2019-2020 Budget: More money for our businesses, but more work needs to be done

Tax Bulletin

Quebec Budget, March 21, 2019

According to Finance Minister Éric Girard, the aim of the first CAQ government budget is to invest now to control our future. According to the master of the public purse, the budget was prepared "based on your priorities".

Thanks to the current fiscal surplus estimated at $2.5B at the end of 2018-2019, the Government is projecting a balanced budget this year as well as for the next four years without need to use the stabilization reserve.

A number of the measures announced are designed to put more money in the pockets of Quebeckers, including the gradual elimination of the childcare contribution and a standardized school tax. Adding to the measures announced in the 2018 fall update (like the new Family Allowance and the new tax credit for seniors) which will give $360M back to taxpayers, the Government will now be putting nearly $1B back in the pockets of Quebeckers starting in 2019-2020.

A boost for businesses but not enough to improve tax competitiveness

Labour

To create a more competitive and innovative Quebec, education is the cornerstone. The 5.1% increase in the budget for education and higher education in 2019-2020 would mean an additional $2.4B in resources for education and higher education over five years.

Since the labour shortage is a major issue over the short term, it would have been nice to see measures to speed up worker recruitment. However, we should highlight the announcements aimed at better integrating immigrants into the workforce. With an additional $146M per year over five years, for a total of $730M, the Government wants to implement a new personalized pathway to support immigrants in their integration into Quebec society, including the labour market.

The announcements encouraging workers to stay in the labour market are interesting, including the expansion of the credit for experienced workers and the lowering of the age of eligibility for this tax credit to 60. The reduction in payroll expenses related to wages paid to workers aged 60 and over is also worth mentioning. This reduction would benefit 34,000 Quebec SMEs.

Also, the injection of $75M over six years to support entrepreneurship and encourage the next generation of young entrepreneurs is an interesting announcement to stimulate job creation and entrepreneurial labour, although the amounts could be larger.

Capital and Financing

To stimulate private investment, the government also decided to increase the share capital of Investissement Québec from $4B to $5B in order to be able to carry out more interventions using its own funds. Another measure to be highlighted is the creation of an envelope of up to $1B to support the development of strategic businesses in Quebec and to protect the presence of head offices in Quebec. Given that new technologies are key to productivity and innovation for businesses, the announcement of $329M over six years to accelerate the development and adoption of artificial intelligence by businesses is very good news.

Unless otherwise indicated, these measures apply to fiscal years ending after March 21, 2019 for businesses and as of the 2019 calendar year for individuals.

Corporate Taxation

There are no new corporate tax cuts in this budget. In a very competitive business environment, particularly with our neighbours to the south, we have to recognize that this budget gives our businesses more means, but there is still work to be done. The lost tax advantage of Quebec's economic engines over the Americans must be restored.

For more information on the tax measures announced in the 2019-2020 budget, please consult the following pages.

BUSINESSES

<table>
<tr><th></th><th>CURRENT MEASURES</th><th>PROPOSED MEASURES</th></tr>
<tr><td colspan="3">SME tax credit for retaining experienced workers</td></tr>
<tr><td>Introduction of a refundable tax credit</td><td>▪ None</td><td>▪ Credit on employer contributions paid for workers 60 years of age or older
▪ Credit rate for companies with a total payroll of $1M or less:
– Workers aged 60 to 64: 50%
– Workers 65 or older: 75%
▪ Credit rate gradually reduced to nil when total payroll reaches:
– $6M in 2019 and 2020
– $6.5M in 2021
– $7M in 2022
▪ Maximum credit per employee:
– $1,250 for workers 60-64
– $1,875 for workers 65 and over
▪ Eligible companies:
– Paid-up capital of less than $15M, and
– Hours paid for the year in excess of 5,000 hours
• Payroll hours criteria not applicable to companies in the primary and manufacturing sectors
▪ Total payroll:
– For the calendar year ending in the taxation year
– Including all associated companies
▪ Applicable to taxation years ending after December 31, 2018</td></tr>
<tr><td colspan="3">Tax holiday for a major investment project</td></tr>
<tr><td>Reduction in the minimum expense threshold</td><td>▪ Minimum expense thresholds:
– $75M in the designated regions:
• Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Nord-du-Québec, Saguenay–Lac-Saint-Jean, RCM of Granit, RCM of Haut-Saint-François, the greater La Tuque region, RCM of Mékinac, RCM of Pontiac, RCM of La Vallée-de-la-Gatineau, RCM of Antoine-Labelle and RCM of Charlevoix-Est
– $100M in other cases</td><td>▪ Reduced minimum expense thresholds:
– $50M in the designated regions
– $100M in other cases
▪ Applicable to projects beginning after March 21, 2019 and to applications for initial certificates made after that date</td></tr>
</table>

