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2020-2021 Quebec Budget: Green, Balanced and Focussed on Infrastructures

Tax Bulletin

Quebec Budget, March 10, 2020

The second budget of François Legault's government is firmly focused on the environment and infrastructure. The new electrification and climate change framework policy, with a budget envelope of $6.2B between now and 2026, and the $15B increase in the 2020-2030 Quebec Infrastructure Plan are two key measures in this budget.

In addition to major announcements in education (an additional $1.5B over the next five years), culture (an additional $400M over six years), regional economic development (an additional $900M and $650M earmarked for natural resource development between now and 2025), businesses will benefit from key measures to stimulate their development. Here are a few of these measures.

Tax credit for investments and innovation (C3i)

Businesses from all sectors will be able to claim a tax credit equal to 10%, 15% or 20% of eligible investments, depending on their region, for manufacturing and processing equipment, computer hardware and management software. This tax measure represents $526M in financial support over five years.

Incentive deduction for the commercialization of innovations (IDCI)

An amount of $334M from now to 2025 has been granted to encourage businesses in all economic sectors to commercialize Quebec innovations in the province. This tax measure will enable Quebec businesses that develop and market Quebec intellectual property in the province to benefit from a competitive tax rate of 2% on this specific income.

Synergy capital tax credit

Businesses that invest in an eligible SME will be able to claim a non-refundable tax credit equivalent to 30% of the value of their investment in eligible shares.

Eligible investments will be limited to $750 000 per investor per year, for a maximum tax credit of $225 000.

Action plan for foreign investment and export growth

The budget also provides of $110M in financing in the coming years to stimulate the growth of businesses by helping them reach new heights. The minister of the economy and innovation will be announcing an action plan in this regard in the near future.

Moreover, an additional amount of $213M is announced to encourage labour market integration and retention. Among others, this should serve to better integrate immigrants in the next five years ($160M), promote in-house training for workers ($29M) and facilitate the integration of people with severely limited capacity for employment ($13.7M). The budget provides $10M to attract qualified workers. Given the current workforce shortage, more extensive assistance to support employers in their international recruiting would have been preferable.

No tax reduction for individuals and balanced budget anticipated in 2020

Of note is the lack of specific measures to counter the negative effects of the rail blockade and COVID-19. According to this budget, the budget will be balanced in 2021, after payment into the Generations Fund.

As well, no tax cuts have been announced for individuals and the tax burden on businesses remains high, except for those that develop and commercialize products derived from intellectual property that will benefit from a reduction in income tax on these innovations. For more information on the tax measures announced in the 2020-2021 budget, please read the following pages.

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Tax credit for investments and innovation		
Introduction of a tax credit for the acquisition of specified property	▪ None	▪ Tax credit calculated on the expenses incurred to acquire specified property (in excess of excluded expenses) – Cumulative limit of eligible expenses (per associated group): $100M ▪ Rate based on region: – Low economic vitality zone: 20% – Intermediate zone: 15% – High economic vitality zone: 10% ▪ Specified property – **New** property used **exclusively** (primarily for a management software package) in Quebec for a minimum period of 730 consecutive days, that is: • Manufacturing and processing equipment (class 53) • Electronic data processing equipment and the systems software for that equipment (class 50) • A qualified management software package • Certain property used primarily in the course of ore processing (class 43) and in the course of ore smelting, refining or hydrometallurgy activities – Exclusion: property used in a large investment project or in the course of operating an ethanol, biodiesel or pyrolysis oil production plant ▪ Excluded expenses (per specified property): – $5,000 for class 50 property or qualified management software packages – $12,500 for other property ▪ Refundable based on the associated group's assets and gross income level in the previous year – Less than $50M: 100% – Between $50M and $100M: gradual rate reduction (nil at $100M) ▪ Applicable for eligible property acquired after March 10, 2020 and before 2025 – Transitional measure applicable for property that qualifies for the investment tax credit (election possible, no accumulation)

