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B u d g e t

H i g h l i g h t s

Highlights of the Budget Speech
delivered before National Assembly
by Yves Séguin,
Minister of Finance,
on March 30, 2004.

Finances

Québec 

2004-2005 Budget

Highlights

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Message from the Minister of Finance

I am tabling today a budget of change that fulfils our government's commitments. Priority is given to health and education, and the tax burden is reduced by \$1 billion. Families will benefit from more than three quarters of this reduction following the introduction of a new Child Assistance measure and a work premium. Economic prosperity is fostered by providing support for regional initiatives and valuing work. In addition, 75% of businesses will no longer pay tax on capital. This budget offers assistance to the most underprivileged members of our society and meets the government's commitments under the Act to combat poverty and social exclusion. Lastly, a balanced budget is maintained and tighter debt control will be exercised.

This budget was prepared in a difficult situation because of the shortfall left us by the previous government and the fiscal imbalance that persists between Ottawa and the provinces.

Despite these constraints, this budget will help to build the future. A future grounded in a renewed, modern Québec able to fulfil its ambitions. In that way, we are contributing to the prosperity of Quebecers.

Yves Séguin

IN BRIEF

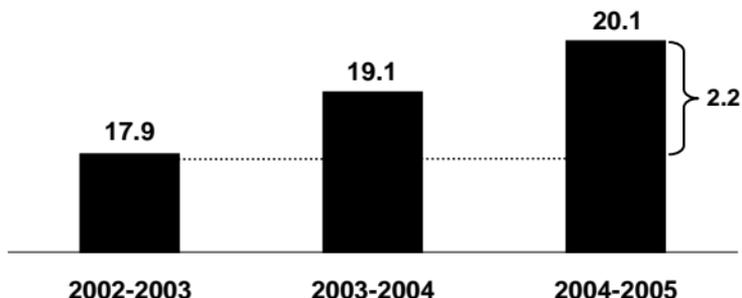
- ❑ A zero deficit in 2004-2005.
- ❑ \$20.1 billion for health, an increase of 5.1%.
- ❑ \$11.8 billion for education, an increase of 2.7%.
- ❑ Spending by other departments, up 0.5%.
- ❑ \$1 billion reduction in the tax burden:
 - \$550 million for the Child Assistance measure;
 - \$240 million for the work premium;
 - \$220 million for taxpayers as a whole, through the simplification of the tax system.
- ❑ 75% of businesses will no longer pay the tax on capital.
- ❑ Support for regional development.
- ❑ \$329 million for social housing.
- ❑ Fulfilment of the commitments under the *Act to combat poverty and social exclusion*.
- ❑ Tightening of tax expenditures and a vigorous action plan to counter tax evasion.

I. OUR No. 1 PRIORITY: HEALTH

- ❑ \$20.1 billion for health:
 - \$1 billion more than in 2003-2004, or nearly three quarters of the total increase in the government's program spending;
 - an increase of \$2.2 billion in two years.

CHANGE IN HEALTH SPENDING

(billions of dollars)



- these funds will be allocated according to certain priorities:
 - treating people in need of surgery as rapidly as possible, providing better support for cancer teams and reducing emergency-room crowding;
 - improving front-line services;
 - providing better services to young people with adjustment problems, women who are victims of violence and people with a mental health problem or an intellectual disability.

☐ Ensure the sustainability of the health-care system:

- by working on organizing the health-care system better, so as to make it more efficient, more effective and more attuned to the needs of patients;
- by ensuring long-term funding for the health system, including a fair contribution from the federal government.

II. BUILDING ON EDUCATION AND CULTURE

a) Education geared to success

- \$11.8 billion for education, or \$309 million more than in 2003-2004; an increase of 2.7%.
- Incentives for improving the success rate of college students.
- Homework assistance at elementary and secondary levels.
- Healthy, Fit Schools program to encourage healthy lifestyles.
- Hiring of professionals to ensure early detection and proper follow-up of students with learning disabilities or behaviour problems.
- An additional \$5 million to help new immigrants to learn French.

b) Essential support for Québec creators

- Creators and artists will now be able to acquire income-averaging annuities.
- The deduction, of up to \$15 000 of copyright income, will be extended to performers.
- The tax credit for film and television production will be exempt from all tightening measures and is extended to certain television variety and magazine shows.

