June 20, 2006

Mr. Luc Monty
Assistant Deputy Minister, Economic and Fiscal Policy
Ministère des Finances du Québec
12, rue Saint-Louis, bureau 2.25
Québec (Québec) G1R 5L3

Re: Analysis of certain measures implemented by the Québec government on the tax burden of Quebecers

Dear Sir,

You asked us, on behalf of the ministère des Finances du Québec (“MFQ”), to analyze the impact of various measures (“Measures”) that the Québec government (“government”) has implemented or will implement by December 31, 2007, compared to the prevailing situation in 2003. The objective is to analyze the impact of these measures on the tax burden of Québec households during this period. More specifically, the MFQ wishes to know the effect of these measures, whether favourable or unfavourable, on the disposable income of individuals for the years 2003 to 2007.

To carry out this analysis, we agreed to study the tax situation of six typical scenarios that, according to the MFQ, are a representative sample of Quebec households during this period. The typical scenarios we worked with are:

- A person living alone with employment income of $15 000, $35 000 and $70 000. Single persons under age 65 represent roughly 53%\(^1\) of childless households in Québec.

- A two-adult family with two children age one and six with total family income of $30 000, $70 000 and $120 000. Couples with two children represent roughly 40%\(^2\) of couples with children in Québec.

- The calculations relating to each scenario were carried out by the MFQ and our analysis is based on the information and figures supplied to us by the MFQ. We validated the calculations for each typical scenario provided by the MFQ.

The impact of the Measures on disposable income for each of the six scenarios studied was determined based on the following working hypotheses. If these hypotheses were to be modified, the conclusions of this analysis could be different.

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1 Based on figures relating to taxation year 2003 supplied to us by the MFQ (see Appendix I).
2 Idem.
For the scenarios concerning a two-adult household, each spouse earns 50% of the household income.

In each of the scenarios, the persons pay union dues representing 1.5% of their pay. The maximum dues are $750 per year.

To set the amount of daycare fees paid by the household with two children, the scenarios assume that the one-year-old child is registered with a reduced-contribution daycare centre. The six-year-old does not go to daycare.

The child in daycare is there 242 days per year. This figure corresponds to the average attendance in a reduced-contribution daycare centre for a child under age 5 during 2004.3

The amount of the reduced contribution is $5 per day for 2003 and $7 per day for 2007.4 Daycare fees paid correspond to the gross cost of daycare.

The amount of property taxes attributable to housing and used to calculate the property tax refund (refundable tax credit) is $925 per year in the case of a household consisting of one person and $1 252 in the case of a household consisting of two adults and two children. These amounts represent 18% of the cost of housing for each of these households.

The calculations were carried out using the Québec tax tables indexed annually based on the index determined in the Act.5 Since the indexing rate for 2007 is not known, the rates used to estimate tax, the reduction thresholds for certain tax benefits (such as the credit for a person living alone and the Québec sales tax [“QST”] credit) and payments to households arising from various Québec government programs have been indexed at 2.2%.

The calculations are based solely on Québec taxes and contributions to plans administered by the Québec government and do not reflect the impact of measures put in place by the federal government during 2003 to 2007.

Some of the figures used to calculate 2007 disposable income are those of 2006 since the figures for 2007 were not known at the time our analysis was carried out. However, we have included 2007 in our analysis to reflect the fact that some measures introduced by the government will become fully effective or will be improved in 2007.

The tax tables and the contribution rates to various government plans used in the calculations are given in the appendix.

We did not analyze the impact on disposable income that may arise from the increase in QST paid by Québec households as a result of higher prices for consumer goods. The calculations for 2007 are based on information known at the time this study was carried out and on the laws in force or proposed on the date of these presents. It is understood that were some of these Measures to be changed or withdrawn by the government, disposable income could be affected and the conclusions of this analysis might differ.

