Tax Expenditures
2001 Edition

2002 › 2003 BUDGET

Québec

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Finances
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TAX EXPENDITURES
2001 Edition

Ministère des Finances
November 2001

SUMMARY

The main purpose of the tax system is to generate enough revenue to enable the government to finance its activities. The tax system also has other goals: for instance, the government uses it to pursue certain economic, social or other strategic objectives, such as supporting economic development, encouraging retirement savings, protecting low-income households or assisting families.

Over the years, the government has introduced many preferential measures, commonly called "tax expenditures", into the tax system to afford tax relief for certain specific groups of individuals or businesses, or in relation to certain activities.

Tax expenditures reduce or defer taxes otherwise payable by taxpayers. They come in many forms, in particular as income not subject to tax, tax exemptions, tax refunds, deductions in calculating income, tax credits or tax deferrals.

This document provides information for estimating the tax expenditures of Québec's tax system. It identifies tax expenditures for eight tax fields and gives the cost of each one to the government, from 1996 to 2002.[1]

Portrait of tax expenditures in 2000

Québec's tax system includes over 275 tax expenditures, more than 140 of which relate to the personal income tax system, more than 90 to the corporate tax system and more than 40 to the consumption tax system. Approximately 60% of tax expenditures apply to individuals, while the others are specific to corporations.

Despite certain cautions,[2] it is useful to add tax expenditures in order to illustrate their significance. Overall, tax expenditures totalled $12.7 billion in 2000, that is, approximately 26% of government tax receipts. Of that amount:

- 70% corresponded to expenditures related to personal income tax;
- 10% corresponded to expenditures related to corporate taxes;
- 20% corresponded to expenditures related to consumption taxes.

The measures targeting individuals represented almost 90% of the total cost of tax expenditures—that is, $11.0 billion—while the measures specific to corporations accounted for $1.7 billion.

1 The analysis presented in this document does not take into account the tax measures announced in the 2002-2003 Budget Speech.

2 For further information, see page 20.

OVERALL COST OF TAX EXPENDITURES IN 2000[1]

	Individuals	Corporations	Total	
	($M)	($M)	($M)	(%)
Personal income tax	8 852	–	8 852	70%
As a % of personal income tax[2]	–	–	*33.9%*	–
Corporate taxes	–	1 306	1 306	10%
As a % of corporate income tax[3]	–	–	*13.3%*	–
Consumption taxes	2 149	385	2 534	20%
As a % of consumption taxes	–	–	*21.0%*	–
Total	**11 001**	**1 691**	**12 692**	**100%**
As a % of tax receipts			*26.4%*	–

1 Excludes certain tax expenditures which are low in cost or for which cost data are not available, as well as the measures announced in the 2002-2003 Budget Speech.
2 Includes the 1% contribution by individuals to the Health Services Fund.
3 Includes income tax, tax on capital, the employer contribution to the Health Services Fund and other taxes applicable to corporations.

The personal income tax system accounts for the largest tax expenditures. Several of the expenditures are intended to encourage retirement savings, to maintain the progressivity of the tax system and to support families. These expenditures include:

- the deduction for contributions to a registered retirement savings plan or a registered pension plan;
- the tax credit relating to the flat amount of the simplified tax system;
- the tax credits respecting children and the tax reduction for families;
- the refundable Québec sales tax (QST) credit;
- the refundable tax credit for child-care expenses.

Under the corporate tax system, development of the new economy and scientific research account for the largest tax expenditures, which include:

- the refundable tax credits for scientific research and experimental development (R&D);
- the tax measures for corporations that establish premises in a designated area such as an information technology development centre (CDTI) or the Cité du multimédia.

The principal measures under the consumption tax system also concern individuals, and include:

- the zero-rating of basic groceries (QST);
- the exemption of rental accommodation (QST);
- the exemption of individual insurance of persons (tax on insurance premiums);
- the exemption of health-care services (QST).

COST OF CERTAIN TAX EXPENDITURES IN 2000
(in millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	1 708
• Registered pension plan[1]	1 588
• Tax credit relating to the flat amount of the simplified tax system	1 207
• Tax credits regarding children or other dependants	754
• Refundable tax credit for the QST	427
• Tax reduction in respect of families	300
• Real estate tax refund	218
• Refundable tax credit for child-care expenses	212
• Non-taxation of capital gains on principal residence	189
• Partial inclusion of capital gains	171
• Lifetime $500 000 capital gains exemption on shares of small businesses	129
• Tax credit for gifts	124
• Tax credit for contributions to a labour-sponsored fund	113
• Non-refundable tax credit for medical expenses	100
• Others	1 612
Subtotal: personal income tax	***8 852***
Corporate taxes	
• Refundable tax credits for R&D	430
• Partial inclusion of capital gains	150
• Deduction for accelerated depreciation, additional 20% deduction and supplementary 25% deduction	144
• Refundable tax credit for Québec film and television production	94
• Tax measures for corporations established in an information technology development centre (CDTI)	26
• Tax credit for corporations established in the Cité du multimédia	25
• Others	437
Subtotal: corporate taxes	***1 306***
Consumption taxes	
• Zero-rating of basic groceries (QST)	779
• Exemption of rental accommodation (QST)	373
• Exemption in respect of individual insurance of persons (tax on insurance premiums)	209
• Exemption of health care services (QST)	131
• Zero-rating of financial services (QST)	109
• Zero-rating of books (QST)	38
• Others	895
Subtotal: consumption taxes	***2 534***
TOTAL	***12 692***

1 Includes the deduction of contributions and the non-taxation of investment income, reduced by the taxation of withdrawals.

Change in the cost of tax expenditures from 1996 to 2002

In 1996, the overall cost of tax expenditures was $10.7 billion. The projected overall cost for 2002 is $13.5 billion. This represents an average increase of 4% per year.

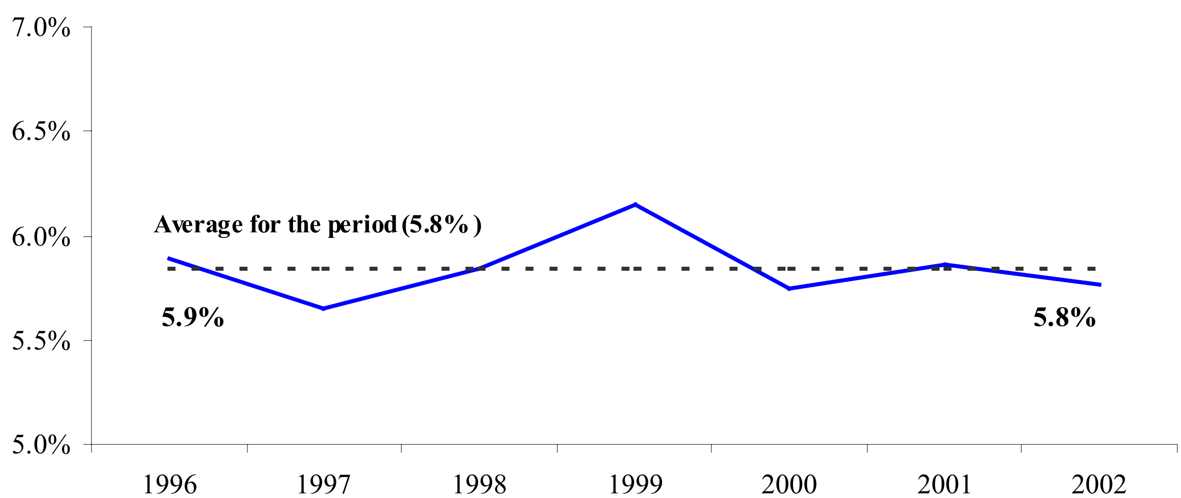
CHANGE IN THE OVERALL COST OF TAX EXPENDITURES FROM 1996 TO 2002[1]
(in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002
Personal income tax	7 814	7 666	8 059	9 009	8 852	9 072	8 960
Corporate taxes	862	996	1 141	1 323	1 306	1 666	1 854
Consumption taxes	2 005	2 006	2 273	2 465	2 534	2 636	2 734
Total	**10 681**	**10 668**	**11 473**	**12 797**	**12 692**	**13 374**	**13 548**

1 Estimates from 1996 to 1998 and projection afterwards.

The overall cost of tax expenditures as a percentage of GDP varied hardly at all from 1996 to 2002. Tax expenditures represented 5.9% of GDP in 1996, compared to an anticipated 5.8% of GDP in 2002.

CHANGE IN THE OVERALL COST OF TAX EXPENDITURES FROM 1996 TO 2002
(as a percentage of GDP)



Tax Expenditures
2001 Edition

Summary

Introduction

Part I
Definition and cost of tax expenditures

Part II
Description of tax expenditures

INTRODUCTION

Over the years, the government has introduced numerous preferential measures into Québec's tax system to provide tax relief for certain groups of individuals or businesses. These tax preferences, commonly called "tax expenditures", enable the government to achieve certain economic, social or other strategic objectives by encouraging certain behaviour or activities, or by assisting certain groups of taxpayers.

The purpose of this document is to provide relevant information on the tax expenditures of Québec's tax system. It identifies the tax expenditures in Québec's major tax laws and quantifies the cost of each one of them to the government.

In this regard, it should be noted that an accounting of tax expenditures does not constitute an assessment of the government's fiscal policy, nor an assessment as to whether or not the preferential measures of Québec's tax system should be maintained.

This document is divided into two parts. Part I includes three sections:

– The first section defines tax expenditures and describes their general objectives. It also discusses the method used to identify tax expenditures.

– The second section focuses on items relating to estimates of the cost of tax expenditures. In particular, tax expenditures relating to personal and corporate income tax, and consumption taxes, are listed along with their cost.

– The third section deals with the evaluation of tax expenditures, describing the analysis framework that can be used to estimate tax expenditures.

Part II describes each of the tax expenditures, and is divided into three sections:

– Section 1 discusses tax expenditures related to personal income tax.

– Section 2 deals with tax expenditures related to the corporate tax system.

– Section 3 focuses on tax expenditures related to the consumption tax system.

Part I

Definition and cost of tax expenditures

TABLE OF CONTENTS – PART I

1. WHAT ARE TAX EXPENDITURES?

1.1 Using the tax system to achieve certain objectives

The main purpose of the tax system is to generate enough revenue to finance the government's expenditures, such as expenditures for health, education, social assistance and all other budgetary expenditures.

As the following table shows, taxes are the government's main source of funding. For fiscal year 2000-2001, tax receipts accounted for 82.4% of the government's own-source revenue.

TABLE 1
THE QUÉBEC GOVERNMENT'S OWN-SOURCE REVENUE
(in millions of dollars)

	2000-2001[1]
Individuals	
• Income tax	17 068
• 1% contribution by individuals to the Health Services Fund	185
Corporations	
• Income tax	1 815
• Tax on capital	1 725
• Employer contribution to the Health Services Fund	4 303
• Others	677
Consumption taxes[2]	***9 539***
Tax receipts	***35 312***
Other revenue	
• Duties and permits[2]	1 091
• Miscellaneous revenue	1 106
• Revenue from government enterprises	3 496
• Consolidated organizations	1 851
Own-source revenue	***42 856***
Tax receipts/own-source revenue	*82.4%*

1 Quarterly Presentation of Financial Transactions as at June 30, 2001.
2 Consumption taxes include duties on alcoholic beverages.

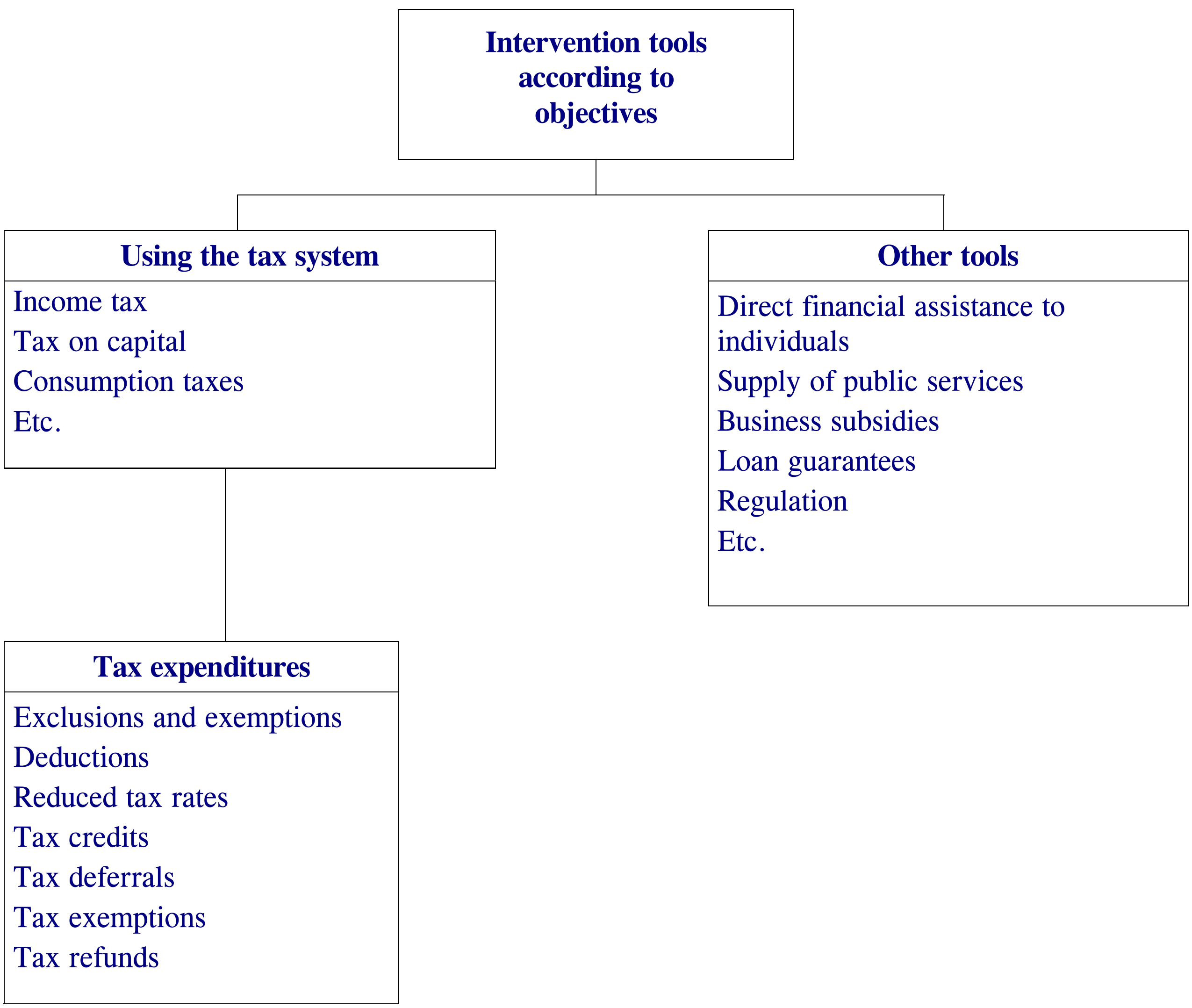
Tax expenditures operate within the tax system and represent one of the tools with which the government provides advantages to individuals and businesses in order to achieve certain economic, social or other strategic objectives.

