

**Recommendations as part of private consultations and public hearings on  
the report of the Quebec Taxation Review Committee conducted by  
Quebec's National Assembly**



**September 3, 2015**

## **Preamble**

The Board of Trade of Metropolitan Montreal (the Board of Trade) has over 7,000 members. Its mission is to be the voice of Montréal's business community and to promote the city's prosperity. The Board of Trade is involved in key areas of economic development, promoting a philosophy of action based on engagement, credibility, proactivity, collaboration and innovation. The Board of Trade is the largest private economic development organization in Quebec.

## **Background**

On June 4, 2014, when tabling the budget, Quebec's Finance Minister, Carlos Leitão, announced the creation of the Commission d'examen sur la fiscalité québécoise, or the Quebec Tax Review Committee (the Committee). The Board of Trade welcomed the minister's decision, which echoed a clear call from the Board of Trade as part of its pre-budget recommendations to the previous government. The Board of Trade asked that the government undertake an in-depth analysis of its taxation to ensure it responded to the demographic and economic challenges of Quebec and Montréal.

On October 10, 2014, the Board of Trade submitted its recommendations to the Committee, which were then presented by the Board of Trade's president and CEO to the Committee's members. The Board of Trade recommended reviewing the tax mix to give greater incentive to work, productivity and investment. It recommended increasing user fees and consumption taxes to reduce personal and corporate income taxes. Such measures would improve the competitiveness of our business environment, increase the number of head offices and further support economic growth. In a context of intense international competition to attract and retain companies, the Board of Trade also recommended keeping tax assistance measures targeting strategic high-value-added sectors, to maintain their competitiveness. The Board of Trade stressed the importance of retaining the support system for video game producers, a sector that is the envy of other North American jurisdictions.

When the report of the Quebec Tax Review Committee was published, the Board of Trade applauded the Committee's diligent work and recommendations. It also asked that an informed discussion take place with the public and socioeconomic players to foster acceptance of the recommendations and promote their implementation. The Board of Trade therefore participated in a partners table organized by the Government of Quebec in June to discuss recommendations, largely about personal income taxes. Finally, on September 3, 2015, the president and CEO of the Board of Trade presented its recommendations as part of private consultations and public hearings on the report by the Quebec Tax Review Committee.

This brief reiterates the Board of Trade's recommendations.

## Introduction

Corporate and personal taxes have always been a priority for the Greater Montréal business community. In fact, taxation is an essential part of a competitive business environment. It also has a major impact on public finances, our collective wealth and its distribution in society.

In recent years, the Board of Trade asked the government to start reviewing the entire Quebec tax system to better meet today's economic challenges. This exercise has not been done since the end of the 1990s. Furthermore, the rapidly aging population, low corporate productivity, anaemic economic growth and burdensome public debt make such a reform even more urgent. This is why the Board of Trade monitored the progress of the Quebec Tax Review Committee's work.

The Board of Trade reiterates its support for the Committee's diligent, comprehensive and coherent report. It has provided major orientations, along with specific recommendations for improving the competitiveness of Quebec's tax system. It creates an accurate portrait of Quebec's taxation compared with other jurisdictions, takes into account the competitive environment in North America and analyzes best practices to propose concrete avenues to encourage work and investment and better support productivity and economic growth.

The city's business community also supports the spirit of the report, which directly reflects its own recommendations. Implementing the report's recommendations will be a no-cost undertaking for the government. However, the proposed adjustments will allow for fiscal rebalancing with greater reliance on tools that are the least harmful to the economy. It proposes increasing user fees and consumption taxes and reducing personal and corporate income taxes. These are essential measures to help attract talent and investment, two indispensable factors for improving productivity and economic growth.

The government already announced the implementation of 28 of the Committee's 71 recommendations when it tabled its last budget. It now needs to go ahead and implement all the recommendations, failing which the desired results will not be achievable. If only some of the recommendations are adopted, the fiscal rebalancing will not be all that it could be.

### **1. A reform based on principles and objectives for improving tax efficiency**

The Committee's report is based on a realistic analysis of the socioeconomic context and on clear principles and objectives for improving the efficiency of the tax system. The business community agrees with the principles and objectives underlying the Committee's report.

The Board of Trade believes that given the current context, efficient taxation must adhere to the principles of predictability, simplicity, competitiveness and equity. We are pleased to see that the Committee is taking these principles into consideration and that these recommendations are intended to be implemented over time to give economic players a chance to adapt.

