2006-2007 Budget

Budget in Brief

Finances Québec

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ISBN 2-551-22860-3
Legal deposit
Bibliothèque nationale du Québec, 2006
Publication date: March 2006

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SHAPING THE QUÉBEC OF TOMORROW TODAY

The Generations Fund

— Reducing the debt to less than 25% of GDP by 2025.
— Using mainly water-power royalties as a source of funding.
— Ensuring inter-generational equity.

Investing in our priorities

— **Health:** an additional $1.3 billion—an increase of 6.3%.
- Home support for elderly persons: $54 million more.

— **Education:** an extra **$**660 million—an increase of 5.4%.
- $100 million more to assist students with social maladjustments or learning disabilities.

— **Culture**
- Fonds culturel du patrimoine québécois: investments of $200 million over five years.
- Museums and schools providing artistic training: $6 million in 2006-2007.

— **Youth**
- A new youth strategy: $110 million over three years.
- Fonds pour le développement du sport et de l'activité physique: investments of $500 million over five years.

— **Facilitating work-family balance**
- Spring break: $12 million over three years for school child-care services.
- Community drop-in daycare centres: $3 million in 2006-2007.

Equity and generosity

— **Social housing:** $158 million
  - 1 400 more new housing units.
  - Renovation of existing housing.

— **Community action**
  - Contribution to a $58-million fund for collectively owned enterprises.

— **Philanthropy**
  - Increase in the tax credit for certain donations and gifts.

Reducing the tax burden

— An additional $288-million reduction in income tax through an increase in the deduction for workers from $500 to $1 000.

— Reduction in the tax burden differential with the Canadian average to less than $1 billion.

— Reduction of the tax rate of SMEs from 8.5% to 8.0%.

Sustainable economic development

— **Forests:** $925 million more.

— **Agriculture:** $100 million to support our farmers.

— **R&D and innovation:** $75 million over three years.
  - Capitalizing on university research.
  - Improved R&D incentives for businesses.

Continuing the decentralization process

— **Regions:** $150 million, half of which is for regional economic intervention funds (FIERs) and local investment funds (FLIs).

— **Municipalities:** an additional $1.7 billion over five years.

— **Public transit infrastructure** and equipment: $1.5 billion over three years.

Public finances

— Another balanced budget.
— Spending growth limited to 3.9%.
— Creation of the Generations Fund.
— Capital investments of $4.7 billion.

The Generations Fund

Reducing the debt to less than 25% of GDP by 2025

— The Generations Fund will be established through legislation.

— The Caisse de dépôt et placement du Québec will be responsible for administering the fund.

Capitalizing on water resources

— Starting January 1, 2007, Hydro-Québec will gradually be subject to the same water-power royalties system as private producers.

- Hydro-Québec will be invited to absorb the cost of the royalties chiefly through efficiency gains and by increasing export earnings.
- If necessary, the government is prepared to adjust the expected results of Hydro-Québec over time.

— As of January 1, 2007, the water-power royalties already collected by the government from private producers of hydro-electricity will gradually be paid into the Generations Fund.

— The royalties paid into the fund will amount to $73 million in 2006-2007, $374 million in 2007-2008 and $600 million as of 2008-2009.

— A portion of the profits from the sale, on foreign markets, of surplus electricity produced by the anticipated increase in Hydro-Québec's generating capacity, will also be paid into the Generations Fund.

— The work already undertaken on the terms and conditions relating to the introduction of a royalty on harnessed water will be pursued.

