# On Equal Terms

## REPORT OF THE TASK FORCE ON TAX ASSISTANCE for the Resource Regions and the New Economy

Québec

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**On Equal Terms**
Report of the Task Force on Tax Assistance for the Resource Regions and the New Economy

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# Message from the Task Force

Québec, December 21, 2007

*Madam Minister of Finance,*
*Minister for Government Services,*
*Minister responsible for Government Administration*
*and Chair of the Conseil du trésor*

*The Task Force on Tax Assistance for the Resource Regions and the New Economy is pleased to submit the report stemming from its consultations and analyses.*

*This report is the result of the work carried out at your initiative. It is a direct reflection of the spirit in which we approached our task.*

## *A constructive and forward-looking approach*

*As part of the mandate you entrusted to us, we sought to assess the tax assistance measures under their various aspects by adopting a constructive and forward-looking approach.*

*We did so with the support of studies and analyses undertaken for that purpose, as well as consultations during which we met with more than 120 companies and organizations throughout Québec. These meetings were enriched by a little more than 160 briefs, which is a good indication of the interest sparked by our work.*

*While the consultation was being carried out, an at times bitter debate was developing between businesses in certain regions concerning the impact and relevance of tax assistance for the resource regions. While the climate in which tax assistance for the new economy was discussed was less charged, positions were defended with just as much vigour.*

*In both cases, we arrived at recommendations which, we trust, will be useful in laying solid foundations for future government initiatives in favour of the resource regions and the new economy.*

### *Recommendations that form an integrated whole*

*As we indicate in the report's conclusion, these recommendations form an integrated whole. They flow from an overall vision of the assistance granted to the resource regions and the new economy.*

*More than that: we suggest that these recommendations form the core of future development policies for the resource regions and assistance policies for the new economy.*

*Indeed, we propose initiatives that could apply to Québec's economy as a whole to support private investment - one of the strategic keys to the creation of wealth and Québec's future prosperity.*

*Naturally, the decision lies with the government.*

### *To stand "on equal terms"*

*The title of our report is "On Equal Terms".*

*The approach we propose and the resulting recommendations seek to put the Québec companies concerned "on equal terms" in the great battle of competitiveness on markets.*

*Concerning tax assistance for the resource regions, we wanted to define the best ways to provide sustainable assistance for companies in outlying regions that must deal with the handicap of remoteness.*

*As for tax assistance for the new economy, the aim is rather to provide companies in Québec with the means to deal on an equal footing with competitors from elsewhere that receive substantial state support.*

*The title of our report also refers directly to the constant battle facingcompanies, in an economy that has never been so open and where competition has never been so keen.*

*We are convinced that Québec companies very well equipped to claim their place and grow. We are also convinced that appropriate support measures can help them achieve solid and sustainable growth if the emphasis is put on efficiency and productivity. That is one of the fundamental principles on which we based our reflections and formulated our recommendations.*

*Of course, this report could not have been produced without the dedicated and efficient support of a team drawn essentially from the ministère des Finances whose excellent work the Task Force wishes to acknowledge.*

*Accordingly, we want to thank Luc Bilodeau, who headed the Task Force's secretariat consisting of Caroline Beauregard, Martin Picard, Nicolas Roy and Jean-François Thibault, as well as the members of the Direction des communications of the ministère des Finances.*

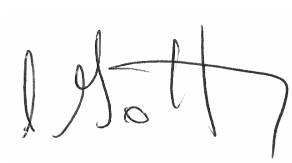
*We are deeply thankful to Éric Ducharme, Luc Monty and Jean-Pierre Pellegrin, who provided support and assistance throughout our mandate and despite their other ongoing responsibilities at the ministère des Finances and the ministère du Conseil exécutif.*

*Lastly, we wish to express our gratitude to you for the confidence you have shown in Luc Godbout, Guy Lacroix and myself by asking us to carry out a mandate that was as stimulating as it was demanding.*

*We trust that our report meets your expectations.*

*Robert Gagné*

*Chairman of the Task Force on Tax Assistance*
*for the Resource Regions and the New Economy*



*Luc Godbout*

*Guy Lacroix*

*Members of the Task Force on Tax Assistance*
*for the Resource Regions and the New Economy*

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# SUMMARY

The government set up the Task Force to “thoroughly examine the impact on Québec businesses of the end of the tax measures for businesses in resource regions and the new economy.” [1]

### ❑ Strategic importance for businesses

In 2006, tax assistance measures for the resource regions and the new economy amounted to $112 million and $185 million respectively, i.e. a little more than 15% of total tax assistance for businesses.

Although the tax assistance measures for the resource regions and the new economy account for only a limited share of total tax assistance, they are of strategic importance for the businesses concerned.

The controversy sparked by the tax assistance measures for the resource regions illustrates this strategic importance, for recipient businesses and for those that cannot access this government support measure.

### ❑ A major consultation

To cover the various parts of its mandate, the Task Force concentrated on three areas:

— it carried out a major consultation with interested stakeholders;

— at the same time, it organized meetings with certain experts;

— it also commissioned specific analyses.

In September and October 2007, the Task Force travelled to eleven cities in Québec to have direct contact with the regions and sectors concerned by the tax assistance measures being studied. [2]

— The Task Force met with representatives of close to 120 businesses and organizations, at their request or on its own initiative. The goal was to hold discussions with as broad a range as possible of persons representing the businesses and organizations concerned.

— Of the 163 briefs the Task Force received, roughly three quarters dealt with the question of tax assistance measures for the resources regions. Assistance measures for the resource regions also occupied most of the exchanges during the regional tour.

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1 2007-2008 Budget, May 2007, Budget Plan, page G.19.

2 Appendix 3 provides the complete schedule of the tour, the list of persons and organizations with which the Task Force met as well as the briefs received.

The Task Force decided to divide its report into three sections to set out its overall reflections before dealing successively with each of the two groups of tax assistance measures studied.

## ❑ The use of tax assistance as an economic intervention measure

Starting from a number of basic principles, the Task Force reviewed the relevance and interest of tax assistance measures as a form of support for businesses, compared with direct assistance, and examined some of the common features of the tax measures it studied.

### ■ Principles

The Task Force emphasized efficiency and fairness in particular as basic principles that must be observed in defining and implementing assistance measures for businesses.

- Businesses must be efficient - i.e. they must produce at the lowest cost possible to maintain or improve their competitive position on the markets where they operate. In this way, they ensure their medium and long-term development.
- Business assistance measures must be fair at the competitive level. By that the Task Force means that the assistance measures must not give rise to unfair competition. This means that tax measures must not unduly increase tax competition.

### ■ The use of tax measures

The Task Force recommends that the government continue to use tax measures in implementing its business support policies, provided the principles stated earlier are adhered to.

Direct or budgetary assistance measures also have a role to play. For the Task Force, they constitute an efficient tool for supporting businesses, once again provided the principles the Task Force has stated are adhered to.

### ■ The employment criterion

The Task Force notes that most of the assistance measures for the resource regions and the new economy have been defined on the basis of jobs created or maintained.

In this regard, the Task Force asked three questions:

- Is tying the assistance to job creation still as relevant, at a time when businesses are facing substantial labour shortages.
- Does the employment criterion move businesses further from the desired objective of creating wealth by improving business efficiency?
- For how much time must a business receive support for one job created?

The Task Force also studied the rules defining the administration and control of the tax measures.

## ❑ Support for the resource regions

The Task Force notes that in spite of the undeniable difficulties facing them, the resource regions display impressive vitality and determination to develop themselves.

### ■ The impact of the tax assistance measures

The tax assistance measures implemented by the government have had a number of impacts, which can be grasped more easily at the level of businesses than for the region concerned as a whole.

- Overall, and compared to their economic weight, the resource regions receive more business assistance than the central regions and the metropolitan regions.
- Tax credits for processing have a real impact for eligible businesses. During the consultation, it became clear that recipient businesses often used the measure as a source of funding for investments, to overcome the handicap of remoteness.
- The impact of the tax credits for processing is much more difficult to assess when trying to estimate it for the region concerned as a whole.
- While the tax credits for processing elicited positive comments in the resource regions, the same cannot be said of the tax holiday for manufacturing SMEs. Businesses pointed out that this measure was not achieving its goal. For the Task Force, the very principle of the tax holiday must be criticized.

## Inter-regional competition

The Task Force was made aware of the links between the tax assistance measures and inter-regional competition and the resulting pernicious effect. During the consultation, a number of businesses from the central regions and organizations representing them criticized the unfair competition resulting from the tax assistance measures. Businesses from the resource regions reacted to these accusations.

The Task Force was not mandated to investigate the cases submitted by certain businesses or their stakeholders. On the other hand, it is in a position to note that the shortcomings of the definitions used for implementing the tax assistance measures for the resource regions aggravated if not caused the existing problems.

- The territorial definition of the application of the assistance measures is too broad.
- There is confusion between the criterion of remoteness and that of degree of development.
- Some of the problems that were raised result from the fiscal exclusivity defined in favour of certain regions, for a given activity sector.

## The remoteness handicap

The debate between the central regions and the resource regions prompted the Task Force to target remoteness as the real handicap that businesses in the resource regions must overcome. Indeed, remoteness from the metropolitan regions explains and encapsulates a large number of structural disadvantages that businesses suffering from them must overcome.

## The calculation details of the tax credits

Another pernicious effect of the tax assistance measures for the resource regions stems from the actual calculation details of the tax credits.

In the case of the tax credits for the resource regions, the Task Force notes that the very principle of linking assistance to wages may act as a disincentive to businesses to invest and consequently improve their productivity, even though productivity growth is the key to their long-term continuation and development.

There is a further pernicious effect, tied to the rule under which a fixed year in time is used as reference for calculating jobs created.

## ■ A basic problem: productivity is growing more slowly than elsewhere

Basically, Québec businesses as a whole are faced with a productivity problem. Looking at the situation in Québec, there is a disparity in standard of living between the resource regions and the rest of Québec. During the period from 1998-2006, the size of this gap has varied, but has always moved in the same direction.

One of the main explanations for this situation can be found by examining productivity growth in Québec's manufacturing sector. Between 1998 and 2005, productivity in the manufacturing sector rose by an average of 3.5% annually in urban regions. During the same period, productivity gained only 2.0% per year in the central regions and less than 0.2% in the resource regions.

The Task Force believes that the problem must be attacked at its source. The government must encourage businesses in the resource regions to invest more, become more productive and thus create more wealth. In this way, the resource regions will be able to make up for the difficulties relating to remoteness and become more self-sufficient.

Existing tax assistance measures are calculated on the basis of jobs, with no guarantee regarding the allocation of such assistance to productivity gains. Without calling the principle of regional tax assistance into question, the Task Force strongly suggests that the government change the basis of this assistance, by replacing jobs with investment.

## ■ Recommendations

The Task Force recommends that the government:

- define assistance to the less developed regions on the basis of remoteness, as there is a close link between remote regions and regions in difficulty;
- replace tax measures for the resource regions with tax assistance measures for remote regions;
- apply specific budgetary assistance programs for regions in difficulty that do not have to overcome the obstacle of remoteness.

The Task Force proposes a territorial definition based on the criterion of distance – for reasons of simplicity and objectivity.

The Task Force suggests dividing the territory into concentric zones defined as being within 200 km and 300 km of the centres of the three metropolitan regions. The distance of 200 km was chosen because it coincides roughly with the availability of expressway infrastructures.

The Task Force recommends that the territorial definition apply at the regional level. The purpose is both to minimize tax competition and avoid slippage arising from local pressures.
The Task Force concludes that the best way to support businesses in remote regions with a vision of the future is to encourage them directly to improve their productivity by helping them invest in their equipment.

Accordingly, the Task Force recommends that the government replace tax credits calculated on the basis of jobs with investment tax credits.

- This assistance would be available to the entire manufacturing sector, and would not be limited to certain activity sectors.
- The Task Force hopes that the government will send a very strong signal in favour of investment by businesses in the remote regions. To that end, it suggests a refundable tax credit and a rate of 40% in the most remote region – the rate would be reduced to 20% in the intermediate zone.
- Large companies would be excluded from the tax credit because the measure does not concern large companies involved in particular in primary processing of resources. The Task Force thus proposes as a criterion that assistance be limited to businesses with less than $250 million in capital.
- The assistance would apply to purchases of manufacturing and processing equipment.
- The Task Force suggests that the government set a quantified investment objective and that this objective be relatively ambitious.

The Task Force considers that the recommendation to set up a refundable investment tax credit is a major one. It is aware that on its own, such an initiative will not resolve the systemic problem of private under-investment in Québec. However, it should help increase the productivity of businesses faced with the handicap of remoteness.

The Task Force proposes that the government commit to applying the assistance program until 2015.

The Task Force also suggests flexible transition measures, allowing businesses that currently benefit from tax assistance measures the option of staying with the existing system until its stipulated expiry or opting for the new system.

The Gaspésie–Îles-de-la-Madeleine region differs significantly from other regions of Québec. In 2007, this region posted the largest disparities in relation to other regions of Québec regarding economic development.

The Task Force recommends that the government apply tax credits relating to employment to the Gaspésie–Îles-de-la-Madeleine region, in addition to the new assistance for investment in remote regions.

## ■ Old and new measures

The system proposed by the Task Force involves dividing remote regions into two groups depending on whether they are located in the intermediate zone or in the zone located more than 300 km from the centre of one of the three metropolitan regions.

- Four existing resource regions would be located in the most remote zone, thus benefiting from the most generous investment tax credits. They are the Gaspésie-Îles-de-la-Madeleine, Côte-Nord, Abitibi-Témiscamingue and Nord-du-Québec regions.

  Under the Task Force's proposal, the most remote part of Bas-Saint-Laurent would also be classified with these four regions.

- Saguenay–Lac-Saint-Jean would be considered part of the intermediate zone, along with the rest of the Bas-Saint-Laurent region.

Under the proposed system and at the expiry of the existing assistance measures, the Mauricie region and the three RCMs of Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau would not qualify for the new assistance for investment by businesses in remote regions. That is logical, since these regions do not have to overcome the handicap of remoteness.

However, the Task Force is well aware of the difficulties this region and these RCMs face. It suggests that in their case, the government apply targeted budgetary assistance measures, noting in passing that existing general application tax measures for the remote regions do not correspond to their needs.

**Rate of the proposed investment tax credit for regions currently covered by the tax assistance measures for the resource regions**
(Per cent)

| Regions currently covered by the tax assistance measures for the resource regions | Rate of the proposed investment tax credit (%) |
|---|---|
| Gaspésie-Îles-de-la-Madeleine[1] | 40 |
| Abitibi-Témiscamingue | 40 |
| Côte-Nord | 40 |
| Nord-du-Québec | 40 |
| Bas-Saint-Laurent | |
| – Remote zone[2] | 40 |
| – Intermediate zone | 20 |
| Saguenay–Lac-Saint-Jean | 20 |
| Mauricie | Apply targeted budgetary assistance measures to Mauricie and the Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs |
| Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs | |

1 In addition to the investment tax credit, this region is also covered by an employment tax credit of 20% for manufacturing activities and an employment tax credit of 40% for the marine biotechnology and mariculture sectors. The latter also apply for the Bas-Saint-Laurent and Côte-Nord regions.
2 Includes the La Matapédia, La Mitis and Matane RCMs.

With the new tax assistance proposed by the Task Force, the government would retain the terms and conditions whose simplicity and predictability have been pointed out. The government would again offer a refundable tax credit whose base would be changed.

The government would restore the basis of healthy competition among the regions. It would achieve this by calculating support on the basis of investment rather than payroll, thus helping to define assistance that is less tied to cost. With the existing assistance measures, the grant can be converted into a price cut without even having invested. That would no longer be the case.

Lastly, the cost of the new measures would be of the same order as that of the existing programs. According to the assessment done by the ministère des Finances at the request of the Task Force, the new tax credits would cost a little more than $104 million, compared with $112 million paid to businesses in 2006 with the current measures.

The Task Force considers this cost as a minimum. If the new measure has the impact on investment we hope for, its cost should rise accordingly.

**Illustration of the financial impact of the tax credits proposed by the Task Force**
(Millions of dollars)

| | Eligible expenditures | | |
|---|---|---|---|
| **Proposed tax credits for remote regions** | **Manufacturing and processing equipment** | **Wages tied to eligible jobs created[1]** | **Value of the tax credit** |
| **Refundable investment tax credit** | | | |
| – Regions at 40% rate[2] | 142 | --- | 57 |
| – Regions at 20% rate[3] | 201 | --- | 40 |
| **Subtotal** | **343** | **—** | **97** |
| **Refundable tax credit of 20% for manufacturing activities in Gaspésie–Îles-de-la-Madeleine** | --- | 30 | 6 |
| **Refundable tax credit of 40% for the marine biotechnology and mariculture sectors[4]** | --- | 2,5 | 1 |
| **TOTAL** | **343** | **32,5** | **104** |

1 For jobs created as of 2008 or for the first year of eligibility of a business. The specific feature tied to wages paid for total eligible jobs would continue to apply for the refundable tax credit for the marine biotechnology and mariculture sectors.
2 Abitibi-Témiscamingue, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Nord-du-Québec and the eastern part of Bas-Saint-Laurent (La Matapédia, La Mitis and Matane RCMs).
3 Saguenay-Lac-Saint-Jean and the western part of Bas-Saint-Laurent (including Rivière-du-Loup and Rimouski).
4 Applicable in the Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent regions.
Source: Ministère des Finances du Québec.

## ❑ Support for the new economy

The tax assistance measures for the new economy assessed by the Task Force essentially concern the services component of the information technology sector. Accordingly, the Task Force focused its analyses on this sector.

### ■ The overall situation of the information technology sector

The sector faces very stiff global competition. Governments in developed countries as well as emerging economies do not hesitate to intervene to support businesses located in their territory.

We note that in this activity sector, Québec has difficulty maintaining its place in Canada.

An analysis of the change in number of jobs in the services component of the information technology sector in Canada leads to the conclusion that Québec's share did not grow between 1998 and 2005.

## ■ The impact of the tax assistance measures

The Task Force obviously wondered whether these to say the least mixed results meant that the tax assistance measures put in place by the Québec government had missed their objective.

— There is no escaping the conclusion that since 2000, there has been no overall job creation in the information technology services industry. The tax assistance measures have in fact sparked a concentration of jobs in the information technology services component within designated sites – the jobs created corresponding on the whole to job losses elsewhere in Québec.

  Accordingly, Québec has not succeeded in making up ground in this activity sector compared to the rest of Canada.

— In spite of everything, Québec's information technology services industry can lay claim to a few undeniable success stories.

  During the consultations, the Task Force learned of many of them. These successes illustrate Québec's capacity to attract or give rise to companies that are outstanding and innovative on the world stage, in the information technology sector.

## ■ A labour market that has changed profoundly

The Task Force noted that rapid change on the labour market in the information technology sector over the last ten years.

After 2000, the bursting of the technology bubble was followed by a substantial drop in student enrolment in information technology programs. Since then, the sector's relative stagnation in terms of jobs has resulted in this decline continuing.

During the consultations, businesses pointed out that experienced employees were difficult to recruit. Québec universities and CEGEPs are not producing enough graduates to meet employers' demand.

This new challenge facing new economy businesses only confirms the importance of training and education for future development.

## ■ Necessary assistance measures

For the Task Force, it is clear that the government assistance measures for the new economy must be maintained, provided they are better targeted and their shortcomings are corrected.

What we observe in the world leads us to consider these assistance measures as necessary, if we do not want to miss out on growth in high value-added activities, with a significant innovation component and fuelled by growing demand and extremely rapid technological advances.

During the consultation, businesses that benefit from tax assistance for the new economy pointed to many of their advantages. As with the tax assistance measures for the resource regions, businesses appreciate the simplicity of the assistance measures and the predictability of the calculation based on payroll.

## ■ The designated site concept: much criticism

The Task Force was made aware of much criticism levelled against the designated site concept, essentially by recipient businesses.

It must be concluded that in defining tax assistance measures based on a territorial perimeter, the government made a mistake. For the Task Force, it would have been much preferable to structure the assistance measures based on the nature of the activities.

Lastly, it should be noted that the designated site concept had a very positive impact on the revitalization of certain districts, in Montréal and especially in Québec City.[3] This is somewhat of an incidental effect that should not detract from the many criticisms received throughout the consultation – and which of itself cannot justify the territorial approach.

## ■ Support for jobs that are easily offshored

The Task Force noted that in many situations, the tax assistance measures for the new economy simply postponed the offshoring of jobs, delaying a phenomenon that will happen sooner or later. The Task Force questions whether such assistance is worthwhile.

This phenomenon is even more troubling where it applies to very large businesses that demand that assistance measures be maintained failing which jobs would be transferred elsewhere – thereby in a sense threatening the government.

The Task Force believes that the purpose of tax assistance measures is not to delay processes that will happen in any case.

3 The same phenomenon was noted in Sherbrooke and Gatineau.

## The lack of discrimination based on value-added

The Task Force notes that the tax assistance measures for the new economy have no provision specifically targeting high value-added jobs.

- The Task Force questions whether it is worthwhile supporting service activities in Québec with low value-added and whose presence is tied first and foremost to proximity to the client company. In addition, low value-added jobs are most often those that are most easily offshored: in this way, jobs that would leave Québec, should the assistance measures end, are artificially maintained here.
- The lack of discrimination based on value-added, in the assistance measures for the new economy, results in supporting jobs that create little wealth. It would be preferable to concentrate on strategic high value-added jobs, maximizing the assets Québec can rely on compared to emerging countries.

  However, the Task Force was made aware of the shot in the arm government assistance can provide in some cases for expansion on external markets.

## Support for simple job shifts within Québec

The new jobs created in designated sites often resulted from nothing more than employment shifts within Québec.

These shifts occurred within the same business. Employees had to move to facilities located in a designated site for the business to receive the tax assistance.

In addition, employment shifting occurred between two different businesses: here again, the tax assistance measures resulted in encouraging businesses to outsource their information technology services to other businesses supplying such services and located in a designated site. The outsourcing led to the physical transfer of employees within designated sites, the client business and the business supplying the service doubtless sharing the gains resulting from the tax assistance measures.

These shifts produced no new jobs in Québec, while accessing a substantial share of the tax assistance measures.

The Task Force sees job shifting as a clear deviation from the stated objectives. There have been some cases of actual “offshoring” of jobs within Québec, which certainly was not the desired outcome. The very existence of designated sites explains this shifting phenomenon, which is less likely to occur with measures targeted on the basis of the nature of the activities.

## ■ The specific case of the four other sectors of the new economy

The observations given so far concern new information technologies, which form the bulk of the new economy sector concerned by the tax assistance measures.

Four other sectors are traditionally included in the new economy. They are the materials technologies, scientific and technical services, production technologies, and biotechnology sectors. These four sectors are eligible under certain conditions for the assistance provided for new economy centres and biotechnology development centres.

The Task Force has the following observations concerning these sectors:

— The importance of these tax assistance measures has been limited for these four sectors.

— Designated sites, in the case of the new economy centres, have proven to be even less adapted to needs than in the case of new information technologies.

— International competition does not appear as strong as for new information technologies.

— However, the Task Force acknowledges that these sectors have spawned many innovative activities and that innovation must be encouraged.

In the case of these four sectors, the difficulty stems from heterogeneous nature of the businesses concerned. It is extremely difficult to identify the truly innovative part of the activities of these companies.

The Task Force does not believe that general application tax assistance is adapted to such diversified activity sectors. It would be better to use budgetary assistance programs, integrated within a comprehensive policy of support for innovation.

## ■ Recommendations

The Task Force notes that the new information technology sector is an innovative sector where Québec can hope to maintain a significant place thanks to the qualifications of its work force.

— This sector faces very stiff global competition, and this competition among businesses is in part skewed by the direct interventions of governments.

— For the Task Force, the government must renew the clear signal previously given to confirm the importance it places on the information technology sector as part of its policy on economic development and repositioning of Québec's economy to face emerging countries.

The Task Force believes it is important that the assistance provided encourage the creation of high value-added activities and, for that reason, that the assistance benefit innovative activities.

This will help achieve two objectives: targeting tax assistance will encourage the creation of wealth while removing jobs that are easily offshored from the field of application.

The Task Force makes a specific recommendation concerning the activities that should be supported inn the information technology sector.

For the Task Force, it is important to end the experiment of designated sites, and thus extend the application of tax assistance for information technologies to all of Québec.

The Task Force hopes that the government will retain the existing form of the tax assistance measures, while changing certain calculation rules.

— Accordingly, the Task Force recommends maintaining a refundable tax credit defined on the basis of salaries paid.

— However, it proposes that the rate and the upper limit of the tax credit be changed:

  — Currently, in most cases the tax assistance is equal to 40% of salaries paid, up to a maximum of $15 000 per job, per year.

  — The Task Force proposes reducing the refund rate to 30% but raising the upper limit on payments to $20 000 per job, per year.

The Task Force considers that the tax assistance for new information technology businesses must apply to firms with a minimum critical mass of more than five eligible employees. The point is to support businesses with serious chances of success, while avoiding spreading the support provided by the government too thinly.

The Task Force recommends that the tax assistance measures for new information technology businesses be time-limited, until 2015.

The transitional measures recommended by the Task Force are the same as in the case of tax assistance for the remote regions.

The Task Force considers that the tax assistance measures that have just been defined should not apply to the other four sectors of the new economy.

— The contours of these activity sectors are ill-defined.

— It would be much preferable to have business in these sectors benefit from budgetary measures, which are much easier to target and calibrate if the objective is to support innovation in these sectors.

The tax assistance for information technologies proposed by the Task Force would retain the terms and conditions whose simplicity and predictability have been pointed out.

**New tax credit tied to the information technology sector – estimate and comparison of costs[1]**
(Millions of dollars)

| Tax credits | Cost of tax credits |
|---|---|
| **New tax credit (applicable to all of Québec)** | **190** |
| **Designated sites (existing tax assistance measures) including:** | **185** |
| Cité du multimédia | 37 |
| New economy centres | 39 |
| E-Commerce Place | 74 |
| Information technology development centres | 19 |
| Centre national des nouvelles technologies de Québec | 14 |
| Biotechnology development centres | 2 |

1 The cost of tax assistance measures tied to designated sites corresponds to 2006.
Source: Ministère des Finances du Québec.

According to the estimate done by the ministère des Finances at the request of the Task Force, the support provided for information technologies would be at least equal to the tax assistance measures for the new economy: over a full year, the cost of the measure is estimated at $190 million, compared with $185 million allocated in 2006 to the tax measures for the new economy.

### ❑ The Task Force’s conclusion

In the conclusion to its report, the Task Force stresses that its recommendations form a whole.

- They reflect a comprehensive vision concerning the role that the government of a developed country can play to support regions in difficulty and an activity sector considered strategic.
- They confirm the central role played by private businesses in the creation of wealth and economic development.
- They propose options for the government that could be used to support private investment in Québec as a whole.

These recommendations are made in a constructive spirit. They are driven by the conviction that it is possible for the most disadvantaged regions to enjoy greater prosperity and that Québec has the resources needed to maintain its place in activity sectors tied to the new economy.

The Task Force hopes that the proposed initiatives meet the government’s expectations, and that once they are implemented, they will quickly produce the anticipated results.

# INTRODUCTION

The Task Force on Tax Assistance for the Resource Regions and the New Economy was announced in the February 20, 2007 Budget Speech and confirmed in the May 24, 2007 Budget Speech.

The government set up the Task Force to "thoroughly examine the impact on Québec businesses of the end of the tax measures for businesses in resource regions and the new economy." [1]

## ❑ Mandate of the Task Force

More specifically, the Task Force's mandate was worded as follows:

"The mandate of the task force will be to examine two types of tax assistance:

— the tax assistance granted to manufacturing businesses in resource regions, i.e. the three tax credits relating to secondary and tertiary natural resource processing (end in 2009) and the tax holiday for manufacturing SMEs (ends in 2010);

— the tax credits for new economy businesses set up in designated sites (e.g. Cité du multimédia, E-Commerce Place and new economy centres in the regions). These measures end between 2010 and 2013.

The task force will make recommendations to the government regarding the best directions to be adopted for the territories and economic sectors affected by the expiry of these tax measures. Among other results, the work carried out by the task force should make it possible to:

— draw a portrait of these tax assistance measures;

— identify the measures' impact on:
  - recipient businesses and other businesses in Québec; and
  - development of the territories and activity sectors concerned;

— analyze the major issues and economic challenges to be considered regarding territories and activity sectors concerned;

— examine the government support that other jurisdictions offer to specific territories and sectors;

— recommend economic measures for developing these territories and sectors of activity.

The Task Force is expected to submit its report in December 2007." [2]

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1 2007-2008 Budget, May 2007, Budget Plan, page G.19.
2 2007-2008 Budget, May 2007, Budget Plan, page G.19.

### ❑ A clear mandate

The task force was given a clear mandate:

- It specifically defines the tax assistance measures to be analyzed.
- It confirms that they will end, specifying once again the date on which the measures will cease to apply.

The mandate is just as clear regarding the nature of the analysis requested: the government wants a profile of these tax assistance measures as well as an assessment of their impacts, which will form the basis of recommendations to be submitted to the government.

### ❑ A forward-looking mandate

In its mandate to the Task Force, the government expects to receive recommendations on the initiatives to take once the existing tax assistance measures end. Accordingly, the Task Force has focused its work on the future.

In particular, the government did not ask the Task Force to judge past decisions or turn back the clock.

### ❑ A broad mandate

In addition, the mandate is very broad.

Concerning the analyses that have been carried out, the mandate involves assessing the economic challenges and issues facing the territories and sectors concerned, as well as taking into account the initiatives taken by other governments to support their territories or certain specific activity sectors.

The mandate is also broad regarding the recommendations to be formulated.

It simply indicates that the Task Force is to identify the "economic measures" that could be implemented, without specifying their nature or the territory in which they would apply.

For the Task Force, that means that its mandate leaves it with considerable latitude as to the proposals to formulate, including in so far as the cost of potential initiatives is concerned, since the mandate provides no framework in this regard.

### ❑ The tax assistance measures examined by the Task Force

On the basis of this mandate, it is important to begin by reviewing the tax assistance measures covered.

The mandate covers two groups of tax assistance measures, namely:

- tax assistance granted to manufacturing businesses in the resource regions;[3]
- tax credits intended for new economy companies occupying designated sites.

#### ■ Tax assistance granted to manufacturing businesses in the resource regions

The Task Force studied four tax assistance measures in this category.

- The **refundable tax credit for processing activities in resource regions**, which covers:
  - the processing of wood, metal, non-metallic minerals and food as well as unconventional energy production;
  - development and recycling of waste and residues resulting from the development or processing of natural resources.
- The **refundable tax credit for the Vallée de l'aluminium**, which covers:
  - the manufacturing of finished or semi-finished products from aluminum which has undergone primary processing;
  - the development and recycling of waste and residues from aluminum processing.
- The **refundable tax credit for Gaspésie and certain maritime regions of Québec**,[4] which applies to:
  - the processing of sea products (fish and seafood);
  - the production of wind-power and manufacturing of wind turbines;
  - sea farming (growing sea products) and marine biotechnology.
- The **tax holiday for manufacturing SMEs in remote resource regions**, which applies to manufacturing or processing in the manufacturing sector.

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3 The Québec government includes under the term "resource regions" the Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine regions. The tax assistance measures for the resource regions also target the Antoine-Labelle RCM in the Laurentides and the Pontiac and La Vallée-de-la-Gatineau RCMs, in Outaouais.

4 I.e. the Côte-Nord region and the Matane RCM (except for mariculture and marine biotechnology activities where the entire Bas-Saint-Laurent region is eligible).

The legislation stipulates that the three tax credits will end on December 31, 2009.

In the case of the tax holiday, the announcement of the measure stipulated that it would end on December 31, 2010.

Appendix 6 reviews the application details of these measures.

### ■ Tax credits intended for new economy companies occupying designated sites

As for the second category of assistance measures the Task Force studied, the mandate covers the following tax credits:

- Tax credits promoting the development of the new economy and regarding activities:
  - relating to biotechnology when they are carried out in a biotechnology development centre;
  - relating to the carrying out of an innovative project in the field of new information and communications technologies in certain designated sites[5] (new economy centre and information technology development centre).
- The tax credit promoting the development of the new economy regarding activities relating to new information and communications technologies and carried out in the Centre national des nouvelles technologies de Québec, in a new economy centre or in the Cité du multimedia de Montréal.
- The tax credit for corporations located in E-Commerce Place in Montréal whose activities are:
  - either related to the development and supply of products and services relating to e-business;
  - or related to the operation of e-business solutions.

The tax assistance lasts for a maximum of ten years and the legislation stipulates that it will end no later than December 31, 2013.

Appendix 7 provides more information on the application details of these measures.

5 The full list of designated sites and where they are located is given in Appendix 7.

### ■ Finite application period

All of the tax assistance measures studied have a finite application period.

The Task Force also notes that the end of the tax assistance measures was programmed as part of their implementation. The Task Force's mandate stems precisely from this finite application period, and the need to make the most appropriate decisions once the measures expire.

## ❑ The importance of these tax assistance measures

The tax assistance measures studied by the Task Force are one component of the government's assistance for businesses.

This assistance can be divided into three categories, depending on whether it consists of tax assistance, budgetary assistance or an equity interest held by a government corporation.

In 2006, government assistance to businesses totalled $2.6 billion, including $1.9 billion in tax assistance, $0.5 billion in budgetary assistance and $0.2 billion in equity interests held by government corporations.[6-7]

6 Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.
7 In pursuing its reflection, the Task Force purposely excluded support for businesses consisting of equity interests taken by government corporations. This type of support measure raises questions beyond those identified in the mandate defined by the government.

## Government Assistance to Businesses

The tax assistance measures studied by the Task Force are one component of the government assistance offered businesses. This assistance can be divided into three categories, depending on whether it consists of tax assistance, budgetary assistance or an equity interest held by a government corporation.

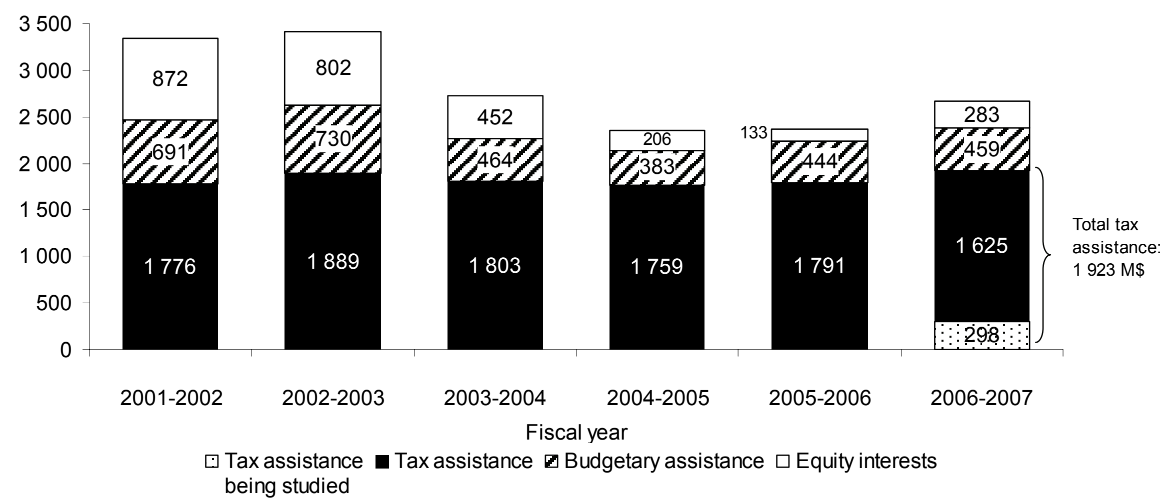
- Tax assistance for businesses:
  - This can be defined as a reduction or deferral of taxes payable by taxpayers.
  - It can take many forms, namely income not subject to tax, deductions in calculating income, tax credits, tax deferrals or tax exemptions.
- Budgetary assistance for economic development:
  - This assistance is considered as an expense in the government's budget.
  - It consists of a transfer from government departments to businesses.
- Equity interest held by government corporations:
  - These are interests acquired by the Société générale de financement (SGF) and financial contributions by Investissement Québec (e.g.: the regional economic intervention funds (FIER)).
  - The equity interest constitutes a capital outlay recovered at the value of the investment (with a profit or loss).

**Evolution**

Further to the review of government assistance for businesses, initiated in 2003, the amount of assistance granted to businesses has declined. In two years, it fell from $3 421 to $2 349 million. Assistance to businesses then rose gradually to $2 665 million in 2006-2007.

More than 70% of direct government assistance for businesses consists of tax assistance measures, i.e. $1 923 million. Of this amount, $298 million corresponds to the tax assistance measures studied by the Task Force in 2006-2007.

**Change in government assistance for businesses – 2001-2002 to 2006-2007**
(Millions of dollars)




Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

## ■ The amounts involved

Tax assistance for the resource regions and the new economy accounted for only a limited share of total tax assistance: in 2006, tax assistance measures for the resource regions and the new economy amounted to $112 million and $185 million respectively, i.e. a little more than 15% of total tax assistance for businesses.

TABLE 1

### Cost of tax measures for the resource regions, 2006

| Tax assistance measures | Estimated cost ($ million) |
|---|---|
| Refundable tax credit for processing activities in the resource regions | 60 |
| Refundable tax credit for the Vallée de l'aluminium | 6 |
| Tax credit for Gaspésie and certain maritime regions of Québec | 6 |
| Tax holiday for manufacturing SMEs in remote resource regions[1] | 40 |
| **TOTAL** | **112** |

1 Contrary to the common definition of resource regions, this measure does not apply to the southern part of the Mauricie region.
Source: Ministère des Finances du Québec, Tax Expenditures – 2007 Edition.

TABLE 2

### Cost of tax measures relating to the new economy, 2006

| Designated sites | Estimated cost ($ million) |
|---|---|
| Cité du multimédia | 37 |
| New economy centres | 39 |
| E-Commerce Place | 74 |
| Information technology development centres | 19 |
| Centre national des nouvelles technologies de Québec | 14 |
| Biotechnology development centres | 2 |
| **TOTAL** | **185** |

Source: Ministère des Finances du Québec, Tax Expenditures – 2007 Edition.

### Strategic importance

Although the tax assistance measures for the resource regions and the new economy account for only a limited share of total tax assistance, they are of strategic importance for the businesses concerned:

- They target very specific sectors of economic activity and defined territories (secondary and tertiary processing, new economy, resource regions, designated sites). The assistance is very significant for businesses in these sectors and these territories.
- The assistance is provided directly to the businesses, without being channelled through organizations.
- The assistance is calculated on the basis of payroll, which creates substantial leverage – in particular in the case of businesses in the start-up phase.

The controversy sparked by the tax assistance measures for the resource regions illustrates this strategic importance, for recipient businesses and for those that cannot access this government support measure.

## The rationale for the tax assistance measures

The tax assistance measures for the resource regions were set up in 2001, as part of the Resource Regions Economic Development Strategy.

The tax assistance measures for the new economy were implemented earlier, the first ones being introduced in the 1997-1998 Budget.

### Tax assistance measures for the resource regions

There are a number of reasons for the initiatives taken in 2001 for the resource regions.

- At the time, wealth disparities between regions dependent on natural resources and other regions of Québec were widening. In the resource regions, unemployment was higher and disposable income lower than in the rest of Québec.
- In economic terms, these regions were faced with the difficulties of the industrial sectors that their economy traditionally relied on – primarily the forestry sector.
- The resource regions were hard pressed by the disadvantages of a poorly diversified economy dominated by the extraction and primary processing of natural resources and accordingly very sensitive to fluctuations in prices of raw materials.

- At a more structural level, the resource regions were handicapped by the high costs of production and project financing, attributable to remoteness from markets, difficulties in recruiting skilled labour and an exodus of young people.

To help the resource regions overcome these handicaps, the Resource Regions Economic Development Strategy included both budgetary and tax measures.

- **Five specific objectives**

The tax assistance measures specifically targeted five objectives:

- job creation,
- economic diversification,
- development of secondary and tertiary resource processing activities,
- growth and expansion of manufacturing businesses,
- development of entrepreneurship.

- **The logic followed**

The three tax credits that were then implemented followed the same logic: they are refundable tax credits – therefore equivalent to direct budgetary assistance. In general, their amount is equal to 30% or 40% of wages paid for the jobs considered and created as of a given reference calendar year.

The tax holiday is not a refundable tax credit. It is an exemption, amounting to 75% of income tax, tax on capital and the employer contribution to the Health Services Fund (HSF).

- **The end of the measures**

When the tax credits for the resource regions were implemented, it was specified that businesses would receive them for a maximum of five years. The government rescinded this rule as part of the 2005-2006 Budget Speech and decided to extend the tax credits until a common expiry date of December 31, 2009.

As for the tax holiday for manufacturing SMEs, it had been specified from the outset that the measure would apply until December 31, 2010.

■ **Tightening measures**

In 2006 and 2007, the government tightened these tax measures in response to criticisms from businesses in the central regions.[8]

TABLE 3

**Parameters of tax measures for the resource regions**

| Tax assistance measures | Parameters of tax measures |
|---|---|
| Refundable tax credit for processing activities in the resource regions | 30% of wages relating to eligible jobs created |
| Refundable tax credit for the Vallée de l'aluminium | 30% of wages relating to eligible jobs created |
| Tax credit for Gaspésie and certain maritime regions of Québec | 40% of wages relating to total or created eligible jobs[1] |
| Tax holiday for manufacturing SMEs in remote resource regions | Exemption of 75% of taxes payable[2] |

1 This specific feature applies only to the sea farming and marine biotechnology sectors.
2 Income tax, tax on capital and employer contributions to the Health Services Fund (HSF).
Source: Ministère des Finances du Québec.

■ **Tax Assistance for the New Economy**

The tax assistance measures for the new economy were set up beginning in 1997-1998. From the outset, they were designed to be one component of the government's overall assistance for research and development, and innovation.

The extent of the support depends on the risk incurred by the business that invests: the greater the risk, the greater the assistance provided. Accordingly, the support provided by the Québec government is especially generous at the stage of the process furthest upstream, i.e. the scientific research and experimental development stage (applied research and development as well as basic research and development).

The tax assistance measures for the new economy essentially concern the services component of the information technology sector, which itself is included in the broader information and communications technologies sector. [9]

— Four other sectors traditionally included in the new economy are also targeted by certain tax credits offered by the government.

8 Appendix 6 details these tightening measures.
9 According to the North American Industry Classification System (NAICS), the information and communication technologies sector includes manufacturing, services (themselves subdivided into five subsectors) and wholesale trade. One of the service subsectors (telecommunications services) corresponds to the "communications" component of information and communications technologies. Manufacturing, the four other service subsectors and wholesale trade form what are called information technologies. Only these four subsectors are concerned by the tax assistance measures for the new economy.

They are the materials technologies, the scientific and technical services, and the production technologies sectors, which are eligible under certain conditions for the assistance provided to new economy centres, as well as the biotechnology sector, concerned both by the measures aimed at new economy centres and the assistance for biotechnology development centres.

— In 2006, businesses in the information and communications technologies sector alone accounted for 96% of the total assistance of $185 million paid under tax measures relating to the new economy.

- **Tightening of tax assistance measures**

The government announced a number of measures in the 2003-2004 Budget Speech to tighten these tax assistance measures.[10]

- **The objective**

Tax assistance for the new economy is provided downstream from assistance for research and development.

— The objective is to support production in activity sectors that are seen as promissing and that belong to the knowledge-based economy.

— When they were implemented, the tax assistance measures for the new economy were also designed to create jobs, in particular among young people.

- **Common characteristics**

All tax assistance measures for the new economy have two characteristics in common:

— The tax assistance is calculated on the basis of the salaries paid to eligible employees. The rate of the tax credits varies from 30% to 40%. The amount of the tax credits is subject to an annual limit per job, ranging from $11 250 to $15 000, depending on the tax credit.

— The tax assistance is offered in designated sites. The government sought to create a critical mass of businesses within a defined perimeter to promote synergy among businesses involved in the same activity sector. At the same time, the government imposed a constraint to control the cost of the measures.

10 Appendix 7 details these tightening measures.

TABLE 4

## Parameters of the tax measures for the new economy

| Designated sites | Parameters of tax measures[1] |
|---|---|
| Cité du multimédia | 40% of salaries relating to eligible jobs (max. $15 000) |
| New economy centres | 40% of salaries relating to eligible jobs (max. $15 000) |
| E-Commerce Place | 35% of salaries relating to eligible jobs (max. $12 500) |
| Information technology development centres | 40% of salaries relating to eligible jobs (max. $15 000) |
| Centre national des nouvelles technologies de Québec | 40% of salaries relating to eligible jobs (max. $15 000) |
| Biotechnology development centres | 30% of salaries relating to eligible jobs (max. $11 250) |

1 The tax assistance lasts for a maximum of ten years for a business and the program will end no later than December 31, 2013.

Source: Ministère des Finances du Québec.

- **The end of the measures**

The maximum period during which a business can receive the tax assistance was set at ten years.

As part of the 2002-2003 Budget Speech, the tax credits were extended for three years for corporations that entered into leases in 2000, 2001, 2002 or 2003.

