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Additional Information on the Budgetary Measures

SECTION A
Revenue Measures

SECTION B
Expenditure Measures

SECTION C
Financial Impact of Fiscal and Budgetary Measures

Section A

Revenue Measures

1. **MEASURES ANNOUNCED IN THE FEBRUARY 20, 2007 BUDGET SPEECH A.3**

2. **PERSONAL INCOME TAX REDUCTION OF $950 MILLION A.5**

3. **ELIMINATION OF THE TAX ON CAPITAL ON JANUARY 1, 2011 AND TECHNICAL CHANGES A.11**

    3.1 Substantial reduction in the capital tax from now until its elimination A.12

    3.2 Impact of the elimination of the tax on capital on the capital tax credit A.13

    3.3 Technical changes A.14

    3.3.1 Presentation of financial statements A.14

    3.3.2 Interest in a partnership A.15

    3.3.3 Bonds of a corporation and debts owed by a corporation A.16

4. **WITHDRAWAL OF THE INDEXING IN THE DETERMINATION OF THE REFUNDABLE TAX CREDIT FOR PROCESSING ACTIVITIES IN THE RESOURCE REGIONS A.19**

5. **MEASURES RELATING TO THE MARCH 19, 2007 FEDERAL BUDGET A.21**

    5.1 Measures relating to the *Income Tax Act* A.21

    5.2 Measures relating to the *Excise Tax Act* A.35

APPENDIX A.37

1. Measures announced in the February 20, 2007 Budget Speech

As part of the presentation of the February 20, 2007 Budget Speech, the document entitled *Additional Information on the Budgetary Measures* was tabled before the National Assembly. Section A of this document, reproduced as an appendix to this section, details the various revenue measures to be incorporated in Québec's legislation following this Budget Speech.

Because of the general election held in Québec on March 26, 2007, the government's economic, fiscal, budgetary and financial orientations for fiscal year 2007-2008, laid out in the February 20, 2007 Budget Speech, could not be approved by the National Assembly prior to its dissolution.

While these orientations were not approved by the National Assembly, many of the measures announced on February 20, 2007 were given practical application the following day.[1] Accordingly, the new government is confirming, in this Budget Speech, all of these measures.

For greater clarity, except for measure 1.1 concerning the $250-million personal income tax reduction[2] – which is replaced by the $950-million personal income tax reduction in this Budget Speech[3] – and measure 2.1 on the extension of and improvement to the capital tax credit[4] – which will cease producing effects earlier because of the elimination of the tax on capital on January 1, 2011 in this Budget Speech[5] –, all the other revenue measures announced on February 20, 2007 and described in the document entitled *Additional Information on the Budgetary Measures* tabled the same day are renewed and apply in accordance with the same terms and conditions and on the same dates as those stipulated at that time.

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1 The increase from $1 000 to $2 000 of the maximum amount of the refund of Québec sales tax paid on a hybrid vehicle purchased or leased under a long-term contract, for instance.

2 This measure is described on pages A.3 and A.4 of the appendix to this section.

3 This measure is described on pages A.5 to A.9 of this section.

4 This measure is described on pages A.54 and A.55 of the appendix to this section.

5 This measure is described on pages A.11 to A.14 of this section.

2. PERSONAL INCOME TAX REDUCTION OF $950 MILLION

In the February 20, 2007 Budget Speech, it was announced that, in keeping with the government's goal of lowering the tax burden of Quebecers to bring it more in line with the Canadian average, a personal income tax reduction of $250 million would be granted as of January 1, 2008.[6]

Briefly, this reduction was to consist of a 7% adjustment to the taxable income thresholds to which apply the rates of the tax table used in calculating the tax payable by an individual on his taxable income.

To achieve its objective as quickly as possible while reducing the tax burden of all Quebecers, the government will allocate an additional $700 million to the reduction in personal income tax stipulated for January 1, 2008.

The reduction in personal income tax effective January 1, 2008, totalling $950 million, will consist, first, of an increase in the thresholds and ceilings used to determine the taxable income brackets used to calculate the tax payable by an individual on his taxable income and, second, of an increase in the amount used to calculate the basic tax credit granted to all individuals[7].

❑ Increase in tax table thresholds and ceilings

Currently, the table used to calculate the income tax payable by individuals on their taxable income[8] provides for three tax rates that gradually rise with the table's taxable income brackets.[9]

The table provides for a tax rate of 16% for individuals whose taxable income is equal to or less than $29 290 for the 2007 taxation year. The rate is 20% for the taxable income bracket over $29 290, without exceeding $58 595, and 24% for the bracket over $58 595.

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6 This measure is described on pages A.3 and A.4 of the appendix to this section.

7 Except for trusts.

8 In the case of an *inter vivos* trust, other than a mutual fund trust, the tax payable is generally equal to the greater of the tax on his taxable income for the taxation year, established according to the table used to calculate the tax payable by an individual for such year, and 20% of his taxable income for the year. The tax payable by a mutual fund trust, for a taxation year, is calculated by applying, to an adjusted taxable income, the table used to calculate the tax payable by an individual or a rate of 20%, the greater result constituting the tax payable for the year.

9 As of January 1, 2002, the thresholds and ceilings used to determine the taxable income brackets of the tax table have been automatically indexed each year.

As of January 1, 2008, the first bracket of the tax table will cover the first $37 500 of taxable income, with the second bracket consisting of the portion of taxable income over $37 500, but not exceeding $75 000, and the third bracket corresponding to taxable income over $75 000.

As of January 1, 2009, the thresholds and ceilings establishing the taxable income brackets of the tax table will again be automatically indexed each year.[10]

❑ Increase in the basic tax credit

To improve the fairness of the tax system by ensuring that no tax is payable by individuals before they attain a certain level of income, all individuals are allowed a non-refundable basic tax credit.[11]

The tax reduction, for a given taxation year, resulting from this tax credit can reach 20% of the basic amount specified for the year, which consists of an amount of recognized essential needs[12] to which a complementary amount has been added since taxation year 2005.

Briefly, the complementary amount allowed for a given taxation year is equal to the minimum amount applicable for the year[13] or, if greater, the total payroll contributions to public plans designed to partially replace work income,[14] the recognized portion of contributions by self-employed workers to such plans[15] and the contribution of 1% to the Health Services Fund (HSF) payable by individuals.

For taxation year 2007, the basic amount specified for the purposes of calculating the basic tax credit is, for 99% of taxable taxpayers, equal to $9 745, i.e. the aggregate of the amount of recognized essential needs ($6 650) and the minimum complementary amount ($3 095).

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10 For greater clarity, where the indexation amount is not a multiple of 5, it must be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of 5, to the nearest higher multiple of 5.

11 *Supra*, note 7.

12 This amount is $6 650 for taxation year 2007. The amount of recognized essential needs has been automatically indexed annually since January 1, 2002.

13 This amount is $3 095 for taxation year 2007. The minimum complementary amount is indexed automatically each year.

14 Namely the Québec Pension Plan, the Canada Pension Plan, the Québec parental insurance plan and the employment insurance plan.

15 In the case of a self-employed worker, only the portion of contributions payable to the Québec Pension Plan, the Canada Pension Plan or the Québec parental insurance plan that can be likened to a payroll contribution can be taken into consideration.

To reduce the tax burden of all Quebecers and to further simplify the personal income tax system, the amount of recognized essential needs and the complementary amount forming the basic amount used to calculate the basic tax credit will be replaced, as of taxation year 2008, by a single amount of $10 215.

The new basic amount of $10 215 will be automatically indexed annually[16] as of January 1, 2009.

■ Increase in certain amounts used to calculate tax withheld at source

A person who pays, at any time during a taxation year, remuneration, a retirement benefit, an employment insurance benefit or other similar payment, must withhold an amount on account of tax payable by the recipient for the year.

As a general rule, the amount the payer must withhold regarding such payment is equal to the amount established according to a mathematical formula authorized by the Minister of Revenue or in accordance with the tables he has prepared, taking into account, in particular, the amount of the recipient's personal tax credits attributable to a given pay period.

To reflect the increase in the basic tax credit in the calculation of tax withholdings at source, amendments will be made, as of taxation year 2008, to the tax legislation and regulations.

More specifically, for the purposes of establishing, first, the amount of the personal tax credits of an individual who files, with a given payer, a *Source Deductions Return* and, second, the tax withholding at source applicable to the remuneration paid to an individual who has never filed, with a given payer, such a return, the basic amount[17] will be equal to the basic amount used for the purposes of calculating the basic tax credit for the year.[18]

An amount equivalent to the basic amount will also be used to calculate the amount for spouse for the purpose of determining the amount of the personal tax credits of an individual who files a *Source Deductions Return* with a given payer.

■ Clarifications concerning the application of certain fiscal measures

Currently, certain fiscal measures refer to the component of the basic amount used to calculate the basic tax credit that is attributable to the amount of recognized essential needs. To avoid any ambiguity, there is reason to specify that the amount of recognized essential needs will be maintained for the purposes of these measures.

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16 *Supra*, note 10.

17 This amount, automatically indexed each year, is equal to $9 750 for taxation year 2007.

18 I.e. an amount of $10 215 for taxation year 2008, which will be automatically indexed annually as of January 1, 2009.

- **Transfer of the recognized parental contribution**

To improve the tax assistance granted to parents who have dependent adult children who are students by making it fairer and simpler to determine, it was announced in the February 20, 2007 Budget Speech and is confirmed in this Budget Speech that the tax credit for adult children who are students will be replaced, as of taxation year 2007, by a transfer mechanism for the recognized parental contribution.[19]

For the purposes of this mechanism, it is stipulated that the amount that an eligible student can transfer to his father or mother for a given taxation year must not exceed the amount corresponding to the excess, over the tax otherwise payable by the student for the given year, of 20% of either of the following amounts, as the case may be:

— where the eligible student has completed, in the year, at least two recognized terms, the amount of recognized essential needs applicable for the year under the basic tax credit, i.e. $6 650 (in 2007);

— where the eligible student has completed, in the year, only one recognized term, the amount remaining after subtracting, from the amount of recognized essential needs applicable for the year under the basic tax credit, an amount of $1 860 for studies (in 2007).

For greater clarity, the reference to the amount of recognized essential needs applicable for a year under the basic tax credit must be understood, as of taxation year 2008, with reference to an amount of $6 650 that, like the amount of $1 860 for studies, will be automatically indexed annually as of the same taxation year.

- **Presumption of residence in Québec**

For the purposes of the tax system, individuals who do not reside in Québec at the end of a given taxation year are nonetheless, in certain circumstances, deemed to have resided there during the entire year.

Currently, the tax legislation stipulates that the child of an individual who is deemed to reside in Québec because of his duties is also deemed to reside there, provided such child is a dependant of the individual and his income for the year does not exceed the amount of recognized essential needs for the year under the basic tax credit.

19 This measure is described on pages A.21 to A.34 of the appendix to this section.

For greater clarity, for the purposes of this presumption, the limit applicable to the child's income for a taxation year after taxation year 2007 will be established on the basis of an amount of $6 650, which will be automatically indexed annually as of January 1, 2008.[20]

❑ Summary

The following table provides an overview of the parameters of the $950-million general tax reduction that will take effect as of January 1, 2008.

TABLE A.1

Basic parameters used to calculate tax payable by individuals for taxation years 2007 and 2008

		2007	2008[1] Before budget	2008 After budget
Table used to calculate tax payable				
Marginal rate	**Taxable income bracket**			
16%	Taxable income equal to or less than	$29 290	$29 875	$37 500
20%	Taxable income over but not exceeding	$29 290 $58 595	$29 875 $59 765	$37 500 $75 000
24%	Taxable income over	$58 595	$59 765	$75 000
Amount used to calculate the basic tax credit[2]		$9 745	$9 940	$10 215

(1) The thresholds and ceilings have been adjusted using an estimated index of 2%.
(2) The amount shown for 2007 corresponds to the total of the amount of recognized essential needs and the minimum complementary amount. The amount thus shown represents the amount used to calculate the basic tax credit for 99% of taxable taxpayers. The amount shown for 2008 (after the budget) corresponds to the single amount that will be used to determine the basic tax credit.

20 *Supra*, note 10.

3. ELIMINATION OF THE TAX ON CAPITAL ON JANUARY 1, 2011 AND TECHNICAL CHANGES

A corporation that has an establishment in Québec at any time in a taxation year is subject to the tax on capital, calculated on the basis of the paid-up capital shown in its financial statements for the year, prepared in accordance with generally accepted accounting principles (GAAP).

The rate applicable to paid-up capital and how it is calculated are different depending on whether the corporation is a financial institution or not.

In general, the paid-up capital of a corporation which is not a financial institution is obtained by adding most of the amounts shown in the "Shareholders' Equity" and "Long-term Liabilities" sections of the balance sheet. To avoid double taxation, paid-up capital is reduced regarding investments made in other corporations, and a deduction is allowed for certain items. Lastly, a rate of 0.49% is currently applied to such paid-up capital.

The April 21, 2005 Budget Speech announced a gradual reduction of the rates of the tax on capital. In addition, a capital tax credit was implemented to enable corporations, other than financial institutions, that make investments in manufacturing and processing equipment to enjoy even greater reductions in their capital tax burden. Briefly, this capital tax credit enables a corporation that makes an eligible investment during a taxation year to claim, for such taxation year, a non-refundable capital tax credit equal to 10% of the amount of such eligible investment.[21] A corporation can receive this capital tax credit, for a taxation year, up to the amount of tax on capital payable by it for such taxation year.

The tax on capital applicable to financial institutions is calculated on a different basis than that of other corporations. This distinction is essentially attributable to the fact that it would not be appropriate to tax some liabilities of financial institutions, chiefly deposits. Furthermore, a rate of 0.98% is currently applied to their paid-up capital.

Since the tax on capital applies to investments of companies rather than to their profits, it is acknowledged that the tax on capital hampers economic growth to a greater extent than other taxes. Accordingly, in recent years, all the provinces that collect a tax on capital have begun to eliminate this tax. In this context and to keep Québec's tax system competitive, the tax on capital will be eliminated on January 1, 2011. In the meantime, it will be reduced substantially.

21 The rate of the capital tax credit, initially set at 5%, was raised to 10% as part of the February 20, 2007 Budget Speech for investments made after that date. Moreover, as part of the March 23, 2006 Budget Speech, the rate of the capital tax credit was raised to 15% for certain investments in the forest sector.

Moreover, to maintain the integrity of the capital tax system until it is eliminated, technical changes will be made to it.

3.1 Substantial reduction in the capital tax from now until its elimination

According to the plan to gradually reduce the rates of the tax on capital introduced in the April 21, 2005 Budget Speech, the rate of the tax on capital of corporations that are not financial institutions, which is currently 0.49%, was to be reduced to 0.36% as of January 1, 2008 and to 0.29% as of January 1, 2009. The rate of the tax on capital of financial institutions, currently 0.98%, was to be reduced to 0.72% as of January 1, 2008 and to 0.58% as of January 1, 2009.

As mentioned above, the tax on capital will be reduced substantially from now until it is eliminated on January 1, 2011. More specifically, the rate of the tax on capital applicable to corporations that are not financial institutions will first be reduced from 0.49% to 0.36% as of January 1, 2008. It will then be reduced annually by 0.12 percentage points as of January 1, 2009. Accordingly, it will fall to 0.24% as of January 1, 2009 and to 0.12% as of January 1, 2010, before finally being completely eliminated on January 1, 2011.

As a corollary, the rate of the tax on capital applicable to financial institutions will first be reduced from 0.98% to 0.72% as of January 1, 2008. It will then be reduced annually by 0.24 percentage points as of January 1, 2009. Accordingly, it will fall to 0.48% as of January 1, 2009 and to 0.24% as of January 1, 2010, before finally being completely eliminated on January 1, 2011.

The following table gives the rates of the tax on capital applicable to corporations from now until 2011.

TABLE A.2

Rate of the tax on capital from now until 2011
(percent)

	Current	2008	2009	2010	2011
Corporations that are not financial institutions	0.49	0.36	0.24	0.12	0
Financial institutions	0.98	0.72	0.48	0.24	0

Note: The rate reductions will become effective on January 1 of each year.

If a corporation’s taxation year does not coincide with the calendar year, the rate effectively applicable for such taxation year that straddles two calendar years will be a weighted rate reflecting the number of days of the taxation year included in each of the two calendar years.

For greater clarity, the elimination of the tax on capital applicable to financial institutions covers only the tax on capital stipulated in Part IV of the *Taxation Act.* Accordingly, the provisions relating to the compensation tax for financial institutions,[22] the tax on capital of insurance corporations[23] and the tax on capital of life insurers[24] will continue to apply.

Moreover, the notion of paid-up capital is currently used for the purposes of other fiscal measures, in particular to define smaller-size corporations. For example, the small-business deduction is gradually eliminated where the paid-up capital of a Canadian-controlled private corporation exceeds $10 million.

Accordingly, in view of the elimination of the tax on capital, the relevance of maintaining the notion of paid-up capital for the purposes of other measures will be examined and the decision to maintain or replace such notion with another criterion will be announced at a later date.

3.2 Impact of the elimination of the tax on capital on the capital tax credit

Briefly, the capital tax credit regarding certain types of investments allows a corporation other than a financial institution to claim, for a taxation year, a non-refundable capital tax credit equal to 10% of the amount of eligible investments it makes during such taxation year. The rate of this capital tax credit is 15% regarding certain investments in the forest sector.

Eligible investments for the purposes of this capital tax credit are manufacturing and processing equipment, i.e. assets of class 43.[25] In addition, these assets must, subject to certain transition rules, be acquired before January 1, 2013.

Accordingly, a corporation can receive this capital tax credit, for a taxation year, up to the amount of capital tax otherwise payable by it for such taxation year. Where the capital tax credit exceeds the tax on capital otherwise payable by the corporation for the taxation year, the excess amount can be carried over to subsequent taxation years and applied against the tax on capital otherwise payable by it for such years.

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22 Part IV.I of the *Taxation Act*.

23 Part VI of the *Taxation Act*.

24 Part VI.I of the *Taxation Act*.

25 However, these assets must satisfy certain conditions to qualify as an eligible investment, such as the obligation to begin to be used within a reasonable time, during at least 730 days, only in Québec and mainly in the course of carrying on a business. In addition, the assets must be new.

Essentially, the objective of the capital tax credit is to support the efforts of manufacturing companies to modernize by ensuring that the tax on capital normally payable on new investments will be fully offset over many years. In addition, the high rates of this credit enable this tax to be substantially reduced on other existing assets. The elimination of the tax on capital will ensure that this objective is achieved for all corporations.

Since the use of the capital tax credit is conditional on a tax on capital being otherwise payable, the elimination of the tax on capital on January 1, 2011 will consequently result in the withdrawal of the capital tax credit as of the same date. More specifically, a corporation will no longer be able to claim the capital tax credit for a taxation year beginning after December 31, 2010.

In this context, eligible investments made during a taxation year beginning after December 31, 2010 will no longer generate a non-refundable capital tax credit.

For greater clarity and taking into account the terms and conditions relating to the carry-over of the balance of the capital tax credit at the end of a taxation year, any unused balance of the capital tax credit at the end of a taxation year including December 31, 2010 will be cancelled because of the elimination of the tax on capital.

3.3 Technical changes

3.3.1 Presentation of financial statements

As mentioned previously, a corporation that has an establishment in Québec at any time in a taxation year is subject to the tax on capital, calculated on the basis of the paid-up capital shown in its financial statements for the year prepared in accordance with GAAP.

Where GAAP require that a corporation submit consolidated financial statements to its shareholders, the ministère du Revenu then recognizes, for the purposes of calculating paid-up capital, specified amounts as though financial statements had been prepared in accordance with GAAP without taking consolidation into account.

A clarification will be made to the notion of financial statements to indicate that non-consolidated financial statements submitted by a corporation, for the purposes of the tax on capital, must be prepared according to the same GAAP as those used to draw up the consolidated financial statements submitted to shareholders. More specifically, the only changes made to the consolidated financial statements, prepared in accordance with GAAP, must be those designed to remove the effects of such a consolidation.

This clarification will apply to a return for which the filing deadline is after July 31, 2007.

3.3.2 Interest in a partnership

In general, the paid-up capital of a corporation which is not a financial institution is obtained by adding most of the amounts shown in the "Shareholders' Equity" and "Long-term Liabilities" sections of the balance sheet.

To limit situations of double taxation, a reduction in paid-up capital is allowed regarding certain investments made in another corporation, such as stock, bonds or loans and advances.

Moreover, a corporation that holds an interest in a partnership must include, in calculating its paid-up capital, its share of the amounts that would be included in the calculation of the paid-up capital of the partnership, if the latter were a corporation.

The accounting treatment of an interest in an entity depends on the degree of influence or control the corporation can exercise over such entity. Generally speaking, where a corporation is in a position to exercise notable influence over an entity, it must account for its interest under the equity method and thus recognize its share of the profit or loss recorded by such entity. Where it is not in a position to exercise such influence, it must generally recognize its interest under the cost method.

The holding of voting rights is one of the criteria used to decide whether notable influence is exercised regarding an interest in a corporation. Accordingly, a corporation holding 20% or more of the voting rights of another corporation may be considered to exercise notable influence over the latter. Consequently, for the purposes of the tax on capital, recognition of the investment under the equity method leads to the recognition of the retained earnings of such other corporation and is also reflected in the calculation of the reduction for investments of the holding corporation.

At the conceptual level, the criterion relating to the holding of voting rights is designed to introduce an objective criterion into the analysis, in order to facilitate the decision as to whether notable influence exists or not. While, technically, this criterion does not apply to a partnership, the concept is the same and the share of the profits attributable to a member of a partnership can be used as an objective criterion.

Accordingly, to ensure that an interest in a partnership is treated similarly to an interest in a corporation, for the purposes of the tax on capital, a clarification will be made to the calculation details of the paid-up capital of a corporation holding an interest in a partnership.

Thus, a corporation whose share of the earnings of a partnership is 20% or more can be considered as exercising notable influence over the latter.[26] Consequently, such corporation must include, in calculating its paid-up capital, the share of the retained earnings of such partnership. Similarly, such corporation may deduct, in calculating its paid-up capital, the share of the unallocated deficit of such partnership. Lastly, an adjustment reflecting the share thus considered in the calculation of paid-up capital will be made to the total assets of the corporation for the calculation of the reduction for investments.

However, since a corporation exercising notable influence over another corporation is allowed, under certain conditions, to account for its interest under the cost method rather than the equity method,[27] a corporation exercising notable influence over a partnership may enjoy similar treatment for the purposes of the tax on capital. Accordingly, a corporation that would be considered, according to the change made, as exercising notable influence over a partnership, may continue to not include in the calculation of its paid-up capital the share of the retained earnings (unallocated deficits) of the partnership where it can demonstrate that it satisfies the conditions allowing its interest to be accounted for under the cost method.

This change will apply regarding a taxation year of a corporation ending after the day of the Budget Speech. It will also apply to any application for adjustment bearing on this change, formulated as of the day of the Budget Speech, regarding a taxation year for which, on such date, the tax on capital payable by the corporation, for such year, can be determined or determined again, or for which a new assessment or a supplementary assessment can be made or established.

3.3.3 Bonds of a corporation and debts owed by a corporation

As mentioned previously, the calculation of the paid-up capital of a corporation that is not a financial institution includes a reduction in paid-up capital in relation to investments made in other corporations, in order to avoid double taxation. Moreover, a deduction is allowed regarding certain items, in particular expenses relating to the issue of stock or bonds.

The reduction for investments is, however, limited to investments that are stock, bonds, loans or advances, bankers' acceptances and other similar securities, as well as certain amounts receivable from another corporation. In addition, investments in the stock and bonds of corporations exempt from the tax on capital constitute eligible investments for the purposes of the reduction in paid-up capital.

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26 For the purposes of this determination, the income of the partnership will be deemed equal to $1 million.

27 Briefly, a corporation with no public accountability and whose owners give their unanimous consent to use the cost method rather than the equity method can use such method.

❑ Securities issued by a government

A security issued by a government, such as a bond, is not an eligible security for the purposes of the reduction in paid-up capital.

However, for the purposes of the *Taxation Act*, a legal person, whether for profit or not, is designated by the word "corporation." Since it is established that a government is a legal person, it could be submitted that a security issued by a government, such as a bond, constitutes a bond of a corporation.

Accordingly, to confirm the fiscal policy and its application by the ministère du Revenu, a clarification will be made to indicate that a security issued by a government or a debt of a government cannot constitute investments covered by the reduction in paid-up capital. For the purposes of this clarification, the term "government" does not cover a municipal administration.

This change will apply regarding a taxation year of a corporation ending after the day of the Budget Speech. It will also apply to any application for adjustment bearing on this change, formulated as of the day of the Budget Speech, regarding a taxation year for which, on such date, the tax on capital payable by the corporation, for such year, can be determined or determined again, or for which a new assessment or a supplementary assessment can be made or established.

❑ Notion of bond

The notion of bond is not defined in the *Taxation Act*. However, the essence of this notion refers to a debt security issued to an investor to meet a long-term financial requirement.

Briefly, the notion of bond is relevant, in particular to enable corporations to obtain a reduction in the calculation of their paid-up capital in relation to the bonds issued by banks.

Moreover, a corporation can deduct the expenses associated with the issuing of stock or bonds in calculating its paid-up capital, provided they were not used to reduce its surplus or paid-up capital. This deduction is designed to recognize the impact of such expenses on the obtaining of capital by a corporation. Issues of stock or bonds entail greater expense than what is required in the course of a private financing, such as a conventional loan from a financial institution or the issue of floating-capital notes.

The Court of Appeal has already ruled in one of its decisions [28] that a corporation that transferred the stock of its subsidiaries to a financial institution could include, in its reduction for investments, the floating-capital notes issued by such financial institution as consideration for the stock thus transferred. According to the Court of Appeal, the floating-capital notes can be likened to debentures and since the latter are bonds, they could be qualified as investments in the bonds of financial institutions. It was also submitted that since loans and advances are already considered in the tax legislation, the notion of bond may cover something other than a loan.

In fiscal policy terms, it would be inappropriate to allow a deduction regarding the expenses associated with issuing securities such as floating-capital notes, given that this deduction is designed precisely to recognize the size of the expenses incurred by a corporation when it issues securities intended for many investors and that involve numerous formalities, such as stock or bonds.

Accordingly, to confirm the fiscal policy and its application by the ministère du Revenu, the notion of bond will be clarified for the purposes of the tax on capital. More specifically, the term "bond" will be defined as a negotiable debt security issued by a capital-stock corporation or any other legal entity, to many lenders of funds, to satisfy a long-term financial requirement.

This change will apply regarding a taxation year of a corporation ending after the day of the Budget Speech. It will also apply to any application for adjustment bearing on this change, formulated as of the day of the Budget Speech, regarding a taxation year for which, on such date, the tax on capital payable by the corporation, for such year, can be determined or determined again, or for which a new assessment or a supplementary assessment can be made or established.

28 *Québec (Sous-ministre du Revenu)* v. *Corporation Financière Génécan*, D.F.Q.E. 2006F-21.

4. WITHDRAWAL OF THE INDEXING IN THE DETERMINATION OF THE REFUNDABLE TAX CREDIT FOR PROCESSING ACTIVITIES IN THE RESOURCE REGIONS

Briefly, the refundable tax credit for processing activities in the resource regions is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in a resource region of Québec, until December 31, 2009.

To be eligible, a corporation must carry on a certified business, i.e. a business regarding which an eligibility certificate has been issued by Investissement Québec and whose secondary or tertiary processing activities are carried out, among others, in the wood processing, metals, non-metallic minerals and energy sectors.

