

1999-2000
BUDGET

Highlights

Highlights of the Budget Speech
delivered before the National Assembly
by Bernard Landry,
Deputy Prime Minister
and Minister of State for the Economy and Finance,
on March 9, 1999.



Gouvernement du Québec
Ministère des Finances

**Message from the Deputy Prime Minister and
Minister of State for the Economy and Finance**

With this Budget, we are consolidating the virtuous circle edified in recent years. In addition, we are following up on numerous commitments made during the election campaign and, indeed, are going beyond them.

I am proud to announce that we are achieving a zero deficit in 1998-1999, one year earlier than anticipated. For the first time in 40 years, a fiscal year is ending without a deficit. A zero deficit will also be achieved in 1999-2000. It is a question of simple justice and fairness between generations.

We owe this result primarily to the sound performance of the Québec economy, which in 1998 enjoyed one of its best years in the past decade. We are immediately allocating the surpluses over forecasts to priority needs: health, education and young people, employment, the development of Québec culture and the reduction of personal income tax.

To summarize, I am tabling today a Budget that satisfies Quebecers' demands, responds to their desire to work for posterity and for prosperity, both fairness and identity, and all that underpins our national ideal.

Bernard Landry

1999-2000 Budget

IN BRIEF

- ❑ Substantial surpluses over forecasts: \$2.9 billion in 1998-1999 and \$1.1 billion in 1999-2000.
- ❑ Consequently: a zero deficit achieved in 1998-1999, one year ahead of schedule and for the first time in 40 years, and again in 1999-2000.
- ❑ Over \$1.7 billion for health.
- ❑ \$600 million for education and young people.
- ❑ Over \$300 million for job creation, particularly for young people and the regions.
- ❑ Over \$50 million to ensure the burgeoning of Québec culture.
- ❑ \$400-million reduction in personal income tax beginning on July 1, 2000.

**I. EXCELLENT RESULTS IN 1998
AND CONTINUED ECONOMIC
GROWTH IN 1999**

- ❑ Jobs created in 1998: 67 000, nearly 20 000 more than forecast, with 34 000, or one half, filled by young people, the best result in 25 years.
- ❑ Unemployment rate in 1998: below the 10% mark, the lowest rate since 1990.
- ❑ Private investment:
 - up 6.2% in 1998, four times the growth rate in Canada;
 - 42% increase since 1995;
 - additional increase of 4.1% in 1999, compared with an anticipated decline of 0.9% in Canada.

GROWTH IN ECONOMIC INDICATORS

	1998		1999
	Forecast	Actual	Forecast
Gross domestic product	2.3%	2.8%	2.1%
Employment	48 000	67 000	54 000

II. MAIN BUDGET FIGURES

Substantial surpluses over forecasts in 1998-1999 and 1999-2000

- The brisk economic performance in 1998 and the pursuit of this growth in 1999 will engender substantial budgetary spin-off.
- Surpluses over forecasts total \$2.9 billion¹ in 1998-1999 and \$1.1 billion in 1999-2000.

Surpluses over forecasts used to meet priority needs

- The government is using them to:
 - eliminate the deficit one year earlier than anticipated;
 - reinvest in health, education and employment.

1. Including \$1.4 billion in equalization payments in March 1999.

**SOURCE AND USE OF SURPLUSES OVER FORECASTS
(in millions of dollars)**

	1998-1999	1999-2000	TOTAL
Source			
Tax revenue	1 164	651	
Federal transfers	1 642 ¹	616	
Expenditure and other	58	- 201	
Total	2 864	1 066	3 930
Use			
Elimination of the deficit	1 200	—	1 200
Health	1 155	592	1 747
Education	207	393	600
Employment and other	302	81	383
Total	2 864	1 066	3 930
Deficit	0	0	

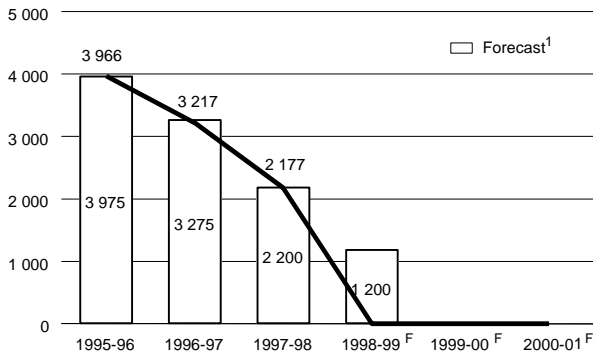
1. Including \$1.4 billion in equalization payments in March 1999.

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III. ZERO DEFICIT IN 1998-1999 AND 1999-2000

- A zero deficit will be achieved in 1998-1999, one year ahead of schedule. Unlike the previous government, which met with six consecutive failures in this regard, the present government will reach and even better its deficit target for the fourth year in a row.

