

# A Budget Characterized by Prudence and Giving Priority to Services to the Population

## Tax Bulletin

### **Provincial Budget, March 28, 2017**

Finance Minister, Carlos Leitão's, fourth budget remains balanced and focuses primarily on major investments in education, health and public transit.

#### **Tax reduction for individuals**

The government announced a reduction of the tax burden on citizens, in particular by accelerating the elimination of the contribution to the health services fund in 2016 for taxpayers earning less than \$134,000. Additionally, as of January 1, 2017, the increase in the first income tax bracket exempt from tax to \$14,890 will generate a tax reduction benefitting all Quebec taxpayers. This adjustment will reduce the tax burden by about \$295M for 2017-2018, representing slightly more than \$1.4B over five years.

#### **Health and education at the forefront**

It comes as no surprise that the Quebec government announced an increase in health and education investments. In the first strategic sector, health, the government is increasing spending by 4.2% for 2017-2018, which translates into an additional increase of \$742M, i.e. a \$1.2B increase by 2018-2019.

In education, there will be an additional investment of \$3.4B over the next five years. Since educational success is at the heart of this budget, the government is setting aside \$1.5B of this amount for higher education.

#### **Public transit**

Public transit has not been ignored in this budget. In addition to investing in three major, job generating, public transit projects (the Réseau électrique métropolitain with an investment of \$1.3B, extension of the metro blue line and Québec-Lévis bus rapid transit), the government plans to set aside over \$800M to finance public transit for the next five years, including \$475M for the Autorité régionale de transport métropolitain and a \$333M additional contribution to the operating costs of public transit in every region of Québec.

#### **Jobs and businesses**

Businesses need greater means to unlock their full potential and the budget brings a breath of fresh air. Acquiring talent is crucial to support business growth. The government is allocating \$289M in additional resources to implement measures aimed at workforce development. Over the next five years, supplementary resources totalling \$834M will be allocated to research and innovation, including \$118M for the life sciences strategy and an extra \$100M for the creation of a scientific and industrial super-cluster devoted to artificial intelligence. The upcoming action plan on entrepreneurship will receive additional credits of \$70M and \$35M will be allocated to foster entrepreneurship among young people. Lastly, an amount of \$200K per year will be invested over two years to support entrepreneurship by immigrants in the regions, a project supported by the Regroupement des jeunes chambres de commerce du Québec.

#### **Business taxes**

The government is enhancing two measures supporting business investments, resulting in tax relief of \$165M over five years:

- a three-year extension of the tax holiday eligibility period for large investment projects; and
- the introduction of an additional capital cost allowance to support modernization and productivity.

We invite you to read the following pages for more information on the tax measures announced in the 2017-2018, budget.