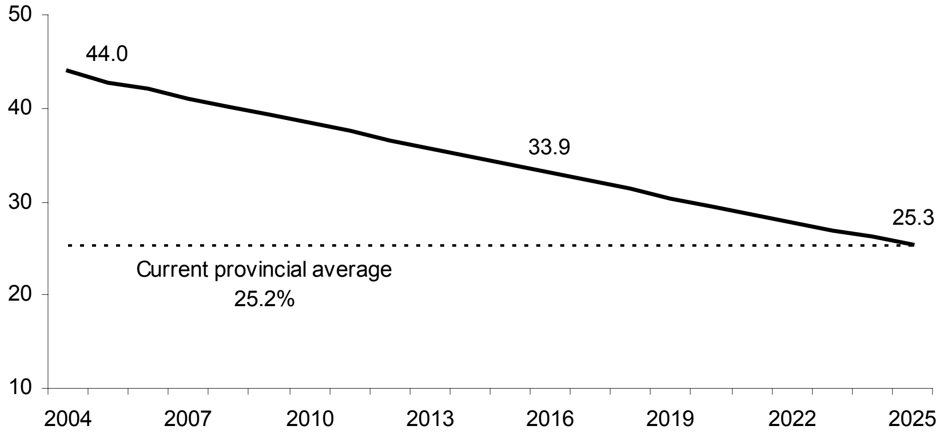
— Other revenue may be used to build up the Generations Fund, particularly revenue from the sale of certain non-strategic government assets.

Concrete results

— The objective of the Generations Fund is to reduce the debt to less than 25% of GDP by 2025.

- It will then have been lowered to roughly the same level as the current average of the Canadian provinces.

PROJECTION OF THE TOTAL DEBT AS A PROPORTION OF QUÉBEC'S ECONOMY
(as a percentage of GDP)



Investing in our priorities

$1.3 billion more for health care

— Health remains a priority in 2006-2007, with spending being increased by $1.3 billion:

  - This represents spending growth of 6.3%.
  - Close to two thirds of the growth in government spending is devoted to health.
  - The health budget will reach $22.1 billion in 2006-2007.

— Since 2003, the health budget has grown by $4.2 billion.

— Additional capital investments of $485 million will be made.

  - With the investments announced in the 2005-2006 Budget, over $2 billion in extra funding will have been invested in health.

Better access to health care

— Improving access to surgery and emergency room protocol.

— Stepping up the fight against cancer.

— Enabling ongoing implementation of the action plans regarding seniors and mental health.

— Providing better support for young people in difficulty and other vulnerable groups.

— Increasing prevention and protection efforts.

— Investing in leading-edge medical equipment such as radiation oncology and cardiology facilities.

— Adding new beds in long-term care centres.

$159 million to facilitate home support for seniors

— An additional $54 million will be allocated to care and services for seniors who wish to remain in their homes, raising the amount of assistance to $159 million.

— Improvements will be made to the tax credit for home support as of January 1, 2007.

- The procedure for obtaining the tax credit is being simplified, which will enable 290 000 seniors—180 000 more than at present—to remain at home longer.
- Nursing services for seniors who need special care in a seniors' residence or in their own home will be eligible.
- The rate of the tax credit is being increased from 23% to 25%.
- The eligible expenses limit is being raised from $12 000 to $15 000.

IMPACT OF THE ENHANCED REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS BASED ON SOME TYPICAL SITUATIONS - 2007
(dollars)

Typical situations	Tax credit before budget	Tax credit after budget	Gain
Residence for elderly persons – eligible expenses of :			
– $5 000, including $1 000 for nursing services	920	1 175	**255**
– $15 000,[1] including $3 000 for nursing services	2 760	3 750	**990**
At home – eligible expenses of:			
– $1 000[2]	–	175	**175**
– $6 000, including $5 000 for nursing services	230	1 425	**1 195**

1 Expenses of $15 300 less a deductible of $300.
2 It is assumed that the elderly person will not use the tax credit before the 2006-2007 Budget.

$660 million more for education

— In 2006-2007, the government will inject an additional $660 million into education:

  - raising the budget to $13 billion;
  - which represents an increase of 5.4%.

— Since 2003, the government has added over $1.6 billion to the education system.

— Additional investments of nearly $300 million are being announced in 2006-2007:

  - bringing the total investment over the past two years to $1.2 billion.

Supporting academic success

— $100 million more to better assist students with social maladjustments or learning disabilities.