The great variety of tax expenditures emphasizes their flexibility and points to wide-ranging fields of application as well as highly diversified economic and fiscal impacts.

As the following illustration shows, tax expenditures can, for instance, be used instead of granting direct financial assistance. For example, to support companies' R&D activities, the government provides a refundable tax credit for R&D expenditures.

ILLUSTRATION 1

INTERVENTION TOOLS AVAILABLE TO THE GOVERNMENT



1.2 Definition of tax expenditures

Tax expenditures generally refer to measures which reduce or defer taxes payable by taxpayers. They can come in many forms, in particular income not subject to tax, deductions in calculating income, tax credits, tax deferrals or tax exemptions. In other words, tax expenditures are exceptions in relation to what can be considered the basic tax system.

Tax expenditures are designed to influence certain behaviour or activities, as well as to assist certain groups of taxpayers in a particular situation. Among other things, the government uses tax expenditures to support economic development, encourage retirement savings, stimulate R&D and foster charitable donations.

The concept of tax expenditure accordingly refers to the government's fiscal policy choices by which it willingly agrees to forego some of its tax revenue to achieve its objectives. For this reason, tax expenditures must not be confused with the ways some taxpayers use to circumvent the tax system, for instance through tax evasion or tax fraud.

– Procedure for tax expenditures

Tax expenditures are an integral part of various tax laws. Tax expenditures come into play either in the rate structure, for instance by offering preferential rates for certain types of activity, or in the basic tax base, for instance by offering certain deductions. The following illustration shows how tax expenditures alter the basic tax system and affect the government's tax receipts.

ILLUSTRATION 2
PROCEDURE FOR TAX EXPENDITURES

Basic rate X basic tax base — **Four possibilities:** = **Government's tax receipts**

Four possibilities:

- **Reduced rate X basic tax base**
- **Basic rate X** { **Exemptions** / **Deductions** / **Deferrals** }
- **Tax refunds**
- **Tax credits**

Basic tax system

Tax expenditures

1.2.1 The basic tax system

As well as considering their distinctive characteristics, tax expenditures must be identified according to a process which involves:

> "… a classification exercise which amounts to setting a distinction, in the tax provisions in effect, between those that conform to a standard or reference and a series of provisions that are exceptions to such standard."[3]

Tax expenditures are thus exceptions to a standard or reference which is defined as the basic tax system. Any tax measure seeking to confer tax relief which diverges from this basic system constitutes a tax expenditure. Accordingly, to establish tax expenditures, the basic tax system must first be defined.

3 From the definition of "tax expenditure", given by the Organisation for Economic Co-operation and Development (OECD). *Dépenses fiscales : Experiences récentes*, OECD, 1996.

– Determination of the basic tax system

The basic tax system can be defined as the set of structural characteristics on which the tax system is based, before the application of any preferential measure.

- The basic tax system groups the most fundamental elements of the tax system, among other things, the overall tax base, the rate structure, taxpayers covered (the taxation unit) and the taxation period. These items generally are part of the basic tax system and, consequently, are not considered tax expenditures.

- Preferential measures are tax measures which are designed, according to the government's specific objectives, to provide tax relief in order to support certain groups of taxpayers or encourage certain activities the government considers desirable. These measures are considered tax expenditures.

Generally, for most tax measures, the definition of the basic tax system raises no particular classification problems, so that a consensus can be reached on most of its components.

However, in some cases, tax measures can be interpreted in various ways and, depending on perceptions, opinions can differ as to the elements to be included. Accordingly, there is a subjective element to the exercise and choices must then be made.[4]

For instance, some might decide to define a very restrictive basic tax system to have as broad a definition of tax expenditures as possible. In this situation, even measures used to comply with the most basic characteristics of the tax system could be considered tax expenditures. In the extreme case, it could be decided, for example, to consider the basic tax credit designed to recognize the taxpayer's essential needs as a tax expenditure rather than an item of the basic tax system.

Similarly, the treatment of the tax credit for child-care expenses is an item on which opinions may differ. Some may consider that child-care expenses are incurred to earn income. Others might maintain that they are consumption expenditures and that the tax assistance granted constitutes a specific advantage designed to reduce the cost to families. In the first case, the tax credit would be considered an element of the basic tax system and, in the second case, a tax expenditure.

4 In the United States, the government is required by law to produce a list of tax expenditures in its budget, though without specifying the basic tax system. To make allowance for certain conceptual difficulties, the government uses two different basic systems to identify tax expenditures.

– Description of the basic tax system

The following pages describe the basic tax system which has been used to identify the tax expenditures of each of Québec's major tax laws. The choices made generally reflect the predominant point of view found in this type of study.

This document covers the following tax fields:

regarding individuals:

– income tax.

regarding corporations:

– income tax;
– tax on capital;
– employer contribution to the Health Services Fund.

regarding consumption taxes:

– Québec sales tax;
– tax on insurance premiums;
– fuel tax;
– tax and duties on alcoholic beverages.

• Personal and corporate income tax

‣ Tax base

The tax base is income in the broad sense and includes, among other things, employment income, business income, income from property and investments (rents, interest, dividends) and capital gains. The measures allowing the deduction of current expenses incurred to earn such income are also considered part of the basic tax system, such as:

– for employment income, the deduction of expenses incurred by some workers in carrying out their duties (workers paid by commission);

– for business income, capital cost allowance representing the loss of economic value of assets, i.e. the depreciation expenses normally allowed according to generally accepted accounting principles. When tax depreciation is greater (example: accelerated depreciation), the extra amount is considered a tax expenditure.

Tax rate structure

The personal income tax system consists of a tax rate structure which rises by income bracket. The tax table is a component of the basic tax system. The basic personal tax credit is also included in the basic tax system since it applies to all taxpayers and favours none in particular. It is equivalent to a zero tax rate on the lowest income bracket.

Turning to the corporate tax system, the basic system consists of the general tax rates in effect for active business income or for passive or investment income. Any measure resulting in a reduction of the general tax rate, such as the former small business deduction on the first $200 000 of active business income, is treated as a tax expenditure.

Taxation unit

In the personal income tax system, the main taxation unit is the individual. In Québec, income tax applies to natural persons considered individually. However, special provisions broaden this concept to households, in particular those which take the presence of dependent children into account. For this reason, some tax measures, such as tax credits for the spouse and dependent children, are considered tax expenditures.

As for the corporate tax system, the taxation unit is the corporate business. In the case of corporations, the choice of a taxation unit is more difficult since the current system is based on a variety of concepts: the establishment, the legal entity consisting of a corporation or a group of related corporations. However, of these, the corporate business is the most commonly used notion. For instance, a corporation can deduct losses it has suffered in one activity sector against the profits it has made in another sector. However, losses suffered by one corporation cannot be deducted against the profits of another corporation which is part of the same group.

Taxation periods

The taxation periods for individuals and corporations are the calendar year and the fiscal year respectively. Measures allowing business and investment losses to be carried forward are also considered to be part of the basic tax system. It is generally recognized that business and investment income must be considered over a number of years to allow for the cyclical and multi-year nature of these types of income. All other deferral measures, such as transactions which consist in transferring property with no tax impact (rollovers) and reserves, are considered tax expenditures.

Inflation

Income tax applies to nominal income, i.e. without taking inflation into account. For this reason, measures designed to reduce tax payable to make allowance for inflation, in particular, such as the partial inclusion of capital gains, are not considered part of the basic tax system, but rather as tax expenditures.

Structural characteristices

The basic tax system includes certain structural features of the overall tax system which reduce or eliminate double taxation of income, for instance:

– in the personal income tax system, the dividend gross-up mechanism and the associated tax credit are designed to allow for taxes already paid at the corporate level when a dividend is paid to a shareholder;

– in the corporate tax system, the non-taxation of inter-corporate dividends is designed to prevent profits already taxed in one taxable Canadian corporation from being taxed again when received as dividends by another corporation.

Tax on capital

The taxation unit is the corporate business.

The basic system consists of the general rate of the tax on the paid-up capital of the corporation at the end of its fiscal year. The rate applicable to financial institutions is also considered part of the basic structure. Paid-up capital is determined from the financial statements and is calculated according to generally accepted accounting principles.

For the purposes of the tax on capital, insurance companies are subject to a compensation tax in lieu of tax on capital, which depends on the insurance premium they collect. The rate of this tax is 2% for life and health insurance premiums and 3% in other cases. The 3% is considered part of the basic system, while the difference between it and the 2% rate is considered a tax expenditure.

Employer contribution to the Health Services Fund

The taxation unit is the employer (private and public sectors).

The tax rate table is considered part of the basic tax system.

The tax base corresponds to the wages paid in Québec to an employee, i.e. the gross employment income for income tax purposes, including the value of taxable benefits granted to him.

Québec sales tax

The Québec sales tax (QST) is a value-added tax collected on a broad base of property and services. It applies to taxable sales at all stages of production and commercialization and provides businesses with refunds of the tax paid on their inputs (ITRs). Accordingly, it is a tax on final consumption of property and services.

The tax generally applies according to the destination principle, i.e. it only applies to property and services consumed in Québec and consequently:

- imports are taxed;

- exports are exempted.

The rate of the tax is part of the basic tax system, and applies to a tax base which includes the goods and services tax.

- **Other consumption taxes**

As for other consumption taxes, namely the tax on insurance premiums, the fuel tax and the tax and duties on alcoholic beverages, tax expenditures are identified on the basis of each law under which these taxes are collected.

1.2.2 Types of tax expenditures

– Personal and corporate income tax

Tax expenditures regarding income tax can be divided into five major categories:

- exclusions and exemptions;
- deductions;
- reduced tax rates;
- tax credits;
- tax deferrals.

- **Exclusions and exemptions**

This is income not subject to tax, or only partially subject (examples: the guaranteed income supplement, strike benefits or gains earned on the disposition of a principal residence), or persons (individuals or businesses) who are exempt (examples: non-profit organizations and unions).

- **Deductions**

These are the items which reduce income subject to tax. For instance, there are the deductions concerning contributions to a registered retirement savings plan, expenditures made to earn investment income and eligible business investment losses.

The value of the tax expenditure attributable to exclusions, exemptions and deductions depends on the taxpayer’s marginal tax rate. Accordingly, the higher the taxpayer’s marginal tax rate, the more valuable the tax expenditure associated with the exclusion, exemption or deduction.

Occasionally, a taxpayer’s taxable income may not be high enough to benefit fully from a deduction he is entitled to. In such a case, the taxpayer will only use part of the deduction and the value of the tax expenditure for the government is reduced accordingly.

- **Reduced tax rates**

In some cases, the tax system allows tax rates that are lower than the generally applicable rate. The value of this form of tax expenditure does not depend on the marginal tax rate, but only on whether or not the taxpayer can benefit from reduced tax rates.

- **Tax credits**

Tax credits are items which, rather than reducing income subject to tax, generally reduce tax payable. Some tax credits are non-refundable, while others are refundable.

  - **Non-refundable tax credits**

These tax credits can be applied only to reduce tax payable. Examples include dividend tax credits, tax credits for a spouse, for age, for tuition fees, for contributions to the Québec Pension Plan and for charitable donations. However, the unused portion of some of these tax credits can be carried forward, i.e. it can be used to reduce tax payable for another year, as is the case with the tax credit for interest paid on a student loan.

The value of the tax expenditure depends on the amount of tax payable by a taxpayer. It is possible that a taxpayer’s tax payable is not sufficient to use the full amount of the tax credits. For example, if a taxpayer is eligible for a non-refundable tax credit of $2 000 and has tax payable of $1 500, the tax expenditure associated with the tax credit corresponds to $1 500 for the government. It would be the maximum amount if the taxpayer’s tax payable was at least $2 000.

  - **Refundable tax credits**

These tax credits are refundable because, if their value exceeds the tax payable by a taxpayer, the excess is refunded to him. Examples include the refundable tax credit for child-care expenses, the refundable tax credit for the QST, the property tax refund and the refundable tax credit for R&D.

As a result, for individuals, these tax credits resemble transfer payments more than tax reductions. For instance, the refundable tax credit for the QST is granted to all low-income taxpayers, even those that have no tax payable.

- **Tax deferrals**

Tax deferrals are amounts that are not included in the calculation of income for the year but are included in the calculation of a future year. Examples include taxation of capital gains at the time of realization and accelerated tax depreciation.

The value of the tax expenditure associated with tax deferrals, as in the case of deductions, depends on the taxpayer’s marginal tax rate at the time when the items covered by a tax deferral are used. For instance, the tax expenditure associated with payments to an RRSP depends on the taxpayer’s marginal tax rate applicable at the time of payment and the rate applicable at the time the amounts saved are withdrawn.

