

# A Stringent Budget to Absorb the Budget Deficit

## Tax Bulletin

### **Provincial Budget, June 4, 2014**

Balancing the budget may be critical, but there is no denying that the new government has limited means. Finance Minister, Carlos J. Leitão has chosen to table a stringent budget to stimulate economic recovery with the intention of reducing the budget deficit to \$2.35 billion this year and eliminate it by next year.

#### **Businesses: fewer tax credits and new measures**

The Minister has announced a 20% reduction in tax assistance intended for Quebec businesses. The targeted refundable tax credits include the scientific research and experimental development and the manufacturing and processing equipment tax credits.

On the other hand, measures have been announced to stimulate the growth of SMEs. Of note is the immediate 2% reduction in the income tax rate of manufacturing SMEs, from 8% to 6%, and subsequently to 4% by April 1, 2015. Additionally, the new Créativité Québec program with a budget envelope of \$150 million over three years to support the innovation and performance of SMEs is an attractive measure.

The \$25 million increase in the Quebec government's capitalization of the Anges Québec Capital fund to \$100 million is a noteworthy measure for business start-ups. However, the budget does not provide for any funds to make business transfers easier and support entrepreneurial succession.

#### **Economic measures to stimulate growth**

Several measures have been announced to support the development of the Maritime Strategy and Plan Nord, two significant government projects. In the case of the Maritime Strategy, the Minister announced the establishment of a logistical hub to create an international transshipment centre and \$800 million in marine biotechnology research and development investments over two years.

In order to re-start the Plan Nord, the government has confirmed creation of the Capital Mines Hydrocarbures fund announced in the 2012-2013 budget. An allocation of \$1 billion is provided for this fund that will be created through legislation in the fall. The budget provides for worker training measures that will match training to jobs, in particular through investments of \$100 million to train Aboriginal peoples in connection with the Plan Nord.

With respect to natural resources, the government will table a bill allowing Hydro-Québec to invest in public transit electrification projects and will revive the program for small hydroelectric plants for a limited number of projects whose development had been halted.

Lastly, in the area of infrastructures, due to the financial situation, the government has opted to maintain the overall level of investments provided in the Quebec Infrastructure Plan of \$90.3 billion for 2014-2024. However, it announced it would accelerate the investments by \$300 million, increasing the financing from \$11.2 billion to \$11.5 billion for 2014-2015.

**Other tax measures**

The budget is announcing a tax reform. A Québec Taxation Review Committee, chaired by Luc Godbout, will be created to make recommendations to the government on personal and corporate taxation to stimulate economic growth and wealth creation, among others.

The tobacco tax will increase immediately by \$4 per carton of cigarettes and the sale of alcoholic beverages will be subject to a higher tax rate, depending on the type of product. The rates for childcare services will not be increased by \$2 as announced by the previous government. However, the daily rate for childcare services will be indexed according to the rate of growth in the cost of the program. This represents an increase to \$7.30 as of October 1, 2014.

Lastly, similar to the previous Quebec government, the new government has stated it intends to harmonize with most of the measures announced in the February 11, 2014 budget, including among others the elimination of graduated rate taxation for testamentary trusts and estates.

