PROVINCIAL BUDGET
MARCH 26, 2015

L.L.P.
PARTNERSHIP OF CHARTERED
PROFESSIONAL ACCOUNTANTS

SUMMARY

Presented by Tax Department

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Please note that this is not an exhaustive summary of all the measures proposed in the budget. Should you require further information regarding specific measures, please contact one of our taxation experts.

CORPORATIONS

REORGANIZATION OF CORPORATE INCOME TAX

In Quebec, the general corporate income tax rate is currently 11.9%. This will decrease gradually as follows:

- 2017: 11.8 %
- 2018: 11.7 %
- 2019: 11.6 %
- 2020: 11.5 %.

Despite the changes to the general rate, the income tax rate for Canadian-controlled private corporations with paid-up capital of up to $10 million that receive the small business deduction (SBD) on the first $500,000 of taxable income will remain unchanged at 8%. Companies will also have to meet additional criteria to qualify for the SBD, as follows:

- A company with three full-time employees may claim the maximum amount of the SBD.
- Small and medium manufacturing enterprises (SMEs) in the primary or manufacturing sector that do not meet the criterion regarding the minimum number of employees are nonetheless eligible for the SBD. When between 50% and 25% of their business consists of activities in the primary or manufacturing sector, the additional deduction rate will be reduced linearly.

As it stands now, small and medium manufacturing enterprises in Quebec are entitled to claim an additional tax deduction, which will be 4% effective April 1, 2015. This means that the tax rate for these businesses could drop from 8% to 4% for the first income bracket. Eligibility criteria for the additional deduction will also be broadened to include businesses in the primary sector.

GRADUAL REDUCTION OF THE HEALTH SERVICES FUND CONTRIBUTION FOR SMES IN THE SERVICE AND CONSTRUCTION SECTORS

The current rate of contribution to the Health Services Fund for an employer is 2.7% if total payroll for the year is no more than $1 million. This rate will increase linearly to 4.26% for employers whose total payroll is between $1 million and $5 million.

The Health Services Fund contribution rate will be amended as follows:

ILLUSTRATION OF THE IMPACT OF THE GRADUAL REDUCTION OF THE HEALTH SERVICES FUND CONTRIBUTION RATE FOR SMES IN THE SERVICE AND CONSTRUCTION SECTORS (%)

	Total Payroll				
	$1 M or less	$2 M	$3 M	$4 M	$5 M 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 SOME TAX CREDITS

- Tax credit for investments relating to **manufacturing and processing equipment**
  - Reduction of the 8% tax credit applicable to eligible expenditures incurred after December 31, 2016.
  - Credit extended to December 31, 2022

- Refundable tax credit for **on-the-job training periods**
  - Increased to 40% under certain conditions applicable to expenditures incurred after March 26, 2015

- Refundable tax credit for the **integration of information technologies**
  - Reintroduction of the credit, now equal to 20%, applicable to expenditures incurred between March 27, 2015 and January 1, 2020

- Refundable tax credit for the **production of multimedia titles**
  - Cancellation of the 20% reduction
  - Introduction of a $100,000 ceiling on eligible labour expenditures subject to exceptions

- Refundable tax credit for the **development of e-business**
  - Elimination of the tax credit end date
  - Exclusion of wages related to certain government contracts
  - Changes to the notion of 'related activities'
  - Reinstatement of the 30% credit rate, of which 6% will be non-refundable

- Refundable tax credit for **Quebec film and television production**
  - Increase in the base rate, depending on the type of production

- Refundable tax credit for **sound recording production**
  - Restoration of the former 35% tax credit rate

- Refundable tax credit for the **production of performances**
  - Reinstatement of the former tax credit rate
  - Amended caps

- Refundable tax credit for **film dubbing**
  - Restoration of the former tax credit rate at 35%

- Refundable tax credit for **book publishing**
  - Restoration of the former tax credit rates and of the former maximum tax credit

- Refundable tax credit for the **production of multimedia environments or environments** presented outside Quebec
  - Former parameters restored
  - Elimination of credit end date

- Refundable tax credit for the **Gaspé Peninsula and certain maritime regions of Quebec**
  - Addition of the recreation and tourism sector in the agglomeration of the Îles-de-la-Madeleine
  - Extension of the eligibility period to December 31, 2020 for the Gaspé Peninsula and certain maritime regions
  - Standardization of calculation methods
  - Introduction of a cap on eligible wages
  - Reduction of credit rates according to sector of activity

WORKFORCE TRAINING

Currently, any employer whose total payroll exceeds $1 million is required to participate in workforce skills development by allotting an amount representing at least 1% of the employer's total payroll to eligible training expenditures.

As of 2015, only employers whose total payroll for a year exceeds $2 million will be required to participate in the development of workforce skills for that year.

INDIVIDUALS

HEALTH CONTRIBUTION

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

ILLUSTRATION OF THE GRADUAL ELIMINATION OF THE HEALTH CONTRIBUTION FOR 2017 AND 2018				
Adult's Income (1)		Health Contribution		
Higher than	Without exceeding	Current situation	2017	2018
-	$18,370	-	-	-
$18,370	$40,820	$0 to $100	-	-
$40,820	$132,650	$100 to $200	$0 to $125	$0 to $80
$132,650	-	$200 to $1,000	$125 to $800	$80 to $600

(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.

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 as an incentive to work, i.e. the work premium (the general work premium or the adapted work premium, for persons with severely limited capacity for employment) and the refundable tax credit for childcare expenses.

To take advantage of the tax shield for a particular taxation year, an individual must be a resident of Quebec at end-of-day on December 31 of the year in question and apply for it on their income tax return.