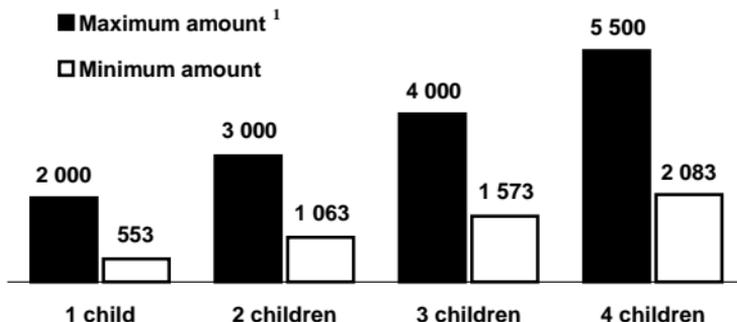
III. \$1 BILLION RETURNED TO TAXPAYERS

- The tax burden of Québec taxpayers will be reduced by \$1 billion as of January 2005:
 - \$550 million will be paid to nearly one million families through the introduction of a new Child Assistance measure;
 - \$240 million, in the form of a work premium, will support the efforts of more than 500 000 low-income workers;
 - \$220 million in tax cuts will be available to all Québec taxpayers, through the simplification of the tax system.

a) New initiatives to support families

- ☐ Child Assistance measure:
 - this measure will be available to all families with children under 18 as of January 2005;
 - it will provide up to \$2 000 a year for one child, \$3 000 for two children, \$4 000 for three children and will increase by \$1 500 for every additional child.

AMOUNT OF NEW CHILD ASSISTANCE COUPLE WITH CHILDREN – 2005 (dollars)



1 The amount is reduced as of a family income of \$42 800.

ADDITIONAL SUPPORT RESULTING FROM THE CHILD ASSISTANCE MEASURE- 2005

(dollars)

	Current system	New Child Assistance measure	Additional support
Single-parent family with two children and an income of \$25 000	2 097	3 700	1 603
Couple with two children and an income of \$25 000	776	3 000	2 224

- Elimination of the Québec sales tax on diapers, baby bottles or items used for breast feeding.
- Advance payment of the tax credit for child-care expenses, by cheque, four times a year:
 - a family with one child and \$25 000 in income can receive over \$1 300 per quarter to have their child looked after.

b) A work premium

- Introduction of a work premium as of January 2005 to assist low-income workers and encourage participation in the labour market:
 - the premium will be added to employment income up to a threshold of \$14 810 for a person living alone and \$42 800 for a couple with children;
 - it can mean up to \$2 800 more for a couple with children and up to \$2 190 more for a single-parent family.

IMPACT OF THE WORK PREMIUM ON THE DISPOSABLE INCOME OF CERTAIN TYPICAL HOUSEHOLDS

(dollars)

Employment income	Person living alone	Couple without children	Single-parent family	Couple with children
5 000	182	98	780	350
9 700	511	427	2 190	1 525
14 800	0	784	1 680	2 800
20 000	0	264	1 160	2 280
25 000	0	0	660	1 780
30 000	0	0	160	1 280
40 000	0	0	0	280

Major support for families and workers

- ❑ Families' disposable income will increase because of the Child Assistance measure and the work premium.
- ❑ A couple with two children and \$25 000 in income will receive \$4 004 per year.

