

# Quebec Budget June 4, 2014



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## INTRODUCTION

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The Minister of Finance Carlos Leitão, tabled a budget mainly aimed at economic recovery and restoring sound public finances.

**“We want Québec to create more wealth and our economy to support more jobs. At the same time, we want to end the structural imbalance in public finances that puts us deeper into debt each year and increasingly limits our freedom of action.”**

The Minister explained that, to boost economic recovery, the government will act according to certain thrusts, namely new support for private investment, with a focus on SMEs, particularly manufacturing SMEs, as well as the implementation of maritime strategy, a plan to responsibly develop Québec’s maritime potential while acquiring a unique environmental expertise.

Minister Leitão confirmed that the government will adhere to the timeline for balancing the budget, planned for 2015-2016.

This action will be accompanied by tax reform, which the Québec government will undertake to build robust, lasting economic growth. This reform will be based on the work of a taxation committee, chaired by Luc Godbout. The committee will make recommendations to the government on personal and corporate taxation. The composition of the committee and the details of its creation will be made public soon.

**Here are the highlights of the 2014-2015 budget.**

## ECONOMIC RECOVERY MEASURES

### Reduced tax rate for manufacturing SMEs

The tax rate on the income of manufacturing SMEs will be reduced by two percentage points, i.e. to 6%, on June 5, 2014 and will be reduced by two more percentage points as of April 1, 2015, to 4%.

However, where the taxation year of a manufacturing SME includes June 4, 2014 or March 31, 2015, the additional deduction rate will apply in proportion to the number of days of such taxation year that follow June 4, 2014 or that follow March 31, 2015.

Eligible SMEs will have to meet the same criteria as SMEs currently eligible for the reduced rate for SMEs, and the majority of their activities must be related to manufacturing and processing.

### Notion of manufacturing SME

The expression “manufacturing SME”, for a given taxation year, means a corporation at least 25% of whose activities consist of manufacturing and processing activities.

### Determination of the rate of the additional deduction

A manufacturing SME whose proportion of activities attributable to manufacturing and processing activities, for a given taxation year, is 50% or more, may benefit from the maximum additional deduction rate applicable for such taxation year.

Where such proportion, for a given taxation year, is between 50% and 25%, the additional deduction rate the manufacturing SME may claim, for such taxation year, will be reduced linearly.

For example, a manufacturing SME, otherwise eligible for an additional deduction of four percentage points, whose proportion of activities attributable to manufacturing and processing

activities is 40% may claim an additional deduction rate of 2.4%<sup>1</sup>.

### Additional deduction for transportation costs of remote manufacturing SMEs

To recognize the higher transportation costs for manufacturing SMEs remote from major urban centres, the budget provides for the implementation of an additional deduction in calculating income for tax purposes, corresponding to:

- > 2% of gross income, with a \$100,000 cap per corporation, for manufacturing SMEs located in the intermediate zone;
- > 4% of gross income, with a \$250,000 cap per corporation, for manufacturing SMEs located in the remote zone;
- > 6% of gross income, with no cap per corporation, for manufacturing SMEs located in the special remote zone.

To learn about the principal parameters of the additional deduction for transportation costs of remote manufacturing SMEs, see [appendix 1](#).

### *Rate of the additional deduction depending on the level of manufacturing activities*

A manufacturing SME whose proportion of activities attributable to manufacturing and processing activities, for a given taxation year, is 50% or more, may claim the maximum additional deduction otherwise applicable to it for such taxation year, i.e. the rate depending on the zone where the largest share of its manufacturing activities is carried out.

Moreover, where such proportion, for a given taxation year, is between 50% and 25%, the additional deduction rate the manufacturing SME may claim, for such taxation year, will be reduced linearly.

This additional deduction rate will apply regarding a taxation year ending after June 4, 2014.

<sup>1</sup> i.e.:  $4\% \times ([40\% - 25\%] / 25\%) = 2.4\%$ .

### Reduced contribution to the Health Services Fund to boost innovation in SMEs

A reduction in the contribution to the Health Services Fund (HSF) will be granted until 2020 for the increase in payroll attributable to the hiring of specialized employees from the natural and applied sciences sector.

For employers whose payroll does not exceed \$1 million, the reduction will completely eliminate the contribution to the Health Services Fund payable for such new specialized employees. Employers whose payroll is between \$1 million and \$5 million will receive a partial reduction in the contribution payable for such employees.

#### Eligible employer

An eligible employer for a year means any employer, other than an excluded employer, that, during the year, carries on a business in Québec and has an establishment there. The employer can be a legal person, a partnership or an individual.

