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Tax Alert — Canada

Québec budget 2018-19

"Our public finances are strong and in balance, now and into the future. Economic growth is robust thanks to renewed confidence. Québec has gained considerable ground and is now a major hub of growth in Canada."

Carlos J. Leitão, Minister of Finance of Québec,
Budget speech 2018-19

On 27 March 2018, Québec Finance Minister Carlos J. Leitão tabled his fifth provincial budget, a budget for improving quality of life and mobility. Gross domestic product (GDP) growth accelerated from 1.4% in 2016 to 3% in 2017. Québec has not seen such strong growth in nearly 20 years. It is the fourth consecutive balanced budget. Quebec's economy is growing again and creating many jobs.

The following is a brief summary of the key tax measures announced.

Business tax measures

Gradual reduction of the Health Services Fund (HSF) contribution rate for all small and medium-sized businesses (SMBs)

Currently, the contribution payable for a year to the HSF must be calculated at a rate of 4.26%, unless the employer is a specified employer for the year and the employer's total payroll is less than $5 million.

The threshold applicable to a specified employer's total payroll for the purpose of determining whether the employer is eligible for the rate reduction available to SMBs will be gradually raised as of 2019. The threshold will be $5.5 million for 2019, $6 million for 2020, $6.5 million for 2021 and $7 million for 2022. As of 2023, it will be automatically indexed each year.

The SMBs in the primary and manufacturing sectors will see the applicable rate for calculating the HSF contribution of eligible specified employers having a total payroll of $1 million or less decrease from 1.5% to 1.25% over a five-year period as of the day following the day of the budget speech.

The SMBs in the service and construction sectors will see the applicable rate for calculating the HSF contribution of eligible specified employers having a total payroll of $1 million or less decrease from 2.3% to 1.65% over a five-year period as of the day following the day of the budget speech.

Specified employers in the primary and manufacturing sectors, as well as specified employers in the service and construction sectors, will see a gradual reduction over five years of the applicable rate for calculating their contribution to the HSF if the total payroll is over $1 million, without exceeding the threshold applicable to the taxation year in question.

Standardization of the tax rates for SMBs

To provide additional support to all SMBs in sectors other than the primary and manufacturing sectors, and thus standardize the tax rates applicable to SMBs, the small-business deduction (SBD) rate will be gradually raised so that the tax rate applicable to the portion of a corporation's income qualifying for the SBD reaches 4% in 2021. Consequently, the rate of the additional deduction for primary and manufacturing sector SMBs will be gradually reduced, and the additional deduction will be eliminated in 2021.

These changes will apply to taxation years of a corporation that end after the day of the budget speech. Instalment payments may be adjusted, as applicable, in accordance with the usual rules, as of the first instalment that follows the day of the budget speech.

Introduction of a refundable tax credit to encourage qualifying training for workers employed in SMBs

A refundable tax credit will be introduced to encourage training for workers employed in SMBs and will enable qualified corporations to receive tax assistance of up to $5,460 a year for each eligible employee who participates in eligible training. It will apply to eligible training expenditures that the qualified corporation or the partnership, as applicable, incur after the day of the budget speech and before 1 January 2023.

The refundable tax credit will correspond to an amount equal to 30% of eligible training expenditures that the qualified corporation or the partnership, as applicable, paid to an eligible employee for the taxation year or the fiscal period, where the total payroll of the qualified corporation or the partnership for the taxation year or the fiscal period, as applicable, does not exceed $5 million.
This 30% rate will be reduced linearly, where the total payroll exceeds $5 million, reaching zero if the total payroll reaches $7 million or more.

Replacement of the additional capital cost allowance of 35% by an additional capital cost allowance of 60%

An additional capital cost allowance of 60% will replace the additional capital cost allowance of 35% introduced in the March 2017 Québec Economic Plan.

The additional capital cost allowance of 60% will be available for a two-year period and will apply to manufacturing or processing equipment and general-purpose electronic data processing equipment. The property in question must be new at the time of acquisition and be acquired before 1 April 2020.

Broadening the sectors of activity eligible for the tax holiday for large investment projects

Investment projects for the development of an eligible digital platform may, under certain conditions, be recognized for the purposes of the tax holiday for large investment projects.

