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2023 Quebec Budget: A Game Plan Firmly Focused on Supporting the Middle Class

Tax Bulletin

March 21, 2023

The purpose of this Legault government budget, introduced in inflationary times, where there is still economic uncertainty, is mainly to give taxpayers, especially the middle class, some room to breathe. The government honoured its election promise and passed one of the largest **tax cuts** in history, totalling $9.2B over six years, that is, $1.7B per year. Such a reduction could be $814 per person as of 2023 and would benefit 4.6 million Quebeckers.

This tax cut will not impact services to the population because it will be funded by more moderate growth in payments to the Generations Fund. Despite the economic downturn this year and the risk of recession, the government remains on course for a balanced budget in 2027-2028, as had also been planned in the March 2022 budget. Confident in its success, the government even announced that it would lift the suspension of the *Balanced Budget Act* in order to modernize it.

The budget balance for 2023-2024 would be a deficit of $3,900B, after a $2.3B payment to the Generations Fund, without using the stabilization reserve. It should be noted that the $3,998B deficit forecast in the March 2022 budget for the 2023-2024 year was almost identical to the one forecast this year in the current budget.

The health and education sectors remain a priority...

With regard to the **health** sector, the budget plans close to $5.6B over five years to make the health network more efficient and human. As for **education**, a priority in this budget, $2.3B is allocated between now and 2027-2028 to unlock the potential of the younger generation, in particular, $1.5B to help youths succeed and $717M to promote access, retention and graduation.

...and various measures to bolster the province’s productivity, support the regions and stimulate labour are also on the agenda

To do this, the government will inject $888M over five years. Among the initiatives retained, there is the introduction of a **new tax holiday for large investment projects**. The current measure comes to an end on December 31, 2024. The new tax holiday for large investment projects of over $100M will help:

- Reach a greater number of activity sectors;
- Provide an enhanced incentive that could now represent up to 25% of eligible investments, depending on the location of the project in Quebec.

This new tax holiday represents $373M of financial support for businesses over the next five year. It should contribute to the realization of close to 100 new projects in Quebec by the end of 2029 and yield investments of more than $24B in the end.

As for accelerating the deployment of **innovation zones**, the government plans on investing $100M over five years to add new zones to existing ones in Sherbrooke and Bromont.

Other measures to contribute to the prosperity of the **regions** have also been announced, with investments totalling $1.4B, including new money to increase food autonomy ($175M) and to support the tourism offer ($75M). With regard to transportation, certain measures aim to better serve remote communities, and a budget amount of $722M has been allocated to support the revival of public transportation, diversify the transportation offering for people with reduced mobility, maintain essential regional air services and invest in safe and effective land transportation infrastructures.

On the **labour** front, the government has invested in the mastery of the French language to further promote the economic and cultural integration of immigrants. An amount of $510M over five years, $214M of which will be allocated to increase the support offered for learning French through the Quebec Francization program.

Furthermore, the government has opted to renew the re-qualification and enhancement of skills component of the *Programme de formations de courte durée* (COUD), which represents an investment of $100M.

Where tax matters are concerned, and in an effort to encourage experienced workers aged 65 and over to remain in the labour market, the government is announcing changes to the QPP that will come into effect on January 1, 2024, namely

- the option to discontinue contributions to the QPP for people aged 65 and over who are receiving a retirement pension;
- the introduction of pension protection for workers aged 65 and over earning less than their career average earnings.

In closing, of note is the government's desire to **strengthen tax compliance regarding cryptoassets**. According to the tax authorities, since virtual currencies are not legal tender in Canada, they are considered to be commodities, not money. Consequently, the budget specifies that “for income tax purposes, transactions made using virtual currencies are considered barter transactions. […] When a transaction is carried out with or in respect of a virtual currency and generates tax consequences, a taxpayer must generally report it to the tax authorities.” Therefore, in order to allow Revenu Québec to have the tools needed to monitor developments in this sector and carry out adequate tax controls, a bill will be adopted and new provisions will apply as of the date on which the bill is assented to.

For more information on the tax measures announced in this budget, please continue reading.

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Personal Income Tax		
Drop in income tax rate	▪ Income tax rate in 2023: – From $0 to $49,275: 15% – From $49,276 to $98,540: 20% – From $98,541 to $119,910: 24% – $119,911 and more: 25.75%	▪ Reducing the tax rate: – From $0 to $49,275: 14% – From $49,276 to $98,540: 19% ▪ Applicable as of 2023 – Source deductions adjusted for wages paid after June 30, 2023 – Adjustment possible for instalments due after March 15, 2023
Reduction of certain personal tax credits	▪ Rate of 15% applicable to personal tax credits: – Basic amount – Amounts for persons living alone – Amount with respect to age – Amount for retirement income – Amount for a severe and prolonged impairment in mental or physical functions – Amount for children under 18 enrolled in vocational training or post-secondary studies – Amount for other dependants – Amount for calculating the transferred amount representing the recognized parental contribution	▪ Credit rate reduced to 14% ▪ Increase in amounts granted for the following tax credits, such that the decrease in credit rate will not affect the amount paid under these measures: – Amount for children under 18 enrolled in vocational training or post-secondary studies – Amount for other dependants – Amounts for calculating the transferred amount representing the recognized parental contribution ▪ Applicable as of 2023
Reduction of credit rate for career extension	▪ Credit of 15% applicable to amount of eligible work that exceeds first portion of $5,000 up to a maximum of following income amount, based on individual's age: – 60 years to 64 years: $10,000 – 65 years or older: $11,000	▪ Credit rate reduced to 14% ▪ Applicable as of 2023
Reduction of first-time home buyers' tax credit	▪ Credit of 15% on an amount of $10,000	▪ Credit rate reduced to 14% ▪ Applicable as of 2023
Reduction of alternative minimum tax rate	▪ Flat tax rate of 15%	▪ Rate reduced to 14% ▪ Applicable as of 2023