The tax credits for the new economy will thus end on December 31, 2013 at the latest, with the assistance allocated earliest ending on December 31, 2010.

## ❑ The approach taken by the Task Force

To cover the various parts of its mandate, the Task Force concentrated on three areas:

- it consulted extensively with interested stakeholders;
- at the same time, it organized meetings with certain experts;
- it also commissioned specific analyses.

### ■ The consultation

In July 2007, the Task Force began its activities by inviting interested persons and organizations to take part in a consultation on the questions raised by the government. A discussion paper was widely distributed to help those wishing to participate to prepare.[11]

In September and October 2007, the Task Force travelled to eleven cities in Québec to have direct contact with the regions and sectors concerned by the tax assistance measures being studied.[12]

- The Task Force met with representatives of close to 120 businesses and organizations, at their request or on its own initiative. The goal was to hold discussions with as broad a range as possible of persons representing the businesses and organizations concerned.
- The meetings were held as part of public or private sessions, according to the preferences indicated by the participants.
- All the public meetings were recorded and their entire content was made available on the internet (www.gtaf.gouv.qc.ca). During its tour, the Task Force issued a daily press release relating the day's activities.

When it announced the consultation, the Task Force also invited those who so wished to send it a brief giving their views on the questions at issue. The Task Force received a total of 162 briefs from most regions of Québec and concerning the tax assistance measures for the resources regions as well as those for the new economy.

In addition, the Task Foce invited anyone interested to participate in the debate over the internet. This option was used chiefly to obtain information on the progress of the meetings.

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11 Task Force on Tax Assistance for the Resource Regions and the New Economy – Discussion Paper – July 2007, Gouvernement du Québec.

12 Appendix 3 provides the complete schedule of the tour, the list of persons and organizations with which the Task Force met as well as the briefs received.

In so doing, the Task Force considers that it has been as open and transparent as possible, while maintaining the confidentiality of certain information that businesses wished to provide.

As will be seen further on, the consultation provided the basic information on which the Task Force carried out its analyses and made its recommendations.

### ■ Additional meetings with certain experts

To study certain questions more thoroughly, the Task Force organized working sessions with experts specifically invited for this purpose.[13]

In this way, the Task Force obtained additional information on:

- the market for office buildings in Montréal,
- the information and communications technologies industry,
- the study done by KPMG on the relative importance of tax assistance measures for the resource regions in the operating costs of the recipient businesses (study carried out at the initiative of the ministère des Affaires municipales et des Régions).

The Task Force also obtained clarifications from representatives of the ministère des Finances, the ministère du Développement économique, de l'Innovation et de l'Exportation and Investissement Québec on:

- governmental business support programs,
- administration and control of tax measures.

13 Appendix 3 provides a list of persons with whom the Task Force met and the issues dealt with.

### ■ An analysis done at the request of the Task Force

The Task Force commissioned E&B DATA to carry out a review of the business assistance measures for disadvantaged regions and for the new economy in a certain number of jurisdictions.

In so doing, the Task Force sought to cover one component of its mandate: the Task Force is explicitly asked to study "the government support that other jurisdictions offer to specific territories and sectors".[14] The Task Force specifically requested E&B DATA to look at the criteria used and the sectors targeted in a number of jurisdictions.

The main results of the E&B DATA's study are appended to this report.[15] The Task Force has incorporated the conclusions that can be drawn from the study into the report itself where relevant.

## ❑ Plan of the report

The Task Force's mandate concerned two groups of tax assistance measures – tax assistance for the resources regions and those for the new economy. These two groups of tax assistance measures have separate objectives and apply to contexts specific to each of them. Accordingly, it seemed obvious that the two groups of assistance measures should be analyzed separately.

However, it quickly became clear that the tax assistance measures for the resource regions and those for the new economy had a number of points in common concerning which the Task Force was able to carry out studies and formulate recommendations of a broader nature.

Accordingly, the Task Force decided to divide its report into **three sections** to set out its overall reflections before dealing successively with each of the two groups of tax assistance measures studied.

— In the **first section**, the Task Force considers <u>the use of tax assistance measures as an economic intervention measure</u>. Starting from a number of basic principles, the Task Force reviewed the relevance and interest of tax assistance measures as a form of support for businesses, compared with direct assistance, and assessed some of the common features of the tax measures it studied.

— The **second section** deals exclusively with <u>support for the resource regions</u>. The Task Force arrived at a number of observations that provide the basis for specific recommendations to the government.

14 See above, page 1.
15 Appendix 8.

- The same logic was also applied in the **third section**, dedicated to support for the new economy. Here again, the recommendations made to the government flow from a number of observations made by the Task Force and they concern the tax assistance measures for this activity sector.

In the **conclusion**, the Task Force wanted to send a number of messages to the government concerning the overall vision underlying these recommendations.

The report also contains **eight appendices** covering:

- a recapitulation of all the recommendations made by the Task Force (Appendix 1);
- information on the members of the Task Force and the support team (Appendix 2);
- the persons and organizations consulted (Appendix 3);
- a socio-economic profile of the resource regions (Appendix 4);
- a breakdown of budgetary and tax assistance for businesses (Appendix 5);
- information concerning the tax assistance measures for the resource regions (Appendix 6);
- information detailing the tax assistance measures for the new economy (Appendix 7);
- an international review of the business assistance measures for disadvantaged regions and for the new economy (Appendix 8).

# 1. THE USE OF TAX ASSISTANCE AS AN ECONOMIC INTERVENTION MEASURE

In the first section, the Task Force wanted to present a number of analyses and reflections that apply as much to the tax assistance measures for the resource regions as to those for the new economy.

- The Task Force began by identifying the basic principles that must be observed in defining and implementing assistance measures for businesses – and on which everyone should agree.
- The Task Force then compared the tax measures with direct assistance measures to assess the relevance of the fiscal tool as a way of supporting businesses.
- Lastly, the Task Force specifically studied two of the common characteristics of the tax measures under consideration, namely the employment criterion and the form of administration and control.

## 1.1 Some basic principles

Setting aside the particular case of equity interests held by government corporations, there are two forms of assistance to businesses: the government can grant budgetary or direct assistance to businesses, or tax assistance.

In both cases, a number of basic principles must be observed systematically.

These principles are described below.

### 1.1.1 Efficiency

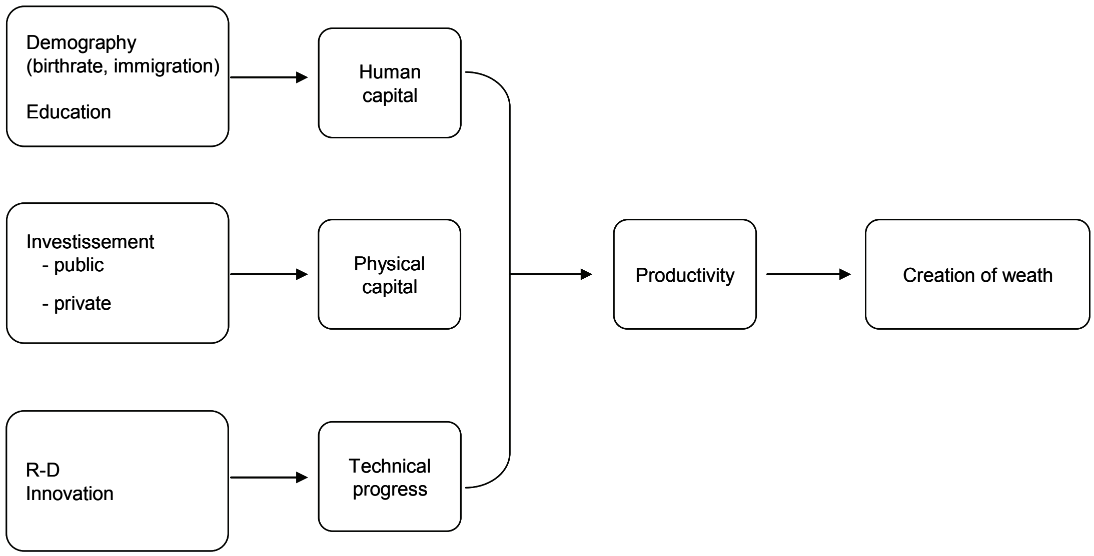
When using the fiscal tool just as with the use of budgetary assistance as an economic intervention measure, the first principle to observe is efficiency.

This refers to business efficiency: businesses must be efficient – i.e. they must produce at the lowest cost possible to maintain or improve their competitive position on the markets where they operate. In this way, they ensure their medium and long-term development.

- The government's goal in setting up economic intervention measures is wealth creation. The best way to achieve this is to improve business efficiency.
- Businesses become more efficient through productivity gains. The Task Force notes that there is a direct link between investments made by businesses, their enhanced efficiency thanks to improved productivity, and wealth creation.

DIAGRAM 1

**The main determinants of productivity**




Source: Based on a document prepared by the Centre d'étude sur le niveau de vie, *La productivité : secret de la réussite économique*, March 1998.

- **A question**

Having stated these concepts, the question that needs to be answered is whether the principle of efficiency is compatible with the implementation of assistance measures for businesses.

For the Task Force, there is no contradiction between the principle of efficiency and the implementation of discretionary measures – whether tax assistance measures or direct support measures.

On the contrary, these measures are desirable if they ultimately help improve business productivity. Such is the case of assistance measures for businesses that compensate for structural disadvantages: in this example, the government's goal is to mitigate the impact of these disadvantages to provide businesses with the means to overcome their handicap and ultimately become self-sufficient.

- **The consequence of the principle of efficiency**

One of the consequences of the principle of efficiency concerns the length of business assistance measures: the assistance must not keep businesses alive artificially.

For that reason, business assistance measures must be time-limited, for a given business.

### 1.1.2 Fairness

The notion of fairness is broad. In the case of business assistance measures, we refer to the fact that these measures must be fair at the competitive level.

By that the Task Force means that the assistance measures must not give rise to unfair competition. This means that tax measures must not unduly increase tax competition.

For instance, and as we alluded to earlier, businesses in the central regions have invoked this principle to contest, in recent years, the assistance measures set up for businesses in the resource regions.

### 1.1.3 Clarity

Business assistance measures must be clear and easy to understand.

This principle seems natural: the assistance measures must be understood by the targeted businesses. Otherwise, the effect on business decisions that is sought might not be fully achieved.

### 1.1.4 Simplicity

It is important that business assistance measures be simple. Being simple makes them easy to administer. This simplicity will benefit the business concerned as well as the authority granting the assistance.

All too often, business assistance measures are complex, as the objective is to implement targeted action. Such complexity comes at a price: it results in high administrative costs for the state in addition to "compliance costs" that are often very burdensome for the business.

### 1.1.5 Stability

Business assistance measures must be stable so that their application can be predicted.

This principle has a number of consequences.

- The rules defining business assistance measures must be stable. As will be seen further on, it is normal – and even desirable – that they be reviewed and questioned on a regular basis. However, they must not be changed too frequently, which could introduce considerable uncertainty for the taxpayer. This stability contributes to the security decision-makers need when making business decisions.
- If the measures are defined within a set time frame, the government must keep to that time frame, which constitutes a commitment to the business that has availed itself of the assistance measure.
- This commitment works both ways: businesses that receive assistance whose end was clearly announced when it was granted should not question the stipulated end to the assistance. The tax assistance measures studied by the Task Force are indeed measures whose end was announced as soon as they were implemented.

### 1.1.6 Accountability

The last principle formulated by the Task Force is accountability.

Business assistance measures must be accounted for and this principle applies both to businesses and to the government. Businesses are accountable for the assistance received, as is the government for the assistance it grants.

- **Businesses**

Turning to businesses first, the principle of accountability means that businesses that receive assistance must account for compliance with the rules accompanying the granting of the assistance, both at the time of the application and once the assistance is received.

- Accordingly, rules must be set to ensure that public funds are properly managed.
- They specify the eligibility conditions and details of compliance controls.

- **The government**

The principle of accountability also applies to the government that set up the business assistance measures. The government had certain objectives: it must be possible to assess on a regular basis the cost and the results of these measures against the objectives that have been set.

Periodic accountability is therefore necessary in the interests of good management and good use of public funds. The Auditor General said as much in his report tabled in the National Assembly for 1999-2000. In his report, the Auditor General recommends "setting measurable targets and performance indicators when tax expenditure programs are formulated, and incorporating… assessments [of tax measures] within a systematic review process".[19] [TRANSLATION]

- **Time-limited programs: a cure for "sedimentation"?**

The principle of accountability leads to a much broader suggestion that affects all assistance programs and even all government programs: programs implemented by the state should be reassessed periodically and, for that reason, should be time-limited.

— A set duration would force a reassessment of the program and an analysis of the results obtained as part of a systematic program assessment process.[20]

— The Task Force wonders why this practice has not been implemented more widely. It might provide an answer to the ongoing real "sedimentation" of government programs: the government finds itself unable to eliminate any program, with new programs being added to a growing mass of existing programs whose validity can never be questioned.

19 Auditor General of Québec, *Rapport à l'Assemblée nationale pour l'année 1999-2000*, volume 1, chapter 9, page 271, recommendation 9.43.

20 A similar request was made by the Conseil des impôts français. In a report released in September 2003, this organization asked the French government "that, in the future, tax expenditures attached to public policy programs be systematically authorized for a limited time, depending on the mechanisms and objectives, but not exceeding three years" [TRANSLATION] (Conseil des impôts. *La fiscalité dérogatoire : pour un réexamen des dépenses fiscales, XXIeme rapport au Président de la République*, September 2003, page 169).

The basic principles that have just been stated bring us to some initial recommendations, concerning business assistance measures.

## *Recommendations*

1.1

a) In general, it is important that the government, in defining business assistance measures, abide by a number of basic principles. Business assistance measures must:

— *seek to enhance the efficiency of the businesses targeted by the measures,*

— *not lead to unfair competition,*

— *last for a set time,*

— *be easy to understand,*

— *not give rise to exaggerated administration and compliance costs when applied,*

— *come with objectively defined application criteria,*

— *be applied in compliance with the commitments made by the government when they were implemented,*

— *be predictable,*

— *come with a measure of stability.*

b) The Task Force therefore recommends that the tax assistance measures it has been asked to study expire as stipulated.

c) To ensure sound management of public funds:

— *business assistance measures must be subject to appropriate controls,*

— *business assistance measures must be linked to measurable results,*

— *the net impact of assistance measures must be assessed periodically (implementation of the information systems to carry out such assessments).*

## 1.2 Tax measures or direct assistance?

Having stated these principles, the Task Force examined the relevance and interest of tax assistance measures as a form of support for businesses, compared with direct assistance measures.

### ■ Objectives

Tax measures similar in nature to those submitted to the Task Force for analysis have been devised to reduce certain costs, in order to achieve specific objectives. The goals of such measures have already been alluded to.

- In the case of support for research and development, the government seeks to lower the risk tied to investment in a field where the business has little certainty of realizing a profit on its capital outlays.
- For assistance for the new economy, the objective was to support innovation and development activities not covered by assistance for research and development, because they are further downstream in the process of developing products and services.
- Still concerning tax assistance for the new economy, the government also sought to sustain a nascent industry by forming a critical mass in sectors considered promising.
- Lastly, by setting up assistance measures for the resource regions, the government clearly was working towards the objective of economic diversification, leading to the creation of jobs in disadvantaged regions and supporting occupation of the territory.

Tax measures differ on many important points from grants paid to businesses:

- The budgetary envelope allocated to them is open. Their real cost depends on how they are received by the targeted businesses: if the tax measures change the behaviour of businesses as desired, the final cost could be higher than the cost initially anticipated.
- Management is simpler because the assistance is granted automatically, if the rules that have been defined are followed.
- In terms of public finances, the measures do not show up as expenditures in the government's budget. They are considered revenue that the state has foregone.

## Advantages of tax measures

A number of advantages flow from these characteristics, both for the government that implements the measures and for the businesses that benefit from them. During the meetings it held, the Task Force received confirmation of many of them.

- The tax system provides a way of encouraging economic activity that applies evenly to all economic agents.

  Tax incentives are a form of automatic support. Indeed that is why they are generally accepted under international trade rules.

- With tax assistance, businesses are able to assess risk-free the possibility of benefiting from measures that have been put in place. They can thus incorporate them into their business planning.

  That is easily explained: since the rules for granting tax benefits are predefined, businesses need only satisfy the required conditions to benefit from them. Where the tax measure stipulates the issuing of an eligibility certificate – which is the case for the tax assistance measures analyzed by the Task Force – the business has a guarantee that it can use to obtain financing.

- Tax assistance measures for businesses are most often incentive measures that depend on the results obtained: businesses cannot receive the benefit unless they engage in supported activities.

- From the government's point of view, tax measures are usually easy to administer, because their application is general. They may target a large number of businesses and, most often, do not require specific processes to be put in place.

During the consultation, new economy businesses as well as those from the resource regions stressed the simplicity of the measures, their transparency, flexibility and non-discretionary character.

Accordingly, the tax system is seen as an efficient economic development tool to which businesses react quickly and favourably.

- **Direct support measures**

That does not mean that direct support measures, of a budgetary nature, are without interest:

— Unlike tax assistance measures, budgetary measures can be targeted to specific objectives – such as support for a disaster area or support that can even be limited to a single business.

— Budgetary assistance measures often consist of support and advisory activities provided by experts engaged by the government for that purpose. This support is often very valuable, in particular for small businesses.

— From the standpoint of public finances, the funding allocated to budgetary assistance measures is easier to forecast: in general, it consists of closed envelopes recorded as expenditures.

— However, budgetary measures are more likely than tax assistance measures to breach international trade rules and be attacked for this reason by foreign jurisdictions or businesses.

The Task Force's recommendations concerning the relevance and interest of tax assistance measures are given below.

*Recommendation*

1.2

*The Task Force recommends that the government continue to use tax measures in implementing its business support policies, provided the principles stated earlier are adhered to.*

*Direct or budgetary assistance measures also have a role to play. For the Task Force, they constitute an efficient tool for supporting businesses, once again provided the principles the Task Force has stated are adhered to.*

## 1.3 Common features of the tax measures studied by the Task Force

### 1.3.1 A number of common features

The tax measures whose end and future replacement the Task Force was mandated to study have a number of common features.

- As mentioned earlier, the support measures for the resource regions and for new technologies are time-limited assistance measures.
  - For the businesses that benefit from them, the assistance is not indefinite: it has a specific end date.
  - The measure itself is not eternal: in every case, the government set the date at which the measure will end as soon as it was implemented. However, for many assistance measures, the date at which it is to end was subsequently changed.
- The two groups of measures are sector-based, meaning that they apply to specified activity sectors.
- The assistance measures studied by the Task Force all apply in a defined territory – either designated sites or regions.
- The two series of tax measures give rise to an actual payment, regardless of tax payable.

  They constitute what are called "refundable tax measures", with only the tax holiday for SMEs in the resource regions representing a somewhat special case in this regard.
- The tax assistance measures for the resource regions, like the tax mesures for the new economy, are calculated on the basis of employment – the only exception being the tax holiday for manufacturing SMEs in the resource regions.
- Lastly, the two groups of tax assistance measures are administered and controlled under similar rules, i.e. by assigning a joint role to Investissement Québec and Revenu Québec.

Essentially, these common features will be dealt with in the course of the analysis of each tax assistance measure. Comments regarding them differ depending on whether reference is made to the tax assistance measures for the resource regions or those for the new economy.

However, the Task Force wishes to immediately raise a number of questions concerning the last two common features mentioned above, i.e. the use of the employment criterion and the rules that apply regarding administration and control.

### 1.3.2 The employment criterion

Most of the assistance measures for the resource regions and the new economy have been defined on the basis of jobs created or maintained, and most of the businesses consulted stressed the clarity and predictability of that rule.

#### ■ A changed context

It must be borne in mind that this criterion was selected at a time when unemployment was a concern in many regions of Québec and young people needed to be given prospects for entering the labour market in sectors considered promising.

It must be agreed that the current context is different. Québec's unemployment rate has fallen substantially since the introduction of the assistance measures. In fact, the new challenge for businesses is finding the labour they need at a time when expectations are that significant numbers of workers will be retiring.

The Task Force's first question is therefore whether tying the assistance to job creation is still as relevant, at a time when businesses are facing substantial labour shortages.

TABLE 5

**Unemployment rate by administrative region, 2000 and 2007**
(Per cent and difference in percentage points)

| Administrative regions | 2000 | 2007 | Difference |
|---|---|---|---|
| Bas-Saint-Laurent | 10.4 | 8.9 | -1.5 |
| Saguenay-Lac-Saint-Jean | 10.5 | 9.1 | -1.4 |
| Capitale-Nationale region | 8.7 | 4.9 | -3.8 |
| Mauricie | 11.1 | 9.2 | -1.9 |
| Estrie | 7.9 | 7.0 | -0.9 |
| Montréal | 9.6 | 8.5 | -1.1 |
| Outaouais | 7.2 | 6.3 | -0.9 |
| Abitibi-Témiscamingue | 11.9 | 9.2 | -2.7 |
| Côte-Nord and Nord-du-Québec | 11.2 | 8.7 | -2.5 |
| Gaspésie-Îles-de-la-Madeleine | 19.9 | 17.3 | -2.6 |
| Chaudière-Appalaches | 6.1 | 6.0 | -0.1 |
| Laval | 6.5 | 5.1 | -1.4 |
| Lanaudière | 7.3 | 7.0 | -0.3 |
| Laurentides | 7.5 | 6.9 | -0.6 |
| Montérégie | 6.6 | 6.1 | -0.5 |
| Centre-du-Québec | 8.9 | 6.7 | -2.2 |
| **Resource regions** | **11.6** | **9.7** | **-1.9** |
| **Central regions** | **7.3** | **6.7** | **-0.6** |
| **Urban regions[1]** | **8.2** | **6.9** | **-1.3** |
| **Québec as a whole** | **8.5** | **7.2** | **-1.3** |

1 Including the Capitale-Nationale, Montréal, Laval and Montérégie regions.
Source: Institut de la statistique du Québec.

## ■ Two other questions

Using the employment criterion to define tax assistance measures also raises two other questions:

— Does the employment criterion move businesses further from the desired objective of creating wealth by improving business efficiency?

— How much time must a business receive support for one job created?

The Task Force will attempt to answer these questions for each of the tax assistance measures studied.

| Productivity and Employment |
| --- |
| In the short term, there appears to be a contradiction between support for employment and measures designed to improve productivity:<br>▪ Initially, acquiring machinery can go hand in hand with the elimination of jobs.<br>▪ However, in the medium term, a business that invests in machinery gains market share and increases its production – which can lead to the creation of jobs. The continuity of a business depends on its ability to stay efficient, by making productivity gains for that purpose.<br>▪ In the long term, efficient businesses will maintain their jobs, eventually create others or encourage the businesses with which they have dealings to create jobs.<br>Over a sufficiently long period, there is therefore a correlation between employment and productivity: only a productive business can maintain jobs over a long period, directly or indirectly. |

### 1.3.3 Administration and control of tax measures

The assistance measures for the resource regions and the new economy share another common feature, i.e. they are administered and their application is controlled according to similar rules.

— In both cases, there is a two-fold control, i.e. an "ex ante" control when an eligibility certificate is issued, and an "ex post" control, after the "self-assessment" stage, to check that the application complies with the tax rules.

— Also in both cases, control over eligibility has been assigned to Investissement Québec, which issues eligibility certificates, while compliance control is carried out by Revenu Québec.

— Fees are charged for eligibility control: Investissement Québec bills businesses for the cost or part of the cost of issuing the eligibility certificate.

— Once the eligibility certificate is issued, businesses can obtain an advance on the tax assistance from Investissement Québec.

During the consultations, some businesses mentioned certain problems to the Task Force: complaints were voiced about excessive amount of time required, the complexity of the certification process, accreditation fees that were too high and the high cost of interim financing of tax credits.

### ■ The Task Force's view

Following the consultations, the Task Force reached the conclusion that these problems corresponded to a limited number of cases.

— The amount of time required is reasonable, apart from some exceptional situations relating to contentious files.

— The controls effected also seem effective and satisfactory, with respect to both confirmation of eligibility and compliance controls.

— The principle of charging fees applied by Investissement Québec allows the organization to recover its costs, a practice that the Task Force endorses. However, it should be noted that this practice is by no means generalized: Revenu Québec does not bill for its control activities.

The current administration and control system therefore appears to be functional, leading the Task Force to make the following recommendations.

*Recommendations*

1.3.3

*Concerning the administration and control of the tax measures, the Task Force makes three recommendations:*

a) As indicated earlier, business assistance measures should be subject to rigorous controls.

b) Two-fold controls must be maintained – a control on eligibility and a control on compliance.

c) The administration and control of tax measures must ensure customer service that complies with the criteria retained by the Québec state regarding both time and fees charged.

*At first site, the existing division of responsibilities between Investissement Québec and Revenu Québec satisfies these recommendations.*

**Control of Tax Assistance Measures for the Resource Regions and the New Economy**

Québec's tax system is based on the principle of self-assessment. Taxpayers are responsible for determining, reporting and sending their contributions to Revenu Québec within the prescribed deadlines. As a general rule, to benefit from the various tax measures, a corporation need only file a form with its tax return.

For the tax credits for the resource regions and the new economy, corporations must first apply for eligibility certificates and receipts from Investissement Québec.

- More specifically, to be eligible for the tax credits for the resource regions and for the new economy, a corporation must carry on a certified business, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec.
- In particular, Investissement Québec certifies that the activities carried out by the corporation are eligible activities and that they are carried out in an establishment located in an eligible region or in a designated site, as the case may be.
- Lastly, the corporation must also obtain an annual eligibility certificate from Investissement Québec for its activities, and an annual eligibility certificate for its employees.

Revenu Québec enforces other control measures and the integrity rules stipulated in the tax law:

- In the case of the merger, winding-up or continuation of a corporation, it ensures that the amount that may give rise to tax assistance is established considering the attributes of the corporations replaced in such an operation.
- For the tax credits for the resource regions, it verifies that associated corporations calculate the increase in payroll on a consolidated basis and that no tax assistance is paid to a corporation regarding a shift of employees or of businesses to the resource regions from a non-resource region.
- For the tax holiday for manufacturing SMEs in remote resource regions,[1] it validates that all the activities of recipient corporations are mainly manufacturing or processing activities, that they are carried out exclusively in one or more establishments located in a resource region and that the paid-up capital of corporations, on a consolidated basis, is less than $30 million (partial holiday between $20 and $30 million).

Lastly, in general, Revenu Québec ensures that the tax credits cannot be aggregated regarding the same activity and that the expenditures are reduced by any government or non-government assistance received. In addition, where the tax assistance granted to a business depends on its size, Revenu Québec checks that the value of the assistance is determined on the basis of all the corporations of the same group.

1 As of January 1, 2008, corporations must obtain an annual certificate from Investissement Québec to establish whether a transfer of activities has taken place from an establishment located outside the remote resource regions to an establishment located in one of these regions and, if such is the case, determine the tax assistance reduction factor applicable to such corporation and attributable to such transfer of activities to the remote resource regions.

# 2. SUPPORT FOR THE RESOURCE REGIONS

The consultation enabled the Task Force to gather information, on the ground, on the conditions in which the tax assistance measures for the resource regions have been applied.

The Task Force used this consultation, together with a number of analyses, to assess the impacts of the assistance measures – as mandated by the government.

— More specifically, the Task Force made a number of observations, based on what it witnessed and studied.

— These observations logically led to the formuation of a number of recommendations regarding the economic intervention measures that could be adopted to support the development of the resource regions.

These observations and recommendations are presented below.

## 2.1 Observations

Of the 163 briefs the Task Force received, roughly three quarters dealt with the question of tax assistance measures for the resources regions. Assistance measures for the resource regions also occupied most of the exchanges during the regional tour.

That is not surprising.

As we know, these tax assistance measures gave rise, over the last few months, to at times heated discussions, with businesses from the resource regions and the central regions confronting each other over their validity and relevance of maintaining them. It was thus to be expected that a large number of businesses belonging to the two groups would participate in the consultation.

Appendix 3 provides a full account of the regional tour and the briefs the Task Force received.

### ■ A socio-economic profile and an international review

The consultation and analyses sensitized the Task Force to the nature of the issues and the challenges confronting the territories covered by the assistance measures. As the government wished, the Task Force commissioned a review of assistance measures that a number of jurisdictions provide for businesses, to support disadvantaged regions.

The results of these analyses are presented in an appendix.

— Appendix 4 provides data that give a socio-economic profile of the resource regions.

— Appendix 8 summarizes the study done by E&B DATA at the request of the Task Force, reviewing the government assistance measures for businesses in a number of jurisdictions (this study covers both assistance for disadvantaged regions and assistance for the new economy).

**The Resource Regions and Demography**

The resource regions face a number of major demographic challenges:

- In every one of these regions, the population is declining in absolute terms, while in the rest of Québec, the population continues to grow.
- This decline is primarily attributable to the migration of a significant fraction of the population out of the region.
- Most of those leaving are young people. As a result, the regional population is aging rapidly.

Demographic movements in some regions are significant.

- Demographic decline in Côte-Nord began in 1976. Its population fell by 16.7% between 1976 and 2001. Over a period of twenty years, from 1986-1987 to 2005-2006, the region suffered a net loss of 25 000 people.
- In Gaspésie–Îles-de-la-Madeleine, the region's population has fallen substantially since 1986. It is expected that between 2001 and 2026, the region could lose 18.8% of its population. There again, migration accounts for much of the demographic change: between 1986-1987 and 2005-2006, there was a net out-migration of just over 17 000 people.
- Even Saguenay-Lac-Saint-Jean is affected by these population changes. The region's population began falling in 1991. Between 1991 and 2001, the population declined by 3.0%. Between 1986-1987 and 2005-2006, the region suffered a migratory deficit of 34 500 people.

Populations are aging rapidly in the resource regions. For instance, the share of persons age 65 or over will exceed that of those under age 20 after 2008 in Gaspésie–Îles-de-la-Madeleine, while that is not expected to occur until 2018 for Québec as a whole.

However, there have been some signs of hope in recent years. As in Québec as a whole, there has been a rise in the birth rate in various resource regions. In some regions, the birth rates are even greater than those measured for Québec as a whole.

The observations gleaned by the Task Force can be grouped around three major reflections:

- Despite the undeniable difficulties they face, the resource regions display a vitality and determination to develop that impressed the Task Force.
- The tax assistance measures implemented by the government have had a number of impacts, which can be grasped more easily at the level of businesses than for the region concerned as a whole.
- In addition, the Task Force was made aware of two pernicious effects of these assistance measures. We are referring to competition between regions and the lack of a clear incentive to improve productivity.

We will now examine these three reflections in greater detail.

**Assistance for Disadvantaged Regions: A Review of Foreign Examples**

The government, in its mandate to the Task Force, asked that it study "the government support that other jurisdictions offer to specific territories and sectors".[1]

To cover this component of the mandate, the Task Force asked E&B DATA to carry out a review of the types of assistance used in a number of specific jurisdictions.

- E&B DATA carried out an "international benchmarking" of government assistance programs. The Task Force wanted the study to be limited to compiling the types of assistance used: a comparative assessment of assistance measures appeared sufficient for the Task Force to formulate recommendations.
- E&B DATA analyzed programs in the rest of Canada, the United States – at the federal level and in a number of states – in the European Union and in emerging economies like China and India.
- E&B DATA carried out a broad review of existing programs and then analyzed a number of typical cases.

A summary of the results obtained is provided in Appendix 8.

Concerning assistance to disadvantaged regions, the main conclusions to be drawn from the study are as follows:

- Assistance measures for regions in difficulty are ubiquitous, especially in the United States.
- The amounts allocated to them are sometimes substantial.
- Assistance measures defined for disadvantaged regions are specific to the reality of each jurisdiction. It would be difficult to apply them as is in Québec.
- In some cases – where assistance measures for disadvantaged regions are centralized – there are safeguards. Accordingly, in the European Union, member countries have voluntarily adopted constraints to avoid unfair competition. However, such constraints do not exist in the United States.

1 See above, page 1.

### 2.1.1 The vitality of the regions, despite the difficulties they face

Throughout the consultation,the Task Force could appreciate the difficulties the resource regions face.

- They have built a measure of prosperity on a few activity sectors, but they now suffer from a lack of diversification.
- They are far from markets.
- They are experiencing rapid demographic change, most worrisomely the departure of young people for major urban centres.

Despite these difficulties, the Task Force was struck by the vitality of communities in the regions.

During the public and private meetings, entrepreneurs as well as the various players involved in economic development showed through their commitment that the resource regions could count on vital strengths and that this was crucial asset for the future.

- The entrepreneurs the Task Force met are dynamic and resourceful. At times, they are bold in how they use the funds made available through the tax assistance measures. The Task Force became aware of many cases where entrepreneurs in the resource regions were able to acquire advanced technologies on the world market, at times in association with world-class partners.

  Entrepreneurs in the resource regions are constantly adapting to a work environment that is foreign to entepreneurs in metropolitan regions: they must compete with a few large employers able to offer relatively high wages. In addition, they must always combat the attraction of major centres on their employees.

- The Task Force noted the attachment of entrepreneurs to their territory, and the solidarity they demonstrate to develop their community.

  Entrepreneurs in the resource regions want to reinvest locally, because they have very strong ties with the communities they live in. In this way, they hope to offer young people attractive jobs and a future in the region.

  This attachment and solidarity are shared by the population as a whole: the Task Force was made aware of investments made collectively, though cooperatives, to acquire or develop business in the region.

- Entrepreneurs in the resource regions have demonstrated notable perseverance.

  In many cases, the Task Force met entrepreneurs who had not hesitated to commit to technologies that take a long time to develop, and who maintained their effort for the duration. Some entrepreneurs ultimately succeeded in reviving their business, after successive failures that could have discouraged them.

  This perseverance is accompanied by a clear determination to become self-sufficient in relation to government assistance and big business. Many entrepreneurs want to free themselves of government assistance, though they are aware of the obstacles to overcome in order to do so.

- The Task Force also noted the good performance in terms of exports of entrepreneurs in the resource regions.

  The entrepreneurs the Task Force met have a vision of their development that extends far beyond the local market. They know that their export performance is one of the keys to their future.

  Concretely, the Task Force was made aware of numerous successes in this regard, where entrepreneurs in the resource regions succeeded in selling their know-how in emerging countries or on often very competitive markets.

## Convincing Successes

Entrepreneurs in the resource regions demonstrate a dynamism and vision of the future that is at times astonishing and for this reason they obtain convincing results. This can be seen from three examples the Task Force learned of during its tour of the regions.

**Témisko Inc.: a North American leader**

Témisko Inc. is a company that makes semi-trailers in Notre-Dame-du-Nord, in Abitibi-Témiscamingue. The company was formed in 1969. Towards the end of the 1990s, Témisko chiefly made semi-trailers for the forest industry. That is when the company decided to target new markets: it was highly dependent on an activity sector susceptible to periodic crises, and it wanted to base its future development on less uncertain niches.

After seeking out promising niches and reviewing patents that could be acquired on the international market, Témisko began making customized long-load dollies for the transportation of wind turbine parts and oversize equipment. The tax assistance measures for the resource regions arrived just in time, and enabled it to invest at lower risk.

The results have been spectacular. The company is the leader in its field in North America. The new markets in Western Canada and the United States account for one third of its sales, whereas the company did not compete in these markets in 2002. The company has created 22 permanent full-time jobs. According to the company, without these new markets, Témisko would have had to fire 45 employees.

**Culti-mer Inc.: boldness and perseverance**

Culti-mer is a scallop-farming company in Gaspésie–Îles-de-la-Madeleine. The firm was formed in 2006, taking over the activities of a former company that had to declare bankruptcy. It operates in three locations on the Îles-de-la-Madeleine and employs some twenty workers. The company exports part of its production of young scallops to finance its farming activities.

Culti-mer is an example of boldness and determination to invest locally, as well as perseverance: the scallop production cycle spans five years and added to this initial difficulty are the inherent risks of producing living organisms in locations subject to the uncertainties of the climate. Without the tax assistance measures for the resource regions, the company probably could not have started up.

**Boisaco Inc.: success with reinvestment**

Located in Sacré-Cœur, on the Côte-Nord, Boisaco was born of the determination of local people to take charge of themselves, after the bankruptcy of three successive entrepreneurs over a period of ten years and the loss of tens of millions of dollars.

Assisted by a favourable economic situation, Boisaco succeeded where the earlier firms had failed. Following Boisaco's success, the owners of the company created many other businesses including Sacopan, by reinvesting their profits.

Sacopan is a company that makes high-density preformed interior door covering panels using softwood fibre. Helped by the tax assistance measures for the resource regions, $77 million was reinvested – including $10 million in R&D. Sacopan was thus able to develop one-of-a-kind production technology and become the international benchmark by forming an association with the world's largest producer of this type of panels, Masonite International Corporation.

Sacopan's achievement, thanks to the success and reinvestment of Boisaco, resulted in the creation of roughly one hundred specialized jobs on the Côte-Nord. In developing its technology, the company's perseverance was exemplary: Sacopan had to burn 2 million sub-standard wood panels before selling a single one.

### 2.1.2 The impact of the tax assistance measures

Following this initial positive observation, the Task Force attempted to assess the impact of the tax assistance measures on businesses of the resource regions, and on the regions themselves, more precisely.

- **Do the resource regions receive their fair share of government assistance?**

To begin with, the Task Force wanted to clear up a point raised many times during the consultation: during the tour of the regions, a number of participants pointed out that the resource regions did not receive their fair share of business support measures.

To check this statement, the Task Force asked for a compilation of fiscal and budgetary assistance granted by the Québec government to the resource regions, the central regions and the metropolitan regions, to compare the breakdown of these assistance measures with the economic weight of each of these groups of regions.

Until now, such an analysis had never been carried out. The results show that the statements made to the Task Force by many participants from the resource regions are incorrect: compared to their economic weight, the resource regions receive more business assistance than the central regions and the metropolitan regions.

— According to the compilation carried out at the Task Force's initiative, in 2006-2007 businesses in the metropolitan regions received just under 62% of the business assistance distributed by the Québec government, whereas they account for close to 64% of Québec's GDP.[21]

  There is thus a negative difference of two percentage points between the support received by the metropolitan regions and their economic weight.

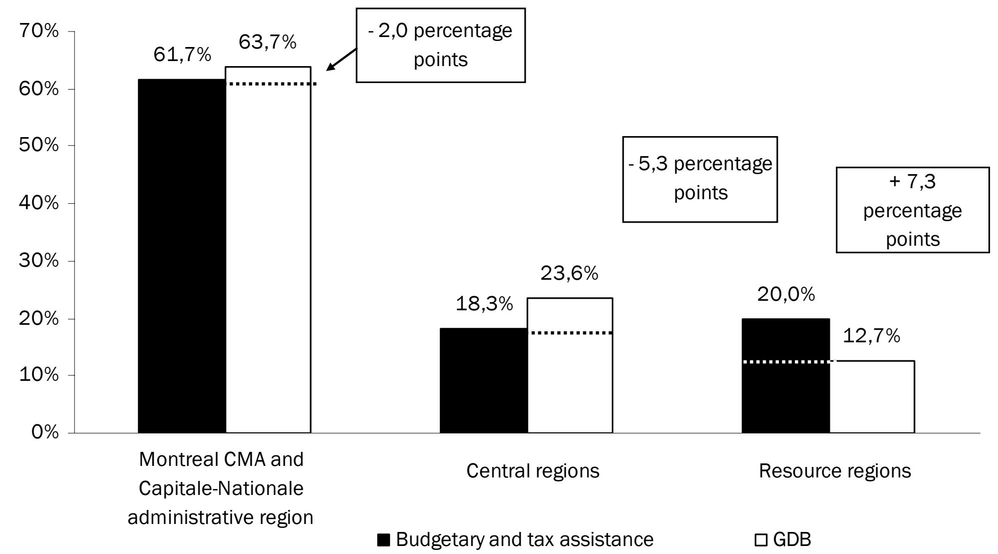
— On the other hand, in 2006-2007, businesses in the resource regions received relatively more assistance than their weight in the economy.

  More specifically, the resource regions received 20% of total business assistance, whereas their contribution to GDP is less than 13%.

21 Total assistance for businesses amounted to $2.4 billion in 2006-2007 (i.e. budgetary and tax assistance for businesses, excluding equity holdings taken government corporations – see Appendix 5).

CHART 1

**Assistance to businesses by group of regions[1] compared to their economic weight (2006 GDP)**
(As a percentage of Québec as a whole and differences in percentage points)




1 Breakdown of assistance by group of regions carried out by the ministère des Finances du Québec. Excluding equity holdings of government corporations. Budgetary data are preliminary. They were compiled by the Secrétariat du Conseil du trésor.

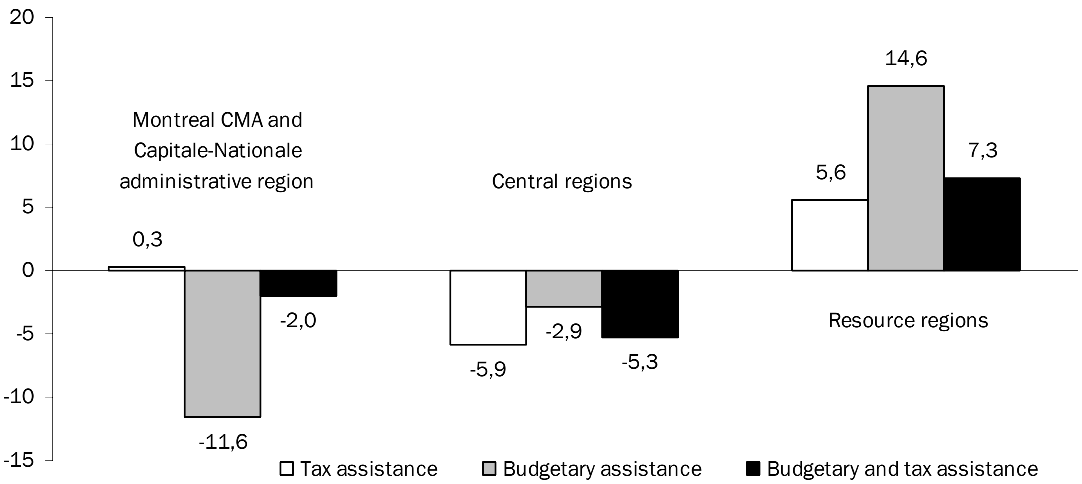
Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

If we break down this difference by type of assistance, it can be seen that the resource regions receive support in excess of their economic weight for both budgetary and tax assistance.

In the case of tax assistance, the difference between government assistance and the economic weight of the regions concerned stands at 5.6 percentage points, almost all of it attributable to tax assistance to the resource regions.

CHART 2

**Difference between tax and budgetary assistance (2006-2007) and economic weight (2006 GDP) by group of regions[1]**
(Percentage points)




1 Breakdown of assistance by group of regions carried out by the ministère des Finances du Québec. Excluding equity holdings of government corporations. Budgetary data are preliminary. They were compiled by the Secrétariat du Conseil du trésor.
Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

## ■ Tax credits for processing: an undeniable impact for eligible businesses

Having elucidated this point, the Task Force attempted to analyze the impact of tax credits for processing on eligible businesses.

An approximation of this impact can be obtained from a few figures.

— In 2006, close to 900 businesses were certified eligible for the tax credits applicable to the resource regions.

— These credits applied to a little more than 7 000 jobs considered as eligible and created.

— Overall, in 2006, tax assistance paid to businesses reached $72 million, representing average assistance of just over $10 000 per eligible job, for an average wage of $33 000.

TABLE 6

**Tax credits applicable to the resource regions, 2006**
(Number, millions of dollars and dollars)

| Tax credits | Eligible businesses[1] | Eligible jobs created | Tax expenditure ($ million) | Average tax assistance per eligible job created ($) | Effective average wage ($) |
|---|---|---|---|---|---|
| Processing activities in the resource regions | 772 | 5 959 | 60 | 10 068 | 33 560 |
| Vallée de l'aluminium | 58 | 569 | 6 | 10 544 | 35 146 |
| Gaspésie and certain maritime regions of Québec | 68 | 553 | 6 | 10 858 | 25 516 |
| **TOTAL - AVERAGE** | **898** | **7 081** | **72** | **10 168** | **33 060** |

1 Total number of initial certificates issued by Investissement Québec to qualify a business regarding its activities.
Sources: Investissement Québec and ministère des Finances du Québec.

At the Task Force's request, an assessment was carried out of the weight of tax credits to the resource regions in the sales of recipient businesses.

— In 2005, tax credits to the resource regions represented 5.3% of the sales of all recipient businesses, which is by no means negligible.

— Other things being equal, the tax credits were of greatest benefit to start-up businesses, where the tax credits paid by the government reached 12.0% of sales, compared with 3.5% for existing businesses.