To that end, an excluded employer for a year means the State, the government of another province or the Canadian government as well as an employer that, at a given time of the year, is:

- > either an organization that is a mandatory of the State, the government of another province or the Canadian government;
- > a municipality or an organization that is a mandatory of a municipality;
- > a municipal or public body that performs a function of government or an organization that is a mandatory of such a body;
- > or a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.

#### Eligible employee

An eligible employee means an employee who is hired to hold, in Québec, a recognized job (see [appendix 2](#)) under an employment contract – for an indeterminate term or for a stipulated minimum period of 40 weeks – requiring at least 26 hours of work per week, provided such employee holds a diploma normally required to have access to the recognized job and provided he was hired:

- > where the employer's reference year is calendar year 2013, after June 4, 2014;
- > otherwise, after the end of the employer's reference year.

#### Eligible salary

An employee's eligible salary for a given year corresponds to any part of his salary included in the calculation of the Health Services Fund contribution payable for the year by the employer, excluding an amount representing the value of a benefit the employee received or benefited from, because of a prior office or employment.

#### Reference year

An employer's reference year corresponds to the first calendar year after 2012 in which the employer carried on a business during the entire year.

#### Total payroll

The total payroll of an eligible employer for a year will be determined using the same rules as those stipulated for the purposes of calculating its contribution to the Health Services Fund for the year.

#### Increase in payroll

The increase in an eligible employer's payroll for a given year must be determined taking into account the payroll and the attributes of all the employers associated with each other at the end of the year – except for employers for whom the reference year has not ended before the beginning of the year.

In addition, employers associated with each other must share the amount of the increase in payroll determined for a given year by filing an agreement to that effect with Revenu Québec.

#### Special rules in the case of a reorganization

Rules will be put in place so that the amount of the excess contribution to the Health Services Fund is not reduced simply because an employer succeeded other employers following a business reorganization.

## Introduction of incentives to foster the marine industry

Two new fiscal measures will be added to the existing refundable tax credit for the construction or conversion of ships.

The first measure will enable a Québec shipowner to set up a tax-free reserve to award the execution of construction, renovation and maintenance work on vessels of his fleet to a Québec shipyard.

Under the second measure, a Québec shipowner that awards work to a Québec shipyard will be able to claim an additional deduction of 50% for the depreciation of a vessel.

## MEASURES TO ENCOURAGE ACTIVE LIVING FOR SENIORS

### Enhancement of the tax credit for experienced workers

The tax legislation will be amended to provide that, as of the 2015 taxation year, the tax credit for experienced workers will be calculated on an experienced worker's first \$4,000 of eligible work income in excess of the first \$5,000 of such income.

### Introduction of a refundable tax credit for seniors' activities

The budget provides for the introduction of a refundable tax credit to support the participation of seniors in physical, artistic, cultural and recreational activities. This tax assistance will apply to eligible expenses paid as of June 5, 2014.

The tax credit will represent 20% of eligible expenses not exceeding \$200 a year and target seniors 70 and over with an individual income of \$40,000 or less.

#### Eligible expenses

An eligible expense of an individual for a particular taxation year will be any amount paid by the individual in the year to a person – other than a person that, at the time of the payment, is the operator of a private seniors' residence where the individual lives, or is related to the individual and does not hold a registration number assigned under the *Act respecting the*

*Québec sales tax* – to the extent that the amount is attributable to the cost of the individual's registration or membership in a recognized program of activities offered by the person.

To that end, the cost of registration or membership in the program offered by a person will include the cost to the person with respect to the program's administration, instruction, rental of required facilities, and uniforms and equipment that are not available to be acquired by a participant in the program for an amount less than their fair market value at the time, if any, they are so acquired.

However, the cost must not include the cost of accommodation, travel, food or beverages.

#### Recognized programs of activities

##### *Activities eligible for the tax credit*

To qualify for the tax credit, an activity must generally be:

- > engaged in weekly for at least eight consecutive weeks or for 5 consecutive days;
- > structured, that is, it must enable seniors to participate in an activity in a specific setting.

A physical activity must also enable seniors to develop or maintain their cardiorespiratory endurance, their muscular strength or endurance, their flexibility or their balance.

An artistic, cultural or recreational activity must enhance seniors' ability to develop or improve their dexterity, coordination, cognitive skills, social integration or psychological well-being.

##### *Examples of structured activities eligible for the tax credit*

#### Physical activities

- > Dance
- > Curling
- > Swimming
- > Tai chi
- > Aquafitness
- > Bowling

#### Artistic, cultural and recreational activities

- > Computers
- > Singing (e.g. choir)
- > Arts and crafts

- > Chess
- > Painting
- > Knitting

### **Application date**

The refundable tax credit for seniors' activities will apply to amounts paid after June 4, 2014 for the registration or membership of an eligible individual in a recognized program of activities, provided the amounts are attributable to activities that take place after that day.