3 According to figures supplied by the MFQ.
4 The amount of the reduced contribution rose from $5 to $7 per day on January 1, 2004.
5 Taxation Act, R.S.Q., c. I-3.
QUEBECERS’ TAX BURDEN

Significance of the Measures introduced by the government

During the period covered by this analysis, the government has introduced various fiscal Measures that have an impact on the tax paid by households. According to the MFQ, the chief Measures affecting individuals are:6

- Introduction in 2005 of a single tax system for all Québec households. The single tax system replaced the former general and simplified tax systems. This single tax system allows taxpayers a non-refundable tax credit relating to the additional amount that replaces the tax credits for contributions to employment insurance, the Régie des rentes du Québec and the Health Services Fund.7

- Introduction of an improved refundable tax credit for child assistance (formerly family allowances). Since taxation year 2005, the tax credit for dependent children and the tax reduction for families that a parent could claim in his tax return have been replaced by a generally larger amount paid directly to parents called the child assistance payment.8

- Access to certain non-refundable tax credits even if the tax credit relating to the additional amount is claimed, which was not the case under the simplified system in effect until 2004.

- Introduction of the work premium. It consists of a refundable tax credit that an eligible person may claim.9

- Deduction for workers with a maximum of $500 in 2006 and a maximum of $1 000 in 2007.10

Significance of disposable income

To determine the impact of the Measures introduced by the government, we calculated the effect of the various Measures on the disposable income of Québec households. More specifically, we compared the disposable income of Québec households in taxation year 2007 with that of taxation year 2003 to see which was higher. The items studied are the ones on which the government has a direct influence. Specifically, “disposable income” for the purposes of this analysis is defined as follows:

Earned salary

Less:

6 Other measures of less general scope were introduced in the budgets tabled in 2004, 2005 and 2006.
7 If the total of these three amounts exceeds the additional amount, this total may be claimed as an amount for the purposes of calculating non-refundable tax credits.
8 The non-refundable tax credit amounted to $2 710 for the first child in 2003. This amount, converted to tax at the rate of 20%, was equivalent to $542. For 2005, the minimum support payment a parent could receive was $561, i.e. the amount of $542 indexed by the factor set by the MFQ, as stipulated in the Taxation Act. The maximum for 2005 was $2 000 for the first child. In 2007, the minimum and maximum amounts will be $588 and $2 094 respectively.
9 The work premium was introduced in the Québec budget of March 30, 2004. It is designed to encourage people to leave social assistance to return to the labour market and has been in effect since January 1, 2005.
10 The $500 deduction for workers was introduced in the Québec budget of April 21, 2005. The Québec budget of March 23, 2006 doubled the amount of the deduction to $1 000.
- net Québec income tax paid by the household during a given year, including non-refundable tax credits it is entitled to;

**Plus:**
- child assistance (formerly family allowances),
- work premium,
- refundable tax credit for the QST,\(^{11}\)
- property tax refund;

**Less:**
- contribution to the Québec Parental Insurance Plan\(^{12}\) (“QPIP”),
- reduced-contribution child care fees.

As mentioned above, the calculations reflect an annual indexing factor. Although indexing was introduced in Québec’s legislation in 2002, this measure was maintained by the government. Since indexing has an important impact on the tax burden of Québec taxpayers and on their disposable income, it must be reflected in the calculations.

Indexing of the tax tables and various government programs is stipulated in the Taxation Act and in other specific statutes (such as the Québec Pension Plan Act). All of this is governed by a legislative framework. However, since the tax system is entirely under the responsibility of the government and in view of the size of this “expense” for the government, it can decide to maintain it or not. During the analysis period, the government decided to maintain indexing.

**Items excluded from the calculation of disposable income**

In the course of our analysis, we noted that during the period in question, certain fees and contributions set by government corporations changed or announcements were made regarding probable changes to these contributions or fees. For instance, the freeze on electricity rates was eliminated and contributions to the prescription drug insurance plan were raised. For the purposes of our analysis, we ignored changes in the following items:

- contribution to the Québec prescription drug insurance plan;
- contribution to the Québec Pension Plan (“QPP”);\(^{13}\)

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\(^{11}\) The amount of the refundable tax credit for the QST was $160 per person in 2003 and, according to the MFQ’s estimate, it will be $173 per person in 2007. In addition, a person living alone was entitled to an additional amount of $108 for 2003 and will be entitled to an amount of $118 for 2007. This refundable tax credit is reduced once the household’s income reaches a certain threshold.