– Other corporate taxes

As for the other forms of tax to which corporations are subject, namely the tax on capital and the employer contributions to the Health Services Fund (HSF), tax expenditures mainly consist of exemptions or deductions for certain types of corporations or activities.

– Consumption taxes

Concerning consumption taxes, tax expenditures consist mainly of exemptions for certain property and services and, in some other cases, rebates of tax paid. For instance, the QST system includes a number of specific exemptions and may also provide a partial QST rebate to certain organizations, such as charities, universities and hospitals.

Tax expenditures can also take the form of reduced tax rates, as is the case with automobile insurance premiums and fuel purchased in some regions. For instance, when an automobile insurance premium is paid, the purchaser pays a tax of 5% rather than the general rate of 9% on insurance premiums. The value of the corresponding tax expenditure for the government is equal to the amount obtained by multiplying the reduction in the rate of the tax by the amount of the insurance premium.

TWO TYPES OF EXEMPTION IN THE QST SYSTEM

Zero-rated property and services: *no QST is collected on sales of zero-rated property and services and the seller can claim a refund of the tax he paid on his purchases, so that ultimately, no QST is borne by the consumer. Zero-rated property and services include basic groceries, prescription drugs and medical devices.*

Exempt property and services*: no QST is collected on sales of exempt property and services, but the seller may not claim a refund of the tax he paid on his purchases. Since the seller bears the QST on his purchases, exemption of certain property and services provides only partial relief from the QST. Exempt property and services include rental accommodation, health-care, education, child- care and personal-care services, as well as standard municipal services.*

1.3 Achieving the objectives of the tax system

Tax expenditures are an instrument enabling the government to achieve various objectives.

1.3.1 Objectives of a tax system

The first objective of a tax system is to collect enough stable revenue to finance public expenditures. In formulating fiscal policy, many other objectives can also be considered.

These other objectives can be divided into two categories: general objectives, namely the usual criteria considered in any tax system, and specific objectives which take some of a society's choices and preferences into consideration.

– General objectives

The general objectives are:

- vertical equity, according to which a taxpayer with a greater ability to pay than another is taxed more heavily;
- horizontal equity, wich means that the tax system taxes identically families or taxpayers having the same characteristics;
- neutrality, meaning that the tax system should tax neutrally or identically the activities of economic agents, to avoid altering their behaviour as much as possible;
- simplicity, so that the system is easy to understand, comply with and administer.

– Specific objectives

The economic and social changes of recent decades have influenced the formulation of fiscal policy both in Québec and elsewhere. Market globalization, the changing demographic situation and economic and social policy directions have a definite impact on the tax system.

These changes have led to the emergence of new objectives, such as ensuring that the tax system:

- makes allowance for the particular situations of certain categories of taxpayers such as families, older persons, persons engaged in studies or in training, and disadvantaged persons, etc.;
- is competitive, to maintain the competitive nature of the economy and encourage economic agents to remain and produce there.

In this regard, it should be mentioned that one specific objective can often be pursued at the expense of another. An example of this is the trade-off that must be made between higher taxation of middle and high-income taxpayers and competitiveness. While the progressive nature of a tax system redistributes wealth in society, if the tax system is too progressive, the economy's competitiveness and the incentive to work and create jobs can be hampered.

To achieve the objectives of the tax system, tax assistance can be granted on the basis of:

- specific characteristics of individuals or businesses (e.g., family situation, age, level of income and business size);
- sources of income (e.g., retirement income, strike benefits, capital gains);
- use of income (e.g., charitable donations, research and development and retirement savings).

1.3.2 Groups of taxpayers targeted by tax expenditures

The groups of taxpayers targeted by Québec tax expenditures vary. Examples include:

- for individuals: low-income taxpayers, families with children, elderly persons, workers, owner-occupants of a residence, students, artists, members of a religious community, aboriginal peoples, and investors;
- for businesses: small businesses, new corporations, mining sector, agricultural sector, manufacturing sector, new information and communications technologies sector, film industry and cooperatives.

Care must be exercised in identifying the group targeted by a specific measure. First, a distinction must be made between the objective to attain in implementing the measure, the means used to attain the objective and the groups of taxpayers involved. Certain measures are intended to benefit a particular group of taxpayers. For example, the purpose of the tax credit for dependent children is to provide tax assistance to families. Other measures profit more than one group of taxpayers. For instance, individuals benefit directly from certain measures that are also meant to help businesses. Thus, while the principal objective of the stock savings plan is to improve corporate capitalization, it is individuals, that is, the investors in the corporations, who claim the deduction. In such a case, the tax expenditure benefits both businesses and individuals.

Second, the impact of taxes, that is, the ultimate effect of a tax measure from an economic standpoint, must also be factored in. For example, the actual beneficiaries of tax expenditures applicable to corporations may be economic agents other than the corporations themselves. Since tax expenditures reduce business costs, the tax benefit can, depending on the circumstances, be passed on to consumers in the form of price reductions, to workers in the form of pay increases or to shareholders in the form of a higher return on their investment.

1.3.3 Impact of tax expenditures on the objectives of the tax system

Tax expenditures can have an impact on the fairness, neutrality, simplicity or other objectives of the tax system.

– **Fairness**

Tax expenditures have consequences not only on the tax base and consequently on government revenues, but also on the fairness of the tax system.

They affect the distribution of the tax burden and the progressivity of the system because they provide tax relief for certain groups of taxpayers compared with others who do not use them. At times, tax expenditures will increase progressivity, while at others they will reduce it depending on whether they are granted as a tax credit rather than a deduction. The effective tax rates applicable to each taxpayer and their relative tax burden can differ depending on their socio-economic characteristics, the activities they engage in, their behaviour or the choices they make.

– **Neutrality**

Given that tax expenditures are preferential measures, they lead to certain changes in the choices made by taxpayers. Since they are designed to encourage certain types of behaviour or activities in relation to others (such as saving for retirement, making charitable donations or undertaking studies), they influence, to a certain degree, the decisions made by individuals and corporations, notably concerning the supply of labour, investment and consumption. Accordingly, pursuing specific objectives means that tax expenditures can directly affect the neutrality of the tax system.

– **Simplicity**

Tax expenditures add complexity to tax legislation, which causes an increase in compliance costs for taxpayers and agents, as well as in administration costs for the government. These latter costs must, however, be compared with those that would arise from the implementation of an equivalent direct financial assistance program.

1.3.4 The importance of the tax environment

The Québec government and the federal government collect personal income taxes, taxes on capital and consumption taxes, among others.[5] Accordingly it is important, for the two governments, to keep the overall system as simple as possible to avoid increasing administration costs for taxpayers and agents. In this context, harmonization of tax measures is generally desirable.

5 The local sector also collects property taxes.

Historically, Québec has avoided dissociating itself too much from the federal system in order not to make the overall tax system overly complicated. That is why a number of tax expenditures applicable under Québec legislation stem from harmonization with federal tax expenditures. For instance, but with a few exceptions, the QST system is harmonized with the goods and services tax system.

In some cases, Québec has decided to implement tax expenditures specifically adapted to its preferences. Examples include certain tax credits (tax credit for dependent children, tax reduction for families, property tax refund), certain tax exemptions (zero-rating of books) and certain measures intended for investors (stock savings plan, improved tax treatment for mining exploration expenses) or businesses (refundable tax credits for R&D, tax holiday for new corporations, refundable tax credits for new information and communications technologies).

TAX EXPENDITURES IN OTHER JURISDICTIONS

OECD countries

Nearly half of OECD member countries maintain tax expenditure accounts. For most of the countries concerned, these accounts are published annually.[1]

The first accounts were published in the late 1960s by Germany and the United States. The other countries began to publish tax expenditure accounts at the end of the 1970s or during the 1980s.

Publication of a tax expenditure account is required by law in at least seven of the countries publishing such an account, the others doing so despite the lack of a legislative requirement.

Countries have not worked together to agree on the formal or substantive elements contained in these reports. Although there is consensus among all the countries concerned on the method of calculating tax expenditures and the need to cover the major tax fields, there are a number of significant differences concerning other elements. For instance, there is no unanimity on the definition of the notion of tax expenditures nor, consequently, on the standard to be used for their determination. The result is differing practices concerning the presentation of tax expenditure accounts. These differences also make it difficult to compare the results of these reports.

In Canada

The Department of Finance of Canada published accounts on the cost of tax expenditures in 1979, 1980 and 1985. Since 1992, the Department publishes an annual estimate of the costs associated with tax expenditures. The report gives a definition of the concept of tax expenditures, the reference model on the basis of which the estimates are calculated and a description of each measure dealt with in the document. Since 2000, the report also contains descriptive studies on tax expenditures.

Five provinces[2] *have published information concerning tax expenditures. Québec, in 1996 and 1999, along with Ontario, in 1986, presented an exhaustive tax expenditure account with a description of each tax expenditure estimated. Saskatchewan and British Columbia do so on a regular basis, but in less detail.*

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1 *Dépenses fiscales : Expériences récentes,* Organisation for Economic Co-operation and Development (OECD), *1996.*

2 *British Columbia, Manitoba, Ontario, Québec and Saskatchewan.*

2. THE COST OF TAX EXPENDITURES

This section begins with a description of the methodology used to estimate the cost of tax expenditures, and of the items to be considered in interpreting their cost. It follows up with a portrait of tax expenditures in 2000, and of the change in the cost of each tax expenditure from 1996 to 2002.

2.1 Methodology

– Sources of data

The information automatically collected from tax returns and forms filed with the ministère du Revenu du Québec by taxpayers and agents is the chief source of data. Federal data banks have also been used for many measures.

For some less broadly applied tax expenditures, data were not automatically collected. Accordingly, to assess their cost, the ministère du Revenu du Québec carried out a special compilation using a sample of tax returns or tax forms.

Other sources of information were also used when the tax data were insufficient or nonexistent. For instance, income not subject to income tax generally does not have to be indicated on tax returns, so that the relevant information must be found elsewhere in order to assess the cost. Other sources of information used include data taken from the financial reports of governments (public accounts), Statistics Canada, the census and other government departments or organizations.

– Estimation method

There are three main methods for calculating the cost of tax expenditures. The receipt-loss method consists in calculating *ex post* the amount of the revenue shortfall resulting from the application of a specific measure. The receipt-gain method consists in calculating *ex ante* the anticipated increase in receipts in the event of the elimination of the benefit. The latter method differs from the former in that it implies an assessment of probable behaviour in reaction to the change. Lastly, the expenditure-equivalent method consists in calculating how much it would cost to offer a monetary benefit equivalent to a tax expenditure through direct spending, assuming, as in the case of the tax receipt-loss method, that behaviour is unchanged.

The receipt-loss method[6] has been adopted for the purposes of this document.

6 For methodological reasons, all the countries studied in the OECD report use the receipt-loss method. *Dépenses fiscales : Expériences récentes*, Organisation for Economic Co-operation and Development (OEDC), 1996.

- **Deductions, tax credits and reduced rates**

The cost of most tax expenditures related to personal and corporate income tax was calculated using microsimulation models built from a sample of representative data taken from tax returns. To estimate the cost of the tax expenditure, the method involves recalculating the taxes that would have been paid by each taxpayer if the tax expenditure in question had not existed. Overall, the difference between the taxes payable in the absence of the expenditure and the taxes actually paid gives the revenue shortfall for the government attributable to this tax expenditure.

- **Exclusions and exemptions**

Not all non-taxable income is indicated on tax returns. Accordingly, it is not always possible to directly recalculate the tax that would otherwise have been paid by those benefiting. Therefore, to estimate the cost of these measures, it was necessary to establish what would have been the taxable income and the tax rate if the income had been subject to tax. For instance, for the non-taxation of lottery and gambling earnings, the revenue shortfall was calculated by redistributing the total amount of realized earnings among all taxpayers who filed a tax return, whether they are taxable or not. This is equivalent to applying the average marginal rate of all taxpayers to such earnings.

In view of the preceding, care is needed in considering the cost of each measure, because the degree of accuracy may not be as high as with other measures.

- **Tax deferrals**

The particular feature of deferred income (tax deferrals) is that it is taxed in the future. For the purposes of the calculation of the revenue shortfall for the government, the difficulty stems from the fact that the long-term cost assessment of these measures is a complex and subjective exercise.

The cost of certain measures involving a tax deferral could have been estimated by calculating the interest not earned because of such deferral (example: payment into an RRSP). For the sake of simplicity, this document uses a single method to estimate the cost of tax deferrals, namely annual cash flow. This method makes it possible to assess the tax receipts the government has not collected for the year being considered, namely the net effect of the tax value of deductions claimed in the current year because of a tax deferral and of amounts reincorporated into income. This method generally gives a fairly accurate idea of the cost of tax deferral measures and has the following advantages:[7]

7 The results may be different in certain circumstances. For instance, in the case of a substantial change in the level of economic activity or in certain types of behaviour, so that the amounts reincorporated into income are higher than the deferrals of the current year, the estimate on an annual cash flow basis may result in a negative cost (gain) for the government. In such situations, the estimate may not reflect the true long-term cost (in present value).

- the tax data used for the estimates are known and available, which avoids having to make assumptions on the time and value of the eventual payment of deferred taxes;

- the estimates of the cost of deferrals are comparable to those of other tax expenditures (deductions and tax credits) and can be added over many periods without risking double counting.

Because of a lack of data and assessment problems, it is not always possible to assess the cost of some tax deferrals. For instance, the cost of measures concerning the deferral of capital gains, notably the taxation of capital gains when they are realized and the deferral of capital gains on farm property transferred to children, cannot be assessed.

- **Tax expenditures relating to the Québec sales tax**

The costs of most tax expenditures related to the Québec sales tax (QST) have been estimated using the intersectoral model of the Institut de la Statistique du Québec. This model makes use of the input-output tables produced by Statistics Canada for Québec. Input-output tables constitute the most detailed description of Québec's economy, reflecting models of exchanges of goods and services by type of industry and consumer. The intersectoral model makes it possible to estimate the QST paid by households, business firms and the public sector, for more than 600 goods and services.

