ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

2015-2016 QUÉBEC BUDGET SUMMARY

March 26, 2015

TABLE OF CONTENTS

INTRODUCTION

The Minister of Finance, Carlos Leitão, confirmed in his Budget Speech today that fiscal balance will be restored in 2015-2016.

> "Our government is presenting with this budget a bold economic plan for Québec, with two pillars:
>
> — first, we are strengthening the conditions for economic growth by easing the tax load and stimulating investment and employment;
>
> — second, we are taking the measures necessary to maintain the results achieved with respect to public finances so that the financial soundness regained is not lost."

Here are the highlights of the 2015-2016 budget.

MEASURES PERTAINING TO INDIVIDUALS

Gradual elimination of the health contribution as of January 1, 2017

The health contribution will be gradually eliminated beginning in 2017 and will be removed completely by 2019.

The following table illustrates the gradual elimination of the health contribution for the year preceding its complete elimination.

Illustration of the gradual elimination of the health contribution for 2017 and 2018
(dollars)

Adult income[1]		Health contribution		
Higher than	Without exceeding	Current situation	2017	2018
–	18,370.00	–	–	–
18,370.00	40,820.00	0.01 to 100.00	–	–
40,820.00	132,650.00	100.01 to 200.00	0.01 to 125.00	0.01 to 80.00
132,650.00	–	200.01 to 1,000.00	125.01 to 800.00	80.01 to 600.00

(1) The income brackets indicated in this table do not take into account the fact that the thresholds are automatically indexed each year on January 1.

Enhancement of the tax credit for experienced workers

Several changes will be made to the tax credit for experienced workers as of taxation year 2016.

Essentially, these changes will, over a period of two years, lower the age of eligibility for the tax credit from 65 to 63 and gradually increase the maximum amount of eligible work income on which the tax credit is calculated until it reaches $10,000 for all workers age 65 and over ($8,000 at age 64 and $6,000 at age 63).

The tax credit will be reducible based on work income that exceed income threshold used to reduce amounts granted with respect to age. This threshold, indexed annually, should reach $35,070 in 2018.

Introduction of a tax shield

To render work effort more appealing, a new refundable tax credit, called the "tax shield", will be implemented as of taxation year 2016.

The purpose of the tax shield is to offset, further to an increase in work income, a part of the loss of the socio-fiscal transfers designed specifically to incentivize work, i.e. the refundable tax credit attributing a work premium and the refundable tax credit for childcare expenses.

To take advantage of the tax shield for a particular taxation year, an individual must be resident in Québec at the end of December 31 of the year and apply for it in the income tax return that the individual must file for the year, or would have to file if he or she had tax payable for the year.

Eligibility

Beginning in 2016, households may request a tax shield benefit on their tax returns if they meet the following criteria:

> their work income increased from the previous year;
> their socio-fiscal transfers associated with the work premium and tax credit for childcare expenses are reduced due to the increase in their work income.

Determining the tax shield benefit

To determine the value of the tax shield benefit, households may deduct from their net family income[1] an amount equal to 75% of the following, whichever is lower:

> the increase in work income;
> the increase in household net income;
> a maximum of $2,500 for each spouse.

Therefore, if the work income of each spouse increases by $2,500 or more, the maximum for the couple will be $5,000.

Reducing the net family income will result in a smaller reduction in socio-fiscal transfers. As such, the eligible household will receive tax assistance allowing it to recover up to 75% of the transfers relating to the work premium and the tax credit for childcare expenses.

Increase in the eligibility age for the tax credit with respect to age

As of taxation year 2016, the eligibility age for the amount with respect to age will gradually be raised until it reaches a minimum age of 70 for any taxation year after 2019 (66 in 2016).

[1] The net family income used to reduce the work premium and the tax credit for childcare expenses.

Review of the operating terms of the solidarity tax credit (STC)

To improve management of the measure, Budget 2015-2016 provides for a major reform of the administration of the STC that will facilitate its application.

The main features of the reform are the following:

> the tax assistance granted will be determined based on the household's situation on December 31 of the taxation year preceding the payment period;
> changes in the household's situation will no longer be reported to Revenu Québec during the year;
> a new record for the housing component will be produced;
> the number of payments will depend on the amount of annual assistance granted: a single payment if $240 or less, quarterly payments if more than $240 but less than $800, and monthly payments if $800 or more.