To determine its refundable tax credit for a given calendar year, an eligible corporation must compare the payroll for such calendar year with that of its reference calendar year. This reference calendar year corresponds to the calendar year preceding the one during which the corporation began to carry on a certified business.

The impact of the tax credit in terms of job creation shows that this measure is contributing to the economic diversification of the resource regions. Moreover, several regional stakeholders have made the government aware of the fact that this fiscal measure favors businesses located in the resource regions by providing tax assistance on the increase in payroll that results from wage indexing.

More specifically, the existing terms and conditions stipulate that an eligible corporation may, regarding a calendar year, claim the refundable tax credit based on the increase in payroll attributable to its eligible employees, according to the following formula:

$$\text{Amount of the tax credit} = \text{Rate of tax credit} \times (A - B)$$

In this formula:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

Since no correction regarding wage indexing is considered in the determination of the tax credit, an eligible corporation can thus receive tax assistance in a given calendar year without necessarily having created additional jobs during such calendar year.

Accordingly, to more directly link the purpose of the tax credit, namely job creation, with the obtaining of tax assistance, an annual indexing factor of 2% will be considered in establishing the tax credit beginning in calendar year 2008.

Thus, component A of the formula will be adjusted for calendar years 2008 and 2009. More specifically, all the wages paid by a corporation to its eligible employees for the calendar year of the tax credit calculation, i.e. the amount identified by the letter A in the formula, will be reduced by 2% for calendar year 2008 and by 4% for calendar year 2009.

For greater clarity, no such adjustment will be made to the refundable tax credit for Gaspésie and certain maritime regions of Québec and the refundable tax credit for the Vallée de l'aluminium.

5. Measures relating to the March 19, 2007 federal budget

On March 19, 2007, the Minister of Finance of Canada tabled the federal government's budget for 2007. This budget includes various fiscal measures that affect the tax system.

At the same time, the federal Minister of Finance tabled, in the House of Commons, supplementary information as well as notices of ways and means motions to amend the *Income Tax Act* and the *Excise Tax Act*.

In this respect, Québec's tax legislation and regulations will be amended to incorporate some of the measures announced. However, the measures will be adopted only after the approval of any federal law or the adoption of any federal regulation giving effect to them, taking into account technical amendments that might be made prior to the approval of the law or the adoption of the regulation. Lastly, these measures will apply as of the same dates as for the purposes of the federal tax system.

5.1 Measures relating to the *Income Tax Act*

❑ Measures retained

Québec's tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures relating to:

1. the implementation of a registered disability savings plan (BR 2 in part),[29] subject to the application details described below;
2. donations of publicly-listed securities to private foundations (BR 3), subject to the clarifications made below;
3. the regime applicable to excess business holdings of private foundations (BR 4), subject to the specific features described below;
4. the elimination of the annual limit applicable to contributions paid under a registered education savings plan (BR 5 a));
5. the recognition of certain part-time study programs for the purposes of an educational assistance payment by a registered education savings plan (BR 6);
6. the cumulative exemption of capital gains (BR 13);

29 References in parentheses correspond to the number of the budget resolution in the Notice of Ways and Means Motion to Amend the *Income Tax Act* tabled on March 19, 2007.

7. meal expenses of trucker drivers (BR 14);
8. changes to annuity contracts purchased under a registered pension plan or deferred profit-sharing plan to reflect the deferral of the maturity date of such plans (BR 16);
9. the determination of the minimum withdrawal amount under a registered retirement income fund (BR 17);
10. gifts by corporations of medicines to developing countries (BR 23);
11. the limitation on the deductibility of interest relating to active income from a foreign affiliate (BR 24 to 29),[30] subject to the clarifications made below;
12. the updating of the concept of "prescribed stock exchange" (BR 34 to 38);
13. the increase to $1 800 of the income tax instalment threshold for individuals resident in Québec, subject to the condition that such measure shall apply to any individual liable for Québec tax (BR 43 a));
14. the increase to $3 000 of the threshold as of which a corporation is required to pay instalments (BR 44);
15. the change in the frequency of instalments of Canadian-controlled private corporations (CCPC) from monthly to quarterly (BR 45 to 47), subject to the clarifications made below;
16. the amendments pertaining to capital cost allowance applicable to certain assets;[31]
17. the increase to $3 000 in the threshold amount for remitting payroll deductions and employer contributions by quarterly instalment,[32] subject to the clarifications made below.

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30 On May 14, 2007, the federal Minister of Finance withdrew budget resolutions 24 to 29 and replaced them with a new proposal (News Release 2007-041), which is dealt with under the title "Clarifications regarding certain retained measures".

31 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 404 to 417. For greater clarity, the assets covered by the change relating to manufacturing and processing machinery and equipment can continue to constitute eligible assets for the purposes of the capital tax credit for certain types of investments.

32 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 430.

Moreover, although they do not require any legislative or regulatory amendment, the measures relating to the increase in the limit on contributions made to a registered education savings plan (BR 5 b), the deferral of the maturity of registered pension plans,[33] registered retirement savings plans and deferred profit-sharing plans (BR 15),[34] the addition of certain securities to the list of eligible investments of many types of registered plans (BR 18), the rules relating to affiliated foreign corporations (BR 30 to 33), to phased retirement[35] and to the regions recognized for the purposes of the northern residents deduction[36] will also be retained for the purposes of Québec's tax system.

Similarly, the measures relating to the increase in the maximum amount that can be paid on account of the Canada Education Savings Grant[37] will be taken into consideration for the purposes of calculating the new refundable tax credit to support education savings.[38]

❑ Clarifications regarding certain retained measures

■ Registered disability savings plan

For the sake of simplicity and to streamline the procedure for having a disability savings plan registered for the purposes of Québec's tax system, various adjustments will be made to the measures retained in relation to the implementation of a registered disability savings plan.

Subject to the power of the Minister of Revenue of Québec to reject or revoke a registration, any plan that has a valid registration as a registered disability savings plan under the federal tax legislation will be deemed to be similarly registered by the Minister of Revenue for the purposes of Québec's tax legislation.

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33 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 400.

34 As part of the Budget Speech of April 26, 1990, it was announced that Québec's tax legislation and regulations would be amended so that the rules introduced in the reform of tax assistance for retirement savings would be the same as those applicable for federal income tax purposes. Given the level of complexity of the provisions relating to the reform, for individuals, employers and tax administration, it was specified that the federal rules would not be incorporated into Québec's tax legislation and regulations and that the legislative process to be used would refer to them.

35 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 398 and 399. See also note 34.

36 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 401.

37 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 390 and 391.

38 The refundable tax credit to support education savings, which was announced as part of the February 20, 2007 Budget Speech and is confirmed in this Budget Speech, is described on pages A.5 to A.18 of the appendix to this section.

As a corollary, the registration of a disability savings plan that is deemed registered by the Minister of Revenue of Québec will, for the purposes of Québec's tax legislation, be deemed revoked as of the date when the plan's registration is revoked for the purposes of the federal tax legislation.

Moreover, so that the taxable portion of amounts received under a registered disability savings plan[39] by the plan beneficiary are not included in the calculation of, on the one hand, the amount of assistance granted by tax credits that reduce or are adjusted with income[40] and by the property tax refund and, on the other, the premium payable under the Québec prescription drug insurance plan or the 1% contribution to the Health Services Fund (HSF) payable by individuals, such portion of the amounts received will be included in the calculation of the beneficiary's taxable income.

■ Donations of publicly-listed securities to private foundations

Although the measure relating to donations of publicly-listed securities to private foundations has been retained, it should be specified that the donation of such securities to a private foundation, after the end of the first taxation year of the foundation beginning after March 18, 2012, will not give rise to the zero inclusion rate of capital gains and income for the purposes of Québec's tax legislation, in every case where, for the purposes of the federal tax legislation, such zero inclusion rate is not allowed regarding the donation because of the fact that the foundation has not completed the transition relating to its excess business holdings on March 18, 2007.

■ Regime applicable to excess business holdings of private foundations

The Québec government approves the federal government's initiative to implement a regime applicable to excess business holdings of private foundations, hereunder called "excess business holdings regime," to ensure that the persons related to such a foundation cannot exercise influence that, in view of their interest and that of the foundation in a corporation, would benefit themselves.

39 The portion of the amounts received under a registered disability savings plan that is attributable to contributions paid into the plan will not be taxable.

40 Namely the tax credit for a person living alone, with respect to age and for retirement income, the tax credits for medical expenses, the refundable tax credit for child support, the refundable tax credit allocating a work premium, the refundable tax credit for child care expenses, the refundable tax credit for the Québec sales tax (QST), the refundable tax credit for individuals living in a northern village and the refundable tax credit for informal caregivers.

However, for the sake of simplicity and to lower the administrative burden regarding compliance with the regime, the federal rules bearing on the levels applicable to portfolios of excess business holdings, anti-avoidance measures, public disclosure of information and transition provisions[41] will not be incorporated into Québec's tax legislation and regulations.[42]

So that the Minister of Revenue of Québec can exercise strict oversight of private foundations that, for the purposes of Québec's tax legislation, are registered charities that operate in Québec, the latter will be required to enclose, with the information return they must file with the Minister of Revenue within six months of the end of each of their taxation years, the following documents:

— a copy of the report, if any, they file for the year with the Canada Revenue Agency in accordance with the requirements of the excess business holdings regime;

— a copy of the excerpt from their federal information return for the year, in which they mention, if need be, any material operation they or persons not at arm's length with them carried out, in accordance with the requirements of the excess business holdings regime.

In addition, they must enclose, with the information return they must file with the Minister of Revenue for their first taxation year beginning after March 18, 2007, a copy of the election they made, if applicable, to be subject to the transition provisions stipulated by the excess business holdings regime.

Moreover, the federal measures regarding the imposition of a penalty on private foundations that fail to dispose of excess business holdings and, in the case of repeated infractions of this type, the revocation of their registration as a charity, will not be incorporated into Québec's tax legislation and regulations.

However, the registration of a private foundation that is registered or deemed to have been registered by the Minister of Revenue as a charity will, for the purposes of Québec's tax legislation, be deemed revoked as of the date when, for the purposes of federal tax legislation, the registration of such foundation is revoked because it repeatedly committed infractions regarding its obligation, under the terms relating to the excess business holdings regime, to dispose of such business holdings.

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41 Including the related rules concerning persons not at arm's length, the time allowed for disposal of excess business holdings and gifts conditional on the retention of securities by a private foundation.

42 For greater clarity, the federal rules on the limit applicable to private foundations for the transition period and denying, in certain cases, the application of the zero inclusion rate of capital gains and income regarding gifts of publicly-listed securities to such foundations will be retained, as indicated under the heading "Donations of publicly-listed securities to private foundations."

The related measures proposed by the federal government and that bear on the rules relating to non-qualifying securities for the purposes of the deduction and the tax credit for gifts will be incorporated into Québec's tax legislation and regulations, with adaptations on the basis of their general principles.

■ Limitation on the deductibility of interest relating to active income of foreign affiliates

On May 14, 2007, the federal Minister of Finance withdrew budget resolutions 24 to 29 and replaced them with a new proposal.[43]

Under this proposal, new rules applicable as of 2012 will be introduced to prevent multinational corporations from using tax havens and other tax avoidance mechanisms to obtain two deductions for the same investment expense. The technical terms and conditions giving effect to this announcement will be formulated in cooperation with a group of tax experts chaired by the federal Department of Finance.

Since, at the conceptual level, the ministère des Finances du Québec shares the concerns of the Department of Finance Canada on this matter and, in the field of taxation applicable to the foreign operations of Canadian corporations, Québec's legislation is harmonized with the federal legislation, Québec's tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the federal rules concerning the limitation of the deductibility of interest relating to foreign affiliate financing activities by Canadian corporations.

These rules will be applicable on the same date as for the purposes of the federal tax system.

■ Change to the frequency of instalments by CCPCs from monthly to quarterly

As mentioned previously, the measures relating to the change to the frequency of instalments of CCPCs from monthly to quarterly will be incorporated into Québec's tax legislation. However, they will be adapted to take the specific features of Québec's tax legislation into account.

Accordingly, the obligation of the CCPC to claim a small-business deduction will be replaced with an obligation to have active business income.

In addition, the condition whereby the taxable income of the CCPC and that of any corporation associated with it must not exceed $400 000 must be determined according to Québec's legislation.

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43 News Release 2007-041 of the Department of Finance Canada.

Moreover, the assessment of the size of the CCPC will be made on the basis of its paid-up capital and that of any other corporation associated with it, which paid-up capital must not exceed $10 million and will be calculated according to Québec's legislation.

Lastly, concerning the condition relating to no previous non-compliances with the legislation, satisfaction of this condition will be judged on the basis of Québec's legislation.

■ Increase in payroll withholding and employer contribution remittance thresholds

The measure relating to the increase, from $1 000 to $3 000, of the threshold applicable to the quarterly remittance of payroll withholdings and employer contributions will be adapted to maintain the Minister of Revenue's discretion to authorize remittances on a quarterly basis. For greater clarity, an employer whose average monthly remittance is no greater than $3 000 must have received authorization from the Minister of Revenue to make quarterly, rather than monthly, remittances.

To reduce the administrative burden on small employers concerning, in particular, the number of forms they must submit to the ministère du Revenu, Québec's legislation also stipulates that the Minister of Revenue may authorize an employer whose payroll withholdings and employer contributions do not exceed $1 200 for the year, or for the preceding year, to remit such amounts once per year. To enable a larger number of small employers to benefit from this streamlining measure, the threshold applicable to an annual remittance will be doubled to $2 400 as of calendar year 2008.

❑ Measures not retained

Some measures have not been retained because they do not correspond to features of Québec's tax system or because Québec's tax system has no corresponding provisions. This applies to the measures relating to information sharing concerning registered education savings plans (BR 8), the changes made to the public transit tax credit (BR 12), the tax relief granted in view of the 2010 Games in Vancouver (BR 19 to 21),[44] the tax credit for mining exploration (BR 22), the investment tax credit for child care spaces (BR 39 to 42), the increase to $3 000 of the threshold of income tax instalments for individuals not resident of Québec (BR 43 b)) and the elimination of the tax withholding on certain cross-border interest payments.[45]

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44 The measures bearing on streamlining relating to Part I of the *Income Tax Act* have not been retained because the territorial reach inherent in the corresponding Québec provisions makes their harmonization unnecessary.

45 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 418 and 419.

Other measures have not been retained because Québec's tax system is satisfactory in this regard. This applies to the measures regarding:

— the implementation of a working income tax benefit (BR 1). However, in order not to reduce the assistance this benefit will provide for Québec taxpayers, Québec's tax regulations will be amended to stipulate that this benefit will not be taxable;

— the payment of a disability savings grant and a disability savings bond (BR 2 in part);

— the tax treatment of the Québec government assistance granted under the refundable tax credit to support education savings (BR 7);

— the non-taxation of scholarships and bursaries paid to enable attendance at an elementary or secondary school (BR 9);

— the introduction of a non-refundable child tax credit (BR 10);

— the change to the parameters used to calculate the spousal tax credit or the tax credit for a wholly dependent relative (BR 11).

❑ Measures already announced by the federal Department of Finance

When he presented his 2007 budget, the federal Minister of Finance also confirmed his intention to introduce, as corrected to reflect consultations and deliberations, various tax measures that had been previously announced.[46]

These measures include the measure relating to tax returns in a functional currency dealt with in the May 2, 2006 federal budget,[47] the measure relating to the splitting of certain retirement income between spouses announced in the *Tax Fairness Plan* released on October 31, 2006,[48] as well as the measures relating to improvements to the taxation of financial institutions announced on December 28, 2006,[49] on which there is reason to specify the position of the ministère des Finances du Québec.

46 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 442.

47 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2006*, p. 245.

48 News Release 2006-061 of the Department of Finance Canada.

49 News Release 2006-091 of the Department of Finance Canada.

■ Tax returns in a functional currency

Briefly, the federal measure regarding a tax return in a functional currency enables corporations that, for their financial reports, are required to report their income in a functional currency other than the Canadian dollar, to determine their income for Canadian tax purposes in such functional currency.

Since the Minister of Finance of Canada had announced on May 2, 2006 that he intended to release draft legislative proposals for discussion purposes, the Minister of Finance of Québec announced on June 29, 2006 that his decision regarding the measure relating to tax returns in a functional currency would be announced at a later date.[50] Since the federal decision is now known, the Minister of Finance of Québec announces that Québec's tax legislation will also be amended to incorporate, with adaptations on the basis of its general principles, this measure that will apply on the same date as it will for the purposes of the federal tax system.

■ Splitting of certain retirement income between spouses

Following the tabling of the 2007 budget, the federal Minister of Finance issued a news release[51] indicating that on March 29, 2007, he had tabled a bill in the House of Commons[52] designed in particular to implement the measure relating to the splitting of certain retirement income between spouses.

The Québec government has previously announced that Québec's tax system would be harmonized with the essentials of the federal system concerning the measure on the splitting of certain retirement income between spouses.[53]

The main application details of this measure regarding Québec's tax system were released by the ministère des Finances du Québec on December 20, 2006, in an information bulletin.[54]

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50 Information Bulletin 2006-2, p. 7.

51 News Release 2007-028 of the Department of Finance Canada.

52 Bill C-52, *An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007*, 1st session, 39th Parliament, 2007.

53 Minister's statement concerning the tax reduction for couples with retirement income delivered by then Minister of Finance Michel Audet, December 5, 2006.

54 Information Bulletin 2006-6, p. 35 to 38.

Briefly, it was announced that, for the purposes of Québec's tax system, the retirement income splitting mechanism[55] would apply only between persons who reside in Canada at the end of a given taxation year and who are eligible spouses,[56] and that this mechanism would apply to an amount not exceeding 50% of all income giving rise, for the year, to the amount used to calculate the pension tax credit allowed under the federal tax system.

In addition, besides stipulating special rules, particularly in the case of death or bankruptcy and imposing a solidary liability regarding the additional fees that the spouse of the author of the splitting is required to pay, it was specified that eligible spouses could, as a general rule, make a separate election from the one made for the purposes of the federal tax system.

It was also specified that the allocated amount would be deemed to have been received by the spouse of the author of the splitting on account of retirement income for the purposes of the tax credit for a person living alone, with respect to age and for retirement income, and that this amount would no longer entitle the author of the splitting to this tax credit.

For its part, through the bill tabled on March 29, 2007, the federal government specified the rules dealing with the measure relating to the splitting of certain retirement income between spouses and introduced, at the same time, technical measures bearing on the pension tax credit that had not been announced previously.

In the circumstances, it is appropriate to disclose the position of the ministère des Finances du Québec regarding, first, the application details of the measure relating to the splitting of certain retirement income between spouses that Information Bulletin 2006-6 of December 20, 2006 did not specify and, second, the proposed new measures concerning the pension tax credit.

- **Measures relating to splitting**

Some of the measures contained in the federal bill tabled on March 29, 2007 dealing with how to avail oneself of the splitting mechanism and the mechanism's impact on tax withholdings at source will be incorporated into Québec's tax legislation.

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55 Which will give rise to a deduction of the allocated amount in the calculation of the income of the author of the splitting and to an inclusion of an equivalent amount in the calculation of his spouse's income.

56 As this expression is understood for the transfer between spouses of the unused portion of non-refundable tax credits.

However, these measures will be adopted only after any federal law pursuant thereto is assented to, taking into account technical amendments that might be made prior to such assent. These measures will generally apply on the same dates as for the purposes of the federal tax system.

More specifically, Québec's tax legislation will be amended to incorporate, with adaptations on the basis of its general principles, the federal measures relating to:

— the obligation, for spouses wishing to benefit from the measure relating to retirement income splitting for a given taxation year, to make a joint election on a prescribed form they must file with the Minister of Revenue with their tax returns for the taxation year covered by the election, no later than the filing deadline respectively applicable to them for the year (5(1) in part);[57]

— the non-validity of a joint election where, knowingly or in circumstances equivalent to flagrant negligence, a false statement is made (5(1) in part);

— the fact that the Minister of Revenue may not consider, for the purposes of exercising his discretion to reduce the amount of tax withheld at source otherwise determined regarding a payment, a joint election concerning retirement income splitting that an individual makes or intends to make (22 in part);

— the presumption by which the amount of tax withheld on the income of the author of the splitting that can reasonably be considered to relate to the amount allocated to his spouse will apply against the tax payable by the latter and not against the tax payable by the author of the splitting (22 in part), hereunder called “presumption relating to withholdings on split income”, subject to the clarifications made below.

Moreover, there is reason to specify that, for the purposes of Québec’s tax legislation and regulations, the retirement income splitting mechanism and the presumption relating to withholdings on split income will have no impact, as of taxation year 2008, on income tax instalments.

Accordingly, to determine whether or not an individual is required to make instalment payments on his income tax payable for a given taxation year, the net tax payable by such individual for the year or for a year prior to such year must be determined without taking into account, first, the amount of allocated retirement income that has been deducted or included, as the case may be, in calculating his income for any of such years and, second, the presumption relating to withholdings on split income applicable to such a year.

57 The references in parentheses correspond to the number of the provision of Bill C-52 tabled in first reading on March 29, 2007 (see note 52).

In the case where an individual is required to make instalment payments on his income tax payable for a given taxation year, his estimated income tax or his base instalment for a year prior to such year must be established without taking into account, first, the amount of allocated retirement income that has been deducted or included, as the case may be, in calculating his income for the year concerned and, second, the presumption relating to withholdings on split income for such year.

In addition, to determine the amount of any payment for which an individual is liable for the purposes of calculating the interest attributable to the insufficiency or lack of instalment payments on tax payable for a given taxation year, the retirement income splitting mechanism and the presumption relating to withholdings on split income must not, in any case, be taken into consideration.

- **Measures relating to the pension tax credit**

Québec's tax system grants tax relief to low and middle-income households that receive certain types of retirement income. This tax relief, which consists of a non-refundable tax credit that reduces with income, applies to the first $1 500[58] of eligible retirement income received by an individual and, if applicable, such income received by his spouse.

The retirement income eligible for this tax credit is essentially identical to that giving rise to the pension tax credit granted by the federal tax system, except that the type of income eligible for the purposes of the Québec system does not depend on the recipient's age.[59]

In these circumstances, Québec's tax legislation will be amended to incorporate, with adaptations on the basis of its general principles, the federal measures proposed by the bill tabled on March 29, 2007 and relating to the amounts received by an individual that are not eligible for the purposes of calculating the pension tax credit (9(14)) and to the presumption bearing on the eligibility, for the purposes of calculating the tax credit, of bridging benefits on account of a life annuity stipulated by a retirement or pension plan (9(15)).

However, these measures will be adopted only after any federal law pursuant thereto is assented to, taking into account technical amendments that might be made prior to such assent. These measures will apply on the same dates as for the purposes of the federal tax system.

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58 It was announced in the February 20, 2007 Budget Speech and is confirmed in this Budget Speech that, to lower the tax burden of low and middle-income pensioners, an individual's maximum eligible retirement income used to determine this tax credit would be raised from $1 000 to $1 500 as of taxation year 2007. This measure is described on pages A.39 and A.40 of the appendix to this section.

59 Unlike Québec's tax system, the federal tax system restricts the type of eligible income for individuals under age 65.

■ Improvements to the taxation of financial institutions

On December 28, 2006, the federal Minister of Finance announced four proposals to improve the taxation of financial institutions, by ensuring better coherence of the tax rules with the accounting standards that were set out by the Accounting Standards Board and came into force on October 1, 2006.[60]

The proposals are: "Tax Treatment of Mark-to-Market Properties", "Changes in Policy Reserves of Insurance Corporations," "Policy Reserves for Life Insurance Policies Issued Before 1996", and "Taxable Capital Employed in Canada Under the Minimum Tax".

On March 19, 2007, when he tabled his 2007 budget, the federal Minister of Finance confirmed the federal government's intention to introduce these fiscal measures announced on December 28, 2006.[61]

In this regard, Québec's tax legislation and regulations will be amended to incorporate, with adaptations on the basis of their general principles, the measures included in these proposals. However, there is reason to specify, concerning the fourth measure bearing on the minimum tax of financial institutions, that while there is no equivalent in Québec's tax system, it does stipulate a tax on capital of life insurers whose calculation is based on the concept of "taxable capital employed in Canada". Consequently, the appropriate adjustments will be made to Québec's tax system.

These amendments will all apply on the same dates as they will for federal tax purposes.

❑ Subsequent announcements

■ Harmonization of the working income tax benefit with the work premium

The Québec government is pleased with the federal government's openness to adjusting the working income tax benefit on the basis of provincial and territorial characteristics. The ministère des Finances du Québec will participate actively in the work on this issue to harmonize the working income tax benefit as much as possible with the refundable tax credit allocating a work premium that Québec's tax system has granted, since 2005, to low and middle-income workers and, by the same token, to improve Quebecers' incentive to work.

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60 *Supra*, note 49.

61 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2007*, p. 442.

In the event that, once this work is completed, adjustments need to be made to the application details of the refundable tax credit allocating a work premium, such adjustments will be announced in fall 2007.

■ Treatment of the registered disability savings plan for the purposes of last resort financial assistance

To ensure that registered disability savings plans help provide for the long-term financial security of severely handicapped children in low-income families, the federal government intends to pay, to any plan registered for the benefit of such a child, disability savings bonds of up to $1 000 per year, to a limit of $20 000, whether a contribution is paid to the plan or not. In addition, it is proposing to implement a disability savings grant program that will be based on individual or family income and contributions to the plan.

Accordingly, so that disadvantaged persons and families are encouraged nonetheless to apply for registration of a disability savings plan and, within their means, contribute thereto, the Minister of Employment and Social Solidarity will announce, over the coming months, adjustments to the last resort financial assistance programs provided for in the *Individual and Family Assistance Act*.

The purpose of these adjustments is, in particular, to avoid a situation where, up to the low-income threshold set by the Institut de la statistique du Québec, payments from a registered disability savings plan reduce the last resort financial assistance provided by the Québec government.

■ Changes promoting phased retirement

In the context of an aging population and the possible labour shortage it may lead to, it is important to implement incentives to encourage workers to remain in the labour force longer, while allowing employers a degree of flexibility. That is why, at the Forum des générations held in October 2004, the Québec government undertook to encourage phased retirement.

A committee consisting of representatives of a number of departments, employers and unions was mandated to determine various possibilities. Following its work, the Comité sur la retraite progressive observed that, while defined-benefit supplemental pension plans have provisions that cover phased retirement, the legislative framework – in particular federal tax regulations and the laws governing pension plans – offered more encouragement for full or early retirement than phased retirement.

The Québec government made a commitment to work on the implementation of new terms and conditions for encouraging phased retirement, in collaboration with the federal government. In this regard, a number of proposals were submitted to the federal government.[62]

To give employers more latitude to enable them to offer phased retirement programs, and to foster full-time work for workers nearing the end of their career, the 2007 federal budget proposes amending the *Income Tax Regulations* to allow an employee to receive pension benefits from a registered defined-benefit pension plan simultaneously with the accumulation of service, subject to certain constraints.

The measure proposed by the federal government is consistent with many aspects of the proposals submitted by the Québec government.

In the circumstances, to ensure that the new federal rules relating to registered pension plans have concrete application in Québec and to carry out the Québec government's undertaking to encourage phased retirement, the Minister of Employment and Social Solidarity will propose amendments to the *Supplemental Pension Plans Act*. These amendments will take into consideration the adjustments that may be made to the federal measure following the consultations the federal government will hold on its technical aspects.