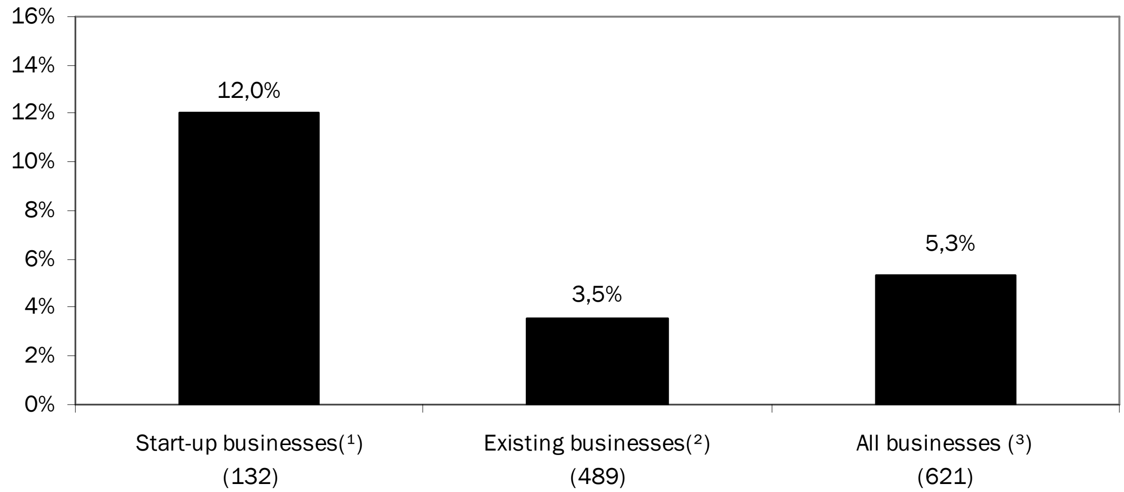
  This is not surprising. Tax credits are calculated on jobs created as of a certain date, and the number of new jobs is proportionately greater in start-up businesses than in mature businesses.

— The study done by KPMG for the ministère des Affaires municipales et des Régions and released on September 13, 2007 produced similar results using a different methodology.[22] However, it should be pointed out that this study was designed to measure the weight of all tax assistance measures for the resource regions, including the tax holiday for manufacturing SMEs, discussed a little later.

22 *Analyse de l'impact des mesures fiscales actuelles accordées aux entreprises des régions ressources sur les entreprises des régions centrales du Québec et de leurs conséquences à court, moyen et long termes sur l'économie du Québec*, study prepared by KPMG for the ministère des Affaires municipales et des Régions, April 26, 2007, 104 pages.

CHART 3

**Weight of tax credits for the resource regions in the sales of recipient businesses, 2005**
(Per cent)




Note: The weight of tax credits in sales corresponds to the average of the results obtained for each recipient business.
1 Start-up businesses are businesses whose payroll eligible for the tax credits during their reference calendar year was zero. On average, these businesses claim a tax credit of $65 000.
2 Existing businesses claim an average tax credit of $125 600.
3 Recipient businesses as a whole claim an average tax credit of $112 500.
Source: Ministère des Finances du Québec.

Tax credits for processing have accordingly had a real impact for eligible businesses

— During the consultation, it became clear that recipient businesses often used the measure as a source of funding for investments, to overcome the handicap of remoteness.

— Businesses also insisted on the simplicity of the assistance: the calculation of the tax credit on payroll is easy to understand and incorporate in the financial parameters of the businesss.

— Many businesses also stressed the fact that the tax credits were considered first and foremost as an injection of funds to be allocated to the priorities of the business. In many cases, the tax credits would thus have enabled businesses to facilitate their financing and reduce the risk accompanying investments accordingly.

### ■ For each region concerned as a whole: an impact that is more difficult to grasp

The impact of the tax credits for processing is much more difficult to assess when trying to estimate it for the region concerned as a whole.

Overall, the improvements noted on the labour market cannot be directly associated with the tax credits for processing. Many other phenomena have occurred concomitantly and it would be foolhardy to establish cause and effect relations between the tax assistance measures and the better performance of the resource regions.

Following the consultation, we can, however, consider that:

— a certain number of eligible jobs created since the measures were put in place would not have been without these measures;

— the creation of other eligible jobs was moved forward thanks to the tax credits for processing;

— the tax credits for processing have had a positive effect on the financing of businesses located in the beneficiary regions;

— in many cases, the tax credits enabled additional investments to be funded.

**The Study Prepared by KPMG for the ministère des Affaires municipales et des Régions**

At the request of the ministère des Affaires municipales et des Régions, KPMG has assessed the relative weight of tax assistance measures for the resource regions in the operating costs of recipient businesses. To do so, KPMG used its own methodology.

- KPMG carried out its assessment using four models of operating costs, simulating the financial statements of a fictitious company over ten years, for four different activity sectors, namely wood processing, agri-food, metal components and precision parts.
- A comparison was then made based on the location of the model business, for three cities located in the resource regions and three cities in the central regions.
- Thus, the analysis is not based on real cases, but on the simulated results of a fictitious business that is moved from one region to another. The data used (prices and wages) were obtained from samples consisting of data observed in the cities studied.

Because of the methodology used, this study has a number of limitations, many of which KPMG highlighted in its report.

- The data themselves are derived from what are often small samples.
- In reality, businesses adjust to their economic environment, something that KPMG's models do not simulate.
- Factors other than operating costs come into play in the success or failure of a business, such as quality of management. Montréal is an example of a location where businesses will accept higher operating costs than in most regions because certain reasons justify it.

Bearing these limitations in mind, the KPMG study provides a number of interesting insights.

- Tax assistance is beneficial for the business that receives it. Obviously, businesses will perform better with tax assistance than without it.
- The impact of the assistance on the results of the recipient business is relatively small:
  - According to KPMG, the difference in operating costs amounts to 3.2 percentage points in the resource regions, between a model business that receives tax assistance and one that does not.
  - The difference in operating costs is estimated at only 0.7 percentage points when a model business in the central regions is compared with one in the resource regions that receives tax assistance measures.
- This impact is greater where the business is in the start-up phase (KPMG estimates it at 5.7 percentage points of operating costs).
- The more remote the regions, the more the various ratios measured by KPMG are unfavourable.

**OPERATING COSTS OF A MODEL BUSINESS ACCORDING TO KPMG[1]**
(Index United States = 100)

| Resource regions | | |
|---|---|---|
| Without tax assistance | With tax assistance[2] | Central regions |
| 95,2 | 92,0 | 92,7 |

1 For the four activity sectors as a whole (average).
2 According to the baseline scenario.
Source: KPMG.

- **Tax holiday for manufacturing SMEs: much criticism**

While the tax credits for processing generated positive comments in the resource regions, the same cannot be said of the tax holiday for manufacturing SMEs.

— Businesses pointed out that this measure was missing the mark because by definition, the tax holiday on profits is of benefit only to businesses in good financial health: for businesses in difficulty, the tax holiday on profits means nothing.

  The tax holiday also applies to the tax on capital and the employer contribution to the Health Services Fund, but in this case, the recipient businesses do not seem to view the benefits received as significant.

— For the Task Force, the very principle of the tax holiday must be criticized.

  The assistance is not tied to meeting employment or investment criteria. In fact, it depends on the activity sector of the recipient business and its value depends primarily on the financial results of the business.

  The Task Force also notes that the tax holiday for manufacturing SMEs in remote resource regions cost $40 million in 2006.[23] Accordingly, this measure alone accounts for more than one third of the total cost of the tax assistance measures for the resource regions, and it cannot be said that its real or perceived impact corresponds to this cost.

### 2.1.3 Pernicious effects

These initial observations are no more than an incomplete assessment of the tax assistance measures for the resource regions.

Throughout its consultation, the Task Force came across two major pernicious effects of these assistance measures, and it is important to mention them.

— The first concerns the existence of tax competition among the regions.

  As has been pointed out previously, there is currently widespread controversy around the tax assistance measures for the resource regions pitting businesses in certain regions not covered by the measures against businesses in certain regions that are. The former consider that they are the victims of unfair tax competition on the part of the latter.

23 See above, Table 1, page 7.

The Task Force wondered about the truth and potential causes of this tax competition.

- The second pernicious effect concerns the incentive businesses have to increase their workforce at the expense of productivity.

  The Task Force returns to its reflection on the tax assistance measures as a whole and concerning the links between tax measures calculated on jobs created and the objective of improving productivity.

## ■ Inter-regional competition

During the consultation, a number of businesses from the central regions and the organizations representing them strongly criticized the unfair competition resulting from the tax assistance measures.

These assistance measures are said to have the effect of providing businesses in the resource regions with additional leeway that they use to lower their prices – in particular in calls for tenders that they win for this reason, at the expense of businesses in the central regions.

- Many businesses in the central regions would then reduce or terminate their activities and thus destroy jobs, following bankruptcy or loss of contracts. Jobs are said to have been created in the resource regions at the expense of cutting jobs in the central regions.
- A climate of uncertainty and insecurity is said to have emerged in the central regions, leading to a slowing of industrial investment.
- Suppliers in the central regions suffer from a credibility gap with their usual customers.
- The industrial structure of the central regions is said to be threatened: the assistance measures in fact target manufacturing sectors that are present throughout Québec and already facing many difficulties.
- Ultimately, the assistance measures put in place by the Québec government benefit customers, some of which are outside Québec: competition among Québec businesses causes prices to fall artificially, so that these customers realize savings financed by Québec taxpayers.

Businesses from the resource regions reacted to these accusations.

- In their view, there is no unfair competition but rather payment of assistance to disadvantaged regions, so that all regions of Québec have equal opportunity as far as the capacity for development is concerned. Businesses in the resource regions insisted in particular on the high costs they must bear because of their remoteness.

- Entrepreneurs in the resource regions maintained that the tax assistance measures enabled them to achieve a number of economic objectives, such as investment in increasing production capacity, development of new markets and positioning of businesses on external markets.

- Lastly, entrepreneurs in the resource regions pointed out that despite the assistance, the central and metropolitan regions continued to post much better results regarding various economic indicators.

- **The Task Force's view**

The Task Force notes that many cases of unfair competition mentioned by the central regions are plausible. However, it points out that the tax measures began to be contested on a large scale only relatively recently, i.e. as of the fall of 2005.

- The current controversy stems from a real problem. However, it is clear that the difficulties have been magnified, if not caused, by the rise of the Canadian dollar and the resulting retreat to the Québec market for many exporters.

- It also seems that some cases have been blown out of proportion. In reality, the difficulties of entrepreneurs in the central regions are attributable to a number of reasons, of which competition from businesses in the resource regions is but one.

The Task Force was not mandated to investigate the cases submitted by certain businesses or their stakeholders. On the other hand, it is in a position to note that shortcomings in the definitions applied when implementing the tax assistance measures for the resource regions have aggravated if not provoked the current problems.

- The territorial definition of the application of the assistance measures is too broad. Québec is divided into just two zones, corresponding to two clear-cut situations (businesses are eligible for assistance or they are not). This binary approach accentuates the gap between businesses that receive tax assistance and those that do not.

- Still with respect to definitions, there is confusion between the criterion of remoteness and that of degree of development. One of the irritants that was frequently mentioned concerns the city of Trois-Rivières, whose difficulties could justify government assistance, but whose location, between Montréal and Québec City, amplified the objections from businesses in central regions farther from markets.

The concept of “resource region” is, in this regard, rather a source of misunderstanding: the assistance measures set up by the government are designed to help businesses located in the remote regions to overcome the handicap stemming from their remoteness. Accordingly, the focus should be on supporting the remote regions and adapting the definitions applied to that situation, which can be measured objectively.

— Some of the problems that were raised result from the fiscal exclusivity defined in favour of certain regions, for a given activity sector. As the Task Force was able to see on the ground, exclusivity such as that attached to the concept of the Vallée de l’aluminium has led to almost absurd consequences. Businesses cannot make rational choices because of the distortions resulting from this exclusivity.

  For all practical purposes, the existing tax assistance measures grant a monopoly position to certain resource regions, in certain activity sectors, to the detriment of other resource regions, the central regions and the metropolitan regions. The tax assistance measures are significant and, according to the current system, certain regions are explicitly excluded from them.

  This approach cannot produce good results, and differs radically from the “niches of excellence” approach to which businesses frequently referred during the consultation.[24] In this case, the identification of a “niche of excellence” in a region does not prevent another region from receiving support for activities classified in the same niche.

- **The remoteness handicap**

The debate between the central regions and the resource regions prompted the Task Force to focus on remoteness as the real handicap businesses in the resource regions must overcome. Indeed, remoteness from the metropolitan regions explains and encapsulates a large number of structural disadvantages that businesses suffering from them must overcome.

— Remoteness increases transportation costs and, more generally, operating costs. The results obtained by KPMG in its study illustrate this phenomenon.

— Remoteness leads to other additional costs, for instance to finance inventories or repair facilities.

— Access to financing is more difficult in remote regions. There is a direct link between remoteness, small market size and the limited number of partners businesses can turn to for financing.

24 The development of “niches of excellence” in each region is effected under the ACCORD (Action concertée de coopération régionale de développement) project. This program is designed to enable each region to position itself at the North American and global levels in activity sectors where it has specific strengths and assets, and in which it considers it can stand out economically. This is a coherent approach to regional development based on the choice of each region, but with no exclusivity.

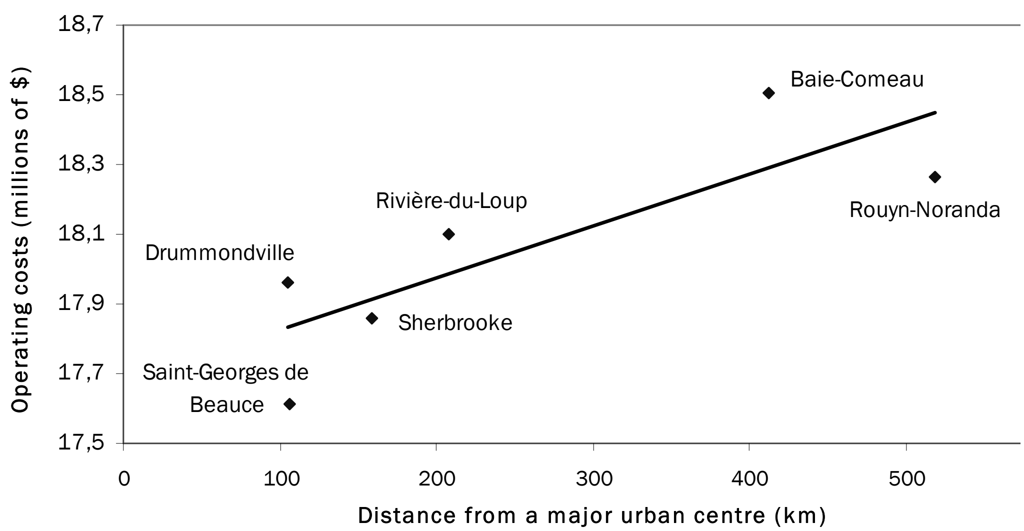
— Remoteness also explains the dearth of human resources. The remote regions are sparsely populated, and distance is an obstacle when businesses in these regions attempt to attract qualified personnel from metropolitan and central regions.

— The remoteness handicap is particularly onerous for small and medium enterprises.

Unlike large companies, SMEs have few resources available to overcome many of the disadvantages we have just mentioned. Small and medium enterprises have more difficulty resolving potential labour and financing problems. They cannot offer high pay to attract workers from outside the region and their size is too small to overcome obstacles to their financing.

CHART 4

**Relation between operating costs and remoteness from the nearest major urban centre,[1] based on the KPMG study[2]**
(Model business with total revenue of $20.2 million)




1 The major urban centres considered are Montréal, Québec City and Gatineau.
2 According to KPMG's methodology, operating costs that vary from city to city are costs relating to labour, transportation, public services, interest and depreciation, and taxes. The costs of materials and the various other operating costs are considered to be fixed.

Source: Estimates made by the ministère des Finances du Québec using the KPMG study prepared for the ministère des Affaires municipales et des Régions.

— The Task Force notes that the handicap of remoteness also affects small and medium enterprises carrying on activities classified in primary processing, whereas these enterprises are not eligible for the existing assistance measures.

For the Task Force, the tax assistance measures for disadvantaged regions should be linked directly to remoteness from metropolitan regions.

They should apply to a broader range of manufacturing activities, and not be limited to secondary and tertiary processing.

Contrary to the existing measures, they should include limits on the size of recipient businesses.

## ■ The lack of a clear incentive to improve productivity

The second pernicious effect of the tax assistance measures for the resource regions stems from the actual calculation details of the tax credits: as was previously pointed out, the use of the employment criterion to define these tax credits raises the question of a possible contradiction between this criterion and the objective of the tax credit, which is to create wealth by improving business efficiency.[25]

— In the case of the tax credits for the resource regions, the Task Force notes that the very principle of linking assistance to wages may act as a disincentive to businesses to invest and consequently improve their productivity, even though productivity growth is the key to their long-term continuation and development.

  There is nothing in the existing terms and conditions of the tax credits for the resource regions to guarantee that recipient businesses will use the support obtained to improve their productivity. For instance, businesses may very well allocate the support to remunerate shareholders, even though in practice, as we have seen, entrepreneurs appear to rely on the leeway obtained to invest more.

  The tax credits for the resource regions contain no obligation of result as to the steps that should be taken to strengthen the business and ensure its long-term development.

  Even more serious, the tax credits for the resource regions could have the opposite results: indeed, it is quite easy to imagine situations where entrepreneurs prefer to hire rather than invest in better equipment, because their economic calculation has been distorted in a way by the tax credits calculated on the wages paid to employees.

25 See above, page 29.

— There is a further pernicious effect, relating to the rule requiring the use of a fixed year in time as the reference for calculating jobs created.

  Such a rule cannot be defended over a long period: during the consultations, the Task Force systematically asked recipient entrepreneurs for their view of this matter. Few of them supported the current rule: clearly, calculating jobs created starting from a fixed year in time leads to absurdities as time goes by. Indeed, the very principle of calculating tax credits on the basis of job creation, without a moving reference over time, must be questioned.

- **A basic problem: productivity is growing more slowly than elsewhere**

From the outset of the report, the Task Force based its analysis and its view of the situation on what it sees as a basic principle: in using the fiscal tool as an economic intervention measure, the government's goal is to create wealth and the best way to do so is to improve the efficiency of businesses.

The Task Force also noted from the outset of its review the direct link between investment by businesses, their enhanced efficiency thanks to improved productivity, and the creation of wealth.[26]

Basically, Québec businesses as a whole are faced with a productivity problem.

— In 2006, GDP per hour worked amounted to $44 in Québec compared with $49 in Ontario, $50 in Canada and $57 in the United States.

— That is a substantial gap. Productivity, the source of wealth creation and a higher standard of living, was thus almost 30% lower in Québec compared to the United States, 12% lower than in Canada as a whole and a little less than 10% compared to Ontario.

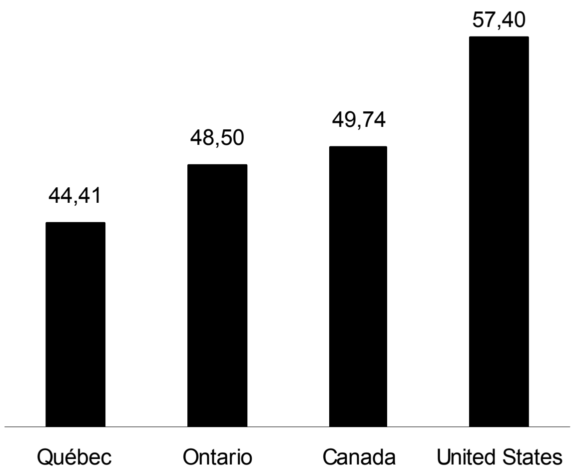
— During the period 1998-2006, real GDP per hour worked rose by only 1.2% per year in Québec, compared with 1.5% in Canada as a whole, 1.5% in Ontario and 1.6% in the United States. The gap that already existed in 1998 has thus grown wider since then.

26 See above, pages 17 and 18.

CHART 5

**Real GDP per hour worked, 2006**

(2006 Canadian dollars)

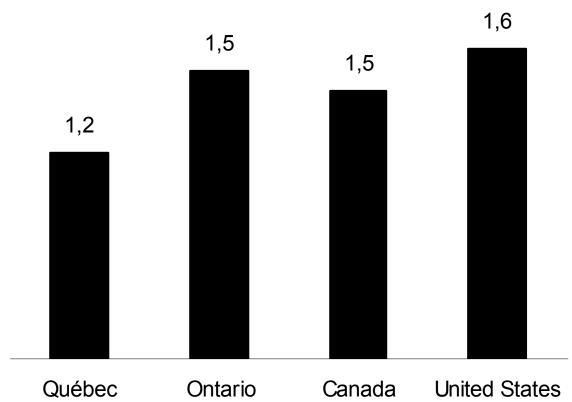



Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

CHART 6

**Annual change in real GDP per hour worked,[1] 1998 to 2006**

(Per cent)




1 In 2006 Canadian dollars.
Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

- **The disparity in standard of living between the resource regions and the rest of Québec**

Looking at the situation in Québec, there is a disparity in standard of living between the resource regions and the rest of Québec.

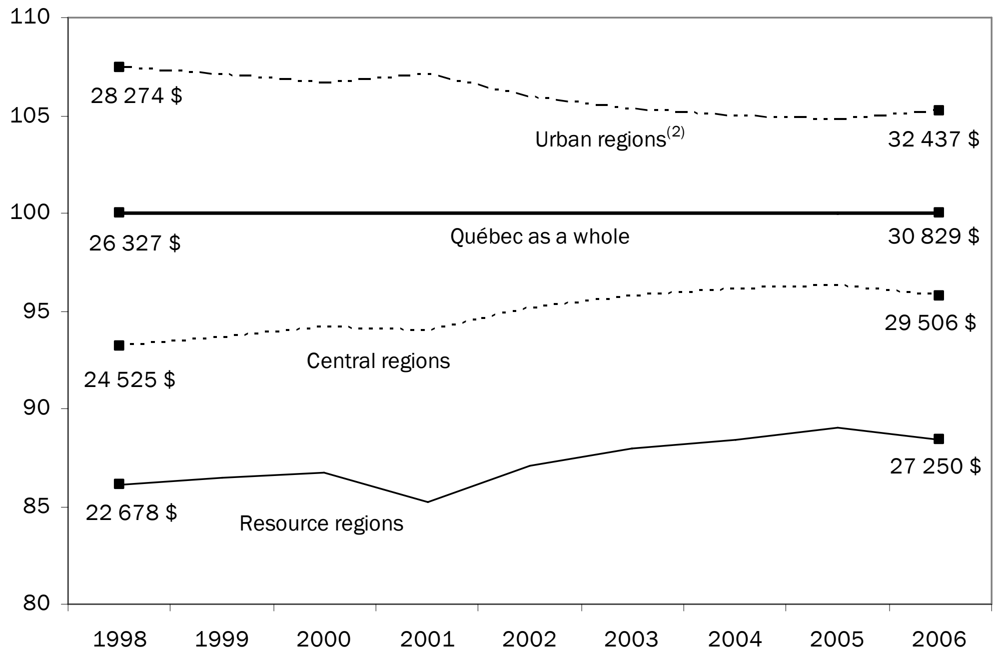
During the period from 1998-2006, the size of this gap has varied, but has always been in the same direction:

— Setting per capita personal income for Québec as a whole at 100 as an index, in 1998 this income stood at 86.1 in the resource regions compared with 93.2 in the central regions and 107.4 in the urban regions.

— Eight years later, the results for the resource regions have improved slightly. However, per capita personal income in the resource regions remains significantly lower than anywhere else. Again setting per capita personal income for Québec as a whole at 100 as an index, this income stood at 88.4 in the resource regions compared with 95.7 in the central regions and 105.2 in the urban regions.

CHART 7

**Disparity in per capita personal income[1] compared to Québec as a whole, 1998 to 2006**
(Index Québec = 100 and in 2006 dollars)




1 Personal income is defined as the total of all income received by individuals and sole proprietorships residing in a given economic territory.
2 Urban regions consist of the Capitale-Nationale, Montréal, Laval and Montérégie.
Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

- **Almost no increase in productivity**

One of the main explanations for this situation can be found by examining productivity growth in Québec's manufacturing sector. At the Task Force's initiative, an assessment of this productivity was carried out for the period 1998-2005. The results speak volumes.

Between 1998 and 2004, productivity in the manufacturing sector rose by an average of 2.5% annually in Québec as a whole.

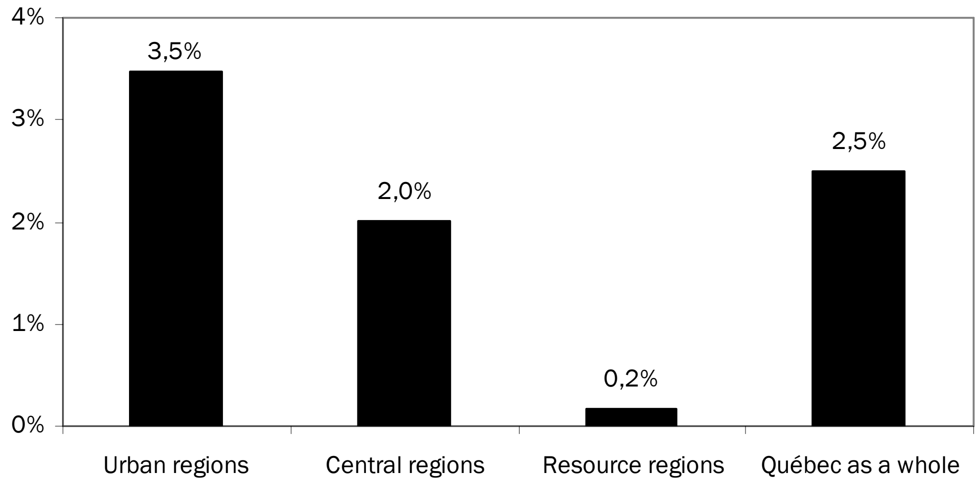
In fact, productivity gains varied widely by region.

— In urban regions, productivity in the manufacturing sector rose by an average of 3.5% annually.

— During the same period, productivity gained only 2.0% per year in the central regions and less than 0.2% in the resource regions.

CHART 8

**Annual change in productivity[1] in the manufacturing sector, 1998 to 2005**
(Per cent)




1 Real GDP per job.
Sources: Institut de la statistique du Québec and Statistics Canada.

- **Deal with the problem at the source: encourage businesses to invest more**

The Task Force believes that the problem must be dealt with at its source. The government must encourage businesses in the resource regions to invest more, become more productive and thus create more wealth. In this way, the resource regions will be able to make up for the difficulties relating to remoteness and become more self-sufficient.

There is indeed a gap between investments by businesses located in the resource regions and investments made by businesses in the rest of Québec, excluding mining, primary metal processing and public services.

— In 2005, total non-residential investments per capita amounted to \$6 683 in the resource regions compared with \$4 263 in Québec as a whole and \$3 848 in the other regions.

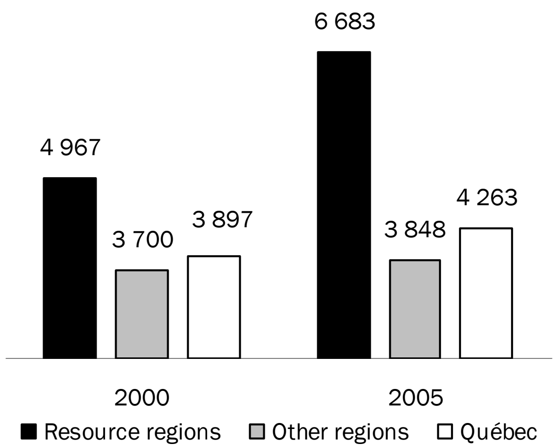
— However, the picture is skewed by the investments made in mining, primary metal processing and public services. Without these activity sectors, the situation is reversed: in 2005, total non-residential investments per capita amounted to \$3 068 in the resource regions compared with \$3 527 in Québec as a whole and \$3 606 in the other regions.

After this correction, all other things being equal, investments made in the resource regions are lower than in the rest of Québec, whereas they should be higher if these regions are to close the gap in terms of standard of living.

CHART 9

**Total non-residential investment per capita, 2000 and 2005**

(Dollars)

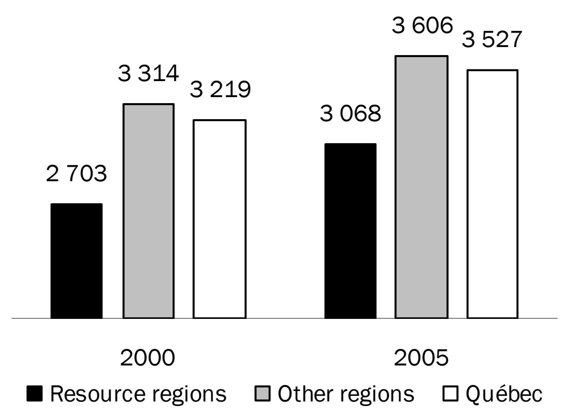



Sources: Institut de la statistique du Québec and Statistics Canada.

CHART 10

**Total non-residential investment per capita, excluding certain sectors relating to resource development,[1] 2000 and 2005**

(Dollars)




1 Excluding certain mining, primary metal processing (aluminum) and public services (hydroelectricity) sectors.

Sources: Institut de la statistique du Québec and Statistics Canada.

Existing tax assistance measures are calculated on the basis of jobs, with no guarantee regarding the allocation of such assistance to productivity gains. By acting directly on investment, the government would ensure that the assistance it grants does indeed enable recipient businesses to be more productive.

In fact, this is the Task Force's main conclusion as far as tax assistance for the resource regions is concerned: without calling the principle of regional tax assistance into question, the Task Force strongly suggests that the government change the basis of this assistance, by replacing jobs with investment.

## 2.2 Recommendations

At the conclusion of its analysis of tax assistance measures for the resource regions, the Task Force formulates a number of recommendations.

### 2.2.1 The very principle of tax assistance measures for the resource regions

These recommendations primarily concern the very principle of the tax assistance measures.

Some argue that assistance to the regions should be stopped and the government should give free rein to market mechanisms.

This view does not allow for the structural disadvantages businesses in the resource regions must overcome and that are essentially linked to their remoteness from markets.

At the policy level, such a position completely ignores the objective of occupation of the territory as well as the existing consensus in Québec regarding support provided for citizens of the most remote regions.

- The Task Force notes that Québec is far from the only jurisdiction to have policies favouring remote or disadvantaged regions: all developed states have implemented policies of this nature, particularly the United States, at both the federal and the state level.
- The Task Force also notes that during the consultation, no regional representative questioned the very principle of assistance for regions in difficulty. There appears to be a broad consensus in favour of this principle, in regions receiving assistance as well as in regions that do not.

*Recommendation*

2.2.1

- *The Task Force recommends that tax assistance measures for certain less developed regions be maintained, provided:*
  - *they benefit the regions for which such assistance is justified;*
  - *they encourage the businesses concerned to improve efficiency and productivity.*

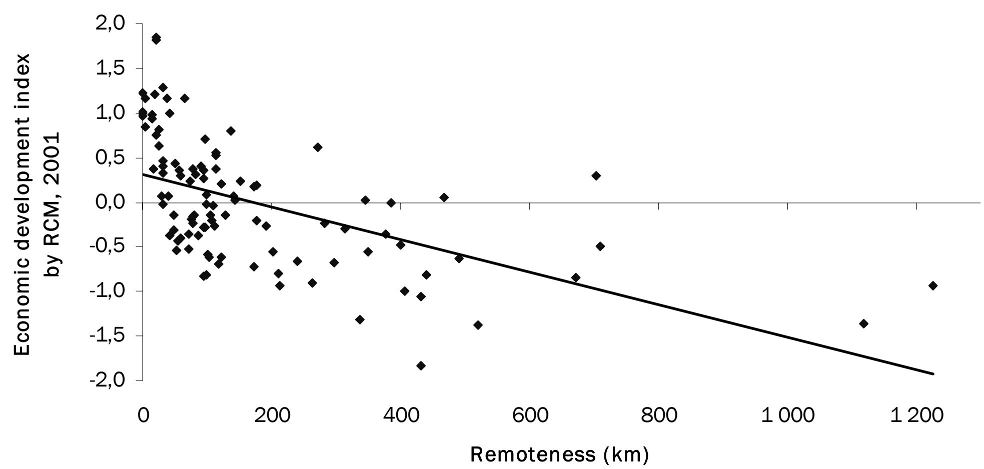
## 2.2.2 Tax assistance for the remote regions

As previously mentioned, there is a close correspondence between the less developed regions of Québec and remoteness. The Task Force analyzed the link between the economic development index of RCMs and the distance of these RCMs from the nearest of Québec's three major urban centres, namely Montréal, Québec City and Gatineau.

The results confirm the observation made on the ground during the consultation. The more remote the region, the lower its development index.

CHART 11

**Link between the economic development of RCMs and their remoteness from the nearest major urban centre,[1] 2001**
(Index and kilometres)




N.B. The index equal to zero represents the Quebec's average. As a result, more the RCM's index is high, more its development level is superior compared to the other RCMs.
1 The major urban centres considered are Montréal, Québec City and Gatineau.
Source: Estimates made by the ministère des Finances du Québec using the economic development index of RCMs of the ministère du Développement économique, de l'Innovation et de l'Exportation.

*Recommendations*

2.2.2

*The Task Force recommends that the government:*

*a) define assistance to the less developed regions on the basis of remoteness, as there is a close link between remote regions and regions in difficulty;*

*b) replace tax measures for the resource regions with tax assistance measures for remote regions;*

*c) apply specific budgetary assistance programs for regions in difficulty that do not have to overcome the obstacle of remoteness.*

### 2.2.3 The proposed territorial definition

The Task Force proposes a territorial definition based on the criterion of distance – for reasons of simplicity and objectivity.

The Task Force suggests dividing the territory into concentric zones defined as being within 200 km and 300 km of the centres of the three metropolitan regions. The distance of 200 km was chosen because it coincides roughly with the availability of expressway infrastructures.

The Task Force recommends that the territorial definition apply at the regional level. The purpose is both to minimize tax competition and avoid slippage arising from local pressures.

- The Task Force is aware that implementing the territorial definition of the measures at the regional level will force certain choices to be made, since some regions cover many of the proposed zones.
- For instance, there would be good reason to divide the Bas-Saint-Laurent region between the intermediary zone and the most remote zone, since the Matane, La Matapédia and La Mitis RCMs face a situation equivalent to that of Gaspésie.

*__Recommendations__*

2.2.3

*The Task Force recommends that the government:*

*a) with some exceptions, define the territorial application of assistance measures for the remote regions at the regional level;*

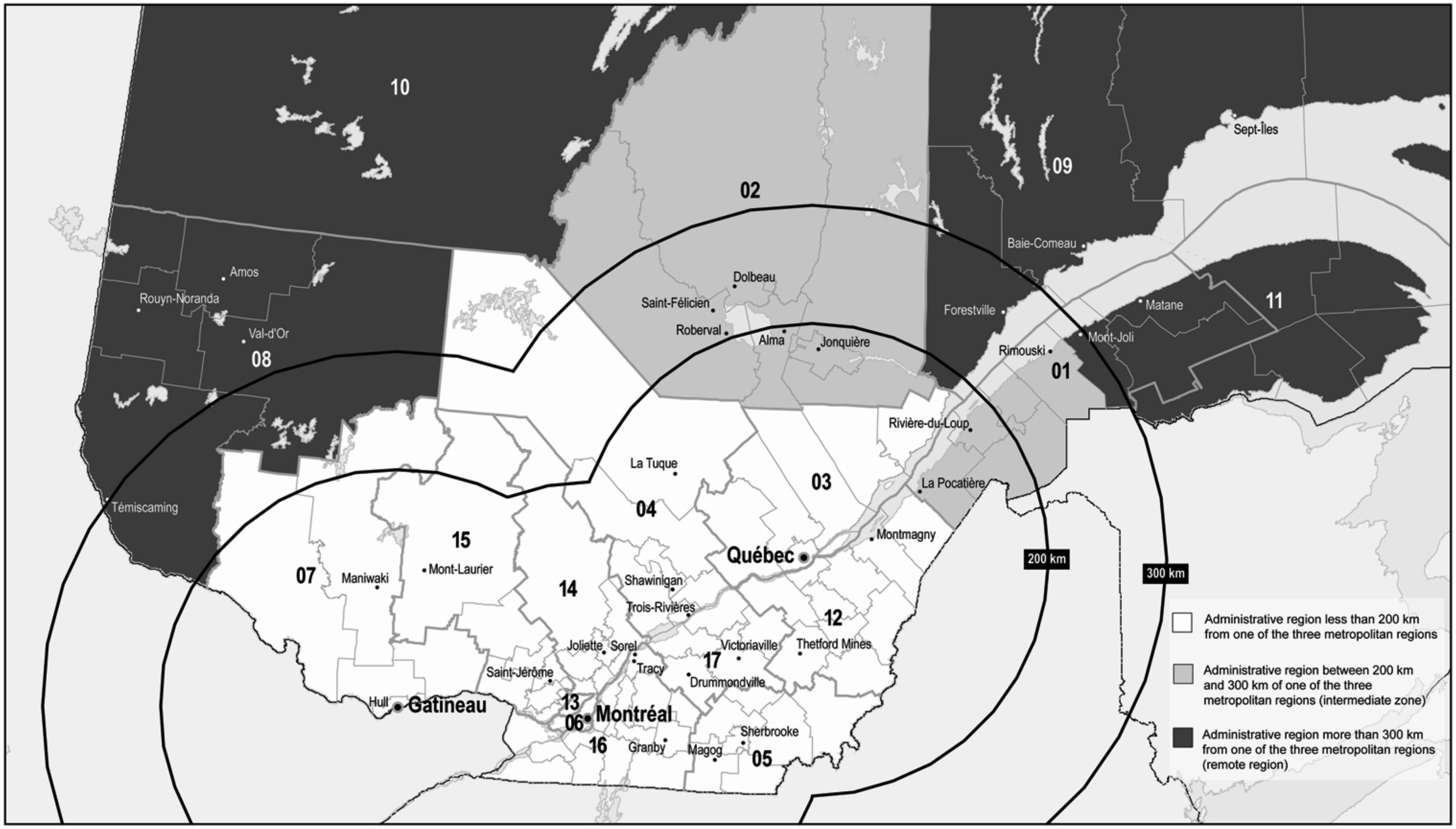
*b) use the distance criterion;*

*c) identify three zones, as follows:*

- *a zone located less than 200 km from the centre of one of the three metropolitan regions of Montréal, Québec City and Gatineau,*
- *a zone located between 200 km and 300 km from the centre of one of these three metropolitan regions,*
- *a zone located more than 300 km from the centre of one of the three metropolitan regions.*

MAP 1

## The territorial definition of assistance measures for remote regions proposed by the Task Force




Administrative region less than 200 km from one of the three metropolitan regions
Administrative region between 200 km and 300 km of one of the three metropolitan regions (intermediate zone)
Administrative region more than 300 km from one of the three metropolitan regions (remote region)
N.B. The 200 km and 300 km distances, calculated from the centre of each of the three metropolitan regions selected (Montréal, Québec City and Gatineau), cut through certain administrative regions. The concentration of population criterion was used to determine the position of these regions in relation to the distances. Thus, a region must lie to a significant degree within a given distance to be assigned to it. The Bas-Saint-Laurent region is divided in two since some RCMs face a geographical situation equivalent to that of Gaspésie.
Source: Ministère des Finances du Québec.

### 2.2.4 A refundable investment tax credit

The Task Force concludes that the best way to support businesses in remote regions with a vision of the future is to directly encourage them to become more productive by helping them invest in their equipment.

Accordingly, the Task Force recommends that the government replace tax credits calculated on the basis of jobs with investment tax credits.

- This assistance would be available to the entire manufacturing sector, and would not be limited to certain activity sectors.
- The Task Force hopes that the government will send a very strong signal in favour of investment by businesses in the remote regions. To that end, it suggests a refundable tax credit and a rate of 40% in the most remote zone; the rate is reduced to 20% in the intermediate zone.

  Payment of a refundable tax credit of this size would provide general encouragement for investment that would be unprecedented.
- However, big business would be excluded from the tax credit because the measure does not concern large companies involved in particular in primary processing of resources.
  - Large companies are not handicapped by being in a remote region. On the contrary, they have come to certain regions precisely to be close to the resource they are developing.
  - These companies have the means to resolve any labour or financing problems that may arise. They attract the labour they need with high wages and their size helps in funding their activities.
- The Task Force thus proposes as a criterion that assistance be limited to businesses with less than $250 million in paid-up capital.
- The assistance would apply to purchases of manufacturing and processing equipment, included in what is referred to as “class 43”.[27]

27 In Québec’s tax system as in the federal system, assets are grouped into classes by type of asset. The capital cost allowance rules of these assets vary depending on the class considered. Class 43 covers manufacturing and processing equipment.

Unlike investment tax credits at the federal level or in some provinces, the Task Force recommends a uniform and well-defined class. For the Task Force, there would be little use, in relation to the objective, in extending the assistance to investments affecting buildings, as is the case in certain jurisdictions in Canada.[28]

Above all, by specifically targeting one class, the government would be able to offer a more generous tax credit and therefore maximize leverage.

— The Task Force suggests that the government set a quantified investment objective and that this objective be relatively ambitious. Setting an objective will help with subsequent assessment of the effects of the tax assistance measures, in accordance with the principle of accountability stated at the beginning of this report.[29]

— This assessment should be based on certain indicators, such as the rate of growth of total non-residential investments per capita (excluding mining, primary metal processing and public services) compared to Québec as a whole and the other regions. This growth rate would be compared before and after implementing the tax measure.

— The annual change in productivity in the manufacturing sector would also have to be measured, and the results compared to the cost of the measure.

The Task Force sees the recommendation to set up a refundable investment tax credit as a major one. It is aware that on its own, such an initiative will not resolve the systemic problem of private under-investment in Québec. However, it should help increase the productivity of businesses faced with the handicap of remoteness.

28 The investment tax credits in Manitoba and Saskatchewan apply to new and used buildings and equipment in the manufacturing sector. The Atlantic component of the federal investment tax credit uses as a base new buildings and equipment used in most activities in the primary and secondary sectors.

29 See above, page 20.

*Recommendations*

2.2.4

*The Task Force recommends that the government:*

*a) pay this assistance to the entire manufacturing sector, rather than limiting it to certain activity sectors;*

*b) define the assistance as a refundable investment tax credit with a rate of 40% in the most remote zone and 20% in the intermediate zone, the tax assistance for remote regions thus becoming investment assistance for businesses in remote regions;*

*c) exclude large companies from this assistance by restricting the investment tax credit to businesses with less than $250 million in paid-up capital;*

*d) apply the investment tax credit to purchases of manufacturing and processing equipment (assets in class 43, according to Revenu Québec's nomenclature);*

*e) set a target for investments made by businesses in the resource regions covered by the measure, and measure the results obtained in terms of productivity.*

### 2.2.5 A time-limited measure

The tax assistance measures proposed by the Task Force must be time-limited in order to satisfy the principles of stability and accountability stated earlier.[30]

The Task Force proposes that the government commit to applying the assistance program until 2015. Until then, the government would assess the program and the results obtained.

In this regard, one should expect a significant impact from the assistance program on business investments: by reducing the cost of investments, the tax assistance proposed by the Task Force would boost its return, which should, ultimately, result in faster productivity growth for recipient businesses compared with businesses in the rest of Québec.

30 See above, page 20.

*Recommendation*

2.2.5

*The Task Force recommends that the government apply the investment tax credit for businesses in remote regions for a time-limited period,*

- *for a business, the assistance would apply each time it makes eligible investments;*
- *the assistance program itself would end in 2015 and the government would carry out an assessment of it before then.*

### 2.2.6 Transitional measures

The Task Force also suggests flexible transitional measures by allowing businesses that currently benefit from tax assistance measures the choice of continuing with the current system until its expiry or opting for the new one.

*Recommendation*

*2.2.6*

*The Task Force recommends that the government adopt a transitional measure that allows businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.*

### 2.2.7 Special measures for Gaspésie–Îles-de-la-Madeleine

The Gaspésie–Îles-de-la-Madeleine region differs significantly from other regions of Québec. In 2007, this region posted the largest disparities in relation to other regions of Québec regarding economic development.

For this reason, the Task Force recommends that the government apply tax credits tied to employment in addition to the new investment assistance for remote regions.

*Recommendations*

*2.2.7*

*In addition to applying the new investment assistance for businesses in remote regions, the Task Force recommends that the government:*

*a) apply a tax credit for processing activities to businesses in Gaspésie–Îles-de-la-Madeleine;*

- *The measure would apply to all manufacturing activities (including processing of sea products and wind-power), subject to certain size criteria concerning eligible businesses (whereas the existing tax credit applies only to secondary and tertiary processing).*
- *This tax credit would apply to new jobs created as of 2008.*
- *The rate would be set at 20% compared with the existing rate of 30% or 40%, as the case may be.*

*b) maintain the tax credit for Gaspésie and certain maritime regions of Québec for the marine biotechnology and mariculture components;*

- *This credit would not apply to processing of sea products or to wind-power, like the existing tax credit.*
- *As is currently the case, it would be a tax credit of 40% on wages paid.*

*c) stipulate that the two measures will end in 2015 and that the government assess them before then.*

*d) allow businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.*

## The Particular Situation of the Gaspésie–Îles-de-la-Madeleine Region

The Gaspésie–Îles-de-la-Madeleine region has been hit hard by a number of events[1] over the last several years. Despite the efforts made to diversify and energize its economy,[2] significant disparities in economic development persist between the region and other regions in Québec.