— An extra hour and a half of teaching time a week at the elementary level as of this fall.

— Instruction of English as of Grade one.

— Construction of the John Molson building at Concordia University.

— Updating of existing technical programs, and the creation of new ones, at the college level.

— Addition of information and communications technology equipment.

— Conversion of science laboratories in the second cycle of secondary school.

Giving priority to health and education

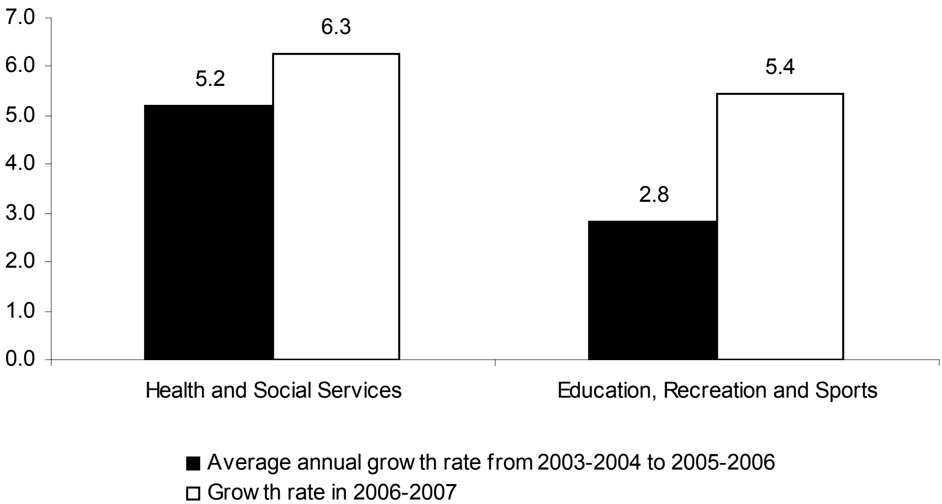
— The government has honoured its commitment to give priority to health and education.

  - Since 2003, the government has granted nearly $6 billion more to health and education.

— From 2003-2004 to 2005-2006, health spending grew by 5.2% per year. In 2006-2007, it should grow by 6.3%.

— From 2003-2004 to 2005-2006, education spending grew by 2.8% per year. In 2006-2007, it should grow by 5.4%.

CHANGE IN PROGRAM SPENDING – HEALTH AND EDUCATION
(percent)



Developing our culture and heritage

- The Fonds culturel du patrimoine québécois will be created:
  - It will have a budget of $10 million funded by a portion of the income generated by the tobacco tax that is currently paid to the Special Olympic Fund.
  - It will finance the preservation and development of the most significant elements of Québec's heritage.
  - The contribution of partners will enable investments of up to $200 million.
- The government is also making an extra $58 million in funding available for culture to implement capital investment projects such as:
  - the development of municipal libraries;
  - the enhancement of religious heritage.
- $5 million will be granted to support the operations of museums.
- Additional, recurring assistance of $1 million for schools that provide artistic training to prepare the artists of tomorrow will also be available.
  - This additional funding will benefit close to 100 organizations and 25 000 young people.
- Various fiscal measures totalling $3 million per year will also come into effect: in particular, an increase in artists' income-averaging annuity.

Supporting our young people

- A new youth strategy will be made public shortly:
  - It will have a budget of more than $110 million over three years.
  - As of 2006-2007, measures totalling almost $30 million will be implemented.
- The tax credit for on-the-job training periods will be renewed permanently.
  - Annual funding of $25 million is being provided.

Fonds pour le développement du sport et de l'activité physique

- The Fonds pour le développement du sport et de l'activité physique will be created:
  - It will have a budget of $30 million funded by a portion of the income generated by the tobacco tax that is currently paid to the Fonds spécial olympique.
  - Projects will be launched by sports federations, municipalities and the private sector.
  - The federal government will be invited to take part in this program.
- With the participation of partners, the fund will generate investments of $500 million.
- This new fund will make it possible to support new projects such as:
  - the construction of pools and soccer or football fields;
  - gymnasiums, athletic tracks and sports centres.
- The new fund will provide for $6 million a year to be set aside to support Québec cities in their bids to host and organize major sporting events.

