcomes of research and development.

Tax credit for the development of e-business (CDAE): The Committee recommends that the CDAE be maintained in its current form until its scheduled expiry date on December 31, 2025, but that it not be renewed thereafter.

Tax credit for the integration of information technologies in manufacturing SMEs: The Committee recommends lifting the moratorium on this tax credit that was announced in June 2014.

Tax holiday for large investment projects: The Committee recommends maintaining the tax holiday for large investment projects and, upon its scheduled expiry in 2015, the outcomes obtained should be examined to ascertain its genuine impact and use before it is extended.

Investment tax credit for manufacturing and processing equipment: For the central regions, the Committee recommends the immediate abolition of the basic investment tax credit. For the regions eligible for the enhanced rate—remote and intermediate regions—the Committee recommends the complete abolition of the tax credit in 2018. Until the tax credit's abolition, the rate applicable in these regions would be reduced in accordance with the immediate abolition of the tax credit for the central regions. At present, the rate in the central regions is 8% for SMEs and 4% for corporations with paid-up capital equivalent to or greater than $500 million. Thus, the rate applicable in remote and intermediate regions would be reduced by eight percentage points for SMEs and by four percentage points for large businesses until the complete abolition of the tax credit.

User fees

The Committee's various recommendations on user fees are presented in two sections:
- user fees for reduced-contribution childcare services;
- Hydro-Québec rates.

For daycare fees, the Committee is proposing to:

- set the gross rate, before tax compensation, at $35 per day;
- make the rate eligible for the Quebec refundable tax credit for childcare expenses, which would be enhanced; and
- subsequently index the rate annually.

The Committee has formulated three recommendations concerning electricity rates in Quebec that would generate additional revenues, namely:
- increase the cost of heritage pool electricity by 0.8 cent per kilowatt-hour over two years with indexation subsequently;
- in the household sector, levy a 10% tax on overconsumption of average household electricity (i.e., consumption exceeding 80 kilowatt-hours per day); and
- commit to a long-term consideration of having electricity rates that vary depending on the time of day.

Consumption taxes

Based on the notion that, generally speaking, income taxes have more damaging effects on the economy than consumption taxes, the Committee's recommendations on consumption taxes include:

- increases to the various consumption tax rates:
  - raise the Quebec sales tax (QST) from the current 9.975% rate to 11% (this increase should be accompanied by an enhancement to the solidarity tax credit);
  - raise the tax on insurance premiums from the current 9% rate to 11%;
  - raise, commensurately with vehicle value, the additional registration fee on luxury vehicles from 1% to 3%;
  - raise the specific tax on tobacco products by $1 per year per carton of 200 cigarettes for five years (in addition to the mandatory licence to sell tobacco products, at an annual cost of $250);
  - raise the tax on alcoholic beverages by $0.078 per litre of beer per year for five years (i.e., $0.39 over five years); and
  - raise the fuel tax on gasoline and diesel by 1 cent per litre per year for five years.
- introduction of a new tax:
  - the Committee recommends examining the possibility of levying a tax on residential internet services in order to support the funding of culture-related measures.
- revision of certain tax rebate measures granted to organizations (charities, non-profit organizations, schools, colleges, universities, hospitals, municipalities), which were intended to offset the introduction of the QST in 1992 and are still in effect.

Other tax matters

The fight against tax evasion, tax avoidance and aggressive tax planning schemes

A series of measures is proposed to fight tax evasion, tax avoidance and aggressive tax planning in Quebec, inter-provincially and internationally.

Tax audits

The Committee recommends a series of measures for Revenu Québec to ensure better follow-up of taxpayer files, including:

- a dispute settlement mechanism; and
- publication of statistics concerning the proportion of new assessment notices that are maintained following an appeal or litigation.

Looking ahead

The Godbout Commission has issued a broad-ranging report that contains a considerable number of measures. It remains to be seen which of these will be included budget that will be tabled by Quebec's Minister of Finance Carlos Leitão on March 26, 2015.

For more information, we refer you to the Quebec Taxation Review Committee website.

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