In 2007, Gaspésie–Îles-de-la-Madeleine remains the region where the main economic indicators are weakest.

**Main economic indicators, 1997 and 2007***
(Per cent and dollars)

| Economic indicators | Gaspésie–Îles-de-la-Madeleine | | Second most disadvantaged region** | | Québec as a whole | |
|---|---|---|---|---|---|---|
| | 1997 | 2007 | 1997 | 2007 | 1997 | 2007 |
| Unemployment rate | 23.4 | 17.3 | 16.4 | 9.2 | 11.4 | 7.2 |
| Participation rate | 51.1 | 52.3 | 57.1 | 59.2 | 62.1 | 65.7 |
| Employment rate | 39.1 | 43.3 | 48.3 | 53.7 | 55.0 | 61.0 |
| Per capita disposable income (2006 $) | 19 125 | 23 848 | 20 914 | 25 497 | 25 758 | 30 829 |

* For per capita personal income, provisional data for 2006.
** For each economic indicator.
Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

This situation is probably not unrelated to the fact that the region is in the extreme east of Québec, bounded to the north by the St. Lawrence River and to the south by Chaleurs Bay, and thus very far from urban centres (for instance, Gaspé is more than 1 000 km from Montréal).

- In addition to its remoteness, the region is plagued by many other structural disadvantages that have a major impact on its capacity to compete and its opportunities to attract new investors, such as a poorly qualified workforce, higher operating costs than elsewhere in Québec and few education, research and development infrastructures.
- Furthermore, the industrial fabric of Gaspésie–Îles-de-la-Madeleine is poorly diversified and is without a strong industrial core. The economy relies on an under-developed manufacturing sector concentrated to a large extent in the wood and fish processing sector.

While the development of new niches such as wind-power, marine biotechnology and mariculture have brought a breath of vitality to the region, in particular thanks to the tax assistance measures for the resource regions, the economic situation of Gaspésie–Îles-de-la-Madeleine remains precarious and significant areas of the territory are stubbornly mired in stagnation.

1 The fisheries crisis (1993), the closings of the Noranda copper mine and foundry in Murdochville (1998 and 2002), of the Gaspésia paper mill in Chandler (1999) and of the Smurfitt Stone paperboard mill in New Richmond, and more recently the forest industry crisis.
2 Recovery plan (1999), diversification fund (1999, 2003) special tax measures for Gaspésie and certain maritime regions of Québec (2000), Economic Development Strategy for the Resource Regions (2001) and ACCORD Program.

### 2.2.8 The significance of the recommendations concerning tax assistance measures for the resource regions

The Task Force concludes the section on tax assistance measures for the resource regions by explaining the significance it attaches to its recommendations.

#### ❑ A calculated bet to trigger investments

By acting on these recommendations, the government would be making a calculated bet that it is possible to encourage businesses in the remote regions to invest more since the support provided by the government would make these investments more profitable and easier to fund.

- The new program would clearly target businesses that are handicapped by remoteness.
- It would encourage them to become more productive, ultimately to be less dependent on government assistance.

#### ❑ Application of the tax assistance to all businesses of the manufacturing sector, up to a certain size

Compared with the existing assistance, the government would extend the measures to primary processing of resources.

It would terminate existing fiscal exclusivities.

In the case of the Vallée de l'aluminium, maintaining the existing situation would have a negative impact on other regions, even if the cost of doing so is relatively limited.

#### ❑ The end of pernicious effects

For the Task Force, the recommendations would bring an end to existing pernicious effects, namely inter-regional competition and inducement to increase payroll at the expense of investment.

- The government would restore the basis of healthy competition among the regions. It would achieve this by:
  - establishing two rates rather than one,
  - ending sector-based monopolies (Vallée de l'aluminium, processing of sea products, wind-power),
  - calculating support on the basis of investment rather than payroll, thus helping to define assistance that is less tied to cost.

With the existing assistance measures, the grant can be converted into a price cut without even having invested. That would no longer be the case.

A business could indeed sell at a lower price thanks to the tax measure, but provided it had invested and thus become more productive, which is the desired outcome.

### ❑ Non-renewal of the tax holiday for manufacturing SMEs

The tax holiday would expire as scheduled on December 31, 2010.

The Task Force considers that this tax holiday has demonstrated that it is ineffective and unfair. A general tax reduction is much preferable, and that is indeed the option the government has chosen regarding the tax on capital.

### ❑ Using other forms of assistance for disadvantaged regions that are not remote regions

Some cities and zones must overcome significant handicaps because of poorly qualified labour, insufficient entrepreneurship or a crisis in a single-industry town.

These towns and zones are not necessarily remote territories, and the government has been able to define targeted and adapted assistance measures for them as part of general budgetary programs applicable throughout Québec, often with success.

- For instance, in the case of Thetford Mines, the government granted $2 million in January 2004 to help the region diversify following a decline in employment in the asbestos sector. Between 2004 and 2006, thanks to this amount, it was possible to support investments of $20 million that led to the creation of nearly 400 jobs. In January 2006, the same logic was applied to set up an assistance fund for single-industry municipalities in Thetford Mines.
- In 2006, the single-industry municipality assistance fund launched a similar initiative for the Matapédia RCM to support a number of investment projects.
- In early December 2007, government authorities were quick to announce assistance measures for the city of Shawinigan following the announcement of the shutdown of AbitibiBowater's Belgo plant.

These examples simply show that the government is capable of acting to help disadvantaged territories and respond to special situations. To cover such situations, the government can quickly marshal substantial funds from resources allocated to budgetary assistance programs: in 2006 these resources approached $500 million.[31]

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31 See Appendix 5.

The government has a variety of options to respond to specific problems. A considerable portion of the problems arising from the existing tax assistance for the resource regions stems from the use of a general measure to respond to special problems.

### ❑ The impact of the proposed system for each region that benefits under the existing system

The system proposed by the Task Force involves dividing remote regions into two groups depending on whether they are located in the intermediate zone or in the zone located more than 300 km from the centre of one of the three metropolitan regions.

— Four existing resource regions would be located in the most remote zone, thus benefiting from the most generous investment tax credits. They are the Gaspésie-Îles-de-la-Madeleine, Côte-Nord, Abitibi-Témiscamingue and Nord-du-Québec regions.

  Under the Task Force's proposal, the most remote part of Bas-Saint-Laurent would also be classified with these four regions.

— Saguenay–Lac-Saint-Jean would be considered part of the intermediate zone, along with the rest of the Bas-Saint-Laurent region.

Under the proposed system and at the expiry of the existing assistance measures, the Mauricie region and the three RCMs of Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau would not qualify for the new assistance for investment by businesses in remote regions. That is logical, since these regions do not have to overcome the handicap of remoteness.

However, the Task Force is well aware of the difficulties this region and these RCMs face. It suggests that in their case, the government apply targeted budgetary assistance measures, noting in passing that existing general application tax measures for the remote regions have not met their needs.

TABLE 7

**Rate of the proposed investment tax credit for regions currently covered by the tax assistance measures for the resource regions**
(Per cent)

| Regions currently covered by the tax assistance measures for the resource regions | Rate of the proposed investment tax credit (%) |
|---|---|
| Gaspésie–Îles-de-la-Madeleine[1] | 40 |
| Abitibi-Témiscamingue | 40 |
| Côte-Nord | 40 |
| Nord-du-Québec | 40 |
| Bas-Saint-Laurent | |
| – Remote zone[2] | 40 |
| – Intermediate zone | 20 |
| Saguenay–Lac-Saint-Jean | 20 |
| Mauricie | Apply targeted budgetary assistance measures to Mauricie and the Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs |
| Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs | |

1 In addition to the investment tax credit, this region is also covered by an employment tax credit of 20% for manufacturing activities and an employment tax credit of 40% for the marine biotechnology and mariculture sectors. The latter also applies for the Bas-Saint-Laurent and Côte-Nord regions.
2 Includes the La Matapédia, La Mitis and Matane RCMs.

### ❑ A clear message in support of the development of remote regions

With the new measures, the government would ensure the development of the regions, while strongly emphasizing the challenge of business productivity.

— It would send a major signal in favour of the only possible response in the long run to the development problems of remote regions, namely more private investment.

— It would do so in a context that has become favourable as a result of the rise of the Canadian dollar, whose positive impact is to reduce the cost of imported machinery and equipment.

— The proposed calculated bet would consist in offering businesses the tools that ultimately would enable them to retain workers and thus put an end to the exodus of young people from the remote regions.

## ❑ Simple terms and conditions, at least the same amount of support

With the new tax assistance proposed by the Task Force, the government would retain the terms and conditions whose simplicity and predictability have been pointed out. The government would again offer a refundable tax credit, whose base would be changed.

TABLE 8

**Illustration of the financial impact of the tax credits proposed by the Task Force**
(Millions of dollars)

| | Eligible expenditures | | |
|---|---|---|---|
| **Proposed tax credits for remote regions** | **Manufacturing and processing equipment** | **Wages tied to eligible jobs created**[1] | **Value of the tax credit** |
| **Refundable investment tax credit** | | | |
| – Regions at 40% rate[2] | 142 | --- | 57 |
| – Regions at 20% rate[3] | 201 | --- | 40 |
| **Subtotal** | **343** | **—** | **97** |
| **Refundable tax credit of 20% for manufacturing activities in Gaspésie–Îles-de-la-Madeleine** | --- | 30 | 6 |
| **Refundable tax credit of 40% for the marine biotechnology and mariculture sectors**[4] | --- | 2.5 | 1 |
| **TOTAL** | **343** | **32.5** | **104** |

1 For jobs created as of 2008 or for the first year of eligibility of a business. The specific feature tied to wages paid for total eligible jobs would continue to apply for the refundable tax credit for the marine biotechnology and mariculture sectors.
2 Abitibi-Témiscamingue, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Nord-du-Québec and the eastern part of Bas-Saint-Laurent (La Matapédia, La Mitis and Matane RCMs).
3 Saguenay–Lac-Saint-Jean and the western part of Bas-Saint-Laurent (including Rivière-du-Loup and Rimouski).
4 Applicable in the Gaspésie–Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent regions.
Source: Ministère des Finances du Québec.

Furthermore, the cost of the new measures would be of the same order as that of existing programs. According to the assessment done by the ministère des Finances at the request of the Task Force, the new tax credits would cost $104 million, compared with $112 million paid to businesses in 2006 with the current measures.

The Task Force considers this to be a minimum cost. If the new measure has the impact on investment we hope for, its cost should rise accordingly.

TABLE 9

**Financial impact of the tax credits proposed by the Task Force, by eligible region**
(Millions of dollars)

| Eligible regions | Cost of tax credits |
|---|---|
| Saguenay–Lac-Saint-Jean | 27 |
| Bas-Saint-Laurent | 22 |
| Abitibi-Témiscamingue | 21 |
| Côte-Nord | 19 |
| Nord-du-Québec | 5 |
| Gaspésie–Îles-de-la-Madeleine | 10 |
| **TOTAL** | **104** |

Source: Ministère des Finances du Québec.

### ❑ The case of Gaspésie–Îles-de-la-Madeleine

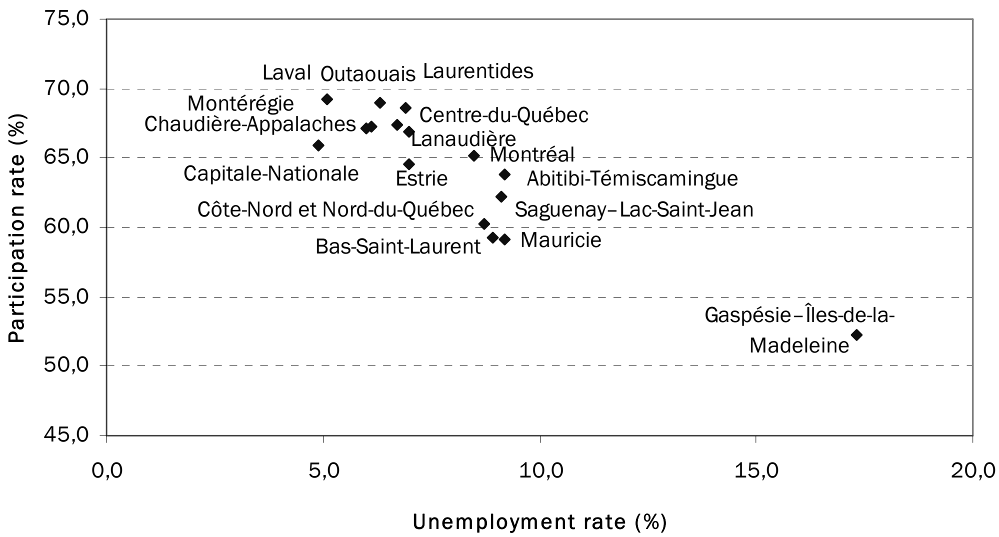
In the case of Gaspésie–Îles-de-la-Madeleine, we have already mentioned the development disparities that justify special treatment for the region. This observation is confirmed by the snapshot of the labour market in the various regions of Québec.

The application of the general program and special measures to Gaspésie would, taken as a whole, represent very generous government support for businesses in Gaspésie, without pernicious effects on other regions because of Gaspésie's remoteness.

- The suggested restrictions compared to the existing program would aim mainly to avoid certain duplications.
- In the case of wind-power, the conditions stated by Hydro-Québec in its calls for tenders already encourage the establishment of this industry in certain regions.
- Concerning the processing of sea products, the new investment tax credit for businesses in remote regions would take the place of existing support.

CHART 12

**Snapshot of the labour market in the administrative regions of Québec, 2007**
(Per cent)




Source: Institut de la statistique du Québec.

# 3. SUPPORT FOR THE NEW ECONOMY

As in the case of assistance for the resource regions, the Task Force based its analysis of assistance measures for the new economy mainly on the consultation it held across Québec.[32]

This consultation, together with a number of specific studies, helped to delineate the issues and challenges specific to the new economy, in accordance with the mandate from the government.

It should be noted immediately that the tax assistance measures for the new economy assessed by the Task Force essentially concern the services component of the information technology sector, and only much more marginally four other activity sectors.[33] The Task Force's analyses focused primarily on this sector, though the situation of the four other activity sectors is invoked since many businesses that belong to them benefit from certain tax assistance measures for the new economy.

The Task Force reviewed the support for the new economy using an approach similar to the one applied for assistance to the resource regions:

- The Task Force first made a number of observations, based on what it witnessed and studied.
- The Task Force was then able to formulate recommendations concerning economic intervention measures in support of the new economy.

## 3.1 Observations

The Task Force arrived at two series of observations.

- The first concerns the situation of the information technology sector as a whole – in particular its services component – which the Task Force wished to understand as clearly as possible.
- The Task Force then formulated conclusions and remarks dealing directly with the tax assistance provided by the government – assistance, as will be seen, that the Task Force considers necessary but in need of revision in many of its aspects.

32 See Appendix 3 for the persons and organizations consulted.
33 They are the materials technologies, scientific and technical services, production technologies, and biotechnology sectors – see above, pages 10 and 11.

### 3.1.1 The situation of the sector

Concerning the overall situation of the information technology sector and its services component, the Task Force has three major observations:

- First, the sector faces very stiff global competition. Governments in developed countries as well as emerging economies do not hesitate to intervene to support businesses located in their territory.
- Second, we note that in this activity sector, Québec has difficulty maintaining its place in Canada.
- Third and last, businesses in the sector made the Task Force aware of the profound change in the labour market in recent years.

#### ❑ A sector facing stiff competition, where governments intervene to a significant extent

During the consultation, the Task Force was struck by the scope of globalization in the information technology sector. For big and small companies in Québec, the playing field is the entire planet. Target markets can be located on the other side of the world and the resources used are also often outside Québec, which naturally raises the question of offshoring of certain jobs.

Such globalization is easily explained: by definition, the information technology sector consists of activities that make use of the most sophisticated transmission methods, allowing even small businesses to act on remote markets – something that would be unthinkable in activity sectors such as real estate or heavy industry.

In this sector where competition is extremely fierce, governments do not hesitate to intervene to support their businesses or attract foreign investment. The study done by E&B DATA at the request of the Task Force is very instructive in this regard:[34] government support, in one form or another, is ubiquitous.

- The United States is far from being the last to intervene, at both the federal and the state level.

34 See Appendix 8.

— Even more surprising, China and India – though enjoying the advantage of very low pay levels – have put measures in place to support the development of the information technology sector in their territory.

— We also note that while the details of the assistance vary, their most common feature is that they are time-limited.

**Government Assistance for the New Economy: Some Examples**

The study carried out by E&B DATA identified a large number of assistance programs set up by governments throughout the world to support businesses in the information technology sector.

Overall, E&B DATA notes considerable variety in the terms and conditions that governments attach to assistance. While support for the new economy seems general, it also appears that there is no "magic formula" as to the best way to support businesses in this sector.

Below are three examples of assistance.

- In the United States, New York State has many financial and tax assistance programs for new economy companies that move into certain designated districts.

  In particular, it offers financial assistance to businesses of up to $3 000 per eligible employee and per year (for a maximum of five years), a ten-year property tax exemption and a reduction in the cost of energy.

- In 1998, the Chinese Ministry of Science and Technology set up the Torch program to support innovation. This program is designed to develop the high-technology products industry, in particular for export.

  The program includes the creation of technology parks where businesses enjoy an advantageous system of tax relief (more than fifty such parks have been opened in China), business incubators and loans for innovative projects.

- In February 2007, India announced a policy to attract investment for building semi-conductor plants. In particular, this policy includes tax holidays and low-interest loans available to companies that move into special economic zones.

## ❑ A sector in which Québec has difficulty holding its own

To have as realistic a view as possible of Québec's performance in this area, the Task Force carried out a detailed analysis of the change in the number of jobs in the services component of the information technology sector in Canada.

### ■ Poor results

The results are poor.

An initial compilation was produced using results from Statistics Canada's *Survey of Employment, Payrolls and Hours*. The following observations can be made:

- The number of jobs in the information technology services industry rose by just under 9% in Québec between 1998 and 2006, from nearly 34 000 to just over 37 000.
- During the same period, employment in the same industry gained 60% in Ontario and more than doubled in British Columbia.
- Overall, Québec's share of the information technology services industry fell substantially between 1998 and 2006: in eight years, the proportion of Canadian jobs in this industry located in Québec slipped from 30.3% to 22.2%.

TABLE 10

**Employment in the information technology services industry according to the *Survey of Employment, Payrolls and Hours*, Québec, Ontario, British Columbia and Canada, 1998-2006**
(Number and per cent)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **Number** | | | | | | | | | |
| Québec | 33 988 | 36 641 | 41 117 | 43 369 | 43 275 | 40 087 | 36 847 | 35 520 | 37 037 |
| Ontario | 49 429 | 64 402 | 77 490 | 80 170 | 79 870 | 76 241 | 74 256 | 75 463 | 79 024 |
| British Columbia | 11 020 | 13 305 | 16 764 | 18 526 | 18 946 | 21 226 | 20 557 | 21 968 | 22 771 |
| Canada | 112 263 | 134 920 | 158 632 | 168 660 | 168 903 | 163 781 | 156 743 | 158 973 | 166 592 |
| **Share in Canada (%)** | | | | | | | | | |
| Québec | 30.3 | 27.2 | 25.9 | 25.7 | 25.6 | 24.5 | 23.5 | 22.3 | 22.2 |
| Ontario | 44.0 | 47.7 | 48.8 | 47.5 | 47.3 | 46.6 | 47.4 | 47.5 | 47.4 |
| British Columbia | 9.8 | 9.9 | 10.6 | 11.0 | 11.2 | 13.0 | 13.1 | 13.8 | 13.7 |

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*.

These poor results are likely due to a number of reasons, including the very rapid growth of the financial sector in Ontario and British Columbia. The development of the financial sector has a direct impact on employment growth in information technology, since the financial sector is a major customer of this type of technology.

A second compilation, based on the results of Statistics Canada's *Labour Force Survey* leads to the same observations, though with some nuances.[35]

— For service jobs, Québec's share of Canadian jobs stabilized at around 22% between 1998 and 2005.

— The picture improved slightly in 2006. According to the survey, Québec's share rose to just over 25% in 2006, contradicting the trend of previous years and not confirmed by the *Survey of Employment, Payrolls and Hours*.

TABLE 11

**Employment in the information technology services industry according to the *Labour Force Survey*, Québec and Canada, 1998-2006**
(Number and per cent)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **Number** | | | | | | | | | |
| Québec | 40 400 | 52 900 | 54 600 | 52 600 | 55 600 | 57 700 | 55 100 | 56 500 | 67 700 |
| Canada | 179 500 | 221 200 | 247 000 | 255 300 | 247 900 | 260 300 | 251 200 | 264 900 | 270 800 |
| **Québec's share in Canada (%)** | 22.5 | 23.9 | 22.1 | 20.6 | 22.4 | 22.2 | 21.9 | 21.3 | 25.0 |

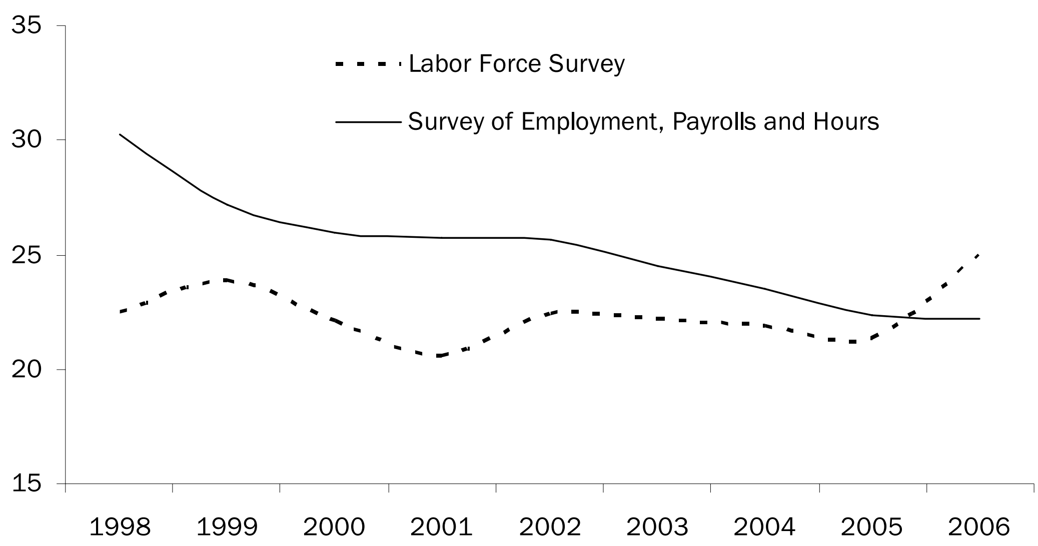
N.B. Statistics Canada's Labour Force Survey includes self-employed workers.
Source: Statistics Canada, *Labour Force Survey*.

35 In contrast to the *Survey of Employment, Payrolls and Hours*, the *Labour Force Survey* is a general survey carried out on the population. It includes self-employed workers, which the other survey does not since it covers businesses.

A comparison of the results of the two compilations confirms that Québec's share of jobs in the information technology services industry in Canada did not grow between 1998 and 2005.

CHART 13

**Québec's share in the information technology services industry in Canada, 1998-2006**
(Per cent)




Sources: Statistics Canada, *Labour Force Survey* and *Survey of Employment, Payrolls and Hours*.

## ■ The impact of the tax assistance measures: no effect outside designated sites, many undeniable successes

The Task Force obviously wondered whether these mixed results, to say the least, meant that the tax assistance measures put in place by the Québec government had failed to achieve their objective.

— There is no escaping the conclusion that since 2000, there has been no overall job creation in the information technology services industry.

Just over 10 000 jobs have indeed been created in designated sites.[36] However, when this observation is compared with the results of the above surveys, the conclusion that emerges is that the tax assistance measures caused a concentration of jobs of the services component of information technology within these designated sites – the jobs created corresponding on the whole to job losses in the rest of Québec.

36 See below, page 87.

Accordingly, Québec has not succeeded in making up ground in this activity sector compared to the rest of Canada.

— In spite of everything, Québec's information technology services industry can lay claim to a few undeniable success stories.

  During the consultations, many of them were brought to attention of the Task Force. These successes illustrate Québec's capacity to attract or give rise to companies that are outstanding and innovative on the world stage, in the information technology sector.

**Success Stories Worthy of Mention**

The Task Force learned of many success stories worthy of mention in Québec's information technology sector. Three of them deserve mention.

**SAP Labs Canada: innovative software**

SAP Labs Canada, a division of SAP Canada Inc., is one of eight research laboratories around the world developing software solutions for SAP AG of Germany, a world leader in management software applications.

SAP Labs Canada moved into Montréal's Cité du multimédia in 1999. The company expanded, reaching 370 full-time jobs. These employees develop applications in fields such as retail trade, public services, mobility and customer relations management. These solutions help companies maximize the efficiency of their operations, their competitive position and growth.

The tax assistance measures played a decisive role in bringing a major foreign company in the information technology sector to Québec and helping it flourish here, while enabling it to create high value-added jobs with significant innovation content. The assistance also allowed SAP Labs Canada to import foreign know-how and create opportunities for Canadians through cooperation with local and national universities and thousands of external consultants and developers in Canada.

**Taleo Canada Inc.: a world leader**

Taleo Canada Inc. is located in the Centre national des nouvelles technologies de Québec. Formed in 1996, the company has become the world leader in electronic management solutions for assessing and upgrading worker skills.

The company has 650 employees throughout the world, almost half of them in Québec City. Thanks to the tax assistance measures, the company has concentrated almost all its innovation activities in Québec City. It earns almost 90% of its income abroad.

**Frima Studio Inc.: rapid growth, diversified products**

Frima Studio Inc. is also located in the Centre national des nouvelles technologies de Québec. The company specializes in designing interactive and animated entertainment products. Its customers are international entertainment companies, television networks and publishers of video games and games for mobile telephones.

In less than four years, the company has grown from 4 to 81 employees. The tax assistance measures have enabled it to diversify its activities by developing new products and recouping the cost of developing games over shorter periods.

## ❑ A labour market that has changed profoundly

Still concerning the sector's overall situation, the Task Force noted the rapid change of the labour market in the information technology sector over the last ten years.

As we noted at the beginning of the report, the assistance measures for the new economy were put in place in particular to support jobs for young people and thus facilitate their entry on the labour market in a promising sector.[37] At the time, many young people entered this field but job openings were relatively few.

The situation has turned around completely since then.

— After 2000, the bursting of the technology bubble was followed by a substantial drop in student enrolment in information technology programs. Since then, the sector's relative stagnation in terms of jobs has resulted in a continuation of this decline. Accordingly, between 2000 and 2006, the number of students enrolled in computer science at the college and university levels in Québec fell by just over 52%, while between 2000 and 2005, the number of graduates dropped by almost 13%.

— At the same time, the number of jobs offered in the information technology sector remained relatively stable.

During the consultations, businesses pointed out that experienced employees were difficult to recruit. Québec's universities and CEGEPs are not producing enough graduates to meet employers' demand.

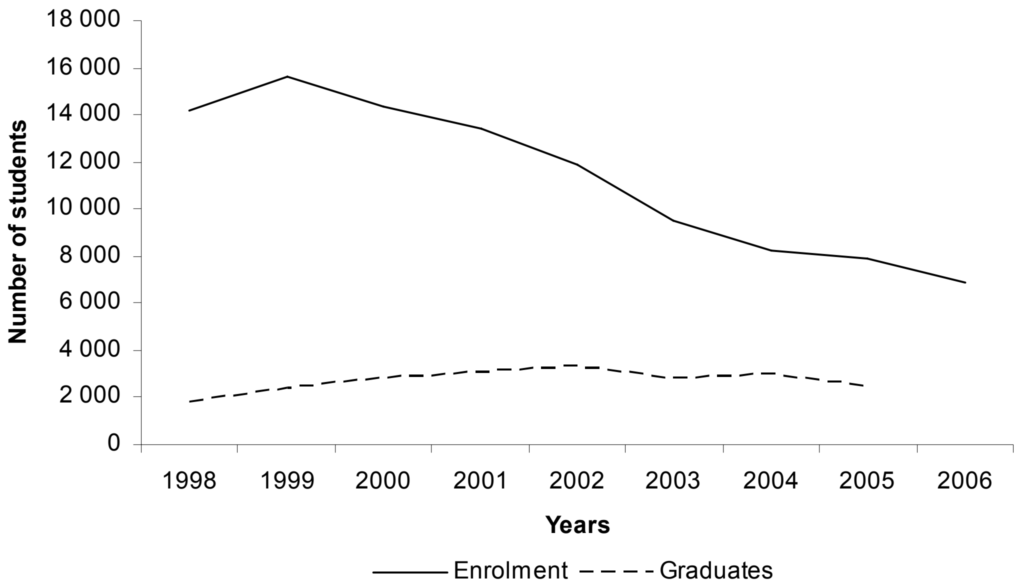
However, the situation is not critical. Businesses appear to be adapting quickly to this new situation: they are investing more in training, holding hiring campaigns in education and training institutions, and are attempting to interest and secure the loyalty of future workers in the sector.

It is important to underscore this new challenge facing new economy businesses, which only confirms the importance of training and education for future development.

37 See above, page 11.

CHART 14

**Number of students enrolled and graduates in computer science at the college and university levels in Québec, 1998-2006**
(Number)




Source: TechnoCompétences.

## 3.1.2 Strategic assistance, but many aspects must be reviewed

For the Task Force, it is clear that the government assistance measures for the new economy must be maintained, provided they are better targeted and their shortcomings are corrected.

### ❑ Necessary assistance measures

What we observe in the world leads us to consider these assistance measures as necessary, if we do not want to miss out on growth in high value-added activities, with a significant innovation component and fuelled by growing demand and extremely rapid technological advances.

During the consultation, businesses that benefit from tax assistance for the new economy pointed to many of their advantages. As with the tax assistance measures for the resource regions, businesses appreciate the simplicity of the assistance measures and the predictability of the calculation based on payroll.

Some of the pernicious effects deplored in the case of assistance measures for the resource regions do not apply in this case:

- Calculating assistance on the basis of payroll does not appear to have had a negative effect on productivity. In the new information technology sector, and the new economy in general, productivity depends almost exclusively on jobs. The sector uses little in the way of equipment and thus there is a direct link between number of employees and business productivity.
- Assistance is determined according to salaries paid, not calculated on the basis of a fixed year in time. Accordingly, the criticisms tied to this detail are not relevant here.

However, many aspects of the existing assistance measures for the new economy cause problems. In order to correct them, he Task Force examined four of these problems that seemed especially preoccupying.

### ❑ The designated site concept: much criticism

As has previously been noted, the designated site concept was intended primarily to control the costs of tax assistance for information technology. The tax measures defined by the government were generous and the government could not afford to offer such substantial support without attaching strict guidelines. The idea of a designated site, which is found in many foreign jurisdictions, provided a way to limit the number of recipient businesses, while anticipating the positive effects on the sector itself.

During the consultation, the Task Force was made aware of many criticisms, essentially from recipient businesses.

- It seems clear that the expected synergy effects from locating a large number of businesses operating in the same sector in the same site were over-estimated. On the contrary, entrepreneurs emphasized the competition in the sector and the worries caused by proximity with competitors.
- In one case, the Task Force was told of the lack of adequate infrastructures. Designated sites that were supposed to house companies at the cutting edge of technology could not offer facilities corresponding to the desired level of excellence.
- Above all, the loudest criticism concerned the impact of designated sites on the rents paid by companies. Designated sites created a rent in favour of the real estate developers that built the sites and to which a monopoly had in most cases been given. Rents in designated sites quickly exceeded market levels. This situation had a number of effects.
    - A portion of the assistance granted by the government to businesses in the new information technology sector was transferred to real estate

developers to whom the task of building and managing designated sites had been assigned.

— Other real estate developers decided not to undertake large-scale projects – Montréal suffered most from this phenomenon.

Such distortions on the real estate market had little, if any, effect in Québec City. In the Centre national des nouvelles technologies de Québec, the government allowed competition among a number of real estate developers.

On the whole, it must be concluded that in defining tax assistance measures based on a territorial perimeter, the government made a mistake. For the Task Force, it would have been much preferable to structure the assistance measures based on the nature of the activities.

Lastly, it should be noted that the designated site concept had a very positive impact on the revitalization of certain districts, in Montréal and especially in Québec City.[38] This is somewhat of an incidental effect that should not detract from the many criticisms received throughout the consultation – and which by itself cannot justify the territorial approach.

### ❑ Support for jobs that are easily offshored

It has already been mentioned that businesses in the information technology sector face fierce global competition. For them, it is essential to continue growing while remaining profitable. To achieve this, they do not hesitate to offshore part of their jobs to countries where salaries are lower, to reduce their costs.

In practice, businesses will offshore low value-added jobs and jobs that do not correspond to so-called local services, i.e. offered to business clients in Québec.

The Task Force noted that in many situations, the tax assistance measures for the new economy simply postponed the offshoring of jobs, delaying a phenomenon that will happen sooner or later. The Task Force questions whether such assistance is worthwhile.

This phenomenon is even more troubling where it applies to very large companies that demand that assistance measures be maintained failing which jobs would be transferred elsewhere - thereby in a sense threatening the government.

The Task Force believes that the purpose of tax assistance measures is not to delay processes that will happen in any case. The principle of efficiency, stated at the beginning of this report, aims for economic support measures to ensure development of the recipient businesses in the medium and long term.[39] Support for jobs that are easily offshored does not correspond to this vision.

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38 The same phenomenon has been noted in Sherbrooke and Gatineau.
39 See above, page 17.

## ❑ Lack of discrimination based on value-added

The Task Force notes that the tax assistance measures for the new economy have no provision specifically targeting high value-added jobs.

- The Task Force questions whether it is worthwhile supporting service activities in Québec with low value-added and whose presence is tied first and foremost to proximity to the client company.[40] In addition, low value-added jobs are most often those that are most easily offshored: in this way, jobs that would leave Québec, should the assistance measures end, are artificially maintained here.
- The lack of discrimination based on value-added, in the assistance measures for the new economy, results in supporting jobs that create little wealth. It would be preferable to concentrate on strategic high value-added jobs, maximizing the assets Québec can rely on compared to emerging countries.

  However, the Task Force was made aware of the shot in the arm government assistance provided in some cases for expansion on external markets.

## ❑ Support for shifting jobs within Québec

The, in part, illusory nature of the new jobs in designated sites has already been mentioned: in fact, these new jobs often resulted simply from shifting jobs within Québec.

In 2006, and according to estimates from Investissement Québec and the ministère des Finances, roughly 55% of the 22 000 jobs in designated sites were jobs that had been shifted, i.e. jobs that already existed but were transferred to the designated site when the recipient company signed the lease.
These shifts occurred within the same business. Employees had to move to facilities located in a designated site for the business to receive the tax assistance.

In addition, employment shifting occurred between two different businesses: here again, the tax assistance measures resulted in encouraging businesses to outsource their information technology services to other businesses supplying such services and located in a designated site. The outsourcing led to the physical transfer of employees within designated sites, the client business and the business supplying the service doubtless sharing the gains resulting from the tax assistance measures.

These shifts produced no new jobs in Québec, while accessing a substantial share of the tax assistance measures.

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40 Before the Board of Trade of Metropolitan Montreal, the President and CEO of CGI, Michael E. Roach, recently pointed out that in information technology services, proximity is a key argument: the client wants his supplier close at hand to be on site quickly to resolve any problems. See Le Québec, un concurrent à l'Inde ?, Alain Beaulieu, Direction Informatique.com, July-August 2007 issue.

TABLE 12

## Jobs in designated sites, 2006

(Number)

| Designated sites[1] | Businesses | Jobs per designated site[2] Shifted[3] | Current | Created[4] |
|---|---|---|---|---|
| CNÉ | 206 | 4 105 | 6 874 | 2 769 |
| CM | 66 | 2 315 | 4 665 | 2 350 |
| CNNTQ | 61 | 928 | 1 952 | 1 024 |
| CDTI | 40 | 367 | 1 430 | 1 063 |
| CDB | 12 | 137 | 245 | 108 |
| ECP | 4 | 4 290 | 7 037 | 2 747 |
| **TOTAL** | **389** | **12 142** | **22 203** | **10 061** |

1 CNE (new economy centre), CM (Cité du multimédia), CNNTQ (Centre national des nouvelles technologies de Québec), CDTI (information technology development centre), CDB (biotechnology development centre), ECP (E-Commerce Place).
2 Jobs correspond to the total jobs of businesses located in a designated site or building (eligible or not).
3 Job shifting associated with the arrival of the business in the designated site.
4 Jobs created include shifts resulting from an outsourcing contract between a client business and a supplier of services eligible for tax assistance in a designated site.
Sources: Investissement Québec and ministère des Finances du Québec.

The Task Force sees job shifting as a clear deviation from the stated objectives. There have been some cases of actual "offshoring" of jobs within Québec, which certainly was not the desired outcome. The very existence of designated sites explains this shifting phenomenon, which is less likely to occur with measures targeted on the basis of the nature of the activities.

### ❑ The specific case of the four other sectors of the new economy

The observations made so far concern new information technologies, which form the bulk of the new economy sector concerned by the tax assistance measures.

As mentioned at the beginning of the report, four other sectors traditionally included in the new economy are also targeted by certain tax credits offered by the government.[41] They are the materials technologies, scientific and technical services, production technologies, and biotechnology sectors. These four sectors are eligible under certain conditions for the assistance provided for new economy centres and biotechnology development centres.

41 See above, page 11.

In fact, these four sectors have been indirectly affected by the tax assistance for the new economy.

- In the case of new economy centres, the government wanted to enable the regions of Québec to participate in the development of a promising sector by supporting activities relating to innovation, technology adaptation and product development in every sector of the knowledge-based economy. The strategy involved broadening eligible activities as much as possible to ensure the success of designated sites in the regions and support innovation there.
- The biotechnology development centres had a very specific target, namely support for very small businesses in need of basic infrastructure to start up.

The Task Force makes the following observations concerning these sectors:

- First, the importance of these tax assistance measures has been limited for these four sectors: in all, they received only 4% of the overall assistance of $185 million paid under the tax assistance measures for the new economy.
- Designated sites, in the case of the new economy centres, have proven to be even less adapted to needs than in the case of new information technologies.
- International competition does not appear as strong as for new information technologies.
- However, the Task Force acknowledges that these sectors have spawned many innovative activities and that innovation must be encouraged.

In the case of these four sectors, the difficulty stems from heterogeneous nature of the businesses concerned: these sectors include very large pharmaceutical groups as well as very small businesses created by young researchers from the university community, global consulting-engineering firms as well as SMEs created by engineers in promising fields.

Apart from the activities normally eligible for tax assistance for R&D, it is extremely difficult to identify the truly innovative part of the activities of these companies. That is why the government has had to define eligible activities in the designated sites almost on a case-by-case basis.

The Task Force does not believe that general application tax assistance is adapted to such diversified activity sectors. It would be better to use budgetary assistance programs, integrated within a comprehensive policy of support for innovation. The Task Force has formulated its recommendations accordingly.

## 3.2 Recommendations

At the conclusion of its analysis, the Task Force makes the following recommendations concerning tax assistance measures for new information technologies.

### 3.2.1 Maintain tax assistance measures for new information technologies

The Task Force notes that the new information technology sector is an innovative sector where Québec can hope to maintain a significant place thanks to the qualification of its work force.

This sector faces very stiff global competition, and this competition among businesses is in part skewed by the direct interventions of governments.

For the Task Force, the government must renew the clear signal previously given to confirm the importance it places on the information technology sector as part of its policy on economic development and repositioning of Québec's economy to face emerging countries.

During the consultation, differing messages were received concerning whether or not to maintain the tax assistance measures: some participants wanted them to be maintained while others contested their continuing usefulness.

However, all the people we met with stressed the importance of supporting the sector. No clear consensus emerged as to the form of the support.

*Recommendation*

3.2.1

*The Task Force recommends that the government maintain the tax assistance measures for businesses in the information technology sector.*

### 3.2.2 Tax assistance for businesses carrying out innovative activities

The Task Force believes it is important that the assistance provided encourage the creation of high value-added activities and, for that reason, that the assistance benefit innovative activities.

This will help achieve two objectives: targeting tax assistance will encourage the creation of wealth while removing jobs that are easily offshored from the field of application.

The Task Force makes a specific recommendation concerning the activities that should be supported in the information technology sector.

According to this recommendation, two activities that are currently supported by tax assistance measures would no longer be. They are:

— the operation of an e-business solution (this refers to the processing of electronic transactions over a transactional website);

— the operation of a customer contact centre, such as a customer relations management service, stemming from e-commerce activities.

*<u>Recommendations</u>*

3.2.2

*The Task Force recommends that the government:*

*a) provide tax assistance for the information technology services industry to businesses carrying out innovative activities;*

*b) more specifically, have the supported activities in the information technology sector correspond to the development and supply of products and services relating to e-business – such as*

- *consulting services relating to systems development,*
- *technology architecture upgrading,*
- *design and development of e-commerce solutions.*

### 3.2.3 Extend tax assistance to all of Québec

For the Task Force, it is important to end the experiment of designated sites, and thus extend the application of tax assistance for information technologies to all of Québec.

*<u>Recommendation</u>*

3.2.3

*The Task Force recommends that the government apply the tax assistance for businesses in the information technology sector throughout Québec.*

### 3.2.4 A refundable tax credit calculated on salaries

The Task Force hopes that the government will retain the existing form of the tax assistance measures, while changing certain calculation rules.

Accordingly, the Task Force recommends maintaining a refundable tax credit defined on the basis of salaries paid.

However, it proposes that the rate and the upper limit of the tax credit be changed:

— Currently, in most cases the tax assistance is equal to 40% of salaries paid, up to a maximum of $15 000 per job, per year.

— The Task Force proposes reducing the refund rate to 30% but raising the upper limit on payments to $20 000 per job, per year.

The amount of the tax credit would thus be comparable with tax credits paid for research and development on the salaries paid to researchers. These tax credits are 37.5% for small businesses and 17.5% for large companies, but with no upper limit.

*Recommendation*

3.2.4

*The Task Force recommends that the government define the tax assistance for businesses in new information technology sector in the form of a refundable tax credit, equal to 30% of salaries relating to eligible jobs, to a maximum of $20 000 per job, per year.*

### 3.2.5 A minimum critical mass

The Task Force considers that the tax assistance for new information technology businesses must apply to firms with a minimum critical mass. The point is to support businesses with serious chances of success, while avoiding spreading the support provided by the government too thinly.

The proposed criterion – more than five eligible jobs – is the one used in the Taxation Act to distinguish a small business from a personal service business.

*Recommendation*

3.2.5

*The Task Force recommends that the tax assistance apply to businesses in the information technology sector with more than five eligible employees.*

### 3.2.6 Time-limited measures

The principles of stability and accountability invoked in the case of tax assistance for the resource regions apply here:[42] the Task Force recommends that the tax assistance measures for new information technology businesses be time-limited.

The Task Force proposes that the government commit to applying the assistance program until 2015. Until then, the government would assess the program and the results obtained.

*Recommendation*

3.2.6

*The Task Force recommends that the government apply the tax credit for new information technology businesses for a time-limited period:*

- *for the business, the assistance would apply to eligible jobs during the length of the program;*
- *the assistance program itself would end in 2015 and the government would carry out an assessment of it before then, as in the case of investment assistance for businesses in the remote regions.*

### 3.2.7 Transitional measures

The transitional measures recommended by the Task Force are the same as in the case of tax assistance for the remote regions.

*Recommendation*

3.2.7

*The Task Force recommends that the government adopt a transitional measure that allows businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.*

42 See above, pages 20 and 63.

### 3.2.8 The other sectors of the new economy

In addition to new information technologies, four other activity sectors are usually included in the new economy. They are the materials technologies, biotechnology, scientific and technical services, and production technologies sectors.

The Task Force considers that the tax assistance measures that have just been defined should not apply to these sectors.

— The contours of these activity sectors are ill-defined. General application tax measures such as the measures concerning the new information technology sector would, for this reason, be inappropriate and poorly adapted.

— It would be much preferable to have business in these sectors benefit from budgetary measures, which are much easier to target and calibrate if the objective is to support innovation in these sectors.

*Recommendation*

3.2.8

*The Task Force recommends that the government avoid any general application tax measure for the materials technologies, biotechnology, scientific and technical services, and production technologies sectors.*

*Rather, the Task Force suggests that the government define budgetary measures for business in these sectors if it wants to support innovation in these sectors.*

### 3.2.9 The significance of the recommendations on the tax assistance measures for new information technologies

As in the case of the tax assistance measures for the resource regions, the Task Force wishes to conclude the section on tax assistance measures for the new economy by explaining the significance of its recommendations.