The business community also agrees with the broad strokes of the analysis and findings that are behind the Committee's recommendations. As mentioned in the brief the Board of Trade submitted to the Committee in the fall,<sup>1</sup> competitive, efficient taxation must address the challenges of a demographic crunch, low corporate productivity, sub-par economic growth, precarious public finances, low levels of investment and intense competition to attract and retain

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<sup>1</sup>BOARD OF TRADE OF METROPOLITAN MONTREAL. October 2014. *Recommendations of the Board of Trade of Metropolitan Montreal to the Quebec Taxation Review Committee.*

talent. Therefore, the Board of Trade recommended rebalancing taxation to reflect these challenges, without increasing Quebecers' tax burden, which is already the highest in North America and above the average for OECD countries.

In fact, we fully support the Committee's overall objectives, particularly encouraging work, stimulating investment and promoting savings, from the perspective of sustainable development and stepping up efforts to prevent tax evasion.

The Board of Trade therefore asks the government to take into consideration the principles and objectives of the Committee's report in implementing its recommendations.

### **A reform that must be approached as a whole**

It is essential to keep in mind that the Committee's report presents a no-cost proposal for the government. It suggests a new balance in the tax mix, increasing the use of the least economically damaging tools without increasing the tax burden. So any proposal that would result in a drop in government revenue is accompanied by other proposals to increase government revenue, whether from business or individuals.

The ultimate goal of this exercise is to encourage work and savings and to better support investment to improve our standard of living and not to start a debate to increase government revenue.

The Government of Quebec must therefore resist any suggestion to implement certain measures and reject others. We believe that such an approach would derail the intended reform, depriving Quebec and its economy of the positive effects of fiscal rebalancing. For example, the government must ensure that increases in user fees are immediately accompanied by measures to protect the disadvantaged and that there are effective mechanisms to prevent tax evasion.

The Board of Trade calls on the government to adopt and apply as a group all the measures recommended in the Committee's report to be able to reap its benefits.

## **2. A reform with a positive economic impact for Quebec**

Quebec and Montréal are still facing tough economic times. High household debt and low private investment continue to undermine domestic demand and economic growth (only 1.4% in 2014<sup>2</sup> for all of Quebec). Experts also agree that because of persistently low productivity and an aging population, the outlook for economic growth will remain weak in the coming years. And Greater Montréal already lags major North American cities in terms of GDP per capita.

We absolutely need to create more wealth. According to estimates in the report, the proposed reform should generate close to \$2 billion in GDP, \$592 million in disposable income and \$584 million in private investment and help create over 20,000 jobs. It is true that in relative terms, the economic impact is limited (less than 1% of GDP). However, since the proposed reform will cost the government and tax payers nothing, and given the fragile economic situation, it would generate economic benefits that we need to tap into. Not exploiting their potential, given the backdrop of underemployment and relative economic fragility, would fly in the face of common sense.

The Board of Trade recommends that the government take measures as soon as possible, so that our economy can start to benefit in the short term.

<sup>2</sup> DESJARDINS ECONOMIC STUDIES. August 2015. Economic and Financial Outlook.

### **3. A reform that directly affects the competitiveness of the business environment of Quebec and Montréal**

The city's business community welcomes the Committee's proposals to clean up tax spending and focus on tools that are the least economically damaging. This is essential for improving the business environment.

#### **a. A generalized reduction in personal income tax will encourage savings and attract talent, investment and head offices**

As indicated in our brief to the Committee, Quebec relies too heavily on personal income tax. As a proportion of GDP, it is 13%, compared with 9.2% in the U.S. and 8.2% for the average of OECD countries. Personal income tax discourages work, savings and the attraction and retention of talent. This is of particular concern given the rapidly aging population and international competition to attract talent.

The Board of Trade welcomes the Committee's recommendation to reduce personal income tax annually in the order of \$4.4 billion.

Specifically, it supports the following proposed measures:

- Increasing in the basic personal amount to \$18,000
- Introducing greater progressivity by increasing the number of brackets from four to nine
- Requiring that the maximum marginal tax bracket for the personal tax rate schedule, including federal taxes, not exceed 50%
- Introducing a tax shield
- Increasing the work premium
- Creating a premium for experienced workers

The Government of Quebec already announced certain measures in its budget, including eliminating the health premium, implementing a tax shield, increasing the work premium and creating a premium for experienced workers.

The Board of Trade now calls on the government to go further and implement the other recommendations regarding personal income tax.

#### **b. Increasing the consumption tax would support savings**

Sales tax is less of an impediment to wealth creation than income tax as shown by the Committee's analyses. In fact, it can encourage savings – and ultimately investment – and does not discourage the competitiveness of local businesses on the international scene in that exported products are exempt. And yet Quebec is below the OECD average in making use of sales tax.

The Board of Trade supports the Committee's recommendation to fund a generalized reduction in income tax by reorganizing fiscal spending and increasing the use of sales tax and user fees.