\(^{12}\) This contribution amounts to 0.416% of earnings up to a maximum of $237.12 (maximum insurable earnings of $57 000). However, the amount of the employment insurance contribution (agreement with the federal government) was adjusted in 2006, from 1.87% (maximum $729.30) to 1.53% (maximum $596.70) of earnings to reflect the QPIP contribution. The real maximum increase in contributions is therefore no more than $104.52.
- fees for vehicle registration and driver’s licence;
- electricity rates;
- public transit;
- school taxes.

The reasons why the change in these contributions and rates was not included in the calculation of disposable income are given in Appendix II.

The Québec government has significant power to intervene in many sectors of Québec’s economy and it certainly can influence the cost of certain goods or services one way or another by increasing or decreasing its funding. In the final analysis, the more money the government injects to fund the delivery of a service, the less it should cost users of the service. Accordingly, we might be tempted to include all the items described above in the calculation of disposable income. However, according to our analysis and our understanding of the legislative framework surrounding the setting of the cost of these various services, we do not think they should be included in the calculation of disposable income because the changes observed do not stem from decisions taken by the government during this period. It is understood that ultimately, the government can influence the cost of these services by amending the laws governing them. However, in the situations mentioned above, the government is not responsible for the changes; rather, it set up mechanisms to govern the increases in rates needed to fund these services (for instance: the Régie de l’énergie for electricity and an expert panel for the SAAQ).

According to our understanding of the various services, information and discussions we have had with representatives of the MFQ, we do not believe there are other costs that should be taken into account in determining disposable income. While the cost of some services supplied by the government may have risen during the period covered by this analysis (for instance, the cost of admission to parks administered by the Société des établissements de plein air du Québec or the cost of using them), these services constitute a discretionary choice for households and we decided it was not appropriate to include them in the calculation of disposable income.

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13 In 2003 and in 2007, for the salary earner, the contribution corresponded to 4.95% of insurable earnings. The maximum contribution for 2003 was $1 801.80 while for 2007, the maximum contribution is estimated at $1 910.70, i.e. the maximum amount for 2006 given that the maximum contribution is not yet known.
ANALYSIS OF RESULTS

Before reviewing the analysis of the results, it is important to emphasize that this analysis compares the tax burden of Québec households in 2003, as described above, with their tax burden in 2007. We compared the total tax burden for a fixed level of income from one year to the other. For example, we compared the tax burden of a person earning an income of $30 000 in 2003 with that of another person earning $30 000 in 2007. In addition, as already mentioned, the impact on disposable income reflects only the Measures introduced by the Québec government during the period covered by the analysis. While the salary of a person earning an income of $30 000 (for example) probably rose, either because his income is indexed or because he received pay raises during the analysis period, we did not take these factors into account in comparing the results in order to be able to isolate and assess more precisely the impact of the Measures implemented during the period from 2003 to 2007.

PERSON LIVING ALONE

The study of the scenarios shows that between 2003 and 2007, for all levels of income analyzed and despite the coming into force of the QPIP, the tax burden of Québec households consisting of a single person declined as a result of the introduction of the deduction for workers, the single tax system (with effects as described above), indexation of the tax tables and various credits.

In addition, the results show that all households consisting of one person living alone benefited from the various Measures since at the various levels of income studied, the tax burden of persons living alone declined. The persons who benefited the most from these measures are those with an income of roughly $35 000.

The detailed results are as follows:

Employment income of $15 000

For a person living alone and with employment income of $15 000 a year, the various Measures designed to reduce the tax burden of Quebecers offset the reduction in disposable income arising from the loss of part of the property tax refund and the coming into force of the QPIP. During the analysis period, this household’s disposable income rose by $353.

This increase in disposable income is attributable to the fact that the introduction of the single tax system, the deduction for workers and the indexing of Québec’s tax system generated additional income of some $378. However, indexing of income brackets which have an impact on refundable credits (property tax refund) resulted in a reduction in disposable income of $14 and the introduction of the QPIP also reduced disposable income by $11.

14 A summary table is shown in Appendix III and itemizes the impact of the Measures on disposable income.
Employment income of $35 000

The measures implemented by the government have the greatest effect on household disposable income at this income level. The Measures have enabled a person living alone and earning employment income of $35 000 a year to increase his disposable income by $771.

