

2016-2017 Budget: More robust measures to spur business growth would have been desirable

Tax Bulletin

Provincial budget, March 17, 2016

This third budget of Philippe Couillard's government is balanced, like the previous one. While it is commendable to have a balanced budget which seeks to align living within our means and stimulating economic growth, more weight should have been given to the latter option to avoid further hampering the growth potential of Quebec and its wealth creators.

Raymond Chabot Grant Thornton would have liked to see more new measures to support the development of wealth creators, such as an innovation tax credit or elimination of income tax on SMEs (on the first \$500,000 in income).

Education: at the heart of priorities

Raymond Chabot Grant Thornton is pleased to see additional investments in education. Improving student services by some \$500M over the next three years is an effective way to support the success of future generations and tomorrow's leaders who'll be heading our economic drivers, our businesses.

Good measures for businesses but no reduction in the general tax rate

Starting this year, SMEs will receive payroll tax relief amounting to \$94M. In 2020-2021, the relief will amount to \$385M, which is \$101.5M more than previously announced. We applaud the additional reduction in the Health Services Fund (HSF) contribution, for example, as well as the following measures:

- \$135M in relief by 2021 for companies that market a Quebec-developed innovation. This represents a reduction to 4% of the tax rate on revenue attributable to a patent, which otherwise would have been 11.8%. This deduction is intended to encourage businesses entitled to tax credits for research and development to market their innovations in Quebec;
- \$65M in resources is earmarked for the 2016-2021 period to recapitalize or fund three funds specialized in innovative business start-ups, for a global capitalization of \$125M;
- \$96M increase in the capitalization of Fonds Teralys Capital Innovation;
- \$162M for implementation of the Québec digital strategy over the 2016-2021 period;
- \$32.5M over three years to support exporting SMEs that want to bring their innovation activities to fruition;

- Immediate implementation of the tax relief for transfers of family businesses in the primary and manufacturing sectors rather than January 2017. Raymond Chabot Grant Thornton continues to focus on the issue of tax equity for business transfers in its representations, since the problem remains, particularly for service enterprises.

There is no doubt these measures are of interest to businesses, but reducing the income tax rate is the best approach to helping them be more competitive. For this reason, Raymond Chabot Grant Thornton still considers it necessary to eliminate income tax on the first \$500,000 of an SME's income.

As for the tax system in general, the first recommendation of the Godbout report to initiate a major tax system reform could have been announced. This process must be started quickly, not only in the interest of businesses, but for all Quebec taxpayers.

We invite you to read the following pages for an overview of the main tax measures.

Enterprises		
	Current measures	Proposed measures
Contribution to Health Services Fund		
Reduction for SME whose payroll is between \$1M and \$5M	<ul style="list-style-type: none"> ▪ Primary and manufacturing sectors: <ul style="list-style-type: none"> – Rate ranging between 1.6% to 4.26% ▪ Service and construction sectors: <ul style="list-style-type: none"> – 2016: 2.7% to 4.26% – 2017: 2.55% to 4.26% – 2018: 2.40% to 4.26% – As of 2019: 2.25% to 4.26% 	<ul style="list-style-type: none"> ▪ Primary and manufacturing sectors: <ul style="list-style-type: none"> – 2017: 1.55% to 4.26% – 2018 to 2020: 1.5% to 4.26% – As of 2021: 1.45% to 4.26% Other sectors: <ul style="list-style-type: none"> ▪ 2016: 2.70% to 4.26% ▪ 2017: 2.5% to 4.26% ▪ 2018: 2.3% to 4.26% ▪ 2019: 2.15% to 4.26% ▪ 2020: 2.05% to 4.26% ▪ As of 2021: 2.0% to 4.26%
Temporary reduction in the HSF contribution rate for innovative SMEs	<ul style="list-style-type: none"> ▪ Reduction in the contribution payable by a qualified employer in respect of the increase in its payroll attributable to the hiring of full time employees in the natural and applied sciences sector 	<ul style="list-style-type: none"> ▪ Consequential changes to take into account the new reduction plan
Small business deduction (SBD)		
Replacement of the criterion concerning the number of employees by a criterion concerning the hours worked for SBD eligibility purposes	<ul style="list-style-type: none"> ▪ 8% tax rate on income qualifying for the SBD where the enterprise employs more than three full time employees 	<ul style="list-style-type: none"> ▪ 8% tax rate in one of the following cases: <ul style="list-style-type: none"> – When the employees of a corporation work at least 5,500 hours during the year – When the employees of a corporation and associated corporations worked at least 5,500 hours in the previous year ▪ Linear increase in rate to 11.9% when hours worked go down from 5,500 hours to 5,000 hours ▪ Applicable to taxation years beginning after December 31, 2016
Refundable tax credit for the integration of IT in manufacturing SMEs		
Expansion of credit qualification criteria	<ul style="list-style-type: none"> ▪ Credit for manufacturing SMEs and primary sector businesses ▪ Linear reduction of the rate: from 20% down to nil when paid-up capital is \$20M 	<ul style="list-style-type: none"> ▪ Credit also granted to corporations operating in the wholesale and retail sectors ▪ Linear reduction of the rate: from 20% down to nil when paid-up capital is \$50M