It specifically supports the following measures:

- Increasing the QST by 1.025 percent, bringing it to 11%
- Increasing the specific tax on tobacco products at a predictable rate of \$1 per year for five years

- Increasing the tax on alcoholic beverages by \$0.087 per litre of beer per year for five years.

Of course, as provided for in the report, these measures must be accompanied by an increase in solidarity tax credits. The government must also be vigilant when increasing the sales tax and introduce measures to prevent tax evasion and the massive use of e-commerce for the sole purpose of avoiding paying taxes.

With respect to the Committee's recommendation to increase the gas tax by one cent a litre per year, the Board of Trade instead recommends evaluating the possibility of a kilometre tax. This would be more in line with the user-pay principle and would help reduce traffic.

The Board of Trade supports the tax increases recommended by the report and recommends that the government apply them. However, the Board of Trade would like the government to evaluate the impact and feasibility of introducing a kilometre tax rather than simply increasing the tax on gas.

### **c. Increasing reliance on user fees will lead to better use of resources**

We also support the Committee's recommendation to finance part of a generalized reduction in personal income taxes through greater reliance on user fees. In addition to being less economically damaging, user fees for public services send a better price signal and therefore better direct consumer behaviour and lead to more efficient use of our resources. Of course, any increase in user fees must be accompanied by measures to mitigate the impact on the most vulnerable.

The Board of Trade supports the following proposed measures regarding electricity rates:

- Increasing the cost of the heritage pool by 0.8 cents a kilowatt hour
- Introducing a 10% tax on overconsumption for average home electricity exceeding 80 kilowatt hours per day

Such measures would increase state revenue while encouraging more efficient use of electricity, as part of an approach to sustainable development.

The Board of Trade also supports the Committee's recommendation to review how subsidized daycare is funded through the fiscalisation of a single rate of \$35 per day, indexed annually. The Board of Trade reiterates its opposition to introducing progressive daycare rates based on income as the government announced in the fall. Progressivity in tax schedules and not user fees is the mechanism that will allow for a better redistribution of income.

The Board of Trade asks the government to increase electricity rates and introduce a tax on the overconsumption of electricity. It also asks the government to review its rates for daycare and apply, as recommended by the Committee, a single rate that is not progressive based on income.

### **d. Reducing corporate income tax and the payroll tax will encourage investment and productivity**

Corporate income tax discourages investment and wealth creation. The payroll tax discourages hiring and pay increases, and, as a result, hampers job creation, limits disposable income and makes it hard to attract skilled workers.

The Board of Trade supports the Committee's recommendations to reduce corporate income tax and the payroll tax. It specifically supports the following measures:

- Reducing corporate income tax from 11.9% to 10%
- Introducing a growth premium for SMEs offering a marginal tax rate of 4% on revenue from \$100,000 to \$500,000
- Reducing the payroll tax rate for SMEs by reducing the Health Services Fund from 2.7% to 1.6%

We applaud the fact that the Government of Québec has already started to implement these recommendations. However, the announced tax cuts are more modest than those the Committee proposed. For example, the government announced it would cut corporate income taxes to 11.5% rather than 10% as proposed by the Committee. Likewise, the government announced a payroll tax cut from 2.7% to 2.25% rather than to 1.6% as proposed by the Committee.

The Board of Trade therefore calls on the government to go further than announced in the last budget, particularly by reducing the corporate tax rate to 10% and the payroll tax for SMEs to 1.6%.

The Board of Trade also supports the fact that these measures are financed in part by restructuring tax spending.

**e. Increasing certain tax assistance measures will maintain the competitiveness of local businesses on the international scene**

In a context of very intense global competition to attract and retain talent, investment and businesses, it is essential that our economy be able to compete on a level playing field with other jurisdictions. Maintaining or improving tax assistance to strategic, high-value-added sectors is an effective way to do this. These tax credits play a fundamental role for the development of our knowledge-based society.

This is why the Board of Trade applauds the measures introduced by the Government of Quebec in the last budget to support highly strategic sectors of Greater Montréal and particularly the video game industry.

The Board of Trade supports increasing or maintaining the following tax credits:

- Tax credit for the production of multimedia titles
- Tax credit for culture
- R&D tax credit
- Tax credit for Quebec film and television production

**Conclusion**

The city's economic development requires a business environment conducive to the development of robust, agile and competitive companies given increasing globalization. The tax system is one of the foundations of this environment.

The report of the Quebec Tax Review Committee proposes a set of measures to improve the competitiveness of the business environment and better support economic activity. As such, the government has everything it needs to reform taxation and better support our economy.

The analysis is complete, clear recommendations have been made, the debates have taken place. It is time now to act. Our economy needs these incentives.