In other cases, the cost was generally estimated using data taken from returns filed with the ministère du Revenu du Québec by agents (examples: partial rebates granted to public service bodies).

– **Projection of the tax cost**

The projection of the cost of tax expenditures is made using various available, relevant economic indicators. For instance, according to the expenditure considered, it may be based on the growth forecast for gross domestic product, population, employment, personal income, corporate earnings, inflation and household consumption expenditures. The cost of some tax expenditures which are more difficult to forecast is based on trends observed during recent years.

2.2 Interpretation of estimation results

The estimates and projections of the cost of tax expenditures given in this document do not take into account induced effects such as changes in the behaviour of economic agents or even changes in the level of economic activity itself.

The evolution of the tax system can bring about changes in the behaviour of taxpayers and, to a certain extent, in the level of economic activity. Consequently, estimates of the revenue shortfall do not necessarily correspond to the increase in the government's tax receipts that would result from the elimination of a particular tax expenditure or group of tax expenditures.

– Changes in behaviour

Generally, the elimination of a tax expenditure would lead individuals and corporations to alter their economic behaviour. For instance, more than one million Québec taxpayers contribute to an RRSP, in order to save for retirement, but also to reduce their tax payable, which produces a substantial shortfall for the government. In the absence of this tax incentive, these taxpayers could reorganize their affairs in favour of other retirement savings vehicles that offer tax benefits. They could also decide to invest their money for other purposes to take advantage of other tax incentives.

This example shows that the tax receipts obtained following such a change would be less than the shortfall estimated without changes in behaviour. Taking such effects into consideration would accordingly reduce the tax cost.

– Impact on the level of economic activity

The estimates do not take into consideration the economic impact related to tax expenditures. The elimination of certain tax expenditures could have an impact on growth of economic activity and, accordingly, change the overall level of tax receipts.

For instance, by eliminating the QST refund for purchasers of new residential housing, the government could reap additional revenue. However, the increase in revenue would be reduced because of the impact of this measure on economic activity. The resulting increase in the price of new residential housing would reduce the purchasing power of consumers and their consumption.

– Cost estimations and projections

Where possible, the above methodology was used to estimate the cost of individual tax expenditures. To that end, each tax expenditure was estimated independently of the other tax measures, and all other elements were assumed to be unchanged.

It would be misleading to simply add the estimates of the individual costs in order to estimate the overall cost of tax expenditures, for the following two reasons:

- the progressivity of tax rates;
- the interaction of tax measures.

- **Progressivity of tax rates**

The personal income tax system has a progressive tax rate structure. Since a given taxpayer may enjoy a number of tax benefits, the ultimate effect is to lower his marginal tax rate. Since tax expenditures have been estimated one by one, i.e. at a lower marginal rate than if each taxpayer were not entitled to any tax expenditure, no cumulative effect was taken into account. The addition of the estimates of the tax cost of each of them would thus under-estimate the real cost of all such measures.

As an example, take a taxpayer who has claimed many deductions and whose income is taxed at 20%. The simultaneous elimination of two deductions, each estimated independently at a rate of 20%, may in reality make the taxpayer taxable at the 24% rate applicable to the higher income bracket. Thus, the cost of the tax expenditure would be higher than the simple addition of the costs associated with the elimination of the two deductions. Similarly, the elimination of a deduction in the calculation of income could increase the shortfall regarding the other deductions claimed.

- **Interaction of tax measures**

Given that there are certain interactions among tax provisions, the sum of a certain number of tax expenditures calculated separately may be different from the result obtained from an overall calculation of the cost of the same set of tax expenditures. This is because, if the independently-calculated costs of various tax expenditures are added, there would be double counting, so that the cost obtained by simultaneoulsly changing a set of measures would be over-estimated.

CAUTION RESPECTING TAX EXPENDITURE ESTIMATES

As a result of the data sources and methodological considerations discussed above, there is a greater risk of error in the figures relating to tax expenditure estimates. Thus, the figures on tax expenditure costs are acceptable, but not exact, estimates of the tax receipt shortfall resulting from these measures. Moreover, due to the progressivity of tax rates and the interaction of tax measures, care must be taken in interpreting and using the estimated overall cost of tax expenditures.

To estimate the overall cost, all tax expenditures for each type of objective should be introduced simultaneously into the appropriate simulation model. Subsequently, all tax expenditures relating to a particular tax field (taxation of individuals, corporate taxation, consumption taxes) should be estimated concomitantly. Two factors explain why, in certain cases, it is impossible to proceed this way:

- *the models used do not always take all tax expenditures into account simultaneously;*
- *the necessary data for certain tax expenditures are not available.*

2.3 Portrait of tax expenditures in 2000

Québec's tax system includes over 275 tax expenditures, more than 140 of which relate to the personal income tax system, more than 90 to the corporate tax system and more than 40 to the consumption tax system. Approximately 60% of tax expenditures apply to individuals, while the others are specific to corporations.

Despite the cautions referred to earlier, it is useful to add tax expenditures in order to illustrate their significance. Overall, tax expenditures totalled $12.7 billion in 2000, that is 26.4% of the government's aggregate tax receipts.

Tax expenditures relating to personal income tax accounted for $8.9 billion of that amount,[8] that is, 70% of all tax expenditures.

Tax expenditures relating to the corporate taxes represented $1.3 billion, or 10% of total tax expenditures. Finally, the consumption tax system accounted for $2.5 billion, or 20% of all tax expenditures.[9]

The measures targeting individuals represented almost 90% of the total cost of tax expenditures—that is, $11.0 billion—while the measures specific to corporations accounted for $1.7 billion.

8 If all personal income tax-related tax expenditures were introduced simultaneously into the appropriate micro-simulation model, the estimated overall cost in 1998 would be $7.2 billion, compared to $8.1 billion for the simple addition of individual costs, for a difference of $0.8 billion or 10%.

9 In the case of consumption taxes, the overall cost of tax expenditures should be very close to the sum of each of the measures. This is because, contrary to personal income tax measures, there is very little interaction between consumption tax measures, as the consumption tax system is linear rather than progressive. As a rule, a particular type of property is taxed at a specific rate, which is not affected by the taxation of another type of property. However, there are certain exceptions. For example, the exemption of health-care services has an effect on the refund that can be claimed by hospitals. Nonetheless, this interaction is limited and the impact on the overall cost is not significant.

TABLE 2
OVERALL COST OF TAX EXPENDITURES IN 2000[1]

	Individuals	Corporations	Total	
	($M)	**($M)**	**($M)**	**(%)**
Personal income tax	8 852	–	8 852	70%
As a % of personal income tax[2]	–	–	*33.9%*	–
Corporate taxes	–	1 306	1 306	10%
As a % of corporate taxes[3]	–	–	*13.3%*	–
Consumption taxes	2 149	385	2 534	20%
As a % of consumption taxes	–	–	*21.0%*	–
Total	**11 001**	**1 691**	**12 692**	**100%**
As a % of tax receipts			*26.4%*	–

1 Excludes certain tax expenditures which are low in cost or for which cost data are not available, as well as the measures announced in the 2002-2003 Budget Speech.
2 Includes the 1% contribution by individuals to the Health Services Fund.
3 Includes income tax, tax on capital, employer contributions to the Health Services Fund and other taxes applicable to corporations.

2.3.1 Personal income tax

Tax expenditures related to personal income tax are designed, among other things, to maintain the progressivity of the tax system, provide support to families, increase work incentives and encourage retirement savings.

The tax measures to ensure progressivity and provide support to families reflect the government's concern for the situation of low-income and medium-income households. Basically, these measures are:

- the tax credit relating to the flat amount of the simplified tax system;[10]
- the tax credits regarding children;
- the refundable tax credit for the QST;
- the tax reduction for families;
- the refundable tax credit for child-care expenses;
- the property tax refund.

Retirement-related measures account for a large share of tax expenditure costs related to the personal income tax system. These measures include the measures related to registered retirement savings plans and registered pension plans.

10 Since the 1998 reform of the personal income tax system, Québec taxpayers can replace a number of deductions and non-refundable tax credits by a flat amount that is converted into a non-refundable tax credit. For further information, see section 1 in Part II.

Other measures favour investors and businesses. Three of them are preponderant in terms of costs, i.e. the non-taxation of capital gains on principal residences, the partial inclusion of capital gains and the lifetime $500 000 capital gains exemption on shares of small businesses.

Among the other measures related to individuals are the non-taxation of worker's compensation, the tax credit for contribution to a labour-sponsored fund, the tax credit for gifts and the non-refundable tax credit for medical expenses.

2.3.2 Corporate taxes

Most of the tax expenditures related to the corporate tax system are granted through refundable tax credits aimed at a number of objectives, in particular, the promotion of R&D and furtherance of the new economy. As regards the latter objective, tax credits for corporations established in a designated site such as an information technology development centre (CDTI) or the Cité du multimédia play an important role.

Among the other tax expenditures related to the corporate tax system is the tax credit for Québec film and television production, the partial inclusion of capital gains and the various deferral measures, in particular, the 100% deduction for accelerated depreciation, together with the additional 20% deduction and the supplementary 25% deduction.

2.3.3 Consumption taxes

The main tax expenditures with respect to consumption taxes are related to the QST system. Certain property and services are zero-rated, in particular basic groceries and financial services. Other property and services are exempted. The most important ones, in terms of costs, are rental accommodation and health-care services.

QST rebates are mostly allowed to public service bodies: charities and certain NPOs, schools, colleges and universities, as well as hospitals.

The reduction of the fuel tax rates and the tax exemption on premiums for individual insurance of persons basically constitute the other important consumption tax measures.

TABLE 3
COST OF CERTAIN TAX EXPENDITURES IN 2000
(in millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	1 708
• Registered pension plan[1]	1 588
• Tax credit relating to the flat amount of the simplified tax system	1 207
• Tax credits regarding children or other dependants	754
• Refundable tax credit for the QST	427
• Tax reduction in respect of families	300
• Real estate tax refund	218
• Refundable tax credit for child-care expenses	212
• Non-taxation of capital gains on principal residence	189
• Partial inclusion of capital gains	171
• Lifetime $500 000 capital gains exemption on shares of small businesses	129
• Tax credit for gifts	124
• Tax credit for contributions to a labour-sponsored fund	113
• Non-refundable tax credit for medical expenses	100
• Others	1 612
Subtotal: personal income tax	***8 852***
Corporate taxes	
• Refundable tax credits for R&D	430
• Partial inclusion of capital gains	150
• Deduction for accelerated depreciation, additional 20% deduction and supplementary 25% deduction	144
• Refundable tax credit for Québec film and television production	94
• Tax measures for corporations established in an information technology development centre (CDTI)	26
• Tax credit for corporations established in the Cité du multimédia	25
• Others	437
Subtotal: corporate taxes	***1 306***
Consumption taxes	
• Zero-rating of basic groceries (QST)	779
• Exemption of rental accommodation (QST)	373
• Exemption in respect of individual insurance of persons (tax on insurance premiums)	209
• Exemption of health care services (QST)	131
• Zero-rating of financial services (QST)	109
• Zero-rating of books (QST)	38
• Others	895
Subtotal: consumption taxes	***2 534***
TOTAL	***12 692***

1 Includes the deduction of contributions and the non-taxation of investment income, reduced by the taxation of withdrawals.

2.4 Change in the cost of each tax expenditure from 1996 to 2002

The cost of all tax expenditures was $10.7 billion in 1996. In 2002, the overall cost should reach $13.5 billion, namely, an average increase of 4% per year.

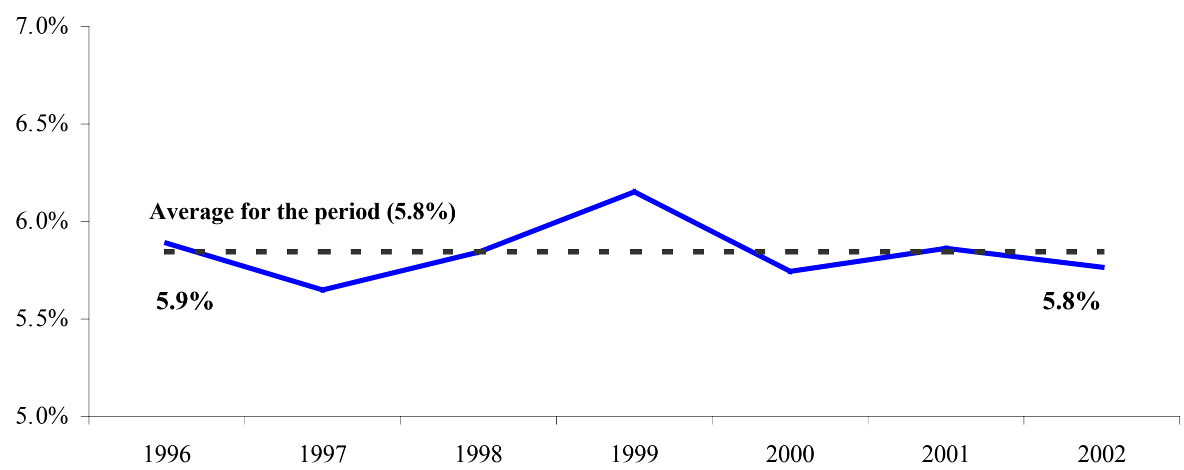
TABLE 4
CHANGE IN THE OVERALL COST OF TAX EXPENDITURES FROM 1996 TO 2002[1]
(in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002
Personal income tax	7 814	7 666	8 059	9 009	8 852	9 072	8 960
Corporate taxes	862	996	1 141	1 323	1 306	1 666	1 854
Consumption taxes	2 005	2 006	2 273	2 465	2 534	2 636	2 734
Total	**10 681**	**10 668**	**11 473**	**12 797**	**12 692**	**13 374**	**13 548**

1 Estimates from 1996 to 1998 and projection afterwards.

However, illustration 3 shows that the weight of tax expenditures in terms of GDP hardly changed during that period. Tax expenditures represented 5.9% of GDP in 1996, compared to an anticipated 5.8% of GDP in 2002.

