

Tax Bulletin

PROVINCIAL BUDGET
March 13, 2008

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STAYING THE COURSE DESPITE THE STORM

This would seem to be the intention of Quebec Finance Minister, Monique Jérôme-Forget. Drawing inspiration from the discipline and transparency of her first budget, the budget tabled today by the Minister is marked by prudence and discipline.

Despite fears of an economic slowdown, the Minister intends to maintain a balanced budget in 2008-2009 by using \$1.37 billion of the budgetary reserve created in recent years.

The budget provides for numerous measures supporting families, seniors, informal caregivers and workers.

Businesses will benefit from tax and capital tax relief. Several tax credits are being created or improved. Tax assistance for research and development is undergoing an important reform.

Finally, the government is launching an extensive offensive to improve the administration of the fiscal laws and, more specifically, to counter aggressive tax planning schemes.

These proposals are summarized below.

Unless otherwise stated, these measures apply to fiscal years ending after March 13, 2008 for businesses and as of the 2008 calendar year for individuals.

BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Tax credit for manufacturing and processing equipment

None

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Eligible corporation

A corporation is eligible if all the corporations in a group to which it is associated waive the tax credit for job creation in Quebec's resource regions (barring exceptions)

Does not apply to aluminium producing or oil refining corporations

Eligible investments

Manufacturing and processing equipment acquired after March 13, 2008 and before January 1, 2016

Tax credit rate

- Base rate: 5%
 - Rate increases depending on where the investment is made if the corporation's paid-up capital does not exceed \$250M
 - 20% in intermediate zones
 - 30% Bas-Saint-Laurent region
 - 40% in remote zones

Refundable credit

If the corporation's paid-up capital does not exceed \$250M; progressive reduction between \$250M and \$500M

Credit carry over

Non-refundable portion in excess of tax and capital tax payable for the year can be carried over

- Back: 3 years
- Forward: 20 years

Intermediate zones

- Saguenay–Lac-Saint-Jean
- Mauricie
- La Vallée-de-la-Gatineau RCM and Pontiac RCM
- Antoine-Labelle RCM

Remote zones

- Abitibi-Témiscamingue
- Côte-Nord
- Nord-du-Québec
- Gaspésie–Îles-de-la-Madeleine

BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Tax credit for job creation in resource regions

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Processing activities

- Tax credit rate: 30%
 - Expiration: 2009

- Tax credit rate: 30%
 - Expiration: 2010
 - Condition: not claim tax credit for purchases of manufacturing and processing equipment

Vallée de l'aluminium

- Tax credit rate: 30%
 - Expiration: 2009

- Tax credit rate: 30%
 - Expiration: 2010
 - Condition: not claim tax credit for purchases of manufacturing and processing equipment
- Tax credit rate: 20% (new reference calendar year)
 - Expiration: 2015
 - Starting in 2011, possibility to claim 20% credit for increase in payroll and new tax credit for purchases of manufacturing and processing equipment
 - Possibility to benefit from both these credits in 2008, 2009 and 2010 if the 30% credit is waived

Gaspésie and certain maritime regions of Québec

- Tax credit rate: 40%
 - Expiration: 2009

- Tax credit rate: 40%
 - Expiration: 2010
 - Condition: not claim tax credit for purchases of manufacturing and processing equipment
- Tax credit rate: 20% (new reference calendar year)
 - Expiration: 2015
 - Starting in 2011, possibility to claim 20% credit for increase in payroll and new tax credit for purchases of manufacturing and processing equipment
 - Possibility to benefit from both these credits in 2008, 2009 and 2010 if the 40% credit is waived

BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Special cases of marine biotechnology and mariculture

- Concept of certified business: currently restricted to the marine resources development and wind-power sectors
- Tax credit rate: 40%
 - Expiration: 2009

- Concept of certified business: broadened to all manufacturing activities as of 2008 for the Gaspésie-Îles-de-la-Madeleine region
- Tax credit rate: 40%
 - Expiration: 2015
 - Possibility to claim 40% credit for increase in payroll and new tax credit for purchases of manufacturing and processing equipment

Tax on capital

Manufacturing corporations

None

Deduction added that results in elimination of tax on capital for a corporation at least 50% of whose activities consist of manufacturing and processing activities

None

Partial deduction added for corporations where percentage of manufacturing and processing activities is between 20% and 50%