## **MEASURES TO OFFSET THE BUDGETARY IMPASSE**

### **20% reduction in tax assistance intended for businesses**

A 20% reduction in rates is applied to some thirty business tax credits.

### **Refundable tax credit for technological adaptation services**

The rate will be reduced from 50% to 40%.

This amendment will apply to contracts entered into as of June 4, 2014.

### **Refundable tax credit for design**

The rate will be reduced from 15% to 12% and from 30% to 24%.

This change will apply to outside consulting contracts entered into on June 4, 2014 or after. It will also apply to the eligible salaries incurred by an eligible corporation after June 4, 2014 for designers and patternmakers it employs.

### **Refundable tax credits for the production of multimedia titles**

The rate will be reduced from 26.25% to 21% and from 37.1% to 30%.

These changes will apply to an eligible labour expenditure incurred after June 4, 2014 or regarding an eligible labour expenditure incurred under a contract entered into on June 4, 2014 or after, as the case may be.

### **Refundable tax credit for major employment-generating projects**

The rate will be reduced from 25% to 20%.

This change will apply regarding the eligible salary after June 4, 2014 under an eligible contract.

### **Refundable tax credit for job creation in the resource regions, the Vallée de l'aluminium and in Gaspésie and certain maritime regions of Québec**

#### *Processing activities in the resource regions*

The rate will be reduced from 10% to 9% for calendar year 2014 and to 8% for calendar year 2015.

#### *Vallée de l'aluminium*

The rate will be reduced from 20% to 18% for calendar year 2014 and to 16% for calendar year 2015.

#### *Gaspésie and certain maritime regions of Québec*

The rate will be reduced from 20% to 18% for calendar year 2014 and to 16% for calendar year 2015.

### **Refundable tax credit for job creation in Gaspésie and certain maritime regions of Québec in the fields of marine biotechnology, mariculture and marine products processing**

The rate applicable to the mariculture and marine biotechnology sectors will be reduced from 40% to 36% for calendar year 2014 and to 32% for calendar year 2015.

The rate that applies to the marine products processing sector will be reduced from 20% to 18% for calendar year 2014 and to 16% for calendar year 2015.

### **Refundable tax credit for resources**

The rates of the refundable tax credit for resources will be reduced by 20%. Accordingly, following this reduction, the rates of the refundable tax credit for resources will be as shown in [appendix 3](#).

This reduction in the rates of the refundable tax credit for resources will apply regarding eligible expenses incurred after June 4, 2014.

**Tax benefits relating to flow-through shares***Additional deductions for certain exploration expenses incurred in Québec*

The rates of the two additional deductions will be reduced proportionally to reduce the tax benefit tied to the additional deductions by a total of 20%. Accordingly, the deductions an individual may claim will be equal to 110% or 120%, as the case may be, for mining, oil or gas exploration expenses incurred in Québec.

*Additional deduction for certain issue expenses*

For the calculation of the additional deduction for certain issue expenses allowed the acquirers of flow-through shares, the limit of 15% of the proceeds of the issue of flow-through shares will be replaced with a limit of 12% of the proceeds of the issue of such shares.

*Application date*

These reductions will apply regarding flow-through shares issued after June 4, 2014. However, they will not apply regarding flow-through shares issued after June 4, 2014 where they are issued either further to a placement made no later than June 4, 2014 or pursuant to an interim prospectus receipt application or a prospectus exemption application, as the case may be, made no later than June 4, 2014.

**Refundable tax credit for international financial centres**

The rate will be reduced from 30% to 24%.

This change will apply to the eligible salary incurred by a qualified corporation regarding an eligible employee after June 4, 2014.

**Refundable tax credit relating to a new financial services corporation**

The rate will be reduced from 40% to 32%.

This change will apply regarding the eligible expenses incurred by an eligible corporation after June 4, 2014.

**Refundable tax credit for the hiring of employees by a new financial services corporation**

The rate will be reduced from 30% to 24%.

This change will apply regarding the eligible salary incurred by an eligible corporation regarding an eligible employee after June 4, 2014.

**Refundable tax credit pertaining to the diversification of markets of Québec manufacturing companies**

The rate will be reduced from 30% to 24%.

In addition, the cumulative limit of \$45,000 that applies to a corporation for the duration of this tax credit will be reduced to \$36,000.

This change will apply to a taxation year of a corporation beginning after June 4, 2014.

**Refundable tax credit to foster the modernization of the tourism accommodation offering**

The rate will be reduced from 25% to 20%.

This reduction in the rate of the tax credit will apply regarding an eligible expenditure incurred by an eligible corporation or by an eligible partnership after June 4, 2014.

However, it will not apply to such an expense incurred after June 4, 2014, but before July 1, 2015, if the eligible expenditure is incurred under an eligible contract entered before June 4, 2014.