Enterprises		
	Current measures	Proposed measures
Deduction for innovative manufacturing corporations		
Introduction of a deduction for innovative manufacturing corporations	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Deduction in calculating taxable income to reduce the tax rate to 4% ▪ Calculated on the lesser of: <ul style="list-style-type: none"> – the value of the patented features incorporated into qualified property that is sold or rented – 50% of the net income earned from the sale or rental of the qualified property ▪ Qualifying innovative manufacturing corporation: <ul style="list-style-type: none"> – 50% of manufacturing and processing activities – Paid-up capital: \$15M or more ▪ Applicable to taxation years beginning after December 31, 2016
Tax credit for major digital transformation projects		
Introduction of a temporary refundable tax credit	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ New refundable tax credit: <ul style="list-style-type: none"> – Rate of 24% of eligible salaries – Maximum annual credit: \$20,000 per employee – Applicable for a period of two years in respect of an eligible digitization contract ▪ Eligible digitization contract: <ul style="list-style-type: none"> – Entered into after March 17, 2016 and before January 1, 2019 – Intended for the implementation of projects that will result in the creation of at least 500 jobs in Québec that will be maintained for a period of seven years – Intended for the outsourcing of an activity that was carried out entirely outside Québec by another person for a minimum period of 24 months ▪ Investissement Québec will issue certifications in respect of the employees and contract
Tax credit for Québec film and television productions		
Changes to eligibility conditions for productions intended for minors	<ul style="list-style-type: none"> ▪ Conditions based on the age of the audience 	<ul style="list-style-type: none"> ▪ Conditions based on the age of the audience replaced by the concept of minor children ▪ Any production intended for minors must: <ul style="list-style-type: none"> – present content that reflects that audience – not be a family fiction production

Unless otherwise indicated, these measures apply to fiscal years ending after March 17, 2016 for businesses and as of the 2016 calendar year for individuals.

Enterprises		
	Current measures	Proposed measures
Changes to eligibility conditions of the sectoral act	<ul style="list-style-type: none"> ▪ Distinct eligibility conditions based on the metropolitan Montréal region and the territory outside that region ▪ Conditions related to the broadcasting time 	<ul style="list-style-type: none"> ▪ Distinctions relating to the regions eliminated ▪ Conditions related to the broadcasting time eliminated ▪ Consequential changes for the application of the tax credit for film dubbing and tax credit for film production services ▪ Applicable to applications filed with SODEC after March 17, 2016
Tax credits in the cultural sector		
Addition of new amounts of assistance excluded for the purposes of certain tax credits in the cultural sector	<ul style="list-style-type: none"> ▪ The amount of financial assistance from certain public bodies is an excluded amount of assistance and does not reduce the amount of expenditures qualifying for tax credit in the cultural sector 	<ul style="list-style-type: none"> ▪ Addition of new amounts of excluded assistance: <ul style="list-style-type: none"> – Amounts received under Québec City's Soutien à la production cinématographique et télévisuelle program: <ul style="list-style-type: none"> • For the application of the tax credit for film and television production – Applicable as of January 1, 2015 – Amounts received from the Society for the Celebration of Montréal's 375th Anniversary: <ul style="list-style-type: none"> • For the application of the following credits: <ul style="list-style-type: none"> ○ Québec film and television production ○ Film production services ○ Production of sound recordings ○ Production of performances ○ Book publishing ○ Production of multimedia events staged outside Québec • Applicable as of January 1, 2012
Political contribution		
Clarification regarding non-deductible political contributions	<ul style="list-style-type: none"> ▪ Under a decision by the courts, an employee's political contribution that is reimbursed by his employer may be deducted in the latter's income calculation 	<ul style="list-style-type: none"> ▪ Any political contribution made, illegally or otherwise, directly or indirectly, will not be deductible in calculating the income ▪ Applicable to contributions paid after March 17, 2016