Applicable as of March 13, 2008

Credit equal to 15% of eligible investments in manufacturing and processing equipment

Capital tax credit for eligible investments made after March 13, 2008 eliminated

Improvement to the refundable tax credit for R&D salary

Increased credit of 37.5% for SMEs on first \$2M of eligible R&D spending

- Spending limit increased to \$3M
- Applicable as of March 14, 2008

Refundable tax credit for private partnership pre-competitive R&D

Relaxation regarding private partners

Credit for partnerships consisting solely of private partners

- Public partners no longer disqualify a partnership agreement for the tax credit provided there are at least two private partners
- Applicable to expenses incurred in connection with partnerships with an eligibility certificate issued after March 13, 2008

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BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Partners that deal at a distance

Eligibility of a partnership agreement conditional on the absence of related partners in the partnership

- Relaxation of rules to ensure that partnership includes partners that deal at a distance
- Applicable for taxation years ending after March 13, 2008

R&D contract awarded to an eligible university entity, an eligible public research centre or an eligible research consortium

R&D spending incurred in the course of such a research contract only eligible for R&D private partnership credit

R&D spending incurred in the course of such a research contract now eligible for:

- R&D private partnership or R&D salary credit if spending incurred between March 24, 2006 and March 13, 2008 (contracts concluded during this period)
- R&D salary or university R&D credit if spending incurred after March 13, 2008 in connection with contracts concluded after that date

Administrative formalities

Favourable advance ruling to be obtained from Revenu Québec

- Obligation to obtain advance ruling abolished
- Obligation to file certain information regarding agreement with income tax return

Eligible R&D expenses

Contribution rules limiting eligible expenses for various R&D credits

Relaxation of contribution rules

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BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Tax credit for the development of e-business

None

Refundable tax credit of 30% of payroll expenses incurred by companies in the information technology sector: +

- Annual limit: \$20,000 per employee
- Obtain eligibility certificate from Investissement Québec
- Elect to claim this credit instead of the following (joint election with associated corporations):
 - Tax credit relating to salaries for an innovative project
 - Tax credit relating to field of biotechnology
 - Tax credit for major employment generating projects
 - Refundable credit for the employer contribution to the Health Services Fund

Applicable for payroll expenses incurred after March 13, 2008 until December 31, 2015

Tax credit for francization in the workplace

None

Refundable tax credit of 30% of certain training expenditures relating to francization in the workplace of an immigrant +

Applicable for expenditures incurred and training started after March 13, 2008 and before January 1, 2012

Tax credit for on-the-job training periods

Improvement to the tax credit for hiring trainees who are handicapped persons or immigrants

Credit is 30% if the eligible employer is a corporation and 15% in other cases

Rate increased to 40% and 20% respectively +

Increase in certain caps on eligible expenditures for handicapped trainees

- Limit is \$750 per week if the eligible trainee is enrolled in a prescribed program and \$600 per week for any other eligible trainee

- Caps increased to \$1,050 and \$750 respectively

BUSINESSES

CURRENT MEASURES

PROPOSED MEASURES

Culture

Tax credit for the production of shows

- Eligible expenses for salary of a supervisor limited to maximum ranging between 10 and 20 hours to supervise a trainee

- Maximum number of hours of supervision doubled
- Applicable for training period starting after March 13, 2008

Refundable tax credit:

- 29.1667% of eligible labour expenditures
- Limited to 45% of the production expenses of the show (maximum: \$750,000)
- Eligible shows: musical, dramatic, comedy, mime or magic show

Rate and cap of the refundable tax credit reduced where total assets of the corporation producing the show (and associated corporations) are greater than \$50M -

Eligible shows broadened: +

- Circus, aquatic and ice shows

Applicable for applications filed with SODEC after May 31, 2008

Inter-provincial co-production

Refundable tax credit for film or television production costs in the case of inter-provincial co-productions

Clarification of rules relating to inter-provincial co-productions (conditions to satisfy and advance ruling requests) -

Applicable for applications filed with SODEC after March 13, 2008

Entertainment expenses

50% limit with respect to entertainment expenses in calculating tax credits in the cultural field

