2021-2022 Quebec Budget: Focussed on Health and Economic Recovery

Tax Bulletin

Quebec Budget, March 25, 2021

Prepared in the context of a health crisis, the Legault government's third budget focuses on three priorities: health, education and the economy.

As the Quebec government expected in the fall of 2020, the 2020-2021 deficit remains at $15B. After using the stabilization reserve, the current year's deficit is $6.2B. For the next two years, the deficits are estimated to be $12.3B (2021-2022) and $8.5B (2022-2023), with the objective of balancing the budget in seven years, at the end of the 2027-2028 fiscal year. Since the deficits will continue for more than five years, the *Balance Budget Act* must be temporarily updated.

The underlying objective of today's budget announcements is to avoid increasing taxes (individuals and corporations) and cutting back on public services. From an economic perspective, there are several noteworthy measures, including the three tax measures below.

Enhancing the investment and innovation tax credit (C3i)

In order to encourage businesses to accelerate their new technology investment projects, the government is announcing that the C3i rates will be doubled for a two-year period, that is, to December 31, 2022. That means the rates will go:

- from 10% to 20% for investments in the Montréal and Québec City metropolitan communities;
- from 20% to 40% for investments in territories where economic vitality is low;
- from 15% to 30% for investments in other territories or regions.

That temporary increase, which will cost close to $290M over five years, will help more than 10,000 businesses complete their investment projects more quickly.

Reducing the tax rate for SMEs

In the 2021-2022 budget, the government is announcing a reduction of the tax rate for all SMEs eligible for the small business deduction (SBD) from 4.0% to 3.2%, the same level as Ontario, starting March 26, 2021.

Improving the tax credit for on-the-job training

This five-year, $14.1M measure, combined with other measures to help young Quebecers integrate the job market, is part of initiatives totalling almost $97M, including $31.4M in 2022-2023, to support young people who are neither in studies, employment or training, in their integration into the labour market.

Other Measures

In terms of economic support, the 2021-2031 Quebec Infrastructures Plan (QIP) will be increased by $4.5B to $135B, together with a 60% increase in investments in the next five years, providing a powerful driver of economic vitality. The budget is also adding $404M over five years to support the requalification of workers and the integration of immigrants into the labour market. Additional support is being provided for culture and tourism with $392M and $204M respectively in new funds over five years. Furthermore, an additional envelope of $523M and $218M is being provided for economic development in the regions and innovation, respectively.

For more information on the tax measures announced in the 2021-2022 budget, please read the following pages.

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Small business deduction (SBD)		
Reduction in the tax rate applicable to income eligible for the SBD	▪ Minimum tax rate for income eligible for the SBD: 4.0%	▪ Minimum tax rate for income eligible for the SBD: 3.2% ▪ Applicable as of March 26, 2021
Addition of an option to calculate the number of remunerated hours during the COVID-19 pandemic	▪ One-time adjustment for calculating remunerated hours in 2020 to take into account that certain businesses had to temporarily stop their operations because of the COVID-19 pandemic ▪ Applicable for the period of March 15 to June 29, 2020	▪ Possible election so that eligibility for the SBD or the SBD rate be based on the number of remunerated hours in the previous taxation year ▪ Election must be made when the income tax return is filed or, if it has already been filed, in a separate request ▪ Applicable to a taxation year ended after June 30, 2020 but before July 1, 2021
Investment and innovation tax credit (C3i)		
Temporary increase in the C3i	▪ Current rates for the credit: – Low economic vitality zone: 20% – Intermediate zone: 15% – High economic vitality zone: 10%	▪ New credit rates: – Low economic vitality zone: 40% – Intermediate zone: 30% – High economic vitality zone: 20% ▪ Applicable to expenses incurred after March 25, 2021, for the acquisition of specified property after that date but before January 1, 2023 – Excludes property acquired in accordance with a written agreement entered into before March 26, 2021 and property whose construction began before that date
Refundable tax credit for on-the-job training periods		
Temporary increase in the tax credit	▪ Basic rate of the tax credit: – Corporation: 24% – Individual: 12% ▪ Rates enhanced where the trainee is a disabled person, an immigrant, an Aboriginal person or where the on-the-job training takes place in an eligible region: – Corporation: 32% – Individual: 16%	▪ Increase in basic rate of the tax credit: – Corporation: 30% – Individual: 15% ▪ Increase in enhanced rate of the tax credit: – Corporation: 40% – Individual: 20% ▪ Applicable to eligible expenses incurred after March 25, 2021 and before May 1, 2022 in respect of on-the-job training that starts after March 25, 2021
Tax holiday for large investment projects		
Temporary extension of the start-up period	▪ Start-up period duration: 60 months from the following date: – Delivery of the initial certificate relating to an investment project – Delivery of the amended initial certificate in the case of a second investment project	▪ Start-up period extended to 72 months ▪ Applicable for an investment project (or second project) where the application for the initial or amended certificate was presented before March 25, 2021 – Excludes projects for which a first annual attestation was delivered no later than March 25, 2021