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Small business deduction (SBD)</b>		
Replacement of the criterion based on hours worked by a criterion based on hours paid	<ul style="list-style-type: none"> <li>▪ Tax rate of 8% in either of the following cases:               <ul style="list-style-type: none"> <li>– Employees of the corporation worked at least 5,500 hours during the year</li> <li>– Employees of the corporation and corporations with which it is associated worked 5,500 hours during the previous year</li> </ul> </li> <li>▪ Linear increase up to 11.8% when the number of hours worked decreases from 5,500 to 5,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tax rate of 8% in either of the following cases:               <ul style="list-style-type: none"> <li>– Employees of the corporation were paid for at least 5,500 hours during the year</li> <li>– Employees of the corporation and corporations with which it is associated were paid for at least 5,500 hours during the previous year</li> </ul> </li> <li>▪ Linear increase up to 11.8% when the number of hours paid decreases from 5,500 to 5,000</li> <li>▪ Applicable to taxation years beginning after December 31, 2016</li> </ul>
<b>Additional deduction for transportation costs of certain remote manufacturing SMEs</b>		
Increase in the additional deduction for transportation costs of manufacturing SMEs	<ul style="list-style-type: none"> <li>▪ Additional deduction rate depending on the region in Quebec where manufacturing activities are carried out:               <ul style="list-style-type: none"> <li>– Central area: 1%</li> <li>– Intermediate area: 3%</li> <li>– Remote area: 5%</li> <li>– Special remote area: 7%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional deduction rate increased from 7% to 10% for the “special remote area”</li> <li>▪ No change for the other areas</li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Additional deduction for transportation costs of SMEs located in a special remote area</b>		
Introduction of an additional deduction for transportation costs of all SMEs located in certain remote areas	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ 10% of the gross income of an SME located in a special remote area</li> <li>▪ Special remote area:               <ul style="list-style-type: none"> <li>– Île-d'Anticosti, Îles-de-la-Madeleine, Golfe du Saint-Laurent RCM (Côte-Nord) and Kativik Regional Government (Nord-du-Québec)</li> </ul> </li> <li>▪ Eligible corporation:               <ul style="list-style-type: none"> <li>– Canadian-controlled private corporation</li> <li>– Paid-up capital, calculated on a consolidated basis, is less than \$15M</li> <li>– Linear reduction of the deduction when paid-up capital is greater than \$10M, to nil at \$15M</li> </ul> </li> <li>▪ Level of activity in the area:               <ul style="list-style-type: none"> <li>– Over 50% of cost of labour or over 50% of cost of capital for the taxation year is attributable to the carrying on of the business located in the special remote area</li> </ul> </li> <li>▪ No limit on the deduction</li> <li>▪ Cannot combine this deduction with the additional deduction for transportation costs of manufacturing SMEs</li> <li>▪ Applicable to taxation years beginning after March 28, 2017</li> </ul>
<b>Refundable tax credit for Québec film or television production</b>		
Higher increases respecting the tax credit	<ul style="list-style-type: none"> <li>▪ Three increases available for certain types of expenses:               <ul style="list-style-type: none"> <li>– Special effects and computer animation:                   <ul style="list-style-type: none"> <li>• Rate of 8%</li> <li>• Not available for French-language productions or giant screen films</li> </ul> </li> <li>– Regional production:                   <ul style="list-style-type: none"> <li>• French-language production or giant screen film: 8%</li> <li>• Other productions: 16%</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Higher increases:               <ul style="list-style-type: none"> <li>– Special effects and computer animation:                   <ul style="list-style-type: none"> <li>• Rate of 10%</li> <li>• Not available for French-language productions or giant screen films</li> </ul> </li> <li>– Regional production:                   <ul style="list-style-type: none"> <li>• French-language production or giant screen film: 10%</li> <li>• Other productions: 20%</li> </ul> </li> </ul> </li> </ul>

Unless otherwise indicated, these measures apply to fiscal years ending after March 28, 2017 for businesses and as of the 2017 calendar year for individuals.