This increase in disposable income is attributable to the fact that the tax reduction and indexing of Québéc’s tax system have generated additional income of some $798, while contributions to the QPIP reduced disposable income by $27.

Employment income of $70 000

As for persons living alone and earning employment income of $70 000 a year, the Measures have increased their disposable income by $603.

This increase in disposable income is attributable to the fact that the tax reduction and indexing of Québec’s tax system have generated additional income of $708, while the introduction of the QPIP reduced disposable income by $105.

TWO-INCOME COUPLES WITH TWO CHILDREN

Total household income of $30 000

For a family with two children and earning $30 000 annually, the various Measures designed to reduce Quebecers’ tax burden have offset the increase in contributions to certain government programs. During the analysis period, this household’s disposable income rose by $3 483.

This increase in disposable income is attributable to the fact that the indexing of Québec’s tax system, combined with an increase in the amounts paid for children, generated additional income of some $4 506. One reason for this large increase is the introduction of the work premium15 that provides Québec households with roughly $1 353 in additional cash. The child assistance payment generates $2 981 in cash. However, the elimination of the tax credit for dependent children and the tax reduction for families has acted to reduce disposable income by $516. Contributions to the QPIP have also reduced disposable income by $23 and the rise in fees for reduced-contribution daycare, from $5 to $7 per day, has reduced disposable income by a further $484.

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15 The work premium is a refundable tax credit based on employment income. The amount is reduced by 10% of the excess above a threshold ($9 780 for a single person and $15 008 for a couple with children in 2007). In 2007, the maximum benefit is $516.60 for a person living alone and $2 852 for a couple with children.
Note that the non-refundable tax credit for dependent children, which was $542 ($2 710 * 20%) for the first child and $500 ($2 500 * 20%) for the second child in 2003 was replaced by the child assistance payment made directly to parents. In 2007, the maximum amounts of the child assistance payment are $2 094 (minimum of $588) for the first child and $1 047 (minimum of $542) for the second child. The child assistance payment is made to parents regardless of whether or not they have a balance of tax payable, resulting in an increase in disposable income for the household. For example, the tax of a household earning $30 000 rises by $516 under the new system, since the non-refundable tax credit is no longer available, but the child assistance payment amounts to $3 141. Prior to this change, a couple that earned income of $30 000 evenly split between the two spouses could not benefit from the total value of the non-refundable tax credit for children since it exceeded the total tax payable.\(^{16}\)

**Total household income of $70 000**

For a family with two children and earning $70 000 a year, the Measures designed to reduce the tax burden of Québec households increase this family’s disposable income by $1 457.

This rise in disposable income is attributable to the fact that the indexing of the Québec tax system, combined with an increase in amounts paid for children, generated additional income of some $2 162, while the elimination of the tax credit for dependent children and the tax reduction for families reduced disposable income by $167. In addition, the introduction of the QPIP reduced disposable income by $54 and the increase in reduced-contribution daycare fees reduced disposable income by $484.

**Total household income of $120 000**

For a family with two children and earning $120 000 a year, disposable income rose by $811 over the period from 2003 to 2007.

This rise in disposable income is attributable to the fact that the tax reductions and the indexing of Québec’s tax system generated additional income of some $1 505. However, the introduction of the QPIP reduced disposable income by $210. The increase in reduced-contribution daycare fees reduced disposable income by an additional $484.

**SUMMARY**

In recent years, through budgets and other announcements, the Québec government has introduced various Measures that have had and will have an impact on Quebecers’ tax burden. Some government decisions have directly reduced Quebecers’ tax burden, such as tax reductions. Other decisions have prevented the tax burden from rising, for instance continued indexing of Québec’s tax system. Some Measures have increased payments made directly to Québec households, such as the improvement to family assistance. On the other hand, other Measures, such as the rise in contributions from $5 to $7 per day to fund the reduced-contribution daycare system and the introduction of the QPIP funded by a new contribution, have reduced the disposable income of Québec households.

The study of the six typical scenarios leads to the following conclusions:

- Between 2003 and 2007, Québec’s tax burden declined for all Québec households covered by the analysis.