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Addition of a choice relating to the date of the beginning of the tax-free period	▪ Tax-free period starting at the latest of the following dates: – The date on which the total capital investments attributable to the carrying out of the project first reaches the capital investment threshold applicable to the project – The date on which the activities arising from the carrying out of the project begin or, where the activities gradually begin, the date on which at least 90% of the goods intended to be used for such activities are ready to be used ▪ May not begin after the end of the start-up period applicable to the project	▪ Option to choose the start date of the tax-free period within certain limits ▪ Choice must be made with the application for delivery of the first annual attestation – If a choice is not made, the tax-free period will start on the last day of the start-up period for the project ▪ Applicable to investment projects (or second projects) where the first annual attestation was not delivered as at March 25, 2021
Broadening the eligible sectors of activity	▪ Eligible sectors of activity: – Manufacturing – Wholesale trade – Warehousing and storage – Data processing, hosting, and related services – Digital platform development	▪ Addition of a business modernization project through digital transformation as an eligible project, in all sectors of activity – Exclusion: project consisting of an asset maintenance plan or that is part of the company's normal course of business ▪ Eligible investments: – Capital expenditures incurred to acquire digital equipment, software and other components of the technology infrastructure or the information system – Expenses incurred to adapt the company's equipment in connection with the implementation of the digital solution ▪ Applicable to an investment project that begins to be carried out after March 25, 2021
R&D university tax credit		
Elimination of the need for an advance ruling	▪ Advance ruling required for R&D university tax credit and for R&D conducted by a public research centre or research consortium	▪ Elimination of the requirement to obtain an advance ruling ▪ Applicable as of March 26, 2021 – Possibility of withdrawing an application for ruling that has already been submitted if not decision has been given
Property tax refund for forest producers		
Change in refund calculation	▪ 85% refund of property taxes paid on a forest property, provided the development expenditure amount is equal to or greater than the property tax amount	▪ Refund permitted even if the development expenditure amount is less than the property tax amount – Refund of 85% of the value of the eligible work in this case, up to the value of the property taxes ▪ Possibility of calculating claims based on all evaluation units instead of the current method based on one unit at a time

