

2022 Issue No. 17  
23 March 2022

# Tax Alert – Canada

## Québec budget 2022-23

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

“The pandemic has also had a significant impact on public finances, which is unavoidable when many sectors of the economy are slowing down. Our strong support for the public and businesses has also led the government to significantly increase spending.

In this context, I think it is fair to say that Québec has persevered. Our people rose to the challenge of fighting the pandemic, despite all the restrictions this required.

And that same perseverance will carry us through the turbulence facing the global economy. The budget I am tabling today is being presented in a context of great uncertainty: we do not know how the pandemic may evolve, inflation is currently high, and central banks are tightening their monetary policy. Added to this is the tense geopolitical context, marked by the Russian invasion of Ukraine.”

*Éric Girard, Québec’s Minister of Finance*

*2022-23 Québec Budget Speech*

On 22 March 2022, Québec Finance Minister Éric Girard tabled the province’s fiscal 2022-23 budget. The budget contains several tax measures affecting individuals and corporations. The budget contains no new taxes and no tax increases.

The minister anticipates a deficit of \$7.4 billion for fiscal 2021-22 (after contributions to the Generations Fund) and \$6.5 billion for fiscal 2022-23, with reduced deficits for each of the next four fiscal years. The government’s objective is to restore fiscal balance by 2027-28.

The following is a summary of the principal tax measures announced.

## Business tax measures

### Corporate tax rates

No changes to the corporate tax rates are proposed.

Québec's 2022 corporate tax rates are summarized in Table A.

**Table A – Québec corporate tax rates for 2022\***

	2022	
	Québec	Federal and QC combined
Small-business tax rate**	3.20%	12.20%
General corporate tax rate***	11.50%	26.50%

\* Rates represent calendar-year rates.

\*\* Effective for taxation years beginning on or after 1 January 2017, a Canadian-controlled private corporation (CCPC) must meet certain qualification criteria concerning the minimum number of hours paid or be a CCPC in either the primary (i.e., agriculture, forestry, fishing, hunting and certain resource-based sectors) or M&P sector to benefit from the small-business tax rate. The minimum number of hours paid criterion requires that an eligible corporation's employees work at least 5,500 hours annually, and the amount of the deduction is reduced linearly when the hours are between 5,500 and 5,000 hours. A maximum of 40 hours per week per employee is considered. Special conversion rules apply to take into consideration hours worked (but not necessarily paid in the form of wages) by actively engaged shareholders who hold, directly or indirectly, shares of the corporation that carry more than 50% of the voting rights.

\*\*\* The 2021 federal budget proposed to temporarily reduce the federal corporate income tax rate for qualifying zero-emission technology manufacturers by 50% (i.e., to 7.5% for eligible income otherwise subject to the 15% general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% small-business corporate income tax rate), applicable for taxation years beginning after 2021. The reduced tax rates are proposed to be gradually phased out for taxation years beginning in 2029 and fully phased out for taxation years beginning after 2031.

### Extension of the temporary increase in the tax credit relating to investment and innovation ("C3i")

As a reminder, the C3i tax credit is granted to a qualified corporation that acquires, after 10 March 2020, and before 1 January 2025, manufacturing or processing equipment, general-purpose electronic data processing equipment or certain management software packages. It is calculated on the portion of the specified expenses incurred to acquire a specified property in excess of \$5,000 or \$12,500, depending on the nature of the property.

In the 25 March 2021 budget, it was announced that C3i rates would be temporarily doubled to encourage Québec businesses to carry out their investment projects and to accelerate Québec's economic recovery. It was then planned that this temporary increase would end on 31 December 2022.

In order to continue the government's support for business investment, the temporary increase in the C3i tax credit will be extended by one year, that is, until 31 December 2023. The other conditions remain unchanged.

Applicable C3i rates, taking into account the extension, are summarized in the table below:

**Table B – Rates of the tax credit relating to investment and innovation**  
(per cent)

<b>Territory where the property is acquired to be used mainly</b>	<b>Rates applicable after 10 March 2020 and before 26 March 2021</b>	<b>Rates applicable after 25 March 2021 and before 1 January 2024</b>	<b>Rates applicable after 31 December 2023 and before 1 January 2025</b>
Territory with low economic vitality	20	40	20
Territory with intermediate economic vitality	15	30	15
Territory with high economic vitality	10	20	10

This temporary increase will apply to specified expenses incurred after 25 March 2021 but before 1 January 2024, to acquire a specified property after 25 March 2021 but before 1 January 2024, or to acquire a specified property after 25 March 2021 but before 1 April 2024, if certain conditions are met (e.g., if the property is acquired pursuant to a written obligation entered into after 25 March 2021 but before 1 April 2024).