\(^{16}\) Total tax amounted to $4 800 and total non-refundable tax credits “converted” into tax amounted to $6 063 (including the tax credit for families).
The households that benefited most from these measures are low and middle-income families with two children, i.e. those with total income from $30 000 to $70 000. For the latter group, the benefits range from $1 450 to $3 500. This increase in disposable income is largely due to the introduction of the child assistance payment and the work premium. Low-income households enjoy the largest increase in disposable income.

The improvement to child assistance payments explains a large part of the increase in disposable income of households consisting of two adults and two children.

For persons living alone, the benefits range from $350 to $775, depending on income bracket. This increase in disposable income is attributable to the tax reduction and the indexing of Québec’s tax system. Households consisting of a person living alone that benefited most from the Measures introduced by the government are those with income of $35 000.

Should further information prove necessary, feel free to contact the undersigned at 514 393-5480.

Yours truly,

Pierre Baraby
Partner, Operations Manager
Taxation
Samson Bélair/Deloitte & Touche inc.

encl.

c.c.: Brian Girard, directeur général des politiques aux particuliers
(ministère des Finances du Québec)
## QUÉBEC HOUSEHOLD INCOME PROFILE

### Number of households and average income by type of household – 2003

<table>
<thead>
<tr>
<th></th>
<th>Number of households ('000)</th>
<th>Average income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Families with children</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Couples with children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 1 child</td>
<td>280 488</td>
<td>70 424</td>
</tr>
<tr>
<td>- 2 children</td>
<td>287 625</td>
<td>78 497</td>
</tr>
<tr>
<td>- 3 children or more</td>
<td>145 302</td>
<td>76 476</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>713 415</td>
<td>74 911</td>
</tr>
<tr>
<td>Single-parent families</td>
<td>237 659</td>
<td>30 638</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>951 074</td>
<td>63 848</td>
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<tr>
<td><strong>Other households</strong></td>
<td></td>
<td></td>
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<tr>
<td>Elder persons (age 65 or over)</td>
<td>762 694</td>
<td>32 986</td>
</tr>
<tr>
<td>Childless couples</td>
<td>671 647</td>
<td>69 685</td>
</tr>
<tr>
<td>People living alone (age 65 or under)</td>
<td>1 619 698</td>
<td>22 846</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3 053 939</td>
<td>35 679</td>
</tr>
<tr>
<td><strong>All households</strong></td>
<td>4 005 013</td>
<td>42 369</td>
</tr>
</tbody>
</table>

Source: ministère des Finances du Québec

- Québec has roughly 4 million households, including:
  - 951 000 families with children (23.7%);
  - 1.6 million people under age 65 living alone (40.4%).

- Overall, the average income of Québec households is roughly $42 000. Average income varies by type of household:
  - the average income of couples with children is $74 911;
  - the average income of people under age 65 living alone is $22 846.

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17 Percentages have been rounded to one decimal.
ITEMS IGNORED IN CALCULATING DISPOSABLE INCOME

The government is involved at various levels when the time comes to set the costs of certain rates or contributions. Accordingly, to carry out our analysis, we looked at some of the items that have an influence on the purchasing power of Québec households to determine whether or not they should be taken into consideration in determining the impact of the government’s decisions on disposable income. In this appendix, we describe the contributions and rates that, in our view, should not be included in the calculation of disposable income and the reasons why they should not be included.

On the basis of our analysis and the discussions we have had with the MFQ, we concluded that the following contributions and rates should not be included in the calculation of the impact of the Measures on disposable income. According to the information supplied to us and our understanding of how these various plans and programs work, we conclude that the latter are governed by a legislative framework that prevents the government from having direct decision-making power in setting contributions and rates. Accordingly, the items described below were not included in the determination of the impact of the Measures implemented by the government since they are governed by their own law.

