SUMMARY

L.L.P.
PARTNERSHIP OF CHARTERED PROFESSIONAL ACCOUNTANTS

UPDATE ON QUÉBEC`S ECONOMIC AND FINANCIAL SITUATION

By FBL Taxation

INTRODUCTION

Please note that this is not an exhaustive account of all the measures contained in the *Update on Québec`s Economic and Financial Situation* published on December 2, 2014. Should you require further information regarding specific measures, please contact one of our tax partners.

THE PLAN FOR ECONOMIC RECOVERY

REDUCTION IN THE CONTRIBUTION TO THE HEALTH SERVICES FUND FOR SMES IN THE PRIMARY AND MANUFACTURING SECTORS

SMEs in the primary and manufacturing sectors will enjoy a reduction in their contributions to the Health Services Fund starting in 2015.

Eligible employers whose total payroll is equal to or less than $1 million will see the applicable rate decrease from 2.7% to 1.6%. Eligible employers whose total payroll is between $1 million and $5 million will be subject to a rate ranging from 1.6% to 4.26%.

HEALTH SERVICES FUND CONTRIBUTION RATES	2014	2015
Type of employer	Rate	Rate
Eligible specified employer (SME primary and manufacturing sectors) whose total payroll is $1 M or less	2.7%	1.6%
Eligible specified employer (SME primary and manufacturing sectors) whose total payroll is over $1 M but under $5 M	From 2.7% to 4.26%	From 1.6% to 4.26%
All other employers	4.26%	4.26%

INCREASE IN THE ADDITIONAL DEDUCTION FOR TRANSPORTATION COSTS OF REMOTE MANUFACTURING SMES

An additional deduction for transportation costs incurred by remote small and medium-sized enterprises (SMEs) operating in remote areas was introduced in the provincial budget on June 4, 2014. As a result, the current rates of 2%, 4% and 6% will be raised by 1%.

Furthermore, the central zones (Gatineau and the Montréal and Québec City census metropolitan areas), which were not previously entitled to this extra deduction, will be able to deduct 1% from their transportation costs effective December 3, 2014.

Caps will also change on December 3, 2014, increasing to $350,000, $150,000 and $50,000 for the remote, intermediate and central zones, respectively.

INCREASE IN THE LIFETIME CAPITAL GAINS EXEMPTION FOR FARM PROPERTY AND FISHING PROPERTY FROM $800,000 TO $1 MILLION

The lifetime exemption of $800,000 that applies to capital gains from the disposal of eligible farm property, eligible fishing property or a combination of the two is being increased to $1 million.

The exemption`s indexation to inflation, applicable in tax years after 2014 to the three types of property that currently give rise to an $800,000 capital gains exemption, will now be temporarily suspended where farm and fishing properties are concerned.

The increase to $1 million will apply to dispositions made after December 31, 2014. In subsequent taxation years, it will also apply to the inclusion of a capital gains reserve from the disposition of farm and fishing property after December 2, 2014.

INTRODUCTION OF A TEMPORARY REFUNDALBE TAX CREDIT FOR INTEREST PAYABLE ON FINANCING OBTAINED THROUGH LA FINANCIÈRE AGRICOLE DU QUÉBEC`S SELLER-LENDER FORMULA

The Financière agricole du Québec (FADQ) offers a program called the `seller-lender formula` intended to facilitate transfers of farming businesses.

Under the formula, a seller can lend to a buyer, with the FADQ guaranteeing the loan and the buyer enjoying a lower interest rate.

To further facilitate transfers of farming businesses on a temporary basis, the Government of Québec is introducing a refundable tax credit respecting the seller-lender formula, making it applicable to interest for a period commencing after December 31, 2014.

The amount of the refundable tax credit a taxpayer (corporation or individual) may claim with respect to interest for a tax year, will amount to 40% of interest payable by a buyer on a loan under the FADQ`s seller-lender formula, and to 40% of the taxpayer`s share of such interest payable by a partnership that includes the taxpayer. The interest must have been paid at the time the taxpayer applies for the refundable tax credit.

TEMPORARY INCREASE OF THE REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTION

As a rule, the refundable tax credit for film and television production in Québec (the "basic tax credit") is equal to 36% or 28% of the qualified labour expenditure incurred by a qualified corporation to produce a Québec film. However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film's production costs.

The basic tax credit, at the rate of 36% or 28%, is being amended. As a result, it will now be calculated on an "increased expenditure" equal to the aggregate of the qualified labour expenditure and an amount equal to 2% of the qualified labour expenditure. However, while waiting for tax assistance, a qualified corporation generally receives interim funding from the Société de développement des entreprises culturelles (SODEC) or from a financial institution.

These changes will apply regarding a film or television production for which an advance ruling is requested from SODEC after December 2, 2014 and prior to January 1, 2017.

MEASURES TO ACHIEVE AND MAINTAIN A BALANCED BUDGET

INCREASE IN THE TEMPORARY CONTRIBUTION RELATIVE TO THE COMPENSATION TAX APPLICABLE TO FINANCIAL INSTITUTIONS

In the budget speech of November 20, 2012, it was announced that the temporary contribution rate would be increased effective January 1, 2013 and that, initially, this increase would apply until March 31, 2014. With this current amendment, the increase now remains in effect until March 31, 2019.

To ensure that a balanced budget is achieved and maintained, the temporary contribution rates will be increased commencing December 3, 2014 and remain in effect until March 31, 2017.