*Change to the \$50,000 annual threshold*

The tax legislation will be amended so that the annual threshold of \$50,000 is replaced with a single threshold of \$50,000.

This change will apply to a taxation year of a corporation ending after December 31, 2013.

The threshold of \$50,000 of eligible expenses regarding which a corporation may claim the tax credit, for a taxation year, will reduce, in the first place, its eligible expenses and its share of the eligible expenditures of a partnership incurred no later June 4, 2014 or under an eligible contract entered into before June 4, 2014.



### **Refundable tax credit for Québec film and television production**

The rate will be reduced from 35% to 28% and from 65% to 52%.

These changes will apply regarding a film or television production for which an application for an advance ruling, or an application for a certificate, if an application for an advance ruling was not filed earlier, is submitted to the Société de développement des entreprises culturelles (SODEC):

- > after June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced on June 4, 2014;
- > after August 31, 2014, otherwise.

### **Refundable tax credit for film production services**

The rate will be reduced from 25% to 20% and from 45% to 36%.

These changes will apply regarding an eligible production or eligible small-budget production for which an application for an approval certificate is filed with SODEC:

- > after June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced on June 4, 2014;
- > after August 31, 2014, otherwise.

### **Refundable tax credit for film dubbing**

The rate will be reduced from 35% to 28%.

This change will apply regarding a production for which dubbing is completed after August 31, 2014.

### **Refundable tax credit for sound recording production**

The rate will be reduced from 35% to 28%.

This change will apply regarding an eligible property for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier, regarding such property, is submitted to SODEC:

- > after June 4, 2014 if SODEC considers that the work on the production of such property was not sufficiently advanced on June 4, 2014;

- > after August 31, 2014, otherwise.

### **Refundable tax credit for the production of shows**

The tax legislation will be amended to stipulate that:

- > the rate of the tax credit applicable to an eligible labour expenditure will be reduced from 35% to 28%;
- > the tax credit, for an eligible show, may at no time exceed \$1 million where the eligible show is a musical comedy and \$600,000 otherwise.

These changes will apply regarding a show for which an application for an advance ruling in relation to the initial eligibility period, or an application for a certificate if no application for an advance ruling was filed earlier regarding such period, is submitted to SODEC:

- > after June 4, 2014 if SODEC considers that the work on the production of such show was not sufficiently advanced on June 4, 2014;
- > after August 31, 2014, otherwise.

### **Refundable tax credit for book publishing**

The rate will be reduced from 35% to 28% and from 27% to 21.6%.

These changes will apply regarding a book or a book that is part of an eligible group of books for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier regarding such book or such eligible group of books, is submitted to SODEC:

- > after June 4, 2014 if SODEC considers that the work on the preparation of such book or such book that is part of an eligible group of books was not sufficiently advanced on June 4, 2014;
- > after August 31, 2014, otherwise.

### **Tax credit for the production of multimedia environments or events staged outside Québec**

The rate will be reduced from 35% to 28%.

This change will apply regarding a production for which an application for an advance ruling, or an application for a certificate if no application for an advance ruling was filed earlier, is submitted to SODEC:

- > after June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced on June 4, 2014;
- > after August 31, 2014, otherwise.

### **Refundable tax credit for on-the-job training periods**

The rate will be reduced from 30% to 24% and from 40% to 32%.

These changes will apply regarding an eligible expenditure incurred after June 4, 2014 in relation to an eligible training period beginning after June 4, 2014.

### **Refundable tax credit for manpower training in the manufacturing, forest and mining sectors**

The rate will be reduced from 30% to 24%.

This change will apply regarding an eligible training expenditure incurred under an eligible training contract entered into June 4, 2014 or after.

### **Other measures tightening tax assistance intended for businesses**

#### **Measures concerning scientific research and experimental development**

##### *20% reduction in tax assistance*

The tax legislation will be amended so that, on the one hand, the rate of the R&D salary tax credit is reduced to 14% and, on the other, the rate of the R&D university tax credit, the tax credit concerning precompetitive research carried out in private partnership and the tax credit concerning contributions paid to an eligible research consortium is reduced to 28%.

In the case of the R&D salary tax credit, regarding which a Canadian-controlled corporation may benefit from a rate varying from 17.5% to 37.5% depending on the amount of its assets, this rate will be reduced to range from 14% to 30%, according to the same terms as currently obtain.

This change will apply to R&D expenditures incurred after June 4, 2014 or regarding R&D expenditures incurred under a research contract entered into June 4, 2014 or after.

#### *Elimination of the increase from 17.5% to 27.5% in the rate of the refundable tax credit for R&D salary in relation to biopharmaceutical activities*

This increase in the rate of the tax credit for R&D salary will be eliminated as of June 4, 2014. Accordingly, Investissement Québec will not accept applications for an initial certificate submitted by a corporation as of June 4, 2014.