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Refundable tax credit relating to IT integration		
Elimination of credit	▪ Tax credit of 20% on eligible expenditures relating to the supply of a qualified management software package ▪ Maximum credit of $50,000 reduced on the basis of associated corporations' paid-up capital ▪ Application for a certificate of eligibility submitted to Investissement Québec before January 1, 2021	▪ No new application for a certificate of eligibility accepted after March 10, 2020 as a result of the introduction of the new tax credit for investments and innovation ▪ Transitional measures for prior agreements entered into no later than March 10, 2020
Incentive deduction for the commercialization of innovations in Quebec		
Introduction of the incentive deduction for the commercialization of innovations	▪ None	▪ New deduction enabling qualified innovation corporations to reduce the effective tax rate from 11.5% to 2% on eligible income from the commercialization of a qualified intellectual property asset (QIPA), that is: – An invention that is protected by a patent, a certificate of supplementary protection or a plant breeder's rights; – Software protected by copyright ▪ Eligible income (based on R&D activities carried out in Quebec): – Royalty for the use of a QIPA – Income from the sale or lease of property incorporating a QIPA – Income from the supply of services related to a QIPA – Damages and interest from judicial remedies relating to a QPIA ▪ Qualified innovative corporation – Corporation that has an establishment in Quebec and derives income from the commercialization of a QPIA ▪ Applicable for taxation years beginning after December 31, 2020
Deduction for innovative manufacturing corporations		
Elimination of deduction	▪ Deduction of an amount equal to a portion of the value of a qualified patented feature integrated into qualified property sold by the corporation ▪ Applicable to innovative manufacturing corporations whose paid-up capital is at least $15M	▪ Deduction eliminated for taxation years starting after December 31, 2020 ▪ Measure replaced by the new incentive deduction for the commercialization of innovations in Quebec

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Synergy capital tax credit		
Introduction of a new non-refundable tax credit	▪ None	▪ Tax credit of 30% of the amount paid by a qualified investor for the subscription of common shares of a qualified corporation – Maximum annual investment: $750,000 (maximum annual credit of $225,000) ▪ Qualified investor – Corporation with an establishment in Quebec – Some investors are excluded, including a specified financial institution, an investment corporation, certain real estate and lending corporations ▪ Qualified corporation – Canadian-controlled private corporation that is at arm's length and not associated with the investor – Carries on 75% of its activities in Quebec and 50% and more of its activities are in one of the following sectors: • Life sciences • Manufacturing or processing • Green technologies • Artificial intelligence • Information technologies – Paid-up capital of associated group is less than $15M – Gross income of associated group is less than $10M – Has a certificate delivered by Investissement Québec – Uses the funds for eligible purposes ▪ Minimum investment holding period: five years ▪ Investissement Québec will accept applications for certificates after December 31, 2020 and will deliver certificates for maximum annual subscriptions of $1M per enterprise for a total of $30M annually ▪ Applicable to share subscriptions carried out after December 31, 2020

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Credits for scientific research and experimental development		
Elimination of the exclusion threshold for certain credits	▪ Exclusion threshold varying between $50,000 and $225,000 applicable to expenditures ▪ Rule that provided for splitting the exclusion threshold between the following credits: – R&D salary (usually claimed) – R&D university – Pre-competitive R&D in a private partnership – R&D subscriptions to a research consortium	▪ Elimination of the exclusion threshold for expenditures relating to these credits : – R&D university – Pre-competitive R&D in a private partnership – R&D subscriptions to a research consortium ▪ In the case of the R&S salary credit, the splitting rules continue to apply as though the threshold still applied to all the credits ▪ Applicable for taxation years beginning after March 10, 2020
Tax credit for SMEs for persons with a severely limited capacity for employment		
Introduction of a new refundable tax credit	▪ None	▪ Credit for provincial employer contributions paid in respect of an eligible employee ▪ Qualified corporation: – Paid-up capital is less than $15M, **and** – Remunerated hours for the year exceed 5,000 hours • Criterion for remunerated hours does not apply to primary and manufacturing sector corporations ▪ Eligible employee: – Individual with a severe and prolonged impairment in mental or physical functions (as defined for the purposes of the application for the credit of the same name), or – Individual for whom the employer has a certificate showing that the person received a social solidarity allowance in the current or one of the preceding five years ▪ Applicable to taxation years ending after December 31, 2019
Tax holiday for large investment projects		
Extension of the time limit for submitting an application for an initial qualification certificate or for amending the initial certificate	▪ Tax and HSF contribution holiday with respect to the income and wages related to eligible activities carried out in connection with a large investment project ▪ Application for an initial qualification certificate or for amending the initial certificate no later than December 31, 2020	▪ Application for an initial qualification certificate or for amending the initial certificate no later than December 31, 2024