For the purposes of the tax holiday for large investment projects, an eligible digital platform will mean a computer environment that enables content management or use, that serves as an intermediary in accessing information, services or property supplied or edited by the corporation or partnership, or by a third party, and which is not a tax-exempt platform.

This change will apply to investment projects that begin to be carried out after the day of the budget speech.

Introduction of a refundable tax credit to support the digital transformation of print media companies

A new temporary refundable tax credit will be introduced and will provide companies with tax assistance of up to $7 million annually in respect of expenditures related to the digital transformation of their print media activities. The credit will apply for expenditures incurred after the day of the budget speech and before 1 January 2023.

A qualification certificate issued by Investissement Québec confirming that, for the year, the company produced and disseminated a print or digital information medium is required.

The refundable tax credit will correspond to an amount equal to 35% of the lesser of:

- The eligible digital conversion costs incurred by the corporation or the partnership for the taxation year or fiscal period, as the case may be; and
- The annual limit ($20 million) on eligible digital conversion costs applicable to a taxation year or fiscal period, as the case may be.

Enhancement of the refundable tax credit for on-the-job training periods

To encourage employers to offer more training periods to Aboriginal persons and, consequently, increase their participation in the labour market, the rate of the refundable tax credit for on-the-job training periods will be raised in respect of such trainees.

In addition, the weekly qualified expenditure limit and the maximum hourly rate of the refundable tax credit for on-the-job training will be increased for all existing categories of eligible trainees.

Personal tax

Introduction of a first-time home buyers' tax credit

A new non-refundable first-time home buyers' tax credit will be introduced, and this new tax credit will be available as of the 2018 taxation year.

An individual, other than a trust, who is resident in Québec at the end of a taxation year may deduct the product obtained by multiplying $5,000 by the rate applicable, which is currently 15%. Thus, the maximum value of the tax credit will be $750.

An individual’s unused portion of the first-time home buyers’ tax credit will not be transferable to the individual’s spouse under the mechanism for transferring the unused portion of certain non-refundable tax credits to the spouse.

New extension of the eligibility period for the RénoVert tax credit

The period during which a renovation agreement may be entered into with a qualified contractor for the purposes of the RénoVert tax credit will again be extended by one year, to 31 March 2019 for households whose qualified expenditures have not yet reached $52,500.

Greater access to the tax shield

The maximum increase in eligible work income relative to the previous year will be raised from $3,000 to $4,000, for each member of a household, as of the 2018 taxation year.

Enhancement of the tax credit for experienced workers

To further encourage experienced workers to remain in the labour market, the age of eligibility for the tax credit will be lowered as of the 2018 taxation year from 63 years of age to 61 years of age. For the new category of workers 61 years of age, the maximum amount of eligible work income on which the tax credit would be calculated is $3,000.

Moreover, the tax legislation will be amended to provide that the maximum amount of eligible work income on which the tax credit will be calculated for experienced workers aged 62 and over will be increased by $1,000 as of the 2018 taxation year.

The following table shows the adjustment of the tax credit for experienced workers as of the 2018 taxation year.

Age of experienced worker	Maximum amount of eligible work income
65 years or over	$11,000
64 years	$9,000
63 years	$7,000
62 years	$5,000
61 years	$3,000

Changes to the refundable tax credit for informal caregivers of persons of full age

In the case of individuals acting as informal caregivers of eligible relatives otherwise than in a conjugal context, the tax credit consists of, for each eligible relative whom an individual houses or with whom an individual co-resides, a basic amount, which is $652 for 2018, plus a supplement reducible on the basis of the eligible relative’s income for the year for which the tax credit is claimed. This supplement is $533 for 2018. The supplement is reduced at a rate of 16% for each dollar of the eligible relative’s income that exceeds the reduction threshold applicable for the year, which will be equal to $23,700 for the 2018 taxation year.

Briefly, in the context of conjugal co-residency, the tax credit is composed of a lump-sum amount, which is $1,015 for 2018.

Enhancement of the refundable tax credit for volunteer respite provided to informal caregivers

To further support informal caregivers, changes will be made to the refundable tax credit for volunteer respite provided to informal caregivers, as of the 2018 taxation year.

The following table illustrates the increase in the maximum amount of the refundable tax credit for volunteer respite provided to informal caregivers, as well as the adjustment of the tax credit according to the number of hours of volunteer respite services provided.