However, a corporation previously recognized by Investissement Québec as an eligible biopharmaceutical corporation may continue to benefit from the increase in the rate of the refundable tax credit for R&D salary for its taxation year including June 4, 2014.

However, like the reduction in assistance applicable to all refundable tax credits for R&D, the current increase will be reduced by 20%.

The rate of the tax credit will therefore be reduced to 22%.

In the case of a Canadian-controlled corporation, the increase in the rate of this tax credit will vary from 22% to 30%, according to the same terms as currently obtain.

This change will apply to R&D expenditures incurred after June 4, 2014 or regarding R&D expenditures incurred under a research contract entered into June 4, 2014 or after.

#### **Refundable tax credit for the development of e-business**

The rate of this tax credit will be reduced from 30% to 24%.

This change will apply to salaries incurred regarding an eligible employee after June 4, 2014.

In addition, the annual cap of \$20,000 per employee will be maintained at that amount.

### **Tax credit for investments relating to manufacturing and processing equipment**

*Elimination of the increase in the rate of the tax credit for investments for certain administrative regions and RCMs and reduction of the base rate and the increases of the rate of the tax credit for investments*

The base rate of the tax credit for investments will be reduced to 4%. Where a qualified property is acquired for use mainly in a remote zone, the increased rate may reach 32%. Where a qualified property is acquired for use mainly in the eastern part of the Bas-Saint-Laurent administrative region, the increased rate may reach 24%. Where a qualified property is acquired for use mainly in an intermediate zone, the increased rate may reach 16%. Otherwise, the increased rate may reach 8%.

*Elimination of the additional increase in the rate of the tax credit for investments for manufacturing SMEs*

The additional increase of 10 percentage points in the rate of the tax credit for investments that applies regarding expenses eligible for the additional increase of a qualified corporation, for a taxation year, will be eliminated.

#### *Application date*

These changes to the tax credit for investments will apply regarding eligible expenses incurred after June 4, 2014.

However, these changes will not apply regarding eligible expenses incurred after June 4, 2014, but before July 1, 2015, to acquire a qualified property no later than June 4, 2014 or to acquire a qualified property after June 4, 2014, where:

- > the qualified property is acquired in accordance with a written obligation entered into no later than June 4, 2014;
- > the qualified property is a property whose construction by the qualified corporation, or by the qualified partnership, or on its behalf, was underway June 4, 2014.

### **Refundable tax credit relating to buildings used in the course of manufacturing or processing activities by a Québec manufacturing SME**

The tax credit for buildings will be eliminated as of June 5, 2014.

However, a qualified corporation, or a qualified partnership, may continue to receive the tax credit for buildings regarding its expenditures relating to a qualified building, or its share of the expenditures relating to a qualified building incurred after June 4, 2014, but before July 1, 2015, if such expenditures are incurred to acquire a building, or an addition to a building, no later than June 4, 2014 or for such an acquisition after June 4, 2014 where:

- > such property is acquired in accordance with a written obligation entered into no later than June 4, 2014;
- > construction of such property by the qualified corporation, or by the qualified partnership, or on its behalf, was underway June 4, 2014.

### **Refundable tax credit for the integration of information technologies in manufacturing SMEs**

In the context of the revision of preferential measures for businesses, Investissement Québec will stop issuing the certificates necessary to receive the refundable tax credit for the integration of information technologies in manufacturing SMEs.

More specifically, Investissement Québec will not accept applications for an IT integration contract certificate submitted by a corporation as of June 4, 2014 and for the entire period of the revision of this fiscal measure.

### **Changes to certain specific taxes**

#### **Increase in the specific tax on tobacco products**

An increase of 2 cents per cigarette in the specific tax on tobacco products will apply as of midnight on June 4, 2014.

### **Standardization of the rates of the specific tax on alcoholic beverages**

As of August 1, 2014, the applicable rates, depending on whether beer or another alcoholic beverage is involved, will be the same regardless of where such beverages are consumed.

This standardization will be achieved by reducing the rates applicable to products sold for consumption on-site and raising those applicable to products sold for consumption at home.

## **OTHER MEASURES**

### **Amendment to ensure the fairness of the mechanism for splitting retirement income between spouses**

The existing rules give preferential tax treatment to individuals who receive a life annuity under a registered pension plan, because they can use the mechanism for splitting retirement income before normal retirement age (65 years old).

The tax legislation will be amended to provide that, for the income splitting mechanism to be applicable in a particular taxation year, the person whose income is split must have reached 65 years of age before the end of the year, or, if the person died or ceased to be resident in Canada in the year, on the date of his or her death or on the date on which he or she ceased to be resident in Canada.