#### ❑ Offer businesses in Québec support similar to what their competitors receive

The new tax assistance program for new information technology businesses would provide businesses in a strategic sector of Québec's economy with assistance placing them in a position equivalent to that of their foreign competitors.

### ❑ The end of designated sites

The government would put an end to a major pernicious effect of the existing assistance measures by extending the measures to all of Québec.

- The new assistance would apply to all eligible businesses, regardless of where they are located. That would be in keeping with the very essence of this assistance, which is to support a sector, not a territory.
- The government would act on its commitment to terminate the designated site concept.
- The positive effects of designated sites noted in the case of downtown Québec City should not be called into question, as the goal of revitalization has been achieved. In the future, if the government wishes to revitalize town centres or certain districts, it should define specific measures to achieve that goal.

### ❑ Link access to the measures to the value-added of supported jobs

These same recommendations, if they are applied by the government, would remedy another weakness of the existing measures, i.e. the lack of discrimination on the basis of value-added.

The government would no longer support less innovative jobs that are also the most easily offshored.

Accordingly, service activities, such as technical assistance, would no longer receive government assistance.

As previously noted, the Task Force is convinced that the continuation of these activities in Québec is not directly linked to government assistance, but to the presence, in Québec, of the client business – the business purchasing outsourcing services.

### ❑ The end of subsidies for simply shifting jobs

The recommendations would put an end to subsidies for simply shifting jobs within the same business, thanks to the end of designated sites.

### ❑ Simple terms and conditions, equivalent support

The tax assistance for information technologies proposed by the Task Force would retain the terms and conditions whose simplicity and predictability have been pointed out.

Moreover, according to the estimate done by the ministère des Finances at the request of the Task Force, the support provided for information technologies would be at least equal to the tax assistance measures for the new economy: over a full year, the cost of the measure is estimated at $190 million, compared with $185 million allocated in 2006 to the tax measures for the new economy.

TABLE 13

**New tax credit tied to the information technology sector – estimate and comparison of costs[1]**
(Millions of dollars)

| Tax credits | Cost of tax credits |
|---|---|
| **New tax credit (applicable to all of Québec)** | **190** |
| **Existing tax assistance measures (applicable in designated sites) including:** | **185** |
| Cité du multimédia | 37 |
| New economy centres | 39 |
| E-Commerce Place | 74 |
| Information technology development centres | 19 |
| Centre national des nouvelles technologies de Québec | 14 |
| Biotechnology development centres | 2 |

1 The cost of tax assistance measures tied to designated sites corresponds to 2006.
Source: Ministère des Finances du Québec.

# Conclusion

In concluding its report, the Task Force wishes to recall the spirit in which it wanted to carry out the mandate it received from the government, as well as the nature of the recommendations it has made.

The Task Force has tried to make its answers to the questions put to it as clear as possible. It did so with the help of a consultation and studies that enabled it to see, on the ground, the impact of the tax assistance measures put in place by the government.

As we have seen, the recommendations concern the use of tax assistance measures as economic intervention measures, support for the resource regions and support for the new economy.

These recommendations form an integrated whole.

- They reflect a comprehensive vision concerning the role that the government of a developed country can play to support regions in difficulty and an activity sector considered strategic.
- They confirm the central role played by private businesses in the creation of wealth and economic development.
- They propose options for the government that could be used to support private investment in Québec as a whole.

These recommendations are made in a constructive spirit. They are driven by the conviction that it is possible for the most disadvantaged regions to enjoy greater prosperity and that Québec has the resources needed to maintain its place in activity sectors tied to the new economy.

The Task Force hopes that the proposed initiatives meet the government's expectations, and that once they are implemented, they will quickly produce the anticipated results.

# APPENDICES

## Appendix 1: Recommendations

This appendix lists the recommendations made by the Task Force according to the various sections of the report.

### ❑ The use of tax assistance as an economic intervention measure (section 1)

#### ■ Some basic principles (section 1.1)

a) In general, it is important that the government, in defining business assistance measures, abide by a number of basic principles. Business assistance measures must:

- seek to enhance the efficiency of the businesses targeted by the measures,
- not lead to unfair competition,
- last for a set time,
- be easy to understand,
- not give rise to exaggerated administration and compliance costs when applied,
- come with objectively defined application criteria,
- be applied in compliance with the commitments made by the government when they were implemented,
- be predictable,
- come with a measure of stability.

b) the Task Force therefore recommends that the tax assistance measures it has been asked to study expire as stipulated.

c) To ensure sound management of public funds:

- business assistance measures must be subject to appropriate controls,
- business assistance measures must be linked to measurable results,
- the net impact of assistance measures must be assessed periodically (implementation of the information systems to carry out such assessments).

## ■ Tax measures or direct assistance? (section 1.2)

The Task Force recommends that the government continue to use tax measures in implementing its business support policies, provided the principles stated earlier are adhered to.

Direct or budgetary assistance measures also have a role to play. For the Task Force, they constitute an efficient tool for supporting businesses, once again provided the principles the Task Force has stated are adhered to.

## ■ Administration and control of tax measures (section 1.3.3)

Concerning the administration and control of the tax measures, the Task Force makes three recommendations:

a) As indicated earlier, business assistance measures should be subject to rigorous controls.

b) Two-fold controls must be maintained – a control on eligibility and a control on compliance.

c) The administration and control of tax measures must ensure customer service that complies with the criteria retained by the Québec state regarding both time and fees charged.

At first sight, the existing division of responsibilities between Investissement Québec and Revenu Québec satisfies these recommendations.

## ❑ Support for the resource regions (section 2)

### ■ The very principle of tax assistance measures for the resource regions (section 2.2.1)

The Task Force recommends that tax assistance measures for certain less developed regions be maintained, provided:

— they benefit the regions for which such assistance is justified;

— they encourage the businesses concerned to improve efficiency and productivity.

### ■ Tax assistance for the remote regions (section 2.2.2)

The Task Force recommends that the government:

a) define assistance to the less developed regions on the basis of remoteness, as there is a close link between remote regions and regions in difficulty;

b) replace tax measures for the resource regions with tax assistance measures for remote regions;

c) apply specific budgetary assistance programs for regions in difficulty that do not have to overcome the obstacle of remoteness.

### ■ The proposed territorial definition (section 2.2.3)

The Task Force recommends that the government:

a) with some exceptions, define the territorial application of assistance measures for the remote regions at the regional level;

b) use the distance criterion;

c) identify three zones, as follows:

   — a zone located less than 200 km from the centre of one of the three metropolitan regions of Montréal, Québec City and Gatineau,

   — a zone located between 200 km and 300 km from the centre of one of these three metropolitan regions,

   — a zone located more than 300 km from the centre of one of the three metropolitan regions.

- **A refundable investment tax credit (section 2.2.4)**

The Task Force recommends that the government:

a) pay this assistance to the entire manufacturing sector, rather than limiting it to certain activity sectors;

b) define the assistance as a refundable investment tax credit with a rate of 40% in the most remote zone and 20% in the intermediate zone, the tax assistance for remote regions thus becoming investment assistance for businesses in remote regions;

c) exclude large companies from this assistance by restricting the investment tax credit to businesses with less than $250 million in paid-up capital;

d) apply the investment tax credit to purchases of manufacturing and processing equipment (assets in class 43, according to Revenu Québec's nomenclature);

e) set a target for investments made by businesses in the resource regions covered by the measure, and measure the results obtained in terms of productivity.

- **Time-limited measures (2.2.5)**

The Task Force recommends that the government apply the investment tax credit for businesses in remote regions for a time-limited period,

— for a business, the assistance would apply each time it makes eligible investments;

— the assistance program itself would end in 2015 and the government would carry out an assessment of it before then.

- **Transitional measures (section 2.2.6)**

The Task Force recommends that the government adopt a transitional measure that allows businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.

### ■ Special measures for Gaspésie–Îles-de-la-Madeleine (section 2.2.7)

In addition to applying the new investment assistance for businesses in remote regions, the Task Force recommends that the government:

a) apply a tax credit for processing activities to businesses in Gaspésie–Îles-de-la-Madeleine;

   — The measure would apply to all manufacturing activities (including processing of sea products and wind-power), subject to certain size criteria concerning eligible businesses (whereas the existing tax credit applies only to secondary and tertiary processing).

   — This tax credit would apply to new jobs created as of 2008.

   — The rate would be set at 20% compared with the existing rate of 30% or 40%, as the case may be.

b) maintain the tax credit for Gaspésie and certain maritime regions of Québec for the marine biotechnology and mariculture components;

   — This credit would not apply to processing of sea products or to wind-power, like the existing tax credit.

   — As is currently the case, it would be a tax credit of 40% on wages paid.

c) stipulate that the two measures end in 2015 and that the government assess them before then.

d) allow businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.

## ❑ Support for the new economy (section 3)

### ■ Maintain tax assistance measures for new information technologies (section 3.2.1)

The Task Force recommends that the government maintain the tax assistance measures for businesses in the information technology sector.

### ■ Tax assistance for businesses carrying out innovative activities (section 3.2.2)

The Task Force recommends that the government:

a) provide tax assistance for the information technology services industry to businesses carrying out innovative activities;

b) more specifically, have the supported activities in the information technology sector correspond to the development and supply of products and services relating to e–business – such as

   — consulting services relating to systems development,

   — technology architecture upgrading,

   — design and development of e-commerce solutions.

### ■ Extend tax assistance to all of Québec (section 3.2.3)

The Task Force recommends that the government apply the tax assistance for businesses in the information technology sector throughout Québec.

### ■ A refundable tax credit calculated on salaries (section 3.2.4)

The Task Force recommends that the government define the tax assistance for businesses in the new information technology sector in the form of a refundable tax credit, equal to 30% of salaries relating to eligible jobs, to a maximum of $20 000 per job, per year.

- **A minimum critical mass (section 3.2.5)**

The Task Force recommends that the tax assistance apply to businesses in the information technology sector with more than five eligible employees.

- **Time-limited measures (section 3.2.6)**

The Task Force recommends that the government apply the tax credit for new information technology businesses for a time-limited period:

— for the business, the assistance would apply to eligible jobs during the length of the program;

— the assistance program itself would end in 2015 and the government would carry out an assessment of it before then, as in the case of investment assistance for businesses in the remote regions.

- **Transitional measures (section 3.2.7)**

The Task Force recommends that the government adopt a transitional measure that allows businesses to choose between the current assistance system and the new one, until the scheduled expiry of the existing assistance measures.

- **The other sectors of the new economy (section 3.2.8)**

The Task Force recommends that the government avoid any general application tax measure for the materials technologies, biotechnology, scientific and technical services, and production technologies sectors.

Rather, the Task Force suggests that the government define budgetary measures for business in these sectors if it wants to support innovation in these sectors.

# Appendix 2: The Task Force on Tax Assistance for the Resource Regions and the New Economy

## ❑ Members of the Task Force

### ■ Robert Gagné (chairman)

A graduate of the Université de Montréal in economics, Robert Gagné is a professor at HEC Montréal and the director of the Institut d'économie appliquée. His research and teaching is focused on the fields of the theory of production, industrial organization, the economics of regulation, transportation economics and applied econometrics.

In recent years, Mr. Gagné has co-chaired the Advisory Committee on the Fiscal Imbalance and held the CN Chair in transportation economics and intermodality. In 2002, Mr. Gagné was appointed a regular member of the Centre interuniversitaire sur le risque, les politiques économiques et l'emploi (CIRPÉE) and, in 1999, a member of the Centre interuniversitaire de recherche en analyse des organisations (CIRANO). He has been particularly interested in researching issues relating to business productivity, resource optimization and the transportation sector.

### ■ Guy Lacroix (member)

Guy Lacroix is a professor at the Université Laval, where he obtained his doctorate in economics. He specializes in labour economics, applied econometrics and public policy assessment.

In recent years, Mr. Lacroix has been a guest speaker and professor at many universities in Europe and Africa. He has acted as an adviser to the Auditor General of Québec in assessing programs. He was named president of the Société canadienne de sciences économiques for 2007-2008. Recently, Mr. Lacroix has published articles in scientific reviews dealing with wage subsidies and the underground economy.

### ■ Luc Godbout (member)

Luc Godbout holds a doctorate from the Université Paul-Cézanne-Aix-Marseille III. He is currently an associate professor at the Université de Sherbrooke, where he specializes in taxation and public finance.

In recent years, Mr. Godbout has accepted a number of assignments for the World Bank and the Canadian International Development Agency (CIDA). He contributed to the work of the Commission on the Fiscal Imbalance. He is also a member of the Research Chair in Taxation and Public Finance. Mr. Godbout recently conducted studies of the tax burden of corporations, the tax mix, taxation and the work incentive, the comparative tax effort in Canada, and equalization. He has also authored many texts on the fiscal imbalance. Most recently, his interest has been drawn to the impact of the aging of the population on Québec's public finances.

## ❑ The support team

Completing a project of this scope in such a short period of time requires the support and expertise of a large number of people. The members of the Task Force wish to acknowledge the contribution and dedication of the following people and those who work with them:

- Luc Bilodeau (secretary)
- Caroline Beauregard
- Bertrand Cayouette
- Éric Ducharme
- Denis Dufour
- Claire Fecteau
- Daniel Florea
- France Légaré
- Claire Massé
- Serge Matte
- Luc Monty
- Jean-Pierre Pellegrin
- Martin Picard
- Geneviève Rivard
- Nicolas Roy
- Marc Sirois
- Jean-François Thibault

# Appendix 3: The individuals and organizations consulted

## ❑ Description of the consultation process

In July 2007, the Task Force began its activities by releasing a discussion paper listing the various issues and challenges of the Task Force and inviting interested persons and organizations to take part in a consultation. The discussion paper raised the following questions to stimulate debate:

- What is your view on the very principle of tax assistance measures defined on the basis of territory or activity sector?
- What is your view on the impact of tax assistance:
  - for the businesses receiving it (manufacturing businesses in the resource regions and new economy businesses)?
  - on the development of territories (resource regions and designated sites) and sectors covered (manufacturing and new economy)?
  - on territories and businesses in Québec that do not benefit from these measures?
- What is your view on the cost of the tax assistance measures in question?
- What is your view on the termination of the tax assistance measures in question?

The consultations took two forms.

- First, interested stakeholders were invited to send their brief, opinion or comment to the Task Force’s website or by mail.
- The Task Force also travelled to eleven cities in Québec to have direct contact with the regions and sectors concerned by the tax assistance measures studied.

In so doing, the Task Force considers that it has been as open and transparent as possible, while maintaining the confidentiality of certain information that businesses wished to provide.

## ❑ Breakdown by region of the number of briefs received

The Task Force received a total of 163 briefs from most regions of Québec, with more (139) concerned with the tax assistance measures for the resources regions than with those for the new economy (40).[43] The breakdown by region and by sector of the number of participants who provided a document is given below.

TABLE A.1

**Briefs received: breakdown by region and by sector**

| | Total briefs received | | Resource regions | New economy |
|---|---|---|---|---|
| **Administrative regions** | **Number** | **Share (%)** | **Number** | **Number** |
| Bas-Saint-Laurent | 15 | 9.2 | 15 | 6 |
| Saguenay–Lac-Saint-Jean | 20 | 12.3 | 19 | 1 |
| Capitale-Nationale | 3 | 1.8 | 0 | 3 |
| Mauricie | 4 | 2.5 | 3 | 1 |
| Estrie | 0 | 0.0 | 0 | 0 |
| Montréal | 18 | 11.1 | 6 | 13 |
| Outaouais | 1 | 0.6 | 1 | 1 |
| Abitibi-Témiscamingue | 9 | 5.5 | 8 | 3 |
| Côte-Nord | 8 | 4.9 | 8 | 1 |
| Nord-du-Québec | 1 | 0.6 | 1 | 0 |
| Gaspésie–Îles-de-la-Madeleine | 10 | 6.1 | 7 | 3 |
| Chaudière-Appalaches | 65 | 39.9 | 63 | 6 |
| Laval | 1 | 0.6 | 0 | 1 |
| Lanaudière | 4 | 2.5 | 4 | 1 |
| Laurentides | 1 | 0.6 | 1 | 0 |
| Montérégie | 1 | 0.6 | 1 | 0 |
| Centre-du-Québec | 2 | 1.2 | 2 | 0 |
| **TOTAL** | **163** | **100.0** | **139** | **40** |

43 Since some briefs dealt with the tax assistance measures for the resources regions as well as those for the new economy, the total number of briefs by sector does not correspond to the total number of briefs received (163).

## ❑ List of persons and organizations the Task Force met with

During its tour, the Task Force met with representatives of 118 businesses and organizations, at their request or on its own initiative. Each participant who wished to meet the Task Force and requested as much by the stated deadline was contacted and offered a time slot.

The meetings were held as part of public or private sessions. In general, meetings with businesses were held in private while those with organizations were open to the public. All the public meetings were recorded and their entire content was made available on the internet (www.gtaf.gouv.qc.ca).

During its tour, the Task Force issued a daily press release relating the day's activities. The schedule of consultations and the list of businesses and organizations the Task Force met with follows (**those followed by an asterisk filed a brief**):

TABLE A.2

**Schedule of the Task Force's consultations, 2007**

| Dates | Regions | Place | Businesses | Organizations |
|---|---|---|---|---|
| September 11 | Abitibi-Témiscamingue | Val-d'Or | 4 | 4 |
| September 12 and October 5 | Montréal | Montréal | 5 | 13 |
| September 19 | Chaudière-Appalaches | Saint-Georges de Beauce | 9 | 10 |
| September 21 | Capitale-Nationale | Québec City | 6 | 1 |
| September 25 | Bas-Saint-Laurent | Rivière-du-Loup | 3 | 1 |
| September 25 | Bas-Saint-Laurent | Rimouski | 3 | 5 |
| September 26 | Gaspésie | Gaspé | 8 | 5 |
| September 27 | Saguenay–Lac-Saint-Jean | Saguenay | 9 | 10 |
| September 28 | Côte-Nord | Baie-Comeau | 7 | 2 |
| September 28 | Côte-Nord | Sept-Îles | 3 | 2 |
| October 12 | Mauricie | Shawinigan | 4 | 4 |
| **TOTAL** | | | **61** | **57** |

- **Val-d'Or (September 11, 2007)**
  - — Association des Centres locaux de développement de l'Abitibi-Témiscamingue*
  - — Chambre de commerce de Val-d'Or*
  - — Corporation de développement industriel et commercial de la région de Val-d'Or*
  - — Conférence régionale des élus de l'Abitibi-Témiscamingue*
  - — Géodéfor*
  - — Industries Béroma*
  - — Temisko*
  - — Uniboard Canada*

- **Montréal (September 12 and October 5, 2007)**
  - — Alliance numériQC*
  - — Centrale des syndicats démocratiques
  - — Centre local de développement économique de la MRC Les Moulins*
  - — CGI*
  - — Confédération des syndicats nationaux*
  - — Conférence régionale des élus de la Vallée du Haut-Saint-Laurent*
  - — Conférence régionale des élus de Lanaudière*
  - — CSC*
  - — Equisoft
  - — Canadian Federation of Independent Business*
  - — Fédération Québécoise des Municipalités*
  - — Isacsoft
  - — La Cité de la Biotechnologie et de la Santé humaine du Montréal métropolitain*
  - — Montréal international*
  - — SAP Labs Canada*
  - — Techno Montréal*
  - — TechnoCompétences*
  - — Ville de Montréal*

- **Saint-Georges de Beauce (September 19, 2007)**
  - — Centre local de développement de Beauce-Sartigan*
  - — Centre local de développement de Bellechasse*
  - — Centre local de développement de Nouvelle-Beauce*
  - — Centre local de développement des Etchemins*
  - — Chambre de commerce régionale de Chaudière-Appalaches*
  - — Chassé*
  - — Conférence régionale des élus de Chaudière-Appalaches*
  - — Conseil Économique de Beauce*
  - — Cuisines Laurier*
  - — Fédération de l'UPA de la Beauce*

- Groupe Canam*
- Industries Fournier
- Maire de Saint-Georges-de-Beauce
- Matiss*
- Municipalité régionale de comté de l'Amiante*
- N'Ware technologies*
- Produits de Bois Saint-Agapit*
- R.C.M. Modulaire*
- Supermétal Structures*

▪ **Québec City (September 21, 2007)**
- ABB Bomem
- Frimastudio*
- Groupe Trifide
- Korem
- NovAxis Solutions
- Plate-forme création multimédia*
- Taleo Canada

▪ **Rivière-du-Loup (September 25, 2007)**
- Chambre de commerce de la MRC de Rivière-du-Loup*
- Groupe CNP*
- Premier Tech*
- Viandes du Breton*

▪ **Rimouski (September 25, 2007)**
- Centre de recherche sur les biotechnologies marines*
- Centre local de développement de Rimouski-Neigette*
- Comité de concertation et démarchage stratégique – Région de Matane
- Conférence régionale des élus du Bas-Saint-Laurent*
- Groupe bois BSL*
- Pascal Bérubé, député de Matane
- Telus*
- Valoritremble*

▪ **Gaspé (September 25, 2007)**

- AAT (Groupe Ohméga)
- Chambre de commerce de Gaspé
- Conférence régionale des élus de la Gaspésie–Îles-de-la-Madeleine*
- Culti-mer
- Dégust-Mer
- Fumoirs Gaspé Cured
- Groupe RT*

— Kwatroe*
— La crevette du Nord Atlantique
— Pêcheries Marinard
— Président du Parti québécois pour la région de la Gaspésie et les Îles-de-la-Madeleine*
— Société de développement de l'industrie maricole*
— TechnoCentre éolien Gaspésie – les Îles*

- **Saguenay (September 27, 2007)**
  — Alumitherm International*
  — Association des centres locaux de développement du Saguenay–Lac-Saint-Jean*
  — Bleuets Sauvages du Québec*
  — Bois d'ingénierie Abitibi-LP
  — Caucus des députés du Saguenay–Lac-Saint-Jean*
  — Chambres de commerce du Saguenay–Lac-Saint-Jean*
  — Conférence régionale des élus du Saguenay–Lac-Saint-Jean*
  — FTQ Saguenay–Lac-Saint-Jean*
  — Lar Machinerie*
  — Mecfor*
  — Planchers de bois Mistral*
  — Promotion Saguenay*
  — REMAC Innovateurs Industriels*
  — Réseau des entreprises en technologies de l'information et des communications du Saguenay–Lac-Saint-Jean*
  — SKL Aluminium Technologie
  — Société de la Vallée de l'aluminium*
  — Société des fabricants régionaux*
  — Société des technologies de l'aluminium du Saguenay*
  — Table agroalimentaire du Saguenay–Lac-Saint-Jean

- **Baie-Comeau (September 28, 2007)**
  — Bersaco*
  — Boisaco
  — Centre local de développement de Manicouagan*
  — Conférence régionale des élus de la Côte-Nord*
  — Graniber*
  — Portes et moulures Ouellet
  — Ripco
  — Sacopan*
  — Voltige

- **Sept-Îles (September 28, 2007)**
  — Corporation de promotion industrielle et commerciale de Sept-Îles*
  — Imprimerie B & E*
  — Lorraine Richard, MNA for Duplessis
  — Soudo Technique*
  — Spécialité hydraulique Côte-Nord

- **Shawinigan (October 12, 2007)**
  — Centre local de développement de Shawinigan
  — Coalition des régions pour l'entraide économique équitable*
  — Composites VCI*
  — Conférence régionale des élus de la Mauricie*
  — Marmen*
  — Meubles Canadel et Les meubles GBRA
  — Société de développement économique de Trois-Rivières

## ❑ List of businesses and organizations that filed a brief but did not meet with the Task Force

The Task Force also received and studied many briefs submitted by businesses and organizations that were interested in the subject but did not meet with the Task Force.

- **Bas-Saint-Laurent**
  - — AMT, moulage sous pression
  - — Coalition des sept régions ressources
  - — Mémoire collectif de Groupe CNP, les Aliments ASTA, Premier Tech, Lepage Millwork, Les Viandes du Breton, Prelco et Glendyne
  - — MRC de Rimouski-Neigette, CLD de Rimouski-Neigette et Société de promotion économique de Rimouski
  - — Société d'aide au développement de la collectivité de La Mitis
  - — Table de concertation agroalimentaire du Bas-Saint-Laurent

- **Saguenay–Lac-Saint-Jean**
  - — Innovation industrielle Boivin
  - — Nature 3M
  - — Regroupement des chambres de commerce du Saguenay–Lac-Saint-Jean
  - — SKL Aluminium
  - — Voltam

- **Capitale-Nationale**
  - — Table des Technologies de l'Information du Grand Réseau des Acteurs et Promoteurs du Partenariat Économique

- **Mauricie**
  - — Chambre de commerce et d'industrie du Haut-Saint-Maurice
  - — Technopole de la Vallée du Saint-Maurice

- **Île de Montréal**
  - — Chambre de commerce du Montréal métropolitain
  - — Conférence régionale des élus de Montréal
  - — Conseil du patronat du Québec
  - — Ericsson
  - — Fédération des chambres de commerce du Québec

- **Outaouais**
  - — Conférence régionale des élus de l'Outaouais

- **Abitibi-Témiscamingue**
  - Chambre de commerce de l'Abitibi-Ouest (in partnership with the boards of trade of Rouyn-Noranda, Val-d'Or, Amos-région and Ville-Marie)
  - Plastiques G plus

- **Côte-Nord**
  - The socioeconomic partners of the Manicouagan RCM (Chambre de commerce de Manicouagan, Centre local de développement de Manicouagan, Société d'aide au développement de la collectivité de Manicouagan, Service d'actions entrepreneuriales Manicouagan, Ville de Baie-Comeau, Manicouagan RCM)
  - Joint brief from the Corporation de développement économique de Port-Cartier, the Corporation de promotion industrielle et commerciale de Sept-Îles, the Centre local de développement de Sept-Rivières, the Chambre de commerce de Port-Cartier, the Chambre de commerce de Sept-Îles, the Société d'aide au développement des collectivités de la Côte-Nord

- **Nord-du-Québec**
  - Conférence régionale des élus de la Baie-James

- **Gaspésie–Îles-de-la-Madeleine**
  - Comité de concertation et de démarche stratégique de la région de Matane
  - Municipalité des Îles-de-la-Madeleine et le Centre local de développement des Îles-de-la-Madeleine
  - Production Vic Pelletier
  - Table maricole

- **Chaudière-Appalaches**
  - Acier Trimax
  - Armoires G. Baron
  - Association de développement économique de la région de Chaudière-Appalaches
  - B.L. Matrices et Poinçons
  - Béton Bolduc
  - Centre local de développement de la MRC de Lotbinière
  - Centre local de développement de la MRC de Montmagny
  - Chambre de commerce de la MRC de Bellechasse
  - Chambre de commerce de Lévis
  - Chambre de commerce de Saint-Georges
  - Chambre de commerce et d'industrie de l'Amiante
  - Chambre de commerce et d'industrie de Montmagny
  - Clyvanor
  - Concept d'usinage de Beauce
  - Côté Inox

— Développement PME – Chaudière-Appalaches
— Ébénisterie Saint-Georges
— Escaliers Gilles Grenier
— Estampro
— Fabrication PFL
— GBO
— G.C. Bois Franc
— Husky
— Industries PHL
— Le spécialiste du bardeau de cèdre
— Les Industries T.A.G. Rive-Sud
— Lico
— Marcel Chamberland
— Métallurgie Castech
— Meuble Villageois
— MRC de la Nouvelle-Beauce
— Norgate Métal
— Paber Aluminium
— Perfect Bois
— Planchers Merciers
— Pôle Québec Chaudière-Appalaches
— Quéro Métal
— Rodrigue Métal
— Roméo Laflamme & Fils
— Société de développement économique de Lévis
— Société de développement économique de Thetford
— Technopôle de la région de Thetford
— Tibetral Système
— Toitures Fecteau
— Ultima fenestration
— Usimax
— Usinage Avant-Garde
— Ville de Montmagny

- **Lanaudière**
  — Accord-Structures complexes & Composantes métalliques
  — Centre local de développement d'Autray

- **Laurentides**
  — Conférence régionale des élus des Laurentides

- **Centre-du-Québec**
  — Centre local de développement de Bécancour
  — Conférence régionale des élus du Centre-du-Québec

## ❑ Experts encountered at the request of the Task Force and issues dealt with

The Task Force held additional meetings with experts to explore certain points more thoroughly.

The list of organizations and persons with whom the Task Force met and the issues dealt with, follows:

- E&B DATA: international review of the government support that other jurisdictions offer to specific territories and sectors.
- Investissement Québec: certification process, fees and prospecting activities with foreign companies.
- KPMG: study prepared for the ministère des Affaires municipales et des Régions.
- Ministère du Développement économique, de l'Innovation et de l'Exportation: description of economic development support programs and measures, and points for consideration regarding tax assistance measures for the resource regions.
- Patrice-Guy Martin, editor-in-chief of the magazine *Direction Informatique*: analysis of the information technology sector.
- Benoît Egan, Raymond Chabot Grant Thornton: analysis of the real estate market (designated sites).

# Appendix 4: A socio-economic profile of the resource regions

## ❑ Introduction

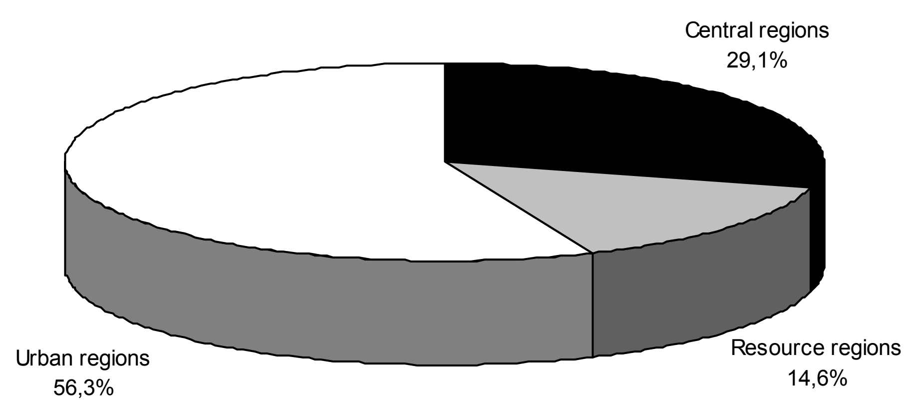
This appendix examines how the economy of Québec and its regions has changed over the last eight years. Particular attention is paid to the economy of the resource regions, which have benefited from support measures in the secondary and tertiary resource processing sectors.

For the purposes of the analysis, the regions have been grouped as follows:

- Urban regions, consisting of the Capitale-Nationale, Montréal, Laval and Montérégie (56.3% of Québec's population).
- The central regions, consisting of Estrie, Outaouais, Chaudière-Appalaches, Lanaudière, the Laurentides and the Centre-du-Québec (29.1% of Québec's population).
- The resource regions, consisting of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine (14.6% of Québec's population).

CHART A.1

**Distribution of Québec's population, 2006**
(Per cent)




Source: Institut de la statistique du Québec.

## ❑ Good economic growth in Québec

### ■ How Québec's economy has changed

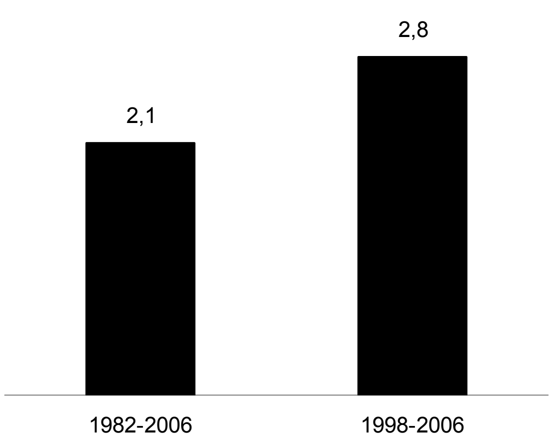
Québec enjoyed good economic growth between 1998 and 2006. Real gross domestic product (GDP) gained 2.8% per year on average. That is above the 2.1% average of the last 25 years.

In particular, real consumption spending grew by roughly 3% per year between 1998 and 2006. This performance was sustained in particular by the labour market's best performance in over 30 years:

- More than 500 000 jobs were created in Québec between 1998 and 2007 despite the problems in the manufacturing sector. Most of these jobs were full-time.
- A record proportion of Quebecers held a job in Québec while the employment rate hit a peak of 61% in 2007.
- The unemployment rate is at its lowest level in 33 years. It stood at 7.2% in 2007.

CHART A.2

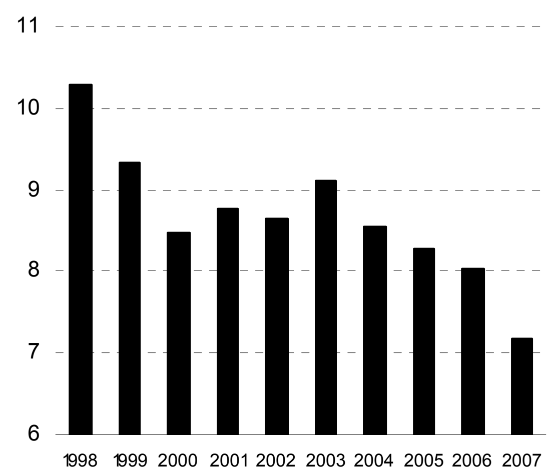
**Québec/s real gross domestic product,[1] 1982-2006 and 1998-2006**
(Annual percentage change)




1 2002 dollars.
Source: Institut de la statistique du Québec.

CHART A.3

**Unemployment rate in Québec, 1998 to 2007**
(Per cent)




Sources: Statistics Canada and Institut de la statistique du Québec.

Furthermore, the labour market's strength is also reflected in the number of people receiving employment assistance benefits, which fell by 30 000 between 1998 and 2006. Accordingly, since more individuals are working, the proportion of the number of people receiving benefits compared to the population between 18 and 64 fell in Québec, from 8.4% in 2002 to 7.6% in 2006.

- **Persistent productivity disparities compared to our neighbours**

Despite a good economic performance on the whole, Québec continues to fall further behind its neighbours, especially in terms of labour productivity.

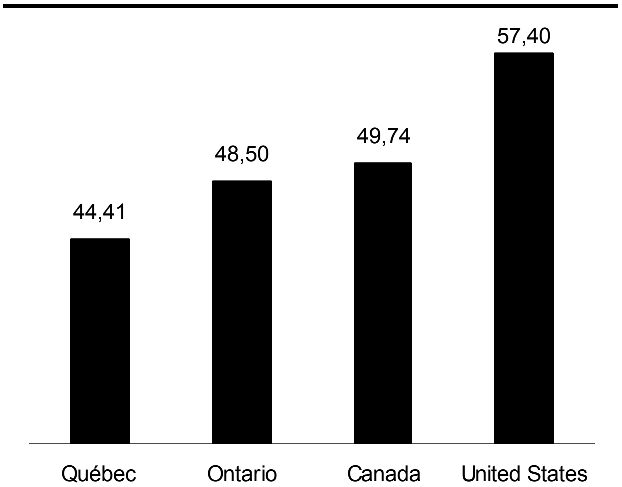
In 2006, productivity in Québec was significantly lower than in Ontario, Canada and the United States. This disparity, which has lasted for many years, has widened since 1998:

- At \$44 in 2006, real GDP per hour worked in Québec was \$5 lower than in Ontario, \$6 lower than in Canada and \$13 lower than in the United States.
- In relative terms, this deficit is just over 9% with Ontario, 12% with Canada and 29% with the United States.
- In addition, among these regions, Québec posted the smallest annual gain in productivity between 1998 and 2006 (average annual growth of 1.2% in Québec compared with 1.6% in the United States).

CHART A.4

**Real GDP per hour worked, 2006**

(2006 Canadian dollars)

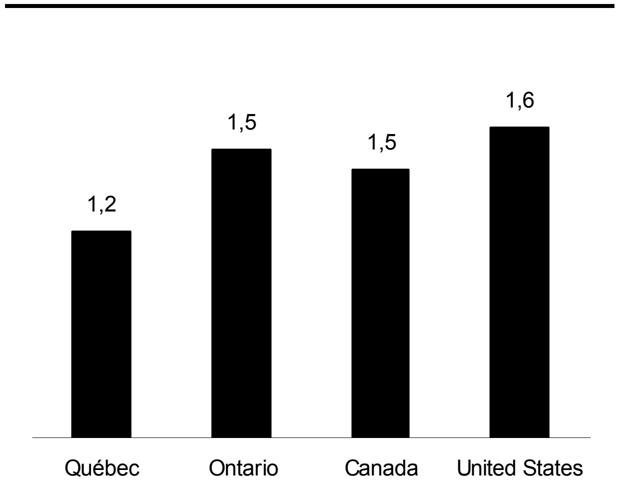



Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

CHART A.5

**Annual change in real GDP per hour worked, 1998 to 2006**

(Per cent, 2006 Canadian dollars)




Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

## ❑ Québec's manufacturing sector

Québec's manufacturing sector grew by 1.7% annually between 1998 and 2006, which is less than the growth in the economy's total output. Employment fared worse, with an annual decline of 0.4% over the same period:

— The increase in production, together with the decline in employment, resulted in an annual productivity gain of 2.1% in the manufacturing sector between 1998 and 2006.

Since 1998, the manufacturing sector has gone through two very distinct periods. After experiencing a very favourable period between 1998 and 2001, the international economic situation has become less attractive and more competitive since then. In particular:

— The price of oil has surged, boosting energy costs.

— The Canadian dollar has strengthened by more than 60%, making exports less affordable for businesses and consumers in other countries, even though this increase was partially offset by lower prices for imported goods.

— Tougher competition from emerging economic powers such as China and India, as well as slowing American demand for products made in Québec.

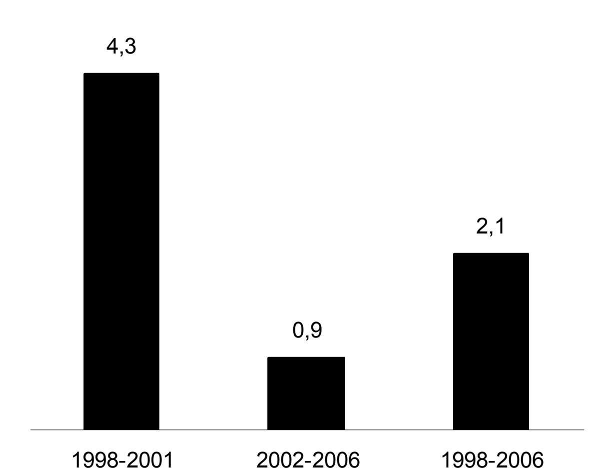
CHART A.6

**Change in real GDP and manufacturing employment in Québec, 1998-2006**
(Annual percentage change)


Sources: Statistics Canada and Institut de la statistique du Québec.

CHART A.7

**Change in real productivity in Québec's manufacturing sector, 1998-2006**
(Annual percentage change)




Sources: Statistics Canada and Institut de la statistique du Québec.

Accordingly, annual growth in manufacturing output was amputated, dropping from an increase of 5.8% between 1998 and 2001 to a decline of 0.7% between 2002 and 2006:

- Employment growth also deteriorated significantly, falling from an annual gain of 1.5% between 1998 and 2001 to a yearly loss of 1.5% between 2002 and 2006.
- Accordingly, growth in manufacturing productivity per job fell from 4.3% annually between 1998 and 2001 to 0.9% between 2002 and 2006.

Manufacturers must adjust to this challenging international context. In addition to laying off workers, companies will have to invest in machinery and equipment to upgrade their production techniques and become more competitive:

- That is a major challenge facing Québec's manufacturing sector.

## ❑ A regional snapshot

The good performance of Québec's economy as a whole hides significant regional disparities, in terms of both the labour market and output.

### ■ The labour market

For Québec as a whole, employment rose by 1.9% annually between 1998 and 2007. In the resource regions, employment also rose, but more slowly:

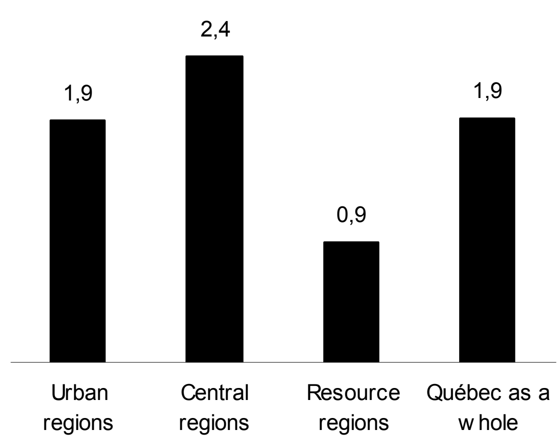
- Employment grew by 1.9% annually in the urban regions;
- The central regions posted the strongest job creation with an average annual gain of 2.4%.
- Lastly, employment was up by 0.9% in the resource regions.

Like employment, the employment rate also gained between 1998 and 2007 for every group of regions:

- While the resource regions continue to lag significantly behind the other regions, they posted the largest increase in their employment rate.

CHART A.8

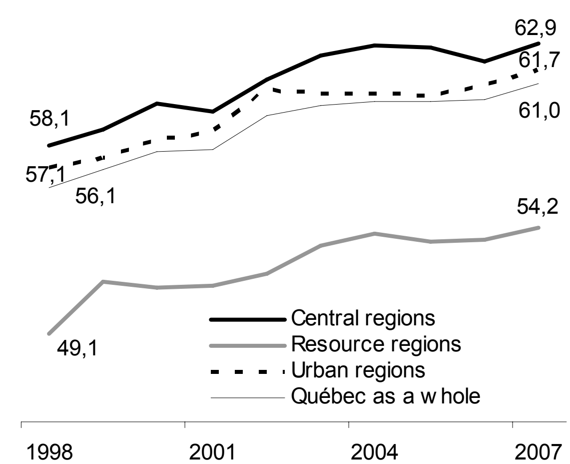
**Employment growth in Québec by groups of regions, 1998 to 2007**
(Annual percentage change)




Sources: Statistics Canada and Institut de la statistique du Québec.

CHART A.9

**Employment rate growth in Québec by groups of regions, 1998 to 2007**
(Per cent)




Sources: Statistics Canada and Institut de la statistique du Québec.

For its part, the unemployment rate has fallen substantially in the regions since 1998. Despite a larger decline in the resource regions, the unemployment rate remains higher there.

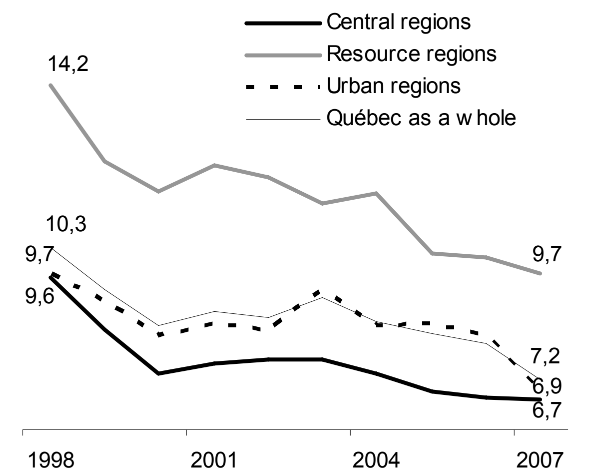
— In 2007, the unemployment rate stood at 9.7% in the resource regions, compared with 6.7% in the central regions, 6.9% in the urban regions and 7.2% for Québec as a whole.

In spite of the noted improvement on the labour market in the resource regions, the population continues to decline, contributing to the contraction of the labour force:

— Note that the population fell by 4.3% between 1998 and 2006 in the resource regions, whereas it rose 4.9% in Québec as a whole.

CHART A.10

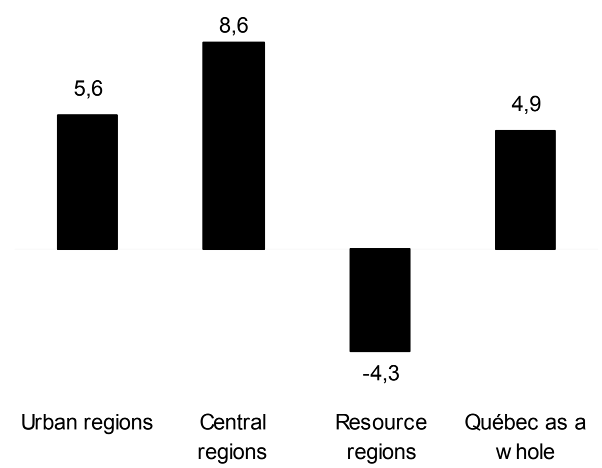
**Change in the unemployment rate in Québec by groups of regions, 1998 to 2007**
(Per cent)




Sources: Statistics Canada and Institut de la statistique du Québec.

CHART A.11

**Change in population in Québec by groups of regions, 1998 to 2006**
(Cumulative percentage change)




Source: Institut de la statistique du Québec.