The new terms will apply to payments beginning in July 2016.

Filing of an information return by lessors

Any person that, on December 31 of a particular year, owns an immovable in which an eligible dwelling is located will be required to file an occupation record, using the prescribed form containing the prescribed information, regarding the individuals who are tenants of the dwelling at the end of December of the year and, if the person or partnership allowed the dwelling to be sublet, the individuals who are the subtenants of the dwelling at that time.

All occupation records for eligible dwellings must the transmitted to Revenu Québec no later than the last day of February of each year regarding the preceding calendar year.

New assistance program for seniors to partially offset a municipal tax increase pursuant to a new assessment roll

Budget 2015-2016 includes the introduction, on January 1, 2016, of a new assistance program to help seniors pay their municipal taxes.

The program targets people 65 and over who have owned their home for at least 15 years and whose net family income does not exceed $50,000. The assistance program for seniors' municipal taxes only applies to the municipal taxes levied on a principal residence.

Assistance will be granted to homeowners hit by an increase in the property value of their home, due to the filing of a new property assessment roll that is more than 7.5% higher than the average increase for the municipality as a whole.

Homeowners who meet the eligibility conditions will benefit from the program for as long as they continue to own and live in their home.

Support to help municipalities implement the program

Municipalities will be required to establish the amount of the general property tax eligible for a subsidy and include this information on municipal tax statements.

MEASURES TO FOSTER DEVELOPMENT AND STIMULATE BUSINESS INVESTMENT

Reorganization of corporate income tax

Reduction of the general tax rate

The general tax rate will be gradually reduced by 0.4 percentage points from 2017 to 2020. These rate reductions will come into force on January 1 of each of these years.

More specifically, the general corporate tax rate will be reduced from the current rate of 11.9% to 11.8% in 2017, 11.7% in 2018, 11.6% in 2019 and, ultimately, 11.5% in 2020.

Despite these changes to the general tax rate, the minimum tax rate applicable to the income of small corporations eligible to SDB will remain the same, at 8%.

Refocusing of the SBD on corporations in the primary and manufacturing sectors

To refocus the small business deduction (SBD) on certain types of corporations, the new eligibility criteria to the SBD will be established.

A corporation will be eligible if it is:

> a corporation that employs in its business throughout the year more than three full-time employees;
> a corporation in the primary or manufacturing sector.

"Corporation in the primary or manufacturing sector," for a particular taxation year, means a corporation at least 25% of whose activities consist of activities in the primary sector or the manufacturing and processing sector.

Activities in the primary sector are those attributable to activities in the agriculture, forestry, fishing and hunting sector and the mining, quarrying, and oil and gas extraction sector that are grouped under codes 11 and 21 of the North American Industry Classification System (NAICS). Manufacturing and processing activities are those activities that, under the federal Income Tax Regulations, constitute qualified activities for the purposes of determining manufacturing and processing profits.

Determination of the SBD rate for certain corporations in the primary and manufacturing sectors

A corporation in the primary or manufacturing sector whose proportion of activities in the primary or manufacturing and processing sector for a particular taxation year is 50% or more will be able to take advantage of the maximum SBD rate applicable for the taxation year.

Where the proportion is between 50% and 25%, the SBD rate will be reduced linearly.

Application date

The changes relative to the refocusing of the SBD will apply to a taxation year beginning after December 31, 2016.

Extension of the additional deduction for manufacturing SMBs to SMBs in the primary and manufacturing sectors

Changes will be made to the additional deduction of 4% for manufacturing small and medium-sized businesses (SMBs) so that it becomes the additional deduction for SMBs in the primary and manufacturing sectors.

Application date

The changes relative to the extension of the additional deduction for manufacturing SMBs to SMBs in the primary sector will apply to a taxation year beginning after December 31, 2016.

Changes to the calculation parameters

For greater clarity, the determination of the rate of the additional deduction for SMBs in the primary and manufacturing sectors will apply to all corporations in these sectors regardless of the number of the employees.