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Refundable tax credit for Québec film or television production (cont'd)</b>		
	<ul style="list-style-type: none"> <li>– Production without public financial assistance:               <ul style="list-style-type: none"> <li>• Rate of 8%</li> <li>• Available only if no financial assistance received from a public body</li> </ul> </li> <li>▪ Maximum credit amount (including increases):               <ul style="list-style-type: none"> <li>– 56% for productions not adapted from a foreign format</li> <li>– 52% for productions adapted from a foreign format</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Increase for “no public financial assistance” replaced by “increase determined by public financial assistance”:               <ul style="list-style-type: none"> <li>• Rate of 16%</li> <li>• Rate reduced on a linear basis to nil based on the financial assistance received</li> </ul> </li> <li>▪ Maximum credit amount increased to:               <ul style="list-style-type: none"> <li>– 66% for productions not adapted from a foreign format</li> <li>– 62% for productions adapted from a foreign format</li> </ul> </li> <li>▪ Changes applicable in respect of a production for which an application for an advance ruling or an application for a certificate is filed with SODEC after March 28, 2017</li> </ul>
<b>Refundable tax credit for film production services</b>		
<p>Restructuring of the tax credit to foster the emergence of virtual reality and augmented reality productions</p>	<ul style="list-style-type: none"> <li>▪ Different tax assistance depending on the type of production: eligible production or eligible small-budget production</li> <li>▪ Credit for “eligible production”:               <ul style="list-style-type: none"> <li>– Base rate: 20%</li> <li>– Increase for special effects or computer animation: 16%</li> <li>– Eligibility criteria based on minimum production costs:                   <ul style="list-style-type: none"> <li>• \$1M for a single production unique</li> <li>• \$100,000 per episode less than 30 minutes or \$200,000 per episode of 30 minutes or more for a series</li> </ul> </li> </ul> </li> <li>▪ Credit for “eligible small budget production”               <ul style="list-style-type: none"> <li>– Base rate: none</li> <li>– Increase for special effects or computer animation: 16%</li> <li>– Applicable if production costs less than eligible criteria for an “eligible production”</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Elimination of the “eligible small-budget production” category</li> <li>▪ Reduction of the eligibility criteria for eligible productions:               <ul style="list-style-type: none"> <li>– Minimum production costs of \$250,000 for the entire series or single production</li> </ul> </li> <li>▪ Changes applicable in respect of a production for which an application for an advance ruling or an application for a certificate is filed with SODEC after March 28, 2017</li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Tax credit for the production of multimedia events or environments stages outside Quebec</b>		
Elimination of an applicability condition for the refundable tax credit for a multimedia environment	<ul style="list-style-type: none"> <li>▪ Three eligibility conditions for the recognition of a multimedia environment:               <ul style="list-style-type: none"> <li>– design and production of an environment to be staged outside Québec</li> <li>– Contract entered into with a person that does not have an establishment in Québec</li> <li>– Contract entered into with a person with which it is dealing at arm's length</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Elimination of the condition concerning the absence of an establishment in Québec for the co-contractor</li> <li>▪ Other criteria unchanged</li> <li>▪ Changes applicable in respect of a production whose first public performance takes place or for which an application for an advance ruling or an application for a certificate is filed with SODEC after March 28, 2017</li> </ul>
<b>Tax holiday for large investment projects</b>		
Improvements to the tax holiday	<ul style="list-style-type: none"> <li>▪ Tax holiday for large investment projects carried out in Quebec for which an application for an initial qualification certificate is presented to the Finance Minister before the carrying out of the project begins and not later than November 20, 2017</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deadline for presenting an application for a certificate extended to December 31, 2020</li> <li>▪ Introduction of an election enabling an additional phase to be added to a large investment project for which an initial certificate has been delivered</li> <li>▪ Applicable to expenditures incurred after March 28, 2017</li> </ul>
<b>Capital cost allowance (CCA)</b>		
Introduction of an additional deduction for the acquisition of computer equipment and manufacturing or processing equipment	<ul style="list-style-type: none"> <li>▪ Computer equipment: CCA rate of 55%</li> <li>▪ Manufacturing and processing equipment: CCA rate of 50%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Introduction of an additional deduction of 35% of the CCA claimed in respect of the qualified property</li> <li>▪ Special tax when property not used mainly in the business and in Québec during a period of 730 consecutive days</li> <li>▪ Applicable to new property acquired after March 28, 2017 and before April 1, 2019</li> </ul>
<b>Refundable tax credit for corporations specialized in the production of multimedia titles</b>		
Relaxation of the eligibility criteria	<ul style="list-style-type: none"> <li>▪ At least 75% of the activities of an eligible title must be carried out in Quebec to produce titles for the corporation or on behalf of another person</li> <li>▪ In the case of a subcontractor carrying out a component of an eligible title:               <ul style="list-style-type: none"> <li>– For purposes of calculating the 75%, the eligible title must be produced by a corporation without a permanent establishment in Quebec</li> <li>– No premium for French</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Any component of an eligible title carried out by a subcontractor will be eligible for purposes of the 75% criterion and the premium for French</li> <li>▪ Applies to applications of certification received after March 28, 2017</li> </ul>