Unless otherwise indicated, these measures apply to fiscal years ending after March 10, 2020 for businesses and as of the 2020 calendar year for individuals.

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Refundable tax credit for Québec film and television production		
Change to the definition of a film adapted from a foreign format	▪ A film, including a television program, that is not developed from a foreign format benefits from a higher credit rate than a film adapted from a foreign format ▪ Restriction not applicable to a film whose primary market is online broadcasting	▪ Restriction extended to a production whose primary market is online broadcasting ▪ Applicable for a production for which an application is filed with SODEC after March 10, 2020
Change to the requirements for application of the higher rate for a French-language film	▪ Some French-language films whose primary market is the television market are eligible for the higher credit rate	▪ Extension of eligibility to the higher credit rate to certain French-language films whose primary market is online broadcasting ▪ Applicable for a production for which an application is filed with SODEC after March 10, 2020
Addition of excluded amounts of assistance (assistance that does not reduce the credit)	▪ Financial assistance from a public or cultural organization is considered excluded assistance in calculating the tax credit	▪ Addition of the following assistance as excluded amounts of assistance: – Soutien à la production de courts métrages et de webséries program – Soutien à la production de longs métrages et de séries télévisées program ▪ Applicable to financial assistance granted after March 6, 2019.
Refundable tax credit for sound recording		
Increase in the cap on eligible expenses	▪ Qualified labour expenditures, capped by a limit corresponding to 50% of eligible recording production costs	▪ Qualified labour expenditures cap increased to 65% of eligible recording production costs ▪ Applicable to applications filed with SODEC after March 10, 2020
Refundable tax credit for the production of performances		
Increase in the cap on eligible expenses	▪ Qualified labour expenditures, capped by a limit corresponding to 50% of production costs of performance	▪ Qualified labour expenditures cap increased to 65% of production costs of performance ▪ Applicable for a production whose first eligibility period ends after March 10, 2020 to the extent the application has been submitted to SODEC after that date
Tax credit for the production of multimedia titles		
Clarification of the notion of interactivity	▪ A title is considered to be controlled by software allowing interactivity if the user participates in the action of the title ▪ The extent of the user's participation is not described	▪ Clarification of the level of interactivity required: – The user must participate in the action of the title for all or substantially all of the action ▪ Applicable to applications for a certificate filed after March 10, 2020 for a taxation year beginning after that day

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BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Tax credit for the development of e-business		
Change in activities eligible for the credit	▪ Eligible activities include the design or development of e-commerce solutions allowing a monetary transaction between the person on behalf of whom the design or development is carried out and that person's customers	▪ Activities are no longer eligible unless they are incidental to another eligible activity ▪ Applicable for taxation years beginning after March 10, 2020
Certified forest producers in respect of a private forest		
Extension and increase of the income-averaging mechanism and the carry-over period	▪ Deferral of a portion of the income from a private forest for purpose of: – Income tax – Contribution to the HSF ▪ Amount deferred equal to 85% of the lesser of: – $20,000 – Income from the sale of timber (other than retail sales) ▪ Maximum deferral period: seven years ▪ Applicable to taxation years ended after March 17, 2016 and before January 1, 2021	▪ Income-averaging mechanism extended to taxation years ending before January 1, 2026 ▪ Maximum deferral period extended to 10 years – Applicable for eligible sales of timber completed after March 9, 2020 and before January 1, 2026
Tax-free reserve for Quebec shipowners		
Elimination of tax-free reserve	▪ Possibility for eligible shipowners to create a tax-free reserve to carry out certain work on the vessels in their fleet ▪ Reserve must end no later than December 31, 2033	▪ No new application for a certificate of eligibility accepted after March 10, 2020 ▪ Transitional measure applicable to holders of valid certificates of eligibility on March 11, 2020