### **Introduction of the refundable tax credit for the production of biofuel in Québec**

Three different tax credits are currently in effect to promote biofuel production, namely the refundable tax credit for ethanol production in Québec, the refundable tax credit for cellulosic ethanol production in Québec and the refundable tax credit for the production of biodiesel fuel in Québec. However, these tax credits will expire on 31 March 2023. In order to increase its efforts in the fight against climate change and as part of a review of its approach in respect of tax assistance for biofuel production, the government will not renew these three credits, but will instead introduce a new refundable tax credit for biofuel production in Québec.

In summary, a qualified corporation will be able to claim this tax credit in respect of eligible biofuels that it produces in Québec for sale and use in Québec, up to a maximum of 300 million litres per year. The tax credit will be available from 1 April 2023 to 31 March 2033 for taxation years ending after 31 March 2023. However, eligible biofuel produced by a qualified corporation before 1 April 2023 will not be included in the eligible production of biofuel of that corporation, even if that biofuel is sold and taken possession of by the purchaser after 31 March 2023 and before 1 April 2033.

In order to benefit from the tax credit in respect of a biofuel that the corporation produces in a taxation year, the corporation will be required to obtain, for that taxation year, a qualification certificate issued by the Minister of Energy and Natural Resources certifying that the biofuel is an eligible biofuel for the purposes of the tax credit.

*Qualified corporation* - A qualified corporation is, for a taxation year, a corporation that, in the year, has an establishment in Québec where it carries on a business engaged in the production of biofuel and that holds a qualification certificate issued by the Minister of Energy and Natural Resources for the purposes of that tax credit, for that year or a preceding taxation year. Corporations exempt from income tax for the year, Crown corporations or subsidiaries wholly owned by them will however be excluded.

*Eligible biofuel* - A biofuel will be eligible if it is a low-carbon-intensity fuel that is a liquid fuel under standard conditions, is produced from eligible materials, can be blended with gasoline or diesel fuel and for which the Minister of Energy and Natural Resources has issued a qualification certificate to the corporation that produces it for the taxation year in which it was produced. For this purpose, a biofuel will be produced from eligible materials if it is produced from one or more of the following materials (excluding materials made from the oil palm tree):

- An organic material
- Residual materials within the meaning of section 1 of the *Environment Quality Act*
- From carbon monoxide (CO) or carbon dioxide (CO<sub>2</sub>)

Biofuels used to power aircraft, boats, or ships will however be excluded.

*Tax credit rate* - The rate of the tax credit (expressed in dollars per litre) will be determined according to various factors (e.g., the change in carbon intensity attributable to that biofuel for the taxation year, the amount of assistance granted per tonne of greenhouse gas ("GHG") emissions avoided in respect of an eligible biofuel for the taxation year, and the high heating value of the eligible biofuel for the taxation year in which it was produced) so that the level of tax assistance applicable to an eligible biofuel produced by a qualified corporation will increase according to the decrease in carbon intensity observed for that biofuel compared to the gasoline or diesel fuel that it replaces.

*Government assistance* - The amount of the refundable tax credit for the production of biofuel in Québec from which a qualified corporation may benefit must be reduced, in general and subject to certain exceptions, by the amount of any government assistance, non-government assistance, benefit or advantage attributable to the eligible production of biofuel.

### **Extension of and changes to the refundable tax credit for the production of pyrolysis oil in Québec**

The refundable tax credit for the production of pyrolysis oil in Québec, at a rate of \$0.08 per litre, is 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. However, the eligibility period for this tax credit ends on 31 March 2023.

In order to maintain the government's support for efforts to reduce GHG emissions, the refundable tax credit for the production of pyrolysis oil in Québec will be extended for a period of ten years, that is, until 31 March 2033.

Besides this extension of the tax credit, changes, effective 1 April 2023, will also be made, including the following:

*Eligible pyrolysis oil* - The expression "eligible pyrolysis oil" means a liquid mixture of oxygenated organic compounds obtained from the condensation of vapours resulting from the thermal decomposition of residual forest biomass. This definition will be amended to provide that, in order for a pyrolysis oil to qualify as an eligible pyrolysis oil, a qualification certificate must also have been issued to the corporation that produces it by the Minister of Energy and Natural Resources in respect of the pyrolysis oil for the taxation year in which it was produced.