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

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Corporate tax rate</b>		
Reduction of tax rate for manufacturing SMEs	<ul style="list-style-type: none"> <li>▪ General corporate tax rate: 11.9%</li> <li>▪ Rate applicable to the first \$500,000 of an SME's income (due to small business deduction): 8%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional deduction on manufacturing SME's income taxed at 8%:               <ul style="list-style-type: none"> <li>– maximum of 2% for a year ended after June 4, 2014</li> <li>– maximum of 4% for a year ended after March 31, 2015</li> </ul> </li> <li>▪ “Manufacturing SME” means corporation at least 25% of whose activities consist of manufacturing and processing activities in a given year</li> <li>▪ Additional rate reduction:               <ul style="list-style-type: none"> <li>– calculated according to the proportion of assets and labour expenditures attributable to manufacturing and processing</li> <li>– maximum reached when the proportion of manufacturing and processing activities is 50% or more</li> </ul> </li> </ul>
<b>Scientific research and experimental development tax credit</b>		
Reduction of tax credit rate	<ul style="list-style-type: none"> <li>▪ R&amp;D - Salary:               <ul style="list-style-type: none"> <li>– Credit base rate: 17.5%</li> <li>– Rate applicable to SMEs: between 17.5% and 37.5%</li> </ul> </li> <li>▪ R&amp;D - Universities:               <ul style="list-style-type: none"> <li>– Credit rate: 35%</li> </ul> </li> <li>▪ Precompetitive private partnership research:               <ul style="list-style-type: none"> <li>– Credit rate: 35%</li> </ul> </li> <li>▪ Contribution paid to an eligible research consortium:               <ul style="list-style-type: none"> <li>– Credit rate: 35%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ R&amp;D - Salary:               <ul style="list-style-type: none"> <li>– Base rate reduced to 14%</li> <li>– Rate for SMEs between 14% and 30%</li> </ul> </li> <li>▪ R&amp;D - Universities:               <ul style="list-style-type: none"> <li>– Credit rate reduced to 28%</li> </ul> </li> <li>▪ Precompetitive private partnership research:               <ul style="list-style-type: none"> <li>– Credit rate reduced to 28%</li> </ul> </li> <li>▪ Contribution paid to an eligible research consortium:               <ul style="list-style-type: none"> <li>– Credit rate reduced to 28%</li> </ul> </li> </ul>
Abolition of the increase in the rate for eligible biopharmaceutical corporations	<ul style="list-style-type: none"> <li>▪ Tax credit rate: between 27.5% and 37.5%               <ul style="list-style-type: none"> <li>– Must obtain an initial certificate and an annual certification from Investissement Québec</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduced tax credit rate: between 22% and 30%</li> <li>▪ An initial certificate may no longer be requested after June 3, 2014</li> <li>▪ No annual certification will be delivered for a taxation year beginning after June 4, 2014</li> </ul>
Application date		<ul style="list-style-type: none"> <li>▪ Application:               <ul style="list-style-type: none"> <li>– expenses incurred after June 4, 2014</li> <li>– expenses in connection with a research contract entered into after June 3, 2014</li> </ul> </li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Refundable tax credit for the development of e-business</b>		
Reduction of credit rate	<ul style="list-style-type: none"> <li>▪ Credit rate: 30%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 24%</li> <li>▪ Applicable to salaries incurred after June 4, 2014</li> </ul>
Cancellation of the increase in the annual ceiling per employee scheduled for 2016	<ul style="list-style-type: none"> <li>▪ Ceiling increased to \$22,500 as of January 1, 2016</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ceiling maintained at \$20,000</li> </ul>
<b>Tax credit relating to buildings used in the course of manufacturing or processing activities by a manufacturing SME</b>		
Abolition of credit	<ul style="list-style-type: none"> <li>▪ Credit of up to 50% of eligible expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit abolished</li> <li>▪ Application:               <ul style="list-style-type: none"> <li>– expenses incurred after June 4, 2014</li> <li>– exception for expenditures incurred before July 1, 2015 in respect of a contract entered into before June 4, 2014 and for buildings under construction</li> </ul> </li> </ul>
<b>Tax credit for investments relating to manufacturing and processing equipment</b>		