A table presenting Québec's corporate tax rate after the changes proposed in the Budget 2015-2016 is provided in the appendix.

Gradual reduction of the Health Services Fund contribution rate for SMBs in the service and construction sectors

To ease the tax burden of small and medium-sized businesses in the service and construction sectors, the rate of the contribution to the Health Services Fund for employers in these sectors whose total payroll is equal to or less than $1 million will gradually decrease from 2.7% to 2.25% over a three-year period beginning in 2017. Employers whose total payroll is between $1 million and $5 million will also see a gradual reduction in their contribution rate.

Illustration of the impact of the gradual reduction of the Health Services Fund contribution rate for SMBs in the service and construction sectors
(per cent)

	Total payroll				
	$1 million or less	$2 million	$3 million	$4 million	$5 million or more
Current rates	2.70	3.09	3.48	3.87	4.26
Rates for 2017	2.55	2.98	3.41	3.83	4.26
Rates for 2018	2.40	2.87	3.33	3.80	4.26
Rates as of 2019	2.25	2.75	3.26	3.76	4.26

Changes to the tax credit for investments relating to manufacturing and processing equipment

Revision of the rates of the tax credit for investments

The following table presents the maximum rates of the tax credit for investments before and after the revision.

Rates of the tax credit for investments before and after the revision
(per cent)

	Rates applicable before January 1, 2017		Rates applicable after December 31, 2016	
Place where the property acquired is to be mainly used	Paid-up capital of $250M or less(1),(2)	Paid-up capital of $500M or more(1)	Paid-up capital of $250M or less(1),(2)	Paid-up capital of $500M or more(1)
Remote zones	32	4	24	4
Eastern part of the Bas-Saint-Laurent administrative region	24	4	16	4
Intermediate zones	16	4	8	4
Other regions	8	4	0	0

(1) Where the qualified corporation is a member of an associated group, paid-up capital is determined taking into account the paid-up capital of the qualified corporation and that of each member of the associated group, according to the usual rules.
(2) Only eligible expenses incurred by the qualified corporation that do not exceed a cumulative limit of $75 million give rise to the increased rate and the refundability of the tax credit for investments.

Application date

These amendments will apply to eligible expenses incurred after December 31, 2016.

Extension of the tax credit for investments and changes to the definition of qualified property

The tax legislation will be amended so that an additional period of five years is allowed for the acquisition of property qualifying for the tax credit for investments for the regions concerned (i.e. until December 31, 2022).

Increase in the refundable tax credit for on-the-job training periods

The tax legislation will be amended to raise the base rates and increased rates of the tax credit as follows:

> the base rates will be 40% (formerly 24%) and 20% (formerly 12%), respectively;
> the increased rates will be 50% (formerly 32%) and 25% (formerly 16%), respectively.

However, a taxpayer will be able to take advantage of the higher tax credit rates in respect of an eligible trainee for a taxation year only if the following conditions are met:

> the eligible trainee is a student trainee;
> the taxation year is at least the third consecutive taxation year for which the taxpayer is entitled to the tax credit in respect of a student trainee;
> a qualified expenditure of the eligible taxpayer reached $2,500 for each of the three consecutive taxation years or more.

These amendments will apply in respect of a qualified expenditure incurred after March 26, 2015, relative to an eligible training period beginning after that day.

Changes respecting the refundable tax credit for the integration of IT in manufacturing SMBs

Issuing of certificates and extension of the tax credit for two years

The act will be amended to allow Investissement Québec to accept applications for a certificate submitted after March 26, 2015, but before January 1, 2020, in respect of an IT integration contract the negotiation of which commences after March 26, 2015, but before January 1, 2020.

IT integration contract subsequent to March 26, 2015

This tax credit will now be equal to 20% of expenditures relating to a qualified IT integration contract where the corporation's paid-up capital for the taxation year does not exceed $15 million. This rate will be reduced linearly and will reach zero when the paid-up capital of the qualified corporation for the year reaches $20 million or more.

Thus, the total amount of the tax credit will be limited to $50,000.

IT integration contract prior to March 26, 2015

Qualfied IT integration contract in respect of which an application for a certificate was made prior to June 4, 2014, will also qualify for the tax credit.