BUSINESSES

	CURRENT MEASURES	PROPOSED MEASURES
Addition of restrictions relating to violence and sex scenes for certain incentive tax measures		
Tax holiday for large investment projects	▪ No restriction regarding discrimination, violence and sex scenes	▪ Exclusion of projects involving the hosting, production or sharing of content encouraging violence, sexism, racism, discrimination or comprising explicit sex scenes ▪ Applicable to projects where an initial certificate will be delivered after March 25, 2021
R&D tax credits	▪ No restriction regarding sex scenes	▪ Exclusion of work relating to: – A digital platform that hosts or allows the exchange of content with explicit sex scenes – A multimedia title with such scenes ▪ Applicable to expenses incurred after March 25, 2021
Tax credit for the development of e-business (CDEB)	▪ No restriction regarding discrimination, violence and sex scenes	▪ Addition in ineligible activities of activities related to a digital platform encouraging violence, sexism, racism, discrimination or comprising explicit sex scenes ▪ Applicable to taxation years beginning after March 25, 2021
Investment and innovation tax credit (C3i)	▪ No restriction regarding sex scenes	▪ Exclusion of property used to host, produce or allow the sharing of content comprising explicit sex scenes ▪ Applicable to property acquired after March 25, 2021
Tax credit for multimedia titles	▪ Exclusion of titles encouraging violence, sexism or discrimination	▪ New exclusion for titles comprising explicit sex scenes ▪ Applicable to attestation applications submitted with respect to a taxation year starting after March 25, 2021
Synergy capital tax credit	▪ No restriction regarding discrimination, violence and sex scenes	▪ Exclusion regarding the use of funds in connection with software or video game publishing or data processing activities and those relating to the data hosting or the design of information systems allowing the hosting, production or exchange of content or whose content encourages violence, sexism, racism, discrimination or comprises explicit sex scenes or graphic representations of such scenes ▪ Applicable to share issues after March 25, 2021

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Tax credit for non-eligible dividends		
Reduction of tax credit rate	▪ Tax credit of 4.01% of the increased amount of non-eligible dividend	▪ Tax credit reduced to 3.42% of the increased amount of non-eligible dividend ▪ Applicable to dividends received after December 31, 2021
Capital régional et coopératif Desjardins		
Credit rate reduction on the acquisition of class "A" shares	▪ Non-refundable tax credit of 35%	▪ Credit rate reduced to 30% for shares acquired after February 28, 2021
Extension of the temporary tax credit for the conversion of class "A" shares into class "B" shares	▪ Non-refundable tax credit for conversions carried out during subscription periods ended no later than February 28, 2021 ▪ Credit rate: 10% ▪ Maximum credit amount: $1,500	▪ Addition of two new conversion periods, to begin on March 1, 2021 and 2022 and end on the last day of February of the following year ▪ Maximum conversion value limited to $50M in each of these periods
Refundable tax credit for home-support services for seniors		
Gradual increase in the rate of the tax credit	▪ Tax credit of 35% of the amount of eligible expenses, up to: – $19,500 for autonomous senior – $25,500 for dependent senior	▪ Credit rate increased to: – 36% in 2022 – 37% in 2023 – 38% in 2024 – 39% in 2025 – 40% in 2026
New terms regarding the reduction of the credit based on income	▪ Credit reduction of 0.03¢ for each dollar of family income that exceeds the annual threshold – Threshold of $60,135 in 2021, indexed annually – For autonomous seniors only	▪ Dependent seniors: – Reduction of the enhanced portion of the credit, that is the credit greater than 35%, by 0.03¢ for each dollar of family income that exceeds the annual threshold – For couple of individuals aged 70 or over: applicable if one of the two seniors is dependent ▪ Autonomous seniors: – Reduction of the credit based on two levels of family income: • 0.03¢ for each dollar exceeding the first threshold, up to the second threshold • 0.07¢ for each dollar exceeding the second threshold – First threshold: Current threshold ($60,135 in 2021), indexed annually – Second threshold $100,000 in 2022, indexed annually ▪ Applicable as of 2022

INDIVIDUALS

	CURRENT MEASURES	PROPOSED MEASURES
Increase in eligible expenses for seniors living in a rental apartment building		
Increase in monthly rent ceiling	▪ Amount of eligible expenses included in the rent corresponds to 5% of the monthly rent – Maximum monthly rent: $600	▪ Maximum monthly rent increased to $1,200
Introduction of a "minimum eligible monthly rent" amount	▪ None	▪ Deemed minimum monthly rent: $600
Automatic payment of the credit related to the "minimum eligible monthly rent" amount	▪ None	▪ Credit related to "minimum eligible monthly rent" will be paid automatically by Revenu Québec – Autonomous seniors: Subject to applicable reduction based on family income ▪ Applicable as of 2022