Facilitating work-family balance

— The government is continuing to take steps to facilitate work-family balance.

- To help parents with school-age children during spring break, the budget for child-care services offered by schools will be increased by $4 million per year.
  - This measure will make it possible to provide these services at a reduced rate during spring break.
  - In addition, the cost of such services will be eligible for the tax credit for child-care expenses.
- In 2006-2007, $3 million will be injected to support the operation of community drop-in daycare centres.
  - These centres already provide services to close to 12 000 children.

A government that is attentive to the needs of young families

— The government has already taken a number of steps that clearly demonstrate its will to facilitate work-family balance:

- the addition of over 30 000 spaces in three years to attain the objective of making 200 000 reduced-contribution day care spaces available to Québec children;
- an increase in the disposable income of young families, in particular through the Child Assistance measure: $500 million every three months for 850 000 Québec families;
- the introduction of a work premium to encourage people with low incomes to remain in the labour market, or to enter it if they are not already working;
- the introduction on January 1, 2005 of the Québec parental insurance plan—the most generous in Canada.

In the name of equity and generosity

$158 million for the construction and renovation of social housing

— The government will invest $83 million in the construction and renovation of social housing:

- 1 400 additional social housing units will be built.
- This will have enabled the construction of 20 000 new dwellings—7 000 more than initially promised.

— $16 million will be invested over three years to renovate low-rental housing.

- Taking into account the contribution of the federal government, this represents an investment of $45 million.

— The budget allocated to the Société d'habitation du Québec will be increased by $29 million in order to offset the increase in construction costs.

NUMBER OF SOCIAL HOUSING UNITS

	Housing units delivered[1]	Housing units to be delivered	Total
AccèsLogis Québec	3 161	7 769	10 930
Affordable Housing Québec	3 112	5 958	9 070
TOTAL	**6 273**	**13 727**	**20 000**

1 As at January 31, 2006.

A $58-million fund for community action

— The government will contribute $10 million over five years to the creation, with partners, including the federal government, of a $58-million investment fund for collectively owned enterprises.

Encouraging philanthropy

— The tax credit for donations and gifts of over $200 will be raised from 20% to 24% to encourage philanthropy in our society.
  - Nearly 400 000 Québec donors will benefit from this measure.

A $288-million income tax reduction

— The 2006-2007 Budget is announcing a $288-million income tax reduction.

— As of January 1, 2007, the tax deduction for workers will be doubled, from $500 to $1 000.

- A total of 3.2 million workers will be able to claim the deduction.

GAIN RESULTING FROM THE $1 000 DEDUCTION FOR WORKERS – 2007
(dollars)

Earned income	Couple with two children and two earned incomes[1]	Single-parent family with one child	Person living alone
15 000	–	144	144
20 000	–	160	160
25 000	240	160	160
30 000	275	230	230
35 000	294	270	230
40 000	314	240	200
45 000	400	240	200
50 000	440	240	200
75 000	480	280	240
100 000	440	240	240

1 One of the spouses earns 60% of the household income and the other, 40%.
– Means that the household does not pay income tax.

— This income tax reduction is in addition to those announced in the 2004-2005 Budget and the 2005-2006 Budget.

- Taking into account the indexation of the tax system, the tax reductions granted to Québec taxpayers will reach $2.9 billion in 2007.

— The government's actions have narrowed the tax burden differential with the other provinces from $2.2 billion to less than $1 billion.

