Refundable Tax Credit for SMEs to Foster the Retention of Experienced Workers – Quebec

April 2019

Tax News

In connection with its March 21, 2019, the Quebec government announced the introduction of a new refundable tax credit encouraging SMEs to hire or retain workers aged 60 years and older.

The following is a summary of this tax credit.

CALCULATING THE CREDIT

Generally, eligible corporations can benefit from a tax credit relating to employer contributions paid in a calendar year with respect to workers aged 60 years and older.

The rate and maximum amount of the tax credit are as follows:

Worker's age	Maximum credit rate	Maximum credit
60-64 years	50%	$1,250
65 years and older	75%	$1,875

Rate reduced based on payroll

Corporations can benefit from a tax credit at a rate of 50% or 75%, as applicable, when the total payroll[1] for the calendar year is $1M or less. Beyond this threshold, the tax credit is reduced linearly down to nil when payroll reaches the following threshold:[2]

Calendar year	Total payroll threshold
2019 and 2020	$6.0M
2021	$6.5M
2022	$7.0M
2023	Amount indexed annually

ELIGIBILITY CRITERIA

Eligible corporations

Corporations[3] must have an establishment in Quebec and carry on a business in that province, or be a member of a partnership that has an establishment in Quebec and carries on a business there. In the latter case, corporations can benefit from a tax credit for employer contributions paid by the partnership for its taxation year ending in the corporations' taxation year, based on its proportion of revenues and losses.

Furthermore, the corporation must respect the following conditions:

- Its paid-up capital[4] for the previous year is less than $15M;
- The remunerated hours for the previous year exceed 5,000 hours.[5]

However, primary and manufacturing[6] sector corporations do not have to respect the criteria for remunerated hours.

1 Including that of all associated corporations and partnerships, on a worldwide basis.

2 For purposes of this credit, payroll is that established to determine the employer's contribution to the Health Services Fund (HSF) and the thresholds are those applicable for this purpose.

3 Except for tax-exempt corporations or Crown corporations (or one of its subsidiaries).

4 Including that of the corporations to which they are associated. For partnerships, the rules apply as if they were a corporation.

5 Criteria identical to that enabling corporations to benefit from the Small Business Deduction.

6 That is, corporations whose proportion of activities in the primary and manufacturing sectors exceeds 25%.

Eligible employees and specified employees

Eligible employees and specified employees are employees who are not designated shareholders[7] of the corporation[8] and who, as at January 1 of the calendar year in question:

- are **aged 60 to 64 years** in the case of **specified employees**, for the purposes of the credit calculated at a 50% rate;
- are **aged 65 years or more** in the case of **eligible employees**, for the purposes of the credit calculated at a 75% rate.

Eligible expenditures[9]

Eligible expenditures are employer contributions[10] paid by the corporation or partnership, as applicable, for salaries or wages paid to an employee during the calendar year ending in the taxation year.

Eligible expenditures must be reduced by the amount of any government or non-government assistance and any profit of benefit attributable to these.

Additionally, corporations cannot benefit from this tax credit with regard to employees for whom they can claim the HSF contribution holiday in connection with the tax holiday for major investment projects.

ELIGIBILITY PERIOD

The credit applies to taxation years ended after December 31, 2018, with regard to employer contributions paid after this date.

Example: A corporation with a June 30th year-end date can claim the tax credit on employer contributions paid in 2019 in its year that will end June 30, 2020, i.e. the fiscal year in which the 2019 calendar year will end.

Do not hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine which measures apply to your situation and assist you with the steps needed to benefit from these measures.

For more information, visit us at rcgt.com.

7 The expression "designated shareholder" generally refers to direct or indirect holders of 10% and more of the shares of a class of shares of a corporation or any other related corporation (or 10% and more of the votes at a meeting of members, in the case of a cooperative).

8 When the employer is a partnership, the employee cannot be a member of this partnership, or a designated shareholder or a designated member of this member, or deal at non-arm's length with such a person.

9 Expenditures will be qualified as "eligible expenses" when they pertain to an eligible employee and "specified expenses" when they pertain to a designated employee.

10 Contributions to QPIP, CNT, HSF, RRQ and CNESST.