50% limit abolished +

Application is declaratory

Fiscal periods

Can choose different fiscal period ends for provincial and federal tax purposes

- Fiscal period end date for provincial tax purposes must be synchronized with the federal -
- Applicable for fiscal periods in progress on December 20, 2006 or after that date
- Late filing penalties and interest resulting from this measure are applicable six months after the day the bill giving effect to this amendment is assented to

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES	
Stock options – employees of Canadian-controlled private corporations eligible for refundable R&D tax credit	Deduction equal to 25% of taxable benefit	Deduction increased to 50% regarding stock options of SME carrying out innovative activities in Quebec: <ul style="list-style-type: none"> Whose assets (including associated corporations) are less than \$50M, and Which benefited from a refundable R&D tax credit in the year or any of the previous three years Applicable to stock options granted after March 13, 2008	+
Meal expenses for commission employees	No meal expense deduction unless commission employee is away from the employer's local municipal territory or metropolitan area for not less than 12 hours	Restriction eliminated	+
Home support for elderly persons			
Tax credit rate	25%	30%	+
Expense limit	\$15,000	<ul style="list-style-type: none"> Independent seniors: \$15,600 Dependent seniors: \$21,600 	+
Reduction of tax credit	None	3% on every dollar of family income > \$50,000	–
Medical expenses	Eligible expenses	Restrictions for certain expenses	–
Retirees			+
Amount with respect to age	\$2,200 per person	Indexed as of 2009	
Amount for retirement income	\$1,500	<ul style="list-style-type: none"> 2009: \$1,750 2010: \$2,000 2011: Indexed 	
Refundable tax credit for respite expenses of informal caregivers	None	<ul style="list-style-type: none"> Maximum credit: \$1,560 30% of expenses (maximum \$5,200) for specialized respite services respecting the care and supervision of a person who has a significant disability Reduced by 3% on every dollar of family income > \$50,000 	+
Infertility treatment	Refundable tax credit rate: 30% of eligible expenses up to \$20,000 of expenses	Refundable tax credit increased to 50%	+

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES	
Adoption expenses	Refundable tax credit rate: 30% of eligible expenses up to \$20,000 of expenses	<ul style="list-style-type: none"> ▪ Refundable tax credit increased to 50% ▪ Applicable to judgements rendered or certificates remitted with respect to the adoption of a child after December 31, 2007 	+
Child care expenses			+
<i>Refundable tax credit</i>	Rates between 26% and 75% on the basis of net family income: <ul style="list-style-type: none"> ▪ < \$30,795: 75% ▪ Between \$30,795 and \$85,535: diminishing balance ▪ > \$85,535: 26% 	New rate table: <ul style="list-style-type: none"> ▪ < \$30,795: 75% ▪ Between \$30,795 and \$100,550: diminishing balance ▪ > \$100,550: 26% As of 2009	
<i>Advance payments</i>	Advance payments based on rate table	<ul style="list-style-type: none"> ▪ Rate table amended to take account of new credit rates ▪ Payments by direct deposit compulsory ▪ As of 2009 	
Workers			+
<i>Deduction for workers</i>	Not indexed	Indexed as of 2009	
<i>Exemption for emergency services volunteers</i>			
<i>Tax credit for holders of a taxi driver's or owner's permit</i>			
Work premiums			+
<i>Advance payments</i>	Only households with children	<ul style="list-style-type: none"> ▪ Expanded to households without children ▪ As of 2009 	
<i>People with a severely limited capacity for employment</i>	None	Work premiums adapted for people with a severely limited capacity for employment	

CONSUMPTION TAXES

CURRENT MEASURES

PROPOSED MEASURES

Measures to combat tobacco smuggling

Prohibition on carrying out manufacturer services

Person who holds a manufacturer's permit can manufacture, produce, mix, prepare or package tobacco for himself or another person

- Person who holds a manufacturer's permit cannot manufacture, produce, mix, prepare or package tobacco for another person who does not hold a manufacturer's permit
- Comes into force on the date the bill giving effect to it is assented to

Broadening of the definition of the expression raw tobacco

Raw tobacco: tobacco leaves that have not been processed beyond the drying stage and fragments of such tobacco leaves

- Raw tobacco: also means any form of tobacco used in the making tobacco products intended for consumption
- Comes into force on the date the bill giving effect to it is assented to

Prohibition on purchasing or taking delivery of raw tobacco

Sale or delivery of raw tobacco in Quebec to a person who does not hold one of the requisite permits is prohibited