This amendment will apply as of taxation year 2014.

### **Changes to government assistance for capitalization**

The applicable rate for the purposes of the calculation of the tax credit will be reduced from 50% to 45% for shares acquired after February 28, 2014.

Accordingly, the maximum amount an individual may deduct in calculating his tax otherwise payable for a given taxation year, for shares acquired during a capital-raising period beginning in such year, will decline from \$2,500 to \$2,250.

### **Deferral of changes to the refundable tax credit for resources announced in the March 20, 2012 Budget Speech**

In the March 20, 2012 Budget Speech, reductions in the rates of the refundable tax credit for resources were announced, which were to apply regarding eligible expenses incurred after December 31, 2013.

Since a commission will be set up to study Québec's tax system and various tax assistance measures will be analyzed, it is appropriate to once again defer the application of the reduction of the rates of the tax credit and the conditional improvement to these rates announced in the March 20, 2012 Budget Speech.

### **Transfer to Revenu Québec of responsibilities relating to the application of the *Mining Tax Act***

The responsibilities relating to enforcing the *Mining Tax Act*, currently held by the Minister of Energy and Natural Resources, will be assumed, as of April 1, 2015, by the Minister of Revenue.

## **MEASURES RELATING TO FEDERAL TAX LEGISLATION AND REGULATIONS**

### **Harmonization with certain measures of the federal budget of February 11, 2014**

The tax legislation and regulations will be amended to incorporate some of the measures announced in the 2014 federal budget.

These changes will apply on the same dates as those for the purposes of the federal measures with which they are harmonized.

#### **Measures relating to income tax**

##### *Measures retained*

Québec's tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the measures relating to:

1. the addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses;

2. the introduction of a tax credit for volunteers participating in search and rescue activities, it being understood that the tax credit conversion rate will be 16%;
3. to the property used in the course of carrying on a farming business and a fishing business;
4. the tax deferral granted to certain farmers located in regions hit by drought, flooding or excessive moisture;
5. the inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income;
6. the elimination of graduated rate taxation for certain trusts and estates;
7. the elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules;
8. the extension from 5 to 10 years of the deferral period of gifts of ecosensitive land made by an individual;
9. donations in the context of death;
10. donations of cultural property acquired under a gifting arrangement that is a tax shelter;
11. the registration of organizations or associations that receive gifts from foreign states that support terrorism;
12. the change to the anti-avoidance rule concerning captive insurance corporations;
13. the addition of new eligibility conditions to the exception relating to offshore regulated financial institutions;
14. the change to the anti-avoidance rule currently contained in the thin capitalization rules;
15. the increase in the thresholds determining how frequently employers must remit withholdings at source;
16. the changes concerning the accelerated capital cost allowance for clean energy generation equipment to include water-current energy equipment and gasification equipment.

The following measures will also be retained for the purposes of Québec's tax system:

- > the measure relating to the inclusion of income paid to an amateur athlete trust for the purpose of determining the maximum amount deductible on account of registered retirement savings plans;
- > the measure relating to the cap on transfers of pension benefits to registered retirement savings plans where the amount of accumulated benefits has been reduced in particular because of the under-funding of the registered pension plan.

### *Measures not retained*

Some measures have not been retained. These measures relate to:

- > the increase in the maximum amount of expenditures eligible for the adoption expense tax credit;
- > the extension of the mineral exploration tax credit for flow-through share investors;
- > the automatic determination of the GST/HST credit;
- > consequential amendments arising from the elimination of graduated rate taxation for certain trusts and estates;
- > the extension from 5 to 10 years of the deferral period of gifts of ecosensitive land made by a corporation;
- > the addition of a specific anti-avoidance rule concerning tax withholding on interest payments.

### **Measures relating to the GST/HST**

Changes will be made to the Québec sales tax (QST) system to incorporate, with adaptations on the basis of its general principles, the federal measures relating to the GST/HST election for closely related persons and those seeking to strengthen compliance with GST/HST registration.

### **Tax treatment of awards paid under the Offshore Tax Informant Program**

The Canada Revenue Agency launched the Offshore Tax Informant Program on January 15, 2014.

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the federal amendments relating to the tax treatment applicable to awards paid under the Offshore Tax Informant Program.

The amount of the tax withholding at source will be equal to 20% of the amount paid.

### **Harmonization with certain technical measures made public on April 8, 2014**

#### **Measures relating to income tax**

The announced measures relating to income tax deal with the Canadian Film or Video Production Tax Credit and the communication of information.

These measures will not be retained because Québec's tax system has its own features regarding the tax assistance granted in relation to a film or television production and regarding the communication of information.