TABLE A.3

**Unemployment rate by administrative region, 1998, 2006 and 2007**
(Per cent and percentage points)

| Administrative regions | 1998 | 2006 | 2007 | Difference 1998-2006 | Difference 1998-2007 |
|---|---|---|---|---|---|
| Bas-Saint-Laurent | 13.7 | 9.0 | 8.9 | -4.7 | -4.8 |
| Saguenay–Lac-Saint-Jean | 14.4 | 10.6 | 9.1 | -3.8 | -5.3 |
| Capitale-Nationale | 9.6 | 5.5 | 4.9 | -4.1 | -4.7 |
| Mauricie | 12.2 | 8.9 | 9.2 | -3.3 | -3.0 |
| Estrie | 10.2 | 8.2 | 7.0 | -2.0 | -3.2 |
| Montréal | 11.5 | 10.1 | 8.5 | -1.4 | -3.0 |
| Outaouais | 10.9 | 6.0 | 6.3 | -4.9 | -4.6 |
| Abitibi-Témiscamingue | 14.9 | 9.2 | 9.2 | -5.7 | -5.7 |
| Côte-Nord and Nord-du-Québec | 12.1 | 8.2 | 8.7 | -3.9 | -3.4 |
| Gaspésie–Îles-de-la-Madeleine | 22.1 | 18.3 | 17.3 | -3.7 | -4.8 |
| Chaudière-Appalaches | 6.6 | 5.8 | 6.0 | -0.8 | -0.6 |
| Laval | 8.4 | 6.6 | 5.1 | -1.8 | -3.3 |
| Lanaudière | 10.7 | 5.7 | 7.0 | -5.0 | -3.7 |
| Laurentides | 9.8 | 7.9 | 6.9 | -1.9 | -2.9 |
| Montérégie | 7.6 | 7.3 | 6.1 | -0.3 | -1.5 |
| Centre-du-Québec | 10.0 | 7.4 | 6.7 | -2.6 | -3.3 |
| Urban regions | 9.7 | 6.8 | 6.9 | -2.9 | -2.8 |
| Central regions | 9.6 | 8.2 | 6.7 | -1.4 | -2.9 |
| Resource regions | 14.2 | 10.1 | 9.7 | -4.1 | -4.5 |
| Québec as a whole | 10.3 | 8.0 | 7.2 | -2.3 | -3.1 |

Sources: Institut de la statistique du Québec and Statistics Canada.

## ■ Per capita personal income

Significant disparities exist among the regions of Québec regarding per capita personal income. In particular, per capita personal income is highest in the urban regions. It is lowest in the resource regions.

— In 2006, per capita personal income stood at $30 829 in Québec. It was $27 250 in the resource regions, $29 506 in the central regions and $32 437 in the urban regions.

— For the resource regions, this translates into a gap of 8.3% with the central regions, 13.1% with Québec as a whole and 19% with the urban regions.

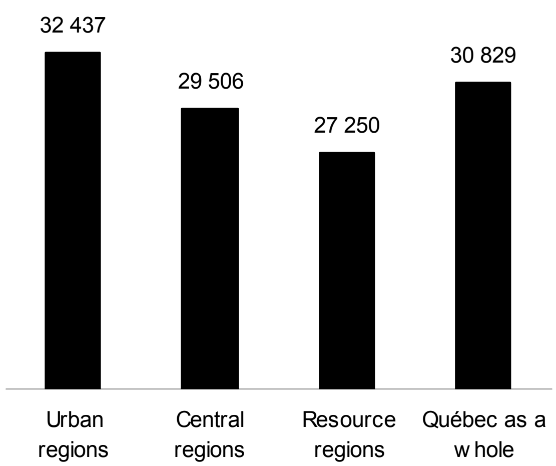
Still, between 1998 and 2006, per capita personal income rose fastest in the resource regions and the central regions:

— Per capita personal income in these regions posted an annual increase of 4.1% compared with 3.8% for Québec as a whole and 3.5% for the urban regions.

CHART A.12

**Per capita personal income in Québec by groups of regions, 2006**

(Dollars)

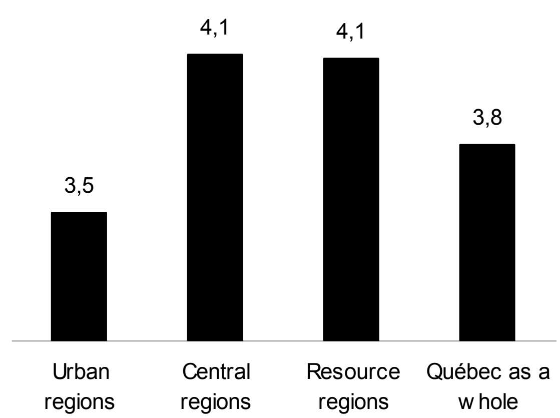



Source: Institut de la statistique du Québec.

CHART A.13

**Change in per capita personal income in Québec by groups of regions, 1998 to 2006**

(Annual percentage change)




Source: Institut de la statistique du Québec.

### ■ Output per job and investment

One of the reasons for the lag in per capita personal income in the resource regions may be the relative performance of businesses in terms of productivity,[44] i.e. output per job, and non-residential investment.

That is not the case at first sight when these statistics are examined for the economy of the resource regions as a whole. Rather, these overall statistics indicate a situation that is similar or even more favourable for the resource regions.

Still, the reality is totally different when the major sectors associated with resource development such as mining resources, primary metal processing such as aluminum and public services (electricity) are excluded.

— Excluding these sectors, the resource regions are seen to lag the other regions of Québec in terms of output per job and investment.[45]

44 Since figures on real output produced in the administrative regions are not available, productivity can only be calculated using current dollars.

45 Because of confidentiality rules, the “other regions” cannot be broken down into two separate groups, i.e. urban regions and central regions.

- **Output per job**

For all economic sectors, output per job in the resource regions is similar to that in other regions. In 2005, it amounted to $68 197 in the resource regions compared with $68 317 in the other regions.

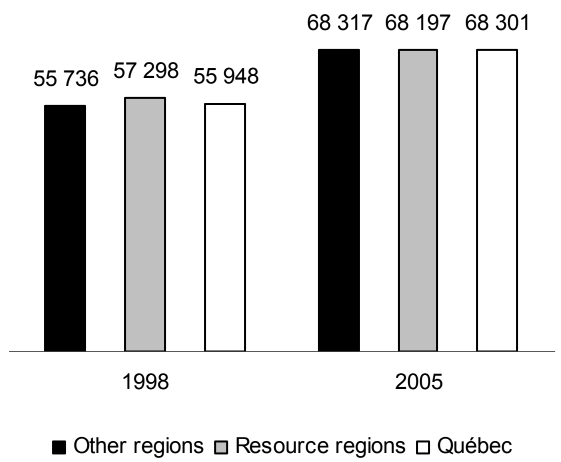
However, in sectors not tied to resource development, output per job in the resource regions stood at $61 597 in 2005, almost $4 500 per job less than in the other regions.

— The lower productivity in sectors not tied to resource development helps explain the disparity in personal income.

CHART A.14

**GDP per job in Québec by groups of regions, 1998 and 2005**

(Dollars)

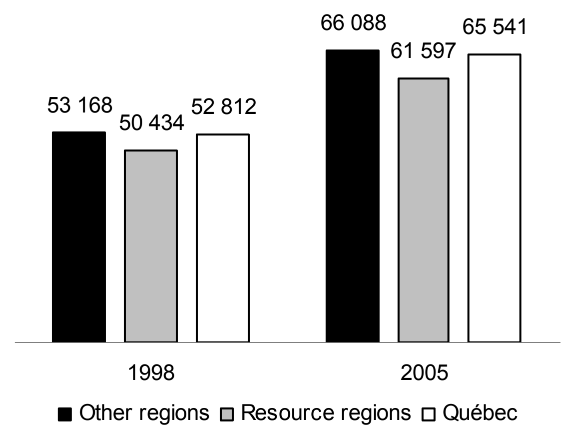



Sources: Institut de la statistique du Québec and Statistics Canada.

CHART A.15

**GDP per job in Québec by groups of regions, excluding certain sectors tied to resource development,[1] 1998 and 2005**

(Dollars)



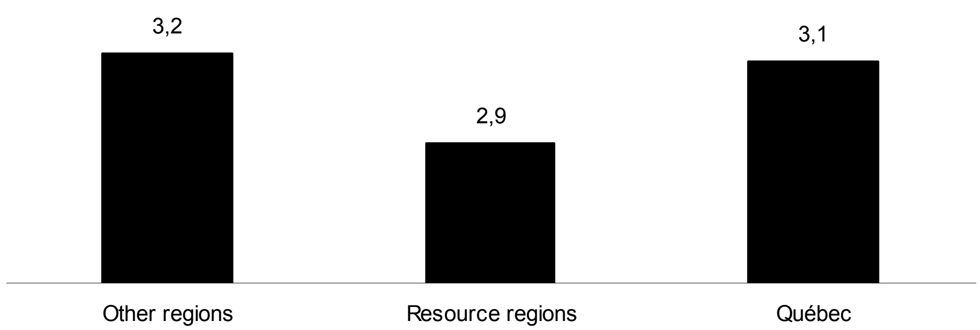

1 Excluding the mining, oil and gas, primary metal processing and public services sectors.

Sources: Institut de la statistique du Québec and Statistics Canada.

This productivity deficit has even gotten worse in recent years. Between 1998 and 2005, annual productivity growth averaged 2.9%, 0.3 percentage points less than in the other regions (3.2%).

CHART A.16

**Annual productivity growth in Québec by groups of regions, excluding certain sectors tied to resource development,[1] 1998 and 2005**
(Annual percentage change)




1 Excluding the mining, primary metal processing (aluminum) and public services (hydroelectricity) sectors.
Sources: Institut de la statistique du Québec and Statistics Canada.

- **Investment**

Moreover, for the economy as a whole, total non-residential investments per capita are greater in the resource regions than in the other regions:

— In 2005, they amounted to $6 683 in the resource regions compared with $3 848 in the other regions.

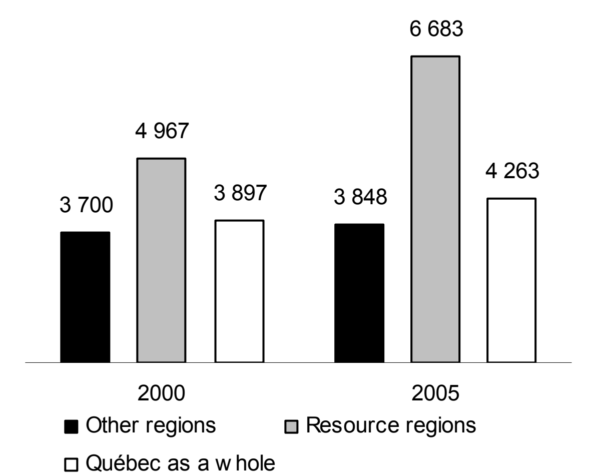
— However, if the capital-intensive mining, primary metal processing and public services sectors are excluded, non-residential investments are $583 per capita lower in the resource regions.

It should be noted that every region of Québec can improve its productivity through investment. The resource regions must invest more than the other regions to offset the higher costs they bear because of constraints tied to remoteness.

CHART A.17

**Total non-residential investments per capita in Québec by groups of regions, 2000 and 2005**

(Dollars)

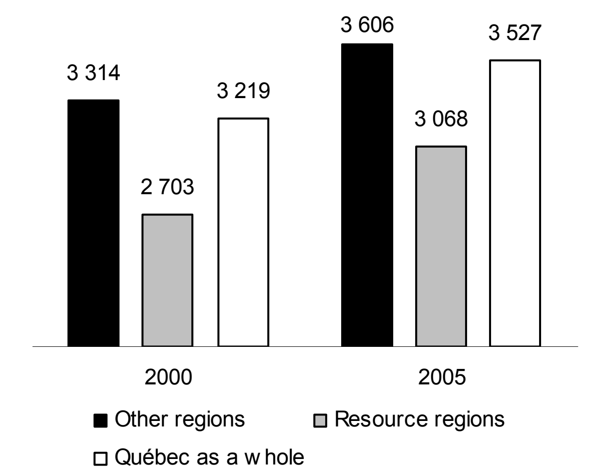



Sources: Institut de la statistique du Québec and Statistics Canada.

CHART A.18

**Total non-residential investments per capita in Québec by groups of regions, excluding certain sectors relating to resource development,[1] 2000 and 2005**

(Dollars)




1 Excluding certain mining, primary metal processing (aluminum) and public services (hydroelectricity) sectors.

Sources: Institut de la statistique du Québec and Statistics Canada.

## ■ Regional evolution of the manufacturing sector

Low productivity growth in the resource regions is also reflected in the manufacturing sector. In Québec's manufacturing sector, growth in output and employment was also uneven among the regions between 1998 and 2005:

— Output grew faster in the central and urban regions than in the resource regions.

— In contrast to the central and resource regions, manufacturing employment fell in the urban regions between 1998 and 2005.

The substantial rise in manufacturing output in the urban regions between 1998 and 2005, together with a significant decline in employment, produced large productivity gains:

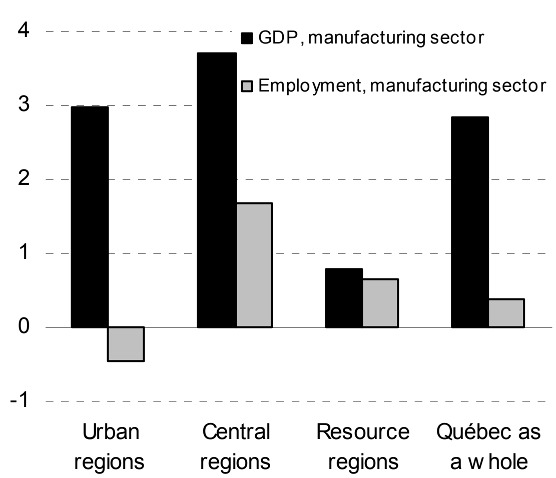
— Output per job gained 3.5% per year on average.

On the other hand, the resource regions experienced the weakest gains in output and productivity:

— Annual productivity growth was almost flat between 1998 and 2005. It averaged 0.16% per year.

CHART A.19

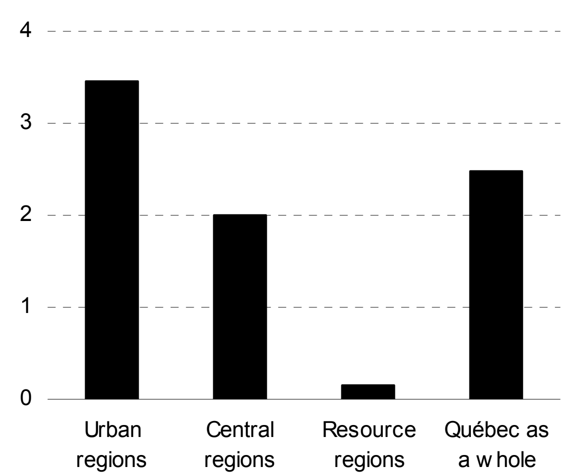
**Annual growth in manufacturing output and employment in Québec by groups of regions, 1998 to 2005**
(Per cent)




Sources: Institut de la statistique du Québec and Statistics Canada.

CHART A.20

**Annual growth in manufacturing sector productivity in Québec by groups of regions, 1998 to 2005**
(Per cent)




Sources: Institut de la statistique du Québec and Statistics Canada.

## ❑ Demography

The following tables show the main demographic data by administrative region in Québec.

TABLE A.4

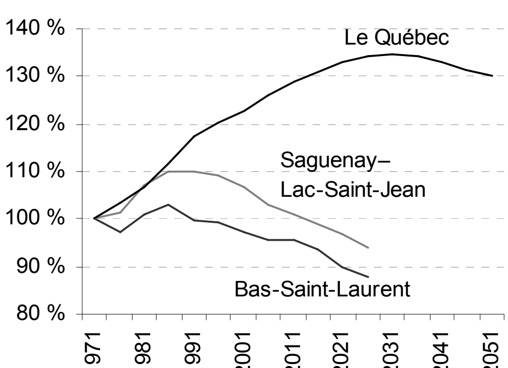
### Main demographic data by administrative region, Québec

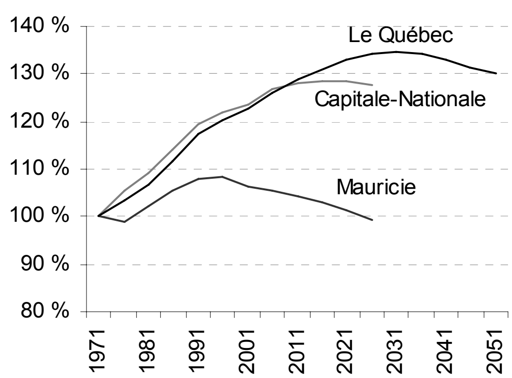
Type of data / Administrative region

| | | BAS-SAINT-LAURENT | SAGUENAY–LAC-SAINT-JEAN | CAPITALE-NATIONALE | MAURICIE |
|---|---|---|---|---|---|
| **Population (2006)** | | 201 692 | 274 095 | 671 468 | 260 461 |
| **Demographic weight** | | 2.6% | 3.6% | 8.8% | 3.4% |
| **Area (km²)** | | 22 185 | 95 893 | 18 639 | 35 452 |
| **Population density (pers./km²)** | | 9.1 | 2.9 | 36.0 | 7.3 |
| **Change in population** | **1976-2006** | -1.2% | 1.8% | 20.7% | 7.6% |
| | **2001-2026** | -10.0% | -11.7% | 3.6% | -6.5% |
| **Share of population age 0 to 19** | **1991** | 28.2% | 30.8% | 24.3% | 25.3% |
| | **2006** | 20.8% | 22.0% | 19.6% | 19.9% |
| | **2026** | 16.3% | 17.3% | 16.2% | 15.7% |
| **Share of population age 65 or over** | **1991** | 12.9% | 8.9% | 11.4% | 13.0% |
| | **2006** | 16.8% | 14.6% | 15.3% | 17.7% |
| | **2026** | 32.8% | 30.2% | 28.6% | 32.2% |
| **Average age (2006)** | | 42.4 | 40.7 | 41.4 | 42.9 |
| **Net migration (1986-2006)** | | -18 737 | -34 558 | 35 418 | 892 |
| **Net intra-provincial migration (1986-2006)** | | -18 580 | -36 849 | 17 172 | -408 |

Sources: Institut de la statistique du Québec and Statistics Canada.

### Per cent population change (1971 = 100), of certain administrative regions (1971-2026) and of Québec (1971-2051)




Sources: Institut de la statistique du Québec and Statistics Canada.

TABLE A.4 (continued)

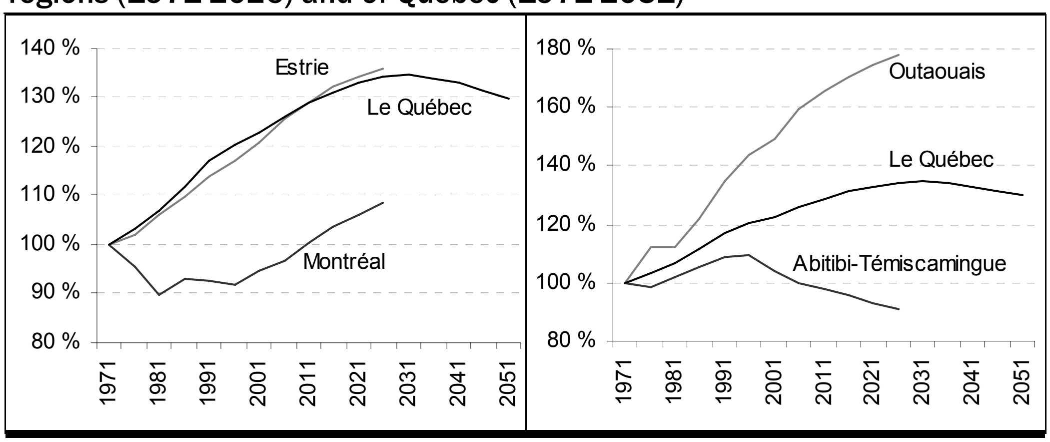
## Main demographic data by administrative region, Québec

Type of data / Administrative region

| | | ESTRIE | MONTRÉAL | OUTAOUAIS | ABITIBI-TÉMISCA-MINGUE |
|---|---|---|---|---|---|
| **Population (2006)** | | 302 161 | 1 873 971 | 347 214 | 144 835 |
| **Demographic weight** | | 3.9% | 24.5% | 4.5% | 1.9% |
| **Area (km²)** | | 10 195 | 498 | 30 504 | 57 340 |
| **Population density (pers./km²)** | | 29.6 | 3 761.6 | 11.4 | 2.5 |
| **Change in population** | **1976-2006** | 22.9% | 0.2% | 42.9% | 2.6% |
| | **2001-2026** | 12.3% | 14.9% | 19.5% | -12.8% |
| **Share of population age 0 to 19** | **1991** | 27.7% | 21.3% | 27.9% | 31.0% |
| | **2006** | 22.6% | 20.2% | 24.1% | 24.8% |
| | **2026** | 18.9% | 19.6% | 19.3% | 18.6% |
| **Share of population age 65 or over** | **1991** | 12.4% | 14.1% | 8.4% | 8.7% |
| | **2006** | 14.9% | 15.2% | 11.1% | 12.9% |
| | **2026** | 26.2% | 20.7% | 22.7% | 27.4% |
| **Average age (2006)** | | 40.4 | 40.0 | 38.2 | 39.1 |
| **Net migration (1986-2006)** | | 22 583 | -147 148 | 51 677 | -21 780 |
| **Net intra-provincial migration (1986-2006)** | | 10 564 | -435 130 | 17 620 | -19 198 |

Sources: Institut de la statistique du Québec and Statistics Canada.

## Per cent population change (1971 = 100), of certain administrative regions (1971-2026) and of Québec (1971-2051)




Sources: Institut de la statistique du Québec and Statistics Canada.

TABLE A.4 (continued)

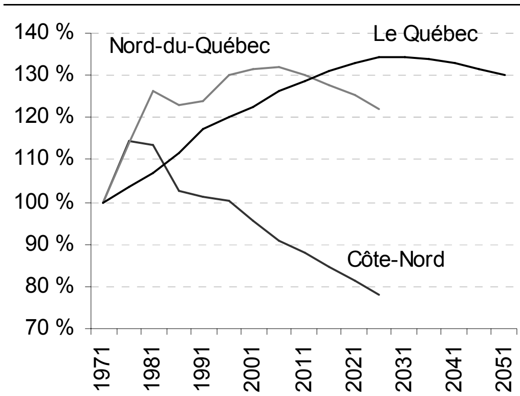
## Main demographic data by administrative region, Québec

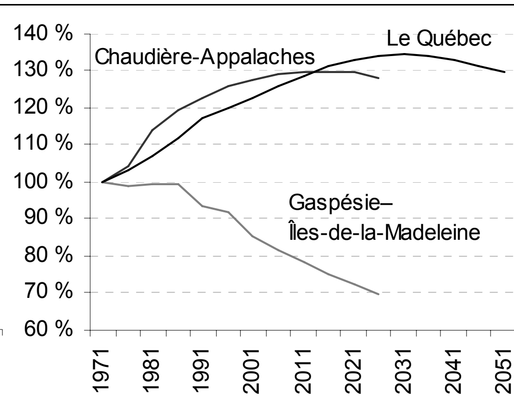
Type of data / Administrative region

| | | CÔTE-NORD | NORD-DU-QUÉBEC | GASPÉSIE–ÎLES-DE-LA-MADELEINE | CHAUDIÈRE-APPALACHES |
|---|---|---|---|---|---|
| **Population (2006)** | | 95 948 | 40 637 | 95 872 | 397 777 |
| **Demographic weight** | | 1.3% | 0.5% | 1.3% | 5.2% |
| **Area (km²)** | | 236 700 | 718 229 | 20 272 | 15 071 |
| **Population density (pers./km²)** | | 0.4 | 0.1 | 4.7 | 26.4 |
| **Change in population** | **1976-2006** | -19.9% | 18.7% | -16.4% | 24.4% |
| | **2001-2026** | -18.1% | -6.9% | -18.4% | 0.5% |
| **Share of population age 0 to 19** | **1991** | 30.6% | 41.1% | 28.0% | 29.5% |
| | **2006** | 24.0% | 36.9% | 19.9% | 22.8% |
| | **2026** | 17.8% | 30.7% | 13.7% | 18.8% |
| **Share of population age 65 or over** | **1991** | 6.1% | 3.0% | 11.9% | 11.0% |
| | **2006** | 12.0% | 5.2% | 17.6% | 14.2% |
| | **2026** | 26.1% | 12.8% | 36.3% | 27.2% |
| **Average age (2006)** | | 39.0 | 30.5 | 43.5 | 40.2 |
| **Net migration (1986-2006)** | | -24 374 | -12 190 | -17 322 | 7 373 |
| **Net intra-provincial migration (1986-2006)** | | -22 239 | -11 552 | -16 042 | 7 933 |

Sources: Institut de la statistique du Québec and Statistics Canada.

## Per cent population change (1971 = 100), of certain administrative regions (1971-2026) and of Québec (1971-2051)




Sources: Institut de la statistique du Québec and Statistics Canada.

TABLE A.4 (continued)

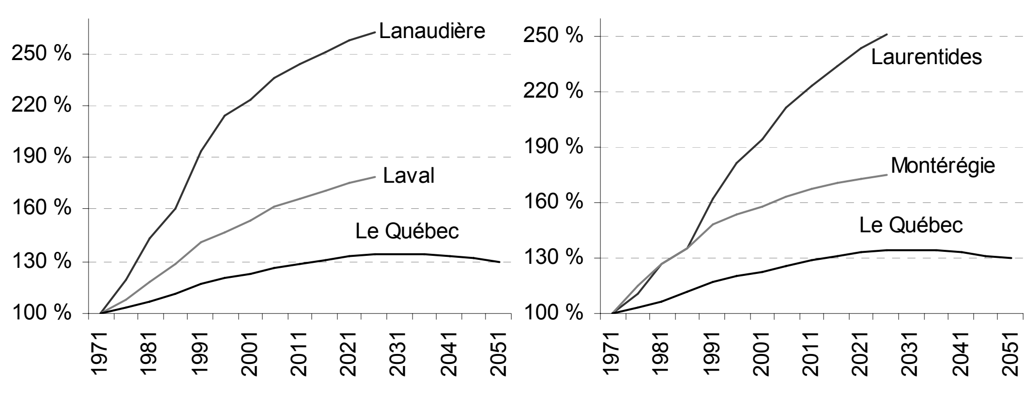
## Main demographic data by administrative region, Québec

Type of data / Administrative region

| | | LAVAL | LANAUDIÈRE | LAURENTIDES | MONTÉRÉGIE |
|---|---|---|---|---|---|
| **Population (2006)** | | 376 845 | 434 872 | 518 621 | 1 386 963 |
| **Demographic weight** | | 4.9% | 5.7% | 6.8% | 18.1% |
| **Area (km²)** | | 246 | 12 313 | 20 560 | 11 111 |
| **Population density (pers./km²)** | | 1 532.0 | 35.3 | 25.2 | 124.8 |
| **Change in population** | **1976-2006** | 53.0% | 104.2% | 93.9% | 44.3% |
| | **2001-2026** | 16.4% | 17.5% | 28.7% | 11.0% |
| **Share of population age 0 to 19** | **1991** | 26.4% | 29.6% | 28.3% | 28.5% |
| | **2006** | 24.0% | 25.0% | 24.7% | 24.2% |
| | **2026** | 20.0% | 20.2% | 20.6% | 19.9% |
| **Share of population age 65 or over** | **1991** | 9.0% | 8.4% | 9.3% | 9.2% |
| | **2006** | 14.1% | 11.9% | 12.2% | 12.7% |
| | **2026** | 23.0% | 23.6% | 22.8% | 24.1% |
| **Average age (2006)** | | 39.3 | 38.8 | 38.9 | 39.2 |
| **Net migration (1986-2006)** | | 69 164 | 128 104 | 154 992 | 179 530 |
| **Net intra-provincial migration (1986-2006)** | | 55 269 | 127 366 | 154 275 | 163 568 |

Sources: Institut de la statistique du Québec and Statistics Canada.

## Per cent population change (1971 = 100), of certain administrative regions (1971-2026) and of Québec (1971-2051)




Sources: Institut de la statistique du Québec and Statistics Canada.

TABLE A.4 (continued)

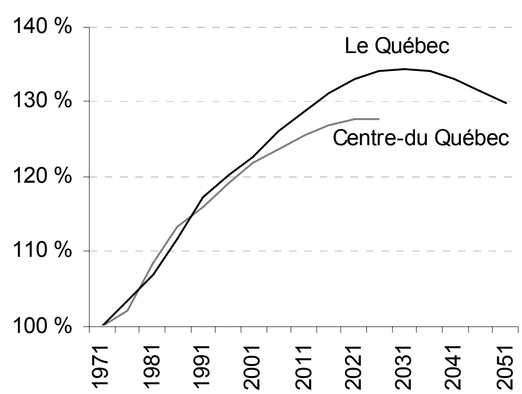
## Main demographic data by administrative region, Québec

Type of data / Administrative region

| | | CENTRE-DU-QUÉBEC | LE QUÉBEC |
|---|---|---|---|
| **Population (2006)** | | 228 099 | 7 651 531 |
| **Demographic weight** | | 3.0% | 100.0% |
| **Area (km²)** | | 6 921 | 1 312 126 |
| **Population density (pers./km²)** | | 33.0 | 5.8 |
| **Change in population** | **1976-2006** | 22.0% | 22.7% |
| | **2001-2026** | 4.8% | 9.3% |
| **Share of population age 0 to 19** | **1991** | 29.2% | 26.4% |
| | **2006** | 23.2% | 22.4% |
| | **2026** | 19.1% | 19.1% |
| **Share of population age 65 or over** | **1991** | 12.1% | 11.1% |
| | **2006** | 14.8% | 14.1% |
| | **2026** | 26.9% | 24.4% |
| **Average age (2006)** | | 40.3 | 39.9 |
| **Net migration (1986-2006)** | | 8 838 | 382 462 |
| **Net intra-provincial migration (1986-2006)** | | 6 231 | — |

Sources: Institut de la statistique du Québec and Statistics Canada.

## Per cent population change (1971 = 100), of certain administrative regions (1971-2026) and of Québec (1971-2051)




Sources: Institut de la statistique du Québec and Statistics Canada.

## ❑ Importance of the manufacturing sector in the economy of the administrative regions

For each administrative region, the following tables show the change in manufacturing jobs, total jobs and the relative weight of manufacturing jobs in its economy.

The table below shows that the number of manufacturing jobs fell almost everywhere in Québec, especially in the urban regions. In these regions, the drop was more than 10% between 2000 and 2006, in particular because of the crisis in the textile and garment industry.

TABLE A.5

**Number of jobs in the manufacturing sector by administrative region, 2000 and 2006**
(Thousands and per cent)

| Administrative regions | 2000 | 2006 | Change (%) |
|---|---|---|---|
| **Resource regions** | | | |
| Bas-Saint-Laurent | 10.2 | 14.1 | 38.2 |
| Saguenay–Lac-Saint-Jean | 21.1 | 19.6 | -7.1 |
| Mauricie | 21.6 | 19.9 | -7.9 |
| Abitibi-Témiscamingue | 7.3 | 6.0 | -17.8 |
| Côte-Nord and Nord-du-Québec | 9.1 | 7.8 | -14.3 |
| Gaspésie–Îles-de-la-Madeleine | 2.0 | 2.1 | -5.0 |
| **Subtotal** | **71.3** | **69.5** | **-2.5** |
| **Central regions** | | | |
| Estrie | 36.0 | 32.1 | -10.8 |
| Outaouais | 12.4 | 10.7 | -13.7 |
| Chaudière-Appalaches | 50.6 | 49.9 | -1.4 |
| Lanaudière | 37.1 | 35.7 | -3.8 |
| Laurentides | 40.9 | 36.2 | -11.5 |
| Centre-du-Québec | 30.5 | 33.0 | 8.2 |
| **Subtotal** | **207.5** | **197.6** | **-4.8** |
| **Urban regions** | | | |
| Capitale-Nationale | 26.8 | 37.4 | 39.6 |
| Montréal | 154.8 | 123.7 | -20.1 |
| Laval | 32.4 | 28.4 | -12.3 |
| Montérégie | 138.6 | 124.7 | -10.0 |
| **Subtotal** | **352.6** | **314.2** | **-10.9** |
| **TOTAL** | **631.5** | **581.3** | **-7.9** |

Sources: Institut de la statistique du Québec and Statistics Canada.

The total number of jobs rose by only 3.5% in the resource regions during the period 2000-2006, whereas the central and urban regions posted increases of 13.2% and 11.1% respectively.

TABLE A.6

### Total number of jobs by administrative region, 2000 and 2006

(Thousands and per cent)

| Administrative regions | 2000 | 2006 | Change (%) |
|---|---|---|---|
| **Resource regions** | | | |
| Bas-Saint-Laurent | 80.9 | 91.9 | 13.6 |
| Saguenay–Lac-Saint-Jean | 121.6 | 123.1 | 1.2 |
| Mauricie | 108.4 | 112.6 | 3.9 |
| Abitibi-Témiscamingue | 65.9 | 67.0 | 1.7 |
| Côte-Nord and Nord-du-Québec | 53.3 | 51.6 | -3.2 |
| Gaspésie–Îles-de-la-Madeleine | 33.5 | 33.4 | -0.3 |
| **Subtotal** | **463.6** | **479.6** | **3.5** |
| **Central regions** | | | |
| Estrie | 135.8 | 146.1 | 7.6 |
| Outaouais | 155.5 | 185.9 | 19.5 |
| Chaudière-Appalaches | 186.5 | 207.0 | 11.0 |
| Lanaudière | 181.8 | 214.4 | 17.9 |
| Laurentides | 227.9 | 249.2 | 9.3 |
| Centre-du-Québec | 99.5 | 115.0 | 15.6 |
| **Subtotal** | **987.0** | **1 117.6** | **13.2** |
| **Urban regions** | | | |
| Capitale-Nationale | 292.5 | 345.0 | 17.9 |
| Montréal | 834.2 | 940.2 | 12.7 |
| Laval | 169.9 | 187.5 | 10.4 |
| Montérégie | 655.6 | 695.5 | 6.1 |
| **Subtotal** | **1 952.2** | **2 168.2** | **11.1** |
| **TOTAL** | **3 402.8** | **3 765.4** | **10.7** |

Sources: Institut de la statistique du Québec and Statistics Canada.

Between 2000 and 2006, the share of manufacturing jobs in the economy of the resource regions fell by less than 1% compared with a drop of more than 3% in the rest of Québec.

Thus, while the share of manufacturing jobs in the economy of the resource regions fell less than in the central regions, it remained lower.

TABLE A.7

**Share of manufacturing jobs in total jobs by administrative region, 2000 and 2006**
(Per cent and percentage points)

| Administrative regions | 2000 | 2006 | Change (% points) |
|---|---|---|---|
| **Resource regions** | | | |
| Bas-Saint-Laurent | 12.6 | 15.3 | 2.7 |
| Saguenay–Lac-Saint-Jean | 17.4 | 15.9 | -1.4 |
| Mauricie | 19.9 | 17.7 | -2.3 |
| Abitibi-Témiscamingue | 11.1 | 9.0 | -2.1 |
| Côte-Nord and Nord-du-Québec | 17.1 | 15.1 | -2.0 |
| Gaspésie–Îles-de-la-Madeleine | 6.0 | 6.3 | 0.3 |
| **Subtotal** | **15.4** | **14.5** | **-0.9** |
| **Central regions** | | | |
| Estrie | 26.5 | 22.0 | -4.5 |
| Outaouais | 8.0 | 5.8 | -2.2 |
| Chaudière-Appalaches | 27.1 | 24.1 | -3.0 |
| Lanaudière | 20.4 | 16.7 | -3.8 |
| Laurentides | 17.9 | 14.5 | -3.4 |
| Centre-du-Québec | 30.7 | 28.7 | -2.0 |
| **Subtotal** | **21.0** | **17.7** | **-3.3** |
| **Urban regions** | | | |
| Capitale-Nationale | 9.2 | 10.8 | 1.7 |
| Montréal | 18.6 | 13.2 | -5.4 |
| Laval | 19.1 | 15.1 | -3.9 |
| Montérégie | 21.1 | 17.9 | -3.2 |
| **Subtotal** | **18.1** | **14.5** | **-3.6** |
| **TOTAL** | **18.6** | **15.4** | **-3.1** |

Sources: Institut de la statistique du Québec and Statistics Canada.

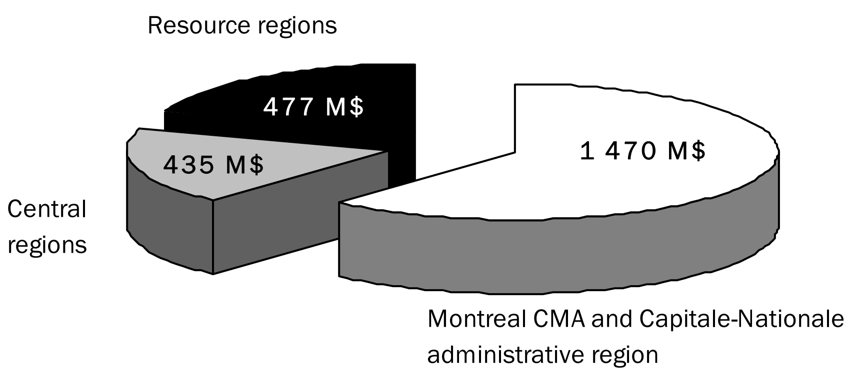
# Appendix 5: Breakdown of budgetary and tax assistance for businesses

## ❑ Regional breakdown of budgetary and tax assistance for businesses by groups of regions

In 2006-2007, of total government assistance for businesses ($2 665 million), tax and budgetary assistance accounts for $2 382 million. This assistance is distributed among the major groups of regions as follows.

CHART A.21

**Breakdown of budgetary and tax assistance by groups of regions, 2006-2007**
(Millions of dollars)

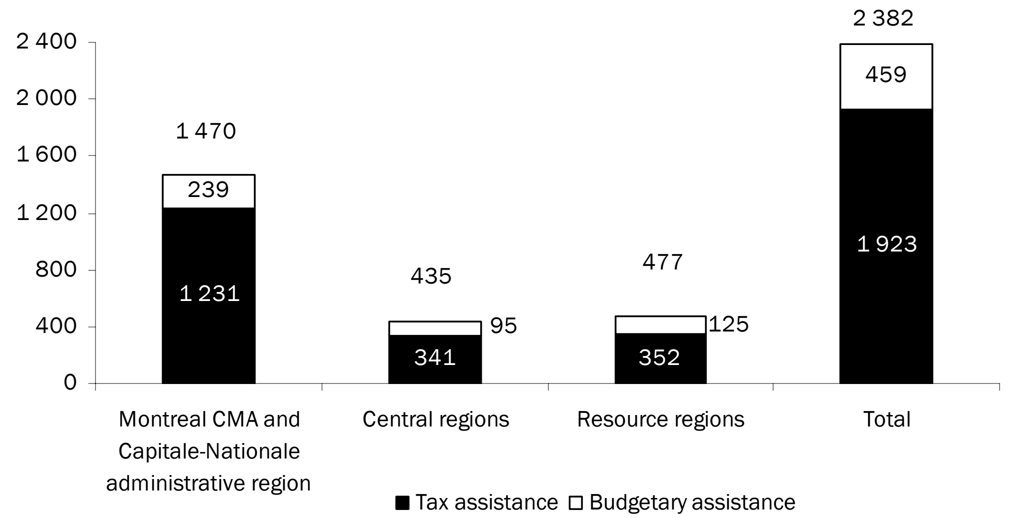



Source: Ministère des Finances du Québec.

More than 80% of this assistance is attributable to tax measures, i.e. $1 923 million. Budgetary assistance measures approach $460 million. The bulk of the tax assistance, $1 231 million, is in the Montréal CMA and the Capitale-Nationale region. The central regions and the resource regions receive $341 and $352 million in tax assistance respectively.

CHART A.22

**Breakdown of budgetary and tax assistance according to type of assistance, by groups of regions, 2006-2007**
(Millions of dollars)




Source: Ministère des Finances du Québec.

The budgetary and tax assistance the resource regions receive, expressed as a percentage of total assistance, is greater than the economic weight of this group of regions in Québec as a whole.

TABLE A.8

**Comparison of budgetary and tax assistance (2006-2007) to GDP (2006) by groups of regions**
(As a percentage of the total type of assistance and of Québec GDP)

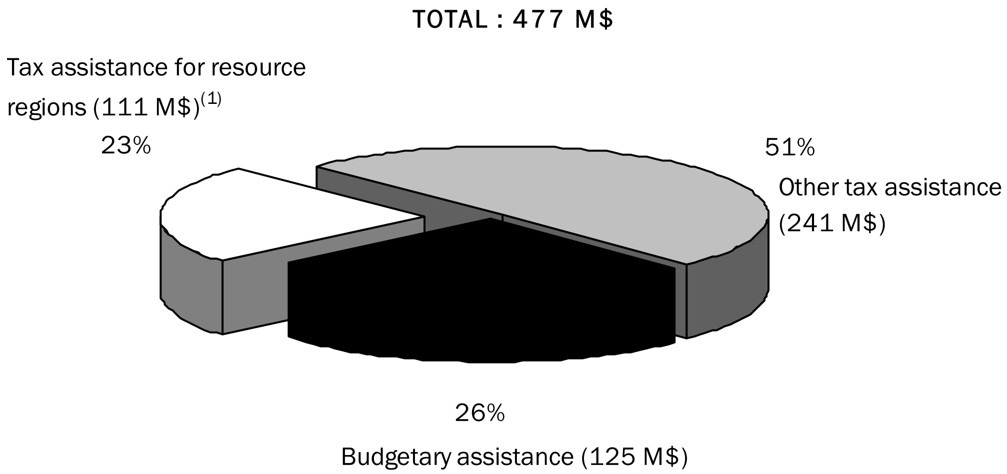
| Groups of regions | Share of tax assistance | Share of budgetary assistance | Share of total assistance | Share of GDP |
|---|---|---|---|---|
| Montréal CMA and Capitale-Nationale administrative region | 64.0 | 52.1 | 61.7 | 63.7 |
| Central regions | 17.7 | 20.6 | 18.3 | 23.6 |
| Resource regions | 18.3 | 27.3 | 20.0 | 12.7 |
| **TOTAL** | **100.0** | **100.0** | **100.0** | **100.0** |

Source: Ministère des Finances du Québec.

Lastly, almost one quarter of the budgetary and tax assistance granted to businesses in the resource regions is attributable to tax measures applicable to the resource regions ($111 million). The rest stems from general application tax measures ($241 million) as well as budgetary assistance ($125 million).

CHART A.23

**Breakdown of budgetary and tax assistance to the resource regions, 2006-2007**
(Millions of dollars)




1 Excluding $2 million applicable to the resource regions, granted to businesses located in the central regions (Antoine-Labelle, Pontiac and La Vallée-de-la-Gatineau RCMs).
Source: Ministère des Finances du Québec.

# Appendix 6: Tax assistance measures for the resource regions

## ❑ Main application parameters

Generally speaking, the tax assistance measures for the resource regions were introduced in the 2001-2002 Budget Speech, as part of the Resource Regions Economic Development Strategy (RREDS).

### ■ Tax credits

The application details of the three tax credits scheduled to end December 31, 2009 are as follows:

- To be eligible, a corporation must carry on a business regarding which an eligibility certificate has been issued by Investissement Québec.
- Subsequently, the corporation must also obtain each year from Investissement Québec an eligibility certificate for its activities and an eligibility certificate for its employees.

### ■ Tax holiday

The government has defined the following application details for the tax holiday scheduled to end December 31, 2010:

- A corporation must qualify as a manufacturing SME located in a remote resource region, i.e.:
  - All or almost all (90% or more) of its payroll must be attributable to employees who work in establishments located in remote resource regions.
  - Its activities taken as a whole must consist mainly (50% or more) in carrying on a manufacturing or processing business.
  - Its paid-up capital must be less than $30 million (the notion of paid-up capital is similar to the value of its assets).
- A corporation must hold an annual eligibility certificate from Investissement Québec regarding a taxation year ending after December 31, 2008.

## ■ Integrity rules in the tax legislation

The application details also include a number of rules to protect the integrity of these measures:

- no tax assistance is paid to a corporation regarding employees or businesses shifted to the resource regions;
- associated corporations must calculate the increase in payroll on a consolidated basis;
- other specific rules have been defined, in particular in the case of a business merger or winding-up;
- Investissement Québec and Revenu Québec provide administrative follow-up.

## ■ Description of tax assistance measures for the resource regions

TABLE A.9

**Refundable tax credit for the Vallée de l'aluminium – current parameters**

| **Rate of the credit** | **Length and eligibility period** |
|---|---|
| ▪ 30% of wages relating to eligible jobs created over a maximum of ten years | ▪ The application period of the tax credit started January 1, 2000 and will end on December 31, 2009<br>▪ The project must begin to be carried out before April 1, 2008 |
| **Eligible activities** | **Eligible territory** |
| ▪ Manufacturing of finished or semi-finished products from aluminum which has undergone primary processing<br>▪ Development and recycling of waste and residues from aluminum processing | ▪ Saguenay–Lac-Saint-Jean |
| **Particular terms and conditions** | |
| ▪ To be eligible, an employee must work in an establishment of an eligible corporation, located in the Saguenay–Lac-Saint-Jean region, and devote at least 75% of his time to tasks directly linked to eligible activities, which excludes, in particular, general administration tasks.<br>▪ The activities eligible for the refundable tax credit for processing activities in resource regions or for the refundable tax credit for Gaspésie and certain maritime regions of Québec are not eligible for this tax credit and vice versa. | |

Source: Ministère des Finances du Québec.