Enterprises		
	Current measures	Proposed measures
Donations of food products by farming businesses		
Expansion of list of qualified donees and qualified food products	<ul style="list-style-type: none"> ▪ Amount of donated eligible food products increased by 50% for the calculation of the credit for donations where the donation is made by a qualified producer to one of the following organizations: <ul style="list-style-type: none"> – Food Banks of Québec – Moisson members 	<ul style="list-style-type: none"> ▪ List of qualified donees expanded to include any registered charity that is an Associate member ▪ Expansion of list of qualified food products
Income-averaging for forest producers		
Introduction of an income-averaging measure for private forest producers for the application of the income tax and the individual contribution to the HSF	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Certified forest producer under the <i>Sustainable Forest Development Act</i> ▪ Maximum deduction of 85% of eligible income of \$200,000 ▪ Maximum averaging period: 7 years ▪ Applicable to a taxation year ending before January 1, 2021
Refundable tax credit for technological adaptation services		
Restriction in respect of the territory where the services are provided	<ul style="list-style-type: none"> ▪ No specification in respect of the territory where the services are provided by a college centre for the transfer of technology or by an eligible liaison and transfer centre 	<ul style="list-style-type: none"> ▪ Services to be provided on Quebec territory ▪ Applicable to expenses incurred in respect of a contract entered into after March 17, 2016

Individuals		
	Current measures	Proposed measures
Health contribution		
Acceleration of the reduction for elimination purposes	<ul style="list-style-type: none"> ▪ Maximum annual contribution <ul style="list-style-type: none"> – Income less than \$41,265: <ul style="list-style-type: none"> • \$100 in 2016 • No contribution as of 2017 – Income between \$41,265 and \$134,095: <ul style="list-style-type: none"> • \$200 in 2016 • \$125 in 2017 • \$80 in 2018 – Income over \$134,095: <ul style="list-style-type: none"> • \$1,000 in 2016 • \$800 in 2017 • \$600 in 2018 – Completely eliminated as of 2019 	<ul style="list-style-type: none"> ▪ Maximum annual contribution <ul style="list-style-type: none"> – Income less than \$41,265: <ul style="list-style-type: none"> • \$50 in 2016 • No contribution as of 2017 – Income between \$41,265 and \$134,095: <ul style="list-style-type: none"> • \$175 in 2016 • \$70 in 2017 – Income over \$134,095: <ul style="list-style-type: none"> • \$1,000 in 2016 • \$800 in 2017 – Completely eliminated as of 2018
RénoVert tax credit		
Introduction of a temporary tax credit for carrying out eco-friendly home renovations	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ New refundable tax credit: <ul style="list-style-type: none"> – Rate: 20% – Maximum credit: \$10,000 – Qualified expenditures: <ul style="list-style-type: none"> • Amount paid in excess of \$2,500 • Paid after March 17, 2016 and before October 1, 2017 ▪ Eligible renovation work: <ul style="list-style-type: none"> – Eco-friendly renovation work pertaining to insulation, sealing, doors, windows, heating, air conditioning, water heating and ventilation systems, and water quality – Agreement entered into with a contractor after March 17, 2016 and before April 1, 2017 ▪ Eligible dwelling: <ul style="list-style-type: none"> – Principal residence or cottage – Construction completed before January 1, 2016