**Contribution to the Québec prescription drug insurance plan**

Québec requires all persons residing in Québec who do not have access to private drug insurance to join the Québec prescription drug insurance plan. From 2003 to 2007, the maximum annual premium has risen from $441 to $521,\(^{18}\) an increase of $80. In addition, the maximum amounts of deductible and co-insurance have increased from $69.92 to $71.42 per month, an annual increase of $18. Accordingly, participation in the plan is more costly now than three years ago. However, contributions to this plan were not included in calculating disposable income, since the rise in premiums and deductibles paid by plan participants are not decided by the government, but rather stipulated in the Act respecting prescription drug insurance\(^{19}\) (“APDI”) and its associated regulations. The APDI stipulates, in its regulations,\(^{20}\) that the rates for the deductible, co-insurance and maximum annual contribution are adjusted every July 1 based on the actual costs of the plan for the preceding fiscal year (April 1 to March 31) and taking into account the anticipated growth in plan costs and the anticipated costs of changes to plan coverage and particularly the addition of new drugs to the drug formulary.

The government could influence the costs relating to the plan by changing the formulary of covered drugs or by indexing the price of drugs already covered by the plan. However, in view of the legislative framework surrounding the Québec prescription drug insurance plan, we have not included the contribution to this plan in the calculation of disposable income, since according to the information supplied to us by the MFQ, the change in rates largely reflects a rise in consumption and the availability of new products.

\(^{18}\) This amount is equal to the current maximum annual premium in effect since July 2005. The amounts for taxation years 2006 and 2007 are not yet known.

\(^{19}\) R.S.Q., c. A-29.01.

\(^{20}\) Sections 6.1 and 6.2 of the Regulation respecting the basic prescription drug insurance plan (A-29.01.r.2).
Québec Pension Plan

During the period from 2003 to 2007, the maximum contribution to the QPP rose from $1,801.80 to $1,910.70. This increase is attributable to the rise in maximum pensionable earnings. However, the government does not decide this rise. Under section 40 of the Act respecting the Québec Pension Plan, the maximum pensionable earnings used to calculate the contribution to the QPP are determined on the basis of the preceding year’s maximum, increased by an amount as determined by Statistics Canada. Note that the parameters of the Québec plan follow those of the Canada Pension Plan. For these reasons, we have excluded this contribution from the determination of disposable income for the purposes of this analysis.

Vehicle registration and driver’s licence fees

Since 1994, the cost of registration and contributions for obtaining a driver’s licence for passenger vehicles have not been changed by the Société de l’assurance automobile du Québec (“SAAQ”). However, a few months ago, the SAAQ announced that it planned to raise the cost of a driver’s licence and of insurance contributions to cover the anticipated deficits relating to its activities. The Act respecting the Société de l’assurance automobile du Québec stipulates that the SAAQ has the power to decide the amount of contributions driver’s licence holders and vehicle owners must pay during a year. In addition, the Act also stipulates that by December 31, 2015, insurance contributions must be sufficient to cover the payment of indemmites relating to this contribution period. Accordingly, the Act places an obligation on the managers of the SAAQ and leaves them free to decide the increase in rates. In view of this obligation and the fact that the government does not have the power to require changes to the prices of driver’s licences and insurance contributions, we did not include this item in our calculations.

Electricity rates

Electricity rates were frozen from 1999 to 2003, which kept the electricity account of Québec households frozen. This freeze stemmed from an order-in-council passed by the government asking Hydro-Québec to apply a rate freeze and accordingly not to file an application for a rate increase with the Régie de l’énergie. Once the government withdrew this order-in-council, Hydro-Québec announced that its electricity rates would rise as of April 2004. However, Hydro-Québec cannot decide on its own to apply a rate increase. It must submit its proposals to the Régie de l’énergie which, following representations from various interveners, sets the rate increases it authorizes Hydro-Québec to apply to consumers.

The Act respecting the Régie de l’énergie stipulates that “[i]t is within the exclusive jurisdiction of the Régie to fix or modify the rates and conditions for the transmission of electric power …” Since the final decision lies with the Régie de l’énergie, the rise in electricity rates during the analysis period was not included since the government cannot decide of its own authority to increase electricity rates or require that Hydro-Québec increase its rates.