TABLE A.10

## Refundable tax credit for processing activities in the resource regions – current parameters

| Rate of the credit | Eligible territories | Length and eligibility period |
|---|---|---|
| ▪ 30% of wages relating to eligible jobs created over a maximum of nine years | ▪ Bas-Saint-Laurent<br>▪ Saguenay–Lac-Saint-Jean<br>▪ Mauricie<br>▪ Abitibi-Témiscamingue<br>▪ Côte-Nord<br>▪ Nord-du-Québec<br>▪ Gaspésie–Îles-de-la-Madeleine<br>▪ Pontiac, La Vallée-de-la-Gatineau and Antoine-Labelle RCMs | ▪ The application period of the tax credit started January 1, 2001 and will end on December 31, 2009<br>▪ The project must begin to be carried out before April 1, 2008 |

**Eligible activities**

| Wood processing | Metal processing |
|---|---|
| ▪ Manufacturing and processing of finished or semi-finished products from wood, including drying and planing<br>▪ Manufacturing and processing of palette components | ▪ Manufacturing of finished or semi-finished products from metal |
| **Processing of paper and cardboard** | **Food processing** |
| ▪ Manufacturing of finished or semi-finished products from paper and cardboard | ▪ Manufacturing and processing of food |
| **Energy** | **Other** |
| ▪ The environmentally friendly production of non-conventional energy from biomass or hydrogen<br>▪ Manufacturing of products intended for the production or use of energy | ▪ Development and recycling of waste and residues resulting from the development or processing of natural resources<br>▪ Manufacturing of finished or semi-finished products from non-metallic minerals, including peat, slate, precious stones and fine stones<br>▪ Printing or publication<br>▪ Freshwater aquaculture |

**Particular terms and conditions**

- Activities relating among others to the manufacturing of papermaking pulp, paper or cardboard, primary metal processing (e.g.: ingots, plates, rods and sheets), the manufacturing of structural timber or similar products, including sawing of logs or blocks of wood, are specifically excluded from this tax credit.
- To be eligible, an employee must work in an establishment of an eligible corporation, located in a resource region, and devote at least 75% of his time to tasks directly linked to eligible activities, which excludes, in particular, general administration tasks.
- Activities that are eligible for the refundable tax credit for the Vallée de l'aluminium or the refundable tax credit for Gaspésie and certain maritime regions of Québec are not eligible for this tax credit and vice versa.
- Introduction of an indexing factor (2% in 2008 and 4% in 2009) into the calculation of the assistance.

Source: Ministère des Finances du Québec.

TABLE A.11

## Tax credit for Gaspésie and certain maritime regions of Québec – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 40% of wages relating to eligible created or total jobs[1] over a maximum of ten years | ▪ The application period of the tax credit started January 1, 2000 and will end on December 31, 2009<br>▪ The project must begin to be carried out before April 1, 2008 |
| **Eligible activities** | **Eligible territories** |
| ▪ Processing of sea products | ▪ Gaspésie–Îles-de-la-Madeleine<br>▪ Côte-Nord<br>▪ Matane RCM |
| ▪ Production of wind-power and manufacturing of wind turbines | ▪ Gaspésie–Îles-de-la-Madeleine<br>▪ Matane RCM |
| ▪ Manufacturing of finished or semi-finished products in the marine biotechnology field<br>▪ Mariculture (growing of sea products) | ▪ Gaspésie–Îles-de-la-Madeleine<br>▪ Côte-Nord<br>▪ Bas-Saint-Laurent |
| **Particular terms and conditions** | |
| ▪ To be eligible, an employee must work in an establishment of an eligible corporation, located in an eligible region, and devote at least 75% of his time to tasks directly linked to eligible activities, which excludes, in particular, general administration tasks.<br>▪ The activities eligible for the refundable tax credit for processing activities in resource regions or for the refundable tax credit for the Vallée de l'aluminium are not eligible for this tax credit and vice versa. | |

1 This specific feature applies only to the mariculture and marine biotechnology sectors.
Source: Ministère des Finances du Québec.

TABLE A.12

**Tax holiday for manufacturing SMEs in remote resource regions[1] – current parameters**

| Exemption rate | Length |
|---|---|
| ▪ 75% of income tax, tax on capital and the employer contribution to the Health Services Fund for a maximum of ten years | ▪ The application period of the tax holiday began March 30, 2001 and will end on December 31, 2010 |
| **Eligible businesses** | **Eligible territories** |
| ▪ All incorporated SMEs in the manufacturing sector, whether existing or new<br>▪ SME: paid-up capital (assets) must be less than $30 million | ▪ Bas-Saint-Laurent<br>▪ Saguenay–Lac-Saint-Jean<br>▪ Mauricie: Mékinac RCM and agglomeration of La Tuque<br>▪ Abitibi-Témiscamingue<br>▪ Côte-Nord<br>▪ Nord-du-Québec<br>▪ Gaspésie–Îles-de-la-Madeleine<br>▪ Pontiac, La Vallée-de-la-Gatineau and Antoine-Labelle RCMs |
| **Particular terms and conditions** | |
| ▪ A corporation can benefit from the full value of the tax holiday where its paid-up capital (similar to the value of its assets), calculated on a consolidated basis, does not exceed $20 million. If a corporation's paid-up capital is greater than $20 million but less than $30 million, the tax holiday available to it reduces linearly.<br>▪ As of January 1, 2008, control measures, administered by Investissement Québec, take effect to prevent the tax holiday from being granted for shifting businesses to remote resource regions from other regions of Québec. | |

1 Contrary to the common definition of resource regions, this measure does not apply to the southern part of the Mauricie region.

Source: Ministère des Finances du Québec.

## ❑ Changes to the tax assistance measures for the resource regions

The tax assistance measures for the resource regions have been changed since they were introduced to reflect the evolving context in which they apply. Among others, since 2006, the government has implemented tightening measures to prevent undesirable inter-regional competition.

For each tax assistance measure for the resource regions, here is a list of adjustments made by the government.

TABLE A.13

## Refundable tax credit for the Vallée de l'aluminium – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ Measure becomes effective January 1, 2000 | 2000-2001 Budget (March 14, 2000) |
| ▪ Eligibility of design and engineering activities as of 2000 | IB 2000-10 (December 21, 2000) |
| ▪ Length of assistance extended from 4 to 5 years maximum<br>▪ Eligibility period of projects set at December 31, 2004 | 2001-2002 Budget (March 29, 2001) |
| ▪ Right of revocation of an eligibility certificate for 2001<br>▪ Right to reduce payroll for reference year 2000 or 2001 by 10% for two years | 2002-2003 Budget (November 1, 2001) |
| ▪ Eligibility of installation as of 2002<br>▪ Right to cancel an eligibility certificate following a major unforeseen event as of 2002 | IB 2002-8 (July 11, 2002) |
| ▪ Introduction of the 40-km limit for invoking the major unforeseen event clause as of 2002 | IB 2002-13 (December 19, 2002) |
| ▪ Rate of the tax credit reduced from 40% to 35% for 2003 and to 30% as of 2004<br>▪ Activities involving the manufacturing of specialized equipment withdrawn as of 2004<br>▪ Requirement to obtain an annual eligibility certificate from Investissement Québec as of 2003 | 2003-2004 Budget (June 12, 2003) |
| ▪ Exclusion concerning activities involving the manufacturing of specialized equipment reinforced | IB 2003-7 (December 12, 2003) |
| ▪ Three-year extension of the period of eligibility for the tax credit (until December 31, 2007)<br>▪ Reintroduction of activities involving the manufacturing of specialized equipment (by means of the tax credit for manufacturing activities) | 2004-2005 Budget (March 30, 2004) |
| ▪ Territorial exclusivity granted for activities eligible for the tax credit | IB 2004-6 (June 30, 2004) |
| ▪ Easing of the 40-km rule regarding a major unforeseen event | IB 2004-9 (November 12, 2004) |
| ▪ Tax credits extended until December 31, 2009 (maximum length of assistance raised from 5 to 10 years – common expiry) | 2005-2006 Budget (April 21, 2005) |
| ▪ Easing of determination of the reference calendar year (maximum of 2 years prior to the calendar year of the corporation's application) | IB 2005-6 (June 22, 2005) |
| ▪ Withdrawal of installation of eligible activities, regardless of location in Québec as of March 24, 2006 for corporations that file an initial eligibility application and as of 2008 for corporations that have already obtained an eligibility certificate | 2006-2007 Budget (March 23, 2006) |
| ▪ Three-month extension of the deadline for beginning to carry on a certified business in an eligible region in order to benefit from the tax credit (until March 31, 2008) | IB 2007-10 (December 20, 2007) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.14

## Refundable tax credit for processing activities in the resource regions – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ Measure becomes effective January 1, 2001 | 2001-2002 Budget (March 29, 2001) |
| ▪ Eligible territories added in 2001: Antoine-Labelle, La Vallée-de-la-Gatineau and Pontiac RCMs | IB 2001-7 (August 21, 2001) |
| ▪ Right of revocation of an eligibility certificate for 2001<br>▪ Right to reduce payroll for reference year 2000 or 2001 by 10% for two years | 2002-2003 Budget (November 1, 2001) |
| ▪ Eligibility of manufacturing and processing of palette components as of 2002, eligibility of finished and semi-finished products from non-metallic minerals as of 2002, eligibility of drying and planing of wood as of 2002<br>▪ Right to cancel an eligibility certificate following a major unforeseen event as of 2002<br>▪ Eligibility of installation as of 2002 | IB 2002-8 (July 11, 2002) |
| ▪ Introduction of the 40-km limit for invoking the major unforeseen event clause as of 2002 | IB 2002-13 (December 19, 2002) |
| ▪ Rate of the tax credit reduced from 40% to 35% for 2003 and to 30% as of 2004<br>▪ Activities involving the manufacturing of specialized equipment withdrawn as of 2004<br>▪ Requirement to obtain an annual eligibility certificate from Investissement Québec as of 2003 | 2003-2004 Budget (June 12, 2003) |
| ▪ Exclusion concerning activities involving the manufacturing of specialized equipment reinforced | IB 2003-7 (December 12, 2003) |
| ▪ Three-year extension of the period of eligibility for the tax credit (until December 31, 2007)<br>▪ Reintroduction of activities involving the manufacturing of specialized equipment (manufacturing of finished or semi-finished products from metals) | 2004-2005 Budget (March 30, 2004) |
| ▪ Easing of the 40-km rule regarding a major unforeseen event | IB 2004-9 (November 12, 2004) |
| ▪ Tax credits extended until December 31, 2009 (maximum length of assistance raised from 5 to 9 years – common expiry) | 2005-2006 Budget (April 21, 2005) |
| ▪ Easing of determination of the reference calendar year (maximum of 2 years prior to the calendar year of the corporation's application) | IB 2005-6 (June 22, 2005) |
| ▪ Clarifications to the notion of "products intended for the production or use of energy" | IB 2005-7 (December 19, 2005) |
| ▪ Withdrawal of installation of eligible activities, regardless of location in Québec as of March 24, 2006 for corporations that file an initial eligibility application and as of 2008 for corporations that have already obtained an eligibility certificate | 2006-2007 Budget (March 23, 2006) |
| ▪ Introduction of an indexing factor (2% in 2008 and 4% in 2009) to reduce eligible payroll in the calculation of the tax credit | 2007-2008 Budget (May 24, 2007) |
| ▪ Three-month extension of the deadline for beginning to carry on a certified business in an eligible region in order to benefit from the tax credit (until March 31, 2008) | IB 2007-10 (December 20, 2007) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.15

## Tax credit for Gaspésie and certain maritime regions of Québec – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ Measure becomes effective January 1, 2000 | IB 2000-8 (November 17, 2000) |
| ▪ Length of assistance extended to 5 years maximum<br>▪ Eligibility period of projects set at December 31, 2004 | 2001-2002 Budget (March 29, 2001) |
| ▪ Right of revocation of an eligibility certificate for 2001<br>▪ Right to reduce payroll for reference year 2000 or 2001 by 10% for two years | 2002-2003 Budget (November 1, 2001) |
| ▪ Addition of territories eligible for marine biotechnology as of 2002: Côte-Nord and Bas-Saint-Laurent<br>▪ Eligibility of installation as of 2002<br>▪ Right to cancel an eligibility certificate following a major unforeseen event as of 2002 | IB 2002-8 (July 11, 2002) |
| ▪ Introduction of the 40-km limit for invoking the major unforeseen event clause as of 2002 | IB 2002-13 (December 19, 2002) |
| ▪ Rate of the tax credit reduced from 40% to 35% for 2003 and to 30% as of 2004<br>▪ Activities involving the manufacturing of specialized equipment withdrawn as of 2004<br>▪ Requirement to obtain an annual eligibility certificate from Investissement Québec as of 2003 | 2003-2004 Budget (June 12, 2003) |
| ▪ Three-year extension of the period of eligibility for the tax credit (until December 31, 2007)<br>▪ Reintroduction of activities involving the manufacturing of specialized equipment (by means of the tax credit for manufacturing activities)<br>▪ Rate increased from 30% to 40% and tax credit paid on wages (mariculture and marine biotechnology) as of 2004 | 2004-2005 Budget (March 30, 2004) |
| ▪ Addition of a territory eligible for mariculture as of 2004: Bas-Saint-Laurent<br>▪ Territorial exclusivity granted for activities eligible for the tax credit | IB 2004-6 (June 30, 2004) |
| ▪ Easing of the 40-km rule regarding a major unforeseen event | IB 2004-9 (November 12, 2004) |
| ▪ Tax credits extended until December 31, 2009 (maximum length of assistance raised from 5 to 10 years – common expiry) | 2005-2006 Budget (April 21, 2005) |
| ▪ Easing of determination of the reference calendar year (maximum of 2 years prior to the calendar year of the corporation's application) | IB 2005-6 (June 22, 2005) |
| ▪ Withdrawal of installation of eligible activities, regardless of location in Québec as of March 24, 2006 for corporations that file an initial eligibility application and as of 2008 for corporations that have already obtained an eligibility certificate | 2006-2007 Budget (March 23, 2006) |
| ▪ Three-month extension of the deadline for beginning to carry on a certified business in an eligible region in order to benefit from the tax credit (until March 31, 2008) | IB 2007-10 (December 20, 2007) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.16

**Tax holiday for manufacturing SMEs in remote resource regions – adjustments**

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ Measure becomes effective March 30, 2001 | 2001-2002 Budget (March 29, 2001) |
| ▪ Eligible territories added in 2001: Antoine-Labelle, La Vallée-de-la-Gatineau and Pontiac RCMs | IB 2001-7 (August 21, 2001) |
| ▪ Eligibility thresholds raised to $20 million and to $30 million and easing in relation to an external establishment as of March 30, 2001 | 2002-2003 Budget (November 1, 2001) |
| ▪ Eligibility of installation as of March 30, 2001 | IB 2002-8 (July 11, 2002) |
| ▪ Rate of the tax holiday reduced from 100% to 75% as of June 13, 2003 | 2003-2004 Budget (June 12, 2003) |
| ▪ Introduction of control measures, administered by Investissement Québec, to prevent the tax holiday from being obtained for shifting businesses to remote resource regions from other regions of Québec | IB 2007-5 (June 26, 2007) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

### ❑ Main impacts of tax assistance measures for the resource regions

At the request of the Task Force, here are the main data compiled regarding tax assistance measures for the resource regions. Two primary sources were used:

— Revenu Québec (2005);

— Investissement Québec (2006).

#### ■ Cost of tax assistance measures for the resource regions

The table below shows how the cost of each tax assistance measure for the resource regions changed since it was introduced. Including projections to 2008, the total cost of these tax measures should approach $800 million. Note that the tax credit for processing activities accounts for more than half the total amount of tax assistance allocated.

TABLE A.17

**Cost of tax assistance measures for the resource regions, 2001 to 2008**
(Millions of dollars)

| Tax assistance measures | Estimates | | | | | Projections | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Tax credit for processing activities[1] | 9 | 35 | 55 | 57 | 59 | 60 | 62 | 61 | **398** |
| Tax credit for the Vallée de l'aluminium[1] | 13 | 8 | 6 | 7 | 6 | 6 | 7 | 7 | **60** |
| Tax credit for Gaspésie and certain maritime regions of Québec[2] | 2 | 2 | 3 | 3 | 5 | 6 | 7 | 7 | **35** |
| Tax holiday for manufacturing SMEs in remote resource regions[3] | 16 | 37 | 39 | 34 | 39 | 40 | 40 | 40 | **285** |
| **TOTAL** | **40** | **82** | **103** | **101** | **109** | **112** | **116** | **115** | **778** |

1 The rate of the tax credit is 40% for years prior to 2003, 35% for 2003 and 30% for subsequent years.
2 The rate of the tax credit is 40%, except for 2003 when it was 35%.
3 The rate of the tax holiday was 100% until June 12, 2003 and 75% thereafter.
Source: Ministère des Finances du Québec.

## ■ Number of recipient businesses according to type of tax assistance

For each tax assistance measure for the resource regions, the following table shows the number of companies that benefited from it from 2001 to 2005. In all, more than 1 200 companies benefit from these measures annually, of which:

— Half claim tax credits, mainly the tax credit for processing activities;

— More than 80% benefit from the tax holiday for manufacturing SMEs.

TABLE A.18

### Number of recipient businesses by tax assistance measures for the resource regions, 2001 to 2005

(Number)

| Tax assistance measures | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Tax credit for processing activities | 51 | 291 | 441 | 509 | 538 |
| Tax credit for the Vallée de l'aluminium | 38 | 38 | 34 | 39 | 39 |
| Tax credit for Gaspésie and certain maritime regions of Québec | 18 | 27 | 38 | 36 | 44 |
| Tax holiday for manufacturing SMEs in remote resource regions | 682 | 1 052 | 1 086 | 1 038 | 1 027 |
| **TOTAL** | **727** | **1 176** | **1 260** | **1 249** | **1 273** |

N.B. The totals shown do not correspond to the sum of the number of recipient businesses by tax assistance measure since a business may claim both a tax credit and the tax holiday.
Sources: Revenu Québec and ministère des Finances du Québec.

The following table, in addition to showing the amounts of assistance granted, indicates the number of companies claiming:

- only tax credits;
- only the tax holiday;
- tax credits and the tax holiday.

TABLE A.19

**Breakdown of the number of recipient businesses and amounts claimed by category of tax assistance measures for the resource regions, 2005**
(Number and millions of dollars)

| | | Amounts claimed ($ million) | | |
|---|---|---|---|---|
| **Categories of tax assistance measures** | **Number of recipient businesses** | **Tax credits** | **Tax holiday** | **Total tax assistance measures** |
| Businesses claiming only tax credits | 246 | 29.3 | — | 29.3 |
| Businesses claiming only the tax holiday | 652 | — | 18.5 | 18.5 |
| Businesses claiming both tax credits and the tax holiday | 375 | 40.6 | 20.9 | 61.5 |
| **TOTAL** | **1 273** | **69.9** | **39.4** | **109.3** |

Sources: Revenu Québec and ministère des Finances du Québec.

## Regional breakdown of tax assistance measures for the resource regions

The following three tables give a regional breakdown of recipient businesses and the amounts claimed, on the basis of either tax credits, the tax holiday or the tax assistance measures for the resource regions as a whole.

### Tax credits for the resource regions

The first table indicates that in 2005, the Saguenay–Lac-Saint-Jean, Bas-Saint-Laurent and Mauricie regions obtained more than 80% of the amounts granted on account of tax credits for the resource regions. However, it should be noted that more than 75% of recipient businesses are located in these regions.

For 2005, the average tax credit granted to recipient businesses amounted to $112 533.

TABLE A.20

**Regional breakdown of tax credits for the resource regions, 2005**
(Number, per cent, millions of dollars and dollars)

| | Recipient businesses | | Total amounts claimed | | |
|---|---|---|---|---|---|
| **Resource regions** | **Number** | **Share (%)** | **$ million** | **Share (%)** | **Average tax credit ($)** |
| Saguenay–Lac-Saint-Jean | 205 | 33.0 | 23.2 | 33.2 | 113 157 |
| Bas-Saint-Laurent | 144 | 23.2 | 18.5 | 26.5 | 128 222 |
| Mauricie | 125 | 20.1 | 15.6 | 22.3 | 125 121 |
| Abitibi-Témiscamingue | 54 | 8.7 | 3.5 | 5.0 | 64 558 |
| Gaspésie–Îles-de-la-Madeleine | 49 | 7.9 | 4.6 | 6.6 | 93 902 |
| Côte-Nord | 23 | 3.7 | 2.8 | 4.0 | 121 153 |
| Laurentides[1] | 12 | 1.9 | 0.4 | 0.6 | 31 081 |
| Outaouais[2] | X | X | 0.8 | 1.1 | X |
| Nord-du-Québec | X | X | 0.5 | 0.7 | X |
| **TOTAL** | **621** | **100.0** | **69.9** | **100.0** | **112 533** |

X: Confidential data.
1 Antoine-Labelle RCM.
2 Pontiac and La Vallée-de-la-Gatineau RCMs.
Sources: Revenu Québec and ministère des Finances du Québec.

- **Tax holiday for manufacturing SMEs**

The next table shows, for 2005, the regional breakdown of recipient businesses and the amounts granted on account of the tax holiday for manufacturing SMEs. In 2005, the average value of the tax holiday granted to businesses in the remote resource regions amounted to nearly $40 000.

The Saguenay–Lac-Saint-Jean and Bas-Saint-Laurent regions obtained two thirds of the total value of the tax holiday, i.e. a share just above the number of recipient businesses located there (62.2%). Unlike the situation with tax credits, few recipient businesses are from Mauricie since only the northern part of the region is eligible for the tax holiday.

TABLE A.21

**Regional breakdown of the tax holiday for manufacturing SMEs in remote resource regions, 2005**
(Number, per cent, millions of dollars and dollars)

| | Recipient businesses | | Total amounts claimed | | |
|---|---|---|---|---|---|
| **Resource regions** | **Number** | **Share (%)** | **$ million** | **Share (%)** | **Average tax holiday ($)** |
| Saguenay–Lac-Saint-Jean | 374 | 36.4 | 14.8 | 37.6 | 39 552 |
| Bas-Saint-Laurent | 265 | 25.8 | 11.4 | 28.9 | 43 059 |
| Abitibi-Témiscamingue | 138 | 13.4 | 4.9 | 12.4 | 35 592 |
| Gaspésie–Îles-de-la-Madeleine | 96 | 9.4 | 2.1 | 5.3 | 21 417 |
| Côte-Nord | 72 | 7.0 | 4.0 | 10.2 | 55 784 |
| Laurentides[1] | 35 | 3.4 | 1.1 | 2.8 | 30 495 |
| Mauricie[2] | 26 | 2.5 | 0.8 | 2.0 | 31 688 |
| Nord-du-Québec | X | X | 0.2 | 0.5 | X |
| Outaouais[3] | X | X | 0.1 | 0.3 | X |
| **TOTAL** | **1 027** | **100.0** | **39.4** | **100.0** | **38 364** |

X: Confidential data.
1 Antoine-Labelle RCM.
2 Mékinac RCM and agglomeration of La Tuque.
3 Pontiac and La Vallée-de-la-Gatineau RCMs.
Sources: Revenu Québec and ministère des Finances du Québec.

- **Total tax assistance for the resource regions**

The last table of this sub-section shows the regional breakdown of total tax assistance for the resource regions, and is therefore the total of the items shown in the two previous tables.

Since most businesses receiving tax assistance measures for the resource regions are located in the Saguenay–Lac-Saint-Jean and Bas-Saint-Laurent regions (57.2%), these regions obtain most of the assistance granted (62.1%).

TABLE A.22

**Regional breakdown of tax assistance for the resource regions, 2005**
(Number, per cent, millions of dollars and dollars)

| | Recipient businesses | | Total amounts claimed | | Average tax assistance ($) |
|---|---|---|---|---|---|
| **Resource regions** | **Number** | **Share (%)** | **$ million** | **Share (%)** | |
| Saguenay–Lac-Saint-Jean | 425 | 33.4 | 38.0 | 34.8 | 89 388 |
| Bas-Saint-Laurent | 303 | 23.8 | 29.9 | 27.4 | 98 596 |
| Mauricie | 139 | 10.9 | 16.4 | 15.0 | 118 446[1] |
| Abitibi-Témiscamingue | 153 | 12.0 | 8.4 | 7.7 | 54 888 |
| Gaspésie–Îles-de-la-Madeleine | 116 | 9.1 | 6.7 | 6.1 | 57 390 |
| Côte-Nord | 75 | 5.9 | 6.8 | 6.2 | 90 706 |
| Laurentides[2] | 38 | 3.0 | 1.5 | 1.4 | 37 903 |
| Nord-du-Québec | 13 | 1.0 | 0.7 | 0.6 | 53 239 |
| Outaouais[3] | 11 | 0.9 | 0.9 | 0.8 | 87 625 |
| **TOTAL** | **1 273** | **100.0** | **109.3** | **100.0** | **85 847** |

1 Average tax assistance is greater in Mauricie because its value essentially reflects that of the tax credits, which is higher than for the tax holiday, since only part of Mauricie is eligible for the tax holiday (Mékinac RCM and the agglomeration of La Tuque).
2 Antoine-Labelle RCM.
3 Pontiac and La Vallée-de-la-Gatineau RCMs.
Sources: Revenu Québec and ministère des Finances du Québec.

## ■ Breakdown of recipient businesses according to amount of tax assistance claimed

The next three tables give a breakdown of recipient businesses according to the amount of tax assistance claimed, on the basis of either tax credits, the tax holiday or the tax assistance measures for the resource regions as a whole.

### ▪ Tax credits for the resource regions

The table below shows that, for 2005, 75% of recipient businesses claimed less than $100 000 and that they accounted for less than 25% of the total value of amounts granted.

TABLE A.23

**Breakdown of businesses receiving tax credits for the resource regions, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax credit ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $25 000 | 191 | 30.8 | 2.6 | 3.7 | 13 548 |
| $25 001 to $50 000 | 140 | 22.5 | 5.0 | 7.2 | 35 845 |
| $50 001 to $100 000 | 134 | 21.6 | 9.5 | 13.6 | 70 957 |
| $100 001 to $200 000 | 73 | 11.8 | 10.5 | 15.0 | 143 317 |
| $200 001 to $300 000 | 35 | 5.6 | 8.9 | 12.7 | 255 553 |
| $300 001 to $500 000 | 21 | 3.4 | 8.5 | 12.2 | 403 822 |
| $500 001 to $800 000 | 14 | 2.2 | 9.1 | 13.0 | 649 213 |
| Over $800 000 | 13 | 2.1 | 15.8 | 22.6 | 1 214 848 |
| **TOTAL** | **621** | **100.0** | **69.9** | **100.0** | **112 533** |

Sources: Revenu Québec and ministère des Finances du Québec.

- **Tax holiday for manufacturing SMEs**

The table below shows that, for 2005, almost two thirds of businesses benefiting from the tax holiday claimed less than $25 000 and that they accounted for just over 10% of the total value of amounts granted.

TABLE A.24

**Breakdown of businesses benefiting from the tax holiday for manufacturing SMEs in the remote resource regions, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax holiday ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $5 000 | 310 | 30.2 | 0.7 | 1.8 | 2 343 |
| $5 001 to $10 000 | 161 | 15.7 | 1.2 | 3.0 | 7 449 |
| $10 001 to $25 000 | 175 | 17.0 | 2.5 | 6.4 | 14 469 |
| $25 001 to $50 000 | 185 | 18.0 | 6.0 | 15.2 | 32 256 |
| $50 001 to $75 000 | 51 | 5.0 | 3.2 | 8.1 | 61 781 |
| $75 001 to $100 000 | 45 | 4.4 | 3.9 | 9.9 | 87 771 |
| $100 001 to $200 000 | 63 | 6.1 | 8.5 | 21.6 | 134 641 |
| $200 001 to $300 000 | 15 | 1.5 | 3.5 | 8.9 | 234 332 |
| Over $300 000 | 22 | 2.1 | 9.9 | 25.1 | 448 949 |
| **TOTAL** | **1 027** | **100.0** | **39.4** | **100.0** | **38 364** |

Sources: Revenu Québec and ministère des Finances du Québec.

- **Total tax assistance for the resource regions**

For total tax assistance for the resource regions, the table below shows that, in 2005, almost two thirds of recipient businesses claimed less than $50 000 and that they accounted for over 10% of the total value of amounts granted.

TABLE A.25

**Breakdown of businesses receiving tax assistance for the resource regions, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax assistance ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $5 000 | 258 | 20.3 | 0.6 | 0.5 | 2 318 |
| $5 001 to $10 000 | 148 | 11.6 | 1.1 | 1.0 | 7 480 |
| $10 001 to $25 000 | 241 | 18.9 | 4.0 | 3.7 | 16 563 |
| $25 001 to $50 000 | 185 | 14.6 | 6.7 | 6.1 | 35 990 |
| $50 001 to $100 000 | 190 | 14.9 | 14.1 | 12.9 | 73 961 |
| $100 001 to $300 000 | 169 | 13.3 | 29.3 | 26.8 | 173 503 |
| $300 001 to $500 000 | 41 | 3.2 | 15.5 | 14.2 | 378 958 |
| $500 001 to $1 million | 28 | 2.2 | 19.1 | 17.5 | 683 238 |
| Over $1 million | 13 | 1.0 | 18.9 | 17.3 | 1 452 707 |
| **TOTAL** | **1 273** | **100.0** | **109.3** | **100.0** | **85 847** |

Sources: Revenu Québec and ministère des Finances du Québec.

## ■ Sectoral breakdown of corporations eligible for tax credits for the resource regions and eligible jobs created

The table below is taken from Investissement Québec figures based on eligibility certificates issued as at December 31, 2006.

Almost 900 corporations, currently eligible for the tax credit, accounted for more than 7 000 eligible jobs created in 2006.

TABLE A.26

**Sectoral breakdown of corporations eligible for tax credits for the resource regions, 2006**
(Number and per cent)

| Activity sectors | Number of corporations[1] | Share (%) | Eligible jobs created[2] | Share (%) |
|---|---|---|---|---|
| **Tax credit for processing activities** | | | | |
| Wood processing | 310 | 34.5 | 2 581 | 36.5 |
| Metal processing | 289 | 32.2 | 1 652 | 23.3 |
| Food processing | 87 | 9.7 | 852 | 12.0 |
| Non-metallic minerals | 32 | 3.6 | 305 | 4.3 |
| Energy | 16 | 1.8 | 486 | 6.9 |
| Development and recycling | 11 | 1.2 | 49 | 0.7 |
| Other | 27 | 3.0 | 34 | 0.5 |
| **Subtotal** | **772** | **86.0** | **5 959** | **84.2** |
| **Tax credit for the Vallée de l'aluminium** | | | | |
| Aluminum processing | 50 | 5.5 | 394 | 5.5 |
| Development and recycling | 8 | 0.9 | 175 | 2.5 |
| **Subtotal** | **58** | **6.4** | **569** | **8.0** |
| **Tax credit for Gaspésie and certain maritime regions of Québec** | | | | |
| Processing of sea products | 43 | 4.8 | 310 | 4.4 |
| Wind power | 8 | 0.9 | 195 | 2.7 |
| Mariculture and marine biotechnology | 17 | 1.9 | 48 | 0.7 |
| **Subtotal** | **68** | **7.6** | **553** | **7.8** |
| **TOTAL** | **898** | **100.0** | **7 081** | **100.0** |

N.B. These data are not completely comparable with those from Revenu Québec. For instance, the number of corporations corresponds to the total number of initial certificates issued by Investissement Québec to qualify a business with respect to its activities, while the number of corporations of the preceding tables corresponds to the number of corporations actually claiming tax assistance from Revenu Québec.

1 The number of eligible corporations corresponds to the total number of initial certificates issued by Investissement Québec to qualify a business regarding its activities.

2 Estimates for 2006.

Sources: Investissement Québec and ministère des Finances du Québec.

# Appendix 7: Tax Assistance for the New Economy

## ❑ Main application parameters

Generally speaking, tax assistance measures for the new economy were introduced to Québec's tax system in the late 1990s.

### ■ Tax credits

The application details of the tax credits, which are scheduled to end no later than December 31, 2013, are as follows:

— To be eligible, a corporation must carry on a business regarding which an eligibility certificate has been issued by Investissement Québec.

— Subsequently, the corporation must also obtain each year from Investissement Québec an eligibility certificate for its activities and an eligibility certificate for its employees.

### ■ Integrity rules in the tax legislation

The application details also include a number of rules to protect the integrity of these measures.

— Specific rules are stipulated concerning the aggregation of tax credits. In general, an expenditure relating to an activity for a given period cannot give rise to more than one refundable tax credit for the same taxpayer or for more than one taxpayer. In particular, the Taxation Act stipulates that the total mount of salaries paid to eligible employees by an eligible corporation for a taxation year must be reduced by the amount of any government assistance, non-government assistance, benefit or advantage, according to rules similar to those applicable to other refundable tax credits;

— Other special rules are stipulated to consider the attributes of replaced corporations, in particular for the continuation of a business previously carried on by another taxpayer, the alienation of a business, merger, winding-up, acquisition or association;

— Investissement Québec and Revenu Québec provide administrative follow-up.

## ■ Description of tax assistance measures for the new economy

{Beyond the general application details of the tax assistance measures for the new economy, the following tables give a detailed description of the main parameters of each tax assistance measure (rate of the tax assistance, locations covered, eligible activities, length, eligibility period and special terms and conditions).

TABLE A.27

### Refundable tax credit for information technology development centres (CDTI)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 40% of salary paid to an eligible employee[2] (maximum of $15 000 per employee per year) for a maximum of 10 years<br>▪ 40% of the cost of specialized equipment over 3 years<br>▪ Five-year tax holiday (income tax, tax on capital and contribution to the Health Services Fund). | ▪ The application period of the tax credit started March 25, 1997 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of CDTIs (designated sites)** |
| ▪ Innovation process (beginning with R&D without reaching the making of goods) in the new information and communications technologies sectors | ▪ Montréal, Québec City, Hull, Laval and Sherbrooke |
| **Particular terms and conditions** | |
| ▪ This measure targets corporations that want to carry out an innovative project with significant spin-offs for Québec and substantial R&D content. | |

1 As part of the 2003-2004 Budget Speech of June 12, 2003, the government generally ended all the tax measures based on a designated site. However, the government decided to honour its commitments to certified corporations.
2 To be eligible, an employee of an eligible corporation must be present at his employer's establishment located in the designated site and dedicate all or almost all of his time (90% or more) to carrying out tasks directly relating to eligible activities.
3 As part of the 2002-2003 Budget Speech of November 1, 2001, the government extended the tax credits on salaries for three years for corporations that entered into leases in 2000, 2001, 2002 or 2003. These corporations can thus enjoy an extension of the eligibility period for a period of ten years beginning on the date of entering into the lease and ending no later than December 31, 2013. Initially, the eligibility period for this tax credit based on salaries was limited to December 31, 2010. Moreover, all corporations that entered into a lease before January 1, 2001 can benefit from the tax credit no later than December 31, 2010.
Source: Ministère des Finances du Québec.

TABLE A.28

## Refundable tax credit for the Cité du multimédia (CM)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 40% of salary paid to an eligible employee[2] (maximum of $15 000 per employee per year) for a maximum of 10 years | ▪ The application period of the tax credit started June 15, 1998 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of the CM (designated site)** |
| ▪ Innovation process (beginning with R&D without reaching the making of goods) in the new information and communications technologies sectors | ▪ Montréal |
| **Particular terms and conditions** | |
| ▪ This measure targets corporations that carry out innovation activities in the field of information and communications technologies, in particular computer systems, software, applications, telecommunications, multimedia and consulting services. | |

1 See note 1, Table A.27.
2 See note 2, Table A.27.
3 See note 3, Table A.27.
Source: Ministère des Finances du Québec.

TABLE A.29

## Refundable tax credit for the Centre national des nouvelles technologies de Québec (CNNTQ)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 40% of salary paid to an eligible employee[2] (maximum of $15 000 per employee per year) for a maximum of 10 years | ▪ The application period of the tax credit started March 10, 1999 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of the CNNTQ (designated site)** |
| ▪ Innovation process (beginning with R&D without reaching the making of goods) in the new information and communications technologies sectors in particular applied to the arts and culture | ▪ Québec City |
| **Particular terms and conditions** | |
| ▪ This measure is designed to support the development of the arts in relation to information and communications technologies as well as multimedia. | |

1 See note 1, Table A.27.
2 See note 2, Table A.27.
3 See note 3, Table A.27.
Source: Ministère des Finances du Québec.

TABLE A.30

## Refundable tax credit for new economy centres (CNÉ)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 40% of salary paid to an eligible employee[2] (maximum of $15 000 per employee per year) for a maximum of 10 years | ▪ The application period of the tax credit started March 10, 1999 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of CNÉs (designated sites)** |
| ▪ Innovation process (beginning with R&D without reaching the making of goods) in five sectors of the new economy: new information and communications technologies, production technologies, biotechnology, materials technology and scientific and technical services | ▪ Acton Vale, Baie-Comeau, Boisbriand, Bécancour, Bromont, Caplan, Chicoutimi, Drummondville, Gaspé, Grand-Mère, Gatineau, Jonquière, La Baie, Lachenaie, Lachute, La Pocatière, Laval, Lévis, Longueuil, Matane, Montréal, Mont-Saint-Hilaire, Pont-Rouge, Québec, Rimouski, Rivière-du-Loup, Rouyn-Noranda, Saint-Félicien, Saint-Georges, Saint-Hyacinthe, Saint-Jean-sur-Richelieu, Saint-Joseph-de-Sorel, Sainte-Adèle, Sainte-Monique, Salaberry-de-Valleyfield, Sept-Îles, Shawinigan, Sherbrooke, Thetford Mines, Trois-Rivières, Varennes, Victoriaville |
| **Particular terms and conditions** | |
| ▪ This measure targets corporations that carry out innovation activities in the field of the new economy, in particular, software, automated materials handling, manufacturing information systems, human, animal, agri-food and environmental biotechnology, polymers and composite materials, engineering services and test laboratories. | |

1 See note 1, Table A.27.
2 See note 2, Table A.27.
3 See note 3, Table A.27.
Source: Ministère des Finances du Québec.

TABLE A.31

## Refundable tax credit for biotechnology development centres (CDB)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 30% of salary paid to an eligible employee[2] (maximum of $11 250 per employee per year) for a maximum of 10 years<br>▪ 30% of the cost of specialized equipment over 3 years<br>▪ 30% of expenses for the use of specialized facilities over 5 years | ▪ The application period of the tax credit started March 29, 2001 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of CDBs (designated sites)** |
| ▪ Innovation process in the biotechnology sector | ▪ Laval, Sherbrooke, Saint-Hyacinthe and Lévis |
| **Particular terms and conditions** | |
| ▪ This measure targets corporations that carry out innovation activities in the field of biotechnology. | |

1 See note 1, Table A.27.
2 See note 2, Table A.27.
3 See note 3, Table A.27.
Source : Ministère des Finances du Québec.

TABLE A.32

## Refundable tax credit for the E-Commerce Place (ECP)[1] – current parameters

| Rate of the credit | Length and eligibility period |
|---|---|
| ▪ 35% of salary paid to an eligible employee[2] (maximum of $12 500 per employee per year) | ▪ The application period of the tax credit started May 12, 2000 and will end no later than December 31, 2013[3] |
| **Eligible activities** | **Location of ECP (designated site)** |
| ▪ E-business (including electronic commerce). Eligible activities are divided into two components. *Component 1:* the development and supply of products and services relating to e-business. *Component 2:* the operation of e-business solutions | ▪ Montréal |
| **Particular terms and conditions** | |
| ▪ This measure targets corporations that carry out activities in the field of e-business, in particular consulting in information technology, e-business processes and solutions; the development, integration and installation of information systems; the design and development of e-commerce solutions; transactions processing using a transactional website; the management, development, maintenance and upgrading of systems, applications and infrastructures.<br>▪ Corporations wishing to benefit from the tax measure must obtain an eligibility certificate each year confirming that at least 75% of the activities they carry out in ECP constitute eligible activities.<br>▪ The ECP measure stipulates a tax assistance recapture mechanism (adjusted rate) if the job creation objectives are not met. This rate corresponds to the rate determined each year, based on job creation, as of the 6th year of operation. | |

1 See note 1, Table A.27.
2 To be eligible, an employee of an eligible corporation must be present at his employer's establishment and dedicate all or almost all of his time (90% or more) to carrying out tasks directly relating to eligible activities. The employee can carry out his duties either at the establishment of the corporation located in ECP or elsewhere, but in relation with the mandates attributable to such establishment. In the latter case, an eligible employee must have a reasonable area for his use in the establishment of the corporation located in ECP.
3 See note 3, Table A.27.
Source: Ministère des Finances du Québec.

## ❑ Adjustments to the tax assistance measures for the new economy

Since their implementation, there have been almost no adjustments to the parameters of the tax assistance measures for the new economy (e.g.: rate of the tax credit). However, the surface area of the designated sites has been increased a number of times, ultimately being capped or reduced in December 2002 and June 2003.

In the 2003-2004 Budget Speech of June 12, 2003, the government completely overhauled all the tax measures:

— Halt to new certifications for tax measures associated with designated sites other than biotechnology development centres, while honouring the government's commitments to previously certified corporations.

— Freeze and/or reduction in floor space authorized for designated sites.

TABLE A.33

**Refundable tax credit for information technology development centres (CDTI) – adjustments**

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ Creation of CDTIs further to the recommendations of the Commission on Taxation and the Funding of Public Services.<br>▪ Measure becomes effective March 25, 1997. Eligibility period limited to December 31, 2010. | 1997-1998 Budget (March 25, 1997) |
| ▪ Three buildings designated in Montréal, Québec City and Hull. | IB 1997-6 (November 14, 1997) |
| ▪ Designation of the CDTI de Laval. | Press release (July 7, 1998) |
| ▪ Designation of the CDTI de Sherbrooke. | Press release (November 5, 1998) |
| ▪ Three-year extension of tax credits on salaries granted to corporations that entered into leases in 2000, 2001, 2002 or 2003 (eligibility period beginning on the date of entering into the lease and ending no later than December 31, 2013).<br>▪ If the lease was entered into prior to January 1, 2001, the eligibility period ends no later than December 31, 2010. | 2002-2003 Budget (November 1, 2001) |
| ▪ Halt to new certifications while honouring the government's commitments to previously certified corporations. | 2003-2004 Budget (June 12, 2003) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.34

## Refundable tax credit for the Cité du multimédia (CM) – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ CM put in place June 23, 1998 with effective date June 15, 1998.<br>▪ Prior to June 16, 1999: tax credit equal to 60% of salaries paid (maximum of $25 000 per employee).<br>▪ After June 15, 1999: tax credit reduced to 40% (maximum of $15 000 per employee). | IB 98-3 (June 23, 1998) |
| ▪ Tax credit extended for thee years (maximum eligibility period of ten years ending no later than December 31, 2013). | 2002-2003 Budget (November 1, 2001) |
| ▪ Reduction of the rental capacity of designated buildings. | IB 2002-12 (December 12, 2002) |
| ▪ Halt to new certifications while honouring the government's commitments to previously certified corporations.<br>▪ Reduction in overall surface area of the CM. | 2003-2004 Budget (June 12, 2003) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.35

## Refundable tax credit for new economy centres (CNÉ) – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ CNÉs set up March 9, 1999 in every region of Québec | 1999-2000 Budget (March 9, 1999) |
| ▪ Increase in overall surface area. | IB 2000-5 (October 6, 2000) |
| ▪ Increase in overall surface area. | IB 2001-6 (July 5, 2001) |
| ▪ Increase in overall surface area.<br>▪ Tax credit extended for thee years (maximum eligibility period of ten years ending no later than December 31, 2013). | 2002-2003 Budget (November 1, 2001) |
| ▪ Increase in overall surface area. | IB 2002-8 (July 11, 2002) |
| ▪ Halt to new certifications while honouring the government's commitments to previously certified corporations.<br>▪ Reduction in overall surface area. | 2003-2004 Budget (June 12, 2003) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.36

## Refundable tax credit for the Centre national des nouvelles technologies de Québec (CNNTQ) – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ CNNTQ set up March 9, 1999. | 1999-2000 Budget (March 9, 1999) |
| ▪ Increase in surface area. | Press release (March 30, 2000) |
| ▪ Increase in surface area. | Press release (February 15, 2001) |
| ▪ Tax credit extended for thee years (maximum eligibility period of ten years ending no later than December 31, 2013). | 2002-2003 Budget (November 1, 2001) |
| ▪ Halt to new certifications while honouring the government's commitments to previously certified corporations. | 2003-2004 Budget (June 12, 2003) |

Source: Ministère des Finances du Québec.