*Calculation of the tax credit* - The calculation of the tax credit rate will be changed so that the level of assistance granted to a qualified corporation, with respect to its eligible production of pyrolysis oil, will take into account the reduction in carbon intensity induced by this biofuel, compared to the fuel it replaces, over its life cycle. The rate of the tax credit will therefore be determined according to various factors (e.g., the change in carbon intensity attributable to that pyrolysis oil for the taxation year, the amount of assistance granted per tonne of GHG emissions avoided in respect of that pyrolysis oil for the taxation year, and the high heating value of that pyrolysis oil for the taxation year in which it was produced).

In addition, the maximum number of litres for which a qualified corporation may benefit from the tax credit will be increased to 300 million litres per year. In this respect, the monthly ceiling on the production of pyrolysis oil for a qualified corporation, for all eligible pyrolysis oils produced by it, will be increased starting on 1 April 2023, so that, for a particular month beginning after 31 March 2023, it is equal to the product obtained by multiplying 821,917 litres by the number of days in the particular month.

*Qualified corporation* - A "qualified corporation" means, for a taxation year, a corporation that, in the year, has an establishment in Québec where it carries on a business engaged in the production of eligible pyrolysis oil, and that is not a tax-exempt corporation for the year, a Crown corporation or a wholly-controlled subsidiary of such a corporation. This definition will be amended to add that, to be recognized as a qualified corporation, for a taxation year, a corporation must also hold a qualification certificate issued by the Minister of Energy and Natural Resources for the purposes of the tax credit, for that year or for a previous taxation year. In order to benefit from the tax credit in respect of a pyrolysis oil it produces in a taxation year, a corporation will therefore be required to obtain, for that taxation year, a qualification certificate issued by the Minister of Energy and Natural Resources certifying that the pyrolysis oil is an eligible pyrolysis oil for the purposes of the tax credit.

## Personal tax measures

### Personal income tax rates

No changes to personal income tax rates were announced in the budget. The Québec personal tax rates for 2022 are summarized in Table C.

**Table C - Québec personal income tax rates for 2022**

First bracket rate	Second bracket rate	Third bracket rate	Fourth bracket rate
\$0 to \$46,295	\$46,296 to \$92,580	\$92,581 to \$112,655	Above \$112,655
15.00%	20.00%	24.00%	25.75%

For taxable income in excess of \$112,655, the combined federal and Québec personal income tax rates for 2022 are outlined in Table D.

**Table D - Combined federal and Québec personal income tax rates for 2022**

Bracket	Ordinary income*	Eligible dividends	Non-eligible dividends
\$112,656 to \$155,625	47.46%	32.04%	41.97%
\$155,626 to \$221,708**	50.28%	35.94%	45.22%
Over \$221,708	53.31%	40.11%	48.70%

\* The rate on capital gains is one-half the ordinary income rate.

\*\* The federal basic personal amount comprises two elements: the base amount (\$12,719 for 2022) and an additional amount (\$1,679 for 2022). The additional amount is reduced for individuals with net income in excess of \$155,625 and is fully eliminated for individuals with net income in excess of \$221,708. Consequently, the additional amount is clawed back on net income in excess of \$155,625 until the additional tax credit of \$210 is eliminated; this results in additional federal income tax (e.g., 0.32% on ordinary income) on taxable income between \$155,626 and \$221,708.

### Introduction of the refundable tax credit granting a one-time amount to mitigate the increase in the cost of living

In summary, an eligible individual will be entitled, in the 2022 calendar year, to the payment of an amount of up to \$500 in respect of a refundable tax credit granting a one-time amount to mitigate the increase in the cost of living.

An eligible individual, for the purposes of this refundable tax credit, means an individual who, at the end of 31 December 2021, met the following conditions:

- The individual was at least 18 years old, or an emancipated minor, or a minor who is the father or mother of a child with whom he or she resides.
- The individual was residing in Québec.

- The individual had the status of one of the following:
  - Canadian citizen
  - Permanent resident within the meaning of the *Immigration and Refugee Protection Act*
  - Temporary resident or temporary resident permit holder within the meaning of the *Immigration and Refugee Protection Act* who has resided in Canada for the 18-month period preceding that time
  - Protected person within the meaning of the *Immigration and Refugee Protection Act*
  - Person on whom refugee protection is conferred in Canada by the competent Canadian authority in accordance with the *Immigration and Refugee Protection Act*
- The individual was not an excluded individual (e.g., certain tax-exempt persons and certain persons who are detained in a prison or similar institution).

This amount will be reducible on individual net income in excess of \$100,000 for the 2021 calendar year.