ADDITIONAL SUPPORT RESULTING FROM THE CHILD ASSISTANCE MEASURE AND THE WORK PREMIUM COUPLE WITH TWO CHILDREN AND ONE INCOME – 2005 (dollars)

Employment income	Current system ¹	New system			Additional support
		Child assistance	Work premium	Total	
0	1 250	3 000	0	3 000	1 750
5 000	1 250	3 000	350	3 350	2 100
10 000	1 250	3 000	1 600	4 600	3 350
15 000	1 250	3 000	2 780	5 780	4 530
20 000	1 250	3 000	2 280	5 280	4 030
25 000	776	3 000	1 780	4 780	4 004
30 000	1 375	3 000	1 280	4 280	2 905
40 000	2 352	3 000	280	3 280	928
50 000	2 052	2 712	0	2 712	660
75 000	1 142	1 712	0	1 712	570

- 1 Family allowance, tax credit respecting dependent children and tax reduction for families.

c) \$220 million for taxpayers as a whole

- Simplification of the tax system:
- the general and simplified tax systems will be amalgamated as of 2005;
 - all tax credits and deductions will thus be available.

d) \$1-billion tax reduction for all taxpayers, particularly those with low or middle incomes**ADDITIONAL SUPPORT BY HOUSEHOLD INCOME – 2005**

	Millions of dollars ¹	Breakdown in %
\$15 000 or less	244	24.2
\$15 000 to \$25 000	189	18.7
\$25 000 to \$50 000	289	28.7
\$50 000 to \$75 000	140	13.9
\$75 000 to \$100 000	86	8.5
Over \$100 000	60	6.0
Total	1 009	100.0

¹ Amounts have been rounded off.

IV. REALIZING QUÉBEC'S FULL ECONOMIC POTENTIAL

a) Supporting private investment and SMEs

- Refocus the activities of the SGF on its principal mission.
- The Innovatech corporations will use public-private partnerships making it possible to increase the capital available for investment in businesses.
- Most Investissement Québec loans to SMEs will now be analysed and approved in the regions.
- A new strategic-investment support program with a \$75 million budget.

- ❑ A more competitive tax system:
 - raising of the tax on capital exemption to \$1 million: 75% of businesses will no longer pay tax on capital;
 - reduction, as of the next Budget, of the tax on capital;
 - maintenance of the tax credit for R&D, which will now be exempt from any new tightening initiatives.

- ❑ Depreciation rates for computers, Internet technologies and data network infrastructure equipment will be increased to allow for depreciation over five years instead of seven.

b) Promoting regional autonomy and development

- ❑ A new \$300-million fund tailored to the needs of the regions:
 - creation of a regional economic intervention fund (FIER) to support business start-up and development in the regions:
 - the government will make the first investments in partnership with the Fonds de solidarité des travailleurs du Québec, Fondation and Desjardins.

- ❑ Concrete assistance for the resource regions:
 - three-year extension of the period of eligibility for the tax credit for processing activities;
 - manufacturing of specialized equipment eligible for tax relief;
 - the rate of the tax credit for job creation in Gaspésie and the maritime regions will be raised from 30% to 40%;

- tax credit of 40% on salaries paid in the mariculture and marine biotechnology sector;
 - permanent renewal of the flow-through share system and raising of the deduction rates to up to 150% of amounts invested.
- ❑ Promoting the return of young people to the resource regions:
- the tax credit for on-the-job training periods is doubled, up to \$375 per week;
 - a refundable tax credit of up to \$8 000 is introduced for young graduates.
- ❑ Regional development:
- the government is willing to study the suggestion of setting up a new, cooperative-style slaughterhouse that would belong to producers;
 - reform of the Cooperative Investment Plan by introducing a single rate, raised to 125%;
 - businesses will be able to claim 50% of expenditures incurred in relation to college technology transfer centres (CCTTs).

- ❑ Developing local and regional infrastructures:
 - creation of the Corporation de financement des infrastructures locales du Québec:
 - the corporation will facilitate work, particularly in water management, public transit and the local road system;
 - the government proposes to channel federal infrastructure funding into the corporation and will also contribute to it;
 - as of 2005, \$50 million a year from a new duty on fuel-inefficient vehicles will be invested in the corporation.