TABLE A.37

## Refundable tax credit for the E–Commerce Place (ECP) – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ ECP set up May 11, 2000. | IB 2000-3 (May 11, 2000) |
| ▪ Decrease in rental surface area.<br>▪ Tax credit extended for thee years (maximum eligibility period of ten years ending no later than December 31, 2013). | 2002-2003 Budget (November 1, 2001) |
| ▪ Decrease in rental surface area. | IB 2002-12 (December 12, 2002) |
| ▪ Cancellation of tax benefits granted to business (halt to new certifications while honouring the government's commitments to previously certified corporations).<br>▪ Decrease in rental surface area. | 2003-2004 Budget (June 12, 2003) |

N.B. The abbreviation "IB" means Information Bulletin.
Source: Ministère des Finances du Québec.

TABLE A.38

## Refundable tax credit for biotechnology development centres (CDB) – adjustments

| Nature of the adjustment | Date of the adjustment |
|---|---|
| ▪ CDB de Laval set up March 29, 2001.<br>– Tax credit of 40% on salaries (maximum of $15 000 per employee per year) for 10 years.<br>– Tax credit of 40% of the cost of specialized equipment over 3 years.<br>– Tax credit of 40% of expenses for the use of specialized facilities over 5 years.<br>– Tax holiday of 5 years (income tax, tax on capital and employer contribution to the HSF)<br>▪ Authorized rental surface area limited to 9 300 square metres. | 2001-2002 Budget (March 29, 2001) |
| ▪ Tax credit extended for thee years (maximum eligibility period of ten years ending no later than December 31, 2013). | 2002-2003 Budget (November 1, 2001) |
| ▪ CDBs set up in Sherbrooke and Saint-Hyacinthe on March 19, 2002.<br>▪ Rental surface area limited to 5 600 square metres each. | Update to the Budget (March 19, 2002) |
| ▪ CDB de Lévis set up July 11, 2002.<br>▪ Rental surface area limited to 1 100 square metres.<br>▪ At that time, the total surface area attributed to all CDBs was 21 600 square metres. | IB 2002-8 (July 11, 2002) |
| ▪ Amount of tax assistance regarding CDBs reduced by 25%.<br>– Rate of the tax credit reduced from 40% to 30% on salaries (maximum of $11 250 per employee per year).<br>– Rate of the tax credit reduced from 40% to 30% of the cost of specialized equipment over 3 years.<br>– Rate of the tax credit reduced from 40% to 30% of expenses for the use of specialized facilities over 5 years.<br>– Five-year tax holiday reduced from 100% to 75% (income tax, tax on capital and employer contribution to the HSF). | 2003-2004 Budget (June 12, 2003) |
| ▪ Elimination of the 75% tax holiday. | 2004-2005 Budget (March 30, 2004) |
| ▪ Increase in the overall surface area attributable to CDBs of 7 520 square metres (the total surface area of CDBs rises from 21 600 to 29 120 square metres). | IB 2007-6 (August 13, 2007) |

N.B. The abbreviation “IB” means Information Bulletin.
Source: Ministère des Finances du Québec.

## ❑ Main impacts of tax assistance measures for the new economy

The following tables show the main impacts of the tax assistance measures for the new economy for each tax assistance measure covered by the Task Force's mandate (cost of tax assistance measures, number of businesses covered, job creation, sectoral breakdown of eligible corporations and breakdown of businesses by amount of tax assistance claimed).

These impacts were analyzed using two sources of information:

— Revenu Québec (2005);

— Investissement Québec (2006).

### ■ Cost of tax assistance measures for the new economy

By the end of 2008, the cost of the tax assistance measures will have exceeded $1.4 billion. For 2006 alone, the cost is estimated at $185 million.

TABLE A.39

**Cost of tax assistance measures for the new economy, 1998 to 2008**
(Millions of dollars)

| | Estimates | | | | | | | | Projections | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Tax assistance measures[1]** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
| CNÉ | _ | f | 5 | 15 | 25 | 37 | 43 | 40 | 39 | 39 | 39 | **282** |
| CM | f | 11 | 23 | 35 | 35 | 30 | 31 | 38 | 37 | 37 | 37 | **316** |
| CNNTQ | _ | f | 6 | 12 | 14 | 13 | 12 | 13 | 14 | 14 | 17 | **116** |
| CDTI[2] | 5 | 14 | 23 | 25 | 20 | 19 | 17 | 18 | 19 | 18 | 14 | **192** |
| CDB | _ | _ | _ | 0 | f | f | f | f | 2 | 2 | 2 | **7** |
| ECP | _ | _ | 8 | 29 | 43 | 66 | 72 | 73 | 74 | 75 | 75 | **516** |
| **TOTAL** | **6** | **26** | **64** | **117** | **138** | **165** | **177** | **181** | **185** | **185** | **185** | **1 430** |

1 CNÉ (new economy centre), CM (Cité du multimédia), CNNTQ (Centre national des nouvelles technologies de Québec), CDTI (information technology development centre), CDB (biotechnology development centre), ECP (E-Commerce Place).
2 Including the tax holiday.
Source: Ministère des Finances du Québec.

## ■ Breakdown of businesses receiving tax credits for the new economy according to the amount of tax assistance claimed

### ▪ Cité du multimédia

In 2005, 66 corporations received the refundable tax credit for the Cité du multimédia for a total of almost $38 million.

Less than 32% of corporations eligible for the tax credits claimed tax assistance in excess of $500 000, while in all they account for more than 81% of the total tax assistance claimed (average tax credit of almost $1.5 million).

TABLE A.40

**Breakdown of businesses receiving the refundable tax credit for the Cité du multimédia, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax credit ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $100 000 | 19 | 28.8 | 0.8 | 2.2 | 43 870 |
| $100 001 to $200 000 | 12 | 18.2 | 1.7 | 4.5 | 144 555 |
| $200 001 to $500 000 | 14 | 21.2 | 4.4 | 11.7 | 315 126 |
| Over $500 000 | 21 | 31.8 | 30.6 | 81.6 | 1 455 572 |
| **TOTAL** | **66** | **100.0** | **37.5** | **100.0** | **568 893** |

Sources: Revenu Québec and ministère des Finances du Québec.

- **New economy centres**

In 2005, 204 corporations received the refundable tax credit for new economy centres for a total of almost $40 million.

Less than 8% of corporations eligible for the tax credits claimed tax assistance in excess of $500 000, while in all they account for more than 41% of the total tax assistance claimed (average tax credit of $1.1 million).

TABLE A.41

**Breakdown of businesses receiving the refundable tax credit for new economy centres, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax credit ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $25 000 | 17 | 8.3 | 0.2 | 0.5 | 11 890 |
| $25 001 to $50 000 | 35 | 17.2 | 1.3 | 3.3 | 37 306 |
| $50 001 to $100 000 | 67 | 32.8 | 4.8 | 12.2 | 71 479 |
| $100 001 to $200 000 | 37 | 18.1 | 5.7 | 14.4 | 153 617 |
| $200 001 to $300 000 | 13 | 6.4 | 3.2 | 8.1 | 246 740 |
| $300 001 to $500 000 | 20 | 9.8 | 7.8 | 19.7 | 390 053 |
| Over $500 000 | 15 | 7.4 | 16.5 | 41.8 | 1 103 053 |
| **TOTAL** | **204** | **100.0** | **39.5** | **100.0** | **193 800** |

Sources: Revenu Québec and ministère des Finances du Québec.

- **Centre national des nouvelles technologies de Québec**

In 2005, 64 corporations received the refundable tax credit for the Centre national des nouvelles technologies de Québec for a total of $13 million.

Less than 27% of corporations eligible for the tax credits claimed tax assistance in excess of $200 000, while in all they account for almost 57% of the total tax assistance claimed (average tax credit in excess of $435 000).

TABLE A.42

**Breakdown of businesses receiving the refundable tax credit for the Centre national des nouvelles technologies de Québec, according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax credit ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $100 000 | 28 | 43.7 | 2.0 | 15.4 | 72 367 |
| $100 001 to $200 000 | 19 | 29.7 | 3.6 | 27.7 | 190 166 |
| Over $200 000 | 17 | 26.6 | 7.4 | 56.9 | 435 279 |
| **TOTAL** | **64** | **100.0** | **13.0** | **100.0** | **203 737** |

Sources: Revenu Québec and ministère des Finances du Québec.

- **Information technology development centres**

In 2005, 41 corporations received the refundable tax credit for information technology development centres for a total close to $18 million (including the tax holiday estimated at almost $3 million).

Less than 25% of corporations eligible for the tax credits claimed tax assistance in excess of $200 000, while in all they account for almost 79% of the total tax assistance claimed (average tax credit of roughly $1.4 million).

TABLE A.43

**Breakdown of businesses receiving the refundable tax credit for information technology development centres,[1] according to amount of tax assistance claimed, 2005**
(Number, per cent, millions of dollars and dollars)

| Amount tax assistance claimed | Recipient businesses | | Total amounts claimed | | Average tax credit ($) |
|---|---|---|---|---|---|
| | Number | Share (%) | $ million | Share (%) | |
| $0 to $100 000 | 21 | 51.2 | 1.3 | 7.3 | 62 690 |
| $100 001 to $200 000 | 10 | 24.4 | 2.5 | 14.0 | 247 979 |
| Over $200 000 | 10 | 24.4 | 14.0 | 78.7 | 1 401 834 |
| **TOTAL** | **41** | **100.0** | **17.8** | **100.0** | **434 503** |

1 Excluding the tax holiday.
Sources: Revenu Québec and ministère des Finances du Québec.

### ■ Number of businesses, job creation and average cost of the tax expenditure for each job

The following tables are taken from Investissement Québec figures, results as at December 31, 2006.

In 2006, 389 corporations employing 22 203 people were located in a designated site. Since the beginning of these tax assistance measures, 10 061 jobs have been added in designated sites, corresponding to an 82.8% increase in employment.

The average cost of the tax expenditure is $18 387 for each job created and $8 332 for each job.

TABLE A.44

**Tax measures relating to the new economy, 2006**
(Number, millions of dollars and dollars)

| | | Jobs per designated site[2] | | | Tax expenditure per designated site | | |
|---|---|---|---|---|---|---|---|
| Designated sites[1] | Businesses | Shift | Current | Creation | Per site ($ million) | For each job ($) | For each job created ($) |
| CNÉ | 206 | 4 105 | 6 874 | 2 769 | 39 | 5 674 | 14 085 |
| CM | 66 | 2 315 | 4 665 | 2 350 | 37 | 7 931 | 15 745 |
| CNNTQ | 61 | 928 | 1 952 | 1 024 | 14 | 7 172 | 13 672 |
| CDTI | 40 | 367 | 1 430 | 1 063 | 19 | 13 286 | 17 873 |
| CDB | 12 | 137 | 245 | 108 | 2 | 8 163 | 18 519 |
| ECP | 4 | 4 290 | 7 037 | 2 747 | 74 | 10 516 | 26 938 |
| **TOTAL** | **389** | **12 142** | **22 203** | **10 061** | **185** | **8 332** | **18 387** |

1 CNÉ (new economy centre), CM (Cité du multimédia), CNNTQ (Centre national des nouvelles technologies de Québec), CDTI (information technology development centre), CDB (biotechnology development centre), ECP (E-Commerce Place).
2 Jobs correspond to the total jobs of businesses located in a designated site or building (eligible or not).
Sources: Investissement Québec and ministère des Finances du Québec, *Tax* ***Expenditures – 2007 Edition***.

## ■ Sectoral breakdown of corporations eligible for tax credits for the new economy

In 2006, 87.1% (339 corporations) of corporations located in designated sites carried out their activities in the information technology (IT) sector and 12.9% (50 corporations) in sectors other than IT.

Moreover, 96.9% of the jobs created are in the IT sector and 3.1% in other sectors of the new economy.

TABLE A.45

### Sectoral breakdown of corporations eligible for tax credits for the new economy by tax measure,[1] 2006

(Number and per cent)

| Activity sectors | Number of corporations | Share (%) | Jobs created | Share (%) |
|---|---|---|---|---|
| **Information technology** | | | | |
| CNÉ | 169 | 43.4 | 2 572 | 25.6 |
| CM | 66 | 16.9 | 2 350 | 23.4 |
| CNNTQ | 61 | 15.7 | 1 024 | 10.2 |
| CDTI | 39 | 10.0 | 1 051 | 10.4 |
| ECP | 4 | 1.0 | 2 747 | 27.3 |
| **Subtotal** | **339** | **87.1** | **9 744** | **96.9** |
| **Biotechnology** | | | | |
| CNÉ | 12 | 3.1 | 54 | 0.5 |
| CDTI | 1 | 0.3 | 12 | 0.1 |
| CDB | 12 | 3.1 | 108 | 1.1 |
| **Subtotal** | **25** | **6.5** | **174** | **1.7** |
| **Scientific and technical services (CNÉ)** | **7** | **1.8** | **61** | **0.6** |
| **Materials technologies (CNÉ)** | **1** | **0.3** | **19** | **0.2** |
| **Production technologies (CNÉ)** | **17** | **4.3** | **63** | **0.6** |
| **TOTAL** | **389** | **100.0** | **10 061** | **100.0** |

1 CNÉ (new economy centre), CM (Cité du multimédia), CNNTQ (Centre national des nouvelles technologies de Québec), CDTI (information technology development centre), CDB (biotechnology development centre), ECP (E-Commerce Place).

Source: Ministère des Finances du Québec.

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# Appendix 8: An international review of business assistance measures for disadvantaged regions and for the new economy

## ❑ Government financial support for regions and innovation

### ■ International review of business assistance programs

*SUMMARY: This document describes the support governments provide for regions and innovation, based on an international review of financial assistance measures offered to businesses, through tax credits, grants and loans. Information remains fragmented and comparisons are not always possible. Forms of assistance vary significantly and the information that is accessible is not always standardized. Without passing judgement on the merits of these assistance measures, this analysis sheds light on the widespread use of these types of assistance, in Europe, Asia and the United States.*

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## ❑ Approach

This study is not a systematic benchmarking of government assistance measures, but rather a review that depends on information that has been made public. The variety of the many programs examined does, however, give rise to a number of relevant observations for placing similar programs available in Québec in perspective.

— The study covers the United States, Canada (other than Québec), the European Union (selected among others for its major initiatives on competitiveness and regional support), and emerging economies such as China and India. Some industrialized countries whose economic base depends on natural resources have also been reviewed (e.g.: Australia).

— Tax credit programs have been examined more closely,[46] although the other forms of financial assistance were studied because of the relevance of many variables common to these forms of assistance and tax credits (e.g.: eligible expenses, target sectors, designated regions, staggering assistance according to the level of regional economic distress).

In all, close to a hundred financial assistance programs for businesses (centred on assistance to regions and innovation)[47] were reviewed. It should be noted that there are no standards for eligible expenses, regional definition or sector definition (“new economy”). The types of financial assistance (tax credits, grants, loans, loan guarantees, equity positions) vary substantially, as do the accompanying conditions (e.g.: terms of assistance; repayment conditions, if any).

## ❑ Scope of public intervention

Contrary to the general perception, financial assistance programs and policies for the regions and innovation are widespread in the countries studied, including the United States. They make a substantial contribution, reaching 50% of the value of investment projects, or 10% of annual labour expenditures (corresponding to jobs created) and sometimes more.

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46 Tax credit systems for R&D where they apply generically to any sector and any region have been excluded from the analysis.
47 Support programs for innovation were detected, thus including support programs for the “new economy”.

States and regions enjoy significant capacity to act. While the senior jurisdiction (European Union, United States at the federal level) makes a substantial contribution to regional development and innovation,[48] it does not necessarily benefit businesses directly. Rather, it defines regional definition parameters for junior jurisdictions. This makes it possible to trace how senior jurisdictions channel funds. In addition, the European Union sets rules of fairness to avoid distortions harmful to the common interest.

## ■ Economic purpose

The economic purpose generally blends the following three objectives, whether explicitly or not. One of these three items is generally given priority:

- **employment, as an immediate benefit for individuals,**
- **productivity, as a condition for business competitiveness,**
- **exports, as a generator of currency inflows for the economy.** More rarely, this purpose is mentioned explicitly (e.g.: China,[49] India).

Reference to the possibility of growth through international expansion helps mitigate tension (risk of opposition) between the objectives of employment and productivity.

## ■ Program objectives

In all countries, public interventions respond to similar concerns:

- **Support for the regions.** Public intervention seeks to support regions whose socio-economic situation lags that of the territory as a whole. The factors behind this lag vary and can also combine. They may be related to chronic (remoteness), structural (struggling traditional industries) or unforeseen (natural disaster) situations. The assistance can vary with the level of regional distress. Lastly, the scale of the assistance can vary substantially from one jurisdiction to another (e.g.: European Union v. United States). Schedule A sets out the major criteria for designation of the regions listed through regional assistance programs.

48 In the United States, federal financial assistance is provided in particular by the Department of Commerce (Economic Development Administration) and the Department of Housing and Urban Development (Community Block Grants). In Europe, community assistance is provided in particular under the “Convergence” and “Regional Competitiveness and Employment” objectives.

49 “The state-level ETDZ (Economic and Technological Development Zones) (...) adhere to the policy of “mainly developing the high-tech industry, focusing on industrial projects, absorbing foreign fund and building up an export-oriented economy” ”. Ministry of Commerce – China.

— **Support for innovation.** Public intervention targets support for the development of new products or processes, whether traditional (modernization) or new activities. Despite the definite interest shown by public authorities in high technology (in particular, information technology and bio-medicine), other sectors such as energy/environment and "traditional" sectors (such as agri-food) are targeted. Schedule B describes the main sectors targeted by a few innovation support programs.

Superimposed on regional and innovation support programs, support for the transfer of knowledge and know-how among economic agents is growing in importance, especially in Europe, but in other countries as well (e.g.: Singapore, India) and some American states (New York). Whether the objective is supporting the regions and/or innovation, public intervention often targets the interrelations among agents of economic development and therefore the transfer of knowledge and know-how. It encourages alliances and cooperation, focusing on the synergies that may result. There are a number of variations to this concept (e.g.: cooperation, poles, networks, innovation systems, clusters, learning regions) but in every case, the links between economic agents are the target of public intervention rather than any one component of the network.

Schedule C presents this situation using a diagrammatic approach, while Schedule D shows a selection of programs according to objectives and types of assistance.

### ❑ Eligible expenses

Whether tax credits or grants are concerned, eligible expenses often match. They may be labour costs (wages, training, internships), technology acquisition (equipment, patents, professional services), the purchase of land and construction costs. Support for the regions can also include expenses relating to infrastructure and public services (transportation, energy, waterworks and water treatment).

— Support for eligible capital expenditures can cover, besides equipment, the purchase of technology (patents, licenses), buildings, as well as professional services (e.g.: consulting engineering, planning) and worker training where it specifically accompanies integration of new technology.[50]

50 Some programs recognize the “organic” nature of innovation and seek to optimize the technology “absorption capacity” of the local industrial community.

— Support for labour expenses can cover part of wage and training expenses. Creating and/or maintaining jobs can justify a tax credit on capital spending and tax exemptions (e.g.: relating to property taxes).[51]

### ❑ Regional definition

Reducing the level of regional "distress" and disparities compared to averages (e.g.: national) is generally the aim, and the measurement criteria used bring together quantified socio-economic (e.g.: per capita GDP, income, unemployment) or at least factual (e.g.: remoteness from major centres) criteria. However, the formulae used and, even more, the weightings of the criteria vary. In addition, the scale of regional definition also varies significantly.

— The European Union uses a standards-based approach, based on population in specific jurisdictions (ref: nomenclature of territorial units) contrary to the United States, at least federally, where criteria such as political boundaries, population, even geographical contiguity are not necessarily decisive. The atomization of designated regions is more common in the United States.

— To reflect differences in levels of distress, the amount of financial assistance, whether in the form of tax credits or grants, can be adjusted accordingly, based on variable formulae.

### ❑ Tax credits

■ **Use of tax credits varies from country to country.**

— In Europe, the grant appears to be used more extensively than the tax credit, at least in the 20 programs examined in this region. Having said that, European legislation authorizes levels of jurisdiction of the members of the Union to use tax credits. Some regions do so within the limits set by the European Union.

— In China, the tax credit has been extensively used for at least 20 years and, in most cases, is reserved for companies located in designated zones, whether coastal zones (for export), "high technology" zones or poor zones often located in the central and western regions of the country. The success of some of these programs (e.g.: Special Economic Zones) is evident and Chinese expertise is beginning to be followed in other countries (e.g.: India).

51 It should be noted that programs that target training are particularly generous in states where the average level of education is low (e.g.: south-eastern states of the United States).

— In the United States, the tax credit is used more to support reduction of regional disparities than to support innovation. In the latter case, the assistance consists rather of direct or indirect grants. Having said that, financial assistance targeting either of these objectives can be aggregated (the tax credits being "added" to the grants) for investment projects and/or their subsequent operation (Oregon, Michigan).

### ■ Use of tax credits in a few American states[52]

Tax credit systems for investors were examined more closely in a few American states, including the largest (New York, California, Texas) and some of the most dynamic or innovative (e.g.: states in the Southeast) in terms of tools for attracting investment. Tax credits can take many forms,[53] which can be combined.

— **Income Tax Deduction:** Deduction from the income tax of the recipient company, making set credits correspond to levels of economic impact (e.g.: flat credit per job created, percentage of the value of the capital investment) and to types of expense (e.g.: building and/or equipment). This deduction can be carried forward over a certain period.

— **Business Tax Deduction:** Accelerated depreciation of assets and/or deduction of certain traditionally non-deductible costs (e.g.: insurance premiums, legal fees, renovation, etc.).

— **Sales Tax Credits:** Refund of all or part of state sales taxes on certain capital expenditures of the company, including the purchase of land and equipment and building construction. In some cases, local sales taxes may also be refunded.

— **Real Property Tax Exemption:** Exemption of all or part of the property tax on the land and the building, for a set period.

— **Business Property Tax Exemption:** Exemption of all or part of the property tax on the purchase of equipment and machinery, for a set period.

— **Refundable credits:** New York State offers a refund of up to 50% of unused credits for new businesses.

— **Other credits:** A residual category including exemption from the capital tax and carry-over of operating losses over long periods.

52 This review only covers tax incentives offered at the state level. Other tax credit programs may be available at the regional (county) or municipal level. Exemptions from sales taxes imposed at the local (county, municipality) level may also be available.

53 Schedule E provides a table summarizing the tax incentives available in six American states.

Schedule E shows the main investment tax credit systems in each of these states. The examination reveals their extensive use, in particular for improving support for investment in disadvantaged zones (generally according to criteria that are modeled on federal criteria).

The cases of North Carolina and Georgia are singled out, particularly their more elaborate programs concerning the staggering of assistance.

- **North Carolina**

To stimulate its economy and create new jobs, North Carolina offers three types of tax credits as part of its "Tax Credits for Growing Businesses (Article 3J)" program that the investor can combine as he wants up to 50% of tax owing (with a carry-over of up to 20 years). As such, these companies have more latitude concerning their development strategies (allocation of productive resources).

Government assistance is staggered according to the degree of distress and development of each geographical zone. Accordingly, the value of the tax credit, the minimum number of jobs to be created and the minimum amount of investment to be made vary from zone to zone. The investment tax credit linked to the purchase or lease of a building and/or land is, however, available only in the poorest zones (zone 1).

— **Credit for Creating Jobs**:

- zone 1 (less developed): $12 500 per job created – minimum of 5 jobs created;
- zone 2: $5 000 per job created – minimum of 10 jobs created;
- zone 3 (more developed): $750 per job created – minimum of 15 jobs created;
- Urban Progress Zones (UPZ)/Agrarian Growth Zones (AGZ): +$1 000 to +$2 000 (if the recipient is a resident of the zone or a long-term unemployed person) per job created – minimum of 5 jobs created.

— **Real Property Tax Credit:**

- zone 1 (less developed): 30% of the investment – minimum investment of $10 million that can be staggered over three years – minimum of 200 jobs created that can be staggered over two years.

- **Business Property Tax Credit:**
    - zone 1 (less developed): 7% of the investment – minimum investment of $100;
    - zone 2: 5% of the investment – minimum investment of $1 million;
    - zone 3 (more developed): 3.5% of the investment – minimum investment of $2 million;
    - Urban Progress Zones (UPZ)/Agrarian Growth Zones (AGZ): 7% of the investment – minimum investment of $100.
- **Qualified Business Investment Tax Credit Program: Exemption from state tax of up to 25% of the value of the capital investment (or reinvestment), applicable in particular to the manufacturing sector and solely for SMEs (gross revenue less than $5 million for the last fiscal year).**

▪ **Georgia**

To encourage businesses to locate and expand in Georgia, the state offers many forms of tax credits (as part of the "Georgia Incentives Guide") including a job tax credit, an investment tax credit and a retraining tax credit. For the most disadvantaged zones (zones 1 and 2), there is no limit to the accumulation of credits.

- **Job Tax Credit**:
    - zone 1 (less developed): $3 500 per job created – minimum of 5 jobs created;
    - zone 2: $2 500 per job created – minimum of 10 jobs created;
    - zone 3: $1 250 per job created – minimum of 15 jobs created;
    - zone 4: $750 per job created – minimum of 25 jobs created;
    - Head offices that create a minimum of 50 jobs with an investment of at least $1 million receive a tax credit of $2 500 (if the salary is above the average for the zone) or $5 000 (if the salary is double the average for the zone) per job created.
- **Investment Tax Credit**:
    - zone 1: 5 to 8% of the investment – minimum investment of $50 000 – can be carried forward over 10 years;
    - zone 2: 3 to 5% of the investment – minimum investment of $50 000 – can be carried forward over 10 years;
    - zone 3 and 4: 1 to 3% of the investment – minimum investment of $50 000 – can be carried forward over 10 years.

— **Retraining Tax Credit**: maximum of $500 per employee, regardless of the zone.

Without having the same degree of choice as an investor in North Carolina because he cannot combine the three types of credit, the recipient business is entitled to claim either the job tax credit or the investment tax credit (in addition to the retraining tax credit for which there is no constraint). In addition, these businesses are also eligible for a retraining tax credit provided the retraining concerns new equipment, new technology or a new production system. Investment and job tax credits can also be enhanced for businesses that post significant increases in their shipments to or from a Georgia port. Regardless of the zone, the investment tax credit is increased to 5% of the value of the capital investment or an additional credit of $1 250 per job created can be claimed.

- **New York State**

New York State offers a variety of tax incentives (as part of "NY Business Taxes & Incentives") designed to attract new businesses and enable existing businesses to grow and create more jobs. Most of the financial assistance is channelled through the 72 designated zones (Empire Zones or EZs). The main components of these tax incentives can be summarized as follows:

— **Investment Tax Credit (ITC). Businesses that create new jobs and acquire machinery and equipment can claim tax credits of a maximum of 10%** (**an additional credit of 3% is available for three years for projects located in an Empire Zone**) **of their eligible investment.** Newly established businesses are eligible to receive a refund of 50% of unused credits while other businesses can carry forward all their unused credits for 15 years.

— **EZ Wage Tax Credit.** For projects located in distressed zones identified as "Empire Zones", this credit is available for a maximum of five years for businesses that hire full-time employees in newly created jobs. The credit is $1 500 per year per job created and can reach up to $3 000 per year per job created for targeted workers.[54] Up to 50% of unused credits can be refunded for newly established businesses.

54 Targeted workers: low-income persons, social assistance recipients and demobilized veterans.

- **Zone Capital Credits.** A tax credit of 25% and not exceeding $100 000 against tax owing is available either to fund the purchase of shares in a company or to fund a direct equity interest in a company in the zone.

- **Sales Tax Exemptions.** New York State offers tax exemptions for qualified businesses in EZs for the purchase of energy (natural gas, electricity), machines and equipment used in manufacturing and R&D. The exemption lasts 10 years.

- **Real Property Tax Abatement.** To encourage development, expansion and improvement of commercial premises, a real property tax deduction lasting 10 years is available to offset the rise in real property assessment because of an improvement to the business environment. The deduction is 100% for the first seven years and declines over the last three years of the exemption.

- **Real Property Tax Credit.** New York State offers a tax credit for taxes paid on real property based on a formula that considers job creation, salaries and fringe benefits or investments made in the zone. Each eligible business must pass an annual qualification test in terms of jobs to receive this financial assistance.

Other incentives are available under the Empire Zone program including, in particular, rebates on the cost of electricity. Moreover, New York State targets investment in technology sectors in many ways including:

- Additional regional support programs. For instance, the SEMI-NY program is a comprehensive effort to encourage manufacturing of semi-conductors in New York State in “shovel-ready” sites designated for that purpose.

- Additional tax incentives. Investments in R&D installations are eligible for a 9% credit on corporate tax (Research and Development Tax Credit). Other credits are available to encourage the creation and expansion of new technology businesses, including: 1) a tax credit of $1 000 per job created, over three years, and 2) a tax credit of 18% of the total investment in emerging technologies.[55]

55 Emerging technologies generally include advanced materials and processing technologies; engineering, production and defence technologies; electronic and photonic systems and components; information and communications technologies, equipment and systems; biotechnology; and refabrication technologies.

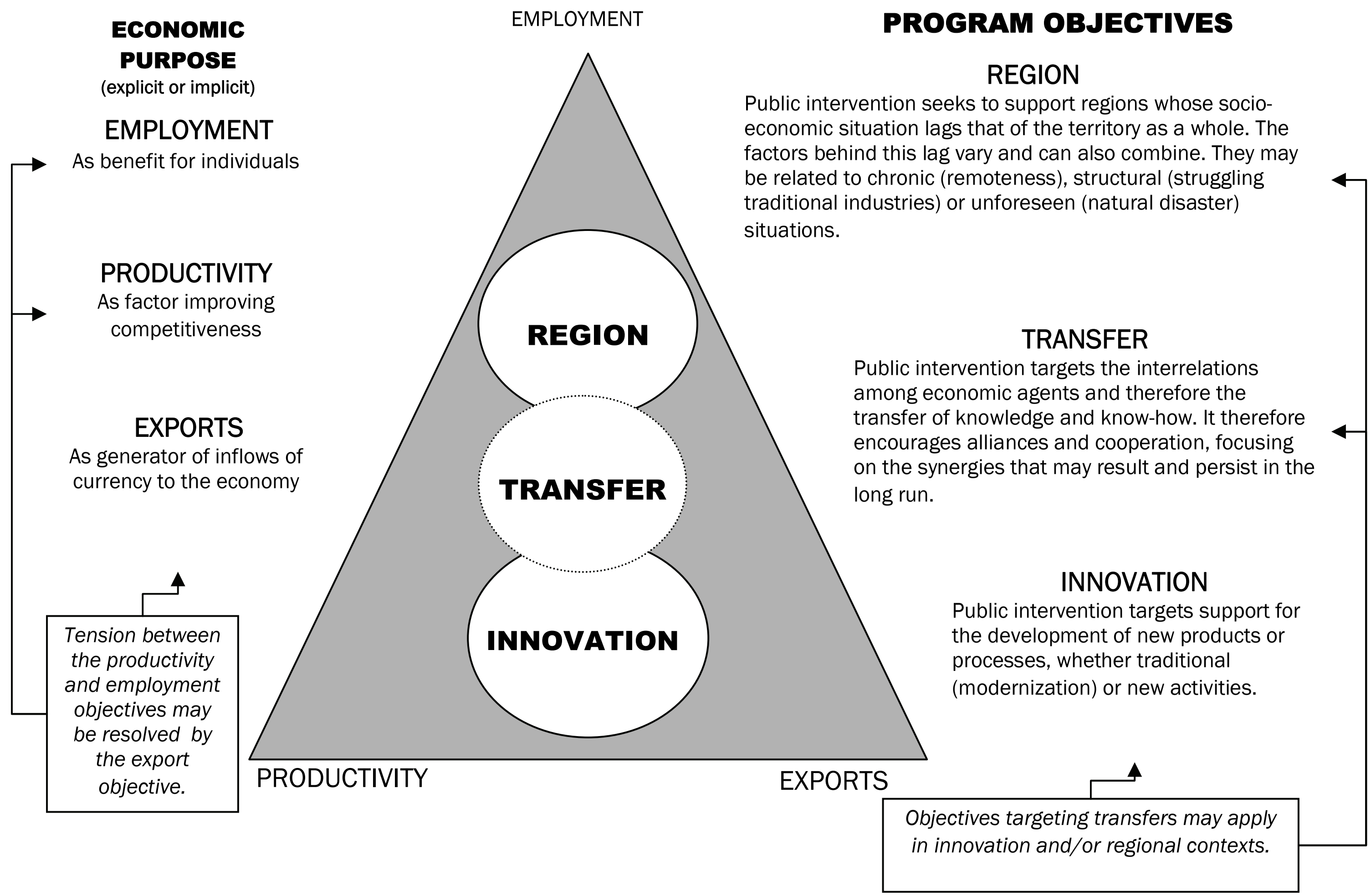
## ❑ Schedule A - Types of criteria for designating regions

| Country (state or region) | Agency responsible | Program | Criteria | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Quantitative (socio-economic statistics) | | | | | | Non-quantitative | | | |
| | | | Per capita GDP (or PPP) | Per capita income | Poverty threshold | Unemploy-ment rate | Education | Popul. and / or density | Isolation | Distress | Supra-regional interest | Discretionary |
| European Union | European Regional Development Fund | "Regional competitiveness and employment" objective | X | | | X | X | X | | X | X | |
| Spain | Sub-Directorate-General of Regional Incentives, Ministry of Economy and Finance | Canary Islands Special Zone | X | | | | | | X | | | X |
| United States | US Department of Agriculture (USDA) | 7 CFR Part 25: Rural Empow'nt Zones and Enterprise Communities | | X | X | X | X | X | | X | | X |
| United States | Economic Development Administration (EDA) | 13 CFR Chapter III -- Econ. Dev. Administration (EDA), Dept of Commerce | | X | X | X | | | | X | | X |
| United States (North Carolina) | North Carolina Department of Commerce | Credits for Growing Businesses (Article 3J Credits) | | X | X | X | | X | | X | | |
| United States (Georgia) | Department of community affairs & Department of Revenue | Georgia Job Tax Credit Program | | X | X | X | | | | X | | |
| United States (Kentucky) | Kentucky Economic Development Finance Authority | Kentucky Rural Economic Development Act (KREDA) | | | | X | X | | X | | | |
| United States (New-York) | New York State: Dept. Taxes & Finance | Empire Zone Enterprises Program | | X | X | X | | X | | X | | |
| United States (Oregon) | Oregon Economic & Community Development Department | Oregon Enterprise Zones | | X | | X | | | | | | X |
| South Africa | Department of Trade and Industry of South Africa | Industrial development zone (IDZ) | | | | | | | | | X | X |
| Australia | Australian Taxation Office | Income Tax Zone Rebate | | | | | | X | X | | | |

## ❑ Schedule B – Support programs for the new economy – Target sectors

| Country (state) | Agency | Program | Information technologies | Bio-medical | Agri-food | Forest products | Machinery / instrumentation | Transportation equipment | Energy / environment | Others manufacturing sectors | Other non-manufacturing sectors |
|---|---|---|---|---|---|---|---|---|---|---|---|
| United States (New-York) | State of New York | Strategic Partnership for Industrial Resurgence (SPIR) | X | X | | | X | | | | |
| United States (New-York) | Empire State Development | SEMI - NY | X | | | | | | | | |
| United States (New-York) | Empire State Development | Strategic Initiative Program (SIP) | X | | | | | | | | |
| United States (New-York) | Empire State Development | Generating Employment through New York State Science (Gen*NY*sis) Program, Biotechnology and Biomedicine Research Initiative | | X | | | | | | | |
| United States (New-York) | New York State Energy Research and Development Authority | Renewable Energy Technology Manufacturing Incentive Program | | | | | | | X | | |
| United States (Michigan) | Michigan Economic Development Corporation | Renaissance Zone program | | | X | X | | | X | X | |
| United States (Iowa) | Office of Energy Independence | Iowa Power Fund | | | | | | | X | | |
| United States (Georgia) | Department of Community affairs | Life Sciences Facilities Fund | | X | | | | | | | |
| United States (North Carolina) | Biotechnology Center | Biotechnology Research Grant | | X | | | | | | | |
| Sweden | VINNOVA | VINN NU, Initiative Forska & Väx (Recherche & Croissance) | X | X | | | | X | X | X | |
| Netherlands | Ministère des Affaires économiques des Pays-Bas | Point-One Innovation Platform | X | | | | | | | | |
| China | Ministry of Science and Technology | 863 Program | X | X | | | | X | X | X | |
| China | Ministry of Science and Technology | Torch Program | X | X | | | X | | X | X | |
| China | National Nature Science Foundation | 973 Program | | X | X | | | | X | X | X |
| India | Department of Information Technology | Special Incentive Package Scheme (SIPC) | X | | | | | | | | |

## ❑ Schedule C – Purposes and objectives of government assistance to businesses



## ❑ Schedule D - Selection of programs according to objectives and types of assistance – North America

| Country (state or region) | Agency | Program | Objectives | | | Type of financial assistance | | |
|---|---|---|---|---|---|---|---|---|
| | | | Region | Transfer | Innovation | Tax credits | Grants | Other |
| United States (Federal) | U.S. Department of Housing and Urban Development | Community Development Block Grant/State's program | X | | | | X | |
| United States (Oregon) | Oregon Economic & Community Development Department | Oregon Enterprise Zones | X | | | X | | |
| United States (Oregon) | Oregon Economic & Community Development Department | Strategic Investment Program (SIP) | X | | X | X | | |
| United States (Michigan) | Michigan Economic Development Corporation | Renaissance Zone program | X | | X | X | | |
| United States (New-York) | New York State: Dept. Taxes et Finance | Empire Zone Enterprises Program (EZE) | X | | | X | | |
| United States (New-York) | Empire State Development | SEMI - NY | | | X | | X | |
| United States (New-York) | Empire State Development | Centers of Excellence Program | | X | X | | X | |
| United States (New-York) | Empire State Development | Generating Employment through New York State Science (Gen*NY*sis) Program | | X | X | X | X | X |
| United States (Georgia) | Department of community affairs & Department of Revenue | Georgia Job Tax Credit Program | X | | | | X | |
| United States (North Carolina) | Department of commerce | Article 3J Tax Credits | X | | | X | | |
| United States (Kentucky) | Kentucky Economic Development Finance Authority | Kentucky Rural Economic Development Act | X | | | X | | |
| Canada (Nova Scotia) | Nova Scotia Business Inc. | Payroll Rebate Program | X | | | | X | |
| Canada (Ontario) | Ministère de l'agriculture, de l'alimentation et des affaires rurales de l'Ontario (OMAFRA) | Rural Economic Development Program | X | X | | | X | |
| Canada (Ontario) | FedNor | Northern Ontario Economic Development Fund (NOEDF) | X | X | X | | X | |

## ❑ Schedule D - Selection of programs according to objectives and types of assistance – Overseas

| Country (state or region) | Agency | Program | Objectives | | | Type of financial assistance | | |
|---|---|---|---|---|---|---|---|---|
| | | | Region | Transfer | Innovation | Tax credits | Grants | Other |
| European Union | European Regional Development Fund | "Convergence" objective | X | X | X | | X | |
| European Union | European Commission | Technological research and development framework program - cooperation | | X | X | | X | |
| Scotland | Scottish Development International | R&D Plus | | | X | | X | |
| Spain | Sub-Directorate-General of Regional Incentives, Ministry of Economy and Finance | Canary Islands Special Zone (“Zona Especial Canaria” or “ZEC”) | X | | | X | | |
| France | Consortium of ministries | Interdepartmental fund supporting cooperative research and development projects of competitivness centres | X | X | X | | X | |
| Norway | Industry and Energy Division of the Research Council of Norway | MOBI program | X | X | X | | X | X |
| Netherlands | Ministère des Affaires économiques | Point-One Innovation Platform | | X | X | | X | X |
| Sweden | VINNOVA | Forska&Väx (Research & Growth) initiative | | | X | | X | |
| Sweden | VINNOVA | Vinnvaxt | X | X | X | | X | |
| South Africa | Department of Trade and Industry of South Africa | Industrial development zone (IDZ) | X | | | X | | X |
| Australia | Australian Taxation Office | Income Tax Zone Rebate | X | | | X | | |
| Australia | Australia Taxation Office | Australian R&D Tax Concession program | | | X | X | | |
| China | The Office of Spark Program (Ministry of Science and Technology) | Spark Program | X | | X | X | X | X |
| China | Ministry of Commerce | High-Tech industrial development Zones (HTIDZ) | X | | X | X | | |
| India | Department of Scientific & Industrial Research (DSIR) | Program aimed at Technological Self Reliance (PATSER) | | X | X | | X | |
| Singapore | Singapore Economic Development Board | Programme Local Industry Upgrading Program (LIUP) | | X | X | | X | |

## ❑ Schedule E – Major investment tax credit systems – Selected American states

| | Sales Tax credits | Tax Exemption or Moratorium on Land, Capital Improvements | Tax Exemption or Moratorium on Equipment, Machinery | Corporate Income Tax Deduction | Business Expense Deduction | Other Tax Incentive for Industrial Investment | Tax Incentive for Creation of Jobs | Tax Exemption to Encourage Research and Development |
|---|---|---|---|---|---|---|---|---|
| **California** | *Enterprise Zone Program*<br>*Local Agency Military Base Recovery Area*<br>*Los Angeles Revitalization Zone*<br>*Targeted Tax Area Program* | | *Enterprise Zone Program* | *Enterprise Zone Program*<br>*Local Agency Military Base Recovery Area*<br>*Los Angeles Revitalization Zone*<br>*Manufacturing Enhancement Area*<br>*Targeted Tax Area Program* | *Enterprise Zone Program*<br>*Local Agency Military Base Recovery Area*<br>*Los Angeles Revitalization Zone*<br>*Manufacturing Enhancement Area* | *Enterprise Zone Program*<br>*Local Agency Military Base Recovery Area*<br>*Los Angeles Revitalization Zone*<br>*Targeted Tax Area Program* | ***Enterprise Zone Program***<br>***Local Agency Military Base Recovery Area***<br>***Los Angeles Revitalization Zone***<br>***Manufacturing Enhancement Area***<br>***Targeted Tax Area Program*** | R&D Tax Credit<br>Research and Development Accelerated Depreciation |
| **Georgia** | Sales Tax Exemptions | Property Tax Abatements | Property Tax Abatements | *Empowerment Zone Credits*<br>*Investment Tax Credit*<br>*Jobs Tax Credits* | | | ***Jobs Tax Credits***<br>***Empowerment Zone Credits*** | R&D Tax Credit |
| **Minnesota** | *Job Opportunity Building Zones*<br>*Bioscience Zone Program*<br>*Border-Cities Enterprise Zone* | *Bioscience Zone Program*<br>*Border-Cities Enterprise Zone Program* | *Job Opportunity Building Zones*<br>*Bioscience Zone Program* | *Job Opportunity Building Zones*<br>*Bioscience Zone Program*<br>*Border-Cities Enterprise Zone* | | | ***Job Opportunity Building Zones***<br>***Bioscience Zone Program***<br>***Border-Cities Enterprise Zone*** | ***Bioscience Zone Program*** |
| **New York** | *Empire Zone Enterprises Program*<br>*Strategic Partnership for Upstate Resurgence (SPUR)* | *Empire Zone Enterprises Program*<br>*Brownfield Cleanup Program*<br>*Strategic Partnership for Upstate Resurgence (SPUR)* | *Empire Zone Enterprises Program*<br>*Brownfield Cleanup Program*<br>*Strategic Partnership for Upstate Resurgence (SPUR)* | *Empire Zone Enterprises Program*<br>*Brownfield Cleanup Program*<br>*Strategic Partnership for Upstate Resurgence (SPUR)* | *Brownfield Cleanup Program* | *Empire Zone Enterprises Program*<br>*Strategic Partnership for Upstate Resurgence (SPUR)* | ***Empire Zone Enterprises Program***<br>***Strategic Partnership for Upstate Resurgence (SPUR)*** | ***Generating Employment through New York State Science (Gen*NY*sis) Program*** |
| **North Carolina** | | | | *Tax Credits for Growing Businesses (Article 3J)*<br>Tax Incentives for Major Computer Manufacturing Facilities [Article G] | Business and Energy Tax Credits [Article 3B] | Business and Energy Tax Credits [Article 3B] | ***Tax Credits for Growing Businesses (Article 3J)***<br>Tax Incentives for Major Computer Manufacturing Facilities [Article G] | Research and Development Tax Credit [Article 3F] |
| **Texas** | *Enterprise Zone Program* | *Enterprise Zone Program*<br>*Reinvestment Zones Program* | *Enterprise Zone Program*<br>*Reinvestment Zones Program* | *Enterprise Zone Program*<br>*Capital Investment Franchise Tax Credit*<br>Jobs-creation Franchise Tax Credit | | *Enterprise Zone Program*<br>*Capital Investment Franchise Tax Credit* | Jobs-creation Franchise Tax Credit | Research and Development Franchise Tax Credit |