- Purchasing or taking delivery of raw tobacco in Quebec from a person who does not hold the requisite permits is prohibited
- Comes into force on the date the bill giving effect to it is assented to

Registers and reports by an importer

Person who stores or carries tobacco must keep certain records and file reports

- Importers also included in this requirement
- Comes into force on the date the bill giving effect to it is assented to

OTHER MEASURES

CURRENT MEASURES

PROPOSED MEASURES

Aggressive tax planning (ATP)

Current tools for combating ATP schemes include anti-avoidance provisions, penalty regime and disclosure mechanisms

Review of the legislative tools available to Quebec tax authorities to combat ATP

Measures to improve the administration of the fiscal laws

Tighter control regarding persons that have breached their tax obligations

Minister's power to required security or to suspend, revoke or refuse to issue or renew a permit or registration in certain situations

- Broadening of situations where Minister can exercise power
- Comes into force on the date the bill giving effect to it is assented to

OTHER MEASURES

CURRENT MEASURES

PROPOSED MEASURES

Use of a computer hardware in the course of an audit, inspection or investigation

Revenu Québec can audit or examine the supporting documents and registers of a person in the course of an audit, inspection or investigation

- Right to examine extended to use of person's computer hardware
- Comes into force on the date the bill giving effect to it is assented to

HARMONIZATION MEASURES
FEBRUARY 26, 2008 FEDERAL BUDGET

FEDERAL MEASURES

QUÉBEC

Capital cost allowance (CCA)

Improvement of CCA rates for certain acquisitions of the following:

Harmonized

+

- Manufacturing and processing (Class 43)
- Production of clean energy
- Railway locomotives
- Carbon dioxide pipelines and ancillary equipment

Tax-free savings accounts (TFSA)

Introduction of TFSA

Harmonized

+

Eligible dividends***Gross-up rate***

45% gross-up rate reduced as follows:

Harmonized

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- January 1, 2010: 44%
- January 1, 2011: 41%
- January 1, 2012: 38%

Credit rate

Credit of 19% of grossed-up dividend reduced as follows:

No changes to the Québec tax credit rate

- January 1, 2010: 18%
- January 1, 2011: 16.5%
- January 1, 2012: 15%

Registered education savings plans (RESP)***Contribution time limits and duration***

Time limits and duration of RESPs extended by 10 years

Harmonized

+

Educational assistance payments (EAP)

Six-month period for making withdrawals after an individual ceases to be enrolled in a qualifying program

Harmonized

HARMONIZATION MEASURES FEBRUARY 26, 2008 FEDERAL BUDGET

	FEDERAL MEASURES	QUÉBEC	
Registered disability savings plan (RDSP)	Tightening of criteria before mandatory collapse of plan	Harmonized	+
Gifts of publicly-traded securities to registered charities	Exemption from taxable capital gains on gifts of non-publicly traded securities exchangeable for a public entity security	Harmonized	+
Donation of medicines to developing countries	Broadening of eligible charities	Harmonized	+
Excess corporate holdings by private foundations	<ul style="list-style-type: none"> ▪ Relief regarding private corporation securities held as at March 18, 2007 ▪ Technical changes to holding rules 	Harmonized	+
Tax credit for medical expenses	Addition and clarification regarding certain expenses eligible for the tax credit for medical expenses	Harmonized	+
Deduction for inhabitants of northern regions	Increase in base amount to \$8.25 per day (\$16.50 if claimed by only one member of household)	Harmonized	+
Taxable Canadian property (TCP)			+
<i>Withholding on disposition of taxable Canadian property by a non-resident</i>	<ul style="list-style-type: none"> ▪ No withholding on sale of treaty protected property ▪ Special rules for dispositions between related persons 	Harmonized	
<i>Reasonable inquiry protection for purchasers</i>	Expansion of the scope of reasonable inquiry protection	Harmonized	
<i>Exemption of non-residents from filing income tax returns</i>	When certain criteria are satisfied, no filing requirement on disposition of TCP	Harmonized	
<i>Consumption taxes</i>	New measures concerning health, long-term residential care facilities and property leases for wind and solar power equipment	Harmonized	

Your Raymond Chabot Grant Thornton specialist can help you benefit from these new measures. Do not hesitate to call us.

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