#### **Measures relating to the GST/HST**

Québec's tax system will be changed to incorporate, with adaptations on the basis of its general principles and specific features arising from the provincial context, the federal measures:

- > making technical changes to the provisions concerning real property to ensure consistent treatment of different types of housing and see that the special valuation rule for subsidized housing applies as it should within the framework of the rules on the place of supply as in the context of a change in the tax rate;
- > clarifying the application of GST/HST public service body rebates in relation to non-profit organizations that operate certain health care facilities;
- > zero-rating precious metals refining services supplied to non-resident persons not registered for the purposes of the GST/HST system;
- > simplifying the tax treatment of the temporary importation of certain railcars;
- > codifying the longstanding relieving provisions related to the tax treatment upon

re-entry into Canada of Canadian goods on which the GST/HST has already been paid;

- > updating certain legislative references stipulated in the regulations, other than the reference stipulated in the Taxes, Duties and Fees (GST/HST) Regulations, which has no equivalent in the QST system.

## **MISCELLANEOUS MEASURES**

### **Indexing of the parental contribution for childcare services**

The government is announcing that the indexing of the reduced contribution for educational childcare services and the rate for childcare at school will be tied to the rate of growth in the cost of childcare services. Therefore, as of October 1, 2014, the parental contribution will be raised to \$7.30 a day.

### **Renewal of the local investment funds through December 31, 2015**

Under current terms and conditions, the local investment funds (LIF) will expire on December 31, 2014 and the local development centres (CLD) should no longer be able to provide financial assistance as of January 1, 2015.

However, to guarantee continuity in the support to businesses offered by the CLDs, the budget is announcing:

- > renewal of the LIFs until December 31, 2015;
- > streamlining of the terms and conditions for the LIFs to support future entrepreneurs in their efforts to acquire businesses in all regions of Québec.

### **Fighting tax evasion and unreported work**

#### **Implementation of the attestation from Revenu Québec respecting private construction sites**

As of January 1, 2015, contractors will be required to obtain an attestation from Revenu Québec and provide it to the recognized client before entering into certain private construction contracts. These requirements will apply:

- > where the cumulative amount of contracts between a recognized client and a given contractor exceeds \$25,000 in a calendar year;
- > to all levels of subcontracting.

A contractor can be both a recognized client and a subcontractor, and must meet the respective requirements of these statuses.

The recognized client will be required to validate, on Revenu Québec's website, the authenticity of the attestation obtained from the contractor.

The attestation from Revenu Québec will be valid for contracts entered into during a 90-day period as of the date on which it is issued.

At the end of the 90-day validity period, the contractor will be required to obtain a new attestation from Revenu Québec in order to enter into new contracts.

### **Closer monitoring of at-risk registrations for the Québec sales tax**

The government is announcing that, to more effectively identify companies that commit false-billing fraud, Revenu Québec will monitor at-risk registrations more closely by:

- > increasing the number of companies audited in the construction sector;
- > improving selection criteria for at-risk files;
- > inspecting and auditing certain companies to ensure they actually carry out economic activities.

### **Tax audits by Revenu Québec**

#### **Installation of sales recording modules in bars and resto-bars**

Given the success of Projet Resto, the government is announcing that sales recording modules (SRM) will be installed in bars and resto-bars as of June 1, 2015.

The government will bring in a subsidy program to fund the acquisition, installation and updating of the equipment necessary for their installation. The program will be similar to the one available as part of Projet Resto.

The particulars of the installation of SRMs in the bar and resto-bar sector will be specified at a later date.

### **Implementation of the attestation from Revenu Québec for employment agencies**

Certain unreported-work networks sometimes set themselves up as employment agencies. The leaders of these networks exploit workers who often know little about their rights.

This stratagem enables them, in particular, to evade source deductions and social contributions paid by workers.

The government is announcing the following terms and conditions relative to this measure.

The attestation from Revenu Québec will be mandatory beginning on January 1, 2015, where the cumulative amount of the contracts between the client company and a particular employment agency exceeds \$2,500 in the calendar year.

The other application details of the measure will be announced at a later date, after consultation with representatives from the sector.

### **A reduction in tax expenditures**

#### **Confirmation of certain measures announced since September 2012**

The budget confirms that the tax holiday for large investment projects (THI) will be maintained, as will the improvement to the tax credit to foster the modernization of the tourism accommodation offering in the regions.