5.2 Measures relating to the *Excise Tax Act*

Changes will be made to the Québec sales tax system to incorporate, with adaptations based on its general principles, the federal measures relating to meal expenses of truck drivers (BR 1),[63] remittance and filing thresholds (BR 2 and 3), exports of intangible personal property (BR 11 and 12) and exemption for midwifery services from the GST/HST (BR 13 and 14).[64]

Concerning the federal measures relating to the foreign convention and tour incentive program, the only measures retained will be those bearing on the filing of information on the amounts of tax refunds paid or credited by registered suppliers in a foreign convention context (BR 5 and 10(5) and (7)).

62 MINISTÈRE DES FINANCES DU QUÉBEC, *Promoting Phased Retirement, Budget 2007-2008*, February 20, 2007.

63 References in parentheses correspond to the number of the budget resolution in the Notice of Ways and Means Motion to Amend the *Excise Tax Act* to implement measures affecting the goods and services tax and the harmonized sales tax (GST/HST) tabled on March 19, 2007.

64 The decision to retain this measure, which was announced as part of the February 20, 2007 Budget Speech and is confirmed in this Budget Speech, is shown on pages A.77 and A.78 of the appendix to this section.

APPENDIX

The revenue measures contained in the document entitled *Additional Information on the Budgetary Measures* tabled in the National Assembly on February 20, 2007 are reproduced in full below.

Section A – Appendix

Revenue Measures

1. MEASURES CONCERNING INDIVIDUALS A.3

1.1 Personal income tax reduction of $250 million A.3

1.2 Improvement of the tax system pertaining to education A.4

1.2.1 Introduction of a refundable tax credit to support education savings A.5

1.2.2 Changes to the rules of the tax credit for minor children engaged in vocational training or post-secondary studies A.18

1.2.3 Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution A.21

1.2.4 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees A.34

1.3 Enhancement of the tax credit for retirement income A.39

1.4 Introduction of a refundable tax credit for people providing respite to informal caregivers A.40

1.5 Simplification and enhancement of the refundable tax credit for child care expenses A.44

1.6 Enhancement of the refundable tax credit for the treatment of infertility A.52

2. MEASURES CONCERNING BUSINESSES A.54

2.1 Extension of and improvement to the capital tax credit A.54

2.1.1 Extension of and improvement to the basic 5% credit A.54

2.1.2 Extension of the higher 15% credit A.55

2.2 Increase in the tax on capital exemption threshold of a farming corporation or a corporation that carries on a fishing business A.56

2.3 Major reduction in the corporate tax rate applicable to passive income A.56

2.4 Measures concerning scientific research and experimental development A.58

2.4.1 Change to the requirement to carry on a business in an establishment located in Québec A.58

2.4.2 Recognition of an eligible public research centre A.59

2.5 Gradual reduction in the tax holiday granted to manufacturing SMEs in remote resource regions A.60

2.6 Measures concerning culture A.63

2.6.1 Adjustments to the refundable tax credit for Québec film and television production A.63

2.6.2 Concordance changes regarding certain refundable tax credits relating to the cultural field A.66

2.6.3 Adjustments to the refundable tax credit for the production of shows A.67

2.6.4 Concordance adjustment to the refundable tax credit for sound recording production A.69

2.6.5 Adjustments to the refundable tax credit for book publishing A.70

2.7 Adjustment to the SME Growth Stock Plan A.72

2.8 Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone A.74

3. MEASURES CONCERNING CONSUMPTION TAXES A.77

3.1 Rise in the maximum amount of the refund of Québec sales tax paid on a hybrid vehicle A.77

3.2 Exemption of services supplied by a midwife A.77

3.3 Measures concerning the financial services sector A.78

3.4 Standardized accounting – Consequential amendments to the new rule for calculating interest in the goods and services tax system A.78

4. DEPOSIT OF CERTAIN FEES TO THE FONDS DE CONSERVATION ET D’AMÉLIORATION DU RÉSEAU ROUTIER A.80

1. MEASURES CONCERNING INDIVIDUALS

1.1 Personal income tax reduction of $250 million

Since 2003, the tax burden of Quebecers has been reduced by $3.1 billion. As a whole, the tax relief measures implemented over this period have closed the gap between the tax burden of Québec residents and the average tax burden of residents of the other provinces by more than half.

In keeping with the government's goal of relieving the tax burden of Quebecers to bring it more in line with the Canadian average, a personal income tax reduction of $250 million will be granted as of January 1, 2008.

Currently, the income tax payable by individuals on their taxable income[1] is determined by means of a table providing for three tax rates that increase gradually with the table's taxable income brackets.[2] The table provides for a tax rate of 16% for individuals whose taxable income is equal to or less than $29 290 for the 2007 taxation year. The rate is 20% for the taxable income bracket over $29 290, without exceeding $58 595, and 24% for the bracket over $58 595.

The personal income tax reduction granted as of January 1, 2008 will be in the form of an increase in the thresholds and ceilings establishing the taxable income brackets of the table used to determine the income tax payable by individuals on their taxable income.

More specifically, as of January 1, 2008, the first bracket of the tax table will cover the first $32 000 of taxable income, with the second bracket consisting of the portion of taxable income over $32 000, but not exceeding $64 000, and the third bracket corresponding to taxable income over $64 000.

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1 In the case of an *inter vivos* trust other than a mutual fund trust, the income tax payable is generally equal to the income tax payable on the trust's taxable income for the taxation year, determined on the basis of the personal income tax table for that year, or 20% of its taxable income for the year, whichever is higher. The income tax payable by a mutual fund trust for a taxation year is determined by applying the personal income tax table or a rate of 20% to the adjusted taxable income, the higher result being the income tax payable for the year.

2 The thresholds and ceilings establishing the taxable income brackets of the tax table have been automatically indexed each year since January 1, 2002.

TABLE A.1

Illustration of the thresholds and ceilings establishing the taxable income brackets of the tax table for the 2007 and 2008 taxation years
(dollars)

Marginal rate	Taxable income bracket	2007	2008[1] Before budget	2008 After budget
16%	Taxable income equal to or less than	29 290	29 875	32 000
20%	Taxable income over but not exceeding	29 290 58 595	29 875 59 765	32 000 64 000
24%	Taxable income over	58 595	59 765	64 000

1 The thresholds and ceilings have been adjusted using an estimated index of 2%.

As of January 1, 2009, the thresholds and ceilings establishing the taxable income brackets of the tax table will again be automatically indexed each year.[3]

1.2 Improvement of the tax system pertaining to education

The tax system grants assistance to encourage post-secondary studies. Such assistance, which can be intended for the student or for his parents, is reflected in various measures, some focused on the future and others dealing with the present.

The measures focused on the future are designed to encourage parents to save for their children's post-secondary education, in registered education savings plans in which funds are set aside to grow sheltered from tax.

The measures dealing with the present seek to help students in vocational training or at the post-secondary level and their parents regarding the costs they must assume during the academic year, such as living expenses and tuition fees. These measures enable parents who support children age 17 or under to claim a tax credit for minor children engaged in vocational training or post-secondary studies, and those supporting children at least 18 years of age to claim a tax credit for adult children who are students. They also enable students to claim a tax credit for tuition fees and examination fees. Initially designed to ease the tax burden of students for the years during which they are engaged in post-secondary studies, this tax credit, by allowing the carry-over of any unused portion to future years, does recognize that some students do not have enough income during their schooling to benefit fully from this tax credit.

3 For greater clarity, where the indexation amount is not a multiple of 5, it must be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of 5, to the nearest higher multiple of 5.

In recent months, these various measures dealing with the present have been reviewed and the conclusion is that they could be better adapted to today's situation as well as improved in terms of fairness and effectiveness.

Accordingly, to better support families with children in vocational training or post-secondary studies:

- changes will be made to the tax credit for minor children engaged in vocational training or post-secondary studies to make it fairer and more favourable for parents;
- the tax credit for adult children who are students will be replaced by a transfer mechanism for the recognized parental contribution, so that the tax assistance intended for parents is fairer, more favourable and simpler for parents to determine;
- the portion of the tax credit for tuition fees and examination fees that a student does not use to reduce his tax payable may be transferred to one of his parents or grandparents, to better recognize their contribution to the education of young people.

Moreover, the tax system pertaining to education will not be improved solely for the families of today's students. The families of tomorrow's students who save through registered education savings plans will be able to benefit from new financial assistance for education savings, for a cumulative amount of up to $3 600 per child.

1.2.1 Introduction of a refundable tax credit to support education savings

To encourage parents to save for their children's post-secondary education, the funds they set aside in a registered education savings plan – or RESP as they are commonly known – receives preferential tax treatment.

While the person who contributes to an RESP (normally the parents, but it can also be the grandparents, uncles, aunts or anyone wishing to participate in a child's education) receives no tax relief regarding his contribution to the plan,[4] the investment income generated by such contribution – consisting of interest, dividends or capital gains – accumulates sheltered from tax, until the child (the beneficiary of the RESP) is ready to begin recognized post-secondary studies.[5]

4 The maximum contribution to an RESP is $4 000 per year, per child, up to a lifetime limit of $42 000 per child. The maximum period during which a person may contribute to an RESP is 21 years following the year in which the plan is initiated.

5 These are essentially studies that must be undertaken in a college, university, CEGEP or technical and vocational training school under a program stipulating courses or work requiring at least ten hours per week.

At that time, the beneficiary of the RESP can use part of the funds in the plan to pay for his studies. The portion of the funds consisting of contributions to the plan is withdrawn free of tax, since the contributor obtained no tax benefit in this regard. However, the interest, dividends and capital gains generated by these contributions are entered into the calculation of the student's income, as an educational assistance payment (EAP). However, since the student's income is generally fairly low, he pays little or no tax on these funds.[6]

If a child postpones recognized post-secondary studies, withdrawals from the RESP can be deferred until the end of the 25th year following the year in which the plan was opened. By then, all the funds in the plan must be withdrawn.[7]

In recent years, contributions to an RESP have given rise to a Canada education savings grant that is added to the funds of the plan and is eventually paid to the children as an EAP.

For families with family income, in 2007, of no more than $37 178, this grant corresponds to 40% of the first $500 of annual contributions to an RESP, while this rate is 30% for families with family income greater than $37 178 but less than or equal to $74 357.

For contributions greater than $500, and for families with family income in excess of $74 357, the grant is equivalent to 20% of a maximum of $2 000 of annual contributions to an RESP.

The Canada education savings grant can accordingly represent up to $500 per year, per beneficiary, and over the years reach a total of $7 200.

Despite the attractions of RESPs, fewer families in Québec than in other provinces have made use of these plans as a savings vehicle to fund their children's post-secondary education.

Accordingly, to further encourage Québec families to save for their children's education as early as possible, financial assistance, similar to the Canada education savings grant, will be paid through a refundable tax credit for the benefit of children who will be beneficiaries of an RESP.

This refundable tax credit, which will be granted to a trust governed by an education savings plan, will enable families that contribute to an RESP after the day of this Budget Speech to obtain financial assistance of up to $3 600 per child, on a cumulative basis.

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6 RESPs were designed with the expectation that the cost of a child's post-secondary education would be funded both by contributions to the plan and by EAPs. However, there is no obligation to wait until a child begins post-secondary studies to withdraw contributions paid into an RESP free of tax.

7 A longer time is allowed for a child with a severe and prolonged impairment in physical or mental functions, i.e. until the end of the 30th year following the initiation of the plan.

In general, the financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first $2 000 of annual contributions to an RESP for children under age 18.

However, the government will more vigorously support the savings efforts of low- and middle-income families.

In the case of middle-income families, the government's contribution to their savings effort will consist of financial assistance equal to 15% of the first $500 of annual contributions to an RESP, while this rate will be 20% for low-income families.

Moreover, the financial assistance relating to the refundable tax credit that will be paid to a trust governed by an RESP – as well as the investment income it will produce – will be made available to the beneficiary of the plan by means of an EAP[8] and as such will have to be included in the calculation of his income.

Where this financial assistance is paid to a family RESP, i.e. a plan with many beneficiaries all related by blood or by adoption to the subscriber, it can be used to fund the studies of any of the beneficiaries, provided that no beneficiary receives more than $3 600 on account of the tax credit.

However, this financial assistance will be recaptured in certain circumstances, for instance, where the sole beneficiary of an RESP does not engage in recognized post-secondary studies.[9]

Such recapture will consist of a special tax that, in most cases, will be payable by the trust governed by an RESP. This tax generally will be determined based on the amounts of assistance that were paid, on account of the refundable tax credit, to the trust governed by an RESP and have not yet been made available to the beneficiary of the plan by means of an EAP.

It follows that, in order to adequately determine the amount of such tax, any EAP paid on an RESP will have to be broken down to determine the portion attributable to the refundable tax credit to support education savings.

This breakdown will also enable the trustee[10] of an RESP to ensure that, when he pays financial assistance in relation to the tax credit by means of an EAP, he does not exceed the cumulative limit of $3 600 per beneficiary. For instance, if the total financial assistance paid under the tax credit to a family RESP with two beneficiaries is $5 000 and if only one of the beneficiaries engages in recognized post-secondary studies, the amount paid to such beneficiary on account of the tax credit cannot exceed $3 600.

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8 Such a payment generally consists of a portion of the income accumulated in the plan and a portion of the various amounts of government assistance paid into it, if any.

9 *Supra*, note 5.

10 In general, the trustee of a trust governed by an RESP is a financial organization that administers the funds paid into the plan.

❑ Determination of the tax credit

A trust that, at the end of a given taxation year, resides in Québec and is governed by an education savings plan at least one of whose beneficiaries is an eligible beneficiary for the year may obtain, for the year, a refundable tax credit for an amount corresponding to 50% of all the amounts each of which is a Canada education savings grant that is attributable to a contribution paid to the plan for an eligible beneficiary and, furthermore, was paid, for the given year, to the trustee of the plan under the *Canada Education Savings Act*.

For an eligible trust governed by an education savings plan to benefit from a tax credit for a given taxation year, the trustee of the plan must submit a claim to Revenu Québec, using a prescribed form, no later than the 90th day following the end of the given year, and the plan must, at the time of the claim, be registered as an RESP.

In addition, a trust may receive a tax credit only if an agreement relating to Québec education savings assistance – described below – applies, at the time the tax credit is claimed, regarding the education savings plan under which the trust is governed.

Moreover, any amount payable to a trust on account of the tax credit will bear interest only as of the 46th day following the date the claim is received by Revenu Québec, at the rate stipulated in section 28 of the *Act respecting the Ministère du Revenu* regarding refunds.

❑ Eligible beneficiary

For the purposes of the refundable tax credit to support education savings, an eligible beneficiary of an education savings plan for a given taxation year means a person residing in Québec at the end of the year and designated by the plan subscriber to receive an EAP, if he is eligible to do so.

❑ Agreement relating to Québec education savings assistance

For a trust governed by an education savings plan to benefit from a refundable tax credit to support education savings, the trustee of the plan must have concluded, with the Minister of Revenue, an agreement regarding payment of the tax credit stipulating, among other things, that the trustee must:

— provide the Minister of Revenue with any information the latter may require for the purposes of the tax credit, in particular information on the eligible beneficiaries (for instance, their name, address and social insurance number) and any Canada education savings grant attributable to these beneficiaries;

— keep records containing the information needed to establish any amount that must be paid on account of the tax credit;

— keep an account, hereunder called the "Québec education savings assistance account", including any amount paid to the trust of the plan on account of the tax credit, and charge that amount to the credit of the account at the time it is paid;

— make no distribution of the assets held in the plan, unless, immediately after the distribution, the fair market value of the assets held in the plan is equal to or greater than the balance of the Québec education savings assistance account and the balance of the Canada education savings grant account[11] or the distribution consists of an EAP to a beneficiary of the plan the entire amount of which is attributable to the refundable tax credit to support education savings and to the Canada education savings grant;

— submit a report to the Minister of the portion of EAPs paid under the plan that is attributable to the tax credit;

— not require any fees in relation to the plan regarding the balance of the Québec education savings assistance account.

Moreover, for the agreement relating to Québec education savings assistance concluded with the trustee of an education savings plan to be fully applicable, the Minister of Revenue must conclude an agreement with the promoter of the plan stipulating, among other things, that the latter must provide the trustee with any information the Minister requires for the purposes of the tax credit. In particular, this includes the name, address, date of birth, confirmation of place of residence and social insurance number of the plan's beneficiaries.

In addition, the plan's promoter must undertake, under this agreement, not to demand any fees in relation to the plan regarding the balance of the Québec education savings assistance account.

❑ Breakdown of an EAP

Where an amount has been paid to a trust governed by an RESP on account of the refundable tax credit to support education savings, any EAP eventually paid to the beneficiary of the plan must be broken down to determine the portion attributable to the tax credit.

In general, this portion will be determined on the basis of the ratio between the amounts of the refundable tax credit paid to the plan and the fair market value of the assets held in the plan.

11 Namely the account that, according to the *Canada Education Savings Regulations*, includes all the Canada education savings grants paid, under the *Canada Education Savings Act*, into an RESP.

Two formulas are used to break down an EAP: the first, hereunder called “fair market value allocation formula”, will apply where income has accumulated in the plan while the second, hereunder called “government assistance allocation formula”, will apply where there is no such accumulated income.

■ RESP with accumulated income at the time an EAP is paid

Where income has accumulated in an RESP at the time an EAP is paid to a beneficiary of the plan, the portion of such payment attributable to the tax credit will correspond to the lesser of the following amounts:

— the amount calculated using the fair market value allocation formula, i.e.:

$$\frac{A \times B}{C - D - E}$$

— the eventual excess of $3 600 over the total of the amounts each of which is an amount calculated using the fair market value allocation formula or, as the case may be, the government assistance allocation formula regarding an EAP previously paid to the beneficiary under the plan.

In the fair market value allocation formula:

— the letter A represents the amount of the EAP paid to the beneficiary of the plan;

— the letter B represents the balance of the Québec education savings assistance account immediately prior to the payment of the EAP;

— the letter C represents the fair market value of the assets held in the plan, calculated immediately prior to the payment of the EAP or on the prior date that, if applicable, was agreed to in the agreement relating to Québec education savings assistance applicable to the plan;

— the letter D represents the total contributions to the plan prior to the payment of the EAP and that have not been withdrawn;

— the letter E represents the total of the balance, immediately prior to the payment of the EAP, of each Canada learning bond account, for the purposes of the *Canada Education Savings Regulations*, of the other plan beneficiaries.[12]

12 According to the *Canada Education Savings Regulations*, the learning bond account is an account that includes the learning bond paid, under the *Canada Education Savings Act*, for a beneficiary of an RESP.

RESP with no accumulated income at the time an EAP is paid

Where no income has accumulated in an RESP at the time an EAP is paid to a beneficiary of the plan, the portion of such payment attributable to the tax credit will correspond to the lesser of the following amounts:

- the amount calculated using the government assistance allocation formula, i.e.:

$$\frac{A \times B}{B + C + D + E}$$

- the amount, if any, by which $3 600 exceeds the aggregate of the amounts each of which is an amount calculated using the government assistance allocation formula or, as the case may be, the fair market value allocation formula regarding an EAP previously paid to the beneficiary under the plan.

In the government assistance allocation formula:

- the letter A represents the amount of the EAP paid to the beneficiary of the plan;
- the letter B represents the balance of the Québec education savings assistance account immediately prior to the payment of the EAP;
- the letter C represents the balance, immediately prior to the payment of the EAP, of the Canada learning bond account, for the purposes of the *Canada Education Savings Regulations*, of the beneficiary of the plan; [13]
- the letter D represents the balance, immediately prior to the payment of the EAP, of the Canada education savings grant account of the plan; [14]
- the letter E represents the total of the amounts paid into the plan under a program administered pursuant to an agreement concluded with the government of a province under the *Canada Education Savings Act*.

Debit to the Québec education savings assistance account

Where an EAP is paid to a beneficiary of an RESP and part of such payment is attributable to the refundable tax credit to support education savings, the plan trustee must, when the EAP is paid, debit the amount corresponding to the portion of such payment attributable to the tax credit to the Québec education savings assistance account.

13 *Supra*, note 12.

14 *Supra*, note 11.

■ Presumptions of nullity

In some cases, the portion of an EAP that is attributable to the refundable tax credit to support education savings will be deemed nil.

This presumption will apply where the beneficiary of an RESP does not reside in Québec at the time the EAP is paid to him under the plan.

It will also apply where an EAP is paid to an individual who, as a beneficiary of an RESP that may have more than one beneficiary, became so after reaching age 21, unless, prior to reaching that age, he was a beneficiary of another RESP that may have more than one beneficiary. The fact of becoming a beneficiary of such a plan after reaching age 21 constitutes, barring exceptions, cause for revoking the plan's registration.

Where these presumptions are applicable, no amount must be debited to the Québec education savings assistance account, despite the fact that an EAP was paid under the plan.

It follows that a residual balance may be held in the account with a view to a possible recapture by means of a special tax.

For instance, in the case of a beneficiary of an RESP who does not reside in Québec, the residual balance of the Québec education savings assistance account may be recaptured, at the latest when the plan terminates, if the beneficiary is the sole beneficiary of the plan and he does not renew, during the life of the plan, his residency ties with Québec.

In the case of an individual who, after reaching age 21, becomes the beneficiary of an RESP that may have more than one beneficiary, the residual balance of the Québec education savings assistance account may be recaptured when the registration of the plan is revoked.

❑ Recapture of the tax credit

Various special taxes will be stipulated to, in some cases, ensure the integrity of the refundable tax credit to support education savings and, in others, take into account specific events relating to the RESP as such, such as revocation of its registration or its termination, or whose effect is to divert the financial assistance provided by the tax credit to purposes for which it is not intended, or direct it to a person who, from the outset, ought not to benefit from it.

These special taxes will be payable no later than the 90th day of the year following the year for which they are payable by a trust and, in the case where such tax is payable by the beneficiary of an EAP, no later than April 30 of the year following the year for which it is payable.[15] Any amount paid on account of such taxes by a trust must generally be debited to the Québec education savings assistance account when it is paid.

■ Special tax to prevent premature withdrawal of plan contributions

In general, an RESP subscriber may withdraw the contributions he paid into the plan at any time, with no tax impact. Accordingly, to avoid abuses resulting from simply withdrawing a contribution from an RESP and returning it to the plan immediately thereafter, a special tax will be implemented.

Accordingly, where a refundable tax credit to support education savings has been paid to a trust governed by an RESP regarding a Canada education savings grant that is attributable to a contribution paid to the plan after the day of the Budget Speech, and such contribution is withdrawn from the plan – other than because of an eligible withdrawal or a transfer to another RESP – when no beneficiary of the plan is eligible to receive an EAP, the trust governed by the plan will be required to pay, for the calendar year during which the contribution was withdrawn, a tax equal to the lesser of the balance of the Québec education savings assistance account immediately prior to the withdrawal and the amount calculated according to the following formula:

$$\frac{\text{the balance of the Québec education savings assistance account immediately prior to the withdrawal}}{\text{the balance of all the assisted contributions paid to the plan immediately prior to the withdrawal}} \times \text{the amount of the contribution withdrawn from the plan}$$

In this regard, the expression “assisted contribution” means a contribution made to an RESP after the day of the Budget Speech and giving rise to the payment of a Canada education savings grant regarding which a refundable tax credit to support education savings was granted to the trust governed by the plan.

The expression “eligible withdrawal” means a withdrawal representing all or part of an excess of contributions to the plan, provided such withdrawal is intended to reduce the amount of tax payable by a subscriber of the plan under Part X.4 of the *Income Tax Act* and, at the time of the withdrawal, the excess contribution for the year does not exceed $4 000.

15 Should the beneficiary of the EAP die in November or December of a year for which a special tax is payable, such tax would become payable no later than the day that is six months after the date of death.

■ Special tax in relation to a Canada education savings grant received without entitlement

Since it is calculated on the amount of Canada education savings grants paid into an RESP, the refundable tax credit to support education savings will be recaptured each time such a grant is repaid by the trustee or by a beneficiary of the plan, for the reason that it was received without entitlement.

Accordingly, where the trustee of a trust governed by an RESP repays, during a given calendar year, a Canada education savings grant received without entitlement and such grant was included in the calculation, for a taxation year prior to the given year, of the refundable tax credit to support education savings, the trust governed by the plan will be required to pay, for the given year, a tax equal to the amount by which the tax credit granted to it for the taxation year prior to the given year exceeds the tax credit it would have been granted for such prior year had the repaid grant not been paid to the plan.

Similarly, where the beneficiary of an EAP repays, during a given calendar year, a Canada education savings grant received without entitlement and such grant was included in the calculation, for a taxation year prior to the given year, of the refundable tax credit to support education savings paid to the plan, the beneficiary of the EAP will be required to pay, for the given year, a tax equal to the portion of the EAP that can reasonably be considered attributable to the tax credit overpayment.

■ Special tax in relation to the amount in excess of the cumulative limit

As mentioned above, where an EAP is paid to a beneficiary of an RESP, it must be broken down to determine the portion attributable to the tax credit. Normally, the total of the amounts of EAP that a beneficiary receives on account of the tax credit should not exceed the cumulative limit of $3 600. However, if an individual is the beneficiary of more than one RESP, this limit may be exceeded.

Consequently, where the total of the amounts that an individual receives on account of the portion of an EAP attributable to the refundable tax credit to support education savings exceeds, during a given calendar year, the cumulative limit of $3 600, the individual will be required to pay a tax equal to such excess amount.

The amount of such tax may be deducted in calculating the individual’s income for the taxation year during which it was paid, since it represents a portion of an EAP that must be included in the calculation of the individual’s income. This deduction will prevent a taxpayer from being taxed on an amount he could not receive.

Special tax for specific events

Some events will entail payment of a special tax. In general, the events in question involve funds being withdrawn from an RESP for purposes other than funding studies, or the substitution of a plan beneficiary.

A trust governed by an RESP will therefore be required to pay, for a given calendar year during which a covered event occurs, a tax equal to the lesser of the balance of the Québec education savings assistance account immediately before the covered event occurs or the amount by which the fair market value of the assets held in the plan, at that time, exceeds the total balances of the Canada education savings grant account[16] and the Canada learning bond accounts[17] immediately before that time.

For the purposes of this special tax, a covered event means any of the following events:

— the termination of an RESP;

— the revocation of the registration of an education savings plan;

— the payment of an accumulated income payment[18] under an RESP;

— the payment of an amount under an RESP to an educational institution located in Canada that is a university, a college or another recognized educational institution or to a trust in favour of such an educational institution;

— the payment of an EAP under an RESP to an individual who is not a beneficiary of the plan;

— the replacement of a beneficiary of an RESP by another beneficiary, except for a recognized replacement, as described below;

— the transfer of assets held in an RESP to another RESP, except for an authorized transfer, as described below.

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16 *Supra*, note 11.

17 *Supra*, note 12.

18 In general, an accumulated income payment is an amount paid out of an RESP and that is not an EAP, a refund of contributions, a refund of Canada education savings grants or of Canada learning bonds under the *Canada Education Savings Act*, a payment to an educational institution located in Canada that is a university or a college or other recognized educational institution or a transfer of assets to another RESP.

- **Recognized replacement**

The replacement, at a given time, of a beneficiary of an RESP (former beneficiary) by another beneficiary (new beneficiary) will be considered a recognized replacement, where, as the case may be:

— the new beneficiary had not yet reached age 21 before the given time and had the same mother or father as the former beneficiary;

— the two beneficiaries were, at such time, related by blood or by adoption to an initial subscriber of the plan and neither of them had reached age 21 before such time.