Each year, Hydro-Québec pays part of its profits to the government. Under the Hydro-Québec Act, Hydro-Québec is required to pay to the government, from its profits, the amount set by government decree. However, this amount cannot exceed 75% of the profits generated by Hydro-Québec. In addition, the amount paid cannot result in Hydro-Québec’s capitalization rate falling below 25%. Since 1999 (with the exception of 2004), Hydro-Québec has paid 50% of its profits to the government. In absolute

23 Sections 17.4, 151 and subsequent of the Act respecting the Société de l’assurance automobile du Québec.
24 R.S.Q., c. R-6.01.
25 Section 31 of the Act respecting the Régie de l’énergie.
26 Hydro-Québec Act (R.S.Q., c. H-5), sections 15.1 and 15.2.
numbers, the amount paid by Hydro-Québec has risen during the period from 2003 to 2005 (figures for 2006 and 2007 are not known) reflecting the rise in Hydro-Québec’s profits, but the rate of the dividend remained at 50%, except in 2004 when it was 55%. However, for 2004, the rise is attributable to the fact that 100% of a non-recurring gain arising from the sale of an investment held by Hydro-Québec was paid to the government. Accordingly, the amount paid to the government does not appear to have a direct impact on electricity rates.

In the Québec budget speech of March 23, 2006, the government announced the creation of the Generations Fund. To finance the fund, the government stipulated that Hydro-Québec (as well as other enterprises) would have to contribute to the fund. According to the information supplied to us by representatives of the MFQ, it appears that this amount should not have an impact on Hydro-Québec’s operating costs and, by the same token, should not influence electricity rates. Hydro-Québec will not be able to invoke this argument to justify an increase in its rates.

**Public transit**

The government does not set public transit fares; rather, the transit corporations themselves do. However, it is understood that if the government reduces its subsidies to transit corporations, they must find other sources of funding, and one solution is to increase fares. Although the government does not ensure the funding of public transit, it is one of the most important players. Following the 1992 municipal reform, the government progressively reduced its participation in the funding of public transit services. This was offset in part by higher contributions from users, a contribution of $30 from drivers living in regions served by public transit and by a tax of 1.5 cents per litre for residents of the Island of Montréal.

However, although public transit fares have risen during the period covered by the analysis, the government has not reduced and does not plan to reduce its public transit subsidies. In fact, between 2003 and 2004, government funding rose from $202 million to $204 million. In addition, since the gasoline tax of 1.5 cents per litre became effective in 1996, this amount has not been changed, nor has the amount of the contribution paid by drivers, which has remained at $30 per year. For the period under study, the government’s involvement in public transit does not appear to be declining and the other sources of funding put in place by the government to fund public transit will not be changed, in the view of MFQ representatives. For these reasons, we have excluded public transit fares from the analysis.

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27 The 2006-2007 budget plan stipulates that Hydro-Québec will have to pay a “water power royalty” as of January 1, 2007.
28 The contribution from users rose from $554 million to $617 million between 2003 and 2004.
29 No figures are available for 2005 to 2007 inclusive. However, in discussions with MFQ representatives, they indicated that government funding for public transit would not be reduced during these years.
School taxes

School taxes are imposed directly by school boards to fund part of their operating expenses. The amount of school taxes that can be collected is limited under the Education Act. This limit is based on two caps, namely:

- the number of eligible pupils multiplied by a fixed amount per pupil;
- the rate of the school tax set at $0.35 per $100 of assessment.

Where the second cap is less than the first, the difference is covered by the government through payment of an equalization grant. On the other hand, where the second cap exceeds the first, the school board cannot collect more than the amount determined on the basis of this cap.

During the period from 2003 to 2007, the government did not change the maximum tax rate ($0.35 per $100 of assessment) and the overall calculation resulted in the cap of $0.35 per $100 of assessment being, on the whole, less than the first cap, so that the government paid equalization grants. However, in view of the rise in property values, the government funding portion fell during the period from 2003 to 2006. We understand that the drop in equalization grants made to school boards has accordingly been absorbed by Québec households. The government’s influence on school board funding has to do with the determination of the fixed amount per pupil stipulated in the first cap. That has an impact on the amount that school boards can impose. However, overall, the calculation is limited on the basis of the cap of $0.35 per $100 of assessment and this cap has not changed during the analysis period. For these reasons, we did not include this item in the calculation of disposable income.

In addition, under the Education Act, a referendum must be held to change the rate used in the calculation of the caps.