TAXPAYER GAIN BY INCOME BRACKET – 2007
(millions of dollars)

Taxpayer's income	2004-2005 Budget	2005-2006 Budget	2006-2007 Budget	Indexation[1]	Total
Less than $15 000	369	15	29	77	490
$15 000 to $25 000	255	62	63	157	537
$25 000 to $50 000	260	166	150	492	1 068
$50 000 to $75 000	90	81	73	258	502
$75 000 to $100 000	23	27	26	108	184
Over $100 000	12	21	21	83	137
TOTAL	**1 009**	**372**	**362**	**1 175**	**2 918**

1 Indexation for 2004, 2005, 2006 and 2007.

Targeting sustainable economic development

$925 million more for the forest

— To continue to support Québec's workers, regions and forest industry, additional funding of $925 million will be granted over four years.

- This is in addition to the $167 million announced in the 2005-2006 Budget, bringing the total assistance to $1.1 billion.

FINANCIAL INITIATIVES TO SUPPORT THE FOREST SECTOR
(millions of dollars)

Measures	Total
Investment and modernization	
$425-million loan envelope for investments by sawmills, panel board mills, and pulp and paper mills	
● $350 million - Loans to companies that have paid countervailing and antidumping duties	–
● $75 million - Loans to SMEs	**20.0**
Reduction in the cost of operations and silvicultural investments	
Measures to reduce the cost of operations and silvicultural investments	**210.0**
Refundable tax credit of 40% for construction of and major repairs to forest access roads and bridges	**100.0**
15% capital tax credit on investments made until 2009 by primary wood processing companies	**120.0**
Income averaging for operators of private woodlots	**6.0**
Subtotal – Reduction in the cost of operations and silvicultural investments	**436.0**
Assistance to workers	
Support program for workers	**44.0**
Total fiscal and budgetary measures	**500.0**
Loan envelope for investment and modernization	**425.0**
Subtotal 2006-2007 Budget	**925.0**
Amount announced in the 2005-2006 Budget	**167.3**
TOTAL - 2005-2006 BUDGET AND 2006-2007 BUDGET	**1 092.3**

$100 million to support our farmers

— Investments of $79 million will be made to protect public health, particularly by building epidemiological surveillance and animal disease laboratories.

- Financial support for the confinement of reared birds will also be introduced.

— Hog producers will benefit from a new 30% refundable tax credit for the acquisition of hog manure treatment facilities to help them make the investments necessary for a healthy environment.

— $3 million will be devoted to the marketing and distribution of local products and the development of small-scale alcoholic beverage production.

- This measure will foster diversification of agriculture.

Protecting public health

— Two animal disease laboratories will be upgraded:

- one in Saint-Hyacinthe and the other in Québec City.

— Québec producers of reared birds will receive financial support to make the investments necessary for the confinement of their birds.

Improving corporate taxation

— A new reduction in the tax rate of SMEs is announced:
  - It will decrease from 8.5% to 8.0% as of the day after the Budget.

INCOME TAX RATE OF SMEs
(percent)

	2005	January 1, 2006	March 24, 2006
Tax rate	8.9	8.5	8.0

Corporate taxation reform

— Since January 2004, the exemption threshold of the tax on capital has been raised gradually to $1 million.
  - As a result, three quarters of Québec businesses no longer pay tax on capital as of January 1, 2005.

— The gradual reduction of over 50% in the rate of the tax on capital was announced in the last Budget.

— A capital tax credit equal to 5% of the value of investments in machinery and equipment was introduced.
  - This tax credit completely eliminates the tax on capital for businesses that renew their machinery and equipment.

— The tax rate of SMEs decreased from 8.9% to 8.5% last January 1.

$75 million to spur innovation

- $75 million in support measures over three years will make it possible, in particular:
  - to further capitalize on university research in order to maximize economic spin-offs;
  - to increase access to R&D tax credits;
  - to step up research and innovation by SMEs;
  - to finance organizations dedicated to research.
- The objective of the government's economic development strategy is to devote 3% of Quebec's GDP to R&D by 2010.
  - This additional support will help to achieve this objective.