- **Authorized transfer**

A transfer of assets held in an RESP ("transferring RESP") to another RESP ("receiving RESP") will be considered an authorized transfer where it bears on assets that are not included in a Canada learning bond account, for the purposes of the *Canada Education Savings Regulations*,[19] and the following conditions are satisfied:

— each beneficiary of the receiving RESP was, immediately before the transfer, a beneficiary of the transferring RESP or, if not, a beneficiary of the receiving RESP had not reached age 21 at the time of the transfer and had the same father or the same mother[20] as another individual who, immediately before the transfer, was a beneficiary of the transferring RESP;

— at the time of the transfer, no amount was paid to the transferring RESP on account of the increase – granted to low- and middle-income families – in the amount of the Canada education savings grant or, if such is the case, the receiving RESP had only one beneficiary or, if more than one, they were all brothers and sisters;[21]

— the receiving RESP satisfies the registration conditions set out in the federal legislation that apply to education savings plans entered into on January 1, 1999.[22]

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19 *Supra*, note 12.

20 Regardless of the broad meaning given to these terms by the tax legislation.

21 In this regard, the words brother and sister of an individual refer solely to a person who is a sibling of the individual and to a person who is the son or the daughter of the spouse of the father or the mother of the individual.

22 Plans subscribed after December 31, 1998 must, if they are family plans, satisfy more restrictive registration conditions. These conditions were introduced to curb certain abuses noted in the past in this type of plan.

In this regard, where an authorized transfer bears on the totality of the assets held in an RESP, other than those included in a Canada learning bond account, the total of the amounts held in the plan on account of the refundable tax credit to support education savings must, at the time of the transfer, be debited from the Québec education savings assistance account of the transferring RESP and credited to that of the receiving RESP.

In the event that an authorized transfer bears on only a portion of the assets held in an RESP, only part of the amounts held in the plan on account of the tax credit will be considered to have been transferred. The amount thus transferred will correspond to the proportion of the total of the amounts held in the plan on account of the tax credit represented by the ratio between the value of the assets transferred and the value, at the time of the transfer, of all the assets held in the plan, other than those included in a Canada learning bond account.

Such amount must, at the time of the transfer, be debited from the Québec education savings assistance account of the transferring RESP and credited to that of the receiving RESP.

Where an amount on account of the refundable tax credit to support education savings is transferred to the Québec education savings assistance account of a receiving RESP, such amount will be deemed to have been paid to the trust governed by such plan.

■ Special tax in relation to a beneficiary not authorized to benefit from the plan

The refundable tax credit to support education savings may depend on the payment to an RESP of an increased Canada education savings grant. Such an increase is granted to low- and middle-income families according to parameters specific to their family unit, such that only those persons who are generally siblings can benefit from it.

Accordingly, where a refundable tax credit to support education savings has been paid to a trust governed by an RESP regarding an increased Canada education savings grant that is attributable to a contribution paid to the plan after the day of the Budget Speech, and, during a given calendar year, an individual who is neither the brother nor the sister[23] of the other beneficiaries of the plan becomes a beneficiary of it, the trust will be required to pay, for the given calendar year, a tax equal to the lesser of the balance of the Québec education savings assistance account immediately before the time when the individual became a beneficiary and the amount by which the fair market value of the assets held in the plan, at such time, exceeds the balance of the Canada education savings grant account at such time.

23 *Supra*, note 21.

❑ Consequential amendments

Consequential amendments will be made to the current tax legislation to take into account the implementation of the refundable tax credit to support education savings.

These amendments will:

— specify that the amount paid to a trust governed by an RESP on account of the tax credit will not constitute a contribution to the plan;[24]

— stipulate that a trust may hold assets under an education savings plan for the purposes of payment of a special tax designed to recapture the refundable tax credit to support education savings;

— stipulate that, where a person fails to comply with the conditions and obligations associated with payment of the tax credit, such as compliance with the agreement relating to Québec education savings assistance, the Minister of Revenue may serve the promoter of the plan in question with written notice of his intention to revoke the plan's registration.

❑ Application date

The refundable tax credit to support education savings will apply as of taxation year 2007 regarding a Canada education savings grant that is attributable to a contribution paid to an RESP after the day of the Budget Speech and is paid for a calendar year after 2006 under the *Canada Education Savings Act*.

1.2.2 Changes to the rules of the tax credit for minor children engaged in vocational training or post-secondary studies

Since 2005, the refundable tax credit for child assistance (RTCCA), consisting of a child assistance payment and a supplement for handicapped children, has provided families with a child under age 18 with financial assistance.

For a large number of families in Québec, the financial assistance provided under the RTCCA consists exclusively of the child assistance payment that, unlike the supplement for handicapped children, is reduced on the basis of family income. However, since this reduction is only partial, all Québec families with a child under age 18 can, in general, receive the child assistance payment to obtain financial assistance regarding their minor children.

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24 As a result of this clarification, in particular, the amount of the tax credit will not be included in the calculation of the annual and cumulative RESP contribution limits, respectively $4 000 and $42 000.

An individual who supports a child[25] – age 17 or under throughout a taxation year – who pursues on a full–time basis[26] studies in vocational training or studies at the postsecondary level may also receive a non-refundable tax credit designed to recognize that a child who pursues such studies has essentially the same needs as an adult.

This tax credit is calculated on the basis of an amount of recognized essential needs of $1 860[27] – in 2007 – per completed term (maximum of two terms), from which the income of the child must be subtracted. The amount thus obtained is converted into a tax credit at the rate of 20%.

Various changes will be made as of taxation year 2007 to the rules of the tax credit for minor children engaged in vocational training or post-secondary studies to make it fairer and more favourable for parents, and to safeguard its integrity.

❑ Changes relating to the child's income

According to the current rules, the amount of recognized essential needs ($1 860 per completed term), for a given taxation year, regarding a minor child engaged in vocational training or post-secondary studies must be reduced by an amount equal to the child's income for the year, despite the fact that some components of such income are not taxable.

Such is the case for scholarships, fellowships and awards[28] the child received during the year. Although they are tax-exempt, the tax legislation stipulates that such amounts must be included in the calculation of the income of the person who receives them, the tax exemption consisting of a deduction in the calculation of his taxable income.[29]

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25 Under the tax legislation, the child of an individual is a person who is connected to the individual by filiation (this is generally the case if the individual is, according to the birth certificate, his father or his mother), a person who is the child of the individual's spouse, a person who is wholly dependent on the individual for support and of whom the individual has, or immediately before such person attained the age of 19 did have, in fact or in law, the custody and control, or a person who is the spouse of a child of the individual.

26 In this regard, a person is deemed to pursue studies full-time where he suffers from a major functional deficiency within the meaning of the *Regulation respecting financial assistance for education expenses* and pursues, because of this, studies part-time.

27 This amount is automatically indexed each year.

28 I.e. awards for remarkable achievements in a field of endeavour ordinarily carried on by the child.

29 Since 2001, scholarships, fellowships and awards for remarkable achievements are totally tax-exempt.

Had the child been financially independent rather than dependent on his parents, no part of the amount of recognized essential needs included in the amount used to determine the basic tax credit[30] would have been necessary to mitigate the effect of receiving a scholarship, fellowship or award, since they are not taxable.

Moreover, the difference between the 16% tax rate applicable to the first taxable income bracket of the tax table – the rate at which the income of the dependent child would have been taxed had he had to pay tax – and the 20% rate applicable to the conversion, into a tax credit for minor children engaged in vocational training or post-secondary studies, of the amount of recognized essential needs allowed for him, results in reducing this amount by $1.25 for each dollar of income the child earns.

Accordingly, the child's income is, indirectly, taxed at a rate of 20% when it is included in the calculation of this tax credit, rather than being taxed according to the progression of rates applicable to the calculation of tax payable by an individual according to his taxable income.[31]

Consequently, the rules applicable to the calculation of the tax credit for minor children engaged in vocational training or post-secondary studies are not neutral regarding the tax treatment of the income of a student who depends on his parents and that of a student who does not.

Accordingly, to improve the fairness of the tax credit for minor children engaged in vocational training or post-secondary studies and make it more favourable to parents, the tax legislation will be amended to stipulate that, for the purposes of calculating this tax credit, the amount of recognized essential needs of $1 860[32] per term (maximum of two terms) allowed, for a given taxation year, for a minor child must be reduced by an amount equal to 80% of the child's income for the year, determined regardless of the scholarships, fellowships and awards he received in the course of the year and which give rise to a deduction in calculating his taxable income for the year.

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30 Since 2005, a complementary amount is added to the amount of recognized essential needs of an individual to form the basic amount allowed for the purposes of calculating the basic tax credit.

31 Generally, three rates are applied to calculate the amount of personal income tax payable on taxable income: an initial rate of 16%, a second of 20% and a third of 24% (see measure 1.1).

32 *Supra*, note 27.

As a corollary, the tax legislation will also be amended, as of taxation year 2007, to stipulate that, for the purposes of the calculation of the tax credit for other dependants, the amount of recognized essential needs of $2 705[33] – in 2007 – allowed, for a given taxation year, an individual with a dependant, other than an excluded person, age 18 or over to whom he is related by blood, marriage or adoption, must be reduced by an amount equal to 80% of the person's income for the year, determined regardless of the scholarships, fellowships and awards he received during the year and that give rise to a deduction in calculating his taxable income for the year.

❑ Clarification to the notion of child

Currently, the tax credit for minor children engaged in vocational training or post-secondary studies is granted, for a given taxation year, regardless of the fact that the child may have a spouse who benefited from a transfer of the unused portion of his tax credits. Such transfer is designed to enable a household to take full advantage of the non-refundable tax credits to which each spouse in a couple is entitled.

To ensure the integrity of the system, the tax legislation will be amended to provide that, for the purposes of the tax credit for minor children engaged in vocational training or postsecondary studies, a child of an individual will not include a person regarding whom his spouse deducted an amount in calculating his tax otherwise payable, under the transfer of the unused portion of non-refundable tax credits from one spouse to the other.

The purpose of this restriction is to prevent the same person from giving rise more than once, as a child of an individual and as the spouse of another individual, to tax relief with respect to his recognized essential needs.

1.2.3 Replacement of the tax credit for adult children who are students with a transfer mechanism for the recognized parental contribution

Currently, a non-refundable tax credit is granted, for a given taxation year, to an individual with a dependent child age 18 or over during the year and who is engaged in full-time studies.

This tax credit is calculated by adding various amounts of recognized essential needs and subtracting the child's income from this total. The amount thus obtained is converted into a tax credit at the rate of 20%.

The following table shows the various amounts of recognized essential needs used for calculating this tax credit.

33 *Supra*, note 27.

TABLE A.2

Amounts of recognized essential needs for the purposes of the tax credit for adult children who are students
(2007)[1]

Description of amounts	
Amount for each term in recognized vocational training studies or post-secondary studies the child has completed on a full-time basis (maximum of two terms)	$1 860
Basic amount[2] to which may be added, if the family has only adult children:	$2 705
– an additional amount for a first child[2]	$230
– a supplement for a first child of a single-parent family[2]	$1 465

1 These amounts are indexed automatically each year.
2 This amount is reduced for the year of the child's 18th birthday.

The amount of $1 860 per term (maximum of two terms) – designed to recognize that children engaged in full-time studies have essentially the same financial needs as an adult – is granted to an individual, for a given taxation year, only if his adult child began his term in the year and completed it in the same year, and if he pursued his studies full-time[34] in a designated educational institution where he was enrolled in a recognized educational program.[35]

For the purposes of this tax credit, a designated educational institution means an institution that the Minister of Education, Recreation and Sports has designated for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the post-secondary level.

A recognized educational program means an educational program under which the student must devote at least nine hours a week to courses or work required by this program[36] and that consists of:

- where the institution is located in Québec, an educational program recognized by the Minister of Education, Recreation and Sports for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the post-secondary level;
- where the institution is located outside Québec, an educational program at the college, university or equivalent level.

34 *Supra*, note 26.

35 The individual must certify that his child was enrolled, full-time, in a recognized educational program at a designated institution by filing the prescribed form issued by the institution to the Minister of Revenue, i.e. the RL-8 slip, *Montant pour études postsecondaires* (Amount for post-secondary studies).

36 Where a person is deemed to pursue studies full-time because he suffers from a major functional deficiency, the educational program must be one under which the student participating in it receives a minimum of 20 hours of instruction per month.

Where an individual is entitled, for a given taxation year, to the amount of $1 860 per term completed by his child, he may then add, for the purposes of calculating the tax credit for adult children who are students, an amount of $2 705 on account of the basic essential needs of the child.

An additional amount of $230, to which a supplement of $1 465 can be added in the case of a single-parent family, is also granted if the child giving rise, for the given taxation year, to the amount of $1 860 per term is part of a family that had no minor children at any time of the month of December of the given year and if such child was designated as the family's first child.

If the given taxation year is that of the child's 18th birthday, the total of the amounts to which the child gave rise for the year must be reduced according to the number of months of the year during which the child was not, at any time, age 18. This reduction is attributable to the fact that the recognized essential needs of the child for the months of the year throughout which he was not yet age 18 were covered by the RTCCA.[37]

As they currently stand, the rules applicable to the calculation of the tax credit for adult children who are students are not neutral in the tax treatment of the income of a student who depends on his parents and that of a student who does not.

The tax system allows a student an amount of essential needs through the tax credit for adult children who are students when the student depends on his parents, and through the basic tax credit[38] when he does not.

Essentially, the total of the amounts of recognized essential needs regarding a student who depends on his parents and that are exclusive to his person, i.e. that do not depend on the single-parent status of his father or mother,[39] such total hereunder called "personal amount of recognized essential needs", corresponds to the amount of recognized essential needs under the basic tax credit for a student who does not depend on his parents.[40]

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37 The refundable tax credit for child assistance is intended to provide financial assistance to all families with a child under 18. It is paid monthly or quarterly and consists of a child support payment, which includes a universal base representing the amount of recognized essential needs for a minor child, and a supplement for a handicapped child.

38 The tax system allows any individual (other than a trust) a basic tax credit whose goal is to avoid taxing income that the taxpayer devotes to the satisfaction of his own essential needs. Since 2005, the basic amount used for the purposes of calculating the basic tax credit consists of an amount of recognized essential needs and a complementary amount.

39 I.e. the total of the amounts of recognized essential needs for the purposes of the tax credit for adult children who are students, apart from the supplement for the first child of a single-parent family.

40 *Supra*, note 38.

However, in the case of a student who depends on his parents, his personal amount of recognized essential needs must, for the purposes of calculating the tax credit for adult children who are students for a given taxation year, be reduced by the scholarships, fellowships and awards[41] the student received during the year, even if such scholarships, fellowships and awards are tax-exempt (they are included in the calculation of income, but give rise to a deduction in the calculation of taxable income).[42]

Such a reduction does not apply for a student who does not depend on his parents, since no part of the amount of recognized essential needs under the basic tax credit is necessary to mitigate the effect of receiving a scholarship, fellowship or award, given that they are not taxable.

Moreover, the difference between the 16% tax rate applicable to the first taxable income bracket of the tax table – the rate at which the income of the dependent child would have been taxed had he had to pay tax – and the 20% rate applicable to the conversion, into a tax credit for adult children who are students, of the amount of recognized essential needs allowed for him, results in reducing these amounts by $1.25 for each dollar of income the child earns.

Accordingly, the dependent child's income is, indirectly, taxed at a rate of 20% when it is included in the calculation of the tax credit for adult children who are students, while the income of a student who is not a dependent is taxed according to the progression in rates applicable to the calculation of tax payable by an individual according to his taxable income.[43]

Accordingly, to improve the tax assistance provided to parents who have dependent adult children who are students by making it fairer and simpler to determine for the parents, the tax credit for adult children who are students will be replaced, as of taxation year 2007, by a transfer mechanism for the recognized parental contribution.

It follows that scholarships, fellowships and awards received by students will no longer reduce the tax assistance granted to families who support adult children in full-time studies.

In addition, to avoid reducing the tax assistance granted to certain single-parent families, the amount for a person living alone used for the purposes of calculating the tax credit for persons living alone, with respect to age and for retirement income may, as of taxation year 2007, be increased.

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41 *Supra*, note 28.

42 *Supra*, note 29.

43 *Supra*, note 31.

❑ Transfer rules

An eligible student, for a given taxation year, may transfer to a person who is his father or his mother,[44] an amount relating to an unused portion of his basic tax credit for the year, provided such amount does not exceed the limit applicable to the transfer for the year.

Such transfer will be made by means of a prescribed form on which the eligible student must indicate, up to the limit applicable to the transfer for the year, the amount he intends to transfer, and must designate from among his father and mother, the person who will receive the transfer.

In this regard, an eligible student may allocate the amount he wishes to transfer between his father and mother. However, such allocation must not result in transferring an amount greater than the amount that would have been transferable had only one person been entitled to be designated as the recipient of the transfer.

The amount transferred, for a given taxation year, to the parents will be deductible – on account of the tax credit relating to the transfer of the recognized parental contribution – in calculating their income otherwise payable for the year.

❑ Eligible student

For the purposes of this transfer, an eligible student for a given taxation year means a person who, during the year, is at least age 18 and began, in the year, a term, hereunder called “recognized term”, during which he pursued full-time studies[45] in a designated educational institution where he was enrolled in a recognized educational program.

In this regard, the notions of designated educational institution and recognized educational program will have the same meaning as for the purposes of the calculation of the tax credit for adult children. For greater clarity, the streamlining stipulated in the notion of recognized educational program for persons with a major functional deficiency will be maintained.[46]

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44 According to the tax legislation, the father or the mother of a taxpayer means the person with whom the taxpayer is related by filiation (generally, the father or the mother whose name appears on the birth certificate), the person who is the spouse of the taxpayer’s father or mother, the person who is the father or mother of the taxpayer’s spouse or the person on whom the taxpayer depends to provide for his or her support and who has the custody and control of the individual, in law or in fact, or had such custody and control immediately before the taxpayer attained the age of 19, including a person who has already satisfied these conditions.

45 In this regard, a person is deemed to pursue full-time studies where he suffers from a major functional deficiency within the meaning of the *Regulation respecting financial assistance for education expenses*, and pursues, because of this, studies part-time.

46 *Supra*, note 36.

In addition, a person will be considered an eligible student solely if his enrolment with a designated educational institution in a recognized educational program is certified in a return, submitted to the Minister of Revenue on a prescribed form, issued by the designated educational institution and containing the prescribed information.

❑ Limit applicable to the transfer

The amount that an eligible student can transfer to his father or mother for a given taxation year must not exceed the amount corresponding to the excess, over the tax otherwise payable by the student for the given year, of 20% of either of the following amounts, as the case may be:

— where the eligible student has completed, in the year, at least two recognized terms, the amount of recognized essential needs applicable for the year under the basic tax credit;[47]

— where the eligible student has completed, in the year, only one recognized term, the amount remaining, after subtracting from the amount of recognized essential needs applicable for the year under the basic tax credit, an amount of $1 860[48] for studies.

❑ Application details

■ Adjustment to the limit applicable to the transfer for the year of the 18th birthday

Given that the recognized essential needs of persons under 18 are covered by the refundable tax credit for child assistance, an adjustment will have to be made to the limit applicable to the transfer for the year during which an eligible student reaches age 18.

Accordingly, the limit applicable to the transfer for a taxation year during which an eligible student reaches age 18 will be equal to the excess, over the tax otherwise payable by the student for the year, of 20% of the total of the following amounts:

— an amount of $1 860 for studies for each recognized term (maximum of two terms) he completes in the year;

47 This amount is $6 650 for taxation year 2007.

48 Like the main parameters of the personal income tax system, the $1 860 amount for studies will be automatically indexed each year as of taxation year 2008. For greater clarity, where the indexation amount is not a multiple of 5, it must be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of 5, to the nearest higher multiple of 5.

— an amount equivalent to the proportion of an amount, hereunder called "amount of basic essential needs" that the number of months of the year following the month in which the student reaches age 18 represents, compared to 12.

In this regard, the amount of basic essential needs for a given taxation year corresponds to the amount by which the amount of recognized essential needs for the purposes of the basic tax credit for the year exceeds the amount representing twice the amount of $1 860 for studies allowed for the year.

Order of application of non-refundable tax credits

The deduction relating to an amount transferred by an eligible student, for an individual, is applied after the basic tax credit, the tax credit for minor children engaged in vocational training or post-secondary studies and the tax credit for other dependants have been taken into consideration, if applicable, in calculating the individual's tax otherwise payable.

Individuals who reside outside Canada throughout a year

An individual who does not reside in Canada at any time during a taxation year and who, during such year or a previous taxation year was in particular employed in Québec or carried on a business there, will be able to claim the deduction for an amount transferred by an eligible student, provided all or almost all of his income for the year is included in the calculation of his taxable income earned in Canada for the year.

If he satisfies that condition, he may deduct, in the calculation of his income tax otherwise payable for the year, the portion of the amount transferred otherwise determined, represented by the proportion, which cannot exceed 1, that exists between his income earned in Québec and that earned in Canada.

Individuals who reside in Canada for part of a year

Where a taxpayer resides in Canada for only part of a given taxation year, the following rules will apply for determining the amount he may deduct, in the calculation of his income tax otherwise payable for the year, on account of the amount transferred by an eligible student:

— for any period throughout which he resides in Canada during a year, the individual may deduct an amount equal to the proportion of the amount transferred by the eligible student, represented by the ratio between the number of days in such period and the number of days in the year;

— for a period in the year during which the taxpayer resides outside Canada, the amount allowable as a deduction shall be calculated as if such period constituted an entire taxation year.

However, the amount that the individual may deduct for the year cannot exceed the amount that would be deductible on this account had he resided in Canada throughout such year.

■ Individuals who go bankrupt during a year

Under the tax legislation, an individual who goes bankrupt during a calendar year is deemed to have two taxation years during that calendar year: one covering the period from January 1 to the day before the bankruptcy and the second from the day of the bankruptcy to December 31.

In the event that an eligible student goes bankrupt during a given calendar year, this presumption will not apply for the purposes of determining the limit applicable to the transfer.

Conversely, where the recipient of the transfer goes bankrupt during a calendar year, he may deduct, for each taxation year ending in the calendar year, an amount equal to the proportion of the amount transferred by the eligible student, represented by the ratio between the number of days of such taxation year and the number of days of the calendar year.

Moreover, according to the rules applicable in bankruptcy, the trustee in bankruptcy is required to file, for each taxation year included in a calendar year during which an individual is in bankruptcy, an income tax return bearing on the income from the bankruptcy operations.

To that end, the individual's income will be determined as if he was not entitled to any deduction in the calculation of his tax otherwise payable regarding an amount transferred on account of the transfer of the recognized parental contribution.

■ Death of an eligible student or of a transfer recipient

Where an eligible student or, as the case may be, that of his father or mother receiving the transfer dies during a given taxation year, the transfer mechanism for the recognized parental contribution applies only in the principal income tax return[49] that must be filed for such year by the eligible student or his parents, as the case may be.

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49 In contrast to the separate tax returns that the liquidator of the succession may file for the taxation year of the death regarding certain types of income.

❑ Consequential amendments

Various consequential amendments will be made to the current tax legislation to take into account the replacement of the deduction for adult children who are students with a transfer mechanism for the recognized parental contribution.

■ Transfer among spouses of the unused portion of non-refundable tax credits

To enable households to benefit fully from the non-refundable tax credits to which each spouse is entitled, the tax system allows an individual the possibility of deducting, in calculating his tax payable, the portion of the non-refundable tax credits, other than that attributable to the deduction relating to the carry-over of the alternative minimum tax, that cannot be used to reduce the tax otherwise payable of his eligible spouse.

The tax legislation will be amended to provide that an individual may not include, in the non-refundable tax credits of his eligible spouse, any amount that the eligible spouse transferred to his father or to his mother on account of the unused portion of the basic tax credit relating to recognized essential needs.

■ Tax credits for other dependants

The tax system grants a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $2 705, which is automatically indexed each year, to an individual with a dependant, other than his spouse, age 18 or over to whom he is related by blood, marriage or adoption, provided the individual claims no deduction in his regard for the year under a tax credit for children (adult or minor) engaged in studies.

The tax legislation will be amended to provide that a person, other than the spouse, who is age 18 or over and to which an individual is related by blood, marriage or adoption can give rise to a tax credit for other dependants, provided the individual does not benefit from a transfer of the recognized parental contribution from such person.

■ Tax credit for persons living alone

The tax system grants an amount for a person living alone to an individual who ordinarily lives, throughout the year or throughout the portion of the year preceding the time of his death, in a self-contained domestic establishment that he maintains and in which no other person, other than himself, a minor person or a person giving rise to the tax credit for adult children who are students, lives.

The tax legislation will be amended to provide that, for the purpose of calculating the tax credit for a person living alone for a given taxation year, the amount of $1 180 for a person living alone is granted to an individual who ordinarily lives, throughout the year or, if he dies during the year, throughout the portion of the year preceding the time of his death, in a self-contained domestic establishment that he maintains and in which no other person, other than himself, a minor person or an eligible student – for the purposes of the transfer mechanism for the parental contribution in favour of the individual – who completed, in the year, at least one recognized term, lives.

■ Refundable Québec sales tax (QST) credit

To maintain the progressivity of the tax system, a refundable tax credit for the Québec sales tax is granted to individuals who must allocate a significant proportion of their income to the consumption of essential goods and services.

Generally speaking, this refundable tax credit, whose value is determined on the basis of household composition and the family income of the eligible taxpayers, is granted to an individual who, at the end of a taxation year, resides in Québec and is either age 19 or over or an emancipated minor within the meaning of the *Civil Code of Québec*, or the spouse of another individual, or the father or mother of a child with whom he resides, unless such individual is, among others, a person regarding whom another individual deducted, for the year, in calculating his tax otherwise payable, an amount on account of the tax credit for adult children who are students.

The tax legislation will be amended to provide that a person whose father or mother deducted, for the year, in calculating their tax otherwise payable, an amount on account of the transfer, by such person, of the recognized parental contribution, will not be considered an eligible individual for the purposes of the refundable tax credit for the Québec sales tax.

■ Refundable tax credit for individuals living in a northern village

Individuals living in a northern village erected as a municipality pursuant to the *Act respecting Northern villages and the Kativik Regional Government* are entitled to a refundable tax credit that recognizes their specific needs arising from the remoteness of the villages, the climate and the high cost of living there. The basic amount of this tax credit depends on the number of months during which the individual lives in such a village and his family situation.

Generally, this tax credit is granted to an individual who, at the end of a taxation year, resides in Québec and is either age 19 or over, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of another individual, or the father or mother of a child with whom he lives, except where the individual is, among others, a person regarding whom another person deducted, for the year, in calculating his tax otherwise payable, an amount on account of the tax credit for adult children who are students.

The tax legislation will be amended to provide that a person whose father or mother deducted, for the year, in calculating their tax otherwise payable, an amount on account of the transfer, by such person, of the recognized parental contribution will not be considered an eligible individual for the purposes of the refundable tax credit for individuals living in a northern village.

Moreover, the tax legislation will also be amended to provide that the monthly amount of $15 per dependant of an individual or the individual's eligible spouse, during a given taxation year, that can be considered when calculating the basic amount will be granted for a person if the individual or the individual's eligible spouse deducted, for the year, an amount on account of the transfer, by such person, of the recognized parental contribution.

■ Refundable tax credit granting a work premium

Since 2005, low- or middle-income workers can claim a work premium that consists of a refundable tax credit and is designed to support and enhance work effort.

Generally, this tax credit is granted to an individual who, at the end of a taxation year, is either an emancipated minor within the meaning of the *Civil Code of Québec*, age 18 or over, the spouse of another individual, or the father or mother of a child with whom he lives, except where the individual is, among others, a person regarding whom another person deducted, for the year, in calculating his tax otherwise payable, an amount on account of the tax credit for adult children who are students.