TRUSTS

	CURRENT MEASURES	PROPOSED MEASURES
Tax compliance of trusts		
Harmonization with federal measures on the collection of information	▪ Exemption to file TP-646 return for some trusts ▪ No requirement for trusts to report the identify of beneficiaries and other parties in the TP-646 return	▪ Broadening of the requirement to file a TP-646 return to some resident and non-resident trusts in Canada ▪ All trusts required to file a TP-646 return must report the identify of: – All trustees, beneficiaries and settlors – Each person who has the ability to exert control over the trustee decisions regarding the appointment of income or capital of the trust ▪ Exempted trusts: – Trusts that have been in existence for less than three months or that hold less than $50,000 in assets throughout the taxation year (provided these assets are confined to deposits, government debt obligations and listed securities) – Graduated rate estates and qualified disability trusts – Mutual fund trusts – Trusts governed by registered plans – Lawyers' general trust accounts – Trusts that qualify as non-profit organizations or registered charities ▪ Penalties apply in case of failure to comply ▪ Applicable to taxation years ending on or after December 31, 2021
Addition of a requirement to provide a trust's tax identification and account number	▪ None	▪ Requirement to provide for any tax return: – The Quebec tax identification number (requirement to get one if the trust does not have one) – The federal trust account number ▪ Applicable to all returns, reports and documents to be filed after March 25, 2021

TRUSTS

	CURRENT MEASURES	PROPOSED MEASURES
Change in the filing obligation for a trust resident in Canada, outside Quebec, at any time	▪ Obligation to file a TP-646 return for a trust that, at any time during the year, is a resident of Canada, outside Quebec, and owns a rental property located in Quebec ▪ Obligation does not apply to an excluded trust, that is, among others: – An estate – A testamentary trust resident in Quebec on the last day of the year and that owns property with a cost less than $1M throughout the year – A testamentary trust not resident in Quebec on the last day of the year and that owns property located in Quebec with a cost less than $1M throughout the year	▪ The following are no longer excluded trusts: – An estate, other than a graduated rate estate – A testamentary trust ▪ Applicable to taxation years ending on or after December 31, 2021

COMMODITY TAXES AND OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Harmonization of QST regarding e-commerce		
Cross-border digital products and cross-border services	▪ Proposed introduction by the federal government of a simplified GST/HST registration and payment mechanism for non-resident digital businesses and non-resident distribution platform operators that are not registered in accordance with regular GST/HST rules – Measures generally similar to those already adopted by Quebec for QST	▪ Amendments to Quebec legislation to ensure complete harmony between the QST and GST/HST rules ▪ Coming into effect of amendments on the same dates as those applicable to federal proposals
Platform-based short-term accommodation	▪ Proposed introduction by the federal government of measures such that the GST/HST applies to all supplies of short-term accommodation in Canada facilitated by a digital platform operator	▪ Harmonization of QST with all federal measures, with requisite adaptation for QST purposes ▪ Coming into effect of amendments on the same dates as those applicable to federal proposals
Goods supplied through fulfillment warehouses	▪ New proposed obligation by the federal government for non-resident operators of distribution platforms and vendors: – Registration, collection and payment of GST/HST with respect to the sale of goods from warehouses in Canada or that are shipped from a location in Canada to a buyer in Canada by non-registered vendors ▪ For federal purposes, there is a proposed obligation for fulfillment warehouses in Canada to notify the CRA that they operate such a business and to keep records about their non-resident customers and the goods warehoused on their behalf	▪ New obligation for QST purposes for non-resident operators of distribution platforms and vendors: – Registration, collection and payment of WST with respect to the sale of goods from warehouses in Quebec or that are shipped from a location in Quebec to a buyer in Quebec by non-registered vendors ▪ New obligation for distribution businesses in Quebec to notify Revenu Québec that they operate such a business and to keep records about their non-resident customers and the goods warehoused on their behalf ▪ Specific registration measures provided for non-resident operators of distribution platforms and vendors that are already registered for GST/HST or QST ▪ Harmonization of QST with all federal measures, with requisite adaptation for QST purposes ▪ Coming into effect of amendments on the same dates as those applicable to federal proposals
Contribution credit for the Health Services Fund (HSF)		
Further extension of the credit on the employer contribution to the HSF in respect of employees on paid leave	▪ HSF contribution credit available as a complement to the Canada Emergency Wage Subsidy (CEWS) – Applicable to periods between March 15, 2020 to March 13, 2021	▪ Renewal of credit for the three additional CEWS periods: – March 14, 2021 to April 10, 2021 – April 11, 2021 to May 8, 2021 – May 9, 2021 to June 5, 2021