Eligibility of corporations in the primary sector

The scope of the tax credit will be broadened to include corporations in the primary sector whose proportion of activities for the taxation year exceeds 50%.

Application date

These amendments will apply to expenditures relating to the supply of a qualified management software package incurred after March 26, 2015, but before January 1, 2020 (or in respect of which an application for a certificate was made prior to June 4, 2014), in respect of an IT integration contract the negotiation of which commences after March 26, 2015, but before January 1, 2020 and for which Investissement Québec issued a qualification certificate.

Changes to the refundable tax credit for Gaspé Peninsula and certain maritime regions of Québec

Budget 2015-2016 provides for:

> the five-year extension of the refundable tax credit for the Gaspésie and certain maritime regions of Québec, i.e. until December 31, 2020;
> the eligibility of the tax credit for businesses in the recreo-tourism sector on Îles-de-la-Madeleine, starting in the 2015 calendar year, representing the government's recognition of their insular and maritime nature;
> an adjustment in the application procedures starting in 2016, to calculate the tax credit on salaries paid for all eligible activity sectors, at rates of 15% (formerly 16%) or 30% (formerly 32%), subject to a per-job tax assistance ceiling of $12,500 or $25,000, as appropriate.

Measures relative to Fondaction

The tax credit rate for any eligible share acquired after May 31, 2015 and before June 1, 2016 will be set at 20%, and then at 15%.

REVISION OF TAX ASSISTANCE FOR BUSINESSES

Refundable tax credits for the production of multimedia titles

Increase in the rates

The tax legislation will be amended to provide that the former rates of the tax credit – general component and tax credit – specialized components applicable to a qualified labour expenditure will be restored. The maximum tax credit rate will be increased from 30% to 37.5%.

Limit per eligible employee

The tax legislation will be amended to provide that the qualified labour expenditure in respect of an eligible employee may not exceed $100,000, calculated on an annual basis.

For a taxation year of a corporation, the $100,000 limit will not apply, up to the number such eligible employees to whom the highest qualified labour expenditures, corresponding to 20% of the total number of eligible employees, will be attributable.

Application date

The amendments to the tax legislation will apply, after March 26, 2015, or to a qualified labour expenditure incurred as part of a contract entered into after March 26, 2015, as the case may be.

Refundable tax credit for the development of e-business and addition (TCEB) of a non-refundable tax credit

Budget 2015-2016 provides for the following changes with respect to the tax credit for the development of e-business:

> a 6 percentage points non-refundable increase in the tax credit and, where applicable, a $25 000 cap on tax assistance per job;
> the exclusion of payroll costs for corporate contracts with Québec government departments, agencies and corporations;
> cancellation of the tax credit deadline fixed on December 31, 2025.

Refundable tax credit for Québec film and television production

Increase in the base rates

The tax legislation will be amended to provide for the increase of 4% in the base rates of the refundable tax credit for Québec film or television production applicable to an eligible film that is not a film adapted from a foreign format.

Refundable tax credit for sound recording production, production of performances, book publishing, and production of multimedia environments or events staged outside Québec

The tax legislation will be amended to restore the former rate of 35% applicable to a qualified labour expenditure.

This amendment will apply to eligible property or an eligible performance beginning after March 26, 2015, or an eligible book or a book that is part of an eligible group of books or an eligible production for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier regarding the property, is submitted to SODEC after March 26, 2015.

Refundable tax credit for film dubbing

The tax legislation will be amended to restore the former rate of 35% applicable to the qualified expenditure for film dubbing.

This amendment will apply to an eligible production whose dubbing is completed after March 26, 2015.

Refundable tax credit for international financial centres (IFC) and addition of a non-refundable tax credit

Major changes will be made to the refundable tax credit for IFCs, so as to almost fully replace it by a non-refundable tax credit, except with respect to back office activities, which, subject to certain conditions, may be considered as qualified international financial transactions and will continue to give entitlement to a refundable tax credit.

Application date

These amendments will apply to a taxation year of a corporation beginning after March 26, 2015.

