

2014-2015 Québec Budget: A Precursor to the Elections

Tax Bulletin

Provincial Budget, February 20, 2014

With a general election looming on the horizon, the purpose of the second budget presented today by the Minister of Finance and the Economy, Nicolas Marceau, served more to confirm the state of public finances and recall certain measures from various policies unveiled in recent months, rather than to actively support our wealth creators, that is, our businesses.

Clearly, this budget is in some respects the government's economic platform for the next election campaign.

However, certain of the measures announced represent appealing development levers in support of Quebec business growth. The budget also provides additional assistance to key sectors that we would be wise to further support.

Support for businesses

The government's measures include financing for start-ups and venture capital. In light of Québec's rather modest current growth, measures were needed for businesses to succeed and seize opportunities. This approach includes the following three initiatives:

- Additional \$25 million investment in the Anges Québec Capital fund;
- Authorization for Capital régional et coopératif Desjardins to issue \$150 million in shares in 2014;
- Launching of initiatives to create a new fund of venture capital funds in Québec.

While already announced, the support given to 300 high-performing businesses, nicknamed "gazelles," has already shown promise in accelerating the growth of these businesses. The call for candidates will be open from February 24 to March 28, 2014.

Mining and forestry sectors

With respect to the mining and forestry sectors, the government intends to raise its financial participation in mining companies developing resources in Québec, by using, in particular, the \$1 billion in capital from the Capital Mines Hydrocarbures fund, and investing \$10 million in the forestry industry through a new fund to speed up development of the residual biomass sector, with a view to energy production.

Families

The government announced the gradual raise of the parental contribution for childcare services. The \$7 current contribution will increase to \$8 and \$9 as of September 1, 2014 and 2015, respectively. Thereafter, the rate will be indexed as of September 2016. According to the government, these measures will optimize the funding of childcare services and ensure their continuity.

Taxation

From a tax perspective, the budget proposes few new measures, which are summarized in the following table.

Furthermore, the Québec government intends to harmonize its measures with the majority of those announced by the federal government in its February 11 budget with respect to, among other things, the elimination of graduated rate taxation for testamentary trusts and estates.

Report from the Task Force on the Protection of Québec Businesses

During the budget announcement, the Minister of Finance and the Economy released the report of the Task Force on the Protection of Québec Businesses, chaired by Claude Séguin.

Raymond Chabot Grant Thornton welcomes the tax measures included in this report, mainly, the deferral of the capital gain for business transfers to the next generation, in particular upon the death of a manager-shareholder. For several years, the firm has been actively interested in the tax fairness of intergenerational business transfers. The report's recommendation is a first encouraging step towards achieving this fairness and is why we strongly hope that the Québec government will act swiftly in this regard.

Other measures proposed by the Task Force include the enhanced tax treatment of employee and senior executive stock options and the easing of rules relating to the 21-year rule for the deemed disposition of property held by a trust, as long as the trust has a significant investment in an active business. Lastly, the Task Force recognizes that the Québec taxation system needs to be reassessed to become more competitive with neighbouring tax systems.

It will be interesting to see how these various recommendations will take shape in the future.

Businesses		
	Current measures	Proposed measures
Construction industry		
Mandatory attestation from Revenu Québec implemented for private contracts	Mandatory attestation from Revenu Québec for public contracts of \$25,000 or more	<p>Mandatory attestation before entering into a construction contract for a private site of \$25,000 or more:</p> <ul style="list-style-type: none"> ▪ Contractors can obtain the attestation through clicSÉCUR ▪ Recognized client to validate attestation with Revenu Québec ▪ Will apply to all levels of subcontracting ▪ Renewal mandatory every 90 days ▪ Will apply as of fall 2014
False-billing	No specific measures	<p>Increased control of sales tax registrations:</p> <ul style="list-style-type: none"> ▪ Increased audits in the construction sector ▪ Improved criteria for the selection of at-risk files ▪ Validation of the identity of shareholders and administrators ▪ Verification that companies have the ability to carry out activities
Employment agencies		
Mandatory attestation from Revenu Québec implemented for employment agencies	No specific measures	<p>Mandatory attestation for contracts of \$2,500 or more:</p> <ul style="list-style-type: none"> ▪ Employment agencies can obtain the attestation through clicSÉCUR ▪ Recognized client to validate attestation with Revenu Québec ▪ As of 2015, client companies required to disclose, on a regular basis, disbursements made to employment agencies ▪ Will apply as of fall 2014
Restaurant sector – sales recording modules (SRMs)		
SRMs implemented in bars and resto-bars	Mandatory in the restaurant sector	<p>Mandatory in bars and resto-bars:</p> <ul style="list-style-type: none"> ▪ Subsidy program to fund the purchase of devices ▪ Will apply as of fall 2014

Businesses

Current measures

Proposed measures

Tourism accommodation

Change to the refundable tax credit to foster the modernization of the tourism accommodation offering

- Tax credit corresponding to 25% of expenditures incurred in the year for eligible renovation or improvement work
- Applicable to expenditures exceeding an annual threshold of \$50,000
- Applicable to work carried out under a contract reached after March 20, 2012 and before January 1, 2016

- Annual threshold of expenditures replaced by a single \$50,000 threshold for the duration of the credit

Individuals

Current measures

Proposed measures

Capital régional et coopératif Desjardins

Reduction of the tax credit to acquire Capital régional et coopératif Desjardins shares

- Rate: 50%
- Maximum investment: \$5,000
- Maximum annual credit: \$2,500

- Rate: 45%
- Maximum investment: \$5,000
- Maximum annual credit: \$2,250
- Applicable to shares acquired after February 28, 2014

Other Measure

Current measures

Proposed measures

Capital régional et coopératif Desjardins

Changes to its statute of incorporation

- Seven administrative regions in Québec recognized as resource regions for the purposes of the regional component of the investment requirement

- Recognition of investments made in a regional county municipality, outside of the resource regions, facing economic difficulties
- Various changes made to the investment requirement
- Applicable to investments made after February 20, 2014 and before January 1, 2018

Unless otherwise indicated, these measures apply to fiscal years ending after February 20, 2014 for businesses and as of the 2014 calendar year for individuals.

This Bulletin is published by Raymond Chabot Grant Thornton for its clients. It is not intended to be an exhaustive review of the measures mentioned. Readers should not make any decisions without consulting their tax advisor.