SOLIDARITY TAX CREDIT

The budget proposes to revise the way the solidarity tax credit works, as follows:

- Determined on a yearly rather than monthly basis;
- Obligation for an individual to prove that he or she is the owner, tenant or sub-tenant of the eligible dwelling;
- Amended payment terms;
- Requirement for the owner to file an occupation record (prescribed form) containing specific information regarding the individuals who are tenants in an eligible dwelling.

TAX CREDIT FOR EXPERIENCED WORKERS

To encourage experienced workers to remain in or re-enter the labour market, the tax system allows workers 65 or older to claim a tax credit that eliminates the income tax payable on the first $4,000 of eligible work income in excess of the first $5,000 of such eligible income.

As of taxation year 2016, these changes will, over a period of two years, lower the age 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.

ADJUSTMENT OF MAXIMUM ELIGIBLE WORK INCOME ABOVE THE FIRST $5,000 BASED ON WORKER'S AGE

	Maximum eligible work income			
Age of experienced worker	**2015**	**2016**	**2017**	**2018 and later**
65 and over	$4,000	$6,000	$8,000	$10,000
64	-	$4,000	$6,000	$8,000
63	-	-	$4,000	$6,000

TAX CREDIT WITH RESPECT TO AGE

Currently, the tax system grants every low- or middle-income individual a non-refundable tax credit calculated based on an amount of $2,460 if the individual has reached 65.

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.

FONDACTION CREDIT

The tax credit for any eligible share acquired after May 31, 2009 and before June 1, 2015, has been increased from 15% to 25%.

For a smoother transition, the tax credit rate for any eligible share acquired after May 31, 2015 and before June 1, 2016 will be set at 20%.

NEW PROGRAM FOR ASSISTANCE TO SENIORS (TO OFFSET THE RISE IN MUNICIPAL TAXES)

To support seniors having to cope with an increase in their property taxes, an assistance program will be introduced as of 2016.

Seniors may be entitled to a subsidy intended to partially offset municipal taxes payable on their residence following an increase in its value if the increase significantly exceeds the average increase for certain residential immovables for the municipal territory as a whole.

GST/QST

INPUT TAX REFUND FOR LARGE BUSINESSES

Under the Quebec sales tax (QST) system, large businesses cannot claim an input tax refund (ITR) in respect of certain goods and services:

- road vehicles of less than 3,000 kg;
- gasoline used to power the engines of such road vehicles;
- electricity, gas, combustibles and steam used for a purpose other than to produce movable property intended for sale;
- telephone service and other telecommunications services;
- food, beverages and entertainment.

The Government of Quebec has undertaken to phase out these restrictions over a three-year period beginning no later than January 1, 2018.

OTHER MEASURES

TRANSFER OF FAMILY BUSINESSES

Under the *Taxation Act*, an individual may obtain, on the disposition of qualified small business corporation shares, a capital gains exemption of up to $813,600. For a family farm corporation or a family fishing corporation, the exemption can be as much as $1 million.

However, there are certain tax rules in place whereby, when the buyer is not dealing at arm's length with the seller and wants to acquire qualified shares through a corporation, the seller is generally required to pay tax on a deemed dividend instead of realizing a capital gain, and therefore cannot claim the capital gains exemption.

So, from a fiscal standpoint, it is generally more advantageous for the owner to sell the business to a third party, or even to foreign interests, rather than to a family member.

EASING OF THE PROVISIONS

Amendments will be made to the *Taxation Act* to provide some relief in cases 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. **However, tax treatment under the federal system will be different.**

For the purposes of this tax measure, "qualified share in the primary and manufacturing sectors" will mean:

- a share of the capital stock of a family farm corporation;
- a share of the capital stock of a family fishing corporation;
- a qualified small business corporation share of a corporation in the primary or manufacturing sector, namely, when more than 50% of the fair market value of the assets is attributable to assets used in the primary and manufacturing sectors.

These amendments will apply solely to qualified share dispositions in the primary and manufacturing sectors, carried out after December 31, 2016, in conjunction with the transfer of a qualified family business. A seller will be required to obtain a qualification certificate attesting to the eligibility of the disposition beforehand; the qualification criteria will be announced within the year.

This measure will apply after December 31, 2016.

DONATIONS OF FOOD PRODUCTS BY FARMING BUSINESSES

Farming corporations that donate goods they produce to registered charities may deduct, in the calculation of their taxable income, an amount generally equivalent to the fair market value of the goods donated. However, because the fair market value of these goods is also factored into the calculation of their business income, the net deduction to which they are entitled corresponds solely to the cost of the goods donated. It follows that their after-tax situation is the same.

In the case of individuals who carry on a farming business, the fair market value of the goods donated is used instead to calculate the non-refundable tax credit for charitable gifts.

To encourage more agricultural producers to donate food products, the eligible amount of a donation made after March 26, 2015 by a recognized agricultural producer to a registered charity that is either the Food Banks of Quebec or a Moisson member will be raised by 50%.

SPECIFIC TAX ON GASOLINE IN BORDER AREAS

Under the fuel tax system, the general rate of the specific tax on gasoline—19.2 cents per litre—is reduced in certain regions of Quebec bordering another Canadian province or an American state.

Since the taxation gap between Quebec and adjacent jurisdictions has gradually widened in recent years, an additional reduction of the specific tax on gasoline will be granted in these regions as of April 1, 2015

REDUCTION OF THE SPECIFIC TAX ON GASOLINE IN BORDER REGIONS (CENTS PER LITRE)

	New Brunswick and Ontario		United States	
Distance from the border	**Current**	**As of April 1, 2015**	**Current**	**As of April 1, 2015**
Less than 5 km	4	8	8	12
5 km to less than 10 km	3	6	6	9
10 km to less than 15 km	2	4	4	6
15 km to less than 20 km	1	2	2	3

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