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<b>Businesses</b>		
	Current measures	Proposed measures
<b>Refundable tax credits aimed at encouraging the creation of new financial services corporations</b>		
Renewal and improvement of the tax credits	<ul style="list-style-type: none"> <li>▪ Two tax credits to encourage the creation of new financial services corporations</li> <li>▪ Time limit for submitting an application for a qualification certificate: December 31, 2017</li> <li>▪ Six types of eligible expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Time limit for submitting an application for a qualification certificate extended to December 31, 2022</li> <li>▪ Addition of two new eligible expenses:               <ul style="list-style-type: none"> <li>– Fees relating to the constitution of a prospectus</li> <li>– Fees paid to a compliance consultant</li> </ul> </li> <li>▪ Changes applicable in respect of an expense incurred for a taxation year included in the certificate validity period, in whole or in part, and after March 28, 2017</li> </ul>
<b>Refundable tax credit for the production of ethanol in Quebec</b>		
Extension of eligibility period	<ul style="list-style-type: none"> <li>▪ Maximum eligibility period of 10 years included between April 1, 2006 and March 31, 2018</li> </ul>	<ul style="list-style-type: none"> <li>▪ Elimination of the maximum eligibility period</li> <li>▪ March 31, 2018 deadline maintained</li> </ul>
Extension to biodiesel	<ul style="list-style-type: none"> <li>▪ Eligibility limited to ethanol</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extension of eligibility to the production of biodiesel:               <ul style="list-style-type: none"> <li>– Applicable to biodiesel produced and sold between April 1, 2017 and March 31, 2018</li> </ul> </li> <li>▪ Property used in the course of producing biodiesel no longer eligible for the tax credit for investments relating to manufacturing and processing equipment               <ul style="list-style-type: none"> <li>– Applicable to property acquired as of April 1, 2017</li> </ul> </li> </ul>
<b>Fondaction investment standards</b>		
Increased recognition of major investments by Fondaction in social economy enterprises	<ul style="list-style-type: none"> <li>▪ Maximum share of Fondaction's net assets that may be allocated to major investments set at 10% of its net assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Maximum share of Fondaction's net assets that may be allocated to major investments now calculated without taking into account major investments in social economy enterprises, within the meaning of the <i>Social Economy Act</i></li> <li>▪ Changes applicable to any fiscal year of Fondaction beginning after May 31, 2016</li> </ul>
<b>Capital régional et coopératif Desjardins</b>		
Increase in eligible investment in société en commandite Essor et Coopération	<ul style="list-style-type: none"> <li>▪ Investment limited to \$40M</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment increased to \$85M</li> <li>▪ Change in calculation of investment standard</li> </ul>

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Individuals		
	Current measures	Proposed measures
<b>Health contribution</b>		
Retroactive elimination as of 2016 for low- and middle-income taxpayers	<ul style="list-style-type: none"> <li>▪ Maximum annual contribution in 2016:               <ul style="list-style-type: none"> <li>– Income less than \$18,570: no contribution</li> <li>– Income from \$18,571 to \$41,265: \$50</li> <li>– Income from \$41,266 to \$134,095: \$175</li> <li>– Income over \$134,095: \$1,000</li> </ul> </li> <li>▪ Full elimination as of 2017</li> </ul>	<ul style="list-style-type: none"> <li>▪ Maximum annual contribution eliminated retroactively in 2016 for income \$134,095 and under</li> <li>▪ Contribution of \$1,000 for income over \$134,095 maintained for 2016</li> <li>▪ New notices of assessment sent by Revenu Québec to affected person no later than June 30, 2017</li> </ul>
<b>General tax reduction</b>		
Increase in the basic tax credit	<ul style="list-style-type: none"> <li>▪ Basic tax credit to grant a zero-tax threshold to all individuals (other than trusts)               <ul style="list-style-type: none"> <li>– Zero-tax threshold: taxable income of \$14,544</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Zero-tax threshold increased to \$14,890 in 2017</li> <li>▪ Adjustment of 2017 instalments possible for instalments due after March 15, 2017</li> </ul>
<b>Calculation of personal tax credits</b>		
General adjustment of rates used to calculate various tax credits and consequential changes to maintain the value of credits	<ul style="list-style-type: none"> <li>▪ Various personal tax credits calculated on the basis of the rate applicable to the second taxable income bracket (20%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Personal tax credits now calculated on the basis of the rate applicable to the first income tax bracket (16%)</li> <li>▪ Consequential increase in the amounts used to calculate tax credits to maintain their value</li> <li>▪ Exceptions: rate of 20% still applies for the following credits:               <ul style="list-style-type: none"> <li>– Medical expenses</li> <li>– Expenses to obtain medical care not provided in the region where an individual lives</li> <li>– Interest on student loans</li> <li>– First \$200 in gifts</li> </ul> </li> <li>▪ Various other consequential changes to the terms of calculation of certain tax credits</li> <li>▪ Applicable as of the 2017 taxation year</li> </ul>
<b>RénoVert tax credit</b>		
Extension of eligibility period	<ul style="list-style-type: none"> <li>▪ Tax credit equal to the lesser of:               <ul style="list-style-type: none"> <li>– \$10,000 and</li> <li>– 20% of eligible expenses in excess of \$2,500</li> </ul> </li> <li>▪ Applicable to agreements entered into before April 1, 2017</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extension to agreements entered into before April 1, 2018</li> <li>▪ Exclusion of expenses qualifying for the tax credit for the upgrading of residential waste water treatment systems</li> </ul>