MEASURES TO ENSURE THE INTEGRITY OF THE TAX SYSTEM

Introduction of a presumption relative to the attributes of a trust or partnership for the purposes of preferential tax measures

To counteract legal structures involving the interposition of a trust or partnership that can prevent the integrity rules pertaining to preferential tax measures from achieving the objective underlying their implementation, a new, general integrity rule will be introduced.

More specifically, the tax legislation will be amended to deem the attributes of a trust or partnership to be those of a corporation for the purposes of the integrity rules pertaining to preferential tax measures that call into play the notions “control of a corporation”, “persons not dealing at arm’s length”, “associated corporation” or “corporation exempt from tax”, whether to determine eligibility for one of the measures or to determine a specific aspect, such as the level of tax assistance, of one of the measures.

In that regard, “preferential tax measures” means the refundable tax credits included in Chapter III.1 of Title III of Book IX of Part I of the *Taxation Act* and the new, non-refundable tax credits for the TCEB and IFCs introduced as part of the Budget Speech.

Application date

These amendments will apply to an individual’s or a corporation’s taxation year ending after March 26, 2015.

Changes to the tax treatment of an activity carried on by a partnership

The tax legislation will be amended so that, from now on, a partnership will qualify for the purposes of a refundable tax credit only if, were it a corporation, it would qualify.

For example, as a result of this amendment, the increased rate of the refundable tax credit for design will be established according to the attributes of the partnership rather according to the attributes of a corporation that is a member of the partnership.

Application date

These amendments will apply to an individual's or a corporation's taxation year beginning after March 26, 2015 that includes the end of a fiscal period of a partnership to which these amendments apply.

Change to the calculation of a taxable benefit of an employee for the purposes of a refundable tax credit

Several refundable tax credits for businesses apply to labour expenditures and, more specifically, to wages paid to employees who carry on activities that the government intends to encourage.

The tax legislation will be amended to specify the elements that must be taken into account in the calculation of a taxable benefit of an employee for the purposes of a refundable tax credit.

More specifically, a general amendment will be made to the tax legislation so that the value of a taxable benefit may be factored into the calculation of an employee's salary or wages for the purposes of a refundable tax credit only where the employer paid the value of the benefit by means of a monetary amount.

Application date

This amendment will apply to a taxpayer's taxation year beginning after March 26, 2015.

Changes to the rules pertaining to the 12-month time period for applying for a refundable tax credit

The *Taxation Act* will be amended so that a taxpayer seeking to claim a refundable tax credit for the purposes of which a sectoral body must first issue a certificate or other document may not claim the tax credit for a taxation year after the expiry of the later of the following time limits:

> the time limit ending 12 months after the filing-due date for the taxation year;

> the time limit ending three months after the date of issue of the certificate or other document necessary for the purposes of the tax credit for the taxation year.

Application date

These amendments will apply to a taxpayer's taxation year beginning after March 26, 2015.

OTHER MEASURES

Tax relief for business transfers between related persons in the primary and manufacturing sectors

In order to encourage the transfer of family businesses, Budget 2015-2016 calls for the implementation of tax relief for business transfers between non-arm's length people.

An integrity rule that penalizes some taxpayers

Currently, taxpayers are eligible for advantageous tax treatment on capital gains realized from the sale of shares of an eligible corporation:

> a cumulative lifetime capital gains exemption of up to $813 600 for the sale of qualifying small business shares or $1 million for the sale of a farm or fishing business;

> taxation on 50% of the value of the capital gains.

In the case of business transfers between related persons, however, the legislation includes an integrity rule that prevents the seller from benefitting from these tax advantages.

Without this rule, some taxpayers would be able to sell their businesses to family members solely to take advantage of beneficial tax treatment on the capital gains.

Accordingly, amendments will be made to the Taxation Act to provide that the integrity rule does not apply, where the seller claims the capital gains exemption in respect of a capital gain realized on the disposition of qualified shares in the primary and manufacturing sectors to a corporation with which the seller is not dealing at arm's length.

The shares must, however, be disposed of in conjunction with the transfer of a qualified family business.

In other words, on an exceptional basis, the seller will be able to claim the capital gains exemption respecting the gain on the transaction, but only where the gain is treated as a deemed dividend under the federal integrity rules.