Reduction of credit rate	<ul style="list-style-type: none"> <li>▪ Credit base rate: 5%</li> <li>▪ Increased rate:               <ul style="list-style-type: none"> <li>– Remote zone: credit rate: 40%</li> <li>– Eastern part of the Bas-Saint-Laurent administrative region: credit rate: 30%</li> <li>– Intermediate zone: credit rate: 20%</li> <li>– Other: credit rate: 10%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Base rate reduced to 4%</li> <li>▪ Increased rate:               <ul style="list-style-type: none"> <li>– Remote zone: credit rate reduce to 32%</li> <li>– Eastern part of the Bas-Saint-Laurent administrative region: credit rate reduced to 24%</li> <li>– Intermediate zone: credit rate reduced to 16%</li> <li>– Other: credit rate reduced to 8%</li> </ul> </li> </ul>
Abolition of the increase for manufacturing SMEs	<ul style="list-style-type: none"> <li>▪ Increase of 10%</li> </ul>	<ul style="list-style-type: none"> <li>▪ No increase</li> </ul>
Abolition of the increase in the credit for corporations that do not benefit from the credit for job creation in certain regions	<ul style="list-style-type: none"> <li>▪ Increase of 5%</li> </ul>	<ul style="list-style-type: none"> <li>▪ No increase</li> </ul>
Application date		<ul style="list-style-type: none"> <li>▪ Application:               <ul style="list-style-type: none"> <li>– eligible expenses incurred after June 4, 2014</li> <li>– exception for property acquired before July 1, 2015 in respect of a contract entered into before June 4, 2014 and for property under construction</li> </ul> </li> </ul>
<b>Refundable tax credit for the integration of information technologies for manufacturing SMEs</b>		
Abolition of credit	<ul style="list-style-type: none"> <li>▪ Credit of 25% of expenses relating to a qualified IT integration contract for which Investissement Québec has issued a certificate</li> </ul>	<ul style="list-style-type: none"> <li>▪ No certification may be requested after June 3, 2014</li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Reduction in the refundable tax credits for businesses</b>		
Tax credit for technological adaptation services	<ul style="list-style-type: none"> <li>▪ Credit rate: 50%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 40%</li> <li>▪ Applicable to expenses incurred after June 3, 2014 in connection with a qualified contract entered into after June 3, 2014</li> </ul>
Tax credit for design	<ul style="list-style-type: none"> <li>▪ Credit base rate: 15%</li> <li>▪ Rate applicable to SMEs: between 15% and 30%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Base rate reduced to 12%</li> <li>▪ Rate for SMEs between 12% and 24%</li> <li>▪ Application:               <ul style="list-style-type: none"> <li>– eligible activities carried out after June 3, 2014 under an outside consulting contract entered into after June 3, 2014.</li> <li>– salary expenses incurred by a corporation after June 4, 2014 for designers and patternmakers it employs</li> </ul> </li> </ul>
Credits for the production of multimedia titles	<ul style="list-style-type: none"> <li>▪ Multimedia title intended for commercialization and that is not an occupational training title               <ul style="list-style-type: none"> <li>– Base rate: 30%</li> <li>– Premium for French: 7.5%</li> </ul> </li> <li>▪ Other multimedia title, including an occupational training title               <ul style="list-style-type: none"> <li>– Credit rate: 26.25%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Multimedia title intended for commercialization and that is not an occupational training title               <ul style="list-style-type: none"> <li>– Base rate reduced to 24%</li> <li>– Premium for French reduced to 6%</li> </ul> </li> <li>▪ Other multimedia title, including an occupational training title               <ul style="list-style-type: none"> <li>– Credit rate reduced to 21%</li> </ul> </li> <li>▪ Application:               <ul style="list-style-type: none"> <li>– labour expenses incurred after June 4, 2014</li> <li>– labour expenses incurred after June 3, 2014 in connection with a qualified contract entered into after June 3, 2014</li> </ul> </li> </ul>
Credit for major employment generating projects	<ul style="list-style-type: none"> <li>▪ Credit rate: 25% of a maximum amount of \$60,000 annually</li> <li>▪ Maximum annual credit: \$15,000 per employee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rate reduced to 20%</li> <li>▪ Maximum annual credit: \$12,000 per employee</li> <li>▪ Applicable to salary incurred after June 4, 2014</li> </ul>
Job creation credit <i>In the resource regions</i>  <i>In the Aluminum Valley</i>	<ul style="list-style-type: none"> <li>▪ Credit rate: 10%               <ul style="list-style-type: none"> <li>– Credit available until December 31, 2015</li> </ul> </li> <li>▪ Credit rate: 20%               <ul style="list-style-type: none"> <li>– Credit available until December 31, 2015</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to:               <ul style="list-style-type: none"> <li>– 9% for calendar year 2014</li> <li>– 8% for calendar year 2015</li> </ul> </li> <li>▪ Credit rate reduced to:               <ul style="list-style-type: none"> <li>– 18% for calendar year 2014</li> <li>– 16% for calendar year 2015</li> </ul> </li> </ul>

