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Promoting private investment by eliminating the tax on capital

Québec, May 24, 2007 – “We are accelerating the reduction of the tax on capital for businesses, which will be completely eliminated after December 31, 2010,” Minister of Finance and Chair of the Conseil du trésor Monique Jérôme-Forget declared today in the Budget Speech she delivered before the National Assembly. “This tax punishes companies that upgrade. We are abolishing it.”

Québec businesses, particularly in the manufacturing sector, are going through difficult times. The increase of over 40% in the Canadian dollar in relation to the US dollar over the past five years, higher fuel prices and heightened competition from countries where labour is cheap create a challenging environment for the Québec economy. “We have to boost our productivity if we want our economy to continue to grow,” affirmed Ms. Jérôme-Forget.

This budget proposes concrete measures to boost Québec’s productivity.

To make businesses more competitive, this budget:

- accelerates the reduction of the tax on capital until it is fully eliminated after December 31, 2010. The general rate of the tax on capital will be lowered from 0.49% to 0.36% as of January 1, 2008 and then to 0.24% in 2009 and 0.12% in 2010. Subsequently, the tax on capital will be eliminated;
- confirms the increase in the capital tax credit for all business modernization investments from 5% to 10%;
- extends the 15% capital tax credit for all wood processing companies;
- improves capital cost allowances, a measure favourable to manufacturing firms;
- confirms the increase in the deduction in the calculation of tax on capital payable by farm and fishing corporations from \$400 000 to \$5 million, thereby eliminating the tax on capital for 99% of these businesses.

These measures thus eliminate as of now the tax on capital for manufacturing companies that invest. They also make the tax system as a whole more competitive.

“Owing to the combined effect of these measures, the fiscal environment of our businesses will undergo a major transformation. We are moving from a system that taxes investment to one that rewards it,” the Minister said.

“When fully implemented, the measures in this budget will represent an income tax reduction of some \$900 million for businesses. They will reduce the cost of investing and stimulate modernization of our businesses,” Ms. Jérôme-Forget concluded.

Strategy for the Development of Every Region

Determined to ensure economic recovery and development in all regions, the government has drawn up a Strategy for the Development of Every Region. Under this strategy, the government will invest \$825 million over the next five years in order to give the regions greater autonomy and ability to act in the area of economic development, particularly through the Fonds de développement régional, the ACCORD projects and support for business start-ups.

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