The tax legislation will be amended to provide that a person whose father or mother deducted, for the year, in calculating their tax otherwise payable, an amount on account of the transfer, by such person, of the recognized parental contribution will not be considered an eligible individual for the purposes of the refundable tax credit granting a work premium.

Moreover, where an eligible individual has a dependant, he may be entitled, for the purposes of calculating the refundable tax credit granting a work premium, to a higher rate of tax credit.

The persons who may be designated, for a given taxation year, as a dependant of an individual include the child of the individual or that of his spouse, provided the individual or his spouse deducted, for the year, an amount regarding such person in calculating his tax payable on account of the tax credit for adult children who are students or could have deducted such an amount were it not for the income of such person for the year.

The tax legislation will be amended to provide that a person may be designated, for a given taxation year, as a dependant of an individual, provided he is the child of the individual or that of his spouse and is an eligible student – for the purposes of the transfer mechanism for the recognized parental contribution – who completed, in the year, at least one recognized term.

■ Refundable tax credit for informal caregivers of adults

An individual who houses an eligible relative may, under certain conditions, be entitled to a refundable tax credit of up to $1 020 for each eligible relative with whom he lives in a self-contained domestic establishment during a minimum housing period.

Where the individual is a dependant of another person during a given taxation year, he cannot receive this tax credit for the given year. In this regard, an individual is considered a dependant of another person for a given taxation year if such person deducted, for the year, regarding such individual, an amount under, among others, the tax credit for adult children who are students.

The tax legislation will be amended to provide that, for the purposes of the refundable tax credit for informal caregivers of adults, an individual will be considered a dependant of another person for a given taxation year if such person deducted, for the year, an amount on account of the transfer, by the individual, of the recognized parental contribution.

■ Premium payable under the Québec prescription drug insurance plan

The basic prescription drug insurance plan introduced by the Québec government ensures all Quebecers fair access to the medication required by their state of health. Coverage under this plan is provided by the Régie de l'assurance maladie du Québec (RAMQ), or by insurers offering group insurance or administrators of private-sector employee benefit plans.

As a rule, all persons whose coverage is provided by RAMQ in a given year must, in filing their income tax return for that year, pay a premium to finance the Québec prescription drug insurance plan of which they are beneficiaries. However, to take each person's ability to pay into account, deductions are granted in calculating this annual premium. The amount of these deductions varies according to the family situation of persons required to pay such a premium.

For the purposes of calculating these deductions, the expression "dependent child" refers in particular to a child for which an individual or his eligible spouse deducted an amount on account of the tax credit for adult children who are students or could have deducted such amount had he resided in Québec during the entire year or, if he died during the year, during the entire period of the year preceding the time of his death.

The definition of the expression "dependent child" will be changed to refer to an eligible student if an individual or his eligible spouse deducted an amount on account of the transfer, by such student, of the recognized parental contribution or could have deducted such amount had he resided in Québec during the entire year or, if he died during the year, during the entire period of the year preceding the time of his death.

❑ Increase in the amount for persons living alone

The tax system recognizes that essential needs are higher, by $1 465 in 2007, for the first child of a single-parent family. The tax assistance associated with such recognition is currently channelled to single-parent families by the refundable tax credit for child assistance if the family has a minor child and, if it does not, by the tax credit for adult children who are students.

Since it is tied to a situation - single-parenthood - and not to an individual as such, the supplement for the first child of a single-parent family has no equivalent in the amount of recognized essential needs under the basic tax credit.

It follows that a student who is part of a single-parent family cannot, by transferring to his father or to his mother an amount on account of the unused portion of his basic tax credit, compensate such person as fully as they could be.

The tax system grants specific assistance to persons living alone or solely with minor children or adult children who are students in order to recognize the additional needs, compared with those of persons living as a couple, which arise from a dwelling or residence being occupied by a single person or a single-parent family.

This assistance, consisting of a non-refundable tax credit, is calculated on the basis of the amount of recognized essential needs of $1 180,[50] hereunder called "amount for a person living alone".

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50 *Supra*, note 27.

So that the replacement of the tax credit for adult children who are students by a transfer mechanism for the recognized parental contribution does not reduce the tax assistance granted to single-parent families, the tax legislation will be amended to stipulate that, where an individual is entitled, for a given taxation year, to an amount for a person living alone and lived, during such year, with an eligible student – for the purposes of the transfer mechanism for the recognized parental contribution – who has completed, in the year, at least one recognized term, the individual may add an amount for a single-parent family of $1 465[51] to the amount for a person living alone if, at the end of the year or on the date of his death, the individual had no child regarding whom he was entitled to a refundable tax credit for child assistance for the last month of the year.

However, where an individual receives a refundable tax credit for child assistance during a given taxation year, the amount for a single-parent family that may be added to the amount for a person living alone must be reduced on the basis of the number of months in the year during which he is entitled to such tax credit.

1.2.4 Transfer to the parents or grandparents of the unused portion of the tax credit for tuition fees and examination fees

Tax relief is granted to students regarding tuition fees paid to enable them to pursue their studies and regarding certain examination fees. Tuition fees paid to a recognized educational institution and examination fees paid to become a member of a professional order mentioned in Schedule I of the *Professional Code*[52] are converted, if they total more than $100, into a non-refundable tax credit at a rate of 20%.

To give rise to the tax credit, tuition fees must be paid to an educational institution in Canada that is a university, college or other institution offering post-secondary education and must relate to a program of study at the post-secondary level. Tuition fees paid to a foreign educational institution may also be eligible for the tax credit in some cases.[53]

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51 Like the main parameters of the personal income tax system, the $1 465 amount for a single-parent family will be automatically indexed each year as of taxation year 2008. For greater clarity, where the indexation amount is not a multiple of 5, it must be adjusted to the nearest multiple of 5 or, if it is equidistant from two multiples of 5, to the nearest higher multiple of 5.

52 Since 2005, the eligibility of examination fees for the tax credit has been extended, among others to fees paid to a professional organization in Canada or the United States to sit an examination that must be passed as a condition for issuing a licence to practice by a professional order mentioned in Schedule I of the *Professional Code* or for obtaining a title attributed by the Canadian Institute of Actuaries.

53 For instance, fees paid to a university located outside Canada to pursue full-time studies there lasting at least thirteen consecutive weeks leading to a diploma.

Where a student is at least age 16 at the end of a taxation year, tuition fees paid to enable him to acquire or increase skills necessary for a profession are also eligible for the tax credit, provided they were paid to an educational institution recognized by the Minister of Revenue.

Tuition fees are not limited solely to amounts paid for courses. They encompass a series of incidental fees paid to the educational institution, such as admission fees, fees for the use of laboratory facilities and compulsory computer service fees.

Under the current rules, where the income of a student is not high enough to benefit fully from the tax credit for tuition fees and examination fees, any unused portion of such tax credit is carried over for future used by the student.

These rules, while allowing students to preserve the assistance allowed for tuition fees and examination fees for the future, fail to allow for the fact that students who have no or little tax to pay, are often supported by their family throughout their studies.

Accordingly, to better recognize the contribution of families that support students and, in their way, contribute to fostering education, the portion of the tax credit for tuition fees and examination fees that a student does not use to reduce his tax payable may, as of taxation year 2007, be transferred to the parents or grandparents.

❑ Transfer rules

A student may transfer a portion of his tax credit for tuition fees and examination fees to only one person, from among his father, mother, grandfather and grandmother within the meaning of the tax legislation.[54]

Such transfer will be made by means of a prescribed form on which the student must indicate the person selected as beneficiary and must indicate, taking into account the maximum amount transferable, the amount to be transferred.

Where a student transfers to one of his ascendants an amount less than the maximum amount transferable, the non-transferred portion will be carried over for future use by the student.

The beneficiary of the transfer may deduct, in the calculation of his tax otherwise payable for a given taxation year, the amount transferred to him for the year on account of a tax credit for tuition fees and examination fees.

54 Including the spouse of either of these persons as well as the father, mother, grandfather or grandmother of the spouse of a taxpayer.

❑ Maximum amount transferable

Only tuition fees and examination fees paid regarding a given taxation year may be transferred, for the year, to the father, mother, grandfather or grandmother of a student and, consequently, will be taken into consideration for the purposes of calculating the maximum amount transferable.

Accordingly, the maximum amount transferable for a given taxation year will be equal to the excess of an amount corresponding to 20% of eligible tuition fees and examination fees paid regarding the given year over the amount of tax otherwise payable for the year by the student calculated without taking non-refundable tax credits into account, apart from those that, according to the order of application of tax credits stipulated by the tax legislation, must be applied against the tax otherwise payable for the year by the student before the tax credit for tuition fees and examination fees comes into play.

These various tax credits are listed in the following table.

TABLE A.3

Tax credits taken into consideration for the purposes of calculating the maximum amount transferable

Basic tax credit
Tax credit for minor children engaged in vocational training or post-secondary studies
Tax credit for other dependants
Tax credit relating to the transfer of the recognized parental contribution[1]
Tax credit for a person living alone, with respect to age and for retirement income
Tax credit for union and professional dues (relating to an office or employment)
Tax credit for new graduates working in remote resource regions
Tax credit for contributions (relating to business income)
Tax credit for severe and prolonged impairment in physical or mental functions
Tax credit for medical expenses
Tax credits relating to medical care not provided in the region of residence
Tax credit for donations and gifts

1 This measure is described in greater detail in sub-section 1.2.3.

❑ Application details

■ Order of application of non-refundable tax credits

The deduction to which an individual may be entitled regarding an amount transferred on account of the tax credit for tuition fees and examination fees will apply after the basic tax credit, the tax credit for minor children engaged in vocational training or post-secondary studies, the tax credit for other dependants, the tax credit relating to the transfer of the recognized parental contribution,[55] the tax credit for a person living alone, with respect to age and for retirement income, the tax credit for union and professional dues, the tax credit for new graduates working in the remote resource regions, the tax credit for contributions, the tax credit for severe and prolonged impairment in physical or mental functions, the tax credit for medical expenses and the tax credits relating to medical care not provided in the region of residence have been taken into consideration in calculating the individual's tax otherwise payable.

■ Individuals who reside outside Canada throughout a year

An individual who does not reside in Canada at any time during a taxation year and who, during such year or a prior taxation year was in particular employed in Québec or carried on a business there, will be able to claim the deduction for an amount transferred on account of the tax credit for tuition fees and examination fees, provided all or almost all of his income for the year is included in the calculation of his taxable income earned in Canada for the year.

If he meets that condition, he may deduct, in the calculation of his income tax otherwise payable for the year, the portion of the amount transferred, represented by the proportion, which cannot exceed 1, that exists between his income earned in Québec and that earned in Canada.

■ Individuals who reside in Canada for part of a year

Where a taxpayer resides in Canada for only part of a given taxation year, the following rules will apply for determining the amount he may deduct, in the calculation of his income tax otherwise payable for the year, regarding the amount transferred on account of the tax credit for tuition fees and examination fees:

— regarding any period of the year throughout which the taxpayer resides in Canada, the individual may deduct the amount that can reasonably be considered entirely attributable to such period, calculated as though such period constituted an entire taxation year;

55 This measure is described in greater detail in sub-section 1.2.3.

— for a period in the year during which the taxpayer resides outside Canada, the amount allowable as a deduction shall be calculated as if the period constituted an entire taxation year.

However, the amount that the individual may deduct for the year cannot exceed the amount that would be deductible on this account had he resided in Canada throughout such year.

■ Individuals who go bankrupt during a year

Under the tax legislation, taxpayers who go bankrupt during a calendar year are deemed to have two taxation years during that calendar year: the first one extending from January 1 to the day before the bankruptcy, and the second from the day of the bankruptcy to December 31.

In the event that an eligible student goes bankrupt during a given calendar year, this presumption will not apply for the purposes of determining the maximum amount transferable for the year.

Conversely, where the recipient of the transfer goes bankrupt during a calendar year, he may deduct, for each taxation year ending in the calendar year, an amount equal to the proportion of the amount transferred, represented by the ratio between the number of days of such taxation year and the number of days of the calendar year.

Moreover, according to the rules applicable in bankruptcy, the trustee in bankruptcy is required to file, for each taxation year included in a calendar year during which an individual is in bankruptcy, an income tax return bearing on the income from the bankruptcy operations.

To that end, the individual's income will be determined as if he was not entitled to any deduction in the calculation of his tax otherwise payable regarding an amount transferred on account of the tax credit for tuition fees and examination fees.

■ Death of an eligible student or of a transfer recipient

Where an eligible student or, as the case may be, a recipient of a transfer, dies during a given taxation year, the transfer mechanism for the unused portion of the tax credit for tuition fees and examination fees applies only in the principal income tax return[56] that must be filed for such year by the student or the recipient of the transfer, as the case may be.

56 *Supra*, note 49.

1.3 Enhancement of the tax credit for retirement income

The tax system grants tax relief for low- and middle-income households that receive certain types of retirement income. The tax relief, which is in the form of a non-refundable tax credit reduced on the basis of income, applies to the first $1 000 of eligible retirement income received by an individual and, where applicable, to the first $1 000 received by the individual's spouse.

Eligible retirement income includes payments in respect of a life annuity out of or under a pension plan, annuity payments under a registered retirement savings plan or a deferred profit sharing plan and payments out of or under a registered retirement income fund. Eligible retirement income does not include benefits received under the *Old Age Security Act* – the Old Age Security pension, the Spouse's Allowance and the Guaranteed Income Supplement – or the retirement pension received under the *Act respecting the Québec Pension Plan*.

For the purpose of calculating the tax relief, the amount of an individual's eligible retirement income, to a maximum of $1 000, is added to the amount with respect to age and the amount for a person living alone, and, where applicable, to these same amounts that may be claimed by the individual's spouse. A single reduction is then made, on the basis of the household's family income, in regard to these amounts as a whole. The reduction rate is 15% for each dollar of the household's family income that exceeds $29 290[57] in 2007. The amounts as a whole, thus reduced, are converted at a rate of 20%, into a non-refundable tax credit that may be split between the spouses.

To relieve the tax burden of low- and middle-income pensioners, an individual's maximum eligible retirement income used to determine the tax credit will be raised from $1 000 to $1 500 as of the 2007 taxation year. Thus, a couple's eligible retirement income may total $3 000.

This $500 increase in the amount of eligible retirement income will reduce low- and middle-income pensioners' income tax by up to $200 in the case of a couple, and by up to $100 otherwise.

57 *Supra*, note 27.

TABLE A.4

Illustration of the enhanced tax relief for 2007 for an individual and spouse who are 65 or over and who have at least $1 500 in eligible retirement income
(family income of $41 290)

		Before budget		After budget
Amount with respect to age (individual)		$2 200		$2 200
Amount with respect to age (spouse)	+	$2 200	+	$2 200
Amount for retirement income (individual)	+	$1 000	+	$1 500
Amount for retirement income (spouse)	+	$1 000	+	$1 500
Total of amounts giving entitlement to the tax credit	=	$6 400	=	$7 400
Reduction: 15% ($41 290 – $29 290)	–	$1 800	–	$1 800
Eligible amount after reduction	=	$4 600	=	$5 600
Tax credit conversion rate	x	20%	x	20%
Tax credit		**$920**		**$1 120**

1.4 Introduction of a refundable tax credit for people providing respite to informal caregivers

Today, thousands of people with a significant and persistent disability can live at home in total safety. However, despite the range of home support services offered to them by the health and social services network, many would inevitably be placed in a facility were it not for the devotion of their loved ones. Informal caregivers are therefore key players in enabling people with such a disability to remain at home.

People who provide ongoing care and assistance to a recipient (often a member of their family) needing support because of his physical, cognitive or mental state, and who do so without remuneration, are generally called informal caregivers. Whether they assume these responsibilities by choice or out of necessity, their role and devotion are no less essential to the recipients of their care.

Although it is impossible to put a price tag on the value of the role of informal caregivers, the tax system grants them, in recognition of their social gesture, a refundable tax credit – up to $1 020 in 2007– for housing an elderly person or a person with a severe and prolonged impairment in mental or physical functions.

However, as informal caregivers play an increasing role in the provision of care to people with a significant disability, so their need for respite also grows. Respite services can therefore be essential in giving them a break, relieving tension, preventing exhaustion and enabling them to see to other activities in their lives.

Respite can be provided in various ways, be it at the home of the care recipient or elsewhere. For example, respite can be through the in-home presence of a home care worker or the temporary placement of the care recipient in a facility.

Home respite services are increasingly sought after by informal caregivers because care recipients can remain in their regular environment. However, if caregivers are to have peace of mind during respite, they must be able to rely on a person they and the care recipient can trust, even develop a bond with, especially since the person comes to the home of the caregiver and care recipient, and a degree of intimacy is involved.

Thus, a refundable tax credit will be introduced as of the 2007 taxation year to recognize the remarkable contribution of people providing volunteer home respite services to informal caregivers of a person with a significant disability.

Since informal caregivers are in the best position to identify people worthy of recognition, it is through them that volunteers who provide welcome respite will be eligible for the new tax credit.

Consequently, they will have the option of allocating every year, from a $1 000-envelope available to them respecting each person they help (care recipient), a maximum of $500, for the purposes of the new tax credit, to any person who provides them with a total of at least 400 hours, e.g. 50 days, of volunteer home respite services during the year.

❑ Application of the new tax credit

Eligible individuals who are resident in Québec at the end of December 31 of a given taxation year may claim, for that year, a refundable tax credit equal to the total of each amount attributed to them, for the purposes of the tax credit, in recognition of volunteer respite services provided by them during the year to an informal caregiver.

To claim the tax credit for a given taxation year, individuals must enclose with their income tax return for the year a copy of the information return received from a caregiver.

Eligible individual

An eligible individual is a person, other than an excluded person, who, during a given calendar year, provides a total of at least 400 hours of volunteer respite services in Québec to an informal caregiver of a person recognized as a care recipient.

The care recipient's father, mother, child, brother or sister, and their spouse, where applicable, are considered excluded persons for the purposes of this definition.[58]

For greater clarity, when volunteer respite services are provided in the same place regarding more than one care recipient, the hours of services provided must be divided equally between each recipient in the calculation of the number of hours of services provided.

Volunteer respite services

Non-remunerated services provided by an individual at the home of a person recognized as a care recipient are considered volunteer respite services, where they consist in providing care to the recipient, performing tasks normally carried out by the caregiver with respect to the recipient, taking over certain daily tasks of the caregiver so that the latter can be with the care recipient at all times or providing any similar service that gives the caregiver a break.

Informal caregiver

"Informal caregiver" refers to a person who lives with the care recipient throughout the period during which volunteer respite services are provided by the eligible individual, and who is the care recipient's spouse or a person in respect of whom the care recipient is an eligible relative, within the meaning of that term for the purposes of the refundable tax credit for informal caregivers of persons of full age.[59]

If, for a given year, more than one individual may be considered an informal caregiver of the care recipient, only the individual who is the principal person providing support to the care recipient will be considered the latter's caregiver.

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58 *Supra*, note 20.

59 "Eligible relative" means a person, regardless of age, who is the child, brother, sister, father, mother, uncle, aunt, grandfather, grandmother, great-uncle or great-aunt of the informal caregiver or the informal caregiver's spouse, including the spouse of any of these persons, or the grandson, granddaughter, nephew, niece or any other direct ascendant of the informal caregiver or the informal caregiver's spouse.

■ Care recipient

"Care recipient" refers to an individual with a long-term significant disability who has an intervention plan or individualized service plan established by a health and social services centre,[60] provided the individual:

- has a severe and prolonged impairment in mental or physical functions,[61] where the individual is 18 or over; or
- is a person in regard to whom the supplement for handicapped children is paid, where the individual is a minor.

❑ Recognition by informal caregivers of volunteer respite services

Individuals will have at their disposal, for recognition purposes, $1 000 a year in regard to each care recipient of whom they are an informal caregiver during the year. They may use that amount to allocate a maximum of $500, for the purposes of the refundable tax credit for people providing respite to informal caregivers, to any person who provides them with at least 400 hours of volunteer respite services in the year regarding a given care recipient.

Thus, informal caregivers may attribute amounts for the purposes of the tax credit at their discretion, provided the amount allocated to an eligible individual regarding a given care recipient does not exceed $500 for the year and the total of the amounts attributed to individuals who provided them with volunteer respite services for the year regarding that recipient does not exceed $1 000.

❑ Information return

Informal caregivers who wish to allocate to an eligible individual an amount for the purposes of the new tax credit for a given year must file an information return with the Minister of Revenue no later than the last day of February of the following year. A copy of the return must be provided to the individual so that he may claim the tax credit.

The information return must specify in particular, for each individual to whom an amount was allocated regarding a given care recipient, the amount allocated, as well as the name of the individual, care recipient and informal caregiver.

60 A health and social services centre is the cornerstone of a local network ensuring the accessibility, continuity and quality of the services provided to the population of a local territory.

61 As defined for the purposes of the tax credit for persons with a severe and prolonged impairment in mental or physical functions.

1.5 Simplification and enhancement of the refundable tax credit for child care expenses

The tax system recognizes the costs associated with working or pursuing studies borne by taxpayers with children, by granting them a refundable tax credit for the child care expenses they incur. Given the specific nature of these expenses and, in particular, the fact that, for some parents, child care expenses might otherwise be an obstacle to their entry into, or presence in, the labour market, the government grants parents graduated assistance for child care expenses. It follows that the assistance for such expenses is much higher for low-income families.

To simplify the tax system, enhance its effectiveness and encourage its modernization in keeping with the reality of Québec families, the application of the refundable tax credit for child care expenses was reviewed. Such a review is part of the mandate of the ministère des Finances, which consists, in part, in facilitating straightforward, fair and competitive fiscal measures for individuals and businesses.

The review highlighted the complexity of the tax credit and called into question the appropriateness of certain rules, in particular those governing the calculation of qualified child care expenses.

In addition, it revealed certain situations in which taxpayers cannot claim the tax credit even if child care expenses were incurred for a purpose provided for by law. This can happen, for example, when an individual incurs child care expenses to actively participate in his spouse's business (such as a farm business) without pay.

Consequently, it is appropriate to simplify the rules governing the tax credit for child care expenses and to enable all individuals who incur child care expenses for a purpose for which the tax credit was introduced, to take full advantage of the tax credit.

To that end, various changes will be made to the tax credit for child care expenses so that a family's child care expenses are no longer limited by the income of either spouse for the purpose of determining eligibility for the tax credit.

❑ Overview of existing rules

Under existing rules, an individual who is resident in Québec or, if the individual is resident in Canada outside Québec, who carries on a business in Québec, is entitled to a refundable tax credit for his qualified child care expenses and the qualified child care expenses of his eligible spouse for the year.[62] The tax credit is calculated by applying, to the aggregate of these expenses, a rate determined on the basis of the individual's family income. The applicable rates are degressive, decreasing from 75% to 26% as family income rises.

Briefly, the tax credit covers expenses incurred to provide child care services for an eligible child of an individual[63] to enable the individual or the supporting person of the child[64] – generally the individual's spouse – with whom the child resides at the time the expenses are incurred, to work, actively seek employment, pursue studies or carry on research or any similar work for which he received a grant.

An individual wishing to obtain the tax credit must first split, between himself and the supporting person of the child, the child care expenses he or the supporting person paid for the year. As a rule, only the person with the lower earned income may have qualified child care expenses, which must not exceed the person's earned income. Essentially, earned income includes salaries, wages and other remuneration, net business income, scholarships and certain government benefits, such as disability pensions under the Québec Pension Plan and employment insurance benefits.

However, the individual with the household's higher earned income may also have qualified child care expenses if, during a period in the year, the supporting person of the child was a student, in prison, hospitalized or disabled, temporarily lived apart from the individual or was self-employed. Thus, in certain cases, a household may take advantage of the tax credit for child care expenses even though one of the spouses had no earned income, for example if his business did not generate a profit for the year.

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62 Briefly, the eligible spouse of an individual for a taxation year is the person who is the spouse of the individual at the end of December 31 of the year and who, at that time, is not living separate and apart from the individual.

63 As a rule, an eligible child of an individual is a child of the individual or of the individual's spouse who is under 16 years of age at any time during the year, unless the child is dependent on the individual or on the individual's spouse and has a mental or physical infirmity, in which case, there is no restriction on the age of the child.

64 A supporting person of a child generally means a person who resides with the individual and who is the individual's spouse or the child's father or mother. This notion was introduced into law nearly 25 years ago, at a time when the tax system did not recognize de facto unions, and was originally meant to allow for the same treatment for de facto spouses as for married couples.

In short, the individual with the household's higher earned income has no qualified child care expenses unless the aforementioned conditions are met, in which case the individual may take a given amount into account in his qualified child care expenses. The given amount corresponds to the least of the following amounts: the individual's earned income, the aggregate of the child care expenses paid for the year by the household for each eligible child, or the product obtained when a lump sum[65] for each eligible child in respect of whom child care expenses were incurred is multiplied by the number of weeks[66] during which the supporting person was in one of these specific situations and child care expenses were incurred.

Furthermore, when an individual and the supporting person of the child are students, the one with the higher earned income may generally include, in his qualified child care expenses, the child care expenses paid by the household, up to the aggregate of his earned income and an additional amount.[67] As a result of the additional amount, a larger proportion of the students' expenses qualify for the credit. The additional amount generally corresponds to the lesser of the following amounts: the net income of the individual or the supporting person of the child, whichever is higher; and the product obtained when a lump sum[68] for each eligible child in respect of whom child care expenses were incurred is multiplied by the number of weeks[69] during which the individual and, where applicable, the supporting person, were students.

Lastly, in no case may the amount of an individual's qualified child care expenses for the year exceed the annual limit on recognized child care expenses.[70]

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65 This amount is $250 for a child with a severe and prolonged impairment in mental or physical functions, $175 for a child who is under seven years of age at the end of the year, or would have been had the child then been living, and $100 otherwise.

66 When the person with the lower earned income is a part-time student, the lump sum is multiplied instead by the number of months during which the person pursued part-time studies.

67 The additional amount is also granted to a student who is the only person supporting the child.

68 *Supra*, note 65.

69 Briefly, when the individual and, where applicable, the supporting person of the child are part-time students, the lump sum is multiplied instead by the number of months during which the individual and the person pursued part-time studies.

70 The annual limit on recognized child care expenses corresponds to the aggregate of the maximum amount of child care expenses for the year applicable to each eligible child in respect of whom expenses were incurred. The maximum amount is $10 000 if the child has a severe and prolonged impairment in mental or physical functions, $7 000 if the child is under seven years of age at the end of the year, or would have been had the child then been living, and $4 000 otherwise.

To summarize, the requirement to split qualified child care expenses between the individual and the supporting person of the child, on the basis, for example, of earned income, makes the tax legislation considerably complex. More concretely, the application of the rules circumscribing the child care expenses that qualify for the tax credit require taxpayers to do numerous calculations. In addition, as mentioned earlier, these rules can prevent some individuals from taking full advantage of the tax credit even though they incurred child care expenses in order to work. Self-employed workers, heads of single-parent families, and spouses who are partners in a family business generally cannot claim the tax credit if their business sustained a loss for the year. Similarly, households in which one of the spouses works in the family business without pay often do not have access to the tax credit for child care expenses. This latter situation occurs in the agricultural sector in particular, where it is not uncommon for an individual actively involved in his spouse's business not to receive a salary.

❑ Simplification of the application of the tax credit

As of the 2007 taxation year, various amendments will be made to the tax legislation to simplify the rules governing the tax credit for child care expenses and make the measure fairer by enabling more families to claim the tax credit.

Briefly, an individual's qualified child care expenses for a given taxation year generally include all child care expenses incurred by the household for the year, up to the annual limit on recognized child care expenses.[71] These expenses will no longer be limited by the individual's earned income or that of the supporting person of the child, these notions having been eliminated. In addition, qualified child care expenses will no longer have to be split, for the purpose of calculating the tax credit, between the individual and his eligible spouse for the year.