Individuals		
	Current measures	Proposed measures
Tax credit attributing a work premium		
Enhancement of the premium for households without children	<ul style="list-style-type: none"> ▪ Work premium for 2016 <ul style="list-style-type: none"> – Single person: <ul style="list-style-type: none"> • Premium rate: 7% • Maximum premium: \$564.48 • Premium nil when income is \$16,109 – Childless couple: <ul style="list-style-type: none"> • Premium rate: 7% • Maximum premium: \$881.30 • Premium nil when income is \$25,003 	<ul style="list-style-type: none"> ▪ Work premium for 2016 <ul style="list-style-type: none"> – Single person: <ul style="list-style-type: none"> • Premium rate: 9% • Maximum premium: \$725.76 • Premium nil when income is \$17,722 – Childless couple: <ul style="list-style-type: none"> • Premium rate: 9% • Maximum premium: \$1,133.10 • Premium nil when income is \$27,521
Charitable donations tax credit		
Improved tax treatment of gifts	<ul style="list-style-type: none"> ▪ Annual limit applicable to qualified gifts: 75% of donor's income ▪ Rate of the tax credit: <ul style="list-style-type: none"> – First \$200 of donation: 20% – Donations over \$200: 24% 	<ul style="list-style-type: none"> ▪ Elimination of the limit related to income as of 2016 ▪ Tax credit rate increased for individuals whose marginal tax rate is higher than 24% <ul style="list-style-type: none"> – Rate of 25.75% applicable to gifts over \$200, up to the income taxable at 25.75% – Applicable starting in 2017
Tax credit for experienced workers		
Reduction in age of eligibility for the tax credit	<ul style="list-style-type: none"> ▪ Age of eligibility <ul style="list-style-type: none"> – 2016: 64 years of age or over – 2017 and following: 63 years of age and over 	<ul style="list-style-type: none"> ▪ Age of eligibility as of 2018: <ul style="list-style-type: none"> – 62 years of age or over
Non-refundable tax credit for the acquisition of shares in Fondaction		
Temporary maintenance of the increased rate of the tax credit	<ul style="list-style-type: none"> ▪ Increased rate of 20% for shares acquired after May 31, 2015 and before June 1, 2016 	<ul style="list-style-type: none"> ▪ Maintenance of the increased tax rate of 20% for shares acquired after May 31, 2016 and before June 1, 2018
Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins		
Tax credit rate reduction	<ul style="list-style-type: none"> ▪ Non-refundable tax credit for the acquisition of shares of Capital régional et coopératif Desjardins <ul style="list-style-type: none"> – Rate: 45% – Maximum annual credit: \$2,250 	<ul style="list-style-type: none"> ▪ Tax credit reduced to 40% ▪ Maximum annual credit: \$2,000 ▪ Applicable to shares acquired after February 29, 2016
Tax shield		
Greater access to the tax shield	<ul style="list-style-type: none"> ▪ Refundable tax credit calculated on a \$2,500 increase in work income for each member of a household 	<ul style="list-style-type: none"> ▪ Maximum increase in work income taken into consideration in 2016: \$3,000