ROAD TO A ZERO DEFICIT SHORTER THAN ANTICIPATED (in millions of dollars)



1. Forecast in the Budget for 1995-1996 and in the legislation for 1996-1997 to 1998-1999.

IV. OVER \$1.7 BILLION FOR HEALTH

Eliminate the debt of institutions

- \$700 million will be injected to fully eliminate the deficit of institutions.

Stabilize network operations

- An action plan designed to stabilize network operations and strengthen the network's financial position will be unveiled in the next few days: \$300 million will be earmarked for implementing this plan.

Provide and enhance services

- \$747 million will be allocated to provide and enhance services offered directly to Quebecers.
- This amount includes \$15 million to improve services pertaining to drug addiction and other social problems, targeting young people in particular.

Other measures for health and social services

- ❑ A refundable tax credit of up to \$2 760 for domestic services will enhance the quality of life of elderly people experiencing a loss of autonomy.
- ❑ Such services will be paid for by means of a "service employment paycheque":
 - the tax credit will be paid in advance upon the payment of expenses;
 - the administrative procedures normally demanded of employers will be avoided.
- ❑ 10 000 additional Quebecers will be able to take advantage of the \$506 tax credit for persons with a physical or mental disability.
- ❑ An additional \$2.3 million per year will make it possible to finance adapted work centres and create 500 jobs for disabled individuals.

V. \$600 MILLION FOR EDUCATION AND YOUNG PEOPLE

- \$170 million will help to improve the financial situation of universities.
- \$342 million will allow school boards, Cegeps and universities to preserve and bolster the quality of teaching and the services offered to students.
- \$30 million will be earmarked for the purchase of textbooks and other school books for the elementary and secondary levels.
- \$32.5 million will be devoted to the reform of education.
- \$14 million will make it possible to increase enrolments and boost the success rate of young people who want to pursue scientific and technical careers.
- Additional appropriations of \$4.5 million in 1999-2000 will make it possible to hire 2 350 students for summer jobs and internships.

VI. FURTHER BOLSTER JOB-CREATION INITIATIVES

Ensure the transition to the knowledge-based economy

- ❑ Concrete measures are being taken immediately to make Québec a world hub of innovation. These initiatives are described in detail in *Accelerating Research and Innovation*, which will be made public in the next few days.

Innovation Québec

- ❑ With a budget of \$32 million in 1999-2000, *Innovation Québec* will bolster research and innovation.

Valorisation-Recherche Québec

- ❑ This agency will receive \$100 million for strengthening partnerships between private-sector enterprises and educational and research institutions. It will subsidize university research projects and initiatives aimed at commercializing the results of such research.

Assistance for R&D and technological adaptation

- ❑ From now on, enterprises will be able to claim a super-deduction for their R&D expenses. This deduction will allow them to claim the full amount of federal tax assistance, i.e. an additional \$54 million annually.
- ❑ 1 500 SMEs that carry out R&D will benefit from an increase from 40% to 55% of the tax credit for SMEs, representing an additional \$24 million annually.
- ❑ A new refundable tax credit representing 40% of eligible expenditures will make it possible to support enterprises in their efforts to adapt to new technologies.
- ❑ \$5 million will be invested for a supplementary program designed to support innovation in SMEs.
- ❑ The tax holiday for foreign researchers is extended from two to five years and broadened to make certain foreign experts eligible.

Enhanced support for business investments

Investissement-Québec

- ❑ The funds earmarked for the PIJCPF program, which is managed by *Investissement-Québec*, will be increased by \$50 million in 1999-2000. This program will make it possible to generate \$2 billion in investments and create 15 000 jobs.
- ❑ In addition, under this program, it will henceforth be possible to grant an exchange rate guarantee pertaining to enterprises's foreign sales.

Tax assistance for investment and technological adaptation

- ❑ The 125% capital cost allowance and the two-year capital-tax holiday in respect of new investments carried out in certain sectors are extended until March 31, 2000.

Creation of the Montréal Foreign Trade Zone in Mirabel

- ❑ The Montréal Foreign Trade Zone in Mirabel will be located on part of the territory administered by *Aéroports de Montréal* in Mirabel.
- ❑ Several guidelines have been adopted to avoid a shift in activities and competition with enterprises already established elsewhere in Québec, especially in the Montréal area:
 - eligible activities are limited to very specialized sectors;
 - certain criteria restrict access to the foreign trade zone;
 - representatives of the Greater Montréal area will sit on the board of directors of the corporation responsible for developing the foreign trade zone;
 - the Minister of Finance will approve projects and issue certificates of eligibility.

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- To facilitate the rapid start-up of the zone, powerful incentives will be generally offered for 10 years:
 - a tax holiday for enterprises on income tax, the tax on capital and the contribution to the *Health Services Fund*;
 - a refundable tax credit for salaries paid to eligible employees, except in the case of manufacturing concerns;
 - a refundable tax credit for the purchase of eligible equipment;
 - assistance for the construction of buildings;
 - assistance for enterprises wishing to operate in a customs-free zone;
 - exemption from personal income tax for specialized foreign employees.

