

INTRODUCTION

A week after Finance Minister Jim Flaherty tabled the federal budget, we bring you our summary of the provincial budget delivered by Quebec's Minister of Finance and the Economy, Nicolas Marceau. Please note that this is not an exhaustive summary of all the measures proposed in the provincial budget. This budget has been tabled by a minority government; accordingly, there is some uncertainty regarding its enactment into law. Should you require further information regarding any of the proposed measures, please contact one of our tax partners.

CORPORATIONS

AMENDMENT TO THE REFUNDABLE TAX CREDIT FOR THE MODERNIZATION OF TOURIST ACCOMMODATION

This tax credit is available to a corporation that renovates or makes improvements to a tourist accommodation establishment. It applies to a corporation that owns a hotel, tourist home, holiday resort, bed & breakfast or youth hostel in the province, outside Montréal and Quebec City. It also applies to a corporation that is part of a partnership that owns such an establishment.

The work must be completed by January 1, 2016 and expenditures are capped at \$750,000.

The amount of the tax credit is:

- 25% x (eligible expenses for the tax year – annual threshold of \$50,000)

The budget proposes to replace the annual threshold of \$50,000 with a onetime threshold of \$50,000. This onetime threshold would be equal to the amount by which \$50,000 exceeds the qualifying expenditure threshold applied to a previous tax year. This change would apply to a taxation year ending after February 20, 2014.

INDIVIDUALS

INCREASED PARENTAL CONTRIBUTION FOR DAYCARE

The government announced a gradual increase of the parental contribution to \$8 by September 1, 2014, then to \$9 by September 2015; automatic indexation will be implemented starting in September 2016.

REDUCTION OF TAX CREDIT TO PURCHASE SHARES IN CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

Capital régional et coopératif Desjardins is an investment company whose mission is to raise development capital for resource regions in Québec and to meet the needs of cooperatives.

The government supports this mission by providing a tax credit for individuals who acquire shares in *Capital régional et coopératif Desjardins*. After February 28, 2014, this credit will decrease from 50% to 45% and the maximum deduction per individual will drop from \$2,500 to \$2,250.

OTHER MEASURES

RECOGNITION OF RCMS OUTSIDE RESOURCE REGIONS FACING ECONOMIC DIFFICULTIES

Capital régional et coopératif Desjardins is an investment company that plays a role in raising capital for resource regions in Québec and for cooperatives.

As it stands now, seven of Québec's 17 administrative regions are considered to be resource regions.

The budget is proposing to add the following Regional County Municipalities (RCMs) to these administrative regions:

- Acton RCM
- Matawinie RCM
- Les Sources RCM
- Antoine-Labelle RCM
- Montmagny RCM
- Le Granit RCM
- Argenteuil RCM
- Papineau RCM
- Le Haut-Saint-François RCM
- Coaticook RCM
- Pontiac RCM
- Le Haut-Saint-Laurent RCM
- La Vallée-de-la-Gatineau RCM
- Les Appalaches RCM
- L'Islet RCM
- Les Etchemins RCM.

This amendment will apply to all eligible investments made after February 20, 2014 and before January 1, 2018.

MEASURES TO FIGHT TAX EVASION AND UNREPORTED WORK IN THE CONSTRUCTION SECTOR

NEW REQUIREMENTS FOR PRIVATE CONSTRUCTION CONTRACTS

The government is proposing that the Revenu Québec requirements governing certification of public contracts also apply to private construction work of \$25,000 or more.

As of the fall of 2014, a contractor with a valid licence from the Régie du bâtiment du Québec (RBQ) will need to obtain a certificate from Revenu Québec and submit it to the client, who must then verify the authenticity of the certificate obtained by the contractor. This certification will be valid for a period of 90 days and would have to be renewed until the contract ends.

The certificate is a document confirming that as of the date of its request, the business applying for certification has filed the tax returns required under tax law in Québec and has no outstanding amounts owing with Revenu Québec. The certificate is available through the Revenu Québec website and can be obtained using clicSÉCUR, the Government of Québec's identity authentication service.

NEW MEASURE TO FIGHT INVOICING FRAUD

The government is proposing to step up monitoring of applications for QST registration.

CLOSER GOVERNMENT MONITORING

To fight unreported work, Revenu Québec, the Commission de la construction du Québec (CCQ), the Régie du bâtiment du Québec (RBQ) and the Commission de la santé et de la sécurité du travail (CSST) will be monitoring construction sites more closely, conducting more inspections and checks in the evenings and on weekends.

IMPLEMENTATION OF SALES RECORDING MODULES (SRM) IN BARS AND RESTO-BARS

The government has announced that SRMs are to be installed in bars and *resto-bars*.

These new measures would make it mandatory for a client to be given a receipt issued by a Sales Recording Module.

The government would also implement a subsidy program to help with the purchase of these devices. SRMs will be implemented gradually over a five-month period starting in the fall of 2014.

INTRODUCTION OF A REVENU QUÉBEC CERTIFICATION FOR EMPLOYMENT AGENCIES

Commencing in the fall of 2014, certification by Revenu Québec will be mandatory for contracts of \$2,500 or more. Clients will be required to obtain and validate the certificate and, commencing in 2015, they must keep a current record of amounts paid to employment agencies.

HARMONIZATION WITH MEASURES PROPOSED IN THE FEDERAL BUDGET TABLED FEBRUARY 11, 2014

HARMONIZATION WITH FEDERAL INCOME TAX MEASURES

MEASURES THAT WILL BE INCORPORATED INTO QUEBEC'S TAX LEGISLATION

- Addition of certain fees to the list of expenses eligible for the Medical Expense Tax Credit
- Introduction of a search and rescue volunteers tax credit
- Goods used in the course of operating farming and fishing businesses
- Tax deferral for certain farmers in regions afflicted by drought, flood or excess moisture conditions
- Taking into consideration income allocated to a minor by a partnership or trust for the purposes of calculating tax on split income
- Elimination of the graduated rate taxation of trusts and estates
- Charitable donations made in the context of a death
- Amendment to the existing anti-avoidance provision in the thin capitalization rules
- Increased remittance thresholds for employer source deductions
- Amendments pertaining to the accelerated capital cost allowance for investment in clean energy production equipment to include water-current energy equipment and gasification equipment.

MEASURES THAT WILL NOT BE INCORPORATED INTO QUEBEC'S TAX LEGISLATION

- Increase in the maximum amount of fees eligible for the Adoption Expense Tax Credit
- Proposal to allow income contributed to an amateur athlete trust to qualify as earned income for the purpose of determining the RRSP contribution limit of the trust's beneficiary.

SALES TAX

The Québec sales tax (QST) system will be amended to incorporate federal measures related to the GST/HST election for closely related persons, those aimed at strengthening compliance with GST/HST registration, as well as certain proposals aimed at improving the application of GST/HST in the Health Care sector.

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