Other measures		
	Current measures	Proposed measures
Act respecting duties on transfers of immovables		
Tightening of the exemption from paying transfer duties between corporations or between a corporation and its shareholders	<ul style="list-style-type: none"> ▪ Exemption from paying transfer duties on the transfer of immovables: <ul style="list-style-type: none"> – Between an individual and a legal person of which it owns 90% or more of the shares with full voting rights – Between two closely related corporations ▪ Concept of closely related corporations based on holding: <ul style="list-style-type: none"> – either 90% or more of shares with full voting rights – or shares representing at least 90% of the fair market value (FMV) of a corporation's shares ▪ No minimum period to maintain the exemption condition before or after the transfer ▪ Special anti-avoidance rule applicable in some circumstances 	<ul style="list-style-type: none"> ▪ Provisions granting an exemption clarified to state that the percentage must be measured on the basis of the number of votes related to the shares rather than on the basis of the number of shares ▪ Elimination of the FMV criterion for the concept of closely related corporations, to retain only the vote criterion ▪ New requirement to maintain the exemption condition for a period of 24 months: <ul style="list-style-type: none"> – after the transfer by an individual to a corporation or between two closely related corporations – before the transfer by a corporation to an individual ▪ Mandatory disclosure of the cessation of compliance with the condition ▪ Elimination of the special anti-avoidance rule
Exemption for transfer between former spouses	<ul style="list-style-type: none"> ▪ Exemption from paying transfer duties for a transfer between spouses not applicable to former de facto spouses 	<ul style="list-style-type: none"> ▪ Exemption extended to transfers between former de facto spouses in the twelve months following the breakdown of the union
Transfer duties due date	<ul style="list-style-type: none"> ▪ Transfer duty payable from the registration of the transfer in the land register 	<ul style="list-style-type: none"> ▪ Transfer duty payable from the transfer
Disclosure of transfers not registered in the land register	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Mandatory disclosure of transfers not registered in the land register
Application date	<ul style="list-style-type: none"> ▪ N/A 	<ul style="list-style-type: none"> ▪ Measures application to transfers after March 17, 2016

Other measures		
	Current measures	Proposed measures
Transfer of family businesses		
Development of qualification criteria for the relaxation of rules limiting the transfer of shares to successors	<ul style="list-style-type: none"> ▪ None 	<ul style="list-style-type: none"> ▪ Development of various criteria, including: <ul style="list-style-type: none"> – seller is an individual other than a trust – the seller or his/her spouse: <ul style="list-style-type: none"> • played an active role in the business carried on by the corporation in the 24 months preceding the sale • do not play an active role in the business after the sale, except in certain circumstances • do not have de jure control or are not part of a group controlling the corporation after the sale, except in certain circumstances – With respect to the FMV of all of the shares, the FMV of the residual interest of all sellers who qualify for the easing and their spouses cannot be more than: <ul style="list-style-type: none"> • 60%: primary and manufacturing sectors • 80%: farming and fishing business – After the sale, at least one person participating in the acquirer's body of shareholders plays an active role in the business of the corporation
Refundable tax credit for resources in respect of mining exploration expenses		
Increase in certain tax credit rates	<ul style="list-style-type: none"> ▪ Tax credit rate for resources regarding eligible expenses relating to mining resources incurred in the Near North or Far North of Quebec <ul style="list-style-type: none"> – 15% or 31% according to the type of corporation 	<ul style="list-style-type: none"> ▪ Tax credit rate for such expenses increased to 18.75% and 38.75% respectively ▪ Applicable to expenses incurred after March 17, 2016

Other measures		
	Current measures	Proposed measures
Mining tax		
Amendments to certain rules in respect of the mining tax	<ul style="list-style-type: none"> ▪ Various rules in the act 	<ul style="list-style-type: none"> ▪ Amendment of some rules pertaining to: <ul style="list-style-type: none"> – the calculation of the profit margin and deemed disposal of property by a person who ceases to be an operator – transfers of property with no tax impact between related corporations – the determination of the value of gemstones
Registration procedure for charities		
Recognition of a federal charity	<ul style="list-style-type: none"> ▪ Mandatory forwarding to the Quebec authorities of documents filed with the federal authorities and proof of having obtained the federal registration 	<ul style="list-style-type: none"> ▪ Charity registered with federal authorities deemed to be registered in Quebec ▪ Donations made before January 1, 2016 to a federal charity deemed to be eligible for the Quebec tax credit for donations
Tax on forest operations		
Increase in exemption threshold	<ul style="list-style-type: none"> ▪ Tax of 10% on income from forest operations in excess of a \$10,000 threshold 	<ul style="list-style-type: none"> ▪ Threshold increased to \$65,000
Farm tax credit program		
Revision of the program	<ul style="list-style-type: none"> ▪ Several eligibility conditions and various criteria with respect to determination of the credit 	<ul style="list-style-type: none"> ▪ Simplification of the eligibility conditions and changes to the determination of the credit

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