Promoting research and innovation

- Concretely, investment in innovation will:
  - make it possible to set up a technology maturation program that will help researchers at universities and public research centres confirm the technical feasibility and economic potential of their scientific discoveries;
  - favour the hiring of technical and scientific staff in SMEs;
  - provide additional funding to leading research facilities, such as the Institut national d'optique and Génome Québec.

$20 million for trade

- $20 million will be paid over three years to bolster Québec's international policy, particularly to support and develop trade with emerging economies such as China, India and Brazil.

Venture capital: promising results

- The annual amount that Capital régional et coopératif Desjardins is authorized to raise will be maintained at $150 million with an applicable tax credit of 35%.
  - This funding will enable the development of high-performance companies and cooperatives throughout Québec.

Improving business capitalization

- The State's role in venture capital has been changed so as to increase the presence of the private sector, in particular foreign investors.
- Since 2003, the government's role consists more in providing leverage to facilitate private investment, rather than in assuming the risks and role of the private sector.
- This approach has had encouraging results.
  - Venture capital investment has risen for the second consecutive year, increasing by 11.7% in 2005. This increase is fully attributable to the private sector.
  - The presence of foreign investors is growing. Indeed, in 2005, their investments in Québec amounted to $122 million, an increase of 130% compared with 2002.
  - In 2005, Québec ranked ninth in venture capital investment among North American jurisdictions.
  - Tax-advantaged funds are very active in this sector. They made 44.8% of venture capital investments in Québec in 2005.

Regionalization and decentralization

Supporting the regions

— The budgets of the regional conferences of elected officers (CREs) will be raised by $8 million per year.

— The head office of the Société québécoise d'exploration minière (SOQUEM), a subsidiary of the Société générale de financement, will be relocated to Val-d'Or.

— To meet the challenge of finding new mineral reserves:

- $3 million will be devoted over two years to pursuing the geological survey.
- A geological exploration office, the Bureau de l'exploration géologique du Québec, will be established, also in Val-d'Or.

— The tax credit for new graduates working in remote resource regions will be adjusted:

- It will now apply without regard to the employer's location.
- Certain changes will be made to the tax credit to encourage young people to stay longer in the regions.

— The tax credits aimed at stimulating economic activity in the regions will be maintained and overseen more effectively.

- Changes will be made in regard to installation activities.

Increased funding for FIERs and FLIs

— The regional component of the Fonds d'intervention économique régional (FIER) has invested over $156 million in 11 of Québec's 17 regions.

- Additional funding of $30 million will be paid into the FIER-Régions.

— To date, the government has granted $126 million to the local investment funds (FLIs) administered by the 120 CLDs that are present in Québec.

- The budget will be increased by $15 million per year for the next three years.

— An additional $12.5 million will be allocated for developing new businesses in the niches of excellence identified in the various regions of Québec.

Major spin-offs for the FIERs and the FLIs

— For the FIERs:

- Every dollar invested by the private sector entails a capital outlay of $2 by the government.
- 22 FIER-Régions have been created.

— Summary of FLI actions from 1998 to 2004:

- 47 099 jobs were created or maintained.
- 4 733 businesses obtained financial assistance.

Tourism

— Over $15 million will be invested this year to support the tourism industry:

- including an additional $12.5 million annually for the Tourism Partnership Fund, whose mission is to promote tourism in all regions of Québec.

A new financial partnership with municipalities

— An agreement in principle on a new partnership has been reached between the government and the municipalities.

  - The partnership includes the gradual reimbursement to municipalities of the sales tax they pay on purchases of goods and services.

— The government will increase its contribution to the cost of Sûreté du Québec services to 50% between now and 2010.

  - For this purpose, the government will grant an additional $112.5 million over five years.

— As of January 1, 2007, the government will pay all property taxes in respect of museums, the Grande Bibliothèque and the Grand Théâtre de Québec.

  - This measure will lead to additional revenue of close to $8 million for cities.

— The government will take part in funding the improvement of Québec City's airport infrastructures.