Lastly, when the individual and his eligible spouse for the year are both entitled to the tax credit, they must split it between them in accordance with existing rules.

■ Calculation of the tax credit for an individual resident in Québec at the end of a year

An individual resident in Québec at the end of a given taxation year[72] may claim a refundable tax credit calculated by applying, to his qualified child care expenses for the year, a rate determined on the basis of his family income. The applicable rate will continue to vary from 75% to 26% and be determined according to the table of rates applicable under existing rules.

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71 *Supra*, note 70.

72 To determine whether the individual is entitled to the tax credit, when an individual dies or ceases to be resident in Canada during a year, the last day of the taxation year will be deemed to be the day on which he died or the last day he was resident in Canada.

New definition of the term "qualified child care expense"

The amount of an individual's qualified child care expenses for a given taxation year will be equal to the lesser of the following amounts:

— the individual's child care expenses for the year;

— the annual limit on recognized child care expenses.[73]

New definition of the term "child care expense"

The child care expenses of an individual[74] for a given taxation year will be expenses that are neither prescribed nor excluded and that meet the following conditions:

— they are incurred in the year for the purpose of providing in Canada,[75] for an eligible child of the individual, child care services including baby sitting services, day nursery services or services provided at a boarding school or a camp;

— they are incurred to enable the individual, or his eligible spouse[76] for the year, who resides with the child at the time the expenses are incurred, to perform the duties of an office or employment, carry on a business, either alone or as a partner actively engaged in the business, carry on research or any similar work for which he received a grant, pursue studies in a qualified educational institution[77] or actively seek employment;

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73 *Supra*, note 70.

74 Where an individual is exempt from income tax for a given taxation year, the individual's child care expenses will be deemed to be nil.

75 The exceptions concerning individuals who are absent from Canada or who reside near the boundary between Canada and the United States provided for in the existing legislation will continue to apply.

76 Where the spouse of an individual is a person exempt from income tax for a given taxation year, the person will be deemed not to be individual's eligible spouse for the year. However, this presumption will not apply to the calculation of the individual's family income for the year.

77 In this regard, the current requirements will be maintained, so that the person must attend such an educational institution enrolled in an educational program of not less than three consecutive weeks duration that provides that each student in the program spend not less than 10 hours per week on courses and work in the program, where the studies are pursued full time, or not less than 12 hours per month on courses in the program, where the studies are pursued part time.

- they are paid by the individual, or by his eligible spouse for the year, for child care services provided during the year[78] by a person resident in Canada[79] who, at the time the services are provided, is not:
  - the child's father or mother;[80]
  - a person with whom the individual is living in a conjugal relationship;
  - a person who is residing with the individual and for whom the child in respect of whom the child care expenses are incurred is an eligible child;
  - a person under 18 years of age related to the individual or to the person with whom the individual is living in a conjugal relationship;
  - a person in regard to whom either the individual, or a person who is residing with the individual and for whom the child in respect of whom the expenses are incurred is an eligible child, deducts, in the calculation of his income tax otherwise payable for the year, an amount as a tax credit respecting a dependant[81] or an amount for the purposes of the transfer of the recognized parental contribution.[82]

For greater clarity, expenses that are prescribed and expenses that are excluded for the purposes of this definition under the current tax legislation will not be considered child care expenses. Consequently, expenses not giving entitlement to the tax credit will include expenses corresponding to the reduced contribution of $7 a day and expenses that are paid to a boarding school or a camp respecting an eligible child and that exceed a lump sum[83] for each week in the year during which the child attends such an establishment.

Furthermore, an individual will be able to take into account, in the calculation of the tax credit to which he is entitled for a given taxation year, only the child care expenses for which he files with the Minister of Revenue, along with his income tax return for the year, a receipt certifying the child care expenses paid and indicating, where the recipient of the expenses paid is an individual, the recipient's social insurance number or, where the person is required to file an information return,[84] a copy of the return.

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78 When an individual is resident in Canada during part of a taxation year but is not resident in Canada during another part of the year, the services must be provided during a period of the year during which the individual is resident in Canada.

79 *Supra*, note 75.

80 *Supra*, note 44.

81 Either a tax credit for a child aged 17 or under throughout the year engaged in vocational training or post-secondary studies, or a tax credit respecting other dependants (see sub-section 1.2.2).

82 In this regard, see sub-section 1.2.3.

83 *Supra*, note 65.

84 The return must be filed on the prescribed form, namely, the RL-24 slip, entitled *Frais de garde d'enfants* (Child-care expenses).

Lastly, as in the case of the current rules, child care expenses for which a taxpayer is entitled or was entitled to a refund or another form of non-taxable assistance will be excluded.

■ Special cases

▪ Individual resident in Canada outside Québec, who carried on a business in Québec and whose eligible spouse[85] is resident in Québec

An individual who is resident in Canada outside Québec at the end of a given taxation year, carried on a business in Québec during the year and has an eligible spouse for the year resident in Québec at the end of the year may claim a refundable tax credit respecting his qualified child care expenses.[86] In such a case, the tax credit will be calculated as if the individual were resident in Québec at the end of the year.

▪ Individual resident in Canada outside Québec, who carried on a business in Québec and whose eligible spouse,[87] where applicable, is not resident in Québec

So that the tax assistance relative to child care expenses incurred by a household in which neither of the spouses is resident in Québec at the end of a taxation year is more in line with the tax burden they bear in Québec, the degressive tax rates applicable to the calculation of the tax credit will be replaced by a rate equal to the tax rate applicable to the last income bracket of the tax table – in this case, 24%.

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85 *Supra*, note 76.

86 *Supra*, note 72.

87 *Supra*, note 76.

- **Individual who does not have an eligible spouse or whose eligible spouse is not a person resident in Canada outside Québec who carried on a business in Québec**

An individual who is resident in Canada outside Québec at the end of a given taxation year, carried on a business in Québec during the year and whose eligible spouse for the year, where applicable, is neither a person resident in Québec at the end of the year nor a person resident in Canada outside Québec at the end of the year who carried on a business in Québec during the year may claim a refundable tax credit equal to the product obtained by multiplying, by the ratio used to determine his income tax payable for the year,[88] the amount obtained by applying to his qualified child care expenses for the year a rate equal to the tax rate applicable to the last income bracket of the tax table.[89]

- **Individual whose eligible spouse is also a person resident in Canada outside Québec who carried on a business in Québec**

An individual who is resident in Canada outside Québec at the end of a given taxation year, carried on a business in Québec during the year and has an eligible spouse for the year who is also an person resident in Canada outside Québec at the end of the year who carried on a business in Québec during the year may claim a refundable tax credit equal to the product obtained by multiplying, by the average of the ratios used to determine the income tax payable for the year by the individual[90] and by his eligible spouse for the year, the amount obtained by applying to his qualified child care expenses for the year a rate equal to the tax rate applicable to the last income tax bracket of the tax table.[91]

88 As a rule, this is the ratio between the individual's earned income in Québec, namely, the business income attributable to a business in Québec, and his earned income in Québec and elsewhere.

89 *Supra*, note 72.

90 *Supra*, note 88.

91 *Supra*, note 72.

1.6 Enhancement of the refundable tax credit for the treatment of infertility

Activities related to assisted human reproduction[92] have developed substantially, in both number and diversity, in recent years. The demand for treatments has also increased, and everything points to continued growth in this regard. New social realities tend to contribute to the increased demand for assisted human reproduction services. The tendency to have a family later in life, whereas fertility declines with age, the recognition of non-traditional families (single-parent families or same-sex parents), the development of technological tools for treating an increasing number of causes of infertility, increased media coverage of assisted human reproduction services, and higher success rates are just some of the factors explaining the growth in these services.

In the early 2000s, the ministère de la Santé et des Services sociaux conducted a study of the assisted human reproduction activities offered in the institutions of the health and social services network and in private clinics in Québec. Although the study confirmed the quality of the services offered in Québec, it also showed that it would be relevant to supervise assisted human reproduction activities.

The Minister of Health and Social Services therefore tabled before the National Assembly a bill – the *Act respecting clinical and research activities as regards assisted human reproduction and amending other legislative provisions* – to:

- promote quality, safe and ethical practices by applying the highest standards in the field;
- encourage the ongoing improvement of services by introducing mechanisms for supervising assisted human reproduction activities.

In conjunction with the examination of the bill, the Committee on Social Affairs conducted specific consultations. A number of people consulted at the time recommended the implementation of a policy to, among other things, limit the number of *in vitro* embryos that may be transferred during a cycle.

Such a policy would have undeniable benefits, given the risks associated with multiple pregnancies for women and their unborn children. However, limiting the number of transferable embryos reduces a treatment's chance of success. Consequently, more attempts might have to be made, which could result in additional fees for some people who have recourse to this reproduction procedure.

Since 2000, people who opt for one of the two principal medically assisted human reproduction procedures, namely, artificial insemination and *in vitro* fertilization, have been able to claim financial assistance in the form of a refundable tax credit.

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92 Assisted human reproduction includes all clinical and research activities aimed at supporting human reproduction by medical or pharmaceutical procedures or laboratory manipulation.

Expenses eligible for the tax credit include amounts paid to a physician or private hospital centre and those paid for medication prescribed by a physician and recorded by a pharmacist for artificial insemination or *in vitro* fertilization treatments.

Currently, in the case of an individual, the tax credit is equal to 30% of the eligible expenses, to a maximum of $20 000, paid by the individual or his spouse in the year. Thus, a person who seeks medical assistance to have a child may claim a tax credit of up to $6 000 a year.

Given that the implementation of a policy limiting the number of *in vitro* embryos transferable in a cycle could result in an increase in the number of attempts required, the application of the refundable tax credit for the treatment of infertility will be changed to raise, from 30% to 50%, the rate applicable to the cost of a third or any additional attempt at *in vitro* fertilization.

For greater clarity with regard to the number of attempts, a new series is considered to begin after the birth of a living, viable child.

To maintain the integrity of any Québec policy on *in vitro* fertilization, the tax legislation will be amended to provide that expenses for *in vitro* fertilization not carried out in keeping with such a policy will not be considered eligible for the purposes of the refundable tax credit for the treatment of infertility or the non-refundable tax credit for medical expenses.

These changes will apply to embryo transfers carried out as of the day following the date on which the Québec policy on *in vitro* fertilization comes into effect.

2. MEASURES CONCERNING BUSINESSES

2.1 Extension of and improvement to the capital tax credit

A corporation that has an establishment in Québec at any time in a taxation year is subject to the tax on capital, calculated on the basis of the paid-up capital shown in its financial statements for the year, prepared in accordance with generally accepted accounting principles.

In the April 21, 2005 Budget Speech, a capital tax credit was introduced to encourage corporations, other than financial institutions, to make investments in certain sectors. Briefly, this capital tax credit enables a corporation that makes an eligible investment, during a taxation year, to claim a non-refundable capital tax credit for such taxation year, equal to 5% of the amount of such eligible investment. As part of the March 23, 2006 Budget Speech, the rate of this capital tax credit was raised to 15% and the credit was extended regarding certain investments in the forest sector.

Québec's manufacturing sector faces intensifying global competition. In this context, investment in machinery and equipment is essential if companies are to be more competitive.

To support and accelerate the efforts of companies to modernize their machinery and equipment, two improvements will be made to the capital tax credit. Accordingly, the rate of the basic tax credit will be raised to 10% of the amount of eligible investments and the period during which investments may be made will be extended. In addition, the period during which investments covered by the higher 15% credit can be made will also be extended.

2.1.1 Extension of and improvement to the basic 5% credit

Briefly, the capital tax credit allows a corporation, other than a financial institution, that makes an eligible investment, during a taxation year, to claim a non-refundable capital tax credit for such taxation year, equal to 5% of the amount of such eligible investment.

Accordingly, a corporation can receive this capital tax credit, for a taxation year, up to the amount of tax on capital otherwise payable by it for such taxation year. Where the capital tax credit exceeds the tax on capital otherwise payable by the corporation for the taxation year, the excess amount can be carried over to subsequent taxation years and applied against the tax on capital otherwise payable by it for such years.

Eligible investments for the purposes of this capital tax credit are manufacturing and processing equipment, i.e. assets of class 43.[93] In addition, these assets must, subject to certain transition rules, be acquired before January 1, 2008.

To further stimulate investments in manufacturing and processing equipment, the period during which such investments can be made will be extended by five years and the rate of the capital tax credit will be raised to 10% regarding such investments.

The assets covered by the rise in the rate of the capital tax credit to 10% are assets of class 43, acquired after the day of the Budget Speech and before January 1, 2013, unless:

— they are acquired in accordance with a written obligation contracted no later than the day of the Budget Speech;

— construction of these assets, by the taxpayer or on his behalf, was underway the day of the Budget Speech.

For greater clarity, and subject to existing transition rules, assets of class 43 acquired pursuant to a written obligation no later than the day of the Budget Speech or whose construction, by the taxpayer or on his behalf, was underway the day of the Budget Speech, will be investments eligible for the 5% capital tax credit.

2.1.2 Extension of the higher 15% credit

In the March 23, 2006 Budget Speech, the rate of the capital tax credit was raised to 15% for certain investments made in the forest sector i.e., briefly, assets of class 43 used mainly in sawmill and wood preservation activities, activities involved in the making of veneers, plywood and reconstituted wood products, excluding wood structural products manufacturing activities and pulp, paper and cardboard mill activities.

These assets must, subject to certain transition rules, be acquired before January 1, 2010.

To foster investments to modernize forest sector companies, the period during which such investments can be made will be extended by three years. Accordingly, the assets covered by the higher rate of 15% of the capital tax credit in the forest sector must, subject to existing transition rules,[94] be acquired prior to January 1, 2013.

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93 However, these assets must satisfy certain conditions to qualify as an eligible investment, among others the requirement that they begin to be used within a reasonable time during a period of at least 730 days, solely in Québec and mainly in the course of carrying on a business. Similarly, the assets must be new.

94 Accordingly, assets acquired pursuant to a written obligation contracted before March 24, 2006 or the construction of which, by or on behalf of the purchaser, had begun by March 23, 2006, cannot qualify as an eligible investment.

2.2 Increase in the tax on capital exemption threshold of a farming corporation or a corporation that carries on a fishing business

A corporation that has an establishment in Québec at any time in a taxation year is subject to the tax on capital, calculated on the basis of the paid-up capital shown in its financial statements for the year, prepared in accordance with generally accepted accounting principles.

A farming corporation or a corporation whose activities consist mainly in carrying on a fishing business can generally deduct, for the purposes of the tax on capital, an amount of $400 000 in calculating its paid-up capital.[95] Essentially, this deduction is designed to recognize the large amount of capital required in these activity sectors, compared to the revenue they generate.

To support the development of these activity sectors and better reflect the large investment they require, the amount of the deduction in the calculation of paid-up capital of a farming corporation or a corporation that carries on a fishing business will be raised from $400 000 to $5 million.

This change will apply regarding a taxation year ending after the day of the Budget Speech. In the case of a taxation year that includes that day, the rise in this exemption will correspond to the proportion of $4.6 million, represented by the ratio between the number of days of the taxation year that follow the day of the budget speech and the number of days of such taxation year.

2.3 Major reduction in the corporate tax rate applicable to passive income

A corporation with an establishment in Québec is required to pay tax on its taxable income. The general rate of this tax is 16.25% but a reduction in the general rate is allowed regarding active income. Consequently, a rate of 16.25% is applied to passive income, while a lower rate is applied to active income.

The April 21, 2005 Budget Speech announced an overhaul of the tax applicable to active income of corporations. This overhaul will be implemented over a number of years.

The following table shows the tax rates of a large corporation applicable to active income[96] for 2007 and subsequent years.

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95 This deduction applies in addition to the basic deduction of $1 million in the calculation of paid-up capital.

96 Private corporations whose paid-up capital is less than $15 million are allowed a reduced tax rate, i.e. 8%, regarding their income eligible for the small business deduction.

TABLE A.5

Tax rates applicable to active income
(Per cent)

	2007	2008	2009
Tax rates applicable to active income	9.9	11.4	11.9

Note: The rate increases take effect on January 1 of 2008 and 2009. Accordingly, if a corporation's taxation year does not coincide with the calendar year, the tax rate is weighted according to the number of days of the taxation year included in each of the two calendar years.

To substantially reduce the corporate tax rate applicable to passive income, the tax rate applicable to this type of income will be reduced to the tax rate applicable to active income ineligible for the small business deduction.

The following table shows the tax rates of a corporation applicable to passive income before and after these changes.

TABLE A.6

Tax rates applicable to passive income
(Per cent)

	2007 until the budget	2007 after the budget	2008	2009
Tax rates applicable to passive income	16.25	9.9	11.4	11.9

The new rates will become effective respectively as of the day following the day of the Budget Speech, January 1, 2008 and January 1, 2009.

If a corporation's taxation year includes periods that straddle the change of rate dates, the tax rate effectively applicable for such taxation year will be a weighted tax rate reflecting the number of days of the taxation year included in each of these periods.

For greater clarity, the instalments of a corporation for a taxation year that includes periods that straddle the change-of-rate dates will have to be calculated using the weighted tax rate applicable to such taxation year.

In the specific case of instalments of a corporation whose taxation year straddles the day of this Budget Speech, they will have to be adjusted, according to the usual rules, as of the first instalment following that day, to reflect the effects of these changes.

This major reduction in the rate will make Québec's tax system more competitive with the rates that apply in other Canadian jurisdictions.

In addition, taking the federal tax system into consideration, this reduction in the corporate tax rate will achieve a degree of neutrality in the taxation of investment income, whether such income is earned directly by an individual or through a corporation.

Lastly, for greater clarity, Québec's tax treatment of dividends paid from investment income remains unchanged. Accordingly, a dividend paid to an individual from investment income, according to the federal calculation parameters used in Québec's tax system,[97] will continue to be grossed up by 25% and to give rise to a dividend tax credit equal to 8% of the grossed-up amount of the dividend.

2.4 Measures concerning scientific research and experimental development

2.4.1 Change to the requirement to carry on a business in an establishment located in Québec

In the April 21, 2005 Budget Speech, the tax legislation was amended to refocus the tax assistance provided under the refundable tax credit for R&D salary, the refundable tax credit for university R&D and the refundable tax credit for pre-competitive R&D on Québec companies. The latter refundable tax credit was eliminated in the March 23, 2006 Budget Speech, but at the same time a new refundable tax credit was introduced regarding private partnerships.

Accordingly, fiscal policy was changed at that time to no longer grant tax assistance for R&D as such carried out in Québec, but rather to grant it incidentally to Québec businesses that carry out commercial activities in Québec.

R&D work carried out in Québec constitutes an economic activity as such that can generate positive spin-offs for Québec society as a whole and the increase in R&D work in Québec contributes to achieving the government's objective of raising R&D spending to 3% of GDP by 2010.

In this context, the tax legislation will be amended so that a person or a partnership who carries on a business in Canada and does R&D work in Québec, or has such work done in Québec on his behalf, may be eligible for the refundable tax credit for R&D salary, the refundable tax credit for university R&D, the refundable tax credit for pre-competitive R&D and the refundable tax credit for R&D concerning private partnerships.

97 Québec's tax system makes a distinction between two types of dividends (specified or not) each subject to different tax treatment. Qualification of a dividend as a specified dividend or not depends on the parameters of the federal tax system and the reduction of the corporate tax rate applicable to passive income will not change this situation.

This change will apply to R&D expenditures incurred by a person or a partnership in relation to a business it carries on in Canada and whose fiscal year began after April 21, 2005.

Moreover, a further amendment will be made to the tax legislation so that R&D expenditures incurred in a fiscal year that began after April 21, 2005 by a person or a partnership whose eligibility for the refundable tax credits for R&D was affected by the amendment announced in the April 21, 2005 Budget Speech can be included in a claim for a refundable tax credit for R&D, by whichever of the following two days is later, i.e. either August 31, 2008, or the last day of a period of twelve months following the filing deadline for the taxation year in which such expenditures were incurred.

2.4.2 Recognition of an eligible public research centre

A taxpayer may obtain a refundable tax credit for university R&D of 35% in relation to R&D activities where they are carried out by an eligible public research centre, under a contract the taxpayer concludes with such centre.

In this regard, it is the responsibility of the ministère des Finances to recognize a research centre as an eligible public research centre.

More specifically, to be recognized as an eligible public research centre for the purposes of the tax credit for university R&D, a research centre must demonstrate its capacity, in terms of human, material and financial resources, to carry out R&D work on behalf of businesses. Accordingly, the employees must have the qualifications needed to carry out the R&D work sub-contracted to the research centre, and the research centre must have premises and equipment that enable it to carry out such work in its field of expertise.

In addition, the research centre must obtain most of its financing from public funds.

Moreover, all the research centres that the ministère des Finances has recognized as eligible public research centres for the purposes of the tax credit for university R&D must annually confirm with the ministère des Finances that they satisfy the eligibility criteria listed above. This annual return relates to a calendar year and must be filed no later than the last day of February following such calendar year.

Lastly, an eligible public research centre must advise the ministère des Finances as soon as a change occurs, regarding human, material or financial resources, that could compromise its capacity to carry out R&D work on behalf of companies or to satisfy the requirement relating to the source of its financing.

A new research centre will be recognized for the purposes of the tax credit for university R&D, namely the Centre de santé et de services sociaux de Chicoutimi (CSSS de Chicoutimi).

This recognition will apply regarding R&D carried out after December 31, 2005, under an eligible research contract concluded after such date.

2.5 Gradual reduction in the tax holiday granted to manufacturing SMEs in remote resource regions

The March 29, 2001 Budget Speech introduced a ten-year tax holiday for small and medium-sized manufacturing enterprises (SMEs) in remote resource regions to stimulate economic development in these regions, where the employment situation is the most difficult.

Generally speaking, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in one of the remote resource regions of Québec may claim, until December 31, 2010, a tax holiday in relation to such business regarding income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF).

More specifically, an eligible corporation may receive the full tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed $20 million. However, a partial tax holiday is granted, for a taxation year, if the paid-up capital applicable for such year, calculated on a consolidated basis, is between $20 and $30 million.

A number of regional stakeholders have made the government aware of the fact that a fiscal measure targeting only certain regions of Québec may lead to undesirable inter-regional competition. Moreover, in a context in which market globalization and the rise of emerging economies are affecting all Québec companies, it is important that the government direct its efforts more to measures to achieve specific job creation or investment objectives.

Accordingly, to further encourage healthy competition among the various regions of Québec, the tax legislation will be amended to reduce the tax assistance granted to manufacturing SMEs in remote resource regions, according to the terms and conditions described below. More specifically, the tax holiday percentage a corporation may enjoy will be reduced for calendar years 2008, 2009 and 2010.

TABLE A.7

Tax holiday granted
(Per cent)

	Current	2008	2009	2010
Tax holiday granted	75	50	25	25

Note: The change in rates will take effect on January 1 of each year.

❑ Income eligible for the income tax holiday

Under the current rules, an eligible corporation can benefit from the tax holiday on 75% of its income from an eligible business. The tax holiday consists of a deduction in calculating taxable income.

The tax legislation will be amended so that the deduction an eligible corporation may claim, in calculating its taxable income, for a taxation year, is equal to 50% of the amount of its income from an eligible business, for calendar year 2008, and 25% for calendar years 2009 and 2010.

Furthermore, where the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $20 million but less than $30 million, the income from an eligible business regarding which a deduction may be claimed will continue to be reduced linearly. The deduction will then be equal to the income from an eligible business multiplied by the result of the following formula:

$$50\%^{98} \times \left[1 - \frac{(\text{paid-up capital on a consolidated basis - \$20 million})}{\text{\$10 million}}\right]$$

Accordingly, if the paid-up capital, calculated on a consolidated basis, is equal to or greater than $30 million, no deduction is allowed.

Where the taxation year of the eligible corporation does not coincide with a calendar year covered by the change in rate, this change will apply in proportion to the number of days of such taxation year included in the calendar year covered by the change in rate.

An eligible corporation will have to adjust its tax instalments, according to the usual rules, to take into consideration the effects of this change.

❑ Paid-up capital eligible for the tax holiday regarding the tax on capital

An eligible corporation may receive, for each taxation year, a tax holiday with respect to the tax on capital. This holiday consists of a deduction in the calculation of paid-up capital, which corresponds, subject to the reductions indicated below, to 75% of the amount of such paid-up capital.

98 This rate will be 25% as of January 1, 2009.

Furthermore, this deduction is reduced linearly when the paid-up capital of an eligible corporation applicable for a taxation year, calculated on a consolidated basis,[99] is between $20 and $30 million. No deduction is allowed if the paid-up capital applicable for such year, calculated on a consolidated basis, is greater than or equal to $30 million.

The tax legislation will be amended so that the deduction an eligible corporation may claim, in calculating its paid-up capital for a taxation year, is equal to 50% of the amount of such paid-up capital for calendar year 2008 and 25% for calendar years 2009 and 2010.

For greater clarity, if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $20 million but less than $30 million, the deduction in the calculation of paid-up capital the eligible corporation may claim, with respect to such taxation year, will be reduced linearly, according to the formula indicated above.

Where the taxation year of the eligible corporation does not coincide with a calendar year covered by the change in rate, this change will apply in proportion to the number of days of such taxation year included in the calendar year covered by the change in rate.

An eligible corporation will have to adjust its tax instalments, according to the usual rules, to take into consideration the effects of this change.

❑ Tax holiday regarding the employer contribution to the HSF

An eligible corporation may claim a tax holiday regarding the employer contribution to the HSF, for wages paid or deemed paid in the course of its tax holiday period. Subject to the restrictions indicated below, the tax holiday applies, for a taxation year, to 75% of the wages paid or deemed paid by an eligible corporation in the course of such given taxation year.

However, the exemption from the employer contribution to the HSF applicable to pay periods ending in a taxation year is reduced linearly if the paid-up capital of an eligible corporation applicable for a taxation year is greater than $20 million but less than $30 million. No exemption is allowed if paid-up capital calculated on a consolidated basis is greater than or equal to $30 million.

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99 The rules for calculating the paid-up capital of a corporation, on a consolidated basis, were specified in the March 29, 2001 Budget Speech. Briefly, the paid-up capital of an eligible corporation is calculated including, among others, the paid-up capital attributable to associated corporations. In addition, paid-up capital calculated on a consolidated basis must be determined as if no corporation could benefit from a deduction in the calculation of its paid-up capital regarding the ten-year tax holiday for manufacturing SMEs in remote resource regions.

The tax legislation will be amended so that the tax holiday regarding the employer contribution to the HSF an eligible corporation may claim, for a taxation year, applies to 50% of the wages paid or deemed paid by an eligible corporation during such taxation year, regarding wages paid or deemed paid after December 31, 2007 and before January 1, 2009.

For greater clarity, if the paid-up capital of an eligible corporation applicable for a taxation year is greater than $20 million but less than $30 million, the exemption from the employer contribution to the HSF applicable to pay periods ending in such taxation year will be reduced linearly, according to the formula indicated above.

Moreover, regarding wages paid or deemed paid after December 31, 2008 and before January 1, 2011, the tax holiday regarding the employer contribution to the HSF an eligible corporation may claim, for a taxation year, will apply to 25% of the wages paid or deemed paid by an eligible corporation.

2.6 Measures concerning culture

For many years, the government has made use of tax credits to support Québec's various cultural industries. These tax credits are the tax credit for Québec film and television production, the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for sound recording production and the tax credit for book publishing.

Changes will be made to these tax credits to ensure that they achieve their objectives.