COMMODITY TAXES AND OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Compensation tax for financial institutions		
Renewal of the compensation tax	▪ Tax applicable to March 31, 2024 ▪ Rates for banks, loan corporations, trust corporations and corporations trading in securities: – April 1, 2020 to March 31, 2022: 4.14% – April 1, 2022 to March 31, 2024: 2.80% • Maximum subject amount: $1.1B ▪ Rate for a savings and credit union: – April 1, 2020 to March 31, 2022: 3.26% – April 1, 2022 to March 31, 2024: 2.20% • Maximum subject amount: $550M ▪ Rate for “independent corporations”: – April 1, 2020 to March 31, 2022: 1,32% – April 1, 2022 to March 31, 2024: 0,90% • Maximum subject amount: $275M ▪ Rate for insurance funds: – Until March 31, 2022: 0.48% – April 1, 2022 to March 31, 2024: 0.30% • No maximum amount subject to tax	▪ Maintenance of compensation tax after March 31, 2024 at same rates and terms as those applicable for the period of April 1, 2022 to March 31, 2024 ▪ Maintenance of maximum amount subject to tax ceilings
Mining Tax Act		
Introduction of an allowance for the development of critical and strategic minerals	▪ None	▪ Allocation deductible in calculating annual profit limited to the lesser of the following amounts: – Cumulative critical and strategic mineral development expenses in question – Ceiling on development expenses, that is $31.25M, less the following amounts: • Those previously deducted in calculating annual profit • Those relating to government assistance relating to these expenses, to the extent it was received or receivable after March 25, 2021 ▪ Development expenses: – Expenses incurred in respect of the period beginning after the preliminary sampling and ending when it can reasonably be considered that the decision to bring a new mine to commercial production ▪ Consequential adjustment to the refundable duties credit for losses ▪ Applicable to critical and strategic mineral development expenses incurred after March 25, 2021

COMMODITY TAXES AND OTHER MEASURES

	CURRENT MEASURES	PROPOSED MEASURES
Elimination of the sustainable development certification allowance	▪ Deduction in the calculation of annual profit of an amount as an allocation for sustainable development certification	▪ Elimination of the allowance ▪ Applicable to expenses incurred after December 31, 2021
Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins		
Adjustment to investment requirements for tax-advantaged funds	▪ Investment in a local venture capital fund created and managed in Quebec or recognized by the Minister, between April 22, 2005 and May 31, 2021, eligible for purposes of the requirements of tax-advantaged funds (if certain conditions are satisfied) ▪ Investments in local funds increased by 50% for purposes of calculating the investment requirement of a tax-advantaged fund, applicable to a fiscal year ending before January 1, 2022.	▪ Extension of the investment period applicable to the local fund category until May 31, 2026 ▪ Extension of the 50% increase of investments in local funds for then entire fiscal year of a tax-advantaged fund ending before January 1, 2027