Broader support for exports

- ❑ To promote Québec's exports, \$5 million will be allocated in 1999-2000 to financing "Québec's Decade of the Americas" and to broadening Québec's representation.

- ❑ \$1.5 million will be devoted in 1999-2000 to stepping up the pace at which SMEs penetrate foreign markets.

VII. FOSTER LOCAL AND REGIONAL DEVELOPMENT

Carrefours de la nouvelle économie in all regions

- ❑ **Carrefours de la nouvelle économie (CNEs):** 12 CNEs, or new economy centres, will be created in each Québec region that does not currently have a *Centre de développement des technologies de l'information*. Tax assistance will ultimately reach \$30 million annually.

Support for Québec's national capital

- ❑ **Cité de l'optique:** an initial budget of \$3 million will help enterprises and research centres in the photonics sector to set up or expand their operations in the Québec City area.
- ❑ **Centre national des nouvelles technologies de Québec:** a centre devoted to the development of technologies applied to the arts and culture sector will be created in Québec City.

- ❑ **Fund for the development of tourism in the Québec City region:** this fund will be renewed for five years and will be allocated \$2 million annually.

Support for the Centres locaux de développement

- ❑ **Centres locaux de développement (CLDs):** \$7.5 million per year will be granted to CLDs, or local development centres, to help young entrepreneurs and support CLDs located in less affluent regions.

Support for sustainable development

- ❑ **Rehabilitation of contaminated sites in urban areas:** this program will be extended to all Québec municipalities and additional work worth \$100 million will be able to be carried out.
- ❑ **Restoration of mining sites:** \$2 million will be made available in 1999-2000 for the restoration of abandoned sites, especially in the Abitibi-Témiscamingue region.
- ❑ **Recovery and recycling of waste materials:** \$3 million will be allocated per year to encourage the start-up of community enterprises in this field.

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- ❑ **Québec parks:** an additional \$15 million will be invested over five years to upgrade such parks.

Investment in transportation

- ❑ **Road network:** funding will be increased from \$644 million to \$679 million in 1999-2000.
- ❑ **Railway companies of local interest (RCLIs):** \$3 million will be allocated in 1999-2000 to support RCLIs.
- ❑ **Greenway:** \$18 million will be injected over five years for the construction of a Québec-wide network of cycling paths.

Investment in the wake of the ice storm

- ❑ An additional \$8.9 million will be granted to farmers, and \$8.4 million to part-time private woodlot operators.

VIII. INVEST IN CULTURE

- ❑ **Music productions and sound recordings:** two tax credits, covering one third of eligible labour costs and totalling \$4 million annually will be introduced.

- ❑ **Support for artistic and cultural organizations:** in 1998-1999, \$46 million will be granted to artistic and cultural organizations, including \$6 million for the *Montréal Museum of Fine Arts* and \$5 million for the *Orchestre symphonique de Montréal*.

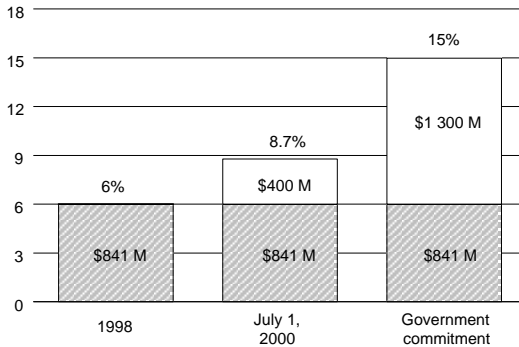
- ❑ **Religious heritage:** \$40 million will be set aside for the restoration assistance program, including \$20 million for a new component aimed at preserving the heritage character of religious buildings slated to be transformed.

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IX. REDUCE PERSONAL INCOME TAX

- ❑ Personal income tax will be reduced by \$400 million annually beginning on July 1, 2000.
- ❑ The government is tabling a discussion paper aimed at defining the terms of a \$1.3-billion income tax reduction.

PERSONAL INCOME TAX REDUCTIONS (as a percentage of total income tax)



Shaded area: income tax reduction in effect in 1998.

Unshaded area: commitments announced in the 1999-2000 Budget Speech.

Other tax reductions

- ❑ The basic exemption used to calculate an individual's contribution to the *Health Services Fund* will be increased from \$5 000 to \$11 000. This measure will reduce the tax burden by \$44 million per year: 1 million taxpayers will benefit from this measure, particularly retirees and the self-employed.

- ❑ The ceiling on eligible expenses for the refundable tax credit for child care expenses will be raised, beginning in 1999, from \$5 000 to \$7 000 for a child under the age of 7 and from \$3 000 to \$4 000 for children 7 years of age or over.

- ❑ The ceiling on eligible expenses for the tax credit for international adoption will be raised from \$10 000 to \$15 000.