Individuals		
	Current measures	Proposed measures
<b>Refundable tax credit for the upgrading of residential waste water treatment systems</b>		
Introduction of a new temporary tax credit	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ New tax credit equal to the lesser of:               <ul style="list-style-type: none"> <li>– 20% eligible expenses in excess of \$2,500</li> <li>– \$5,500 (less the amount of any credit obtained in previous years)</li> <li>– Maximum amount and expense limit shared in the case of a divided ownership and a building with more than one dwelling</li> </ul> </li> <li>▪ Eligible dwelling:               <ul style="list-style-type: none"> <li>– Principal residence</li> <li>– Cottage suitable for year-round occupancy that is normally occupied by the individual</li> </ul> </li> <li>▪ Qualifying expenses:               <ul style="list-style-type: none"> <li>– Relating to a system for the discharge, collection and disposal of waste water, toilet effluents or grey water of an eligible dwelling</li> <li>– Paid after March 31, 2017 under an agreement entered into with a contractor after March 31, 2017 and before April 1, 2022</li> </ul> </li> </ul>
<b>Deduction for residents of a remote area</b>		
Changes to the area for the Îles-de-la-Madeleine region	<ul style="list-style-type: none"> <li>▪ Îles-de-la-Madeleine considered to be an intermediate area</li> </ul>	<ul style="list-style-type: none"> <li>▪ Îles-de-la-Madeleine considered to be a norther area</li> <li>▪ Applicable as of the 2017 taxation year</li> </ul>

Other measures		
	Current measures	Proposed measures
<b>Compensation tax for financial institutions</b>		
Extension of the application period	<ul style="list-style-type: none"> <li>▪ December 3, 2014 to March 31, 2017:               <ul style="list-style-type: none"> <li>– On wages:                   <ul style="list-style-type: none"> <li>• Bank, loan corporation, trust corporation or corporation trading in securities: 4.48%</li> <li>• Savings and credit union: 3.52%</li> <li>• Other: 1.44%</li> </ul> </li> <li>– Insurance premiums and amounts established in respect of an insurance fund: 0.48%</li> </ul> </li> <li>▪ April 1, 2017 to March 31, 2019, reduced rates:               <ul style="list-style-type: none"> <li>– On wages:                   <ul style="list-style-type: none"> <li>• Bank, loan corporation, trust corporation or corporation trading in securities: 2.8%</li> <li>• Savings and credit union: 2.2%</li> <li>• Other: 0.9%</li> </ul> </li> <li>– Insurance premiums and amounts established in respect of an insurance fund: 0.3%</li> </ul> </li> <li>▪ Eliminated as of April 1, 2019</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rates applicable until March 31, 2022</li> <li>▪ Rate reduction postponed to April 1, 2022</li> <li>▪ Eliminated as of April 1, 2024</li> </ul>
<b>Mining Tax Act</b>		
Introduction of an allowance for community consultations	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ Introduction of an allowance for community consultations</li> <li>▪ Allowance considered in calculating an operator's annual profit or loss</li> <li>▪ Same principles as those currently applicable to the pre-production development allowance</li> <li>▪ Consequential changes to the refundable duties credit for losses</li> <li>▪ Applicable to fiscal years ending after March 28, 2017 in respect of expenses incurred after that date</li> </ul>
<b>Use of the territorial designation of the Northern Plan in the various tax measures specific to the mining sector</b>		
Changes to the definition of “Near North” for purposes of the resource tax credit and the <i>Mining Tax Act</i>	<ul style="list-style-type: none"> <li>▪ “Near North” specifically defined</li> </ul>	<ul style="list-style-type: none"> <li>▪ “Near North” territory expanded to the south</li> <li>▪ Applicable to expenses incurred after March 28, 2017</li> </ul>

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