Unless otherwise indicated, these measures apply to fiscal years ending after June 4, 2014 for businesses and as of the 2014 calendar year for individuals.

Businesses		
	Current measures	Proposed measures
<i>In Gaspésie and certain maritime regions of Québec (wind power, manufacturing and processing sectors)</i>	<ul style="list-style-type: none"> <li>▪ Credit rate: 20%               <ul style="list-style-type: none"> <li>– Credit available until December 31, 2015</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to:               <ul style="list-style-type: none"> <li>– 18% for calendar year 2014</li> <li>– 16% for calendar year 2015</li> </ul> </li> </ul>
Job creation in Gaspésie and certain maritime regions of Québec in biotechnology, mariculture and marine products processing	<ul style="list-style-type: none"> <li>▪ Biotechnology and mariculture sectors               <ul style="list-style-type: none"> <li>– Credit rate: 40%</li> </ul> </li> <li>▪ Marine products processing sector               <ul style="list-style-type: none"> <li>– Credit rate: 20%</li> </ul> </li> <li>▪ Credit available until December 31, 2015</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tax credit applicable to biotechnology and mariculture sectors reduced to:               <ul style="list-style-type: none"> <li>– 36% for calendar year 2014</li> <li>– 32% for calendar year 2015</li> </ul> </li> <li>▪ Credit rate applicable to marine products processing sector reduced to:               <ul style="list-style-type: none"> <li>– 18% for calendar year 2014</li> <li>– 16% for calendar year 2015</li> </ul> </li> </ul>
Credit for resources  <i>Corporation not operating any mineral resource, oil or gas well</i>	<ul style="list-style-type: none"> <li>▪ Rate for expenses relating to:               <ul style="list-style-type: none"> <li>– mining resources, oil and natural gas:                   <ul style="list-style-type: none"> <li>• in the Mid-North or Far North: 38.75%</li> <li>• elsewhere in Québec: 35%</li> </ul> </li> <li>– renewable energy and energy conservation: 35%                   <ul style="list-style-type: none"> <li>• natural resources (cut stone): 15%</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Rate reduced for expenses relating to:               <ul style="list-style-type: none"> <li>– mining resources, oil and natural gas:                   <ul style="list-style-type: none"> <li>• in the Mid-North or Far North: 31%</li> <li>• elsewhere in Québec: 28%</li> </ul> </li> <li>– renewable energy and energy conservation: 28%                   <ul style="list-style-type: none"> <li>• natural resources (cut stone): 12%</li> </ul> </li> </ul> </li> </ul>
<i>Other corporation</i>	<ul style="list-style-type: none"> <li>▪ Rate for expenses relating to:               <ul style="list-style-type: none"> <li>– mining resources, oil and natural gas:                   <ul style="list-style-type: none"> <li>• in the Mid-North or Far North: 18.75%</li> <li>• elsewhere in Québec: 15%</li> </ul> </li> <li>– renewable energy and energy conservation: 30%                   <ul style="list-style-type: none"> <li>• natural resources (cut stone): 15%</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Rate reduced for expenses relating to:               <ul style="list-style-type: none"> <li>– mining resources, oil and natural gas:                   <ul style="list-style-type: none"> <li>• in the Mid-North or Far North: 15%</li> <li>• elsewhere in Québec: 12%</li> </ul> </li> <li>– renewable energy and energy conservation: 24%                   <ul style="list-style-type: none"> <li>– natural resources (cut stone): 12%</li> </ul> </li> </ul> </li> <li>▪ Applicable in respect of eligible expenses incurred after June 4, 2014</li> </ul>
<i>Deferral of changes announced in the March 20, 2012 budget</i>	<ul style="list-style-type: none"> <li>▪ A number of amendments were proposed in respect of this credit in the March 20, 2012 budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ These changes will be analyzed and their application is suspended until further notice</li> </ul>
Credit for international financial centres	<ul style="list-style-type: none"> <li>▪ Credit rate: 30% on a maximum amount of \$66,667 annually</li> <li>▪ Maximum annual credit: \$20,000 per employee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 24%</li> <li>▪ Maximum annual credit: \$16,000</li> <li>▪ Applicable to salaries incurred after June 4, 2014</li> </ul>
Credit relating to a new financial services corporation	<ul style="list-style-type: none"> <li>▪ Credit rate: 40% on a maximum amount of \$375,000 annually</li> <li>▪ Maximum annual credit: \$150,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 32%</li> <li>▪ Maximum annual credit: \$120,000</li> <li>▪ Applicable in respect of expenses incurred after June 4, 2014</li> </ul>

Businesses		
	Current measures	Proposed measures
Credit for the hiring of employees by a new financial services corporation	<ul style="list-style-type: none"> <li>▪ Credit rate: 30% on a maximum amount of \$100,000 annually</li> <li>▪ Maximum annual credit: \$30,000 per employee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 24%</li> <li>▪ Maximum annual credit: \$24,000</li> <li>▪ Applicable to salaries incurred after June 4, 2014</li> </ul>
Credit pertaining to the diversification of markets of Québec manufacturing companies	<ul style="list-style-type: none"> <li>▪ Credit rate: 30%</li> <li>▪ Cumulative limit of credit (for the duration of the credit): \$45,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 24%</li> <li>▪ Cumulative limit reduced to \$36,000</li> <li>▪ Applicable to a taxation year starting after June 4, 2014</li> </ul>
Tax credit to foster the modernization of the tourism accommodation	<ul style="list-style-type: none"> <li>▪ Credit rate: 25%</li> <li>▪ Applicable to expenses in excess of an annual limit of \$50,000.</li> <li>▪ Applicable to work carried out under a contract entered into after March 20, 2012 and before January 1, 2016</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 20%               <ul style="list-style-type: none"> <li>– Applicable to expenses incurred after June 4, 2014, unless the expense is incurred after June 4, 2014 and before July 1, 2015 under a contract entered into before June 4, 2014</li> </ul> </li> <li>▪ Annual threshold replaced with a single threshold of \$50,000 for the duration of the credit               <ul style="list-style-type: none"> <li>– Applicable to a taxation year ended after December 31, 2013</li> </ul> </li> </ul>
Credit for Québec film and television production  <i>French-language or giant-screen production</i>  <i>Other production</i>  <i>Maximum credit</i>  <i>Application date</i>	<ul style="list-style-type: none"> <li>▪ Base rate: 45%</li> <li>▪ Regional increase (outside Montréal region): 10%</li> <li>▪ Increase for feature film of fiction or single documentary without public financial assistance: 10%</li> <li>▪ Base rate: 35%</li> <li>▪ Increase for special effects and computer animation: 10%</li> <li>▪ Regional increase (outside Montréal region): 20%</li> <li>▪ Increase for feature film of fiction or single documentary without public financial assistance: 10%</li> <li>▪ Credit may not exceed 65% of the eligible labour expense</li> </ul>	<ul style="list-style-type: none"> <li>▪ Base rate reduced to 36%</li> <li>▪ Regional increase reduced to 8%</li> <li>▪ Increase without public financial assistance reduced to 8%</li> <li>▪ Base rate reduced to 28%</li> <li>▪ Increase for special effects and computer animation reduced to 8%</li> <li>▪ Regional increase reduced to 16%</li> <li>▪ Increase without public financial assistance reduced to 8%</li> <li>▪ Total maximum credit reduced to 52%</li> <li>▪ Applicable to a 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 SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise</li> </ul> </li> </ul>