ILLUSTRATION 3
CHANGE IN THE OVERALL COST OF TAX EXPENDITURES FROM 1996 TO 2002
(as a percentage of GDP)



The following three tables present the the cost of each tax expenditure, from 1996 to 2002.

CAUTION RESPECTING THE CHANGE IN TAX EXPENDITURE COSTS

The change in certain tax expenditure costs may sometimes appear abnormal or indicate a reduction, whereas the cost for the government has actually increased. Indeed, a tax expenditure may sometimes be replaced by another expenditure or by a new budgetary expenditure program. Part II presents the changes carried out that explain the variations noted.

A number of tax measures may apply to two different systems (personal income tax and corporate income tax for example). In general, tax expenditures have been classified according to the tax system under which the measures were implemented.

Within each system, the tax expenditures have been classified for the purpose of organizing and grouping the information presented, in particular, according to the objectives of the expenditures or their nature.

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
TAX MEASURES ENSURING FAIRNESS	**3 235**	**3 203**	**3 686**	**3 671**	**3 703**	**3 557**	**3 479**	
Tax credits regarding essential needs	***1 273***	***1 239***	***872***	***873***	***860***	***747***	***714***	
• For spouses*	354	354	44	44	42	39	37	5
• For a person living alone	91	67	71	69	64	56	53	5
• For dependent children or other dependants:								
– for dependent children	701	693	643	647	647	560	535	6
– for the first child of a single-parent family*	42	44	42	44	44	38	37	7
– for other dependants*	7	7	7	7	6	5	5	7
– for children engaged in post-secondary studies	78	74	65	62	57	49	47	7
Tax credits relating to the simplified tax system	***-***	***-***	***1 546***	***1 612***	***1 628***	***1 541***	***1 530***	
– flat amount[1]	-	-	1 110	1 156	1 207	1 147	1 151	8
– transfer of the basic credit from one spouse to the other	-	-	436	456	421	394	379	8
Support for families and work incentive	***1 183***	***998***	***587***	***523***	***570***	***621***	***575***	
• Tax reduction in respect of families	372	316	249	235	300	372	347	9
• Family allowances:								
– Former basic family allowance*	258	178	-	-	-	-	-	10
– Allowance for new-born children	189	177	120	80	53	29	6	10
– Allowance for young children	136	93	-	-	-	-	-	10
– Allowance for disabled children	36	35	-	-	-	-	-	10
• Refundable tax credit for child care expenses*	192	199	218	206	212	211	213	12
• Refundable tax credit for adoption expenses	f	f	f	2	2	5	5	13
• Refundable tax credit for the treatment of infertility	-	-	-	-	3	4	4	14

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• SLPW:								
– Non-taxation of benefits	f	f	f	f	f	-	-	14
– Deduction of student loan repayments	f	f	f	f	f	f	f	14
• Refundable tax credit for on-the-job training periods	f	f	f	f	f	f	f	91
Other tax measures promoting a progressive tax system	**779**	**966**	**681**	**663**	**645**	**648**	**660**	
• Real estate tax refund	147	153	225	227	218	222	225	15
• Retroactive lump-sum payments*	f	f	f	f	f	f	f	15
• Refundable tax credit for the Québec sales tax	238	414	456	436	427	426	435	16
• Tax reduction in respect of individuals	394	399	-	-	-	-	-	17
TAX MEASURES WITH SPECIFIC OBJECTIVES	**4 579**	**4 463**	**4 373**	**5 338**	**5 149**	**5 515**	**5 481**	
Agriculture and fisheries	***53***	***52***	***52***	***83***	***74***	***60***	***58***	
• Cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17
• Flexibility in accounting for inventory*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17
• Deferral of capital gains:*								
– Deferral of capital gains on farm properties passed on to children	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18
– Deferral attributable to the 10-year reserve for capital gains on the sale to children of farm properties or shares of a farm corporation	2	3	2	3	2	2	f	18
• Exemption from paying quarterly instalments*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18
• Lifetime $500 000 capital gains exemption on farm properties*	51	49	50	80	72	58	58	19
Culture	***f***	***2***	***2***	***2***	***2***	***3***	***3***	
• Dues and donations to arts organizations	f	f	f	f	f	f	f	19
• Deduction for musicians and artists*	n.a.	n.a.	f	f	f	f	f	20

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
• Deduction for an artist regarding copyright income	f	2	2	2	2	3	3	20
• Deduction for foreign producers	-	-	-	-	-	n.a.	n.a.	21
• Non-taxation of gains tied to donations and other dispositions of cultural property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21
• Deduction relative to certain films*	f	f	f	f	f	f	f	21
• Depreciation of works of art by a Canadian artist*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22
Employment	***30***	***41***	***47***	***57***	***62***	***63***	***62***	
• Non-taxation of strike benefits*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22
• Non-taxation of certain non-monetary benefits relating to an employment*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22
• Non-taxation of certain amounts paid to a member of a board of directors or of various committees	-	-	-	-	f	f	f	22
• Non-taxation of certain allowances paid to volunteer firefighters*	f	f	-	-	-	-	-	23
• Non-taxation of certain allowances paid to emergency services volunteers*	-	-	3	3	3	3	3	23
• Salary deferral under an employee benefit plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24
• Salary deferral because of leave*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24
• Deduction for a home relocation loan*	f	f	f	f	f	f	f	24
• Deductions for workers employed abroad*	18	25	24	30	31	29	28	25
• Stock option deductions*	12	16	20	24	28	31	31	25
• Deduction relating to donations of securities acquired under a stock option*	-	-	-	-	n.a.	n.a.	-	27
• Refundable tax credit for job creation in the clothing and footwear industry	-	-	f	f	f	f	f	98

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
Business and investment	***403***	***414***	***383***	***482***	***519***	***599***	***589***	
• Non-taxation of income from War Savings Certificates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27
• Partial inclusion of capital gains*	66	93	82	117	171	268	272	28
• Reduction in the inclusion rate of capital gains resulting from the donation of certain securities*	-	-	-	-	n.a.	n.a.	-	28
• Reduction in the inclusion rate of capital gains resulting from the donation of property with undeniable ecological value*	-	-	-	-	n.a.	n.a.	n.a.	28
• Exemption of $1 000 in capital gains realized on the sale of personal-use property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	29
• Exemption of $200 in capital gains realized on currency exchange transactions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	29
• Non-taxation of capital gains on principal residence*	185	191	151	187	189	201	188	29
• Capital gains deferral:*								
– Taxation of capital gains when realized	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30
– Deferral by means of capital gains rollover provisions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30
– Deferral of capital gains through transfers between spouses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31
– Deferral by means of the five-year reserve	3	4	4	4	5	4	4	32
– Deferral attributable to the ten-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business	7	8	10	12	10	9	8	32
• Income averaging for owners of private woodlots damaged by the ice storm	-	-	-	f	f	f	f	33
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33
• Rollover of small business investments *	-	-	-	-	n.a.	n.a.	n.a.	34
• Family trusts*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	34

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• Deduction for losses as limited partner*	11	9	5	5	5	5	5	35
• Deduction for allowable business investment losses*	24	18	18	14	10	8	8	35
• Lifetime $500 000 capital gains exemption on shares of small businesses*	107	91	113	143	129	104	104	36
Education	***46***	***41***	***50***	***70***	***104***	***109***	***107***	
• Exemption regarding bursaries and awards*	4	4	4	4	29	36	36	36
• Registered education savings plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	38
• Deduction of contributions to a teacher exchange fund*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	38
• Deduction and tax credit for tuition or examination fees*	42	37	39	53	60	58	57	39
• Tax credit for interest paid on a student loan*	-	-	7	13	15	15	14	39
• Tax holiday for foreign post-doctoral interns	-	-	f	f	f	f	f	39
Developmental measures for the economy	***105***	***109***	***115***	***140***	***167***	***242***	***241***	
• Worker gain-sharing plan	11	11	6	4	4	4	4	40
• Market makers	f	f	f	f	f	f	f	40
• Deduction for certain flow-through share issue expenses	f	f	f	f	f	f	f	41
• Deductions relating to strategic investments:								
– Stock savings plan	14	14	16	18	17	17	16	41
– flow-through shares								
- basic deduction of 100% of Canadian exploration expenses*	9	10	6	7	7	6	6	42
- additional deduction of 25% and 50%	3	4	2	3	3	2	2	42
– Québec Business Investment Companies	5	6	6	9	9	8	8	43
– Additional capital gains exemption for certain properties relative to resources	f	f	f	f	f	f	f	44
– Cooperative investment plan	4	6	5	5	6	8	8	44
• Deduction for R&D capital expenditures*	f	f	f	f	f	f	f	116

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• Tax holiday for foreign researchers (R&D)	f	f	f	2	2	2	2	45
• Tax holiday for Québec seamen	f	f	f	f	f	f	f	45
• Tax exemptions for employees of an international financial centre	4	4	4	6	6	7	7	46
• Tax holiday for foreign experts employed by a securities exchange or securities clearing-house corporation	-	-	-	-	n.a.	n.a.	n.a.	46
• Deduction for a member of a partnership that operates an international financial centre	-	-	f	f	f	f	f	47
• Deduction for independent financial derivatives traders	-	-	-	-	-	f	f	47
• Tax holiday for foreign specialists working in an information technology development centre (CDTI)	-	f	f	f	f	f	f	48
• Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre	-	-	-	-	n.a.	n.a.	n.a.	49
• Tax holiday for foreign experts working in E-Commerce Place	-	-	-	-	n.a.	n.a.	n.a.	49
• Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel	-	-	-	f	f	f	f	50
• Tax holiday for foreign experts	-	-	-	f	f	f	f	50
• Tax holiday for foreign professors	-	-	-	-	f	f	f	50
• Refundable tax credit relating to the apprenticeship period of young specialized employees of an IFC	-	-	f	f	f	f	f	98
• Refundable tax credit for foreign investment fund canvassing expenses	-	-	-	-	n.a.	n.a.	-	99
• Refundable tax credit relating to canvassing expenditures for IFC	-	-	f	f	f	f	f	99

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
• Refundable tax credit for the acquisition of less-polluting dry cleaning equipment	-	f	f	f	f	-	-	109
• Refundable tax credit for railway companies	-	-	f	f	f	f	f	103
• Refundable tax credit for the maintenance of racehorses	-	-	-	-	f	f	f	97
• Tax credit for contributions to a labour-sponsored fund*	55	54	70	86	113	113	113	51
• Non-taxation of tax credits	f	f	f	n.a.	n.a.	n.a.	n.a.	86
• Refundable tax credits for scientific research and experimental development	f	f	f	f	f	f	f	89
• Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins	-	-	-	-	-	75	75	51
Recognition of certain special situations	***34***	***36***	***30***	***30***	***38***	***59***	***75***	
• Refundable tax credit for adults housing their parents*	13	14	14	15	15	15	15	51
• Refundable tax credit for home maintenance of an older person	-	-	-	-	3	25	41	52
• Deduction for inhabitants of remote areas*	15	15	12	13	13	12	12	52
• Refundable tax credit for individuals living in a northern village	-	-	f	f	f	f	f	53
• Deduction for lodging of members of a religious order*	2	2	2	2	2	2	2	53
• Tax credit for the members of a religious community	4	5	2	f	f	f	f	53
• Refundable tax credit for top-level athletes	-	-	-	-	5	5	5	54
Retirement	***3 232***	***3 113***	***3 081***	***3 828***	***3 521***	***3 738***	***3 709***	
• Registered retirement savings plan:*								
– Deduction of contributions	1 121	1 221	1 175	1 224	1 242	1 225	1 207	54
– non-taxation of investment income	584	579	591	838	792	898	938	54
– taxation of withdrawals	-260	-304	-301	-318	-326	-317	-312	54
• Registered pension plan:*								
– deduction of contributions	1 045	1 032	990	1 027	1 046	1 042	1 027	55

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
– non-taxation of investment income	1 507	1 566	1 529	2 029	1 791	1 894	1 841	55
– taxation of withdrawals	-1 018	-1 195	-1 140	-1 209	-1 249	-1 200	-1 171	55
• Deferred profit-sharing plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	56
• Tax credit for retirement income*	71	56	66	66	62	55	51	56
• Tax credit with respect to age*	182	158	171	171	163	141	128	57
Health	***164***	***127***	***108***	***129***	***143***	***144***	***153***	
• Tax credit for medical expenses*	149	100	80	87	100	101	110	58
• Refundable tax credit for medical expenses*	-	9	8	9	10	10	10	58
• Tax credit relating to medical care not provided in the region of residence	f	f	f	f	f	f	f	59
• Tax credit for a person suffering from a severe and prolonged mental or physical impairment*	15	18	20	33	33	33	33	59
Income support	**348**	**342**	**327**	**336**	**333**	**316**	**304**	
• Non-taxation of last-resort assistance benefits*	28	21	-	-	-	-	-	59
• Non-taxation of financial assistance with respect to child care expenses received under government employment assistance programs	-	-	-	-	n.a.	n.a.	n.a.	60
• Non-taxation of the guaranteed income supplement and spouse's allowance*	65	64	74	76	73	68	64	60
• Non-taxation of worker's compensation indemnities*	118	125	124	134	141	134	131	60
• Non-taxation of indemnities received from the Société de l'assurance automobile du Québec*	51	56	62	63	61	56	52	61
• Non-taxation of certain indemnities received as a victim of a crime*	4	4	4	5	5	5	4	61
• Non-taxation of certain income from indemnities regarding physical or mental injuries*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	62