## APPENDIX 1

Principal parameters of the additional deduction for transportation costs of remote manufacturing SMEs <sup>(1)</sup>

Territories	Details of calculation by zone				
	Rate by zone	Cap per corporation			
<b>Non-eligible zone</b>					
– Montréal census metropolitan area	No deduction				
– Québec census metropolitan area					
– Gatineau census metropolitan area					
<b>Intermediate zone</b>					
– Capitale-Nationale <sup>(2),(3)</sup>	– Chaudière-Appalaches <sup>(3)</sup>	2% of the corporation's gross income	Maximum of \$100 000 per corporation		
– Lanaudière <sup>(3)</sup>	– Laurentides <sup>(3)</sup>				
– Montérégie <sup>(3)</sup>	– Centre-du-Québec				
– Western part of Estrie <sup>(4)</sup>	– Southern part of Mauricie <sup>(5)</sup>				
– Papineau RCM (Outaouais)					
<b>Remote zone</b>					
– Bas-Saint-Laurent	– Saguenay–Lac-Saint-Jean	4% of the corporation's gross income	Maximum of \$250 000 per corporation		
– Abitibi-Témiscamingue	– Côte-Nord <sup>(6)</sup>				
– Nord-du-Québec <sup>(7)</sup>	– Gaspésie <sup>(8)</sup>				
– Eastern part of Estrie <sup>(9)</sup>	– Antoine-Labelle RCM (Laurentides)				
– Agglomeration of La Tuque and Mékinac RCM (Mauricie)	– Pontiac and Vallée-de-la-Gatineau RCMs (Outaouais)				
– Charlevoix-Est RCM (Capitale-Nationale)					
<b>Special remote zone</b>					
– Municipality of L'Île-d'Anticosti	– Agglomeration of Îles-de-la-Madeleine			6% of the corporation's gross income	No cap per corporation
– Golfe-du-Saint-Laurent RCM (Côte-Nord)	– Kativik Regional Government (Nord-du-Québec)				

(1) A manufacturing SME will benefit fully from the additional reduction if at least 50% of its activities consist in manufacturing or processing activities and its paid-up capital calculated on a consolidated basis is \$10 million or less.

(2) Excluding the Charlevoix-Est RCM, which is located in the remote zone.

(3) Excluding the municipalities that are part of the Montréal, Québec or Gatineau census metropolitan area (CMA).

(4) Including the city of Sherbrooke as well as the Memphrémagog, Le Val-Saint-François, Les Sources and Coaticook RCMs.

(5) Including the cities of Trois-Rivières and Shawinigan as well as the Les Chenaux and Maskinongé RCMs.

(6) Excluding the Le Golf-du-Saint-Laurent RCM and the municipality of L'Île-d'Anticosti.

(7) Excluding the Kativik Regional Government.

(8) Including the Avignon, Bonaventure, La Côte-de-Gaspé, La Haute-Gaspésie and Le Rocher-Percé RCMs.

(9) Including the Le Granit and Le Haut-Saint-François RCMs.



**APPENDIX 2**

<b>List of jobs covered by the holiday from the HSF contribution for SMEs</b>		
- Physicists and astronomers	- Metallurgical and materials engineers	- Civil engineering technologists and technicians
- Chemists	- Mining engineers	- Mechanical engineering technologists and technicians
- Geoscientists and oceanographers	- Geological engineers	- Industrial and manufacturing engineering technologists and technicians
- Meteorologists and climatologists	- Petroleum extraction and refining engineers	- Electronic engineering and electrical technologists and technicians
- Other professionals in the physical sciences	- Aerospace engineers	- Industrial instruments technicians and mechanics
- Biologists and similar scientific personnel	- Computer engineers	- Avionics and aircraft electrical apparatus and instruments mechanics, technicians and controllers
- Forest sciences professionals	- Software design engineers	- Architectural technologists and technicians
- Agronomists, agricultural consultants and specialists	- Other engineers	- Industrial designers
- Civil engineers	- Interactive media programmers and developers	- Drafting technologists and technicians
- Mechanical engineers	- Web designers and developers	- Geomatic and meteorological technical personnel
- Electrical and electronics engineers	- Chemical technologists and technicians	- Architects
- Chemical engineers	- Geological and mineralogical technologists and technicians	- Urbanists and land use planners
- Industrial and manufacturing engineers	- Biological technologists and technicians	- Mathematicians, statisticians and actuaries
- Computer analysts and consultants	- Forest sciences technologists and technicians	- Computer systems evaluators
- Database analysts and data administrators	- Computer network technicians	

**APPENDIX 3****Rates of the refundable tax credit for resources  
before the 20% reduction**

(per cent)

	Corporation not operating a mineral resource or oil or gas well <sup>(1)</sup>	Other corporation
Tax credit regarding eligible expenses:		
– relating to mining resources, oil and natural gas:		
▪ in the Mid-North or Far North	38.75	18.75
▪ elsewhere in Québec	35.00	15.00
– relating to renewable energy and energy conservation	35.00	30.00
– relating to other natural resources (cut stone)	15.00	15.00

(1) Such corporation must not be part of an associated group within which a member operates a mineral resource or an oil or gas well.