Unless otherwise indicated, these measures apply to fiscal years ending after June 4, 2014 for businesses and as of the 2014 calendar year for individuals.

<b>Businesses</b>		
	Current measures	Proposed measures
Credit for film production services	<ul style="list-style-type: none"> <li>▪ Base rate: 25%</li> <li>▪ Increase for special effects and animation: 20%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Basic rate reduced to 20%</li> <li>▪ Increase for special effects and computer animation reduced to 16%</li> <li>▪ Applicable for a production for which an application for an approval certificate is filed with SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise</li> </ul> </li> </ul>
Credit for film dubbing	<ul style="list-style-type: none"> <li>▪ Credit rate: 35%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 28%</li> <li>▪ Applicable for a production for which dubbing is completed after August 31, 2014</li> </ul>
Credit for sound recording production	<ul style="list-style-type: none"> <li>▪ Credit rate: 35%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 28%</li> <li>▪ Applicable to property 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 SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the work on the property was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise</li> </ul> </li> </ul>
Credit for the production of shows	<ul style="list-style-type: none"> <li>▪ Credit rate: 35%</li> <li>▪ Credit threshold:               <ul style="list-style-type: none"> <li>– \$1.25 million for a musical comedy</li> <li>– \$750,000, otherwise</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 28%</li> <li>▪ Credit threshold reduced to:               <ul style="list-style-type: none"> <li>– \$1 million for a musical comedy</li> <li>– \$600,000 otherwise</li> </ul> </li> <li>▪ Applicable to a show for which an application for an advance ruling in relation to the initial eligibility period, or an application for a certificate (if an application for an advance ruling was not filed earlier) is submitted to SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the show on the property was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise.</li> </ul> </li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
Credit for book publishing	<ul style="list-style-type: none"> <li>▪ Credit rate:               <ul style="list-style-type: none"> <li>– 35% of the eligible labour expenditure regarding the preparation costs and digital version publishing costs</li> <li>– 27% of the eligible labour expenditure regarding the printing and reprinting costs</li> </ul> </li> <li>▪ Maximum credit amount: \$437,500</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rates reduced to 28% and 21.6% respectively</li> <li>▪ Maximum credit amount reduced to \$350,000</li> <li>▪ Applicable to work 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 SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise.</li> </ul> </li> </ul>
Credit for the production of multimedia environments or events staged outside Québec	<ul style="list-style-type: none"> <li>▪ Credit rate: 35%</li> <li>▪ Maximum credit amount: \$350,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 28%</li> <li>▪ Maximum credit amount reduced to \$280,000</li> <li>▪ Applicable in respect of a 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 SODEC after:               <ul style="list-style-type: none"> <li>– June 4, 2014 if SODEC considers that the work on the production was not sufficiently advanced at that date</li> <li>– August 31, 2014, otherwise</li> </ul> </li> </ul>
Credit for on-the-job training periods	<ul style="list-style-type: none"> <li>▪ Credit base rate:               <ul style="list-style-type: none"> <li>– 30% for corporations</li> <li>– 15% for individuals</li> </ul> </li> <li>▪ Rates increased to 40% and 20% when the trainee is a handicapped person or an immigrant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Base rates reduced to 24% and 12% respectively</li> <li>▪ Increased rates reduced to 32% and 16% respectively</li> <li>▪ Applicable in respect of an expense incurred after June 4, 2014 in relation to a training period beginning after that day</li> </ul>
Credit for manpower training in the manufacturing, forest and mining sectors	<ul style="list-style-type: none"> <li>▪ Credit rate: 30%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 24%</li> <li>▪ Applicable to an expense incurred in connection with a training contract entered into after June 3, 2014</li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Transportation costs of remote manufacturing SMEs</b>		
<p>Additional deduction for transportation costs of remote manufacturing SMEs</p>	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional deduction in the calculation of net income of a CCPC whose paid-up capital is less than \$15 million                             <ul style="list-style-type: none"> <li>– Base rate based on region:                                     <ul style="list-style-type: none"> <li>• Intermediary zone: 2%</li> <li>• Remote zone: 4%</li> <li>• Special remote zone: 6%</li> <li>• Other regions: 0%</li> </ul> </li> </ul> </li> <li>▪ Additional deduction rate for a corporation determined according to the zone in which the “manufacturing and processing capital cost” (MPCC) is the highest</li> <li>▪ Base rate reduced on a straight-line basis when the proportion of manufacturing and processing activities decreases from 50% to 25%</li> <li>▪ Additional deduction cap:                             <ul style="list-style-type: none"> <li>– General cap: base rate applicable for a corporation calculated on its gross income</li> <li>– Specific cap:                                     <ul style="list-style-type: none"> <li>• Intermediary zone: \$100,000</li> <li>• Remote zone: \$250,000</li> <li>• Special remote zone: nil</li> </ul> </li> <li>– Gradual reduction of the cap for CCPC whose paid-up capital is between \$10 million and \$15 million</li> </ul> </li> <li>▪ Applicable to taxation years ending after June 4, 2014</li> </ul>
<b>Health Services Fund (HSF)</b>		
<p>Temporary reduction in HSF contributions for innovative SMEs</p>	<ul style="list-style-type: none"> <li>▪ Employer contributions to the HSF are at the following rates:                             <ul style="list-style-type: none"> <li>– 2.7% where the world payroll for all associated corporations is less than \$1 million</li> <li>– Beyond that ceiling, the rate increases progressively to 4.26%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduction in the contribution payable by a qualified employer in respect of the increase in payroll attributable to the hiring of full-time employees in the natural and applied sciences sector                             <ul style="list-style-type: none"> <li>– Complete elimination of contribution attributable to these employees where the payroll does not exceed \$1 million</li> <li>– Partial elimination if payroll between \$1 million and \$5 million</li> </ul> </li> <li>▪ Applicable in respect of jobs created after June 4, 2014</li> <li>▪ Reduction granted until 2020</li> </ul>