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
• Non-taxation of death benefits up to $10 000*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	62
• Non-taxation of pensions and indemnities (injuries, disability or death) paid to RCMP officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	62
• Non-taxation of allowances of war veterans, war pensions and allowances paid to civilians and other military pensions (including those paid by allied countries)*	f	f	f	f	f	f	f	62
• Non-taxation of disability pensions of war veterans and dependants' support allowances*	14	14	14	14	14	13	13	63
• Support amount and maintenance allowance*	68	58	49	44	39	40	40	63
Other specific measures	***164***	***186***	***178***	***181***	***186***	***182***	***180***	
• Transfer between spouses of certain non-refundable tax credits*	38	38	-	-	-	-	-	63
• Non-taxation of gifts and bequests*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	64
• Non-taxation of Indians' income situated on a reserve*	n.a.	17	20	21	21	19	18	64
• Non-taxation of funds accumulated in a registered home ownership savings plan (RHOSP)	f	f	f	f	-	-	-	65
• Non-taxation and deduction for employees of certain international governmental organizations*	5	7	7	5	5	5	5	66
• Non-taxation for the employees of certain international non-governmental organizations*	n.a.	n.a.	-	-	-	-	-	66
• Non-taxation of government housing purchase or renovation assistance programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	66
• Deduction of moving expenses*	4	5	5	5	5	5	5	66
• Assistance for prospectors and prospecting sponsors*	f	f	f	f	f	f	f	67

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	11	15	23	22	20	18	17	118
• Tax credit for gifts*	91	92	112	117	124	120	118	67
• Tax credit for contribution to a political party*	3	3	5	3	3	4	4	68
• Refundable tax credit for taxi business	3	3	3	3	3	6	8	69
• Premier toit refundable tax credit	6	4	f	-	-	-	-	70
• Property tax refund for forest producers	3	2	3	3	3	3	3	70
• Refundable tax credit relative to the declaration of tips	-	f	f	2	2	2	2	109
TAX MEASURES SHOWN FOR INFORMATION PURPOSES								
• Basic tax credit*	4 664	4 789	5 757	5 790	5 579	5 181	5 027	70
• Employment insurance contributions:								
– Tax credit regarding contributions paid by employees [1]*	375	406	435	423	391	349	340	71
– Non-taxation of contributions paid by employers*	599	650	595	577	542	486	467	71
• Contributions to the Québec Pension Plan:								
– Tax credit regarding contributions paid by employees and self-employed workers[1]*	346	395	484	546	526	559	604	71
– Non-taxation of contributions paid by employers and deduction for self-employed workers*	394	451	467	529	562	601	642	71
• Deduction and tax credit for union and professional dues*	142	134	89	92	92	89	88	72
• Deduction of certain employment-related expenses*	86	94	95	99	101	99	98	72
• Non-taxation of allowances paid to certain public officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	72
• Non-taxation of indemnities paid to diplomats and other government employees stationed abroad*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	72

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
• Deduction of entertainment expenses*	17	18	39	58	60	56	54	123
• Deduction of expenses of an attendant*	f	f	f	f	f	f	f	73
• Deduction of expenses incurred to earn investment income*	79	72	69	77	88	86	85	73
• Dividend gross-up and tax credit*	92	102	77	103	135	141	148	73
• Non-taxation of capital dividends*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	74
• Deduction of farm losses of part-time farmers*	8	8	9	9	9	8	8	74
• Carry-over of farm and fishing losses*	f	f	f	f	f	f	f	74
• Capital loss carry-over *	22	23	17	25	18	15	15	75
• Carry-over of losses other than capital losses*	18	19	18	19	11	9	9	75
• Non-taxation of lottery and gambling earnings*	207	224	291	337	352	329	314	75
• Foreign taxes credit*	9	11	22	21	21	21	21	75
• Amounts exempt from tax under a tax agreement	22	25	12	10	11	10	10	76
• Tax deduction for forest operations*	f	f	f	f	f	f	f	123
• Trust funds established for land-fill sites for extraction of aggregates and similar substances*	f	f	f	f	f	f	f	117
• Recovery of averaged income*	2	3	-	-	-	-	-	76
Subtotal: tax expenditures	***7 814***	***7 666***	***8 059***	***9 009***	***8 852***	***9 072***	***8 960***	
Subtotal: for information purposes	***7 082***	***7 424***	***8 476***	***8 715***	***8 498***	***8 039***	***7 930***	
TOTAL: PERSONAL INCOME TAX	**14 896**	**15 090**	**16 535**	**17 724**	**17 350**	**17 111**	**16 890**	

* A similar measure is offered in the federal taxation system.

1 The tax expenditure related to the flat amount considers that the basic system includes, more specifically, the non-refundable tax credits for employment insurance contributions and contributions to the Québec Pension Plan (QPP).

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
INCOME TAX	**742**	**847**	**951**	**1 091**	**1 063**	**1 346**	**1 475**	
Reduced tax rates and exemptions[1]	***233***	***293***	***265***	***238***	***184***	***256***	***262***	
• Reduced tax rate for small businesses*	130	153	146	112	-	-	-	77
• Reduced tax rate for savings and credit unions*	5	6	6	6	6	6	7	77
• Partial inclusion of capital gains*	75	112	82	92	150	220	222	28
• Exemption of registered charities and non-profit organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78
• Exemption of government organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78
• Exemption regarding income earned from the administration and management of new investment funds	-	-	f	f	f	f	2	81
• Exemption of labour-sponsored funds	4	3	10	7	7	7	7	85
• Exemption of Capital régional et coopératif Desjardins	-	-	-	-	-	-	f	85
• Non-taxation of tax credits	19	19	21	21	21	23	24	86
Deductions	***28***	***23***	***25***	***29***	***29***	***29***	***28***	
• Deduction relating to resources*	10	5	3	7	7	8	8	86
• Deductibility of royalties paid to Indian bands*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	87
• Earned depletion*	f	f	f	f	f	-	-	87
• Deductibility of gifts*	9	9	13	12	12	12	12	87
• Deduction for allowable business investment losses*	9	9	9	10	10	9	8	35
• Deductibility of countervailing and antidumping duties*	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	88
• Deductibility of allowances for earthquakes*	-	-	f	f	f	f	f	88

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
Tax credits	*427*	*451*	*531*	*668*	*706*	*945*	*1 076*	
Promoting innovation	**330**	**357**	**369**	**450**	**509**	**646**	**721**	
i) Research and development	*324*	*350*	*351*	*407*	*430*	*447*	*463*	
Scientific research and experimental development								
– Salaries of researchers	272	301	312	370	378	389	401	89
– University research	12	14	11	11	12	12	13	89
– Others	40	35	28	26	30	31	31	89
• Super-deductions for R&D	-	-	-	-	f	-	-	89
• Credit based on the increase in R&D expenditures	-	-	-	f	10	15	18	90
ii) New economy[2]	*6*	*7*	*18*	*43*	*79*	*199*	*258*	
• Design	6	7	7	7	8	8	9	91
• Production of multimedia titles	f	f	6	10	15	21	21	104
• CDTI	-	-	5	14	23	41	41	104
• Cité du multimédia	-	-	f	12	25	48	63	105
• CNNTQ	-	-	-	f	f	20	23	106
• CNE	-	-	-	f	f	26	42	106
• E-Commerce Place	-	-	-	-	8	32	51	107
• Technopôle Angus	-	-	-	-	f	f	f	107
• Cité de la biotechnologie et de la santé humaine du Montréal métropolitain	-	-	-	-	-	f	5	108
• Cité de l'optique	-	-	-	f	f	3	3	111
Promoting investments	**-**	**f**	**22**	**53**	**46**	**128**	**164**	
i) Regions	-	*f*	*10*	*25*	*15*	*39*	*68*	
• Shipbuilding or conversion	-	f	10	25	15	19	19	97
• Vallée de l'aluminium	-	-	-	-	f	2	4	112
• Gaspésie and certain maritime regions of Québec	-	-	-	-	f	f	2	112
• Processing activities in the resource regions	-	-	-	-	-	7	18	112
• Refundable tax credit for resources	-	-	-	-	-	11	25	113
ii) Financial sector	-	-	*3*	*6*	*9*	*4*	*3*	
• Apprenticeship period of young specialized employees of an IFC	-	-	f	f	f	f	f	98
• IFC canvassing expenses	-	-	f	f	f	f	f	99
• Canvassing expenditures for a foreign investment fund	-	-	-	-	f	f	-	99
• Creation of investment funds	-	-	3	6	9	4	3	100

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• Communications between corporations and investors	-	-	-	-	f	f	f	100
• Fund managers	-	-	f	f	f	f	f	101
• Hiring of junior financial analysts specializing in the securities of Québec corporations	-	-	-	-	f	f	f	102
• Hiring of junior financial analysts specializing in financial derivatives	-	-	-	-	-	f	f	102
• Participation of investment dealers on the Nasdaq stock market	-	-	-	-	f	f	f	103
iii) Sectoral	-	-	*9*	*22*	*22*	*85*	*93*	
• Job creation in the clothing and footwear industry	-	-	9	9	9	9	2	98
• Railway companies	-	-	f	13	13	13	13	103
• Montréal Foreign Trade Zone at Mirabel	-	-	-	f	f	63	78	110
Promoting culture	**53**	**70**	**72**	**93**	**97**	**112**	**121**	
• Québec film and television production*	53	70	72	93	94	95	96	93
• Film and television production services	-	-	f	f	3	3	4	94
• Dubbing	-	-	f	f	f	f	f	95
• Sound recording production	-	-	-	f	f	f	f	95
• Production of shows	-	-	-	f	f	4	5	95
• Creation of an eligible digital production	-	-	-	-	-	6	8	96
• Book publishing	-	-	-	-	f	4	8	97
Other tax credits	***44***	***24***	***68***	***72***	***54***	***59***	***70***	
• Technology adaptation services	-	-	-	f	f	f	f	90
• On-the-job training periods	5	11	15	16	16	17	27	91
• Job creation	-	f	23	22	4	-	-	92
• Training	39	13	7	f	-	-	-	92
• Maintenance of racehorses	-	-	-	-	f	3	3	97
• Integration of e-commerce solutions	-	-	-	-	f	5	6	108
• Acquisition of less-polluting dry cleaning equipment	-	f	f	f	f	-	-	109
• Declaration of tips	-	f	23	34	34	34	34	109

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
Deferrals	*54*	*80*	*130*	*156*	*144*	*116*	*109*	
• Expenses relating to resources (accelerated amortization)*	15	3	8	13	n.a.	n.a.	n.a.	114
• Expenses relating to renewable energy and energy conservation in Canada*	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	115
• Deduction of R&D capital expenditures*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	116
• Deductibility of land-holding expenses*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	116
• Rule on assets ready to be put into service*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	116
• Taxation of capital gains when realized*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30
• Immediate deduction of advertising expenses*	f	f	f	f	f	f	f	117
• Trust funds established for land-fill sites or quarries for the extraction of aggregates and similar substances*	-	f	f	f	f	f	f	117
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33
• Holdbacks on staggered payments to contractors*	f	f	f	f	f	f	f	118
• Agriculture and fisheries:								
– cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17
– flexibility in accounting for inventory*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	39	77	122	143	144	116	109	118
Other tax expenditures	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	
• Non-taxation of investment income from life insurance policies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	119
• Accelerated depreciation to help small businesses (year 2000 compliance of computer systems)*	-	-	n.a.	n.a.	-	-	-	120
• Non-taxation of life insurance companies on their world income*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	120
• Exemption from Québec tax of the profits of foreign air and marine transportation companies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	120

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
• Federal aviation fuel excise tax rebate program*	-	n.a.	n.a.	n.a.	n.a.	-	-	120
• Tax assistance for the capitalization of the Réseau d'investissement social du Québec	-	f	f	f	f	f	f	121
Tax measures shown for information purposes								
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
• Deduction of rebates of savings and credit unions and cooperatives*	n.a.	n.a.	10	10	11	11	11	121
• Deferral of capital gains through various rollover provisions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	122
• Deduction of entertainment expenses*	17	22	23	28	28	28	28	123
• Loss carry-over:								
– other than capital losses*	163	194	176	188	190	203	215	75
– capital losses*	15	4	27	29	26	27	27	75
– farm and fishing losses*	f	f	f	f	f	f	f	74
• Tax deduction for forest operations*	11	11	11	11	11	11	11	123
• Deduction for investment corporations*	f	f	f	f	f	f	f	123
• Extra deduction for intangible fixed assets*	8	9	9	12	12	13	13	124
• Exemption of the active income of foreign subsidiaries of Canadian corporations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	124
• Refundable tax credit for losses	62	54	50	36	7	4	f	125
TAX ON CAPITAL[1]	***93***	***107***	***146***	***178***	***177***	***185***	***188***	
• Deduction of one-third of the paid-up capital of mining corporations	7	8	8	9	9	9	10	130
• Rate of 2% for life and health insurance premiums	55	55	55	55	56	56	57	130
• Exemption for cooperatives	15	18	14	12	13	13	13	130
• Exemption for corporations operating in the agriculture or fisheries sector	11	13	14	14	15	15	16	131

TABLE 6

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM

(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
• Exemption for labour-sponsored funds	5	-	-	-	-	-	-	131
• Inactive corporations with assets of less than $5 000	f	f	f	f	f	f	f	131
• Exemption of government organizations, charities and other non-profit organizations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	132
• Mining corporation yet to reach the production stage	f	f	f	f	f	f	f	132
• Deduction for the acquisition or conversion of ships	f	f	f	f	f	f	f	132
• Holiday from the tax on capital for new investments in certain sectors	-	13	50	79	75	82	81	132
• Reduction in the paid-up capital of certain financial institutions	-	-	5	9	9	10	11	133
HEALTH SERVICES FUND[3]								
TAX HOLIDAYS[4]	**27**	**42**	**44**	**54**	**66**	**135**	**191**	
• Five-year tax holiday for new corporations	24	35	33	41	48	50	52	78
• IFC	3	7	11	13	15	15	16	79
• CDTI	-		f	F	3	6	7	80
• Cité de la biotechnologie et de la santé humaine du Montréal métropolitain	-	-	-	-	-	f	f	80
• Montréal Foreign Trade Zone at Mirabel	-	-	-	F	f	8	31	82
• Major investment projects	-	-	-	-	f	18	33	83
• Support for the development of securities exchanges and securities clearing-houses in Montréal	-	-	-	-	-	f	f	83
• Ten-year tax holiday for manufacturing SMEs in remote resource regions	-	-	-	-	-	38	52	84
Subtotal: tax expenditures	***862***	***996***	***1 141***	***1 323***	***1 306***	***1 666***	***1 854***	
Subtotal: for information purposes	***276***	***294***	***306***	***314***	***285***	***297***	***305***	
TOTAL: CORPORATE TAX SYSTEM	**1 138**	**1 290**	**1 447**	**1 637**	**1 591**	**1 963**	**2 159**	

* A similar measure is offered in the federal taxation system.