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Reduction of fixed rate of source deduction on certain payments	▪ Fixed deduction rate on certain payments: – Single payment of RRIF or RRSP: 15% – Other single payments: • Payment of $5,000 or less: 15% • Payment of more than $5,000: 20% – Payment under a government work-incentive project: 15% – Assistance payment made under a registered disability savings plan: 15% – Bonus and retroactive increases: 8% – Remuneration of self-employed fishers: 15%	▪ Rates reduced as follows: – Deduction rate of 8% reduced to 7% – Deduction rate of 15% reduced to 14% – Deduction rate of 20% reduced to 19% ▪ Applicable as of 2023
Refundable solidarity tax credit		
Enhancement of the housing component	▪ Amount planned for period of July 1, 2023 to June 30, 2024: – Single person: $638 – Couple without children: $774 – Single-parent family with one child: $774 – Couple with two children: $1,046	▪ Increase in amount paid for period of July 1, 2023 to June 30, 2024: – Single person: $677 – Couple without children: $821 – Single-parent family with one child: $821 – Couple with two children: $1,109
Tax credits for volunteer firefighters and search and rescue volunteers		
Enhancement of tax credits	▪ Tax credit of 15% of an amount of $3,000 (not indexed annually)	▪ Tax credit of 14% of an amount of $5,000, indexed annually ▪ Applicable as of 2023
Quebec Pension Plan (QPP) Contribution Relief		
Introduction of an option to stop making QPP contributions for workers aged 65 years or older	▪ Workers required to contribute to the QPP on qualifying income, regardless of age or whether they are receiving a QPP or Canada Pension Plan (CPP) pension	▪ Implementation of an option allowing workers aged 65 or more to stop making QPP contributions, provided that they are also receiving a QPP or CPP retirement pension – If the worker is an employee, the employer will also stop making QPP contributions for this worker
End of the obligation to contribute to the QPP for workers over 72 years of age	▪ Idem	▪ End of the obligation to contribute to the QPP as of January 1 of the year in which the worker reaches the age of 73
Pension protection for workers aged 65 or more	▪ Pension calculated on the basis of average annual pensionable career earnings	▪ Calculation of pension not reduced for years of low income earned from the age of 65
Increase in the maximum age for claiming QPP pension	▪ Maximum age for claiming QPP pension: 70 years – Pension enhanced for each month of postponement after age 65	▪ Maximum age for pension eligibility increased to 72
Application of measures		▪ Measures applicable as of 2024

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Tax holiday for large investment projects		
Introduction of a new tax holiday	▪ None	▪ Implementation of a new tax and HSF contributions holiday with regard to income and wages related to eligible activities performed in connection with large investment projects in non-excluded business sectors – Duration of holiday: 10 years – Investment threshold: $100M – Investment period to reach threshold: 48 months – Cumulative total eligible expenditures: $1B – Tax holiday rate: 15%, 20% or 25% according to economic vitality of territory where project is carried out ▪ Excluded activity sectors: – NAICS codes 21, 22, 23, 3122, 3241, 3313, 4133, 457, 486, 5121, 516, 518, 52, 53, 5418, 551113, 61, 62, 71121, 7132, 72, 813, 91 ▪ Adapted measures applicable to partnerships ▪ Initial and annual qualification certificates administered by the Ministère des Finances ▪ Applicable to applications for the initial qualification certificate submitted after March 21, 2023
Elimination of former tax holiday	▪ Deadline for applying for an initial qualification certificate for current tax holiday: December 31, 2024	▪ No new applications for certificates accepted as of March 21, 2023 ▪ For current projects: – Maintenance of current tax holiday until end of exemption period – Possibility for businesses holding an initial qualification certificate to make an election to benefit from a new alternative method of calculating the tax holiday (applicable to tax years beginning after the election is made)