	Current system	**Enhanced system**
Less than 200 hours	-	-
200 to less than 300 hours	-	$250
300 to less than 400 hours	-	$500
400 hours or more	$500	$750

Second, the annual "envelope" at a person's disposal, for recognition purposes, in relation to each care recipient of whom the person is an informal caregiver for the year will be raised from $1,000 to $1,500.

Enhancement of the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer

The refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer will be enhanced as of the 2018 taxation year through the reduction, to $250, of the threshold at which the tax credit may be claimed in respect of expenses paid for qualified property, and through the broadening of the existing list of qualified property.

Broadening of the tax credit for persons living alone, in order to encourage intergenerational cohabitation

For a taxation year subsequent to 2017, an individual who ordinarily lives, throughout the year — or, if the individual dies in the year, throughout the period of the year before the time of the individual's death — in a self-contained domestic establishment maintained by the individual and in which no person, other than the individual, a person under 18 years of age or an eligible student of whom the individual is either the father, mother, grandfather, grandmother, great-grandfather or great-grandmother, lived during the year may claim, for that year, the amount for persons living alone in the calculation of the tax credit.

Enhancement of the refundable tax credit for childcare expenses

<u>Increase in the annual limits applicable to childcare expenses</u>

The limit applicable to childcare expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions, and the limit applicable to childcare expenses paid in respect of a child who does not have such an impairment and who is under 7 years of age at the end of a year, or who would have been had the child been living, will be $13,000 and $9,500, respectively, as of the 2018 taxation year.

The new annual limit of $13,000 applicable to expenses paid in respect of a child with a severe and prolonged impairment in mental or physical functions will enable expenses paid at a daily rate of up to $50 for full-time childcare in respect of the child to be taken into account in the calculation of the tax credit.

Expenses paid for the purpose of providing full-time childcare services for a child under 7 years of age at the end of the year, at a daily rate of up to $36.50, may be fully taken into account in the calculation of the tax credit.

<u>Adjustment of all annual limits applicable to childcare expenses</u>

To better update tax assistance for families by reflecting the annual increase in expenses payable for childcare services, the three annual limits on childcare expenses eligible for the purposes of the refundable tax credit for childcare expenses of $13,000, $9,500 and $5,000 will be indexed automatically each year as of the 2019 taxation year.

Extension of the tax credit for a first major cultural gift

This tax credit of up to $6,250 is granted to individuals, on certain conditions, in respect of a first major cultural gift made after 3 July 2013, but before 1 January 2018. Given the increase in the number of major cultural gifts since the introduction of this measure, it will be extended five years.

Change to the rates of the dividend tax credit

The rate of the dividend tax credit for eligible dividends, which is currently 11.9% of the dividend gross-up amount, will be reduced to 11.86% of the gross-up amount of a dividend received or deemed received after the day of the budget speech, but before 1 January 2019. It will be reduced to 11.78% of the gross-up amount of a dividend received or deemed received in 2019, and to 11.7% of the gross-up amount of a dividend received or deemed received after 31 December 2019.

Similarly, the rate of the dividend tax credit for non-eligible dividends, which is currently 7.05% of the dividend gross-up amount, will be reduced to 6.28% of the gross-up amount of a dividend received or deemed received after the day of the budget speech, but before 1 January 2019. It will be reduced to 5.55% of the gross-up amount of a dividend received or deemed received in 2019, to 4.77% of the gross-up amount of a dividend received or deemed received in 2020, and to 4.01% of the gross-up amount of a dividend received or deemed received after 31 December 2020.

For greater clarity, no change is made to the dividend gross-up rates.

Québec sales tax

Measures relating to the Québec sales tax and e-commerce

Implementation of a mandatory specified registration system for suppliers with no physical or significant presence in Québec to ensure the QST is collected and remitted in the context of the digital economy.

- Suppliers with no physical or significant presence in Québec (hereinafter, nonresident suppliers) will be required to collect and remit the QST on taxable incorporeal movable property and services they supply in Québec to specified Québec consumers.

- Nonresident suppliers that are located in Canada will be required to collect and remit the QST on taxable corporeal movable property they supply in Québec to specified Québec consumers.