1 The cost of some of these measures is presented in the section entitled “Tax holidays”.

2 For all of the costs related to the Cité du multimédia and the Centre national des nouvelles technologies de Québec (CNNTQ), see the boxed text on page 61.

3 All the measures relating to the Health Services Fund are presented in the section entitled “Tax holidays”.

4 The tax holidays apply to the three sources of corporate taxation: income tax, tax on capital and Health Services Fund.

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
QUÉBEC SALES TAX	***1 598***	***1 591***	***1 842***	***1 978***	***2 036***	***2 135***	***2 220***	
Zero-rated property and services	***788***	***798***	***943***	***970***	***1 007***	***1 062***	***1 096***	
Basic groceries*	599	618	731	750	779	820	847	139
Prescription drugs*	49	51	61	62	64	68	71	139
Medical devices*	13	13	16	16	17	18	18	139
Books	28	29	35	36	38	40	41	140
Hotel packages	19	3	-	-	-	-	-	140
Financial services[1]	80	84	100	106	109	116	119	140
Exempt property and services	***472***	***488***	***582***	***649***	***668***	***698***	***725***	
Rental accommodation*	295	304	357	365	373	385	398	141
Sales of used residential buildings or personal use buildings*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	141
Health care services*	91	97	118	123	131	140	147	141
Educational services*	34	36	44	46	49	53	55	142
Child-care and personal-care services*	38	42	53	52	50	53	55	142
Standard municipal services*	n.a.	n.a.	n.a.	52	54	55	57	142
Municipal transit services*	14	9	10	11	11	12	13	143
Ferries, and road and bridge tolls*	f	f	f	f	f	f	f	143
Tax rebates	***309***	***275***	***284***	***321***	***321***	***331***	***353***	
Rebates granted to public service bodies:								
– charities and certain non-profit organizations*	56	64	72	79	81	84	87	143
– schools, colleges and universities*	71	73	83	89	90	94	99	143
– hospitals*	54	44	49	60	60	63	67	143
– municipalities*	84	28	3	9	2	-	-	143
Rebate granted to purchasers of new residential housing*	44	46	53	59	65	72	86	144
Rebate granted to lessors of new residential property*	-	-	-	-	3	8	9	144

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
Rebate granted to foreign tourists*	-	20	24	25	20	10	5	144
Rebate provided for automatic door openers for the use of disabled persons	f	f	f	f	f	f	f	145
Measures to facilitate QST administration	***29***	***30***	***33***	***38***	***40***	***44***	***46***	
Exclusion of small suppliers from the field of application of the QST*	29	30	33	35	37	39	41	145
Simplified accounting methods:								
– simplified method for charities*	f	f	f	3	3	3	3	146
– quick method for small businesses*	f	f	f	f	f	f	f	146
– quick method for qualifying public service bodies*	f	f	f	f	f	2	2	146
– simplified calculation methods of ITRs and partial QST rebates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	147
Other tax expenditures	***f***	***f***	***f***	***f***	***f***	***f***	***f***	
Non-taxable imports*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	147
Exemption granted to the Société Saint-Jean-Baptiste de Montréal	f	f	f	f	f	f	f	147
Tax measures shown for information purposes								
Entertainment expenses*	25	26	27	28	29	30	31	148
Rebate granted to employees and partners*	13	14	15	15	16	17	18	148
TAX ON INSURANCE PREMIUMS	**258**	**262**	**272**	**287**	**297**	**305**	**313**	
Exemption with respect to an individual policy of insurance of persons	180	185	190	202	209	213	218	148
Reduction in the tax rate for automobile insurance	78	77	82	85	88	92	95	149

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(in millions of dollars)

	Estimate			Projection				Reference page Part II
	1996	1997	1998	1999	2000	2001	2002	
Exemption with respect to certain compulsory insurance plans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	149
FUEL TAX	**147**	**151**	**157**	**198**	**198**	**193**	**198**	
Reduction in the rate of the tax in certain regions	86	88	91	92	89	85	89	149
Reduction in the rate of the tax for aircraft and railroad locomotives	61	63	66	60	56	55	56	150
Exemptions and refunds granted to farmers and fishers	f	f	f	f	f	f	f	150
Exemptions and refunds granted to the industrial sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	150
Exemption and refund granted to the aviation sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151
Exemption for commercial vessels	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151
Exemption for propane gas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	151
Refund granted to farm, forest and mining businesses	n.a.	n.a.	n.a.	34	34	34	34	151
Reimbursement granted for public carriers	f	f	f	5	5	5	5	152
Refund regarding fuel used to supply an engine for stationary purpose of the equipment of a vehicle				7	14	14	14	152
TAX AND DUTIES ON ALCOHOLIC BEVERAGES	**2**	**2**	**2**	**2**	**3**	**3**	**3**	
Reduction in rates of the specific tax and duty regarding beer sold by microbreweries	2	2	2	2	3	3	3	152
Reduction in rates of the specific tax and duty regarding alcoholic beverages sold by a small-scale producer	f	f	f	f	f	f	f	153
Subtotal: tax expenditures	***2 005***	***2 006***	***2 273***	***2 465***	***2 534***	***2 636***	***2 734***	
Subtotal: for information purposes	***38***	***40***	***42***	***43***	***45***	***47***	***49***	
TOTAL: CONSUMPTION TAXES	**2 043**	**2 046**	**2 315**	**2 508**	**2 579**	**2 683**	**2 783**	

RECONCILIATION BETWEEN THE FISCAL MEASURES AND THE DESIGNATED PERIMETERS FOR THE PURPOSES OF THE NEW ECONOMY

The following table groups the new economy measures by designated site and by fiscal measure.

It presents the total assistance granted, according to whether the businesses are located in the Cité du multimédia in Montréal, the CNNTQ in Québec, or the CDTIs and CNEs in the regions. The programs of the Cité du multimédia and the CNNTQ are exclusive to their respective perimeters. Regardless of the type of establishment or designated site in which a firm chooses to set up premises, the firm can take advantage of the fiscal measure for which it qualifies.

NEW ECONOMY MEASURES
(in millions of dollars)

	Estimate			Projection			
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
BY DESIGNATED SITE							
Montréal - Cité du multimédia							
Tax credit for the Cité du multimédia	-	-	f	12	25	48	63
Measures for the CDTIs	-	-	f	12	18	30	29
Tax credit for the CNEs	-	-	-	f	f	f	f
Total	**-**	**-**	**f**	**24**	**43**	**78**	**92**
Québec - CNNTQ							
Tax credit for the CNNTQ	-	-	-	f	f	20	23
Measures for the CDTIs	-	-	f	f	4	7	6
Tax credit for the CNEs	-	-	-	f	f	2	3
Total	**-**	**-**	**f**	**f**	**4**	**29**	**32**
Measures for the CDTIs - Other regions	**-**	**-**	**f**	**f**	**4**	**10**	**13**
Measures for the CNEs - Other regions	**-**	**-**	**-**	**f**	**f**	**23**	**38**
TOTAL [1]	**-**	**-**	**f**	**24**	**51**	**140**	**175**
BY FISCAL MEASURE							
Cité du multimédia	-	-	f	12	25	48	63
CDTI							
- Tax credits	-	-	5	14	23	41	41
- Tax holiday	-	-	f	f	3	6	7
CNNTQ	-	-	-	f	f	20	23
CNE	-	-	-	f	f	26	42
TOTAL [1]	**-**	**-**	**5**	**26**	**51**	**141**	**176**

1 The difference between the two totals is explained by the fact that the “f’s” are considered to be equal to zero in the calculations.

3. THE EVALUATION OF TAX EXPENDITURES

The evaluation of tax expenditures is one of the means at the government's disposal to measure the fiscal, economic and social impacts of tax relief measures in Québec's system. The process of establishing a tax expenditure consists in evaluating whether the measures implemented can attain their objectives.

The evaluation of tax expenditures is also useful for standardizing the evaluation of the various measures within a common analysis framework which is well-defined, yet flexible. The purpose of this section is to describe the analysis framework.

Prior to implementing a tax expenditure evaluation framework, tax expenditures have to be classified in correlation with evaluation objectives. First, a tax expenditure classification is therefore presented, following which, a procedure for tax expenditure evaluation is described. The section concludes with the presentation of additional information concerning two tax expenditures related to personal income tax.

3.1 Classification of tax expenditures

There are many ways of classifying tax expenditures. Examples include classifications based on:

- type of tax;
- objectives of the tax system;
- recipient;
- degree of similarity with program spending.

– Classification by type of tax

One way of classifying tax expenditures is to group them according to the type of tax they seek to reduce. Hence, Québec classifies its tax expenditures under three major themes: personal income tax, corporate tax and consumption taxes. France, for example, has identified eight types of tax, among which are income tax, corporate taxes, registration and stamp duties and the value-added tax.

– Classification according to the objectives of the tax system

Second, most jurisdictions classify their tax expenditures according to the specific objectives of the tax system (health, retirement, studies, etc.). Canada, the United States and Australia, to name a few, have adopted such a classification. Québec also uses this type of classification for its cost estimates and distinguishes tax expenditures according to the major objectives of the tax system, i.e. the fairness and progressivity of the system.

Highlighting the objectives to be attained by the tax expenditures is one advantage of such a classification. In addition to tax expenditure costs by class of objectives, some jurisdictions present the program spending aimed at the same objectives.

– Classification by recipient

Certain jurisdictions classify tax expenditures according to the recipients targeted. France and Australia use this type of presentation.

France identifies two types of recipients, households and businesses. Tax expenditures are therefore classified on the basis of three groups namely, measures benefiting the first group, measures benefiting the second group and measures benefiting both groups simultaneously. Australia goes further, identifying more than fifteen recipients, among which are financial institutions, hospitals, students, non-residents, retirees, etc.

– Classification according to the degree of similarity with program spending

Another approach consists in classifying tax expenditures according to their degree of similarity with program spending. The federal government initiated such a thought process in the latest edition of its document on tax expenditures.[11]

11 See *Tax Expenditures and Evaluations 2000*, published by the Department of Finance of Canada.

3.2 Procedure for the evaluation of tax expenditures

Québec has a three-tier structure (type of tax, general objectives, specific objectives) for the classification of its tax expenditures. With this structure, tax expenditures are already classified into homogenous groups. It allows tax expenditures to be analyzed individually, or several at a time, according to the specific objective.

Tax expenditure evaluation mainly calls for a case-by-case approach. Nonetheless, certain guidelines close to those for program evaluations may be followed.

3.2.1 Program evaluation used as the basis for tax expenditure evaluation

Program evaluation is gaining widespread use in the study of the impact of government policies. Even if the first work on the subject was carried out in the 70s, program evaluation became a useful evaluation tool only in the mid 80s.

For tax expenditures that can be considered, to varying degrees, as program spending (or direct spending), evaluation of whether their objectives were attained may be carried out by using a procedure similar to program evaluation.[12]

Program evaluation is a tool used to reduce the degree of uncertainty by answering the basic questions that come up when taking decisions on establishing, maintaining or interrupting a program or on any appropriate changes.[13] For program evaluation, the pertinent reference material generally considers five types of appraisals:

- evaluation of **pertinence**: by calling into question the necessity of the program, taking into account the economic and social conditions of the time as well as government policy;

- evaluation of **effectiveness**: by measuring the relationship between the objectives targeted and the results obtained;

- evaluation of **efficiency**: by determining whether the program uses the most appropriate means for attaining its objectives;

12 According to the Auditor General: "…tax expenditures, which may generally be considered as relating to program spending, should be evaluated in the same way as the latter." *Rapport à l'Assemblée nationale pour l'année 1999-2000*, *Tome I, Chapitre 9. Régime fiscal des particuliers: Vérification menée auprès du ministère des Finances*, Vérificateur général du Québec.

13 Details on program evaluation in Québec can be found in the following documents:
- Leroux, D., R. Villemure and M. Desjardins, *Guide d'évaluation de programmes*, Québec, ministère de l'Enseignement supérieur et de la Science, 1991;
- *Pour une évaluation de la performance des programmes de science et de technologie*, Conseil de la science et de la technologie, 1997;
- *Cadre de pratique pour l'évaluation des programmes; applications en promotion de la santé et en toxicomanie,* Ministère de la Santé et des Services sociaux, Québec, 1998.