The following table summarizes the various rates:

RATES OF THE COMPENSATION TAX FOR FINANCIAL INSTITUTIONS

	March 31, 2010 to December 31, 2012(1)	January 1, 2013 to December 2, 2014	From December 2, 2014 until March 31, 2017	From April 1, 2017 to March 31, 2019
Paid-up capital	0.25%	N/A	N/A	N/A
Wages/salaries paid				
▪ Bank, loan corporation, trust corporation or securities corporation	3.90%	2.80%	4.48%	2.80%
▪ Credit and savings union	3.80%	2.20%	3.52%	2.20%
▪ Any other person (2)	1.50%	0.90%	1.44%	0.90%
Insurance premiums and amounts established in respect of an insurance fund	0.55%	0.30%	0.48%	0.30%

(1) The tax payable on paid-up capital consisted solely of a base rate, while, in other cases, the temporary contribution rates of 1.9%, 1.3%, 0.5% and 0.2% were combined with the base rates of 2%, 2.5%, 1% and 0.35%

(2) Excluding an insurance corporation and a professional association that has set up an insurance fund under section 86.1 of the Professional Code. In addition, a financial corporation that has not made the joint election provided for in section 150 of the Excise Tax Act is no longer subject to the temporary contribution, as of January 1, 2013.

INCREASE IN THE TAX ON CAPITAL FOR INSURANCE COMPANIES

Under this budget, the 2% tax on capital that an insurance company is required to pay on every premium payable to the corporation or its agent in respect of insurance pertaining to the life, health or physical wellbeing of the insured or that the insurance company is required to pay on a taxable premium paid to the corporation or its agent as part of an uninsured employee benefit plan will be raised to 3%.

The 3% rate will apply either to a 12-month period or a taxation year ending after December 2, 2014 and, where the 12-month period or the taxation year includes that date, the new rate will apply proportionately to the number of days in the 12-month period or taxation year following that day.

CHANGES TO THE REFUNDABLE R&D TAX CREDITS AND THE TAX CREDIT FOR INVESTMENTS RELATING TO MANUFACTURING AND PROCESSING EQUIPMENT

STANDARDIZATION OF THE REFUNDABLE R&D TAX CREDITS

Tax legislation will be amended to standardize the rates applicable to the refundable R&D tax credits. More specifically, as of December 3, 2014, the refundable tax credit for R&D wages will be the only one to apply from now on and replaces the other refundable R&D tax credits.

INTRODUCTION OF AN EXCLUDED EXPENDITURE FOR THE PURPOSES OF R&D TAX CREDITS

Corporations will enjoy an R&D tax credit providing their qualified expenditures are above the excluded expenditure threshold.

- Excluded expenditure threshold for the purposes of the R&D tax credit

  A taxpayer’s exclusion threshold for a tax year will amount to $50,000 annually where the taxpayer’s assets for the previous taxation year are less than $50 million.

  The amount of the exclusion threshold will increase linearly to reach $225,000 where the taxpayer’s assets vary from $50 to $75 million and will be $225,000 where the assets are $75 million or more.

These changes will apply to excluded expenditures incurred by a taxpayer for a taxation year commencing after December 3, 2014 respecting R&D work carried out after that date.

INTRODUCTION OF AN EXCLUDED EXPENSE AMOUNT IN RESPECT OF A QUALIFIED PROPERTY FOR THE PURPOSES OF THE TAX CREDIT FOR INVESTMENTS

The tax legislation will be amended so that the initial eligible expenses incurred by a qualified corporation or qualified partnership in respect of a qualified property do not trigger this tax credit.

As a result, only qualified property that costs more than $12,500 will be eligible for the tax credit on investments.

These changes will apply in respect of a qualified property acquired after December 3, 2014.

APPLICATION OF THE GENERAL TAX RATE FOR INSURANCE PREMIUMS TO ALL AUTOMOBILE INSURANCE PREMIUMS

The 9% general tax rate applies to most insurance premiums which are paid so that policyholders can obtain indemnification for themselves or for others in the event of the occurrence of the insured risk. However, on an exceptional basis, the 9% rate is reduced to 5% for premiums payable under an automobile insurance policy covering essentially material damage.

This reduction in the rate of the tax on insurance premiums will be abolished as of January1, 2015. As a result, the 9% general tax rate will apply to all automobile insurance premiums paid after December 31, 2014.

To facilitate the transition, persons with a monthly reporting period who are required to collect the tax will have until March 31, 2015 to remit to Revenu Québec the tax collected on automobile insurance premiums in January 2015. Taxpayers with a quarterly reporting period ending on January 31, 2015 will also have until March 31, 2015 to remit the tax on automobile insurance premiums paid during that period.

REDUCTION OF THE RATE OF TAX CREDITS FOR UNION, PROFESSIONAL OR OTHER DUES

An individual who pays eligible dues or an eligible contribution to a recognized professional association, union or similar group, may generally claim a non-refundable tax credit equal to 20% of the total amounts thus paid related to the position or employment held by that individual or the business they carry on.

Under this mini-budget, the rate at which eligible dues or contributions are converted to a tax credit will drop from 20% to 10% as of the 2015 taxation year.

TIGHTENING OF THE ELIGIBILITY CONDITIONS FOR REFUNDABLE TAX CREDITS TO INCREASE THE INCENTIVE TO WORK

To support and value work effort and encourage people to give up last resort financial assistance to enter the labour market, the tax system grants tax assistance to low-income households, in the form of a work premium.

Tax legislation will be amended to provide that an individual who is a full-time student for a particular tax year will no longer be considered an eligible individual for the purposes of the refundable tax credits, unless, at the end of December 31 of that year or, if applicable, on the date of the individual's death, they are the father or the mother of a child with whom they live.

CAUTION

PLEASE CONTACT US FOR MORE INFORMATION.

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