

2009-2010 BUDGET PRESS RELEASE No. 6

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A VIGOROUS PLAN TO RESTORE BUDGET BALANCE

Québec, March 19, 2009 – The 2009-2010 Budget, tabled today, provides for a plan to restore budget balance within five years in order to ensure that Québec's public finances remain sound. "This plan will be implemented once the recovery is well under way. First, we will exercise tight control over public spending. Second, we will implement measures to increase revenues. We will implement this plan to restore budget balance without raising taxes and while continuing to make payments to the Generations Fund," the Minister of Finance said.

Controlling spending

The government is concentrating its first efforts to control spending by limiting the annual growth to 3.2% for 2010-2011 and subsequent years.

"To meet that demanding objective, we will have to review and prioritize our spending in order to free up additional resources. We will avoid slashing health and education spending as others before us chose to do," declared Minister Jérôme-Forget.

Generations Fund

"Despite the difficult economic situation, we have chosen not to interrupt our payments to the Generations Fund. The pre-Budget consultations showed me that the Generations Fund has broad support. In addition, young people from all horizons clearly indicated to me that they want the government to continue its disciplined management of the public debt. They are right," stated Minister Jérôme-Forget.

As at March 31, 2009, the book value of the Generations Fund will reach \$1.9 billion. Indeed, \$715 million will be deposited in the fund in 2009-2010, and \$880 million in 2010-2011. By March 31, 2011, the fund will total \$3.5 billion.

Collecting enough revenue to fund public services

Substantial effort will be required with regard to government revenue as of 2011, when the economy has picked up. The government is announcing that it will do three things to that end: ensure everyone pays their fair share of income tax, index user fees to the rate of inflation and raise the Québec sales tax by one percentage point.

Tax evasion and tax avoidance

The government's first action is aimed at stepping up efforts to fight tax evasion, particularly in the construction sector. In addition, it will review the legislative framework applicable to aggressive tax planning.

Aggressive tax planning is described as a tax avoidance scheme that satisfies the letter of the law but abuses its spirit. Public consultation on the matter is currently under way and will end on next April 1.

All told, additional revenue from these two measures should reach \$900 million in 2013-2014.

New policy for the funding of public services

The government is announcing a new funding policy to ensure the sustainability of public services. This new policy will be based on the following principles: coverage of costs, transparency, solidarity toward the most disadvantaged, application of user fee revenues to fee-based services and, finally, accountability. These principles were announced in the report of the Task Force on Fees for Public Services.

Setting user fees must be centred on the notion that those who use a service must also pay for it. That is the user-payer principle. Currently, \$3 billion in revenue from user fees paid for public services is not indexed. Certain fees have not changed in over 10 years. This is the case, for example, of the fee charged for birth, marriage and death certificates, which has been \$15 since 1996.

As of January 1, 2011, all fees that are not presently indexed will be indexed annually to the rate of inflation. This measure will generate additional revenue of \$60 million every year. The only exception will be \$7-a-day childcare services.

Funding of road and public transit infrastructure

The government considers that user fee revenues must be applied to fee-based services. Therefore, the Minister announced that the role of the Road Network Preservation and Improvement Fund will be expanded to make funding available not only for road infrastructure, but also for public transit infrastructure. The above fund will henceforward be called the Road Infrastructure and Public Transit Fund. Dedicated revenues—in particular the specific fuel tax and licence fees and registration duties—will be deposited in the fund.

Increase in the sales tax on January 1, 2011

A third step will be taken to restore budget balance. As of January 1, 2011, the Québec sales tax (QST) rate will be increased by one percentage point, from 7.5% to 8.5%.

“Increasing sales tax is preferable to increasing income tax, for several reasons. First, a sales tax increase does not hurt the competitiveness of our exports, because it does not apply to goods and services sold abroad. In addition, contrary to income tax, consumption tax does not discourage work effort. Lastly, it is not a disincentive to save,” the Minister pointed out.

The Minister also announced an increase in the refundable Québec sales tax credit. It will be raised by \$150 for a couple and \$125 for a person living alone, for an annual amount of \$250 million. “The increase in the sales tax rate will have no impact on the financial situation of low-income households,” declared the Minister.

“Restoring budget balance will take a lot of effort on our part. That effort will ensure the sustainability of our public services—a proud heritage we will be leaving for future generations,” Minister Jérôme-Forget concluded.

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