- evaluation of the **performance**: by establishing the relationship between the results obtained and the resources used;

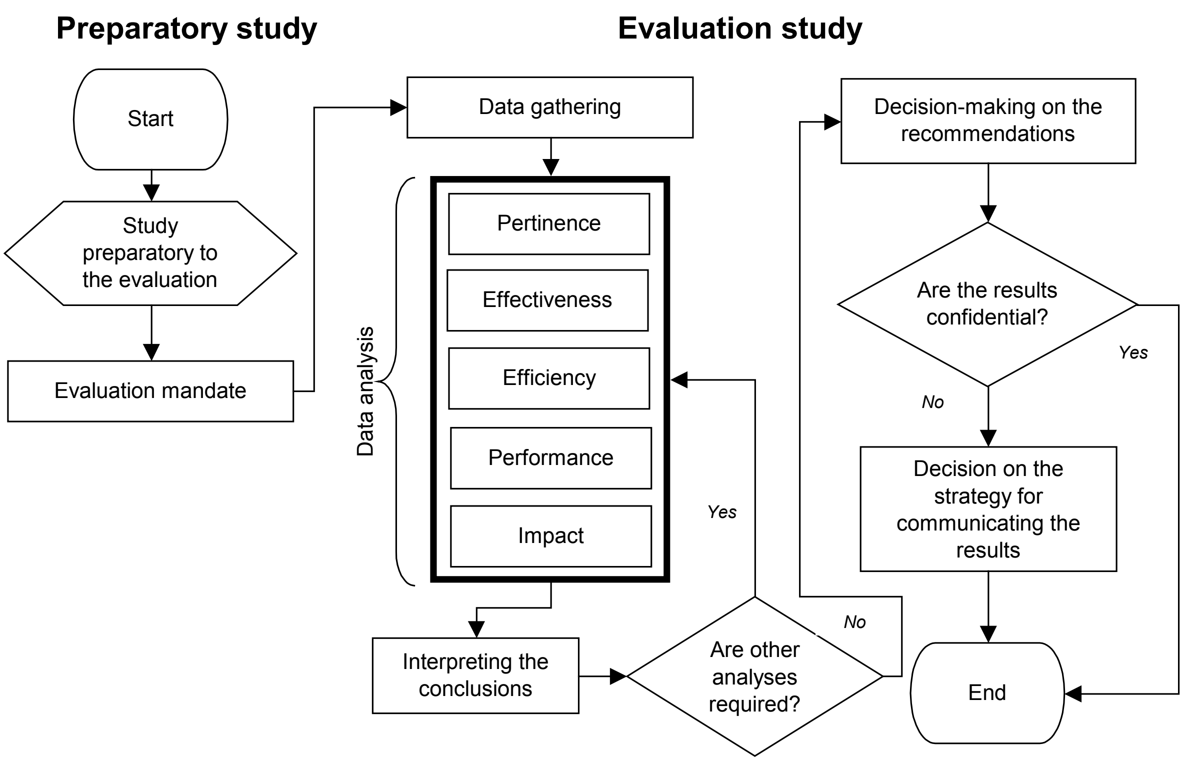
- evaluation of the **impact**: by measuring the program's effect on the target client group, and its overall repercussions.

Basically, then, the process consists in determining the effects of the program over a fixed period and establishing to what extent the program being considered actually caused these effects. The main goals of program evaluation are to assist the decision-making and planning processes, improve the quality of services, optimize the allocation of resources and bolster accountability.

Before implementing program evaluation, a preparatory study has to be carried out. The study will include, for example, a description of the program (the reason for its existence, its objectives and standards) or the list of its key issues.

As such, the evaluation procedure consists in determining, by means of previously-chosen indicators, whether the program's goals were achieved, based on the program's objectives and evaluation criteria. The following illustration shows the main steps in a program evaluation.

ILLUSTRATION 4
SIMPLIFIED DIAGRAM OF AN EVALUATION PROCEDURE



Source: Adapted from Leroux, D., R. Villemure and M. Desjardins, *Guide d'évaluation de programmes*, Québec, ministère de l'Enseignement supérieur et de la Science, 1991

3.2.2 Types of appraisal applied to the evaluation of tax expenditures

In practice, the stages in the evaluation study depicted in Illustration 4 may be applied, in their general outline, to tax expenditure evaluation. As regards data analysis, namely, the core of an evaluation procedure, the five types of appraisals previously mentioned may be looked at once again in order to determine how they apply to tax expenditures.

– **Pertinence**

A tax expenditure is introduced when the government identifies an unfulfilled need in the tax system with respect to a given target taxpayer group. Evaluating the expenditure's pertinence therefore means evaluating whether the measure meets the initial needs or new needs.

– **Effectiveness**

A tax expenditure's objectives are clearly identified as soon as the measure is implemented. In this way, comparison with the results obtained may be carried out fairly directly, regardless of whether or not certain numerical targets were proposed. The fact that certain objectives may be hard to quantify does not preclude an evaluation of whether they were attained or not.

– **Efficiency**

The evaluation of a tax expenditure's efficiency consists in determining whether it uses the most appropriate means to reach its objectives. This type of evaluation is first carried out before the measure is implemented. A re-evaluation may also be carried out at any time after implementation.

– **Performance**

Evaluation of performance consists in establishing the relationship between the results obtained and the resources used. In the case of a tax expenditure, for example, a cost-benefit analysis of the measure may be considered.

– **Impact**

The first aspect of this type of evaluation, i.e. the effect of the tax expenditure on the target taxpayer group, overlaps the evaluation of its effectiveness and can therefore be carried on concomitantly with the latter.

An in-depth analysis of the second aspect of this type of evaluation, i.e. the evaluation of the indirect effects of the tax expenditure on non-target taxpayer groups, is more complex. Such an analysis calls for the judicious use of advanced analytical tools.

3.2.3 Indicators and targets

In order to effectively evaluate tax expenditures, it is desirable, whenever possible, to define indicators and set targets that are in keeping with the questions the evaluation is trying to answer. However, nothing precludes tax expenditure evaluations from being carried out for measures that do not have any related indicators or targets.

– **Indicators**

In a program evaluation context, an indicator is defined as a quantitative or qualitative measure of the results obtained (performance and effectiveness), the use of resources (efficiency), the progress of the work or the context of the action.[14] Indicators must have certain characteristics, in particular, they must be pertinent and trustworthy.

In the course of a tax expenditure evaluation, the establishment of indicators that meet these criteria is a complex task. The indicators chosen should at least be able to measure the output related to questions concerning effectiveness and impacts.

– **Targets**

Along with the establishment of indicators, targets may occasionally be defined. A target is an objective that can be achieved in a foreseeable period.

Certain tax expenditures introduced by the government are related to strategic objectives or policies aimed at a quantifiable objective. Ideally, indicators and targets should be simultaneously defined, before a tax expenditure is introduced.

14 Auditor General of Québec, *Rapport à l'Assemblée nationale pour l'année 1998-1999, Tome II, Annexe A. La gestion par résultats: les conditions favorables à son implantation.*

CAUTION RESPECTING THE SYSTEMATIC EVALUATION OF TAX EXPENDITURES

Care is required when applying a systematic evaluation procedure to tax expenditures. Whereas standards may generally be applied to tax expenditures, i.e. their objectives and target groups, it is not always appropriate to apply specific indicators and targets. In particular, the objectives must not systematically be translated into quantifiable targets.

The tax expenditure procedure described above, especially data analysis, should not be construed as a rigid framework. For certain tax expenditures, it may be possible and even desirable to follow the procedure step by step. This might not be pertinent for other tax expenditures.

For example, the objective of the deduction for an artist regarding copyright income is to promote the creation of original works and the emergence of new talent. In the latter case, the attainment of a specified number of new talents is not a pertinent evaluation criterion for judging the impact of the measure. Conversely, certain tax expenditures are implemented with a view to creating jobs, and these jobs can be measured.

3.3 Additional information in respect of certain tax expenditures

This subsection gives additional information on certain tax expenditures, i.e. the tax credit for gifts and the refundable tax credit for child-care expenses.

– Tax credit for gifts

Charities and cultural institutions play an important part in Québec society. Thus, the personal income tax system grants a non-refundable tax credit for gifts in order to promote the financing of charities and cultural organizations and institutions. In addition, the credit seeks to encourage the donation of works of art and property with heritage or ecological value.

Gifts that give entitlement to this tax credit are charitable donations, gifts to a government, gifts of cultural property, gifts of property with heritage value and gifts of land with undeniable ecological value.

It should be noted that this tax expenditure was enhanced in the 2000-2001 budget, in particular, by increasing the rate of the tax credit. Thus, as of the 2000 taxation year, the tax credit for gifts is calculated according to two rates. The applicable rate for the first $2 000 of eligible gifts is the conversion rate of the non-refundable tax credits. The rate that applies to the excess amount is equal to the maximum marginal rate.[15]

TABLE 8
RATES APPLICABLE FOR THE PURPOSE OF CALCULATING THE TAX CREDIT FOR GIFTS

	Taxation years					
Eligible gifts	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
First $2 000	20%	23%	23%	22%	20.75%	20%
Amount in excess of $2 000	20%	23%	23%	25%	24.5%	24%
Notes:						
- Conversion rates of the credits	20%	23%	23%	22%	20.75%	20%
– Maximum marginal rate	24%	26%	26%	25%	24.5%	24%

15 For additional information, see page 67 of Part II.

Although the number of donors has remained relatively stable, at roughly 1.2 million, the amount of eligible gifts increased considerably between 1996 and 2000. Whereas it represented $485 million in 1996, namely $372 per donor, the amount of eligible gifts represented $641 million, namely $522 per donor in 2000, a 40% increase.

In 2000, the average tax credit was $101 per taxpayer, as compared to $70 in 1996.

TABLE 9
CHANGE IN THE NUMBER OF DONOR TAXPAYERS, THE ELIGIBLE AMOUNTS AND THE TAX CREDIT FOR GIFTS, FROM 1996 TO 2002

		Amount of eligible gifts		Tax credit for gifts	
Year	**Number of donor taxpayers** (in thousands)	**Total amount** (in $million)	**Average amount per donor** ($)	**Amount** (in $million)	**Average amount per donor** ($)
1996	1 304	485	372	91	70
1997	1 233	474	385	92	75
1998	1 215	591	487	112	92
1999	1 237	622	502	117	95
2000	1 227	641	522	124	101

All taxpayers may claim the tax credit for gifts. The value of the tax credit reached $10 million out of a total of $112 million, for taxpayers with a family income of less than $25 000.

It should be noted that the value of the tax credit as a percentage of the amount of eligible gifts is lower for low-income taxpayers. This reflects the fact that in many cases, the taxpayer only needs part of the tax credit to cancel any tax payable.

TABLE 10
ESTIMATES OF THE NUMBER OF DONORS, THE ELIGIBLE AMOUNTS AND THE TAX CREDIT FOR GIFTS (1998)

			Tax credit	
Family income bracket	**Number of donors** (in thousands)	**Value of eligible gifts** (in $million)	**Amount** (in $million)	**Amount, expressed as a percentage of gifts**
Less than $25 000	215	130	10	8
From $25 000 to $50 000	383	154	31	20
From 50 000 $ to $100 000	456	151	35	23
$100 000 or more	162	155	35	22
Total	**1 215**	**591**	**112**	19

– Refundable tax credit for child-care expenses

The purpose of the refundable tax credit for child-care expenses is to recognize the costs incurred by working parents. All expenses incurred to provide a child with child-care services offered by an individual, a day care centre, a boarding school or a camp are, subject to certain conditions, deemed to be qualified child-care expenses.

The tax credit is based on the family income of a household. When family income does not exceed $27 000, the applicable tax credit rate is 75% of qualified child-care expenses. The rate is subsequently reduced by one percentage point per $1 000 in income, up to a family income of $75 000. Past that level, the applicable rate is 26%.

The maximum amounts of qualified child-care expenses are $7 000 for children under seven, $4 000 for children seven and over, and $10 000 for children suffering from a severe and prolonged mental or physical impairment.[16]

The following table presents the distribution of the tax credit based on family income brackets. In 1998, more than 310 000 households claimed the tax credit for child-care expenses, representing a tax expenditure of $218 million.

TABLE 11
NUMBER OF HOUSEHOLDS, NUMBER OF CHILDREN, QUALIFIED CHILD-CARE EXPENSES AND TAX CREDIT, BASED ON THE FAMILY INCOME BRACKET (1998)

Family income bracket	Number of eligible households	Number of eligible children	Qualified child care expenses (in $million)	Tax credit	
				(in $million)	Distribution by %
Less than $25 000	48 666	61 300	56	40	18
From $25 000 to $50 000	86 109	110 821	131	61	28
From $50 000 to $75 000	81 881	110 074	152	56	26
$75 000 or more	93 886	138 976	242	61	28
Total	**310 542**	**421 172**	**581**	**218**	**100**

16 Page 12 of Part II should be referred to for additional information.

In 1998, the tax credit for child-care expenses benefited more than 250 000 children under seven. On average, the tax credit was $665 per child, namely 37% of qualified child-care expenses. For households with income less than $25 000, the average tax credit was $789, namely, 72% of qualified child-care expenses.

TABLE 12
NUMBER OF CHILDREN UNDER SEVEN,[1] CHILD-CARE EXPENSES AND TAX CREDIT, BASED ON THE FAMILY INCOME BRACKET (1998)

Family income bracket	Number of eligible children	Qualified child-care expenses per child (in $)	Average tax credit per child (in $)	Tax credit expressed as a percentage of qualified child-care expenses
Less than $25 000	38 064	1 092	789	72
From $25 000 to $50 000	68 683	1 494	692	46
From $50 000 to $75 000	68 903	1 790	644	36
$75 000 or more	78 317	2 349	598	25
Total	**253 967**	**1 778**	**665**	**37**

1 Including children suffering from a severe and prolonged mental or physical impairment.

Since children seven and over attend school, the child-care expenses and tax credit were lower, namely, $774 and $295 per child in 1998. Moreover, the proportion of expenses reimbursed by the tax credit was comparable to that for children under seven.

TABLE 13
NUMBER OF CHILDREN SEVEN AND OVER, CHILD-CARE EXPENSES AND TAX CREDIT, BASED ON THE FAMILY INCOME BRACKET (1998)

Family income bracket	Number of eligible children	Qualified child-care expenses per child (in $)	Average tax credit per child (in $)	Tax credit expressed as a percentage of child-care expenses
Less than $25 000	23 236	637	460	72
From $25 000 to $50 000	42 138	662	319	48
From $50 000 to $75 000	41 171	707	256	36
$75 000 or more	60 659	951	242	25
Total	**167 205**	**774**	**295**	**38**

LIST OF TABLES AND ILLUSTRATIONS – PART I