V. COMBATING POVERTY

Meeting the commitments under the *Act to combat poverty and social exclusion*

- ❑ The Budget provides \$2.5 billion over five years to combat poverty:
 - the Child Assistance measure;
 - the work premium;
 - investment in social housing;
 - the other measures included in the action plan to combat poverty and social exclusion that will be tabled shortly by the Minister of Employment, Social Solidarity and Family Welfare.

- ❑ Measure to facilitate the cashing of government-issued cheques.

- ☐ Investments of \$329 million in social housing:
- to build 16 000 low-rent or affordable-rent housing units;
 - to adapt the housing of 6 010 people with disabilities;
 - to grant rent supplements to 5 276 households in order to mitigate the impact of the housing shortage;

INVESTMENTS IN HOUSING

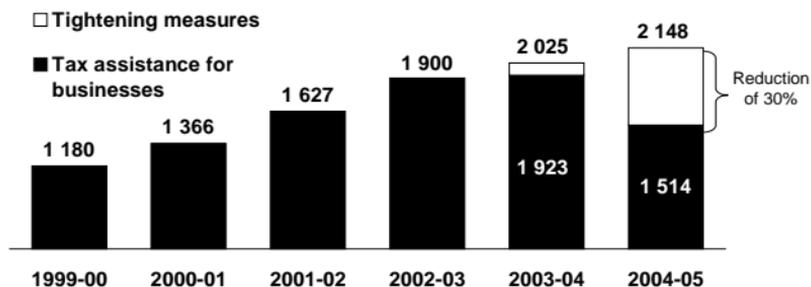
	Total investments (millions of dollars)	Number of households assisted
Construction of housing	256	16 000
Adapting the housing of people with disabilities ¹	39	6 010
Mitigating the impact of the housing shortage	34	5 276
Total	329	27 286

1 Residential Adaptation Assistance Program.

VI. TOWARD GREATER TAX FAIRNESS

- ❑ A vigorous action plan to counter tax evasion:
 - the plan will bring in \$150 million in the first year.
- ❑ Tightening of tax expenditures:
 - tightening of almost \$200 million over a full year;
 - taking into account the decisions announced last June 12, the tax benefits for businesses will have been reduced by 30%, or \$634 million.

CHANGE IN TAX ASSISTANCE FOR BUSINESSES (millions of dollars)



VII. MEETING THE ZERO-DEFICIT CHALLENGE

a) A fiscal imbalance that jeopardizes maintaining a balanced budget

- Renewal of the equalization program:
 - the proposed reform of the equalization program announced in the recent federal budget does not correct the weaknesses that Québec has been denouncing for more than 20 years.
 - negotiations must continue.

- Health funding:
 - no new funding for health care in the recent federal budget, despite the repeated and legitimate demands of the provinces.
 - the First Ministers' meeting to be held next summer will have a determining impact.

b) A difficult budgetary situation

- ❑ Fiscal 2003-2004:
 - the program spending objective of \$45.8 billion has been met;
 - zero deficit before the exceptional losses of the SGF.

- ❑ Fiscal 2004-2005 :
 - a zero deficit will be achieved;
 - a still-fragile budgetary situation despite strong growth of the economy and the government's own-source revenue:
 - Québec's economy should grow by 2.7 % in 2004;
 - tax revenues should increase by 4.3%;
 - \$880 million in revenue anticipated from the sale of assets;
 - decrease of close to \$1 billion in federal transfers compared with 2003-2004.

- ❑ A government focused on its essential responsibilities:
 - The government's program spending will amount to \$47 151 million in 2004-2005, an increase of 2.9%.
- ❑ A zero deficit will be maintained in the years to come.
- ❑ Tighter debt control:
 - two types of initiatives are proposed:
 - 1) keep investments in government enterprises, particularly the SGF and the Innovatech corporations, to a minimum;
 - 2) adopt a new capital-spending policy based on the government's ability to pay and aimed at keeping infrastructure in good condition.