Public transit

— $1.5 billion will be allocated for making major investments over the next three years to maintain and renew transportation infrastructure and equipment. Priority projects include:

  - renovating Montréal's metro stations and replacing the metro cars;
  - developing a new commuter train service in northeastern Montréal;
  - setting up maintenance facilities for the Réseau de transport de la Capitale.

— Public transit authorities will be able to obtain a full refund of the fuel tax.

Public transit: an environmentally responsible choice

— One bus can replace 40 cars.

— Increased use of public transit will contribute effectively to:

- reducing greenhouse gases;
- promoting sustainable development.

— Employers who pay all or part of the cost of their employees' transit passes will be able to deduct double the amount paid; this benefit will not be taxable for employees.

— A refund of up to $1 000 of the QST paid on the purchase of the most fuel-efficient hybrid vehicles will be granted.

— The fuel tax paid on the purchase of biodiesel fuel will be reimbursed.

Reaping the rewards of budgetary discipline

— Over the past three years, i.e. from 2003 to 2006, spending growth was limited to an average of 3.7% per year.

- In comparison, federal government spending increased by an average of 7.0% over the same period.
- For the provinces as a whole, spending grew by 6.4%.

— The government will pursue its rigorous management and limit growth in spending to 3.9% in 2006-2007.

— Program spending as a percentage of GDP will be 17.6% in 2006-2007 and 17.5% in 2007-2008, the lowest level in 35 years.

— Control of spending has enabled the government to honour its commitment to give priority to:

- health;
- education;
- tax relief for Quebecers;
- modernization of our infrastructures.

— This year, the government will make capital investments of $4.7 billion:

- including an envelope of nearly $1.6 billion for maintaining assets.

— Rigorous management and the good economic performance will make it possible to achieve a balanced budget again in 2006-2007.

— The government also plans to achieve a balanced budget in 2007-2008.

- Spending growth will be limited to 3.1%.
- Public finances will continue to be managed rigorously.

— The government will pursue its efforts to counter tax evasion.

Modernizing governance

Overhauling the governance of government corporations

— The Minister of Finance will soon table a policy statement on the governance of government corporations.

— This policy statement will make it possible to take another step toward improving governance:

- Henceforth, the positions of chair of the board of directors and of president and chief executive officer will be separated.
- The mandate of boards of directors will be changed and the accountability of government corporations improved.
- The Auditor General will be given additional responsibilities.
- The statutes establishing government corporations will be systematically reviewed every 10 years.

Improved governance

— The government's objective with its policy statement on governance is to foster management that meets demanding criteria of:

- transparency;
- integrity;
- accountability.

Improving the transparency of public finances

- As of 2006-2007, the government will innovate by publishing a monthly financial report monitoring the change in its financial position.
  - Québec will thus be the first province to publish information on its financial activities so frequently.
- To complete this portrait, the government will publish each fall a report that takes stock of Québec's economic and financial situation.
- At the same time, it will publish a report on tax expenditures.

Toward better transparency

- Since 2003-2004, a new appendix to the Public Accounts presents the annual and accumulated surpluses and deficits of the health and social services and education networks.
- The 2004-2005 Public Accounts innovated by including a section on financial analysis and financial indicators.
- As of 2005-2006, federal transfer revenues have been recorded on an accrual basis rather than on a cash basis.
- The method for calculating the allowance for losses on guaranteed financial initiatives has been improved.
- The Generations Fund will ensure better transparency regarding efforts devoted to repaying the debt.

APPENDIX

A FEW ECONOMIC INDICATORS
(percentage change)

	2005	2006	2007
Real GDP	2.2	2.5	2.4
Nominal GDP	4.5	4.2	4.0
Exports (real percentage change)	3.8	4.2	4.7
Nominal consumption	5.6	4.7	4.0
Housing starts (thousands)	50.9	42.9	38.1
Consumer prices	2.3	2.3	1.9
Job creation (thousands)	36.8	55.2	42.6
Unemployment rate (%)	8.3	8.2	8.2
Canadian dollar (in US cents)	82.5	85.1	81.6