Unless otherwise indicated, these measures apply to fiscal years ending after June 4, 2014 for businesses and as of the 2014 calendar year for individuals.

<b>Businesses</b>		
	Current measures	Proposed measures
<b>New tax incentives to support the maritime industry</b>		
Creation of a tax-free reserve	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ Creation of a tax-free reserve to allow shipowners to cover the costs of modernizing or renewing their fleet of vessels or building a new vessel</li> <li>▪ An application for a certificate must be submitted to the MEIE before January 1, 2024               <ul style="list-style-type: none"> <li>– A tax-free reserve terminates by December 31, 2033 at the latest</li> </ul> </li> </ul>
Additional capital cost allowance of a vessel	<ul style="list-style-type: none"> <li>▪ CCA rate for a Canadian vessel: 33 1/3%</li> </ul>	<ul style="list-style-type: none"> <li>▪ CCA rate for a Canadian vessel: 33 1/3%</li> <li>▪ Additional CCA if vessel is constructed or renovated in a qualifying shipyard               <ul style="list-style-type: none"> <li>– Briefly, a qualifying shipyard means a shipyard with an establishment in Québec that has direct access to a navigable body of water and has the equipment that is necessary for the construction or conversion of vessels</li> <li>– Additional CCA of 50% of CCA deducted in respect of a Canadian vessel</li> </ul> </li> <li>▪ Applicable to the cost of work in respect of a contract entered into after June 4, 2014 and before January 1, 2024</li> </ul>
<b>Mining Tax Act</b>		
Amendments to the Mining Tax Act	<ul style="list-style-type: none"> <li>▪ The determination of the gross value of annual output of gemstones must be made at the mine site</li> <li>▪ The definition of “processing” does not include hydrometallurgy</li> </ul>	<ul style="list-style-type: none"> <li>▪ The value of gemstones may be determined outside the mine site if certain conditions are met</li> <li>▪ The definition of “processing” will now include all hydrometallurgy activities               <ul style="list-style-type: none"> <li>– The calculation of the processing allocation will be amended to reflect the addition of hydrometallurgy</li> </ul> </li> <li>▪ Applicable for a fiscal year beginning after December 31, 2013</li> </ul>