BUSINESSES

<table>
<tr><th></th><th>CURRENT MEASURES</th><th>PROPOSED MEASURES</th></tr>
<tr><td colspan="3">Refundable tax credit for the production of multimedia events or environments presented outside Québec</td></tr>
<tr><td>Tax credit enhancement</td><td>▪ Credit equal to 35% of eligible labour expenses
– Maximum: 50% of production costs incurred and directly attributable to the realization of the qualified production
▪ Qualified labour expenditure
– Salary, wages and remuneration for services rendered in Quebec, with regard to an eligible function and for production
– Eligible functions: lighting designer, designer, environment or graphic designer, content and project manager for audiovisual and sound, programmer, writer, scriptwriter and scenographer</td><td>▪ Increase in limit on qualified labour expenditure
– Maximum: 60% of production costs incurred and directly attributable to the realization of the qualified production
▪ Broadening of eligible labour expenditures
– Withdrawal of the condition that services are rendered in relation to one of the nine eligible functions
▪ Applicable to eligible production for which an application for an advance ruling or certificate is filed with SODEC after March 21, 2023.</td></tr>
<tr><td colspan="3">Refundable tax credit for Québec film and television production</td></tr>
<tr><td>Change in operating requirements when the primary market is online broadcasting</td><td>▪ Distributor's commitment to exploit the film in Quebec
▪ Undertaking by the supplier of the eligible online video service, to make the film accessible in Quebec</td><td>▪ Addition of a requirement if an aggregator acts as an intermediary between a distributor and a provider:
– Undertaking by the aggregator to make the film accessible in Quebec</td></tr>
<tr><td>Change in the requirements relating to production costs</td><td>▪ At least 75% of production costs must be paid to:
– Individuals residing in Quebec
– Corporations or partnerships with an establishment in Quebec</td><td>▪ Costs related to stock footage are excluded from production cost requirements</td></tr>
<tr><td>Application of measures</td><td></td><td>▪ Measures applicable to a production for which an application for an advance ruling or certificate is filed with SODEC after March 21, 2023.</td></tr>
<tr><td colspan="3">Refundable tax credit for book publishing</td></tr>
<tr><td>Increase in the limit on qualified labour expenditure</td><td>▪ Limit of:
– 50% of preparation costs and digital version publishing costs
– 33 1/3% of printing and reprinting costs</td><td>▪ Limit on preparation costs and digital version publishing costs increased to 65%</td></tr>
<tr><td>Increase in the tax credit rate for printing and reprinting costs</td><td>▪ Rate of 27% on qualified labour expenditure</td><td>▪ Rate for qualified labour expenditure increased to 35%</td></tr>
<tr><td>Application of measures</td><td></td><td>▪ Applicable to a work or group of works for which an application for an advance ruling or certificate is filed with SODEC after March 21, 2023</td></tr>
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COMMODITY TAXES AND OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Specific duty on new tires for road vehicles		
Increase in duty payable on new tires	▪ Duty of $3 on any new tire for a road vehicle	▪ Duty on any new tires for road vehicles for which the diameter of the rim is ≤ 24.5 inches has increased to: – $4.50 if the overall diameter is ≤ 33 inches – $6.00 if the overall diameter is > 33 inches, but ≤ 48.5 inches ▪ Applicable as of July 1, 2023
Capital régional et coopératif Desjardins, Fonds de solidarité FTQ and Fondaction		
Changes to the intervention framework for the three tax-advantaged funds	▪ Various rules in the investment standard of the three major tax-advantaged funds, namely Capital régional et coopératif Desjardins (Fonds CRCD) and the following labour-sponsored funds: – Fonds de solidarité FTQ – Fondaction	▪ Review of the mission of the tax-advantaged funds and reorganization of the eligible investment categories, which will be grouped into three new investment categories. – Applicable as of January 1, 2024 for Fonds CRCD and June 1, 2024 for labour-sponsored funds
Increase in the minimum holding period for a labour-sponsored fund share	▪ Minimum holding period for a labour-sponsored fund share of 730 days (2 years)	▪ Minimum investment holding period increased to: – 3 years for shares acquired as of June 1, 2024 – 4 years for shares acquired as of June 1, 2025 – 5 years for shares acquired as of June 1, 2026
Introduction of a limit to access to the non-refundable tax credit for a labour-sponsored fund	▪ Tax credit of 15% on the amount paid to acquire the shares of a labour-sponsored fund in the year or in the 60 days that follow – Maximum credit of $750 per year (max. eligible expenditures of $5,000)	▪ Elimination of the right to the credit for individuals whose income is taxable at the highest rate in the personal income tax table, in the second previous year (2022 for the year 2024) – Applicable to shares acquired as of 2024 (only individuals whose taxable income for 2022 does not exceed $112,655 will have access to the credit in 2024)
Program for managing the tax exemption of First Nations regarding taxes		
Implementation of a new program	▪ Program for Administering the Fuel Tax Exemption for Indians (“FTEI”) providing for a tax exemption granted directly when the fuel is purchased if: – Purchase made on a reserve – Buyer has Indian status and presents Indian status certificate issued by a competent federal authority – Buyer presents a program registration card ▪ Other applicable exemptions : Refund request to be sent to Revenu Québec	▪ Replacement of FTEI program by new program for managing the tax exemption of First Nations regarding taxes (TEFNT) ▪ Tax exemption granted directly at time of purchase extended to alcoholic beverages for home consumption (same conditions to be met) ▪ Gradually applicable as of July 1, 2023