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Mining Tax Act		
Introduction of an allowance for sustainable development certification	▪ None	▪ New deduction in the calculation of annual profit for an amount corresponding to the cumulative sustainable development certification costs ▪ Correlative adjustment to the refundable duties credit for loss ▪ Applicable to costs incurred after March 21, 2019
Tax credit for the reporting of tips		
Eligibility of new benefits for credit calculation purposes	▪ Credit calculated on employer contributions to the QPP, the QPIP, the Employment Insurance and the HSF, including contributions for various employee leave benefits	▪ Eligibility of new benefits provided under the *Act Respecting Labour Standards* since January 1, 2019: – Time off for family obligations – Time off for health reasons

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Tax credit for experienced workers		
Change in age of eligibility and eligible amounts	▪ 15% tax credit on eligible working income ▪ Maximum allowable working income based on individual's age: – 61: $3,000 – 62: $5,000 – 63: $7,000 – 64: $9,000 – 65 or older: $11,000	▪ Credit renamed the "Career Extension Tax Credit" ▪ Maximum allowable working income based on individual's age: – 60 to 64: $10,000 – 65 or older: $11,000 ▪ Transitional measure (floor credit) for workers 69 and over in 2019 ▪ Applicable as of 2019
Childcare expenses		
Incremental elimination of additional childcare contribution	▪ Daycare expenses in 2019: – Base contribution: $8.25 – Additional contribution based on family income: • Between $52,220 and $78,320: $0.70 • Between $78,320 and $166,320: incremental increase to a maximum of $13.90	▪ Additional contribution based on family income in 2019: – Between $52,220 and $78,320: $0 – Between $78,320 and $166,320: incremental increase to a maximum of $13.20 ▪ In 2020, increase in the exemption threshold from $78,320 to $108,530 and reduction of the maximum additional contribution to $8.80 per day ▪ In 2021, increase in the exemption threshold to $140,065 and reduction of the maximum additional contribution to $4.40 per day ▪ In 2022, total elimination of the additional contribution

OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Roulez vert Program		
Revised eligibility criteria for new vehicles	▪ $8,000 rebate: – New vehicles with a suggested retail price of $75,000 or less for the 2019-2020 fiscal year ▪ $3,000 rebate: – New vehicles with a suggested retail price of between $75,000 and $125,000 for the 2019-2020 fiscal year	▪ $8,000 rebate: – New vehicles with a suggested retail price of $60,000 or less ▪ Elimination of the $3,000 rebate ▪ Applicable to fiscal year 2020-2021
Expansion of the program to fully electric used vehicles	▪ None	▪ $4,000 rebate: – Vehicles under $75,000 for fiscal year 2019-2020 – Vehicles under $60,000 for fiscal year 2020-2021 ▪ $1,500 rebate: – Vehicles between $75,000 and $125,000 for fiscal year 2019-2020 – Elimination for fiscal year 2020-2021
Tax on Lodging		
New registration requirement for individuals operating a digital platform offering accommodation units	▪ Possible voluntary registration for the 3.5% tax on lodging on the price for each night	▪ Mandatory registration for the collection and remittance of the tax on lodging ▪ Applicable as of the first calendar quarter beginning 180 days after the legislation giving effect to this measure receives royal assent
FTQ Solidarity Fund Investment Standard		
Merging of investment caps	▪ Maximum net assets that can be invested in: – Strategic investments: 17.5% – Major projects with a structuring effect on the Quebec economy: 10%	▪ Maximum net assets that can be invested in strategic investments and major projects with a structuring effect on the economy: 27.5%

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