<b>Businesses</b>		
	Current measures	Proposed measures
<b>Measures to fight tax evasion</b>		
Measures announced in the February 20, 2014 budget	<ul style="list-style-type: none"> <li>▪ Proposed introduction of several measures to fight tax evasion as of the fall of 2014:               <ul style="list-style-type: none"> <li>– Introduction of a mandatory attestation from Revenu Québec for private construction contracts</li> <li>– Increased controls regarding false billing</li> <li>– Introduction of a mandatory attestation from Revenu Québec for employment agencies</li> <li>– Implementation of SRMs in the bars and resto-bars sector</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of the following measures as of January 1, 2015               <ul style="list-style-type: none"> <li>– Introduction of a mandatory attestation from Revenu Québec for private construction contracts</li> <li>– Introduction of a mandatory attestation from Revenu Québec for employment agencies</li> </ul> </li> <li>▪ Various measures will be applied to increase controls over false billing</li> <li>▪ Implementation of the measure on the implementation of SRMs in the bars and resto-bars sector as of June 1, 2015</li> </ul>

Individuals		
	Current measures	Proposed measures
<b>Experienced workers</b>		
Increase of the tax credit for workers 65 or older	<ul style="list-style-type: none"> <li>▪ Non-refundable tax credit calculated on eligible employment income in excess of \$5,000, up to a maximum income portion of \$3,000</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase of the eligible maximum income to \$4,000</li> <li>▪ Applicable as of the 2015 taxation year</li> </ul>
<b>Seniors' activities</b>		
Introduction of a refundable tax credit	<ul style="list-style-type: none"> <li>▪ None</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tax credit equal to 20% of the lesser of \$200 and the total eligible expenses paid in the year</li> <li>▪ Eligible expenses: registration or membership fees for a qualifying physical, artistic and cultural activities program</li> <li>▪ Eligible senior: 70 years of age or more as at December 31</li> <li>▪ No credit if individual's income is greater than \$40,000</li> <li>▪ Applicable to amounts paid after June 4, 2014 for activities that take place after June 4, 2014</li> </ul>
<b>Mechanism for splitting retirement income between spouses</b>		
Amendment to ensure the fairness of the mechanism for splitting retirement income between spouses	<ul style="list-style-type: none"> <li>▪ Preferential treatment for individual who have life annuities under a registered pension plan:               <ul style="list-style-type: none"> <li>– Possibility of using the mechanism for splitting retirement income before the age of 65</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The person whose income is split must have reached 65 years of age before the end of the year to qualify for retirement income splitting</li> <li>▪ Applicable as of the 2014 taxation year</li> </ul>
<b>Flow-through shares</b>		
Reduction of tax benefits relating to additional deductions	<p>Additional deductions:</p> <ul style="list-style-type: none"> <li>▪ Exploration expenses incurred in Quebec: 25%</li> <li>▪ Surface mining exploration or oil and gas exploration expenses incurred in Québec: 25%</li> <li>▪ Issue expenses incurred by the corporation: 100% up to a maximum of 15% of the proceeds of the issue</li> </ul>	<p>Additional deductions:</p> <ul style="list-style-type: none"> <li>▪ Exploration expenses incurred in Quebec: rate reduced to 10%</li> <li>▪ Surface mining exploration or oil and gas exploration expenses incurred in Québec: rate reduced to 10%</li> <li>▪ Issue expenses incurred by the corporation: 100%.               <ul style="list-style-type: none"> <li>– Maximum reduced to 12% of the proceeds of the issue</li> </ul> </li> <li>▪ Applicable in respect of flow-through shares issued after June 4, 2014. Exception shares issued after that date if they are issued:               <ul style="list-style-type: none"> <li>– either further to a placement made no later than June 4, 2014</li> <li>– pursuant to an interim prospectus receipt application or a prospectus exemption application, as the case may be, made no later than June 4, 2014</li> </ul> </li> </ul>

Unless otherwise indicated, these measures apply to fiscal years ending after June 4, 2014 for businesses and as of the 2014 calendar year for individuals.