**Table E - Calculation of the refundable tax credit granting a one-time amount to mitigate the increase in the cost of living**  
(dollars, unless otherwise indicated)

<b>Individual's income</b>		<b>Calculation of the tax credit</b>	<b>Amount for 2022</b>
<b>Less than or equal to</b>	<b>Greater than</b>		
100,000	—	Fixed amount of 500	500
—	100,000	500 – [10% x (individual's personal net income for 2021 – 100,000)]	0 to 499.99
—	105,000	—	0

An individual who is eligible for the credit will receive the amount of the one-time tax assistance without having to apply for it, provided that the individual has filed his or her income tax return for the 2021 calendar year with Revenu Québec. Therefore, as of 23 March 2022, Revenu Québec will process income tax returns for the 2021 calendar year by adding the refundable tax credit. Where, on 22 March 2022, the notice of assessment for the 2021 calendar year has already been issued to an individual by Revenu Québec, a new notice of assessment for the 2021 calendar year will be sent to the individual to include the refundable tax credit.

#### **Perpetuation of the tax credit for a major cultural gift**

The additional tax credit of 25% for a major cultural gift was introduced with the publication of Information Bulletin 2013-6. In general, this tax credit of up to \$6,250 is available to individuals, under certain conditions, in relation to a donation made to an eligible cultural donee. This additional tax credit was set to expire on 31 December 2022.

With a view to perpetuating this support for the financing of the cultural sector, the tax legislation will be amended to remove the deadline for making a donation so that it can

be recognized as a major cultural gift, thereby making the tax credit for a major cultural gift permanent.

### **Extension of the refundable tax credit for the upgrading of residential waste water treatment systems**

To financially assist owners who must undertake work to upgrade their septic systems, the refundable tax credit for the upgrading of residential waste water treatment systems was introduced on a temporary basis as part of the March 2017 budget speech.

With a maximum value of \$5,500 per eligible dwelling, the financial assistance provided by the refundable tax credit for the upgrading of residential waste water treatment systems corresponds to 20% of the portion of eligible expenses, exceeding \$2,500, that an individual has paid under a service agreement entered into to have recognized work carried out to upgrade the waste water treatment systems of the individual's principal residence or cottage suitable for year-round occupancy.

This measure was originally scheduled to expire on 31 March 2022, but the budget proposes to extend the measure by five years. Accordingly, this extension of the refundable tax credit for the upgrading of residential waste water treatment systems will benefit individuals resident in Québec, other than trusts, who have such work carried out by a qualified contractor under a service agreement entered into after 31 March 2022 and before 1 April 2027.

### **Other tax measures**

#### **Amendment to the rules governing the interruption of the prescription period**

Under the *Tax Administration Act*, the recovery of an amount owed under a fiscal law is prescribed by 10 years generally after the day on which the notice of assessment was sent or, in the case of charges or fees, from the time the charges or fees are applied. Therefore, a person liable for the payment of an amount owed under a fiscal law may raise to the Minister of Revenue that the debt has been extinguished by the effect of prescription at the end of the 10-year period, unless that period is extended by the effect of a suspension or interruption.

When the prescription period is interrupted, the prescription begins to run again for the same period after the interruption (in other words, the counter is reset to zero). The prescription period may be interrupted, for example, when the Minister of Revenue applies a tax refund to the payment of a taxpayer's debt, up to the amount of that debt, and gives notice to the taxpayer.

It only takes one allocation of a refund against a non-prescribed tax debt to lose the benefit of the time that has elapsed to extinguish the debt through the 10-year prescription period. In addition, for recurring refunds (such as solidarity tax credit payments), it follows that a debt will never be prescribed as long as the person receives a refund or the debt is not otherwise paid.

Consequently, with a view to making the tax system more fair and equitable for all Québec taxpayers with a non-prescribed tax debt, the *Tax Administration Act* will be amended to remove compensation as a reason for interrupting the prescription period when a taxpayer entitled to a refund under a fiscal law is also a debtor under such a law or is about to be, and the Minister of Revenue applies the refund to pay the tax debt of that taxpayer.

This measure will apply to allocations of refunds made on or after a date to be determined by the government after the bill giving effect to this measure is assented to.

## **Other measures**

### **Extension of the Roulez vert program and Revision of the maximum rebate according to the evolution of the market**

The maximum rebate granted for the acquisition of electric vehicles under the Roulez vert program will be, as of 1 April 2022:

- \$7,000 for new fully electric vehicles;
- \$5,000 for new plug-in hybrid vehicles;
- \$3,500 for used fully electric vehicles.

## Learn more

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