2.6.1 Adjustments to the refundable tax credit for Québec film and television production

The refundable tax credit for Québec film and television production applies to the labour expenditures incurred by a corporation that produces a Québec film and generally corresponds to 29.1667% of the eligible labour expenditures incurred to produce the film. However, the labour expenditures giving rise to this tax credit may not exceed 50% of the production expenses of the film, so that the tax assistance may not exceed 14.58335% of such expenses.

Under the application of this tax credit, a higher tax credit rate of 39.375% applies regarding labour expenditures relating to the production of certain French-language feature films and documentaries, such that the tax assistance in this regard can reach 19.6875% of the production expenses of such films.

For a production to be recognized as a Québec film, the *Regulation respecting the recognition of a film as a Québec film* (Regulation) stipulates that it must satisfy criteria relating, among other things, to the type of production, the persons who occupy certain specific creative positions and the percentage of production expenses incurred in Québec.

❑ Increase in the rate of the tax credit for French-language short and medium-length films

Currently, only feature films and unique documentaries can give rise to a higher rate regarding labour expenditures relating to a French-language production.

To support an emerging sector of the industry and foster the development of the new generation of film-makers, the higher rate of the tax credit, namely 39.375%, will henceforth also apply to short and medium-length films of fiction, regarding labour expenditures relating to such a French-language production.

More specifically, the Regulation will be amended to stipulate that a short or medium-length film of fiction, that otherwise satisfies the form and content criteria stipulated by the Regulation, will be an eligible production for the purposes of the improved tax credit for Québec film or television production regarding labour expenditures relating to a French-language production.

For greater clarity, this amendment will not result in changing the certification criteria otherwise applicable to a production to give rise to the improvement for French. Accordingly, a short or medium-length film of fiction must among other things satisfy the point scale covering the creative personnel and be scripted in French to give rise to the higher rate of the tax credit.

This change will apply to a film or television production regarding which an application for an advance ruling, or a final certification application where no application for an advance ruling has been filed in relation to such production, is filed with the Société de développement des entreprises culturelles (SODEC) after the day of the Budget Speech.

However, this amendment will not apply to a film or television production for which the shooting work was finished the day of the Budget Speech.

❑ Eligibility of certain games, questionnaires and contests

Since the tax credit for Québec film or television production has been in effect, the Regulation has set out the categories of productions eligible for this tax credit and those that are excluded.

Historically, games, questionnaires and contests have been considered ineligible for the tax credit for Québec film or television production. These categories were included in the first list of excluded productions issued in 1990.

Some productions of this type would also qualify as variety television shows.

In this context, the Regulation will be amended to stipulate that games, questionnaires and contests are productions that are eligible for recognition as a Québec film if they are essentially of the nature of a variety show.

For greater clarity, this amendment will not result in changing the certification criteria otherwise applicable to a production to a variety television show. Accordingly, a game, questionnaire or contest will be essentially of the nature of a variety show if, for instance, at least two thirds of its content consists of performances by performing artists.

This change will apply to a film or television production regarding which an application for an advance ruling, or a final certification application where no application for an advance ruling has been filed in relation to such production, is filed with SODEC after the day of the Budget Speech.

However, this amendment will not apply to a film or television production or to a television series where the shooting work of such production, or of all the episodes of such series, was complete the day of the Budget Speech.

❑ Government and non-government assistance

In general, the amount of any government and non-government assistance, other than an excluded amount, that a corporation received or is entitled to receive, must reduce the amount of labour expenditures or production expenses, as the case may be, for the calculation of the tax credit to which the corporation is entitled.

In addition, the amount of any financial contribution attributable to a film or television production, regardless of its form, provided, directly or indirectly, by a government, a municipality or other administration, other than an amount from a public organization in the cultural field, is considered a reducing amount of assistance for the purposes of the tax credit.

However, it is specified that operating income is not a financial contribution covered by the notion of government and non-government assistance and, consequently, does not reduce the amount of labour expenditures or production expenses, as the case may be, for the calculation of the tax credit.

While this clarification did not alter the applicable fiscal policy regarding financial contributions from a public organization, the implementation of the exception applicable to operating income sparked renewed debate regarding the notion of government and non-government assistance.

In this context, the tax legislation will be amended to withdraw the exception relating to operating income as part of the application of the notion of government and non-government assistance. Consequently, only excluded amounts will not be reducing amounts for the purposes of the calculation of the tax credit to which a corporation is entitled.

This change will apply regarding an amount received or receivable after the day of the Budget Speech.

❑ New excluded amount of assistance

As a corollary to the amendment made to the notions of government assistance and non-government assistance in relation to the exception affecting operating income, the legislation will be amended to stipulate that the fees paid by a public broadcaster constitute an excluded amount of assistance for the purposes of the tax credit for Québec film or television production.

This amendment will apply regarding an amount received or receivable after the day of the Budget Speech.

2.6.2 Concordance changes regarding certain refundable tax credits relating to the cultural field

❑ Changes to eligible production categories

In general, categories of eligible productions and categories of excluded productions for the purposes of the refundable tax credit for film production services and the refundable tax credit for dubbing, are the same as those stipulated for the purposes of the refundable tax credit for Québec film and television production, without the Québec content requirements.

In this context, amendments will be made to the regulations relating to the tax credit for film production services and to the tax credit for dubbing, to stipulate that games, questionnaires and contests that are essentially of the nature of a variety show are productions that give rise to these tax credits.

These amendments will apply:

— in the case of the tax credit for film production services, regarding a production for which an application for an advance ruling, or a final certification application where no application for an advance ruling was previously filed, is filed with SODEC after the day of the Budget Speech.

— in the case of the tax credit for film dubbing, regarding a production that has been dubbed and for which a final certification application was filed with SODEC after the day of the Budget Speech.

However, as part of the application of these tax credits, these amendments will not apply to a film or television production or to a television series where the shooting or dubbing work of such production, or of all the episodes of such series, was finished the day of the Budget Speech.

❑ Government and non-government assistance

Like the amendment regarding the tax credit for Québec film and television production described above, the exclusion regarding income from property will be withdrawn from the notion of government and non-government assistance for the purposes of the other tax credits in the cultural field.

Consequently, the amount of any financial contribution attributable to a production, a dubbed version of a production, a show, a sound recording or a book, as the case may be, regardless of its form, provided, directly or indirectly, by a government, a municipality or other administration, other than an excluded amount, will be considered a reducing amount of assistance for the purposes of the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of shows, the tax credit for sound recording production and the tax credit for book publishing.

This amendment will apply regarding an amount received or receivable after the day of the Budget Speech.

2.6.3 Adjustments to the refundable tax credit for the production of shows

The refundable tax credit for the production of shows covers labour expenditures attributable to services supplied for the production of eligible shows. This tax credit is equal to 29.1667% of the amount of eligible labour expenditures, which are limited, however, to 45% of the eligible production expenses of the show. Tax assistance can accordingly reach 13.125% of the production expenses of the show. In addition, the tax credit for an eligible show can never exceed $750 000.

In general, only shows that satisfy Québec content criteria stipulated in a point scale give rise to the tax credit for the production of shows.

In this point scale, points are allocated on the basis of the place of residence of the creative personnel who participated in the production (lyricist, composer of the music, arranger, etc.) at the end of the taxation year preceding the beginning of the production work of the show.

❑ Adjustments to the point scale

■ Notion of Québec author

Currently, some productions do not qualify under the Québec content point scale because the author or the composer of the work, who resided in Québec when the work was created, no longer did so at the end of the year preceding the production work. This happens because the creation of the work used for the production of the show is not necessarily concomitant with the show's production.

To allow for this situation, the regulation relating to the tax credit for the production of shows will be amended to stipulate that the author of the words or the composer of the music will be considered a Quebecer for the allocation of points under the point scale applicable regarding a show, if he resided in Québec at the end of the taxation year preceding the beginning of the production work of the show or if he resided there for at least five consecutive years before the beginning of such work.

■ Residence of the creative personnel

For the purposes of the point scale relating to the eligibility of a show, points are allocated on the basis of the place of residence of the creative personnel who participated in the production (lyricist, composer of the music, arranger, etc.) at the end of the taxation year preceding the beginning of the production work of the show.

Moreover, the eligibility certification issued by SODEC regarding a show covers three separate periods extending over more than three years, namely the period covering the pre-production of a show until the end of the first full year following its initial public performance, the period covering the second full year following the initial public performance, and the period covering the third full year following the initial public performance.

The rule according to which the creative personnel must have resided in Québec at the end of the year that precedes the beginning of the production work of the show (i.e. the first eligibility period), makes no allowance for changes to the creative personnel during the production period. Accordingly, to better reflect the residence of the creative personnel at the time the work is done, such residence should rather be verified at the end of the taxation year preceding the period of the show covered by a certification application.

To do so, the regulation relating to the tax credit for the production of shows will be amended to stipulate that, in the point scale applicable regarding a show, points will be allocated based on the place of residence of the creative personnel that participated in the production of the show at the end of the taxation year preceding the period of the show covered by a certification application.

■ Application date

These amendments will apply regarding a period of a show for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC after the day of the Budget Speech.

❑ New excluded amount of assistance

As specified above, the exclusion of operating income from property will be withdrawn from the notion of government and non-government assistance for the purposes of the other tax credits in the cultural field.

As a corollary, the legislation will be amended to stipulate that the fees paid for the acquisition of performances of a show by a public organization constitute an excluded amount of assistance for the purposes of the tax credit for the production of shows. Accordingly, such financial contributions paid by a public organization will not reduce eligible labour expenditures or production expenses regarding an eligible show.

This amendment will apply regarding an amount received or receivable after the day of the Budget Speech.

2.6.4 Concordance adjustment to the refundable tax credit for sound recording production

The refundable tax credit for sound recording production covers labour expenditures attributable to services supplied in Québec for the production of eligible sound recordings, eligible digital audio-visual recordings and eligible clips.

In general, only sound recordings, digital audio-visual recordings and clips that satisfy Québec content criteria stipulated in a point scale give rise to the tax credit for sound recordings production.

Like the amendment announced above regarding the tax credit for the production of shows, the regulations relating to the tax credit for sound recording production will be amended to stipulate that the author of the words or the composer of the music will be considered a Quebecer for the allocation of points for the purposes of the point scale applicable regarding a sound recording or a digital audio-visual recording, if he resided in Québec at the end of the taxation year preceding the beginning of the recording work or if he resided there for at least five consecutive years before the beginning of such work.

This amendment will apply to a sound recording or a digital audio-visual recording for which an application for an advance ruling, or a final certification application if no application for an advance ruling was previously filed, is filed with SODEC after the day of the Budget Speech.

2.6.5 Adjustments to the refundable tax credit for book publishing

The refundable tax credit for book publishing covers the labour expenditures attributable to the preparation and printing of an eligible book or a group of eligible books. This tax credit is equal to 35% of eligible labour expenditures regarding the expenses of preparing an eligible book or a group of eligible books, and 26.25% of eligible labour expenditures regarding the expenses of printing such a book or group of books.

To be eligible, a book must, among others, be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to individuals who are residents of Québec or to corporations with an establishment here. In addition, the book must be published under a trademark of the eligible corporation that has been recognized by SODEC as a publishing house.

This tax credit was implemented to further support book publishing activities and thus enable Québec publishers to penetrate foreign markets for Québec productions, carry out major publishing projects and develop the translation market.

❑ Changes to publishing house recognition criteria

For the purposes of the tax credit for book publishing, an eligible corporation, for a taxation year, means a corporation, other than an excluded corporation, that is a recognized publishing house and, during such year, has an establishment in Québec and carries on a book publishing business here.

To be recognized by SODEC as a publishing house, a corporation must satisfy the following conditions:

- it edits and publishes books;
- it concludes contracts with one or more authors or copyright holders, with a view to publishing their books;
- it commercializes the books it publishes.

Although such is not the objective of the fiscal policy, these criteria could allow recognition as a publishing house of corporations whose chief activity is not publishing. Accordingly, to refocus assistance for the sole benefit of book publishers, criteria will be added for the purposes of recognition as a publishing house.

More specifically, the regulations relating to the tax credit for book publishing will be amended to stipulate that a corporation must also satisfy the following conditions to be recognized by SODEC as a publishing house:

- the corporation's chief activity is publishing and it aims to make this activity commercially profitable;
- it has an inventory of at least three works by Québec authors who do not have a business interest in the corporation.

This amendment will apply in relation to a book or a book that is part of a group of books, for which an application for an advance ruling, or a final certification application where no application for an advance ruling has been filed, is filed with SODEC after the day of the Budget Speech.

❑ New excluded work

To give rise to the tax credit for book publishing, a book must, among others, be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to Quebecers or to corporations with an establishment here. In addition, a book must not be on the list of excluded works for the purposes of the tax credit.

To specifically exclude documents produced by a recognized publishing house where such documents are published solely for the purposes of its business (in-house training, for instance), an amendment will be made to the applicable rules.

More specifically, the regulations relating to the tax credit for book publishing will be amended to stipulate that books published for corporate or promotional purposes are excluded books for the purposes of the tax credit for book publishing.

This amendment will apply in relation to a book or a book that is part of a group of books, for which an application for an advance ruling, or a final certification application where no application for an advance ruling has been filed, is filed with SODEC after the day of the Budget Speech.

❑ Adjustment to the trademark requirement

To give rise to the tax credit for book publishing, a book must, in particular, be the work of a Québec author, and be published under the trademark of an eligible corporation.

Initially, an eligible book could be published under a trademark for which the eligible corporation had acquired the publication rights. However, since this option allowed the eligibility of commissioned books, among others for the benefit of ineligible corporations, the possibility of publishing under the trademark of a third party was withdrawn in the March 23, 2006 Budget Speech.

Some books intended for export and published under the trademark of a foreign publisher are penalized by this amendment, though such agreements enable a Québec publisher to offer Québec authors an audience beyond Québec.

In this context, the regulations relating to the tax credit for book publishing will be amended to allow the possibility for an eligible corporation to publish a book under the trademark of a third party in the case of books intended for export.

This amendment will apply to a book or a book that is part of a group of books, for which an application for an advance ruling, or a final certification application where no application for an advance ruling has been filed, is filed with SODEC after the day of the Budget Speech.

2.7 Adjustment to the SME Growth Stock Plan

The SME Growth Stock Plan (Accro PME) was introduced in the April 21, 2005 Budget Speech. The new plan largely reproduces the application details of the former stock savings plan (SSP) that was eliminated at that time.

Briefly, this plan providing assistance for the capitalization of corporations was introduced to foster the growth of Québec companies. It has a two-fold objective of fostering the capitalization of small corporations and ensuring that the injection of capital it generates is directed to a market segment generally less targeted by investors.

In the latter regard, under the rules of the Accro PME plan, the capital invested under this plan remains fully invested throughout the year, in the market segment of corporations registered in this plan.

However, special rules allow investors to actively manage their portfolio. These rules were put in place to enable investors to trade in their Accro PME account and be in a coverage deficiency position for a short period.

Briefly, an investor can sell securities in his Accro PME account with no tax incidence provided he acquires replacement securities within 21 days of such sale.

Management of this 21-day period raises certain difficulties and may hamper the growth of the Accro PME plan. In this context, the existing 21-day period during which an investor may be in a coverage deficiency position in his Accro PME account will be changed.

The existing almost-permanent coverage requirement, whose intent is that the capital invested under the Accro PME plan remain fully invested throughout the year and it takes the form of a concept known as the coverage deficiency amount (CDA).

The CDA constitutes, for an investor, a virtual withdrawal from his plan resulting from his failure to cover a real withdrawal within 21 days following the real withdrawal. For the purposes of the new plan, such a virtual withdrawal is deemed to be a withdrawal from the plan and will lead to the same consequences as a real withdrawal, among others, regarding the determination of amounts that can be included or deducted in the calculation of the investor's taxable income.

More specifically, a CDA for an investor, regarding a given withdrawal from the Accro PME plan, at a given time, means the excess of the total adjusted cost of shares or securities withdrawn from the plan at such given time, over the total adjusted cost of shares or securities acquired within the 21 days following such given time, provided such latter total was not previously included for purposes of calculating another CDA for the investor.

The tax legislation will be amended so that the 21-day period following a real withdrawal for the purposes of the CDA is replaced by a period beginning the day after the day of a real withdrawal during a given month and ending on the last day of the second month following such given month.

For instance, an investor who makes a real withdrawal from his Accro PME account on March 1 of a given year must cover the withdrawal from this account no later than May 31 of the same year, giving him three months, in this case, to carry out a covering transaction in his Accro PME account.

This amendment, while offering more latitude to investors who participate in the Accro PME plan, will continue to enable the objective of supporting demand regarding the securities of small corporations registered for the Accro PME plan to be achieved, since the liquidity and volume of shares eligible for the Accro PME plan, the volatility of certain securities as well as brokerage expenses limit the possibility of multiple transactions.

For greater clarity, no other change will be made to the Accro PME plan. Accordingly, in general, an investor will continue to be required to hold in his Accro PME plan on December 31 of the year of acquisition and on December 31 of the subsequent three taxation years, eligible shares, valid shares or eligible securities the total adjusted cost of which is at least equivalent to the amount of the deductions claimed during the three preceding taxation years under the Accro PME plan.

Consequently, an investor who makes a real withdrawal from his Accro PME account during November or December of the year of acquisition, or during November or December of one of the three subsequent taxation years will have to cover such withdrawal no later than December 31 of the year of such withdrawal.

This amendment will apply as of January 1, 2007.

2.8 Adjustment to the refundable tax credit for the construction, renovation or conversion of strategic buildings in the Mirabel Zone

In the March 9, 1999 Budget Speech, an action plan was introduced to attract companies to contribute to the development of Mirabel and strengthen the role of Greater Montréal as a hub of international trade.

In this regard, various tax benefits were set up to assist companies that located in the Montréal Foreign Trade Zone at Mirabel (Mirabel Zone).

A further tax assistance measure was added on June 29, 2000, i.e. a refundable tax credit equal to 25% of construction, renovation and conversion expenses incurred by an eligible corporation regarding a strategic building located within the Mirabel Zone.[100]

All these measures were eliminated in the June 12, 2003 Budget Speech as part of the review of the amount of tax assistance of all preferential measures regarding businesses. However, transition rules enable corporations entitled to these measures to continue benefiting from them until the end of the period initially stipulated.

Briefly, prior to the elimination of the refundable tax credit for the construction, renovation or conversion of a strategic building in the Mirabel Zone (strategic building tax credit), a corporation that owned a strategic building, carried on a business in Québec and had an establishment there was eligible for the tax credit.

The expression "strategic building" means a building that satisfies the following requirements:

- it is located within the territory of the Mirabel Zone;
- no part of the building is used or intended to be used for residential purposes;
- the corporation holds an eligibility certificate for the building issued by Investissement Québec for each year included in the minimum holding period.[101]

100 Information Bulletin 2000-4, p. 24.

101 There are nine taxation years in this period, which begins with the taxation year following the one during which the construction, renovation or conversion work on the building was completed.

The annual eligibility certificate allows Investissement Québec to verify that at least 75% of the total space of the strategic building houses, or is intended to house, one or more corporations that hold an eligibility certificate regarding the carrying on of a business that qualifies for the purposes of the tax benefits relating to the Mirabel Zone, and the corporation must obtain such annual certificate certifying that the criterion respecting the occupation of the strategic building is satisfied for the entire length of the minimum holding period.

Compliance with this eligibility criterion respecting the occupation of the strategic building has been made more difficult because of the elimination of the tax benefits relating to the Mirabel Zone, since Investissement Québec stopped issuing certificates concerning new businesses carried on in the Mirabel Zone on June 12, 2003.

In this context, a change will be made to the terms and conditions of the annual certificate that Investissement Québec issues in relation to strategic buildings, such that the space of a strategic building can also be occupied by businesses not covered by an eligibility certificate for the purposes of the tax benefits relating to the Mirabel Zone.

More specifically, for the remaining length of the minimum holding period applicable to a strategic building, a corporation must henceforth show Investissement Québec that at least 75% of the total space of the strategic building houses, or is intended to house, one or more corporations that hold an eligibility certificate in relation to the carrying on of a business that qualifies for the purposes of the tax benefits relating to the Mirabel Zone, or that would hold such an eligibility certificate in relation to a business carried on in the Mirabel Zone if the tax benefits relating to the Zone had not been eliminated.

In this regard, to consider the theoretical eligibility of a business for the tax benefits relating to the Mirabel Zone, it must be demonstrated to Investissement Québec that the business that is carried on by a corporation in a strategic building but is not covered by an eligibility certificate for the purposes of the tax benefits relating to the Mirabel Zone:

- is complementary to any other business already otherwise carried on in Québec;
- operates in international logistics, aircraft maintenance and repair, supplementary professional training in aviation, or light processing.
- constitutes new activities of the corporation, or a significant expansion of the business that the corporation already carries on;
- does not constitute a shift of a business already carried on in Québec, outside the Mirabel Zone.

It will be incumbent on the corporation that applies for an annual eligibility certificate concerning a strategic building to take the steps necessary to enable Investissement Québec to reach a decision on the businesses that occupy the strategic building and are not covered by an eligibility certificate for the purposes of the tax benefits relating to the Mirabel Zone.

For greater clarity, a business that is not covered by an eligibility certificate for the purposes of the tax benefits relating to the Mirabel Zone and that occupies a strategic building will not become eligible for the purposes of these tax benefits because of this change to the strategic building tax credit.

This change will apply to eligibility certificates concerning a strategic building issued by Investissement Québec after the day of this Budget Speech.

3. MEASURES CONCERNING CONSUMPTION TAXES

3.1 Rise in the maximum amount of the refund of Québec sales tax paid on a hybrid vehicle

In the March 23, 2006 Budget Speech, a refund of the first $1 000 of Québec sales tax (QST) paid regarding the purchase or long-term lease of a new hybrid vehicle was announced.

More specifically, a person who purchases or takes out a long term lease on a new hybrid vehicle, prescribed by the Minister of Revenue, may claim a refund of the QST paid in respect of the purchase or leasing of that vehicle, up to a maximum of $1 000. However, this refund may not be claimed by a person who is a registrant under the QST system, or by a person who is entitled to a refund of the QST paid in respect of this purchase or leasing under other provisions of this system.

To be entitled to this refund, the purchaser or long-term lessor of the vehicle must submit his claim to Revenu Québec using the prescribed form accompanied by the required supporting documents. In the case of the purchase of a vehicle, this claim must be submitted within four years following the day of payment of the QST. In the case of a long-term lease, this claim may be submitted as soon as an amount of $1 000 of QST has been paid or as of the end of the lease contract, but no later than four years following the end of such contract.

To further promote the use of energy-efficient hybrid vehicles, the QST system will be changed to raise the maximum amount of this refund to $2 000.

The long-term lessor of a vehicle may, as is currently the case, claim the refund he is entitled to either once he has paid the full amount of the refundable QST or at the end of the lease contract. In addition, he will have the option to claim a refund of the first $1 000 of QST as soon as he has paid it.

This measure will apply to a new hybrid vehicle that has been purchased or for which a long term lease has been taken out after the day of the Budget Speech and before January 1, 2009.

3.2 Exemption of services supplied by a midwife

On December 28, 2006, the Minister of Finance of Canada proposed, in a news release,[102] an amendment to the *Excise Tax Act* to exempt services supplied by a midwife after such date from the goods and services tax (GST) and the harmonized sales tax (HST).

102 News release 2006-090 of the Department of Finance Canada.

In accordance with the principle of general harmonization of the QST and the GST systems, the Québec tax system will be harmonized with the federal tax system regarding the exemption of these services.

This measure will only be adopted once any legislation arising from the federal news release has been assented to or any regulation arising therefrom has been adopted, taking into account the technical changes that may be made to them before such assent or adoption. It will apply on the same date as it will for the purposes of the GST system.

3.3 Measures concerning the financial services sector

On January 26, 2007, the Minister of Finance of Canada issued, in a news release,[103] draft amendments to the *Excise Tax Act*, explanatory notes and a background paper concerning a number of measures to improve and simplify the application of the GST and the HST in the financial services sector.

The draft legislation designed to address GST and HST advantages that currently exist in favour of imported financial services over comparable domestic services, essentially complies with the detailed proposals concerning the tax treatment of imported supplies under the GST/HST system released on November 17, 2005.[104] The decisions on whether or not to harmonize the QST system in this regard were announced on December 19, 2005.[105]

The proposed changes to implement in the federal tax system a new legislative framework for the allocation of input tax credits of financial institutions will not be incorporated in the QST system since these measures do not correspond to the characteristics of Québec's tax system.

3.4 Standardized accounting – Consequential amendments to the new rule for calculating interest in the goods and services tax system

Currently, interest on amounts of GST owed by a person is based on the rate of Government of Canada Treasury Bills, to which a penalty of 6% is added.

In the May 2, 2006 federal Budget Speech, the Minister of Finance of Canada proposed, as part of the measures relating to standardized accounting, changing the interest calculation rule stipulated by the *Excise Tax Act* with respect to the GST to harmonize it with the rule stipulated in other federal tax laws, with effect as of April 1, 2007.[106]

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103 News release 2007-006 of the Department of Finance Canada.

104 News release 2005-079 of the Department of Finance Canada.

105 Information Bulletin 2005-7, p. 32.

106 DEPARTMENT OF FINANCE CANADA, *The Budget Plan 2006*, p. 242.

The result is that as of that date, the interest rate applicable to amounts of GST owed by a person will correspond to the rate of Government of Canada Treasury Bills plus 4%, and the additional 6% penalty will be eliminated.

The introduction of this new interest calculation rule in the GST system entails consequential changes to certain specific measures that include an additional penalty of 6% or additional interest of 4%, which involve eliminating such penalty or such interest.

Since the QST system is harmonized with the GST system regarding these specific measures, the same consequential changes will be made to Québec's tax system and they will apply on the same date as the corresponding consequential changes in the federal tax system will apply.

4. Deposit of certain fees to the Fonds de conservation et d'amélioration du réseau routier

Within the past few years, the ministère des Transports has issued a special permit authorizing the use of single wide-tread tires during the period of thaw for certain types of vehicles. Without this permit, truckers who use such tires are subject to a load reduction of 1 000 kg per axle.

Single wide-tread tires offer the advantage of reduced fuel consumption and lower vehicle maintenance costs, which makes them increasingly popular with North American trucking companies. However, such tires cause more extensive damage to roads than dual tires.

The *Highway Safety Code* and the *Act respecting the Ministère des Transports* will be amended so that the fees paid for issuing or renewing the special permit allowing a truck equipped with single wide-tread tires to carry the same load as one equipped with dual tires will be deposited in the Fonds de conservation et d'amélioration du réseau routier rather than the Consolidated Revenue Fund. The fees paid to obtain this special permit will be used exclusively to improve road resistance to reflect the growing use of such tires.

This measure will apply to fees paid after the day of the Budget Speech.

Section B

Expenditure Measures

1. **SUPPORTING FAMILIES, THE ELDERLY AND THE MOST DISADVANTAGED B.3**
   - 1.1 Funding for community stop over centres B.3
   - 1.2 Support for the Réseau de l'action bénévole du Québec B.4
   - 1.3 Free medication for the most disadvantaged B.5
   - 1.4 Action strategy for the elderly B.6
2. **SUPPORTING THE DEVELOPMENT OF THE REGIONS B.7**
   - 2.1 Strategy for the development of every region B.7
   - 2.2 Contaminated site remediation plan B.10
   - 2.3 Creation of FIER – Premières Nations B.12
3. **PROMOTING CULTURE B.13**
   - 3.1 Québec film funding B.13
   - 3.2 Assistance for museums B.13
   - 3.3 Placements Culture B.14
   - 3.4 Public libraries B.14
   - 3.5 Community media B.15
4. **OTHER MEASURES B.17**
   - 4.1 Québec street gang intervention plan B.17
   - 4.2 Ensuring the integrity of the tax system B.18
   - 4.3 Ad hoc grant to the Kativik Regional Government B.19
   - 4.4 Contribution by the Québec government to the agreement on the regionalization of the deficit of the Montréal metro B.20
   - 4.5 Municipal bridges and civil engineering works B.20

EXPENDITURE MEASURES

This section of *Additional Information on the Budgetary Measures* presents the expenditure measures announced in the 2007-2008 Budget that have an impact on government spending. These measures are incorporated into the government's *Expenditure Budget* for the current fiscal year.