Unless otherwise indicated, these measures apply to fiscal years ending after March 10, 2020 for businesses and as of the 2020 calendar year for individuals.

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Refundable tax credit for caregivers		
Restructuring of the tax credit for caregivers	▪ Refundable tax credit for informal caregivers of persons of full age divided into four components: – Component 1: an informal caregiver housing a person of full age who is an eligible relative aged 70 or older or has a severe and prolonged impairment • Basic credit of $674 and additional credit up to $551 based on income – Component 2: an informal caregiver co-residing with a person of full age who is an eligible relative having a severe and prolonged impairment • Basic credit of $674 and additional credit up to $551 based on income – Component 3: an informal caregiver co-residing with a spouse aged 70 or older who has a severe and prolonged impairment • Credit of $1,050 – Component 4: an informal caregiver of a person of full age who is an eligible relative having a severe and prolonged impairment, with no co-residency requirement • Credit up to $551 based on income	▪ Credit replaced with the "tax credit for caregivers" divided into two components – Component 1: Person of full age having a severe and prolonged impairment who is either an eligible family member or a person with no family relationship subject to a certificate of ongoing assistance • Base credit of $1,250 (with co-residency) • Additional credit up to $1,250 based on the carereceiver's income (with or without co-residency) – Component 2: Housing an eligible family member aged 70 or older (other than spouse) without a severe or prolonged impairment • Base credit of $1,250 (with co-residency) ▪ Applicable as of January 1, 2020
Tax credit for respite of caregivers		
Elimination of tax credits	▪ Two refundable tax credits are available – Tax credit for respite of caregivers – Tax credit for volunteer respite services	▪ Elimination of both credits as of January 1, 2021 – Transitional measure for 2020 (cannot be combined with the tax credit for caregivers)
Solidarity tax credit		
Simplification of payment of amounts to the surviving spouse	▪ When the applicant for the credit dies, the surviving spouse must make a formal application to receive the amounts the couple is entitled to receive	▪ Elimination of the requirement to formally apply to Revenu Québec ▪ The surviving spouse must agree to direct deposit of the sums and provide his or her bank information to Revenu Québec ▪ Applicable for deaths occurring as of July 1, 2020

Unless otherwise indicated, these measures apply to fiscal years ending after March 10, 2020 for businesses and as of the 2020 calendar year for individuals.

OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Compensation tax for financial institutions		
Changes to the rates applicable to wages paid for certain independent corporations	▪ Compensation tax on amounts paid as wages by banks, loan corporations, trust corporations and corporations trading in securities – Rate: • April 1, 2019 to March 31, 2020: 4.22% • April 1, 2020 to March 31, 2022: 4.14% • April 1, 2022 to March 31, 2024: 2.80% – Maximum payroll amount subject to tax: • $1.1 billion ▪ Other rates and limits applicable to savings and credit unions and other persons subject to the compensation tax	▪ Review of the rates and limits applicable to wages paid by the following independent corporations: – Loan corporations – Trust corporations – Corporations trading in securities ▪ “Independent corporation”: corporation that is not associated with a bank, savings and credit union or insurance corporation ▪ Applicable rates: – April 1, 2020 to March 31, 2022: 1.32% – April 1, 2022 to March 31, 2024: 0.90% ▪ Maximum payroll amount subject to tax: – $275 million ▪ Applicable as of April 1, 2020

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