Thus, qualification criteria will be established to formulate the best possible definition of the type of share disposition to which these amendments will apply. These criteria will take into consideration several elements, including the reduction of the seller's involvement, in any form whatsoever, in the corporation whose shares are disposed of.

A seller wishing to take advantage of this exception will be required to obtain, from the responsible body, a qualification certificate establishing that the share disposition was carried out in conjunction with a transfer of a qualified family business prior to the disposition of the said shares.

The conditions for issuing such a certificate will therefore be contained in the *Act respecting the sectoral parameters of certain fiscal measures*.

The Ministère des Finances will announce, within one year, the qualification criteria and the name of the body responsible for issuing the qualification certificate establishing that a share disposition was carried out in conjunction with the transfer of a qualified family business.

The tax relief will apply to transfers that take place starting January 1, 2017.

Phasing out of restrictions on the granting to large businesses of the input tax refund (ITR)

The QST system will be changed to allow large businesses to claim an ITR in respect of property and services to which the restrictions currently apply, at the rate of 25% in 2018, 50% in 2019, 75% in 2020 and, ultimately, 100% as of 2021.

Temporary increase in the capital cost allowance rates for goods used in natural gas liquefaction

The Québec tax system will be harmonized with the federal tax system as regards capital cost allowance that may be claimed by a taxpayer in respect of buildings and in respect of equipment used as part of a liquefied natural gas facility.

Measures to support mining exploration

The Québec tax system will be harmonized with the federal tax system as regards the qualification of certain expenses as Canadian exploration expenses, the *Taxation Act* will be amended to incorporate, with adaptations based on its general principles, the amendments announced to be made to the federal tax legislation with respect to the qualification, as Canadian exploration expenses, of certain costs incurred for environmental studies and community consultations.

The *Mining Tax Act* will be amended consequently to incorporate, with adaptations based on its general principles, and subject to the requirement in the *Mining Tax Act.*

APPENDIX

Corporate tax rates in Québec – Rules applicable after the tabling of the budget for a taxation year beginning after December 31, 2016[1]
(per cent)

	SMB						Other
	Having more than 3 employees			Not having more than 3 employees			
	Sector			Sector			
	Primary and manufacturing		Other	Primary and manufacturing		Other	
	100%[2]	40%[3]		100%[2]	40%[3]		
General tax rate	11.80	11.80	11.80	11.80	11.80	**11.80**	**11.80**
SMB deduction	–3.80	–3.80	–3.80	–3.80	–2.28		
SMB tax rate	8.00	8.00	**8.00**	8.00	9.52		
Additional deduction for SMBs in the primary and manufacturing sectors	–4.00	–2.40		–4.00	–2.40		
Tax rate for SMBs in the primary and manufacturing sectors	**4.00**	**5.60**		**4.00**	**7.12**		

(1) The reductions in the general tax rate and that in the SBD subsequent to 2017 are not reflected in this table. The rates in this table are those applicable to a corporation whose taxation year corresponds to the 2017 calendar year.
(2) Situation in which a corporation may claim the full amount of the additional deduction for SMBs in the primary and manufacturing sectors, because the proportion of its activities in these sectors is 50% or more.
(3) In this example, a corporation may claim part of the additional deduction for SMBs in the primary and manufacturing sectors, because the proportion of its activities in these sectors is 40%.

NOTICE TO USERS

This budget summary is based on the documents issued by the Québec government. The legislation, when enacted, may vary from the summary described herein. Professional advice should be obtained.

The Ordre des comptables professionnels agréés du Québec has acted solely as publisher of this budget summary. Consequently, neither the Ordre nor any person involved in its preparation accepts any contractual, delictual or other form of liability for its contents or for any consequences arising from its use.

The Ordre wishes to gratefully acknowledge the contribution of Luc Lacombe, M. Fisc., FCPA, FCA, associate of Raymond Chabot Grant Thornton, Chantal Amiot, M. Fisc., CPA, CA, lecturer at Université de Sherbrooke, as well as that of Daniel Benard, FCPA, FCA, vice-president, Professional Development of the Ordre des CPA du Québec and his team.