1. SUPPORTING FAMILIES, THE ELDERLY AND THE MOST DISADVANTAGED

1.1 Funding for community stop over centres

Community stopover centres assist parents who require day care for their children for a set period of a few hours per week or for one or more half-days, on evenings or weekends. They accommodate many workers who have atypical work schedules. The roughly 260 stopover centres have a clientele of close to 45 000 children.

The 2007-2008 Budget provides for the renewal and recurrence of the $3 million in financial support granted to these community organizations in 2006-2007. This measure will enable stopover centres to maintain their services while continuing to improve them and offer respite or an alternative to families without access to other resources. Each stopover centre may receive financial support of up to $14 000 a year.

To that end, the appropriations of the ministère de la Famille et des Aînés are being increased by $3 million per year as of 2007-2008. The appropriations required for 2007-2008 are being drawn from the Contingency Fund.

1.2 Support for the Réseau de l’action bénévole du Québec

The mission of the Réseau de l’action bénévole du Québec is to bring together players from Québec’s volunteer community to encourage discussion and representation and to promote volunteer action. It also contributes to the pooling of resources and expertise and provides volunteers with training in their respective fields. Lastly, it undertakes and supports research into volunteer action.

To further support the development of volunteerism, in particular among older persons, the Réseau de l’action bénévole du Québec will receive additional financial support of $0.6 million for the next two years, i.e. $0.3 million in 2007-2008 and in 2008-2009. Thus, Québec government funding for the organization will rise from $0.1 million to $0.4 million for each of these two years.

To that end, additional appropriations of $0.3 million in 2007-2008 and in 2008-2009 are being allocated to the ministère de l’Emploi et de la Solidarité sociale. The appropriations required for 2007-2008 are being drawn from the Contingency Fund.

1.3 Free medication for the most disadvantaged

Employment assistance recipients with a severely limited capacity for employment and, since July 2005, persons age 65 or over receiving the maximum guaranteed income supplement (GIS), already receive free medication.

The 2007-2008 Budget provides that, as of July 1, 2007, almost 280 000 additional economically vulnerable people will receive the medication required by their state of health completely free of charge. This measure, which will cost $22 million a year, will apply to:

— all employment assistance recipients who do not have a severely limited capacity for employment, including those with a temporarily limited capacity for employment as well as holders of a claim slip, i.e. roughly 250 000 people;

— individuals age 65 or over who receive 94% or more of the guaranteed income supplement, i.e. 29 000 people.

For the purpose of this additional coverage, the components of which will cost $16 million and $6 million a year, respectively, another $16.5 million in 2007-2008 and $22 million as of 2008-2009 is being allocated to the budget of the ministère de la Santé et des Services sociaux.

TABLE B.1

Annual cost of the public prescription drug insurance plan for the most disadvantaged

	Number insured (000)	Government contribution ($ million)	Financial participation of those insured[1] ($ million)	
			Before July 1, 2007 (full year)	As of July 1, 2007
Employment insurance recipients				
With a severely limited capacity for employment	137	405	0	0
With no severe limitations on their capacity for employment	253	124	16	0
Older persons				
Receiving the maximum GIS	45	97	0	0
Receiving at least 94% of the maximum GIS	29	57	6	0
TOTAL	**464**	**683**	**22**	**0**

1 Premium, deductible and co-insurance.

1.4 Action strategy for the elderly

Never have the elderly been so prominent in our society and this trend will continue to grow in the coming years. The Premier’s appointment of a minister responsible for seniors is evidence of that prominence.

To improve the quality of life of seniors, the government implemented a strategy for the elderly. Announced on February 20, 2007, the Action Strategy for the Elderly is designed to meet a pressing demand expressed by the elderly themselves and by Québec society as a whole.

- Seniors want to enjoy a home environment that meets their needs and their legitimate wishes. They also want to contribute more than ever to the development of our society by helping to meet some of the challenges of the future.
- Quebecers as a whole fully endorse these aspirations, regardless of the generation they belong to. Modern Québec was built through their efforts and new and future generations rightly place the well-being of seniors among their priorities.

To implement this strategy, additional funding of $5 million is being allocated to the ministère de la Famille et des Aînés as of 2007-2008.

The paper published on February 20, 2007 provides detailed information on the guidelines and measures of the Action Strategy for the Elderly.

2. SUPPORTING THE DEVELOPMENT OF THE REGIONS

2.1 Strategy for the development of every region

Since 2003, the government has made the autonomy of every region the focus of its regional development guidelines. Building on its action in favour of the regions, the government announced on February 20, 2007 the implementation of the Strategy for the Development of Every Region.

The government will allocate $825 million over the next five years to the implementation of this strategy designed to provide the regions with more resources and bolster their autonomy. Accordingly, the government is making additional funding available to the regions that will, among other things, enable them to adapt government programs to their priorities, continue existing economic development and diversification efforts and develop their wealth creation potential.

The measures of the Strategy for the Development of Every Region consist of two distinct components:

— an overall budget of $675 million placed under the authority of the regions to support their development;

— a $150-million increase in funding for government programs, in order to foster improved business productivity and support the mining, farming, fisheries and tourism sectors.

TABLE B.2

Strategy for the Development of Every Region

($ million)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Total
1. Additional resources under the authority of the regions						
Fonds de développement régional (FDR) – under the authority of the CREs – for CRE funding, adaptation of government programs and economic diversification assistance	55	55	60	65	65	300
Economic development efforts piloted by the regions						
– Support for the development of niches of excellence – ACCORD projects	*10*	*12*	*17*	*18*	*18*	*75*
– Improved entrepreneurship supported by regional CLDs						
▪ Support for business start-up projects	*7*	*12*	*13*	*14*	*14*	*60*
▪ Financial support for the preparation of business projects	*4*	*5*	*7*	*7*	*7*	*30*
Subtotal	21	29	37	39	39	165
Support for the development of Québec's capital[1]	5	5	5	5	5	25
Support for the economic development of Montréal	17	18	35	35	35	140
Funding for regional natural resource and land commissions	9	9	9	9	9	45
Subtotal	**107**	**116**	**146**	**153**	**153**	**675**
2. Additional resources allocated to government programs for the regions						
Support for investment and business productivity						
– Increase in funding for the economic projects support program (PSPE)	7	7	10	12	12	48
– Support to businesses to improve productivity	7	8	11	12	13	51
Support for the mining sector	7	7	7	—	—	21
Support for farming and fisheries	5	5	5	5	5	25
Tourism in the regions	5	—	—	—	—	5
Subtotal	**31**	**27**	**33**	**29**	**30**	**150**
TOTAL – Strategy for the Development of Every Region	**138**	**143**	**179**	**182**	**183**	**825**

1 Amounts to which is added $110 million allocated in the 2005-2006 Budget for the celebrations of the 400th anniversary of the founding of Québec City .

To implement this strategy, funding is being allocated to the following departments and agencies:

— $72.9 million in 2007-2008 and $74.5 million in 2008-2009 to the ministère des Affaires municipales et des Régions.[1] Part of the amounts stipulated for the Strategy for the Development of Every Region in 2007-2008, i.e. $34.9 million, is being drawn from the Contingency Fund;

— $33.6 million in 2007-2008 and $41.7 million in 2008-2009 to the ministère du Développement économique, de l'Innovation et de l'Exportation;[1]

— $5.5 million in 2007-2008 and $5.8 million in 2008-2009 to the Bureau de la Capitale-Nationale.[1] The appropriations required in 2007-2008 are being drawn from the Contingency Fund;

— $16.0 million in 2007-2008 and in 2008-2009 to the ministère des Ressources naturelles et de la Faune;

— $5.0 million in 2007-2008 and in 2008-2009 to the ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The appropriations required in 2007-2008 are being drawn from the Contingency Fund;

— $5.0 million to the ministère du Tourisme in 2007-2008.[2]

The paper published on February 20, 2007 provides detailed information on the guidelines and measures of the Strategy for the Development of Every Region.

1 The amounts in *Additional Information on the Budgetary Measures*, published on February 20, 2007, have been adjusted to take into account the respective responsibilities of the ministère des Affaires municipales et des Régions, the ministère du Développement économique, de l'Innovation et de l'Exportation and the Bureau de la Capitale-Nationale in administering the "Support for business start-up projects" and "Financial support for the preparation of business projects" measures.

2 The *2007-2008 Expenditure Budget* provides for additional appropriations of $3 million for the ministère du Tourisme.

2.2 Contaminated site remediation plan

❑ Fostering sustainable development and the environment

The quality of life of all Quebecers is closely linked to the quality of the environment. The government recognizes the potential risk to public health and the environment posed by the existence of contaminated sites. Consequently, the government intends to take firm action to definitively clean up sites under its authority.

In the past, some contaminated sites were abandoned after the activities for which they were created ceased. The government cannot accept a company's abandoning a site that contaminates the environment, degrades the surroundings and poses a public health risk. This would run counter to efforts to make industry more environmentally responsible.

The government has already tightened standards that apply to polluting activities to avoid further affecting future generations and is considering the possibility of making certain legislation even more stringent. In addition, departments and agencies have begun integrating this government priority more thoroughly into their activities.

Other governments in Canada and the United States are dealing with the problem of contaminated sites, which can be caused, for instance, by a substantial accumulation of mine tailings, accidental oil spills or unsafe storage of toxic products.

❑ More than 400 contaminated sites in Québec

In recent months, the government has drawn up an inventory of contaminated sites under its responsibility. It is the first large-scale exercise of this kind in Québec's history. This initiative has identified and categorized more than 400 contaminated sites. The cost of cleaning up these sites amounts to $333 million.

TABLE B.3

Cost of cleaning up contaminated sites
Breakdown by department

Department	$ million
Ressources naturelles et Faune	203
Développement durable, Environnement et Parcs	97
Transports	28
Other	5
TOTAL	**333**

❑ Entry of a $333-million environmental liability in 2006-2007 and implementation of a 10-year contaminated site remediation plan

The 2007-2008 Budget stipulates that $333 million be entered in the government's financial statements as an "environmental liability concerning contaminated sites" as of 2006-2007. Recognition of an environmental liability will further harmonize the government's accounting practices with the generally accepted accounting principles of the Canadian Institute of Chartered Accountants. The cost of remediation work on contaminated sites will be applied against this liability as the work is carried out.

The government is immediately implementing this plan to clean up contaminated sites. The work will be carried out over a period of 10 years.

❑ A Québec policy for the management of contaminated sites

In addition, the government will adopt a contaminated site management policy designed, in particular, to draw up an inventory, classify and apply standardized management to contaminated sites under its responsibility. It will provide government departments and agencies with the instructions needed to identify contaminated sites, determine the government's responsibility and estimate the costs of their remediation, in addition to precise indications on mandatory accountability to parliamentarians.

❑ Significant economic spin-offs for the regions

Since a large number of listed sites are located in outlying regions, the new policy will generate substantial economic spin-offs for the regions. Accordingly, they will be at the forefront of contaminated site remediation and will be the first to experience the environmental benefits.

2.3 Creation of FIER – Premières Nations

During the October 2006 First Nations Socioeconomic Forum, the Québec government pledged to set up, in partnership with First Nations representatives, a regional economic intervention fund (FIER) with capitalization of up to $30 million.

The success of the FIER–Régions formula is such that the full amount of the $192-million envelope has already been committed to 29 regional funds in 16 of Québec's 17 administrative regions. The government's participation in the creation of the FIER – Premières Nations fund therefore requires an additional injection of $15 million for FIER–Régions.

The government will contribute $1 to the FIER – Premières Nations fund for every dollar invested by the milieu, to a maximum of $15 million. FIER – Premières Nations will thus be able to dispose of up to $30 million in capitalization for the start-up, development and expansion of First Nations businesses in Québec.

3. PROMOTING CULTURE

3.1 Québec film funding

Film is a preferred vehicle for expressing a society's culture and values. Film productions exert a powerful attraction on the public and have undeniable cultural influence.

Québec films continue to enjoy success. Despite the abundant supply of foreign films, Québec movies have made noteworthy progress at the box office. However, revenues are subject to significant annual variations depending on the volume and quality of available productions. That accounts in particular for the more difficult funding situation of Québec film in 2006.

Québec is far from alone in providing government support for the film industry. To preserve cultural diversity, UNESCO reached the conclusion that there was a need for governments to support local film productions.

That is why the Québec government is increasing its support for the film industry and confirming the recurring funding of the exceptional assistance of $10 million to the Société de développement des entreprises culturelles (SODEC) for the feature film production assistance program.

To that end, appropriations of $10 million per year are being allocated to the budget of the ministère de la Culture, des Communications et de la Condition féminine as of 2007-2008.

3.2 Assistance for museums

The government acknowledges that museums exert significant leverage in the development and diversification of regional economies and contribute to preserving and showcasing our cultural heritage. Museums are a major cultural vector for Quebecers and an important tourist attraction.

To that end, appropriations of $5 million per year are being allocated to the budget of the ministère de la Culture, des Communications et de la Condition féminine for 2007-2008 and subsequent years.

3.3 Placements Culture

To ensure stable, long-term funding for organizations in the cultural sector, the 2005-2006 Budget announced the creation of Placements Culture.

Placements Culture has been in operation since the end of 2005. It aims to:

— facilitate raising of private funding for the cultural sector by government matching of private donations;

— generate a better return on the sums invested, notably in endowment funds;

— simplify management of donations for small arts and cultural organizations.

So far, Placements Culture has received support of $10 million from the government. Since the program already benefits a large number of cultural organizations, the 2007-2008 Budget provides for an additional investment of $3 million in this program to further support fund raising in the private sector.

Accordingly, additional appropriations of $3 million are being allocated to the ministère de la Culture, des Communications et de la Condition féminine in 2007-2008.

3.4 Public libraries

The Table de concertation des bibliothèques publiques submitted a report to the Minister of Culture and Communications in November 2006. The report points out that, to improve the quality of services in public libraries, resource sharing within the network must be improved. The report has three recommendations in this regard:

— encourage upgrading of library technology;

— create a national union catalogue;

— implement a one-stop formula for document processing to eliminate duplication of tasks.

To achieve these objectives and improve services in public libraries, additional appropriations of $2 million are being allocated to the budget of the ministère de la Culture, des Communications et de la Condition féminine as of 2007-2008.

3.5 Community media

A large number of community media—newspapers, and radio and television stations—operate throughout Québec. They play an important role in disseminating local news and culture.

To support community media, additional appropriations of $1 million in 2007-2008 are being allocated to the ministère de la Culture, des Communications et de la Condition féminine.

4. OTHER MEASURES

4.1 Québec street gang intervention plan

The problem of street gangs is a major concern for the government. Last summer, the government allocated financial assistance of $6 million over three years to the Ville de Montréal to carry out police operations to counter the street gang phenomenon.

The government is announcing an investment of $34 million over the next three years for the Québec Street Gang Intervention Plan, including federal government participation through its regular programs. This plan stipulates, in particular:

- the assignment of prosecutors dedicated to street gangs;
- measures to prevent sexual exploitation of young people;
- creation of a mixed unit to combat firearms smuggling;
- a concerted strategy to monitor high-risk offenders in certain Montréal boroughs;
- support for municipal police forces.

This plan is a reaffirmation that young people remain central to the government's priorities. It also shows the government's determination to enhance Quebecers' security.

To that end, to complete the Québec Street Gang Intervention Plan's funding, additional appropriations—$3 million in 2007-2008, and $4 million in 2008-2009 and 2009-2010—are being allocated to the ministère de la Sécurité publique. For 2007-2008, the appropriations are being drawn from the Contingency Fund.

4.2 Ensuring the integrity of the tax system

To foster greater social justice, the government and its partners have made substantial efforts in recent years to ensure that everyone pays their fair share of taxes. Continuing in this vein, the government will intensify its action once again to support the fight against tax evasion and increase activities to collect the associated accounts receivable.

❑ Intensification of the fight against tax evasion

The government will intensify its action among companies and individuals working in activity sectors with a high risk of tax evasion. For that purpose, additional appropriations of $5 million are being allocated to the ministère des Finances and charged to the provision to increase any appropriation for revenue initiatives, in order to fund projects to combat tax evasion. This measure will increase the government’s revenue by $20 million annually.

❑ Increase in debt collection activities

The increased billing further to the intensification of activities to combat tax evasion requires additional efforts to collect amounts due. Consequently, the appropriations of the ministère du Revenu are being raised by $5 million to enable the Centre de perception fiscale to step up its activities to collect amounts billed to delinquent taxpayers.

❑ Examination of money services businesses

The government will examine the activities carried out by money services businesses, in order to assess the need to regulate them.

4.3 Ad hoc grant to the Kativik Regional Government

The cost of living in Nunavik is higher than elsewhere in Québec. This situation is attributable primarily to the cost of transporting merchandise, which can only be delivered by boat during a few weeks in the summer or by air year round.

The situation is especially problematic regarding gasoline. Each of the 14 northern villages receives only one delivery of gasoline per year, during the summer. In addition to paying high transportation costs, residents of these villages must buy, year round, gasoline at the previous summer's price. Accordingly, while gasoline was selling in recent weeks for about $1.10 a litre in the rest of Québec, it was selling for $1.56 a litre in Nunavik.

Cost of living problems will be discussed at the Katimatjiit forum to be held later this year.

In the meantime, the government is announcing an ad hoc grant of $0.5 million to the Kativik Regional Government so that it can implement measures to mitigate the cost of living for its citizens.

To that end, additional appropriations of $0.5 million are being allocated to the ministère des Affaires municipales et des Régions in 2007-2008. The required appropriations are being drawn from the Contingency Fund.

4.4 Contribution by the Québec government to the agreement on the regionalization of the deficit of the Montréal metro

The Québec Public Transit Policy, released in June 2006, described the problem of sharing public transit costs in the Montréal region and announced the government's intention to appoint a facilitator to assist the various public transit organizations in the metropolitan region in examining this problem. The government selected Réal Mireault for this mission.

With the help of the facilitator, the metropolitan region's main municipal leaders entered into an agreement that was formally ratified by the council of the Communauté métropolitaine de Montréal on February 22, 2007. The agreement recognizes the principle that the region's municipalities as a whole have a responsibility regarding the metro's deficit, and splits the deficit among them for the period from 2007 to 2011 inclusively.

To facilitate the implementation of the agreement, additional appropriations of $11 million per year for a period of five years are being allocated to the ministère des Transports as of 2007-2008. The appropriations required in 2007-2008 are being drawn from the Contingency Fund.

4.5 Municipal bridges and civil engineering works

Several municipal bridges and civil engineering works are in need of major intervention to prevent further deterioration.

Consequently, investments to improve the condition of these municipal structures are being raised by $22 million, reaching $30 million in 2007-2008.

The required amounts are provided for in the appropriations of the ministère des Transports.

Section C

Financial Impact of Fiscal and Budgetary Measures

Financial impact of fiscal and budgetary measures 2007-2008 Budget Speech

(millions of dollars)

	Financial impact for the government		
	Full year	**2007-2008**	**2008-2009**
A. REVENUE MEASURES[1]			
1. Personal income tax reduction of $1 248 million			
1.1 General income tax reduction of $950 million as of January 1, 2008			
$250-million tax reduction announced on February 20, 2007	– 250.0	– 50.0	– 250.0
Additional tax reduction of $700 million announced on May 24, 2007	– 700.0	– 150.0	– 700.0
Subtotal	**– 950.0**	**– 200.0**	**– 950.0**
1.2 Other tax cuts totalling $298 million			
Measures announced on May 24, 2007			
– Rise from $500 000 to $750 000 in the lifetime capital gains exemption on small business shares and farm or fishing property	– 40.0	—	– 5.0
– Increase from 69 to 71 in the age limit for maturing RPPs and RRSPs	– 25.0	– 5.0	– 22.0
– Increase in the meal allowance deduction for truckers	– 9.0	—	– 3.0
– Non-taxation of capital gains on donations of publicly-listed securities to private foundations	– 8.0	—	– 8.0
– Improvement of the refundable tax credit for education savings	– 1.5	– 0.5	– 0.9
– Non-taxation of investment income from a registered disability savings plan	– 0.5	—	– 0.1
– Increase from $1 200 to $1 800 in the income tax instalment threshold	—	– 17.0	– 67.0
Subtotal	*– 84.0*	*– 22.5*	*– 106.0*
Measures announced on February 20, 2007			
– Retirement income splitting	– 106.0	– 27.0	– 106.0
– New refundable tax credit for education savings	– 41.0	– 29.0	– 41.0
– Increase from $1 000 to $1 500 in the tax credit for retirement income	– 37.0	– 10.0	– 70.0
– New refundable tax credit for people providing respite to informal caregivers	– 10.0	– 2.0	– 5.0
– Improvement of the refundable tax credit for child care expenses	– 10.0	– 2.0	– 8.0
– Enhancement of the tax treatment for parents with children enrolled in post-secondary studies	– 8.0	– 2.0	– 8.0
– Increase from 30% to 50% in the rate of the refundable tax credit for the treatment of infertility (as of the third treatment)	– 2.0	—	– 1.0
Subtotal	*– 214.0*	*– 72.0*	*– 239.0*
Subtotal	**– 298.0**	**– 94.5**	**– 345.0**
Subtotal	**– 1 248.0**	**– 294.5**	**– 1 295.0**

1 Most of these measures are presented in sections F and G of *2007-2008 Budget Speech: Budget Plan*.

Financial impact of fiscal and budgetary measures
2007-2008 Budget Speech
(millions of dollars)

	Financial impact for the government		
	Full year	**2007-2008**	**2008-2009**
2. Strengthening the competitiveness of businesses and stimulating investment			
2.1 Plan to eliminate the tax on capital			
Measure announced on May 24, 2007			
– Phasing out the tax on capital for all businesses by January 1, 2011	– 889.0	—	– 34.0
Measures announced on February 20, 2007[2]			
– Increase in the rate of the capital tax credit from 5% to 10% and extension until elimination of the tax on capital[3]	—	– 67.0	– 134.0
– Extension of the 15% capital tax credit for primary wood processing activities until elimination of the tax on capital[3,4]	—	—	—
– Increase in the deduction in the calculation of tax on capital payable by farm and fishing corporations from $400 000 to $5 million	—	– 9.0	– 6.0
Subtotal	**– 889.0**	**– 76.0**	**– 174.0**
Federal financial compensation towards elimination of the tax on capital	**—**	**15.0**	**63.0**
2.2 Other measures to stimulate investment			
Measures announced on May 24, 2007			
– Increase in capital cost allowance rates for investments:			
▪ Accelerated capital cost allowance for manufacturing and processing machinery and equipment	—	– 19.0	– 78.0
▪ Increase in capital cost allowance rates for buildings, computer hardware and certain other assets	– 25.0	– 8.0	– 19.0
Subtotal	**– 25.0**	**– 27.0**	**– 97.0**
Subtotal	**– 914.0**	**– 88.0**	**– 208.0**

2 The financial impact of these measures has been adjusted to take into account the phasing out of the tax on capital.
3 For investments in manufacturing and processing machinery and equipment.
4 The financial impact of the extension of the capital tax credit begins in 2009-2010.

Financial impact of fiscal and budgetary measures
2007-2008 Budget Speech
(millions of dollars)

	Financial impact for the government		
	Full year	**2007-2008**	**2008-2009**
3. Other fiscal measures			
Measures announced on May 24, 2007			
– Reduction in remittances for small businesses	—	– 31.0	– 31.0
– Changes to the tax credit for processing activities in the resource regions	5.0	1.0	3.0
Subtotal	*5.0*	*– 30.0*	*– 28.0*
Measures announced on February 20, 2007			
– Fund for the promotion of healthy lifestyle habits	– 20.0	– 20.0	– 20.0
– Increase from $1 000 to $2 000 in the refund of the QST paid in respect of the purchase of a hybrid vehicle	– 1.0	—	– 1.0
– Streamlining of the tax credit for Québec film and television production	– 1.0	– 0.5	– 1.0
– Gradual reduction in the tax holiday granted to businesses in resource regions as of January 1, 2008	—	2.0	18.0
Subtotal	*– 22.0*	*– 18.5*	*– 4.0*
Subtotal	**– 17.0**	**– 48.5**	**– 32.0**
TOTAL IMPACT OF REVENUE MEASURES	**– 2 179.0**	**– 431.0**	**– 1 535.0**

Financial impact of fiscal and budgetary measures
2007-2008 Budget Speech
(millions of dollars)

	Financial impact for the government	
	2007-2008	**2008-2009**
B. EXPENDITURE MEASURES		
1. Measures concerning individuals		
Funding for community stopover centres	– 3.0	– 3.0
Support for the Réseau de l'action bénévole du Québec	– 0.3	– 0.3
Free medication for employment-assistance recipients	– 12.0	– 16.0
Free medication for low-income seniors	– 4.5	– 6.0
Action Strategy for the Elderly	– 5.0	– 5.0
Subtotal	**– 24.8**	**– 30.3**
2. Strategy for the Development of Every Region		
Additional resources under the authority of the regions		
– Fonds de développement régional	– 55.0	– 55.0
– Support for the development of niches of excellence – ACCORD projects	– 10.0	– 12.0
– Improved entrepreneurship supported by regional CLDs		
▪ Support for business start-up projects	– 7.0	– 12.0
▪ Financial support for the preparation of business projects	– 4.0	– 5.0
– Support for the development of Québec's capital	– 5.0	– 5.0
– Support for the economic development of Montréal	– 17.0	– 18.0
– Funding for regional natural resource and land commissions	– 9.0	– 9.0
Additional resources allocated to government programs for the regions		
– Support for investment and business productivity		
▪ Increase in funding for the economic projects support program (PSPE)	– 7.0	– 7.0
▪ Support to businesses to improve productivity	– 7.0	– 8.0
– Support for the mining sector	– 7.0	– 7.0
– Support for farming and fisheries	– 5.0	– 5.0
– Tourism in the regions	– 5.0	—
Subtotal	**– 138.0**	**– 143.0**

Financial impact of fiscal and budgetary measures
2007-2008 Budget Speech
(millions of dollars)

	Financial impact for the government	
	2007-2008	**2008-2009**
3. Promoting culture		
Québec film funding	– 10.0	– 10.0
Assistance for museums	– 5.0	– 5.0
Placements Culture	– 3.0	—
Public libraries	– 2.0	– 2.0
Community media	– 1.0	—
Subtotal	**– 21.0**	**– 17.0**
4. Other mesures		
Québec Street Gang Intervention Plan	– 3.0	– 4.0
Fight against tax evasion	– 10.0	– 10.0
Ad hoc grant to the Kativik Regional Government	– 0.5	—
Contribution by the Québec government to the agreement on the regionalization of the deficit of the Montréal metro	– 11.0	– 11.0
Subtotal	**– 24.5**	**– 25.0**
TOTAL IMPACT OF EXPENDITURE MEASURES	**– 208.3**	**– 215.3**
TOTAL IMPACT OF REVENUE MEASURES	**– 431.0**	**– 1 535.0**
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	**– 639.3**	**– 1 750.3**

Note: A negative entry indicates a cost for the government.