For this mandatory registration measure to apply to a nonresident supplier, the value of the considerations for all taxable supplies made by the supplier in Québec to persons that may reasonably be considered as consumers, as defined under the existing QST system, must exceed a threshold of $30,000.

Digital property and services distribution platforms

The requirement to register under the new specified registration system will also apply to digital property and services distribution platforms with respect to taxable supplies of incorporeal movable property or services received by specified Québec consumers, where these digital platforms control the key elements of transactions with specified Québec consumers.

Specified registration system

Nonresident suppliers registered under the new specified registration system will not be registrants within the meaning of the other provisions of the QST system. They will not be able to claim an input tax refund (ITR) in respect of property and services acquired in the course of their commercial activities.

Similarly, recipients registered under the general registration system who pay QST to a nonresident supplier registered under the specified registration system may not recover, by means of an ITR mechanism, the tax paid.

Election to register under the specified registration system or the general registration system

Nonresident suppliers required to register under the new specified registration system may elect to register under the general registration system instead, if they meet the optional registration requirements currently provided for under the QST system. Such nonresident suppliers will then be required to register for GST/HST and provide a security of a value and in a form that is satisfactory to the Minister of Revenue.

Penalties

A new penalty will apply on transactions in respect of which a recipient avoided or attempted to avoid paying the QST.

Application dates

- 1 January 2019, in the case of nonresident suppliers outside Canada, and in the case of digital platforms enabling these suppliers to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers.
- 1 September 2019, in the case of nonresident suppliers **located in Canada**, and in the case of digital platforms enabling these suppliers to make taxable supplies of incorporeal movable property or services in Québec to specified Québec consumers.

New measures for ensuring tax fairness regarding corporeal property from outside Canada

An existing agreement stipulates that the Canada Border Services Agency is responsible for collecting, on behalf of the Québec government, the QST applicable to property imported by Québec individuals (consumers). Starting in spring 2018, the Québec Government will cooperate with the federal government to improve the collection of taxes at the borders.

Other tax measures

Changes to various parameters of Capital régional et coopératif Desjardins (CRCD)

Amendments will be made to the Act constituting CRCD and to the tax legislation, to create a new class of shares, in respect of which a non-refundable tax credit may temporarily be claimed.

Briefly, only current shareholders who have held CRCD shares for at least seven years will have the right to purchase shares of this new class, which will be purchased through the exchange of shares that have been held for at least seven years.

This change is intended to encourage investors to convert their shares into new shares that will also be redeemable after a new, mandatory retention period. This will offset the risk of a liquidity shortage in the short or medium term in the event of a massive redemption of shares of the capital stock of CRCD.

An amendment will be made to the tax legislation, so that an individual who acquires, after 28 February 2018, shares or fractional shares of the new class of capital stock of CRCD in a conversion period beginning in a taxation year may deduct, in the calculation of the individual's tax otherwise payable for that year, an amount equal to 10% of the value of the shares or fractional shares converted, up to $15,000.

The non-refundable tax credit in respect of the acquisition of shares of the existing class of capital stock of CRCD will be reduced from 40% to 35% in respect of all shares acquired after 28 February 2018.

Temporary maintenance of the increased rate of the tax credit in respect of the acquisition of shares in Fondaction

The tax credit rate will be maintained at 20% for any eligible share acquired in the next three fiscal years.

Adjustments to the compensation tax for financial institutions

The compensation tax rates applicable to amounts paid as wages will be adjusted as of 1 April 2018.

Rates of the compensation tax for financial institutions after adjustments (%)

	1 April 2018 to 31 March 2019	1 April 2019 to 31 March 2020	1 April 2020 to 31 March 2022	1 April 2022 to 31 March 2024
Amounts paid as wages				
– Bank, loan corporation, trust corporation or corporation trading in securities	4.29	4.22	4.14	2.80
– Savings and credit union	3.39	3.30	3.26	2.20
– Any other person [1]	1.37	1.34	1.32	0.90
Insurance premiums and amounts established in respect of an insurance fund	0.48	0.48	0.48	0.30

[1] This excludes an insurance company and a professional order that created an insurance fund under section 86.1 of the *Professional Code*.