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30 R.S.Q., c. I-13.3
31 This cap is adjusted annually by government regulation. The adjustments reflect inflation but are also designed to resolve certain problems, such as the rise in energy costs.
32 The equalization payment declined from roughly $707 million for the 2003-2004 school year to $643 million for the 2005-2006 school year. For 2006-2007, it is expected that equalization expenses will rise by about $9 million.
33 Section 308 of the Education Act.
<table>
<thead>
<tr>
<th></th>
<th>15,000 $</th>
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<th>35,000 $</th>
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<th>70,000 $</th>
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<tbody>
<tr>
<td>Gross income</td>
<td>15,000</td>
<td>15,000</td>
<td>-</td>
<td>35,000</td>
<td>35,000</td>
<td>-</td>
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<tr>
<td>Québec income tax</td>
<td>(377)</td>
<td>(22)</td>
<td>355</td>
<td>(4,112)</td>
<td>(3,472)</td>
<td>640</td>
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<tr>
<td>Child assistance payment*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Work premium</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Property tax refund</td>
<td>192</td>
<td>178</td>
<td>(14)</td>
<td>-</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>QST credit</td>
<td>268</td>
<td>291</td>
<td>23</td>
<td>31</td>
<td>151</td>
<td>120</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>83</td>
<td>447</td>
<td>364</td>
<td>(4,081)</td>
<td>(3,283)</td>
<td>798</td>
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<tr>
<td>Contributions</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Québec Parental Insurance Plan²</td>
<td>-</td>
<td>(11)</td>
<td>(11)</td>
<td>-</td>
<td>(27)</td>
<td>(27)</td>
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<tr>
<td><strong>Impact on disposable income</strong></td>
<td>15,083</td>
<td>15,436</td>
<td>353</td>
<td>30,919</td>
<td>31,690</td>
<td>771</td>
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</tbody>
</table>

1 The calculations do not take the federal tax system into account.

2 Net cost. The amount is adjusted to reflect the drop in employment insurance contributions by a resident of Québec compared to a resident of another province ($1.53/$100 vs $1.87/$100).
## CHANGE IN DISPOSABLE INCOME BETWEEN 2003 AND 2007

**COUPLE WITH TWO CHILDREN AND TWO WORK INCOMES**

(Dollars)

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<thead>
<tr>
<th></th>
<th>30,000 $</th>
<th></th>
<th></th>
<th>70,000 $</th>
<th></th>
<th></th>
<th>120,000 $</th>
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</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>30,000</td>
<td>30,000</td>
<td>-</td>
<td>70,000</td>
<td>70,000</td>
<td>-</td>
<td>120,000</td>
<td>120,000</td>
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<tr>
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<td>- (516)</td>
<td>(516)</td>
<td>(6,970)</td>
<td>(7,137)</td>
<td>(167)</td>
<td>(17,446)</td>
<td>(17,071)</td>
<td>375</td>
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<td>Child assistance payment (family allowance)</td>
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<td>3,141</td>
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<td>Work premium</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>Property tax refund</td>
<td>58</td>
<td>117</td>
<td>59</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>QST credit</td>
<td>233</td>
<td>346</td>
<td>113</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>451</td>
<td>4,441</td>
<td>3,990</td>
<td>(6,970)</td>
<td>(4,975)</td>
<td>1,995</td>
<td>(17,446)</td>
<td>(15,941)</td>
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<td></td>
</tr>
<tr>
<td>Québec Parental Insurance Plan</td>
<td>-</td>
<td>(23)</td>
<td>(23)</td>
<td>-</td>
<td>(54)</td>
<td>(54)</td>
<td>-</td>
<td>(210)</td>
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<tr>
<td>Reduced-contribution daycare fees</td>
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<td>(1,694)</td>
<td>(484)</td>
<td>(1,210)</td>
<td>(1,694)</td>
<td>(484)</td>
<td>(1,210)</td>
<td>(1,694)</td>
</tr>
<tr>
<td>Impact on disposable income</td>
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<td>61,820</td>
<td>63,277</td>
<td>1,457</td>
<td>101,344</td>
<td>102,155</td>
</tr>
</tbody>
</table>

1. The calculations do not take the federal tax system into account.

2. Net cost. The amount is adjusted to reflect the drop in employment insurance contributions by a resident of Québec compared to a resident of another province ($1.53/$100 vs $1.87/$100).