Individuals		
	Current measures	Proposed measures
<b>Capital régional et coopératif Desjardins</b>		
Reduction of the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins	<ul style="list-style-type: none"> <li>▪ Credit rate: 50%</li> <li>▪ Maximum annual credit: \$2,500</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit rate reduced to 45%</li> <li>▪ Maximum annual credit: \$2,250</li> <li>▪ Applicable in respect of shares acquired after February 28, 2014</li> </ul>

## Commodity Taxes and Other Measures

	Current measures	Proposed measures
<b>Tax on tobacco products</b>		
Increase in the specific tax on tobacco products	<ul style="list-style-type: none"> <li>▪ Specific tax:               <ul style="list-style-type: none"> <li>– 12.9 cents per cigarette and per gram of loose tobacco or leaf tobacco</li> <li>– 19.85 cents per gram of all other tobacco</li> </ul> </li> <li>▪ Minimum tax: 12.9 cents per tobacco stick</li> <li>▪ Ad valorem tax: 80% of the taxable price of cigars</li> </ul>	<ul style="list-style-type: none"> <li>▪ Specific tax:               <ul style="list-style-type: none"> <li>– 14.9 cents per cigarette and per gram of loose tobacco or leaf tobacco</li> <li>– 22.92 cents per gram of all other tobacco</li> </ul> </li> <li>▪ Minimum tax: 14.9 cents per tobacco stick</li> <li>▪ Ad valorem tax: unchanged</li> <li>▪ Applicable as of June 5, 2014</li> </ul>
<b>Tax on alcoholic beverages</b>		
Standardization of the specific tax on alcoholic beverages	<ul style="list-style-type: none"> <li>▪ Specific tax on products sold for consumption in an establishment:               <ul style="list-style-type: none"> <li>– Beer: \$0.82 per litre</li> <li>– Other alcoholic beverages: \$2.47 per litre</li> </ul> </li> <li>▪ Specific tax on products sold for consumption other than in an establishment:               <ul style="list-style-type: none"> <li>– Beer: \$0.50 per liter</li> <li>– Other alcoholic beverages: \$1.12 per litre</li> </ul> </li> <li>▪ Reduction of the specific tax for microbrewers and small-scale producers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Uniform taxes apply, regardless of where the beverages are consumed (in an establishment or elsewhere):               <ul style="list-style-type: none"> <li>– Beer: \$0.63 per liter</li> <li>– Other alcoholic beverages: \$1.40 per litre</li> </ul> </li> <li>▪ The reduction of the specific tax for microbrewers and small-scale producers will also apply to the increase in the base rate</li> <li>▪ Applicable as of 6:00 a.m. on August 1, 2014</li> </ul>
<b>Various employer contributions</b>		
Change to the definition of “base wages”	<ul style="list-style-type: none"> <li>▪ Benefit granted by a person other than the employer must be included in the individual's income</li> <li>▪ This benefit is not included for the purposes of determining the employer's various contributions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The definition of “base wages” will be changed to include benefits granted or awarded to the employee in the course of his office or employment by a person not at arm's length with the given employer</li> <li>▪ Amendment will be declaratory. However, it will not apply regarding cases pending and notices of objection served before 4 p.m. on June 4, 2014</li> </ul>

## Commodity Taxes and Other Measures

	Current measures	Proposed measures
<b>Labour funds</b>		
Temporary cap on government assistance	<ul style="list-style-type: none"> <li>▪ Fonds de solidarité FTQ:               <ul style="list-style-type: none"> <li>– No limit on the amount of shares issued by the Fonds</li> </ul> </li> <li>▪ Fondation:               <ul style="list-style-type: none"> <li>– Limit on the capital amount Fondation is permitted to accept</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Fonds de solidarité FTQ:               <ul style="list-style-type: none"> <li>– The paid-up capital in respect of shares conferring a tax benefit that may be issued by the Fonds is limited to \$650 million for the fiscal year beginning on June 1, 2014 and ending May 31, 2015</li> </ul> </li> <li>▪ Fondation:               <ul style="list-style-type: none"> <li>– The limit is reduced to \$25 million for the fiscal year commencing June 1, 2014 and ending May 31, 2015</li> </ul> </li> </ul>
Recognition of certain investments made by labour funds	<ul style="list-style-type: none"> <li>▪ Eligible investments must represent at least 60% of the net assets for the previous fiscal year (60% requirement)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Numerous investments are recognized as qualifying for the 60% requirement</li> </ul>
<b>Capital régional et coopératif Desjardins</b>		
Changes to constituting act	<ul style="list-style-type: none"> <li>▪ Seven administrative regions in Quebec are recognized as resource regions for purposes of the regional component of the investment requirement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Recognition of investments in a regional county municipalities outside resource regions facing economic difficulties</li> <li>▪ Various amendments are being made to the investment requirement</li> <li>▪ Applies to investments made after December 31, 2013 and before January 1, 2018</li> </ul>
Special tax relating to excessive capitalization	<ul style="list-style-type: none"> <li>▪ Special tax rate: 50%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rate reduced to 45%</li> <li>▪ Applicable to any capital-raising period beginning after February 28, 2014</li> </ul>

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