Maximum amount of amounts paid as wages subject to the compensation tax

A person that is a financial institution throughout a taxation year will be required to pay, on account of the compensation tax on amounts paid as wages after 31 March 2018, an amount corresponding to the product obtained by multiplying, by the rate applicable to it for the year, the lesser of the amounts paid as wages by the financial institution for the year and the maximum amount of amounts paid as wages subject to the compensation tax for the year.

Introduction of an environmental studies allowance in the *Mining Tax Act*

An operator may deduct, in the calculation of its annual profit for a fiscal year, an amount on account of the environmental studies allowance that may not exceed the balance of its cumulative environmental studies expenses account at the end of the fiscal year. Environmental studies expenses will include expenses of the same nature as the environmental studies expenses included in the cumulative exploration expenses of an operator.

The refundable duties credit for losses that an operator may claim for a fiscal year ending after the day of the budget speech will be adjusted to take into account the introduction of the environmental studies allowance.

These changes will apply to a fiscal year of an operator that ends after the day of the budget speech, in respect of environmental studies expenses incurred after that day.

Change to the refundable tax credit for the production of multimedia events or environments presented outside Québec

The tax legislation will be amended to remove the $350,000 limit on the refundable tax credit that may be claimed in respect of a qualified production.

This amendment applies to qualified productions for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was previously filed for the production, is submitted to SODEC after the day of the budget speech.

Extension of and changes to the refundable tax credit for the production of ethanol in Québec

The refundable tax credit for the production of ethanol in Québec will be extended for five years, until 31 March 2023. Moreover, as of 1 April 2018, to simplify the application of the tax credit and improve the predictability of the assistance qualified corporations may obtain, a fixed rate of $0.03 per litre will be used to calculate the tax credit, and the monthly ceiling on the production of ethanol will be raised.

Extension of and changes to the refundable tax credit for cellulosic ethanol production in Québec

To promote the production and consumption of biofuels in Québec as part of its insipient energy transition, the eligibility period of the refundable tax credit for cellulosic ethanol production in Québec will be extended five years, until 31 March 2023. As of 1 April 2018, the terms for calculating the tax credit will be changed so that a fixed rate of $0.16 per litre is used to calculate it, and the monthly ceiling on the production of cellulosic ethanol will be raised.

Extension of and changes to the refundable tax credit for the production of biodiesel fuel in Québec

The refundable tax credit for the production of biodiesel fuel in Québec will be extended five years, until 31 March 2023. As of 1 April 2018, the terms for calculating the tax credit will be changed so that a fixed rate of $0.14 per litre is used to calculate it, and the monthly ceiling on the production of biodiesel fuel will be raised.

Introduction of a temporary refundable tax credit for pyrolysis oil production in Québec

To help modernize and transform the forestry sector and bioenergy, a refundable tax credit for pyrolysis oil production in Québec will be introduced. This refundable tax credit, at a rate of $0.08 per litre, will be granted to a qualified corporation in respect of eligible pyrolysis oil it produces in Québec from residual forest biomass, which is sold in and intended for Québec, up to 100 million litres per year. A qualified corporation will be able to claim this tax credit for a period of five years beginning on 1 April 2018.

Rewarding tax informants

To encourage witnesses of harmful tax-related behaviour to notify Revenu Québec, the government will offer them a reward. This measure will target abusive tax planning schemes for which at least $100,000 can be recovered in taxes. The informant must also provide information on transactions that:

- Constitute a sham, meaning they are designed to conceal from the tax authorities the true transaction carried out by the parties
- Lead to the application of the general anti-avoidance rule, which is aimed at preventing abusive tax avoidance practices

Reviewing Revenu Québec's voluntary disclosure program

The Québec Government has announced that it will review the current voluntary disclosure program to take into account, among other things, the changes made by the federal government to the Canada Revenue Agency's Voluntary Disclosure Program in December 2017, aiming to tighten the eligibility conditions of the federal program.

Consultations regarding changes to the parameters of Québec's program will be carried out with Revenu Québec in 2018-19.

Coordinated cannabis taxation agreement

Québec has agreed to enter into an agreement with the federal government under which it will receive revenue equivalent to the value of an additional excise duty on cannabis intended for sale in Québec.

Learn more

For more information on this and any other topics that may be of concern, please contact your EY or EY Law advisor or one of the following professionals:

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